



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION
COMMITTEE

ESTIMATES

(Budget Estimates)

WEDNESDAY, 25 MAY 2005

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SENATE

FINANCE AND PUBLIC ADMINISTRATION LEGISLATION COMMITTEE

Wednesday, 25 May 2005

Members: Senator Mason (*Chair*), Senator Murray (*Deputy Chair*), Senators Brandis, George Campbell, Forshaw and Heffernan

Senators in attendance: Senators Brandis, George Campbell, Faulkner, Fifield, Forshaw, Heffernan, Mason, Minchin, Moore, Murray, Sherry, Webber and Wong

Committee met at 9.04 am

FINANCE AND ADMINISTRATION PORTFOLIO

In Attendance

Senator Minchin, Minister for Finance and Administration

Department of Finance and Administration

Executive

Dr Ian Watt, Secretary

Ms Simone Pensko, Executive Officer

General

Mr Lembit Suur, General Manager, Corporate Group

Mr Ian McAuley, Branch Manager, Parliamentary and Corporate Support

Mr Michael Hirschfeld, Branch Manager, Strategic Partnerships

Mr Clive Hawkins, Corporate Group Point Person

Mr Geoff Hill, Director, Portfolio Coordination Unit

Mr Glenn Black, Senate Estimates Coordinator

Mr Dominic Staun, General Manager, Financial and e-Solutions Group

Ms Joanne Hamilton, FeSG Point Person

Outcome 1

Mr Phil Bowen, General Manager, Budget Group

Ms Kathryn Campbell, Division Manager, Budget Policy and Coordination Division

Ms Susan Page, Division Manager, Industry, Education and Infrastructure Division

Mr John Ignatius, Special Adviser, Budget Policy and Coordination Division

Mr Peter Saunders, Division Manager, Government and Defence Division

Ms Jackie Wilson, Division Manager, Social Welfare Division

Mr David Weiss, Branch Manager, Health and Ageing Branch

Mr David Nicol, Branch Manager, Family and Community Services Branch

Ms Emily Wadeson, Budget Group Point Person

Mr Jonathan Hutson, Acting General Manager, Financial Management Group

Ms Anne Hazell, Division Head, Financial Reporting and Cash Management Division

Mr Brett Kaufmann, Branch Manager, Accounting Policy Branch

Ms Leanne Yannopoulos, Branch Manager, Cash Management Branch

Ms Sue Baker, Team Leader, Cash Management Branch

Mr Tony Olliffe, Financial Reporting Branch
Ms Trixie Makay, Budget Framework and Systems Division
Ms Karen Doran, Division Manager, Superannuation and Governance Division
Ms Sandra Wilson, Branch Manager, Superannuation Branch
Dr Tom Ioannou, Governance Structures Branch
Mr Rod Alfredson, Director, Evaluation and Audit Unit
Mr Michael Culhane, Branch Manager, Finance & Banking
Mr Marc Mowbray-d' Arbela, Branch Manager, Legislative Review Branch
Mr Michael Loudon, Branch Manager, Procurement Branch
Mr Justin Bassi, FMG Point Person

Outcome 2

Mr David Yarra, Acting General Manager, Asset Management Group
Mr Robert Butterworth, Division Manager, Shareholder and Asset Sales Division
Mr Rick Scott-Murphy, Division Manager, Business Services Division
Ms Stacie Hall, Branch Manager, Insurance and Risk Management Branch
Mr Tim Wise, Branch Manager, Major Projects Branch – Immigration
Mrs Tooley Elliott, Branch Manager, Property Management Branch
Mr Philip Smith, Acting Branch Manager, Government Businesses & Private Financing Advice Unit
Dr Guy Verney, Branch Manager, Special Claims and Land Policy Branch
Mr Robin Renwick, Branch Manager, Asset Sales Branch
Mr Owen Hammond, Branch Manager, Major Projects Branch – Domestic Portfolio
Mr Andrew Harvey, Finance Manager, Asset Management Group
Mr Simon Lewis, General Manager, Telstra Scoping Study Taskforce
Mr Mark Heazlett, Branch Manager, Telstra Scoping Study Taskforce
Mr Jacob Jamieson, AMG/TTF Point Person

Outcome 3

Ms Jan Mason, General Manager, Ministerial and Parliamentary Services
Ms Kim Clarke, Branch Manager, Entitlements Policy
Mr Rob Barnes, Branch Manager, Service Centre
Mr Ken Sweeney, National Manager, COMCAR
Mr John Edge, Branch Manager, Entitlements Management
Mr Stephen Taylor, Branch Manager, Legal & Review
Ms Amanda Toms, Ministerial and Parliamentary Services
Mr Greg Smith, M&PS Point Person

Outcome 4

Mr John Grant, Acting General Manager, AGIMO
Mr Patrick Callioni, Division Manager, AGIMO
Ms Robyn Fleming, Branch Manager, Policy
Mr Tony Judge, Acting Branch Manager, Frameworks
Mr John Lalor, Acting Branch Manager, Service Delivery
Mr Matthew Clark, AGIMO Point person

Australian Electoral Commission

Mr Andy Becker, Electoral Commissioner

Mr Paul Dacey, Deputy Electoral Commissioner
Ms Barbara Davis, First Assistant Commissioner Business Support
Ms Kathy Mitchell, Director, Funding and Disclosure
Mr Doug Orr, Assistant Commissioner Elections
Mr Andrew Moyes, Acting First Assistant Commissioner Electoral Operations
Mr Brien Hallett, Assistant Commissioner Information, Education and Research
Mr Tim Evans, Acting Assistant Commissioner Corporate Services
Dr Chris Drury, Acting Assistant Commissioner Enrolment and Parliamentary Services
Mr Andrew Baker, Chief Financial Officer
Mr Andrew Gately, Acting Assistant Commissioner Information Technology
Ms Maria Webster, AEC Point Person

ComSuper

Mr Leo Bator, Chief Executive Officer
Ms Monica Lo-Heni, Acting Chief Finance Officer
Mr Marcus Markovic, Point Person

PSS/CSS Boards

Mr Steve Gibbs, Chief Executive Officer
Ms Barbara Wilson, Finance Manager

Commonwealth Grants Commission

Mr Malcolm Nicholas, Assistant Secretary
Mr Owen Rodda, Director, Corporate Services

Health Insurance Commission

Mr Lou Andreatta, Manager, Medicare and DVA

CHAIR (Senator Mason)—I declare open this public hearing of the Finance and Public Administration Legislation Committee. On 10 May 2005 the Senate referred to the committee for examination the following documents: particulars of proposed expenditure for the service in respect of the year ending 30 June 2006; particulars of certain proposed expenditure in respect of the year ending 30 June 2006; particulars of proposed expenditure in relation to the parliamentary departments in respect of the year ending 30 June 2006; particulars of certain proposed supplementary expenditure in respect of the year ending 30 June 2005; and the annual tax expenditure statement.

The committee is required to consider these documents in so far as they refer to the portfolios allocated to the committee by the Senate on 17 November 2004 and to report to the Senate on or before 20 June 2005. Agencies that are released from the hearings may have written questions on notice directed to them. The committee has set Friday, 8 July 2005 as the date for the submission of written answers to questions that are taken on notice. The hearing today will commence with the Department of Finance and Administration. I propose to proceed by opening with general questions and then calling on the outcomes and outputs in the order listed on the agenda.

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise. I further remind officers that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall

be given reasonable opportunity to refer questions asked of the officer to superior officers or to the minister. Evidence given to the committee is protected by parliamentary privilege. I also remind you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

[9.06 am]

Department of Finance and Administration

CHAIR—Senator Minchin and Dr Watt, do you wish to make an opening statement?

Senator Minchin—No, thanks.

Dr Watt—No, thank you.

CHAIR—In that case, we will go to general questions.

Senator FAULKNER—I thought, Dr Watt, that I had best ask a question here in general questions about the appointment process for the new Electoral Commissioner. I think it is the most appropriate place. Could you please give the committee a very brief status report of where it is all up to?

Dr Watt—I am constrained in what I can say, in the sense that it is a government process, not a Public Service process. It is a cabinet appointment, not a Public Service appointment.

Senator FAULKNER—But I assume the Department of Finance and Administration is—

Dr Watt—Perhaps let me finish. I do believe there will be an announcement shortly.

Senator FAULKNER—What departmental resources have been involved in supporting the process?

Dr Watt—Consistent with the way that senior appointments are often undertaken, I have had some involvement as the chair of the selection committee, which provided a report to government.

Senator FAULKNER—So there has been a selection committee. Who was on the selection committee, please?

Dr Watt—The committee consisted of Lynelle Briggs, who is head of the Australian Public Service Commission; Patricia Scott, who is head of the Department of Human Services; and Paul McClintock, who is currently a private businessman and was previously head of the cabinet policy unit.

Senator FAULKNER—And you as chair.

Dr Watt—Yes.

Senator FAULKNER—The position was advertised, wasn't it?

Dr Watt—That is correct.

Senator FAULKNER—Could you give me the details of the advertising campaign.

Dr Watt—The position was advertised in all major eastern state newspapers on 17 and 18 December 2004. It was readvertised in the *Financial Review* and the *Australian*, on 21 January 2005 in the case of the *Financial Review*, and 22 January 2005 in the case of the *Australian*.

Senator FAULKNER—You may not know, but do you know when Mr Becker's term ends? My recollection was that it was mid year.

Dr Watt—Mr Becker's term, I believe, extends to 1 July.

Senator FAULKNER—Has there been any executive search process?

Dr Watt—The committee used the services of an executive search firm at the same time as it advertised.

Senator FAULKNER—Which executive search firm?

Dr Watt—The search firm that was used was Hansen Searson.

Senator FAULKNER—So you are saying that the selection committee processes are concluded and there will be an announcement soon.

Dr Watt—The selection committee processes were concluded, a report was provided to government and I believe there will be an announcement soon.

Senator FAULKNER—What were the costs incurred by the executive search agency? Is that an agency that the department ordinarily uses or do you specially engage a particular agency for a particular position?

Dr Watt—We engaged a particular agency for the job. I believe the costs will be of the order of \$55,000.

Senator FAULKNER—Did you say that one of the members of the selection committee was Mr McClintock?

Dr Watt—I did.

Senator FAULKNER—Is that Mr Paul McClintock?

Dr Watt—That is correct.

Senator FAULKNER—Wasn't he recently a staffer employed under the Members of Parliament (Staff) Act—a prime ministerial staffer?

Dr Watt—Mr McClintock is currently Chairman of ADI Ltd, Thales Holdings Australia Pty Ltd and Affinity Health. He holds a number of other senior positions, including Director of ASPI. He was some time ago—and I need to refresh my memory as to how long ago—head of the cabinet policy unit, which is a MOPS position. He also had a long career in business and the law before he went into that position.

Senator FAULKNER—I am sure that is right.

Dr Watt—It is correct.

Senator FAULKNER—I completely accept what you say. I wonder if you are going to accept what I am going to say—that is, that I think it is inappropriate to have a former MOPS staffer of the Prime Minister as part of a selection committee for an independent Australian electoral commissioner. Do you accept that?

Dr Watt—No, I do not.

Senator FAULKNER—Who appointed this selection committee?

Dr Watt—The selection committee was assembled by me. I saw value in having someone with outside experience in change management on the committee. Mr McClintock filled those credentials. The selection committee provides a report to government. That is the role of the committee. It is the government who makes the appointment; not the selection committee.

Senator FAULKNER—I know it is a cabinet appointment. That is the point you are making, Dr Watt. I accept that it is a cabinet appointment. The selection committee makes a recommendation to government.

Dr Watt—No, the selection committee provided a report

Senator FAULKNER—And the report includes a recommendation on who will be Australia's next electoral commissioner.

Dr Watt—Again, Senator, you are jumping to a conclusion. The selection committee provides a report.

Senator FAULKNER—Let me take it back a step. You do accept, do you not, that the position of Australian Electoral Commissioner has to be perceived to be and has to be absolutely independent of the political process? Having an independent electoral commissioner is an absolute cornerstone of our electoral system and the faith and integrity that people have in it. You would accept that principle, wouldn't you?

Dr Watt—I accept that an independent electoral commissioner is an important part of the political process. I also accept that you have had three very senior public servants on that selection committee, including one independent statutory office holder. I am sure you would not wish to cast any doubt upon the independence of those public servants, including me.

Senator FAULKNER—I am not talking about the public servants.

Dr Watt—I appreciate that.

Senator FAULKNER—I am not casting doubt or making any comment about the public servants. I am asking about a member of the selection committee for the Australian Electoral Commissioner who worked for Mr Howard on his personal staff. I am asking you about the appropriateness of that and I now want to ask you, Dr Watt, as you are the person who established the committee: did you give any consideration to that issue?

Dr Watt—Yes, Senator, I did. I gave considerable consideration to it. The point to make again is this: you have three independent public servants on that committee, including one who is a statutory office holder, the head of the APSC. Mr McClintock brought a considerable amount of experience in change management and business management to that committee. That was a very useful skill to add. Mr McClintock had a long career in business before he became secretary to cabinet and he has a very distinguished career since then. I do not consider that the selection committee was anything but independent in the judgments it reached.

Senator FAULKNER—I am sure you understand—and I know this from evidence you have provided to this committee previously—a distinction between what might be a tainted process—and I am not saying that this is a tainted process—and what might be the perception of a tainted process. And perceptions are very important here. I know you accept that principle because you have talked about it previously at this table.

Dr Watt—Perceptions are important but I find it very difficult to believe that any process can be tainted by one member of a selection committee out of four, particularly when you have already acknowledged that three of those members of the selection committee were independent public servants. I think that is a long bow, Senator.

Senator FAULKNER—Here is one person. I am a mere backbench senator in the Commonwealth parliament but I am concerned about that perception. So there is one person you can put on your list. I may be only one out of 20-odd million Australians, but there is one who is concerned that that perception might apply in this circumstance. I for one do not believe that a former member of the Prime Minister's staff should have been on this selection committee. So there is one.

Dr Watt—Again, Senator, you had three independent public servants, including one who was a statutory office holder. Mr McClintock has had a long and distinguished career beyond government. I do not see Mr McClintock is in any sense but an independent person. Remember, finally, it is a report to government and it is a government decision at the end of it.

Senator MURRAY—I am very interested in this matter because for long time I have pursued an agenda of trying to get change in our legislation to put in an appointments on merit process. I do not know if you are aware of that campaign but 25 times so far I have put amendments to legislation to have appointments on merit.

Dr Watt—I confess I am not.

Senator MURRAY—And 25 times the major parties have turned it down. But that does not preclude a committee process such as you outlined. Nevertheless perception is a real issue. Senator Faulkner is unkind to himself; the kind of people who are alarmed about executive power and influence and who write to parliamentarians all the time would see that this could be a tainted process. That might not be the reality at all, and your evidence is that it is not the reality. So my question to you is: did you appoint Mr McClintock entirely on your own judgment and assessment as to who would be best on this committee, or was it suggested to you that you should do so?

Dr Watt—I raised the matter of Mr McClintock's appointment with the Minister for Finance and Administration. He agreed that he would be a good appointment. That was the extent of the discussions. I had said to him previously that I wanted an outsider on the committee. The reason I wanted an outsider on the committee was that I thought that, given the AEC and the large organisation it is and so on—and, in particular, the role it plays—I thought there would be an advantage in having someone with direct business skills.

Senator FAULKNER—Did you take all the proposed members of the committee to the minister?

Dr Watt—I did, formally.

Senator FAULKNER—Did you seek the minister's approval?

Senator Minchin—If I can intervene here, I took the approach by the secretary to be a process through which he was informing me of who he was proposing to appoint to that committee. That would be proper and sensible and I appreciated him informing me of who the appointments to the committee would be.

Senator FAULKNER—So you did not offer a view about the appropriateness or otherwise of any of the people?

Senator Minchin—I probably said that I thought that was a sensible decision by the secretary; it seemed a good committee.

Senator FAULKNER—Did you do this in writing, Dr Watt? Did you put a brief up to Senator Minchin?

Dr Watt—I would need to refresh my memory. I need to check, but I can check and come back to you.

Senator MURRAY—I cast no aspersion on Mr McClintock—you know my character and reputation; I do not do that sort of thing. But the perception issue is an issue, and if the matter was initiated by you it would have a different colour than if it was initiated by somebody else. So let me confirm for the record that your evidence is that you initiated who should be the members on that committee.

Dr Watt—Yes. I was the one who arranged the selection committee. It was my desire to have the committee of the constitution that was set up.

Senator MURRAY—That is all I would add.

CHAIR—Thank you, Senator Murray.

Dr Watt—I will confirm whether the advice was oral or in writing, Senator Faulkner,

Senator FAULKNER—But your point to this committee, I gather, is that the perception of any possible taint is balanced by the professionalism and independence of the other three members of the committee—which, by the way, has not been questioned by me at any stage.

Dr Watt—I do not accept the taint issue, as Senator Murray puts it. I again make the point that you had three independent public servants on that committee, all of whose independence—including my own—I value highly.

Senator FAULKNER—So where did the idea of Mr McClintock's appointment come from? It wasn't your idea, was it?

Dr Watt—It was. You just heard that.

Senator FAULKNER—It was not suggested to you by someone?

Dr Watt—No, not that I recall.

Senator FAULKNER—You would recall that, wouldn't you?

Dr Watt—I think I would.

Senator FAULKNER—Did you speak to anyone about his appointment to that committee apart from the minister?

Dr Watt—I subsequently spoke to the Special Minister of State, because he has direct responsibility for the Electoral Commission.

Senator FAULKNER—Anyone else?

Dr Watt—No, not apart from the candidates. I then rang the candidates and indicated I would be interested in having them on a committee and that we were forming a committee. I am not sure by how much I spoke to them in advance of actually forming the committee.

Senator FAULKNER—I have nothing further on that. Dr Watt, why don't we move then to the security review? How is all that going?

Dr Watt—The review is ongoing.

Senator FAULKNER—It is ongoing. Well, thanks for that.

Dr Watt—That is all right. We are not finished, in other words—yet.

Senator FAULKNER—You mean the review is not finished.

Dr Watt—No.

Senator FAULKNER—Okay, I was just wondering what you mean by that.

Dr Watt—You are quite right, Senator; I apologise for the ambiguity.

Senator FAULKNER—What are the three elements again of that security review? There are two or three elements to it, aren't there?

Dr Watt—Let me refresh my memory. We have three components. Firstly, we have a Defence Signals Directorate IT accredited security firm—not the Defence Signals Directorate, but an IT accredited security firm to the Defence Signals Directorate—that is examining the adequacy of our IT security environment. Secondly, we have ASIO undertaking a protective risk review of the key sites of Finance, the key buildings. This is something that is specified in the ASIO Act, where it has a role to advise the department in respect of matters relating to security and to furnish security assessments. ASIO recommends these things be done periodically, and the last review we had done was in 2001. The involvement of ASIO is timely because we have changed a number of our principal tenancies, and the security environment has also changed since 9/11. Thirdly, as you are aware from last time, Len Early is addressing business process and corporate aspects of security, including IT security.

Senator FAULKNER—So there are three elements to it.

Dr Watt—Three elements, yes.

Senator FAULKNER—Mr Early's is business what? Is it business elements?

Dr Watt—It is business process.

Senator FAULKNER—When you say that you are not finished—

Dr Watt—The review is ongoing.

Senator FAULKNER—Are all the elements of the review ongoing? None of those elements have concluded yet?

Dr Watt—No, none of them have concluded yet.

Senator FAULKNER—When do you think they will conclude?

Mr Suur—We expect all of the elements of the review to be drawn together and reported to the department by 30 June.

Senator FAULKNER—Thank you. What are the costs in relation to the three elements?

Mr Suur—The cost of the IT component of the review, which is being performed by a company called LogicaCMG, is \$55,500. The cost of the ASIO T4 component of the review is \$54,772. The estimated cost of Mr Early's services is \$30,750. All of those figures are GST inclusive.

Senator FAULKNER—Are there any other costs in relation to the review? The cost of the three consultancies is the total amount of the cost of the broad security review, or are there other costs?

Dr Watt—There are two consultants and an ASIO officer.

Mr Suur—We added some additional work by our internal audit people into the mix last week, and we will have to pay for that. But that has to do with running focus groups in the department to see what people's attitudes are to security, and what they think we can do to fix how we manage security in the department.

Senator FAULKNER—Tell me about the internal groups in the department. Tell me about these focus groups.

Mr Suur—We are still scoping this component of the review, but it goes to having somebody who might host some focus group discussions about security in the department.

Senator FAULKNER—This is focus group discussions with staff only, obviously.

Mr Suur—Correct.

Senator FAULKNER—This is not all staff, I assume.

Mr Suur—No. There will be targeted staff, targeted groups.

Senator FAULKNER—Why are you targeting them? Because you do not like them?

Mr Suur—It is a sampling methodology.

Dr Watt—They are random samples.

Senator FAULKNER—It is a random sample.

Dr Watt—It is not in particular areas or responsibilities as I understand it. A random sample is—

Senator FAULKNER—And how many?

Dr Watt—targeted to try and get a reasonable sample across the department.

Mr Suur—Of different APS levels, different business groups and so on.

Senator FAULKNER—One has to be sure; we have got to use the correct language, you remind me, Dr Watt. So when you say you are targeting someone, I would like to know what that means.

Dr Watt—That is a fair point. It does not mean targeted in any adversarial sense.

Senator FAULKNER—So how many focus groups will there be?

Mr Suur—That is still being worked out. We are in the process of scoping this side of the job.

Senator FAULKNER—Will this also be conducted by an external qualitative researcher?

Mr Suur—It will be conducted by somebody from the firm of our internal audit people, which is PricewaterhouseCoopers.

Senator FAULKNER—Your internal audit people are going to conduct focus groups?

Mr Suur—Yes.

Senator FAULKNER—Do they have any experience in that?

Mr Suur—Yes, they have.

Senator FAULKNER—What sorts of issues are you going to focus on—or target?

Mr Suur—I will avoid the word ‘target’. We are going to look at issues such as how easy it is for people to comply with our security requirements, what sorts of things they think we could change to make security easier for them, what level of security awareness they currently have and what they believe we can do to improve their level of security awareness.

Senator FAULKNER—Are you expecting a written report from your internal auditors on this?

Mr Suur—Yes.

Senator FAULKNER—Have you a budget for this?

Mr Suur—Yes.

Senator FAULKNER—What would that budget be?

Mr Suur—The original budget set aside for the security review was in the order of \$150,000. We had spent about \$140,000 in engaging LogicaCMG, ASIO and Mr Early, so there is some money left to spend on this sort of activity.

Senator FAULKNER—So there is about \$10,000 left, is there?

Mr Suur—I have not had a final quote yet, but there is some latitude to do this kind of work.

Senator FAULKNER—And there is latitude. So has Mr Early finished his task?

Mr Suur—No, Mr Early will be reporting on 30 June.

Senator FAULKNER—I saw a strategic partnerships contract to a supplier by the name of Len Early Pty Ltd for a contract value of \$30,750. Are we talking about the same contract?

Mr Suur—Yes. That amount, which relates to this review, was published on AusTender on 2 March this year.

Senator FAULKNER—And it is a figure that you provided a little earlier today. What did you say the date was?

Mr Suur—2 March 2005.

Senator FAULKNER—So are we now able to lift the lid on Mr Early’s daily rate? Rumours abound in the department about this, Dr Watt.

Dr Watt—Do they?

Senator FAULKNER—I will tell you what the rumours are after you tell me whether you are willing to lift the lid about the daily rate.

Dr Watt—If that is all the department is worried about, I have a pretty happy department!

Senator FAULKNER—I am sure it is not all that you are worried about. There are a lot of other things I would be worrying about, if I were you.

Senator SHERRY—There's a lot more than that, as you will find out as time goes by today!

Dr Watt—I look forward to it enormously! Senator Faulkner, you and I discussed Mr Early's daily rate last time. I have to say that I think the thing that matters most is the overall price for the job, not the rate per day, but if it helps I am happy to reveal Mr Early's daily rate. Mr Suur, would you remind me what it is?

Mr Suur—After our discussions in February, noting your interest in this matter, we spoke to Mr Early to see whether he had any reservations about his day rate being revealed, and he did not. The day rate that we are paying Mr Early—and again this figure is inclusive of GST—is \$2,050 a day.

Senator FAULKNER—Thank you. That was not too hard, was it, Mr Suur and Dr Watt? It was really quite easy, and I appreciate the information being provided to the committee. I want to say to you that the rumours that were circulating, that even reached my ears, were wrong: they were out by \$50, so there it goes.

Dr Watt—Oh well, there is nothing completely secret in the APS!

Senator FAULKNER—Are you satisfied with the methodology that was used to determine that Mr Early should undertake this task?

Mr Suur—The methodology consisted of my making a recommendation to the secretary about who a suitable person might be to undertake a particular role in relation to the security review, and the particular role related to looking at the business process issues and cultural issues of the department. I was interested in getting somebody who understood finance and who had a background in doing this sort of work previously. Mr Early had undertaken a similar scope of work when he was engaged by the Australian Public Service Commission in relation to a review of parliamentary services, which included parliamentary security, and I made the recommendation to Dr Watt.

Senator FAULKNER—You and Dr Watt are very much on the ball about these things, so you would be aware of concerns in the department about the lack of transparent assessment of need for this, wouldn't you, and about questions about value for money and there being no pretence of any open tender for this work. You would have heard of all those concerns, I am sure, wouldn't you? They are pretty widespread.

Mr Suur—Nobody has raised those issues directly with me. From time to time decisions are made about the best way to procure particular services. There is nothing out of the ordinary in this procurement and neither is Mr Early's day rate out of the ordinary. In fact it falls well within the range that one pays for these sorts of services.

Dr Watt—Another point to make is that I think Finance people take security very seriously. I think they know the risks of an insecure environment. I think they realise that when there are unauthorised disclosures they have to be followed up. I also think that public servants genuinely realise that when you have an unauthorised disclosure it besmirches all of us; we are all cast as someone who may have disclosed something we should not have disclosed. Therefore people want to live in a firm and effective security environment. That is the way most Finance people would think.

Senator FAULKNER—How you deal with unauthorised disclosures is also important, isn't it?

Dr Watt—That is correct.

Senator FAULKNER—No other departments have this sort of approach, but I suppose you would say that Finance would be a leader here.

Dr Watt—I am not sure that I want to claim that mantle. Each department has to address its security issues as they see fit. As I said to you last time, I think from time to time there is an advantage in having a holistic look at your security. My executive board and I thought that that is what we needed this time. That is what we did.

Senator FAULKNER—It is somewhere between \$150,000 to \$200,000, it appears, effectively creating a more threatening atmosphere around the department. Now we know there are even going to be focus groups. That is what it is all about and everybody knows it.

Dr Watt—There is no intention to create a threatening atmosphere, nor do I believe there is a threatening atmosphere in the department. It does not target any individual. It is looking at our security systems. I do not think that is a threat to anyone.

Mr Suur—It does include work that has to be done—for example, examining perimeter security in our major tenancies is a job that we have to do, and the protective security manual requires that we do that work periodically. In addition, we are building a new IT system and it is an appropriate part of doing that to test the ability of people to hack into that system. That is what we are doing. We are simply bringing various elements together because we were interested in having a holistic look at our security. Mr Early's component is one of three components. The other two are things we would have undertaken in the normal course of our business anyway.

Senator FAULKNER—Are there any outcomes of the leak investigations which were claimed to be the basis of undertaking the security review?

Mr Suur—Can you specify which matter you are referring to?

Senator FAULKNER—One of them was a work and family cabinet submission. I have to dig into my memory now, but I think there were also work and family task force outcomes or findings leaked? They were the two key ones, weren't they?

Mr Suur—Is that the matter that Mr Latham raised on the *Sunday* program during the last election?

Senator FAULKNER—One of them was.

Mr Suur—If you are talking about the leak that Mr Latham was involved with—

Senator FAULKNER—I would have thought that you would be right across the leak investigations that have been carried out in the department or those leaks which have resulted in further action or action in the department.

Mr Suur—I am, but I was simply seeking to focus—

Senator FAULKNER—We can go through all the ones in front of you if you like, but they were the key ones that were mentioned in the last hearing. I can dig into the *Hansard* if you like.

Dr Watt—We will get to that, I have no doubt. But it is important to distinguish between the issue of a particular leak—the leaked document that Mr Latham received was subject to AFP investigation—and the broader security review. The broader security review is focused on systems; it is not focused on that leak. In fact, that particular leak is not particularly germane to that review.

Senator FAULKNER—Are you saying that there is no direct link between the fact that leaks have occurred and the department has established the security review? I do not accept that and I think, frankly, it is contrary to the evidence that we have had previously.

Dr Watt—No, I am not saying that. I am saying that the broader security review is not focused on any particular leak or any particular area of the department. It is a broad review rather than a leak inquiry. Leak inquiries are run by the AFP.

Senator FAULKNER—They are referred to the AFP.

Dr Watt—They are referred to the AFP, and in this particular case it was referred to the AFP by me.

Senator FAULKNER—Sorry to interrupt you, but which particular case are we talking about?

Dr Watt—The leaked document that Mr Latham received, the leaked Finance memo, was referred by me to the AFP. The AFP investigated the matter. As at 7 March 2005 they have advised that the investigation had been finalised, as all avenues of investigation had been exhausted. No further action was to be taken.

Senator FAULKNER—The usual outcome. Thank you for that.

Dr Watt—So that inquiry is closed. That is the point I am making.

Senator FAULKNER—What other inquiries have we had within the last 12 months and what is their status?

Mr Suur—If I can go back a little bit beyond 12 months because at the last hearing we discussed three leaks and the first one of those occurred in December 2003.

Senator FAULKNER—Fine. Do you mind just briefly describing that one so we know which one we are talking about?

Mr Suur—On 14 December 2003 unauthorised disclosure of information relating to the findings of the work and family task force were leaked.

Dr Watt—That was a broad ranging inquiry that cut across a large number of departments.

Senator FAULKNER—That is the second one that I mentioned—the work and family task force.

Dr Watt—That was pursued by the Department of the Prime Minister and Cabinet and any further discussion of that would have to be with PM&C, not with us.

Senator FAULKNER—We know where PM&C are up to.

Dr Watt—PM&C are up to where we are up to. It is an investigation they initiated, not us. We cannot help you any further on that one.

Senator FAULKNER—And they have not informed you that that matter has been concluded?

Mr Suur—No, they haven't.

Dr Watt—Equally, they have not informed us it has not, so it may well be that it has.

Senator FAULKNER—All right. What is the second one?

Mr Suur—Now we are on to the third one, because we have dealt with—

Senator FAULKNER—Mr Latham is the second one, just in terms of the chronology.

Mr Suur—Then the chronology is askew because the third one was one that related to the unauthorised disclosure of information relating to MOPS employees, which was leaked to the media on 14 February 2004. That was shortly after the Senate estimates hearings of 2004. That matter related to classified information concerning the salaries of senior staff in the government. That matter was referred to the Australian Federal Police on 26 February 2004. An initial assessment was undertaken by the AFP, who decided not to proceed to a full investigation, so the matter was closed on 7 May 2004.

Senator FAULKNER—That is concluded. So you are still running at a zero success rate for finding these leakers and now you have decided to invest \$150,000 plus to see if that changes the culture of the department—

Dr Watt—No.

Senator FAULKNER—That is what it is all about. All your officials—

Dr Watt—I hope not all of them

Senator FAULKNER—Not all of them, but a significant number of the more junior ones—you may be a bit out of touch; I do not know, Dr Watt. A lot of people in the Department of Finance and Administration think there is this intimidatory culture being established through these security reviews. I want you to assure me that that is not the case.

Dr Watt—I have no intention of establishing an intimidatory culture in any organisation I am part of. I do not think I am an intimidating person; perhaps I am wrong but I do not think I am. That is not the culture we want. It is not a culture you want in an organisation. You want an organisation in which relevant information flows as it should between officers within the department. That is perfectly proper. One thing about Finance is that relevant information flows pretty well around the place. But there is a need-to-know principle and you have to enforce that. When departmental information is disclosed to people outside the department you have to take that seriously, and I do.

I take it seriously for two reasons: firstly, as I said to you before, I think it is very sad and very hurtful for the officers of the department. When information is disclosed, it casts a pall over all of us. It casts the biggest pall over people who are most likely working with the discloser. That is something that is very uncomfortable. As someone who has been through that experience as a junior officer, I found it extremely uncomfortable. Most officers find that extremely uncomfortable. Secondly, it is corrosive for relations with the government of the day if its sees its information, which it properly regards as being safeguarded when it is in the hands of the APS, revealed to people to whom it should not be.

Senator FAULKNER—Isn't it that the government has basically said to you, 'These leaks are embarrassing to us'?

Dr Watt—No.

Senator FAULKNER—'These are embarrassing to us. You do something about it; you fix it up, whatever it takes.'

Dr Watt—Let me emphasise that the leak inquiries were initiated by me, not by the minister. That is part of my responsibility as secretary of the department and a responsibility from which I would not resile. No-one has said to me: 'These leaks are embarrassing. Fix it up.' It is my responsibility; I address it.

Senator FAULKNER—The double standard here is extraordinary, of course. And you would appreciate this, Senator Minchin. The recent classic example is Senator Coonan's letter to the Prime Minister on IVF funding. When cabinet-in-confidence material or letters marked 'cabinet-in-confidence' are leaked to try and promote Senator Coonan and great extracts are reported on the front page of the *Sydney Morning Herald*, no-one gives a damn. That is a leak from inside government; that is an authorised leak—maybe it is not authorised. But if a cabinet minister or her office leaks such a letter that is fine. So why should you go through all these hoops, Dr Watt, when your political masters are leaking this stuff out in their own political interests all the time? Isn't there a double standard?

Senator Minchin—I do not think that the secretary needs to answer your proposition.

Senator FAULKNER—No, the question was to you. You can answer it.

Senator Minchin—I can only reflect upon the motivation for your questions, which comes, of course, from an opposition's natural desire to ensure that the Public Service leaks like a sieve. I understand that. That is how oppositions work. That is your daily grist.

Senator FAULKNER—That is not right at all. You would be absolutely wrong about that. That is an outrageous slur, actually.

Senator Minchin—You just slurred the government. You have just said that the government engages in selective leaking and that sort of stuff, and that that is pretty rough on—

Senator FAULKNER—No, what I have raised with you is the double standard that applies to the sorts of leaks that Dr Watt has outlined. Let us take, for example, the three leaks from Finance and how they were approached. There are police investigations, which is appropriate in my view. The opposition does not take the view, and never has, that leaking from the Public Service is appropriate. We actually happen to support the provisions of the

Public Service Act. The principles that I, on behalf of the opposition, was responsible for enshrining in that act I strongly support. I would be encouraging all public servants to adhere to them.

The point I make is that, when Senator Coonan leaks a cabinet-in-confidence letter about IVF funding to the front page of the *Sydney Morning Herald*, and it is a letter from her to Mr Howard marked cabinet-in-confidence—I raise this example because it is the most recent example, there for all to see—what investigation is there into that? Not a zot. But, if something happens in the Public Service then, of course, every attempt is made to round up the most junior suspect you can find. All of them have proved unsuccessful except on one occasion, when former Minister Newman's Chief of Staff was caught red-handed leaking. Apart from that, the record of the Department of Finance and Administration is blotto. No leak is found. It is just the same as the last department that was before this committee—the Department of the Prime Minister and Cabinet. They also have a good old blotto record too. No leak is found.

Senator Minchin—Can I express my objections, Chair, to the slur cast upon Senator Coonan. Senator Faulkner, you have just accused her of leaking her letter. You have no evidence for that. I have no idea how that letter appeared.

Senator FAULKNER—Well, how did it get there?

Senator Minchin—I do not know. How dare you just assert to this committee that she leaked that letter! That is an outrageous slur upon her. You have no evidence for that whatsoever. That is just your way of trying to attack her.

Senator FAULKNER—Rubbish! Why don't you ensure that there is a police investigation into the leak? Of course you won't, because Senator Coonan just gave it straight to the *Sydney Morning Herald*. That is the double standard I am talking about.

CHAIR—Senator Faulkner, if you could ask some questions, that would be terrific.

Senator FAULKNER—I am happy to ask questions, but I am making a point about the double standard that applies.

CHAIR—All right. Perhaps you can ask some questions that the minister can answer.

Senator Minchin—Dr Watt is trying to answer Senator Faulkner's questions honestly. Rather than overload him with your political attacks, you should just—

Senator FAULKNER—I would expect him to try to answer them honestly. In fact, I would expect him to answer them honestly.

Senator Minchin—As he is doing.

CHAIR—Dr Watt always does.

Senator FAULKNER—I have no reason to suggest that he is not.

Dr Watt—There is one point that is important to correct. Senator Faulkner was suggesting that the leak inquiries in the department of finance focus on junior officers. That is not correct. They focus on all of those who have access to the documents.

Senator FAULKNER—It is a question of rounding up the usual suspects, which is all this security review is about—threats and intimidation.

Dr Watt—The security review is not about threats and intimidation.

Senator FAULKNER—It is—from the government, Senator Minchin.

CHAIR—Senator Faulkner, you have had a good run on that—

Senator FAULKNER—All right. Senator Sherry has some questions that he would like to ask.

Dr Watt—There is just one point I would like to make first. The security review was initiated by me, not by the government. In fact, it was initiated and first discussed during the caretaker period. I informed the minister after the caretaker period was over that we were doing it. In no sense did I consult with him during the caretaker period or seek his agreement, nor was there any suggestion that I should do such a thing.

Senator SHERRY—I actually want to continue on the theme of security. You would be aware, Dr Watt, that the Audit Office has made I think three very serious audit reports concerning the Department of Defence?

Dr Watt—Yes, I am aware of the reports.

Senator SHERRY—You are aware of the Audit Office reports?

Dr Watt—Yes, I understand that.

Senator SHERRY—One of the major issues raised has been the inventory record keeping of billions of dollars worth of defence equipment and where is located.

Dr Watt—I am aware of the Audit Office discussions that you had with the Auditor-General, Mr McPhee, last night. I am aware of the issues.

Senator SHERRY—It was not just last night; this issue has been ongoing for some three or four years.

Dr Watt—I am aware of Defence inventory issues.

Senator SHERRY—It is a significant issue, isn't it?

Senator Minchin—It is a little difficult for Dr Watt to give a qualitative answer to something involving another department. You might like to rephrase that question.

Senator SHERRY—I will come back to that shortly. Has the department of finance been assisting the Department of Defence in any way regarding the serious deficiencies identified by the Audit Office in that department?

Dr Watt—In any specific sense, the answer is no.

Senator SHERRY—So the department of finance has not had any liaison with the Department of Defence?

Dr Watt—That is not the question you asked. You asked had we been assisting them in their audit issues. Yes, we liaise extensively with the Department of Defence on their accounts and their accounting issues. Yes, we are aware of them both because of our role in the bureaucracy and because of the fact that these issues feed into whole-of-government

consolidated financial statements. But has the department of finance been directly involved—and I mean directly—in Defence inventory remediation issues? No.

Senator SHERRY—What has it been involved in?

Ms Hazell—The department has been involved where requested by Defence in giving advice on accounting issues. In terms of the inventory issues that the Department of Defence has, we are not directly involved in the stocktaking or any of the subjects that were discussed last night—for example, about the inventory problems. We are in contact with the Department of Defence’s central area, which is called the CFO unit, on various issues, but we do not take a direct role.

Senator SHERRY—Perhaps this is for you, Senator Minchin. There have been three of what I would describe as serious Audit Office reports about the Department of Defence on inventory issues and billions of dollars of equipment that could not be precisely located. ‘Missing’ may be a word to describe at least some of the equipment whose exact location could not be identified. Given this has been ongoing problem and that the Audit Office identified last night that the problem had got worse, what action are you, as the minister for finance, taking from a government perspective on this matter with Defence?

Senator Minchin—They are the responsibility of the defence department and the defence minister. Obviously, I am well aware of those reports and the issue of Defence’s inventory management. But under our structure of government and the way in which responsibilities are allocated the responsibility rests with the secretary of the defence department for the management of that department. In terms of our responsibility for the overall framework for financial management, we have indicated to the defence department that, to the extent that we are able to offer them assistance in their responsibility to ensure their procedures are improved, we will endeavour to assist them. I think that is what is being indicated by the officers. Yes, I am concerned. Yes, I want Finance to assist the defence department to the extent that the defence department thinks we are able to assist them. But the statutory and management responsibility rests with the defence department.

Senator SHERRY—Last night we got into some of the detail of missing inventory items, including uniforms, ambulances, trucks, SMEs—apparently, they are guns, grenades and other, obviously very serious military hardware—and tanks.

Dr Watt—I heard the evidence last night, and I do not think there was any mention of missing tanks.

Senator SHERRY—There was certainly a mention of missing tanks.

Dr Watt—I think it was ruled out, wasn’t it?

Senator SHERRY—No, Senator Hill ruled out that they had been stolen, because we asked whether Senator Hill could guarantee that none of the missing equipment had been stolen. That is what we asked Senator Hill and that is what he ruled out, so we will accept that the tanks have not been stolen. But we are dealing here with a very considerable range of military equipment whose precise location could not be identified. Surely this matter has to be of serious concern to the government as a whole?

Senator Minchin—It is important to the government that the defence department has the best possible inventory management. Clearly, over a long period there has been the development of less than appropriate inventory management, and the defence department is well aware of that. On the other hand, I suspect that is the case in every defence department around the world. Management of the defence inventory is a massive and difficult job. Our defence department, I suspect, is certainly no worse than defence departments of most other comparable countries. It is a defence department that has been under considerable pressure in recent years, and I think we should be careful not to cast slurs on the department and the officers who serve in it. Whether you as an opposition agree, the fact is that it is a department that has been put under enormous pressure, particularly since 9-11 and the increased engagement and activity that we as a government have placed on that department.

I think that has to be the context in which we examine this. I think the matter is, in a sense, at the margin. In an ideal world, the defence department should know at any time and at any point where everything is. I guess that is probably never achievable. However, that should be the objective. But this is at the margin. It is not as though we are talking about a complete shemozzle.

Senator SHERRY—The Audit Office last night reported that things had actually got worse in the third year. In fact, Senator Hill started to question the Audit Office as to why they were commenting that things had worsened in the third year rather than got better. This seems to be a significant problem. Certainly the Audit Office regards it as a significant problem.

Senator Minchin—The Audit Office is the champion of the ultimate standard, and it is proper the Audit Office set the hurdle high. The defence department does need to have a culture in which it aims to achieve the ideal world, albeit that I think the reality is it never will. But I am satisfied that the defence department, its secretary and its minister are well aware of the issue and are doing what they can to resolve it, given the substantial pressures on them in a whole range of operational areas. We are at their service. We will do what we can to assist them.

Senator SHERRY—I would not describe it as a problem at the margin. The problems identified by the Audit Office were across a very considerable range of military hardware, involving billions of dollars, so it is not an issue at the margin and it is a problem that has worsened over time. The problem was identified correctly by the Audit Office in its first two audit reports and then in the third audit report they identified a worsening of the problem. I can understand the pressures on Defence—and the opposition is not criticising the Department of Defence—but we are just highlighting what seems to be a worsening problem of some significance in the Department of Defence.

Dr Watt—I did not hear all of last night's evidence, but my general impression of the defence audit issue has been not that the problem has gotten worse in itself but rather that, as the auditor has dug further, new things have come to light. Most of these problems are longstanding. They have not arisen in the last year or two. Many of them go back not just years but decades. My general sense is that it is not that new things have occurred by rather that, as the auditor has become more deeply involved in defence accounts—and this is a tendency we have all seen in the last few years across the board, public and private—new

issues have come to light, and not that those issues are new in the sense of just having occurred.

Senator SHERRY—We know it has occurred over three years and it is of significance—

Dr Watt—I think in most cases the history is much longer than that. The history of the Auditor-General's—

Senator SHERRY—If you read the Audit Office's reports—and I think you probably have—

Dr Watt—I have seen bits of them.

Senator SHERRY—I assume you have. They did not start just looking at uniforms in year 1—

Dr Watt—No.

Senator SHERRY—and then move on to the ambulances and the trucks and the tanks, and then move on to the SMEs the grenades and the guns and so on. They did not do it like that.

Dr Watt—No, but I think I am making a different point. You might remember that initially, for example, the defence inventory issue was about pricing of inventory and whether you—

Senator SHERRY—Yes.

Dr Watt—And as the auditor has looked further into that issue, so the question of physical count has also come up. It is not that the physical count issue just went astray in the last few weeks. In fact, the physical count, in so far as it is deficient, has been deficient for a long period of time. The point I am making is that it has come to light rather than just occurred.

Senator SHERRY—Yes, and the point that is made by the Audit Office is that, once it came to light, the systems have not got better—in fact they have gotten worse. Anyway, you are not involved in a direct way in the inventory management; you are involved in some other issues. I suspect you are probably relieved that you are not. So I will go to some other general questions.

On staffing, in looking through the budget statement I noticed in outcome 1 that the average staffing level actual 2004-05 is 489, rising to 572. That is on page 40. That is a significant increase. In outcome 2, the staffing levels rise from 129.9 to 186.6. That is also a significant rise. In outcome 3, the staffing levels go from 353.9 to 370.1. In outcome 4, the average staffing level went from 83.4 to 118.4—that is another significant rise. In the Electoral Office—and I suspect I know the reason for this—average staffing levels went from 233 to 490. I suspect that that has something to do with the electoral cycle.

Dr Watt—I cannot help you much with that one.

Senator SHERRY—I wasn't going to go there, but I just thought that, to be fair, I should say that I suspect that I know the reason for that particular rise. There is a small increase in the other agencies—the boards et cetera. This is a significant increase in staffing levels, isn't it?

Mr Suur—We have seen some growth in staffing numbers over the last 12 months. In July last year, the Office of Evaluation and Audit joined the department of finance. That was about

20 staff. In October last year, AGIMO, the Australian Government Information Management Office, joined the department. They brought about 110 staff to the department's numbers. That is reported largely under outcome 4. The figures show the full-year effect of the AGIMO transfer. In addition we have been building our capabilities in areas like the Budget Group and the Financial Management Group. Part of this goes to implementing government decisions about boosting the capabilities and resources of Finance in these key areas; so there is also growth in those numbers, and that is reflected in outcome 1.

Dr Watt—Another issue in relation to outcome 1 is—I think Mr Suur has covered them all, actually. That is probably enough.

Mr Suur—In outcome 2 there has also been some new capacity in Finance grown in the area of construction, for example. So there are additional resources there.

Senator SHERRY—What is the relative staff growth in the Department of Defence compared to other departments?

Dr Watt—The Department of Defence?

Senator SHERRY—Sorry, the Department of Finance and Administration.

Dr Watt—It is not something that I have looked at. I would be happy to take it on notice and get you an answer.

Senator SHERRY—I do not think it would take you long to provide that analysis.

Dr Watt—We will see what we can do.

Senator SHERRY—There is a list of employee numbers in one of the budget papers.

Dr Watt—Yes, that is correct.

Senator SHERRY—Are you responsible for coordinating the gathering of that information? Is your department responsible for that?

Dr Watt—We do coordinate it, but the emphasis is on coordinate. That information I think drops largely out of agency PBSs so, in a sense, we take the information and agencies give it to us in a similar—

Senator SHERRY—And then you lodge it for the budget paper.

Dr Watt—We will get you an answer.

Senator SHERRY—I just make the observation that the department of finance seems to have, in terms of percentage numbers, one of the largest growths in employee numbers in the public sector at the present time.

Mr Suur—A large part of that reflects machinery of government changes.

Senator SHERRY—I understand some of that at least.

Dr Watt—So that is a zero sum gain.

Senator SHERRY—The overall public employment numbers are increasing. I cannot recall the precise number—I think it is approximately 1,700 for the next financial year. I do not think there is a total at the end, Dr Watt; I had to add it up myself.

Dr Watt—You are right, there is not.

Senator SHERRY—No, there is not.

Dr Watt—I remember seeing that in the budget documents.

Senator SHERRY—I noticed them. You gave us the staff numbers, but not the totals comparing one year with another. One of my very good advisers actually added it up and it came to an increase of about 1,700 staff.

Dr Watt—On that particular basis, but there are a number of ways of doing these.

Senator SHERRY—I know. We used what was presented.

Dr Watt—Sure. The only point I make is that in other publications a slightly different method of comparison will give you slightly different answers.

Senator SHERRY—There is another general issue I want to discuss. The department of finance very usefully published for the first time a list of Australian government bodies 2002-03—it is a pretty weighty document. I assume you have seen the document.

Dr Watt—I have read it.

Senator SHERRY—You have read it?

Dr Watt—Yes.

Senator SHERRY—So have I; it is a big read. In fact, it is so big there are 955—excluding bodies counted twice—bodies by portfolio. That is correct, isn't it?

Dr Watt—I do not have the document in front of me, but I take your word for it.

Senator SHERRY—It is on page 9 in your introduction. This is departmental bodies, advisory bodies, Commonwealth-state bodies, department bodies with distinct brandings, statutory authorities, two royal commissions, 207 departmental bodies recognised in legislation, boards, corporations, trusts, companies—the list goes on and on. You say in the introduction that it is envisaged this list will be published on an annual basis to be current to 1 July each year. Will you be publishing an update? If so, when?

Mr Mowbray-d'Arbela—An update is being completed at the moment. After the election, there was a change in the portfolio structures—in particular, the introduction of the Department of Human Services. On that basis, and in discussion with agencies and departments, the next list will be current to 1 January 2005. We will take it to the end of 2004, and then the reporting of portfolio structures will be current to the way that the Australian government is currently configured.

Senator SHERRY—When will that list be published?

Mr Mowbray-d'Arbela—This financial year is our plan. We have the proof documentation being put together at the moment. It is a matter of printing schedules and final proofing processes. It is certainly on track at the moment.

Senator SHERRY—So some time this financial year?

Mr Mowbray-d'Arbela—Yes.

Senator SHERRY—Up to 1 January.

Mr Mowbray-d'Arbela—Yes.

Senator SHERRY—The document made no attempt—I suspect because of complexity, Dr Watt—to identify the growth in the number of bodies over time. Has there been any effort to identify that in the updated document?

Mr Hutson—This is the first time that the Department of Finance and Administration has produced this list. Up until some years ago the publication of the list was actually the responsibility of the Senate committee. Following a request, the department took on the responsibility for creating this list. I understand that the last time the list was produced by the Senate committee was—

Mr Mowbray-d'Arbela—1996.

Mr Hutson—1996 and I think at that time there were some 1,300 bodies listed.

Mr Mowbray-d'Arbela—I do not have the actual numbers in mind but it was actually more than is there.

Dr Watt—We can get you that number, if you would like it.

Senator SHERRY—We will go back and—

Dr Watt—Clearly, insofar as we can make useful comparisons from year to year, now that we have a current baseline—which this excellent document provides—we will be able to track changes in numbers.

Mr Mowbray-d'Arbela—I might make the comment that it might be a little bit misleading to take one number and another number because what we have tried to do is ensure that the document is comprehensive. If there is a sense that a body is seen as separately identified, then it goes in the list. Some of these activities are actually just part of the department of state. To take an example, people have heard of Comcar or Comcover. They are simply part of our department, as is the Office of Evaluation and Audit. We also take a broader calculation of the companies that the Commonwealth has an involvement in. It used to be only bodies with an up to 20 per cent shareholding; we have said that any shareholding goes in the list. We do not want to be affected by how the numbers look and miss out on as full and as complete a disclosure and an explanation of the structure of the Australian government as possible.

Senator SHERRY—I appreciate that. I must say, even I, despite all my years of toiling at estimates committees and thinking that I had heard of just about every conceivable government body of some description, was informed about some that I had never even heard of: for example, the Clinical Casemix Committee of Australia, the Supervising Scientist for the Alligator Rivers Region and Ambri Ltd. It is illuminating. There were a huge range of bodies that, as I say, even I had not heard of. Thanks for that.

I have just a couple of other issues on the annual report. Asbestos claims management is on page 49. I notice that in the budget papers there is a reference to a reduction of \$1 million in the moneys allocated to that in 2005-06 and then a reduction of \$500,000 in 2006-07. Then there is a further reference to the Stevedore Industry Finance Committee asbestos claims management for minus \$0.4 million over four years. What is the story behind that?

Mr Yarra—The driver behind those numbers is a transfer of the management of the asbestos liability within the Commonwealth to DEWR. The numbers follow the function.

Senator SHERRY—So DEWR has an add-on.

Dr Watt—The decision has been taken to centralise management in DEWR, rather than see a number of departments manage cases. That involves not just us but Transport and Defence. DEWR will manage all those cases centrally.

Mr Yarra—Except for Defence.

Senator SHERRY—So this has led to what I suspect is a very minor staff adjustment.

Mr Yarra—It is an adjustment that is based on an estimate of the liability that would reasonably accompany the transfer of the function. It is sort an actuarial function.

Senator SHERRY—I understand that. Was there any specific staff allocation within Finance on this project?

Mr Yarra—No.

Dr Watt—There have been some resources transferred but no staff.

Senator SHERRY—Budget Paper No. 1, at 630, states:

The Contingency Reserve ... is an allowance ... to reflect anticipated events that cannot be assigned to individual programmes ...

That is in Appendix B: 'The Contingency Reserve'. Can you explain what that means?

Dr Watt—Mr Bowen is the contingency reserve expert.

Senator SHERRY—As he is on many other issues. Good to see you again, Mr Bowen.

Mr Bowen—Senator Sherry, I caught the gist of your question, but could you repeat it.

Senator SHERRY—I was quoting from Appendix B of Budget Paper No. 1, at 630. It states:

The Contingency Reserve ... is an allowance, included in aggregate expensing figuring, to reflect anticipated events that cannot be assigned to individual programmes ...

It is the first three lines of the appendix. Can you explain what that means?

Mr Bowen—The contingency reserve is a mechanism in the budget to ensure that the budget bottom line is as accurate as possible. We have had a contingency reserve for many years. It is certainly not new. It is important to recognise that the reserve is not of itself an appropriation. Items need to be transferred into agency estimates and appropriated by the parliament in order for the money to be spent. But the estimates are there to ensure an accurate bottom line. It has been longstanding practice to have the contingency reserve contain estimates of expenses that cannot be explicitly reported within portfolio estimates. The reasons for that include reasons of sensitivity, such as commercial-in-confidence data or national security information, and timing, such as late decisions and late changes to economic parameters.

Senator MURRAY—Can I just add to the question, because I would like it included in your answer, Mr Bowen. I was going to raise later on some questions I had with respect to the statement of risks. I noted that in that descriptor of the contingency reserve at 630 none of those dot points included a contingency for any risks that might arise from the statement of risks. I wondered why not.

Mr Bowen—The items in the statement of risk in many cases are not quantifiable and, as such, may—

Senator MURRAY—But nor are those in the contingency reserve, and that is why I asked the question.

Mr Bowen—No, they are. The items in the contingency reserve are quantifiable. We actually put estimates of expenditures in the contingency reserve, and that impacts on the bottom line. The purpose is to ensure that we get as accurate a bottom line as possible. However, where an item may be a risk, that is disclosed in the statement of risks, but in some cases there is no way to quantify the item and in other cases there is insufficient certainty. You might be able to quantify an event, but there might be insufficient certainty that that event will actually occur to include the estimate in the actual bottom line. That is the difference.

Senator SHERRY—Effectively what you are saying is that there is nothing in the contingency reserve that is an anticipated event that cannot be assigned to an individual program?

Dr Watt—No.

Senator MURRAY—Apart from confidential—

Senator SHERRY—The confidentiality, national security and that stuff.

Dr Watt—The conservative bias could not be assigned to any individual program; it is an expenses-wide allowance to allow for the perceived tendency, with the best estimates in the world, for each year's budget estimates to drift upwards.

Senator MURRAY—It is a law of nature, I think.

Dr Watt—I am afraid it is a law of nature that finance ministries worldwide struggle with.

Senator MURRAY—That is why I described it that way.

Senator SHERRY—Do you have anything to add to that, Mr Bowen?

Mr Bowen—No, that is a valid comment.

Senator SHERRY—I was puzzled by a footnote on page 6-10 of Budget Paper No. 1, under Health, 'Table 8: Summary of expenses', which says:

a. The financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the contingency reserve.

Do I understand that this is the first time this has happened?

Mr Bowen—No, it is not. This has been a practice for some years.

Senator SHERRY—On this program?

Mr Bowen—Yes, it has. Obviously, health premiums go up and they impact on government outlays, but for us to flag what that impact might be could be prejudicial to decisions that the Minister for Health and Ageing may have to make in the future. It is commercially sensitive and hence put into the contingency reserve.

Senator SHERRY—But surely, on historical data, you are able to make an estimate?

Mr Bowen—We do. We make an estimate, but the point is that that estimate is not made public, because to do so may influence the market in some way.

Senator SHERRY—So, within the contingency reserve for the next financial year, what is that figure? I am looking for it.

Mr Bowen—I cannot give you the figure.

Senator SHERRY—No, the total contingency reserve for the next financial year.

Mr Bowen—It is on page 6-21.

Senator SHERRY—What is that figure for the next financial year?

Mr Bowen—For 2005-06 the figure is \$187 million.

Senator SHERRY—And then 2006-07?

Mr Bowen—It is \$2.6 billion. Do you want to go out?

Senator SHERRY—Yes.

Mr Bowen—Then it is 4.9 and 10.1.

Senator SHERRY—That is 10.1 in 2008-09?

Mr Bowen—Yes. The largest component there, going out, is the allowance for conservative bias that Dr Watt talked about.

Senator SHERRY—So that is the largest component?

Mr Bowen—Yes.

Senator SHERRY—What has your conservative bias component been, say, for the current financial year?

Dr Watt—What happens with conservative bias is that, because the tendency for underestimation is greater the further out you go, the allowance in the first year of the forward estimates is a lot smaller than the allowance in the second year of the forward estimates and a lot smaller than the allowance in the third year of the forward estimates—so it is a step character.

Mr Bowen—There is nothing in 2005-06.

Senator SHERRY—Before you go on, Dr Watt, I know that the chair wanted to adjourn for morning tea because he had a commitment, so I am happy to stop there.

Dr Watt—We are happy to give up this arcane discussion temporarily.

Senator SHERRY—Arcane to some!

Proceedings suspended from 10.30 am to 10.47 am

Senator SHERRY—Just to conclude the questioning on the contingency reserve, what are the other programs, if any, that have been allocated to the contingency reserve?

Mr Bowen—Of its very nature we can only talk in very general terms. To the extent that anything has not been disclosed as being part of the contingency reserve we really cannot comment on that.

Senator SHERRY—How does that breach your commercial-in-confidence principle, for example? We know that the private health insurance rebate is allocated to the contingency reserve. Are there other programs like that? I am not going to ask for specific figures, for the reasons you gave earlier, but I just want to know what the programs are.

Mr Bowen—I do think I can go further than saying that anything where there is a real sensitivity about, say, a negotiation which is commercial—this is hypothetical—or a negotiation with the states could go into the contingency reserve.

Senator SHERRY—But, Dr Bowen—I am sorry, Mr Bowen.

Mr Bowen—You had better call me ‘Mr’.

Senator SHERRY—I am still in the Dr Boxall days, and he loved to be called ‘Dr’ and he got a bit upset if I did not call him ‘Dr’.

Mr Bowen—I do not get upset if you call me ‘Dr’.

Senator SHERRY—I know.

Senator FAULKNER—I think they were the good old days, with Dr Boxall, weren’t they!

Senator SHERRY—The bad old days!

Senator FAULKNER—Don’t look so hurt, Dr Watt; that was just a mild touch of irony.

Senator SHERRY—He would not be hurt.

Dr Watt—Everyone does their job differently.

Senator FAULKNER—Yes, I know.

Senator SHERRY—Very differently.

Senator FAULKNER—You do not have massages anymore in the Department of Finance and Administration, do you?

Senator SHERRY—To be fair, Senator Faulkner, that was as a consequence of the reign of terror that was unleashed by Dr Boxall. It was a remedial program that was implemented for distressed staff in the Department of Finance and Administration.

ACTING CHAIR (Senator Murray)—Order, Senator Sherry! Let us get back to the questioning.

Senator SHERRY—Mr Bowen, we have specifically identified the that private health insurance rebate is in the contingency reserve. That is a government program. I understand the reason why you will not identify the figures—they are commercial-in-confidence—and I accept that. But I do not accept why you cannot identify what other programs are in that contingency reserve. The private health insurance rebate is quite specifically identified.

Mr Bowen—What I am happy to do—but it will take a little time to do it—is to go through the budget papers and identify those programs where it has been disclosed that there is a provision in the contingency reserve. My memory is failing on me, but I think there are other references. If there are, we will pull those out and provide them to you—that is, if they have been disclosed the budget papers.

Senator SHERRY—That is my concern. I am asking that, where they have not been disclosed, the names of the programs be identified. I am not asking for the figures, because I accept the caveat on the figures, but I would like the names of the programs. If we have disclosed the private health insurance rebate is allocated to the contingency reserve and the growth in the forward estimates, I do not see why—and I understand the sensitivity and accept your explanation—other programs that are included in the reserve but are not identified elsewhere in the budget papers cannot be listed.

Mr Bowen—I will take your question on notice; that is the best I can do here.

Senator SHERRY—That brings me to an issue I have not yet raised: outstanding answers to questions on notice. Where are we up to? There are some outstanding answers.

Mr Suur—There were 41 questions asked in the hearings in February. Of those 41 questions, two were answered on the day, leaving 39 that we took on notice. Those 39 consisted of 110 parts. All of those questions have now been answered.

Senator SHERRY—They have all been submitted to the secretariat?

Mr Suur—That is right.

Senator SHERRY—Are there any outstanding answers from previous estimates at this point in time?

Mr Suur—Not that I am aware of.

Senator SHERRY—I had a question on notice for ComSuper—and we are going to get to that later—that related to the investment rates of return. Has that been answered, because that is part of the Department of Finance and Administration?

Mr Suur—I believe so. ComSuper had only one question and that was it.

Senator SHERRY—I had not seen a copy of it as of yesterday.

Dr Watt—Is Mr Suur talking about the portfolio or the department? Because ComSuper is not part of the department.

Mr Suur—I am talking about the portfolio.

Senator SHERRY—You are talking about the total portfolio?

Mr Suur—Yes.

Senator SHERRY—I will get the secretariat to update that. I had not seen an answer on that issue. Page 33 of the 2003-04 annual report, at note 35, shows a capital repayment made from the property account in the amount of \$136,087. What is the nature of this payment?

Dr Watt—I think we might have our CFO for this.

Senator SHERRY—Or is that \$136 million? I might have misread the figure.

Dr Watt—Could you give us that reference again?

Senator SHERRY—It is note 35, special accounts.

Dr Watt—What page?

Senator SHERRY—Page 33.

Dr Watt—Is this in the 2003-04 annual report?

Senator SHERRY—Yes, according to my notes.

Dr Watt—Did you say page 33? We are at sea.

Senator SHERRY—Sorry, I have got the wrong page number. It is on page 231. It is a slight difference, apologies! There is a typographical error in my questions, but I have the report here and was able to find it fairly easily. It is capital repayments, under property accounts, and it is about halfway down the page.

Mr Staun—What number are you referring to?

Senator SHERRY—It is the number of \$136,087. It looks like \$136 million.

Mr Staun—It is indeed million.

Senator SHERRY—What is that for?

Mr Staun—It is capital repayments. The way in which the property account is run is that it is appropriated for construction activities and it spends the money on those activities. Further, it has an allowance for minor capital works. It rents out properties and has expenditure incurred in renting those properties and earns profit. Of those profits, anything over \$20 million that is in the property special account is then repaid by way of capital returns and dividends to government. What we are trying to do is quite an open and transparent process where it is appropriately funded for its activities and then anything over its natural working capital, if you like, is refunded to government.

Senator SHERRY—Do we have a historical figure?

Mr Staun—For the previous year?

Senator SHERRY—Yes.

Dr Watt—We do not have a historical series here. We could get you a historical series, I am sure, going back over a number of years.

Senator SHERRY—Okay.

Dr Watt—It is worth noting Mr Staun's point about appropriations. The second top line in that table shows that for the reporting period \$21.7 million was appropriated for new works; \$136 million was paid back. In the previous year, \$115.8 million was appropriated, and there was no repayment. Those are the ins and outs of the property special account.

Senator SHERRY—Just while we are on this, footnote 4 to note 35, on page 233—

Dr Watt—Is this starting:

Under the legal authority: Financial Management and Accountability Act ...

Senator SHERRY—Yes. It is on page 233, note 35, special accounts. The fourth point says:

Under the legal authority: *Financial Management and Accountability Act 1997*, section 20 ... The purpose of the—

property—

Special Account was varied on 25 June 2004 for clarification purposes.

Can you clarify what transactions took place on the basis of the clarification?

Mr Staun—With all our special accounts we charge an internal service fee, if you like, for overheads and administration. There was some confusion as to whether or not that was legally appropriate. We cleared that with the appropriate advice from the solicitors. So the accounts were changed to ensure that there was no misunderstanding, for future reference.

Dr Watt—And ANAO was happy with it.

Mr Staun—Yes, our accounts have been signed off by the ANAO.

Dr Watt—The ANAO obviously cleared the audit.

Senator SHERRY—Page 152 of the annual report notes that expenditure on advertising and market research was understated by \$481,949.

Dr Watt—That is correct.

Senator SHERRY—What are the details as to what this expenditure was for?

Dr Watt—I will get that information for you.

Senator SHERRY—If we are waiting for an officer I can go on to the next question if you like.

Dr Watt—We will get the relevant officer for you; it will take about 10 minutes.

Senator SHERRY—I will put that aside. One of the difficulties in going through the annual report with a few issues is that it tends to sort of jump about.

Dr Watt—That is quite all right. I think you will find that it is advertising for jobs, basically.

Senator SHERRY—We will clarify that shortly.

Dr Watt—Yes.

Senator SHERRY—Page 23 of the annual report shows the department's organisational chart as at 30 June. Can you explain the role of the special projects unit, which reports to you?

Dr Watt—Yes, I can. That was the small team we set up to do our incoming government briefs. As you are aware, in the run-up to every election every department prepares incoming government briefs for all possible circumstances. We set up a special projects team at about that time to start work on the incoming government briefs. The team was disbanded after the election.

Senator Sherry—I am in part disappointed to hear the explanation, but I look forward to the briefs at some point in time! Unhappily, that explains that. Page 53 of the annual report notes that the construction of the Commonwealth law courts complex is behind schedule. It says:

... the high level of building activity in the Australian construction industry has led to resource pressures ...

Mr Yarra—Is that a question, Senator?

Senator SHERRY—Is this because of a shortage of skilled tradespeople in this area? What is the reason?

Mr Yarra—My understanding is that it is just the flow of work to market putting pressure on all areas of the construction industry and leading to a shortage of skills across the board.

Dr Watt—This is the Adelaide law courts you are referring to. There has been some very strong growth in the building and construction industry in Adelaide in particular in the last couple of years. Mr Yarra is right about the across-the-board pressure in construction. I think in the last year or two Adelaide has been one of the hotter spots.

Senator SHERRY—So has Tasmania, fortunately. There has been a bit of a lag.

Senator Minchin—We are catching up.

Senator SHERRY—South Australia and Tasmania have caught up significantly, thank goodness. Have we got someone here who can deal with that advertising issue now?

Dr Watt—They are on the way.

Senator SHERRY—Please let me know when we have got someone who can respond to the advertising question. Page 25 of the portfolio budget statements shows an expense of \$3.6 million relating to the increase in the efficiency dividend. How do you envisage that increase in the efficiency dividend will be met?

Dr Watt—We will find better ways of doing things.

Senator SHERRY—Such as?

Dr Watt—For example, we have been going through a process of market testing our outsourced functions or our corporate functions—most of which are outsourced—and that sort of thing has yielded us significant savings. That is one way you meet an efficiency dividend. We have changed our outsourced IT provider, and we have gone to a process of selective insourcing and getting a new series of providers. That has also produced some significant savings for us. We find better ways of doing our basic core functions. We have stopped doing some things, as a way of achieving that. It is not unreasonable for managers of public sector entities to find ongoing efficiency dividends each year—and you can find them—and for them to be shared with the budget.

Senator SHERRY—That brings me to the general issue of the efficiency dividend. I am sure you would be aware that, in the budget papers, the efficiency dividend increased from one per cent to 1.25 per cent. The approximate figure is a \$445 million saving over four years. Is the department of finance involved in the overall coordination of that across portfolios?

Dr Watt—The decision came out of an election commitment.

Senator SHERRY—I am aware of that.

Dr Watt—Individual agencies are expected to adjust their departmental expenses—where those expenses are relevant—because it does not impact on every category of departmental expenses. There are some exceptions.

Senator SHERRY—Defence operational was excluded.

Dr Watt—The defence military and operational capability has been excluded. Individual agencies are responsible for adjusting their accounts to take into account both the existing and

the new efficiency dividend. The department of finance is responsible, through Mr Bowen and the budget group, for helping ensure that happens.

Senator SHERRY—That was going to be my next area of questioning—‘helping ensure it happens’. Will there be a report back in the next budget papers as to whether it has actually happened across portfolios?

Dr Watt—It will have happened.

Mr Bowen—I am not here to ask questions but I was going to ask what you actually meant. It has happened in the sense that estimates—

Senator SHERRY—Have been adjusted.

Mr Bowen—Yes.

Dr Watt—And that is finance’s role.

Senator SHERRY—However, we do get additional estimates and we get supplementary estimates, don’t we?

Mr Bowen—For legitimate reasons we do.

Senator SHERRY—Such as they might not be meeting the efficiency dividend?

Mr Bowen—No.

Senator SHERRY—So you are keeping a watchful eye on that, are you?

Dr Watt—No. When I said finance is responsible for seeing it happens, the point I was endeavouring to make was finance is responsible for seeing the estimates are adjusted—and they have been—not for seeing that the savings are subsequently garnered, because they are garnered. They are now in the budget.

Senator SHERRY—But there is an escape clause?

Mr Bowen—No.

Senator SHERRY—They can get an extra allocation of money.

Dr Watt—Any entity can, through their minister, seek additional funding for new policy proposals, for example. It is not an escape clause that it is very easy to get.

Senator SHERRY—We will see. Do you report back, as such? Obviously, Mr Bowen, you are responsible. There is an item in the budget. I am interested in how successful this is and whether you are able to identify whether departments are able to dodge this in any way? It is very easy to put an item in: an efficiency dividend increase of one per cent to 1.25 per cent, savings of \$445 million—it is very easy. It is the accountability for making sure that happens that I am interested in at the end of the day.

Mr Bowen—Our point is that it has already happened in that the forward estimates of each individual agency that is subject to the efficiency dividend have been adjusted for that dividend. So it is not a question of—

Senator SHERRY—I understand. But it has not happened yet?

Mr Bowen—It has happened.

Dr Watt—It has happened. They have been adjusted.

Mr Bowen—It is in the budget.

Senator SHERRY—It is in their budgets, but it has not happened yet. I do not want to argue, but Dr Watt has outlined areas where there can be efficiencies. Those things have not happened yet.

Dr Watt—Some of them may not have. But clearly the cases I was taking were examples of what we have done in the last 12 to 18 months which are yielding ongoing savings through the forward estimates. Not everything may have happened just so we can live within the reduced budgets; in many cases, those savings are the results of improved efficiencies and improved productivity that was already in train.

Senator SHERRY—There can also be staff savings, for example. Is that classified as part of an efficiency?

Dr Watt—The efficiency dividend does not tell managers how to realise savings.

Senator SHERRY—I understand that.

Dr Watt—That is entirely at the discretion of the manager. It would be hypothetical for me to speculate where they would do it.

Senator SHERRY—That is right. But it can include staff savings, can't it?

Dr Watt—Again, those efficiencies can be made in any way.

Senator SHERRY—That is right. And that includes staff savings.

Mr Bowen—Can I comment? Of course efficiencies can be made in any area of resourcing. But, as you have pointed out, in the general government sector as a whole in this coming financial year as a result of new policy there is actually an increase in staff in the APS—

Senator SHERRY—Exactly.

Mr Bowen—of about 1,700.

Senator SHERRY—Approximately.

Mr Bowen—I think it was 1,700; I would have to check.

Dr Watt—That is clearly of concern to a Finance secretary.

Senator SHERRY—Exactly—if you actually added up the totals. Perhaps you might do that next time. This is why I am a little intrigued as to the imposition of an increased efficiency dividend at the same time as there is an increase in staff across the service.

Dr Watt—The two are completely unrelated. One is a decision about the level of sensible efficiencies that agencies can make. Why are staff numbers growing? The answer is that government does not target staff numbers in any sense. There has been—

Senator SHERRY—It can indirectly target them.

Dr Watt—No.

Senator SHERRY—You could impose a five per cent efficiency dividend. That would have to have some consequential effect if the savings cannot be made in non-staffing areas.

Dr Watt—We do not have a five per cent efficiency dividend, so—

Senator SHERRY—No, but you have increased it—sorry, not you; the government.

Dr Watt—It is hypothetical and I should not speculate on that. Governments do not target staff numbers. The days when we had ASL caps and targets go back 15 or 20 years. We have gone well beyond that in a budgeting sense and in a decision-making sense. So staffing numbers are the outcome of a whole series of decisions, and in this case new policy decisions.

Senator SHERRY—I do not agree with you that governments do not target staff numbers. In the first four years of the current government staff numbers were reduced by approximately 20,000, if my recollection of one of the audit reports is correct.

Dr Watt—The point is that governments look at functions rather than staff numbers. I do not dispute your numbers but I would have thought that a lot of that reduction in staff came through the transfer of functions as a result of, for example, privatisation proposals.

Senator SHERRY—Yes, and reductions in functions in many areas. I interestingly observed that the staff numbers across the service are now back above the 20,000 reduction, but that is by the by.

Dr Watt—The service does very different things today in terms of what it did 10 years ago, just as 10 years ago it was very different from what it was 20 years ago.

Senator SHERRY—I am just interested in how an efficiency dividend outcome occurs when there is an increase in staff levels. You have explained that there are areas where savings can be made and what the consequences of an increased efficiency dividend are. We touched earlier on this. Has the efficiency dividend been extended to the Department of Defence—the non-direct operational areas?

Dr Watt—The non-military, non-operational areas.

Senator SHERRY—Is that the first time that has occurred?

Dr Watt—That is correct.

Senator SHERRY—What is the rationale for that?

Dr Watt—The rationale is that outside operational and outside military areas Defence broadly does the same sorts of things as the rest of the APS and therefore there is no reason why Defence should be necessarily exempt from an efficiency dividend—in those very specific areas.

Senator SHERRY—Certainly I hope their inventory improves in terms of the efficiency dividend. How do you differentiate? Are we excluding active military personnel? That seems to be obvious.

Dr Watt—Military personnel and their expenses are excluded.

Senator SHERRY—Yes, they are excluded. So what is included? Are we talking about the administration staff? How do you draw the line?

Dr Watt—The focus is very much on administrative staff functions and not things that are directly involved in operational or military issues.

Senator SHERRY—Are you able to provide some sort of definition of that in terms of people in particular areas?

Dr Watt—We could take that on notice. We can provide you with the broad areas but I am not sure we can provide you with people.

Senator SHERRY—A staffing estimate would be useful. I am not going to hold you to precise numbers.

Dr Watt—If it is a staffing estimate, that would be a matter for the Department of Defence.

Senator SHERRY—Okay.

Dr Watt—We can give you some information on where the efficiency dividend is to be applied.

Mr Bowen—The types.

Dr Watt—Yes, the types of expenditure. What we do not have would be the staffing and the—

Senator SHERRY—Okay, types of expenditure. Perhaps the secretariat of the committee could pass on a question on notice about staffing in particular areas. I am sure the Department of Defence—

Dr Watt—We would be delighted to refer it to the Department of Defence.

Senator SHERRY—Thank you very much. Are we able to go back to advertising?

Dr Watt—We can, but we still do not have the right person here.

Senator SHERRY—We can hang off. That was my last question of a general nature. Outcome 1 is intergenerational forecasts. There is obviously a lot of focus on this issue generally. Can you explain to the committee how the Department of Finance and Administration estimates the long-term cost of policy proposals that are submitted to the ERC? Beyond the forward estimates is what I mean by 'long term'.

Mr Bowen—As a normal practice in our costings, we work closely with the proponent portfolio department or agency in developing the particular costing. The requirement on agencies is clearly to come forward with good data for costing for the budget and forward estimates years. In addition to that, where programs would have a significant growth, for example, beyond the forward estimates period, we explore that growth with the agency. That information is put in front of government at the time that they make their decision. Mostly, of course, the published estimates are for the forward estimates period—which is the budget plus three forward estimate years—but, as you look at the budget papers, every now and then you will see references to years beyond the forward years. Given time, I could find you an example but, if you look at the measures documents, you will occasionally see that we refer to expenditures in the out years.

Senator SHERRY—When we are looking at growth beyond the forward estimates periods, who identifies something that perhaps carries a significant cost growth beyond the forward estimates—Finance, the department or both?

Mr Bowen—It is really a collaborative effort. We would expect the a line department to identify long-term implications if there is anything other than what we might call a flat line. If there is real growth, we would expect them to identify it. Obviously, if we anticipate that a proposal would have such growth and it was not identified, that would be one of our questions.

Senator SHERRY—When you say ‘flat line’—

Mr Bowen—Flat in real terms. Don’t take me literally.

Senator SHERRY—No, I am not, because I do not think anything would have a flat line.

Dr Watt—I think you would say ‘roughly flat’.

Senator SHERRY—Unless it has an end date and stops in four years time, you would have a declining line.

Mr Bowen—I think I am talking with normal parameters and—.

Senator SHERRY—CPI, wage growth or something like that?

Mr Bowen—Or with subprogram growth—some real growth or population based growth or something.

Dr Watt—I think the important point when this is used is that, most often, just looking at the forward estimates themselves would give you a misleading picture.

Senator SHERRY—Yes.

Dr Watt—So, if you have Mr Bowen’s roughly flat line and that is going to be the way that the cost of program is going to behave in future then that is what you have. You would not need to go beyond that. If you do not then you would have to look beyond that. That is the purpose of trying to cost the years beyond the forward estimates.

Senator SHERRY—What forecasting tools does Finance use to estimate long-term cost where there is a beyond-the-flat-line approach?

Mr Bowen—We work closely with agencies on their estimates models. There are a range of models, particularly for the larger entitlement-driven programs. We also have a unit within the budget area of Finance—and we have beefed up this area in recent years—that includes specialist staff with economic and financial modelling skills. In addition, particularly with large policy proposals, we have a collaborative effort not only between Finance and the line agency but also with other departments such as the Treasury. The Treasury does a lot of economic modelling. We do not consider ourselves to be economic modellers, I might say. The Treasury really is the repository of that expertise.

Senator SHERRY—That would be Mr Gallagher’s unit, I think, wouldn’t it?

Mr Bowen—That would be one of them, I think.

Senator SHERRY—He certainly seems to be a main driver of the modelling in that area.

Mr Bowen—That work is widely across—

Senator SHERRY—There is the intergenerational model, as I think it is commonly known—I am not sure of the exact terminology.

Dr Watt—You have an advantage over us. I am not sure of the name of the model.

Senator SHERRY—So you do use—

Mr Bowen—We rely heavily on Treasury for those sorts of forecasts, yes.

Senator SHERRY—Where there is an identified policy that has those longer-term costs beyond the flat line, you use, presumably, advice to the minister and the ERC?

Mr Bowen—That is our normal course.

Senator SHERRY—Is it a general case of saying long-term costs will exceed, say, wages growth or normal budgetary growth or is it a specific number?

Mr Bowen—It can be done in a number of ways. A typical way—and if you read, as you no doubt have, the *Intergenerational Report*—is to look at percentage of GDP and how that grows over time. That is a very good way of putting that growth into perspective without putting figures on it, which may not be as meaningful—that is, absolute figures, which may be harder to interpret.

Senator SHERRY—Monetary figures in dollar terms can be somewhat misleading unless they are put into context.

Mr Bowen—Yes.

Senator SHERRY—I am glad you have said that. It is useful for some material we will get to later. Not every policy proposal is run through this sort of parameter as a matter of course; it is only where they are identified by the department of finance and/or Treasury?

Mr Bowen—I will answer that in a couple of ways. The simple answer is that it is where there is an identified trend that differs from what would be explained by the short-term trend. In all of those cases where that is identified, we do present that issue as part of the decision-making process. We also try wherever possible to take a whole-of-life approach to capital acquisitions proposals, for example. So if a project had a life of 15 or 20 years then we would do our analysis based on that anticipated life, not simply by looking at the cash flow or simple budget implications over four years, which would give you very different outcomes.

Senator SHERRY—Yes. A capital acquisition by the military, for example, could have some significant growth in terms of service costs—

Mr Bowen—Yes.

Senator SHERRY—that you would want to identify.

Dr Watt—Even military capital acquisitions are done over a long period of time. They are not four-year programs; they are often a decade-long program. That is why for defence acquisitions you would look beyond the forward estimates period, not necessarily every time but at least often.

Senator SHERRY—Where there is a long-term cost above the flat line that is identified, is that specifically identified as a matter of course in the *Intergenerational report*, or is it only identified in a general sense?

Mr Bowen—The *Intergenerational report* was very useful in that it identified where the major pressures on public expenditures were likely to be in the future. But I have been talking about nitty-gritty practical examination of here and now proposals. So we are not simply talking about trends in, say, health expenditure generally, to take an example. They were identified in the *Intergenerational report*. We would look at the particular item of expenditure being proposed. It may be a component of a fast-growing sector of public expenditure—in itself, it may not be growing fast, but it could be.

Senator SHERRY—But where it is identified as something that is going to grow faster than the flat line it is not individually identified within the *Intergenerational report*, is it? It is generally categorised in a grouping process.

Mr Bowen—We need more fine-grained information than that.

Dr Watt—It might be worth while emphasising that the times when we look beyond the forward estimates most commonly are when you have programs where decisions are being taken now but the real expenditure may not start for two or three years. Then, for example, you would be very keen to be sure that ministers were aware that despite the fact that in this year would see nothing and in the next year there would be a very small amount it would start to grow the year after and by the time you got five years out you would have a very different budget picture. That could be things as common or garden variety as the National Heritage Trust or other things which you start but which do not often have an impact in the first couple of years of forward estimates because they have to be set up. We have an answer to your advertising question, if you would like it.

Senator SHERRY—Thank you.

Ms Mason—I did not hear your question, because I was en route back to the department. But I understand it relates to page 152 of the 2003-04 annual report in relation to advertising costs and the reason for the correction.

Senator SHERRY—That is correct. There was \$481,949 understated.

Ms Mason—The background to that is that it relates to advertising costs for recruitment of senators' and members' staff—MOP(S) Act staff recruitment. It had not been included in the previously disclosed figures because there was a misunderstanding about what was required. Previously departmental advertising costs had been provided but not the costs met from administered items.

Senator SHERRY—Where had they been included then?

Ms Mason—They had not been included.

Senator SHERRY—At all?

Ms Mason—No.

Dr Watt—Not in the annual report. They had obviously been included in the budget and reported—

Ms Mason—But not under the heading of advertising costs.

Senator SHERRY—I have some questions about the budget process. I understand from the Finance web site ‘Australian government budget—overview’ that the budget process begins each November, with updating estimates in the accrual information management system known as AIMS to provide an up-to-date base line. Is that correct?

Mr Bowen—It is roughly correct. You could argue that the process starts even earlier than that. In a normal year, around September the government would set out the budget process operational rules that departments are required to obey.

Senator SHERRY—I have your document here. That is what I am quoting from.

Mr Bowen—That is fine.

Senator SHERRY—There is no trick in the question.

Mr Bowen—Good.

Senator SHERRY—Can you explain the accrual management information system?

Dr Watt—Yes, at great length.

Mr Bowen—I would be happy for an expert to come and explain but in broad terms it is an IT system, an accounting system, that holds all the financial data for the general government sector, the Commonwealth, as well as the forward estimates. It is a comprehensive system that we rely on for the management of the budget and the preparation of the budget documentation, or much of the documentation, and the preparation of the annual consolidated financial statements for the Commonwealth.

Senator SHERRY—So what is involved in updating AIMS? Are you getting continuous data coming in from departments and are you inputting that data?

Mr Bowen—It happens in a number of ways, but AIMS is updated by departments inputting data. That data is then validated within Finance, within the budget group. The updates occur on a regular basis. Each month the department produces the monthly consolidated financial report from AIMS data.

Senator SHERRY—On each program?

Mr Bowen—It is on program data but certainly the financial position for each department and agency is updated each month.

Senator SHERRY—And you have program data within that?

Mr Bowen—Yes, we do.

Senator SHERRY—Which you access?

Mr Bowen—Yes, we do.

Senator SHERRY—Is it estimated expenditure by outcome and the related appropriation or by program or by both?

Mr Bowen—You might recall that as a result of the work we did a couple of years ago, which was labelled the budget estimates and framework review, we now are able to collect

data at the program level. So we have data at a number of levels, but the lowest level that we have it at is the program level. We have an aggregating to outcome level as well.

Senator SHERRY—So on the preparation of the updates, the department inputs the information directly?

Mr Bowen—Yes, they do.

Senator SHERRY—And then Finance—

Mr Bowen—We validate.

Senator SHERRY—So you are looking at the updating expenditures as they appear?

Mr Bowen—The data comes in, and the Finance officer sees that data on the screen and goes through a process of validation which includes looking at the appropriate authorities for any new decisions or major estimates variations.

Senator SHERRY—Are there specified dates by which a department is expected to submit to AIMS?

Mr Bowen—Yes, there are. I do not know if I can help you with that at the moment.

Dr Watt—They are not always observed.

Senator SHERRY—I am going to get to that. But presumably you set down some sort of monthly requirement.

Mr Bowen—Yes. There is a monthly cut-off date. I cannot remember the date at the moment. I think it is the 10th working day after the end of the month, for monthly updates.

Senator SHERRY—So if it is not updated it obviously does not appear and presumably the Finance officer—

Mr Bowen—I think we ensure that we get them updated. By that day agencies are required to put their updates in.

Senator SHERRY—Dr Watt has made the comment already that it is not always observed.

Dr Watt—The other point to remember is that the budget is actually five years in one. The monthly update Mr Bowen is referring to is the update of the monthly numbers in the current year only. For example, if you are ultimately leading us to the forward estimates then there is no monthly update of the forward estimates.

Senator SHERRY—If for some reason it did not occur by the 10th day—I am not going to hold you to the precise day—

Mr Bowen—That is the day.

Senator SHERRY—then presumably there would be a contact from Finance to the department asking why it had not been updated.

Mr Bowen—Yes.

Senator SHERRY—Does that happen very often?

Mr Bowen—Most departments now do get their information in on time.

Dr Watt—The other thing you have to be clear on is that most numbers would not be updated each month. Remember that the budget has thousands of individual programs. Most numbers would not be updated each month. Some would, but not every one by any means.

Mr Bowen—The total budget position for the current financial year is updated every month.

Dr Watt—But most individual programs would not be. You would have a profile of monthly spending and the department responsible for the program would not seek—

Mr Bowen—Can I just say that most programs are now updated every month.

Dr Watt—I stand corrected.

Mr Bowen—We are particularly strong on the point that where there are significant changes in estimates we want to know about them. Certainly the actual data for programs are updated every month.

Senator SHERRY—Does Finance query the accuracy of the figures for any particular reason? In what circumstances would you query an updated program figure when it has come up on the screen and the Finance officer has looked at it?

Mr Bowen—The normal validation checks would be used as a reasonableness test. I guess the best test is that we have in the system, as to Dr Watt said, expected monthly expenditures for a program. If the actual figures come in at great variance to the profile that is expected then obviously we would ask questions about that.

Senator SHERRY—Could that then lead you to test assumptions made by the department?

Mr Bowen—If we are talking about actuals, if there was a major increase in expenditure against budget, we would say, ‘Did this actually happen? Are you sure you’ve got it right? What caused it?’ If they are lagging, the opposite question would be asked. But there is an interlocutory process between Finance and the agencies.

Senator SHERRY—What does ‘up to date baseline’ mean?

Mr Bowen—The agency’s baseline is effectively its bottom line. In updating the estimates, it is not simply a matter of updating for individual changes but for the bottom line.

Senator SHERRY—The aggregate.

Mr Bowen—The aggregate.

Senator SHERRY—The program expenditures.

Mr Bowen—The aggregate for the agency, yes.

Senator SHERRY—I understand that following this process there is a senior ministers’ review that establishes policies, priorities and strategy for the next financial year.

Mr Bowen—That is normal prior to Christmas, yes.

Senator SHERRY—Can you explain the nature of the output from this review in generic terms?

Mr Bowen—In very generic terms, because this is effectively a committee of cabinet—

Senator SHERRY—Yes, which is why I am saying ‘generic’.

Mr Bowen—which we do not normally talk about. Really, it is the first run at having a look at proposals that ministers may wish to bring forward for the following budget. Out of that meeting comes authority for ministers to bring forward proposals.

Senator SHERRY—With new funding being requested?

Mr Bowen—Not at that time. There would be indicative figures, not costed by us but—

Senator SHERRY—Hopefully, costed by the department.

Mr Bowen—They would have been, but nobody says that they are finetuned at that point.

Dr Watt—Or even rough tuned.

Senator SHERRY—I am sure that is the case in some areas at least—but we will get to rough tuning shortly. Does this cover new programs as well as proposed changes to an existing program?

Mr Bowen—Yes, it could.

Senator SHERRY—I understand that submissions are required to be provided to Finance for agreement about the costings. What is the process for agreeing to the costings?

Mr Bowen—Could I just say, as I said before, that we do not cost the proposals that come to senior ministers. After senior ministers have done their work and there is an agreed list of proposals that are allowed to come forward, then we do our normal costing.

Senator SHERRY—So that we do not lose connection with the time line, where are we at, approximately, in the terms of the time line?

Mr Bowen—We would now be in the early weeks of the new calendar year, in January or February.

Senator SHERRY—Can a submission proceed to the Expenditure Review Committee without Finance agreeing to the costings?

Mr Bowen—The rules are that we must cost everything that goes forward.

Dr Watt—I think that probably, on cabinet rules, you would be better talking to the Department of the Prime Minister and Cabinet.

Senator SHERRY—But you are familiar with this.

Dr Watt—I am, but it is not my responsibility.

Senator SHERRY—Do the submissions include expenditure or savings costings, or do they also include revenue or tax expenditure costings?

Dr Watt—Submissions can include all sorts of things, but there is no reason to think they would necessarily include any of those. It depends.

Senator SHERRY—It depends on the proposal?

Dr Watt—Again, I think that the nature of a ministerial submission is a question to take up with the Department of the Prime Minister and Cabinet.

Senator SHERRY—Here is one that relates to Treasury. What role, if any, does Treasury play in the preparation of and agreement to expenditure or savings costings? We talked about some of it earlier.

Dr Watt—I think that is something you had probably best take up with the Treasury, because you are asking me about the responsibilities of another department. Let me say that, in broad terms, Finance has responsibility for providing whole-of-government advice on expenditure policy issues. Treasury may feed in on some specific issues in relation to parameters for costing, for example, and of course Treasury provides advice to the Treasurer, but that is something you would have to take up with the Treasury.

Senator SHERRY—Yes. But the information sheet does say that Finance must agree to the costings. You have confirmed that, haven't you, Mr Bowen?

Mr Bowen—That is one of our roles.

Dr Watt—Estimates of costing.

Senator SHERRY—That is what is on your—

Dr Watt—That is a role in any part of the costing process.

Senator SHERRY—I am just making sure that we are clear on what occurs. So there will be on some occasions a relationship or an exchange of information or whatever with Treasury in some areas on some responsibilities?

Dr Watt—That is possible.

Senator SHERRY—And we explored that earlier in respect of—

Dr Watt—On most issues that would not be the case, but it is possible that in some areas that would occur.

Senator SHERRY—I understand the ERC considers all submissions in March and makes the decisions about which proposals will receive funding and what level of funding will be provided. Can the ERC also instruct changes to the proposals which are then later resubmitted to ERC?

Dr Watt—I do not think you would want me to speculate on the proceedings of a cabinet committee.

Senator SHERRY—I am not going to go to the details of any particular policy; I am just asking about the process.

Dr Watt—I do not think it is for me to talk about that.

Senator SHERRY—Pardon?

Dr Watt—I do not think it is for me as an official to talk about that.

Senator SHERRY—I think it is reasonable, actually; it is a perfectly reasonable question. I am not going to go to the specific details of any—

Dr Watt—What a committee of cabinet does seems to me to be a matter for the members of the committee of cabinet, not for me.

Senator SHERRY—If a proposal is sent for recosting, does Finance then resubmit new costings? It would, wouldn't it?

Dr Watt—In the case of a costing exercise, if a proposal changed then it would be recosted. That applies to any proposal, full stop.

Senator SHERRY—When is the ERC decision making normally completed? It is in March, isn't it?

Senator Minchin—Are you asking me? It is normally over by the end of March, with a view to the budget cabinet in the middle of April. The ERC as a subcommittee makes recommendations to the full cabinet. They are normally considered in mid-April, so the work really needs to be finished by the end of March.

Senator SHERRY—Thanks. How would you compare the budget workload for the department for the 2005-06 budget compared to previous budgets?

Dr Watt—Every budget is different. You have a cycle in which the shape of the budget and the workload that follows is determined by timing, the number of policy proposals and periods in the political cycle—I should not perhaps say that. There are a whole host of things. This year was a busy budget; last year was a busy budget. This year was, for example, compressed in the early stages because of the election. That meant that we started a little bit later, whereas last year we were earlier out of the blocks. This year, in some senses the decision making was easier and the results of the decision making were easier because of the government's election commitments. The government implemented all its election commitments.

Senator SHERRY—Not quite all.

Dr Watt—As far as I am aware, the government implemented its election commitments. That makes decision making relatively easy.

Senator SHERRY—How many green briefs did the department prepare?

Dr Watt—Quite a few. I am not sure we normally release that information. They are cabinet documents.

Senator SHERRY—I am not going to the detail; I am just asking the number, and I think that is a fair question.

Dr Watt—I could take that on notice and have a look if you want me to.

Senator SHERRY—Do you have any approximate idea?

Dr Watt—No. The other thing I would say is that, while it is an interesting exercise, gee it can be misleading because one big one is as many as 10 small ones. I do not know the number. I am happy to take it on notice.

Senator SHERRY—It is an interesting index. Whether it is misleading or not is for other people to judge. I am interested in the facts.

Dr Watt—You never construct an index if you know it is misleading. Anyway, I am happy to take it on notice and have a look at it.

Senator SHERRY—Come on, that's a little bit harsh.

Dr Watt—It is true.

Senator SHERRY—You would not be constructing any indexes either on that basis.

Dr Watt—I am very careful about what I construct.

Senator SHERRY—I would never accuse Finance of constructing indexes to mislead people.

Dr Watt—Good.

Senator SHERRY—As to the number of green briefs compared to previous years, can you take that on notice?

Dr Watt—I will take that on notice.

Senator SHERRY—Thank you. How many decisions were communicated to the department in the final two weeks before the budget?

Dr Watt—I do not think that I can comment on that.

Senator SHERRY—Why not? I am asking for a number.

Dr Watt—I do not think it is relevant for me to comment on that. You are talking about the processes of government decision making. I do not think I should comment on that.

Senator SHERRY—I think you can give a number. I think it would be wrong for me to ask for the details of any of those but I do not see that a number—its workload, its expenditure and so on—is a question that you should not answer.

Dr Watt—Suppose I take it on notice for you and see what we can find.

Senator SHERRY—Taking a question on notice is a dodge in some circumstances; you may or may not get the information.

Senator Minchin—The secretary does not feel entirely comfortable making a decision on the run as to releasing that information. I think it is appropriate that he have time to reflect upon the propriety or otherwise of releasing it.

Dr Watt—The other point is that we certainly do not have any records that tell us here and now, or indeed in any convenient form that I am aware of, exactly when decisions were communicated to the department. That is not the way we do the budget.

Senator SHERRY—I am sure you can check.

Dr Watt—I am sure we can check but it would take a substantial amount of checking. That is the point I am making.

Senator SHERRY—So there were a substantial number of decisions then?

Dr Watt—No, there is a substantial number of decisions to check. After all, do not forget the number of decisions. I will find the right book—that is how many decisions there are.

Senator SHERRY—I am not asking you to table the number of decisions. In the final two weeks before the budget—and I am sure you would have that easily accessible—

Mr Bowen—We would have to go through records to find that.

Senator SHERRY—Of course I understand you would have to go through the records.

Dr Watt—It can be assessed.

Senator SHERRY—Thank you.

Dr Watt—I do not think it is easily accessed.

Senator SHERRY—How many expense and capital measures in total were included in the 2005-06 Budget Paper No. 2?

Mr Bowen—You can sit down and add these up but we have done that for you.

Senator SHERRY—Good. I am glad that has happened on this occasion. What is the total?

Mr Bowen—There are 380 expense and capital measures combined.

Senator SHERRY—How many of these expense and capital measures were the result of late decisions?

Mr Bowen—For the reasons Dr Watt articulated, I do not have that information.

Senator SHERRY—Okay. Let us deal with a late decision in principle. In practice—

Mr Bowen—In principle or hypothetically?

Senator SHERRY—It is not hypothetical. We know there were late decisions. You are not telling me how many there were. Okay; we are moving on. How is a late decision communicated? Is there a formal communique in writing?

Senator Minchin—How do you define ‘late’ for the purpose of this exercise?

Senator SHERRY—My earlier question—two weeks before the budget.

Mr Bowen—As a general issue, decisions are in writing.

Senator SHERRY—Thank you. I am informed that there were 44 late decisions. Does that number ring a bell?

Mr Bowen—I cannot comment on that number.

Senator Minchin—Do you want to let us know who your informant is?

Senator SHERRY—No; I am just interested to know where this is identified in the budget papers. There were 44 late decisions.

Senator Minchin—You said you were informed.

Senator SHERRY—Yes.

Senator Minchin—Who informed you?

Senator SHERRY—I have very good staff.

Senator Minchin—I thought you were indicating another department.

Senator SHERRY—I am informed that there were 44 late decisions. Is that a correct number?

Dr Watt—That is not a number that I am familiar in any shape or form. I have never seen an assessment of how many decisions might or might not have been taken in the last two weeks of the budget process.

Senator SHERRY—In the case of the formality of a late decision, we know there is a letter—obviously there is written communication. Would that always be to Finance in the case of expenditure matters?

Mr Bowen—We have to have an authority before we will put a figure into the budget, if that is what you are asking.

Senator SHERRY—So any department, or anyone from PM&C for that matter, would put the communication in writing to Finance?

Dr Watt—No.

Mr Bowen—Decisions are ministerial decisions—

Senator SHERRY—There are also some made by the Prime Minister. Do you include the Prime Minister in that?

Mr Bowen—Yes, the government. It is not public servants making the decisions, and we need sight authority—that is part of our normal process.

Senator SHERRY—How many welfare to work measures were included in the 2005-06 Budget Paper No. 2? Have you got the figure there? You had the earlier figure of expense and capital measures.

Mr Bowen—From memory, there were 16 welfare to work measures.

Senator SHERRY—Sixteen?

Mr Bowen—I think so.

Senator SHERRY—That confirms what I have been told. How many of the welfare to work measures were the subject of late decisions?

Mr Bowen—I am not in a position to have that information here today.

Senator SHERRY—What is the role of Finance in the preparation of costings of policies constructed outside the formal budget process that we ran through earlier?

Mr Bowen—There really is no difference. Whether we play it within ERC or throughout the year in the lead-up to the budget—whenever—our role is exactly the same.

Senator SHERRY—So they are always costed.

Mr Bowen—One of our roles is to cost proposals.

Dr Watt—And to keep those costs as low as possible.

Senator SHERRY—Yes. There are a number of other roles.

Dr Watt—The two are interchangeable—one changes into the other as part of the costing process.

Senator SHERRY—With a new program that is implemented through appropriation bills or relevant legislation, I understand Finance has made a number of changes in recent years to assist in monitoring actual expenditure. I think we went to some of that earlier. Was the discussion we had earlier about the next day model for drawing down cash against departmental and administrative appropriations, or is it linked, or is it something different?

Mr Bowen—We did not touch on that earlier.

Senator SHERRY—Good. You can touch on it now.

Mr Bowen—How heavily would you like me to touch on it?

Senator SHERRY—How does the next day process work?

Dr Watt—Mr Bowen might need a bit of assistance from another group—a group that actually does the work.

Mr Bowen—That is correct.

Ms Hazell—If by the next day process you are referring to the drawing down of cash once appropriations are law, it is called a just in time draw down arrangement. Agencies provide details of the amounts they would like drawn down from the appropriations they would like drawn down, and those amounts are then processed and appear in agency bank accounts the next day in most cases.

Senator SHERRY—Is that draw down identified against budget programs?

Ms Hazell—The draw downs are identified against appropriation. It is the responsibility of agencies to identify which appropriation they are drawing down against.

Senator SHERRY—Not against the program?

Ms Hazell—No.

Senator SHERRY—Are agencies still able to draw on an appropriation for non-cash expenses such as depreciation?

Mr Bowen—This is a bit of a tag team effort, I am afraid.

Senator SHERRY—That is fine.

Mr Bowen—Under our framework, agencies are funded for all costs including depreciation. Depreciation funding is available for expenditure of a capital nature and agencies can, accordingly, draw down for that purpose.

Senator SHERRY—So that is available. According to Finance's web site, the cash and appropriations management module of AIMS maintains a record of annual appropriations passed by parliament and funds transferred to agencies against appropriations. How does Finance monitor funds transferred to agencies against particular appropriations before CAM?

Mr Bowen—How did we do it before we had the current system?

Senator SHERRY—How do you do it at the moment and when did the current system come into effect?

Ms Hazell—CAM is a module of the accrual information management system you were referring to earlier. That system came into effect in 1999. Prior to that, all cash payments were actually run by the department of finance under a previous system. Agencies basically sent payment files to the department of finance and the payments were made using that system by the department of finance.

Senator SHERRY—What action would Finance take if an appropriation were coming close to being exhausted part way through the financial year?

Ms Hazell—From the cash management module point of view, probably no action would be taken unless the appropriation draw-down request exceeded that appropriation. The issue of whether they are close to drawing down their full appropriation is usually a matter taken up in some estimates arrangements.

Mr Bowen—I think I mentioned earlier the monitor at the program level. I would hope that, long before we got to a cash problem, we would have identified the problem.

Senator SHERRY—And obviously you would take it up with the department and there would be additional appropriations?

Mr Bowen—Not necessarily. It may be that they got on with the job more quickly than they anticipated and that they had less to do in the second half of the year, for example. That is hypothetical, but it can happen.

Senator SHERRY—But that does occur?

Mr Bowen—It can.

Senator SHERRY—It has occurred?

Mr Bowen—Yes.

Senator SHERRY—We have talked about monitoring expenditure against appropriations and also, earlier, monitoring expenditure against programs. Is that against all programs? I just wanted to clarify the earlier discussion we had. Are there any criteria for excluding any programs, if there are any excluded?

Mr Bowen—We have to have a balance between getting sensible financial management at the aggregate level on the one hand and bogging down in absolute detail on the other. That is understandable. We have an agreed list of programs that are monitored. It is not every tiny little program; it is the material ones.

Senator SHERRY—I can understand that. Can the committee be provided with a list of monitored programs?

Mr Bowen—Can I take that on notice to have a look at that?

Senator SHERRY—I think it is reasonable to take it on notice, but I think it would be unreasonable not to give us a list of the monitored programs.

Dr Watt—We will look at it.

Senator SHERRY—I stress that I think it is reasonable to take it on notice, because I would not have expected you to have it here, but I think it is unreasonable if you do not provide it. I think it is a reasonable request. We have talked about expenditures against programs. Does Finance use CAM to monitor program expenditure or is CAM and the monitoring of the programs that you have identified a separate process? Is there any interrelationship between them at the same time?

Mr Bowen—It is a separate element of the AIM system—the monitoring of programs. Of course, at one level there is a relationship, because you have to get the cash out the door to the agencies so that they can spend it on the programs, but we do not monitor the programs through the cash management system.

Senator SHERRY—It is through the direct system that we talked about earlier?

Mr Bowen—Yes.

Senator SHERRY—Where a program expenditure—we have already touched on this to some extent—is likely to exceed an agreed costing, what are the steps you would take?

Mr Bowen—Where the data is showing a significant variance from the estimate—the process is one of discussion—

Senator SHERRY—With the department, presumably.

Mr Bowen—Yes, with the department concerned.

Senator SHERRY—I would like to examine a specific area: the Medicare safety net. Is the Medicare safety net one of those programs whose cost is monitored by Finance?

Mr Bowen—Yes, it is.

Senator SHERRY—Was Finance involved in the costing of the Medicare safety net, announced on 28 April 2003 as part of the A Fairer Medicare package?

Mr Weiss—Yes.

Senator SHERRY—I understand that at that time the safety net was available only to concession card holders—I will use the term CCH. That is correct, isn't it?

Mr Weiss—Yes, that is my recollection.

Senator SHERRY—Good. And I understand that the CCH safety net was costed at \$64 million in the 2003-04 budget?

Mr Bowen—I think it was actually \$67.1 million.

Mr Weiss—My figures show \$67.1 million.

Senator SHERRY—Thank you for that. Obviously Finance certified, checked or approved that. Is that correct?

Mr Weiss—Yes.

Senator SHERRY—Was Finance involved in the costing of the Medicare safety net, announced on 18 November 2003 as part of the MedicarePlus package?

Mr Weiss—Yes.

Senator SHERRY—I understand that the 2003-04 MYEFO, released on 8 December 2003, costed the expanded safety net—that is, with a \$500 threshold for the CCH and \$1,000 for all others—at an additional \$199.3 million over four years. Is that correct?

Mr Weiss—My figures show \$199.2 million.

Senator SHERRY—Okay. I do not know where the \$100,000 has come from, because the copy I have has \$199.3 million. I would not make an issue of that.

Mr Bowen—Rounding.

Senator SHERRY—The old rounders.

Mr Bowen—That flat line.

Senator SHERRY—Yes. I am not particularly concerned about roundings of \$100,000, I have to say. Was Finance involved in preparing this costing, and did they approve the costing?

Mr Weiss—Yes, we agreed that costing with the Department of Health and Ageing.

Senator SHERRY—What assumptions was this based on—for example, the number of people who would benefit as a proportion of those who would access the scheme under the different thresholds, or the average out-of-pocket expenses? Were these criteria examined as part of the costing analysis?

Mr Weiss—In broad terms, the costings were based on assumptions around the number of people who were thought likely to qualify for the safety net thresholds and the out-of-pocket costs that they would incur in reaching those thresholds. They are the broad parameters that went into the costing.

Senator SHERRY—Where was the data for those parameters—for example, the average out-of-pocket expenses—obtained from?

Mr Weiss—My recollection is that the data came from data that the Health Insurance Commission collects on out-of-pocket costs associated with Medicare claims.

Senator SHERRY—Was that obtained by the department and given it to you? I do not know whether it was you individually; it might have been another officer, but you were in charge. Did Finance actually go to the health commission to verify that, or did it rely on the advice of the department?

Mr Weiss—The data came from the Health Insurance Commission via the Department of Health and Ageing. We did not subsequently double-check it with the Health Insurance Commission.

Senator SHERRY—In that costing, was allowance made for the possibility that people would increase their expenditure? Was any allowance made for that?

Mr Weiss—I do not recall; I would have to take that on notice.

Senator SHERRY—Were you involved in the—

Mr Weiss—Yes, I was.

Senator SHERRY—It was a pretty important criterion, as it subsequently turned out. I am just surprised that you cannot recall that.

Mr Weiss—It was a while ago. I do not recall it at the moment.

Senator SHERRY—I know it is a while ago, but you were specifically involved and this has been a major matter of public contention. Was there any allowance made for the possibility of fee increases or the restructuring of fees?

Mr Weiss—I do not think so, no.

Dr Watt—There is a point to make about costing which comes out very clearly in the Charter of Budget Honesty—that is, we try to avoid resorting to behavioural assumptions. The reason we do that is that they are subject to significant judgments. Mr Weiss will check about the question you have asked, but it is quite possible that there was no allowance made, because it is a behavioural assumption and you do not know—you have no idea—about how

big the behavioural change is going to be unless you have some data to guide you. If you have some data from a similar program or something else then you are able to use it, but, if you do not, you cannot.

Senator SHERRY—But as best as you can recollect, Mr Weiss, the department did not make any observations about that?

Dr Watt—In relation to fees, I think Mr Weiss has said, as best as he can recollect, no. On the other issue you have raised, I think Mr Weiss has said that he does not recall and he will check.

Senator SHERRY—When the bill passed the Senate, the relevant thresholds were amended to \$300 for the CCH and \$700 for others. Was Finance involved in preparing revised estimates of the cost of the Medicare safety net?

Dr Watt—Yes.

Senator SHERRY—Was an allowance made on this occasion for any behavioural effect in response to the lower thresholds?

Mr Weiss—Again, I do not recall specifically; I would have to take that on notice.

Senator SHERRY—Was any allowance made for the fact that claimants could claim expenses back to 1 January 2004?

Mr Weiss—Yes, I think it was.

Senator SHERRY—And was an allowance made for the likelihood that the number of claimants would accelerate over the course of the year as expenses accumulated?

Mr Weiss—We did not come up with month-by-month estimates, but we knew all along that, the program being of the nature that it was, claims would be higher later in the year rather than earlier in the year.

Senator SHERRY—Because of the expense accumulation in the act?

Mr Weiss—That is right.

Senator SHERRY—The expanded Medicare safety net came into effect on 12 March 2004. The health minister's press release on that day stated: '450,000 people will benefit from the Medicare safety net in any one year, costing \$266 million over the four years.' Are you aware of the basis for the estimate that 450,000 people would access the scheme in any one year?

Mr Weiss—I have not double-checked that figure against our costings, but I would assume that the figure is drawn from the costings that we agreed with the Department of Health and Ageing.

Senator SHERRY—So the costings themselves would contain a number that is subsequently used by the minister.

Mr Weiss—Yes.

Dr Watt—You could not do it without one.

Senator SHERRY—I assume the minister did not make it up.

Dr Watt—That is not what I said. I said you could not do a costing without an estimate.

Senator SHERRY—I know it is not what you said, Dr Watt. What has been assumed about the proportion of those people who would access the scheme through the lower threshold?

Mr Weiss—The costings did distinguish between concession card holders and the rest of the population, so we will have that information, but I do not have it with me.

Senator SHERRY—So there was an assumption made in respect of the lower threshold.

Mr Weiss—There was a split made, yes.

Senator SHERRY—And that would have been incorporated into the 450,000 figure that the minister announced?

Mr Weiss—I assume so, yes.

Senator SHERRY—A press release from the Minister for Health and Ageing on 9 April 2004 stated that 34,000 individuals or families had accessed the scheme within its first month of operation and that 81 per cent of these were CCH or received the FTB A and therefore accessed the safety net through the lower threshold. Had it been assumed that 81 per cent of recipients would be concession card holders?

Mr Weiss—I do not recall the precise proportion, so I would need to check to confirm that.

Senator SHERRY—Mr Weiss, is it a surprise that you are being asked about this at Senate estimates?

Senator Minchin—Asking about an emotion is not a proper question.

Senator SHERRY—Why not?

Senator Minchin—You are asking about emotions. Who will accept your questions—

Senator SHERRY—It is just an observation. Is it a surprise?

Senator Minchin—That is not a proper question. You do not have to answer that, Mr Weiss.

Senator SHERRY—It is not up to you to determine what is a proper question or not; it is up to the chair. I am asking whether you are surprised that you are being asked about this at estimates. You are not, are you?

Mr Weiss—I think the minister has indicated that he does not believe it is a proper question. I do not think it is a proper question either.

Senator SHERRY—It is not up to the minister; it is up to the chair. Chair, is it a proper question to ask?

Senator Minchin—I am telling the officer that he does not need to answer that question, Senator Sherry.

CHAIR—I cannot force the minister to answer.

Senator SHERRY—How have you come to estimates without any of the detail of some of these questions I have been asking? You do preparation for budget estimates, don't you?

Mr Weiss—Yes.

Senator SHERRY—So why have you not been able to provide information on some of the questions I have been asking?

Dr Watt—I do not think that is a very fair question.

Senator SHERRY—I think it is, given the subject matter. I think it is a very fair question.

Senator Minchin—It is a rhetorical question.

Senator SHERRY—It is not a rhetorical question.

Senator Minchin—You can express an opinion, which you have done, by way of a rhetorical question. We will answer your questions to the best of our ability, but rhetorical questions like that do not require an answer.

Senator SHERRY—We come along expecting answers to fair questions. I think the questions I have been asking on this issue are fair, given the circumstances.

Senator FAULKNER—Do you mind if I ask a question at this stage?

Senator SHERRY—We will bring in Senator Faulkner.

Senator FAULKNER—I would like to ask a question about the same matter that I am sure the minister will agree is in order. What sort of departmental resources are used for estimates preparation?

Dr Watt—We put a substantial amount of effort into it, a very considerable amount of effort, and we take the estimates process very seriously, for good reason. But I think the point that I would make is this: you are asking for details of a particular costing and the particular assumptions behind that costing, for whatever reason. Perhaps one day you might like to come down to the department and look at a costings spreadsheet on a program other than this.

Senator FAULKNER—Hang on, Dr Watt—

Dr Watt—Let me finish.

Senator FAULKNER—You are answering Senator Sherry's question.

Dr Watt—I am answering your question.

Senator FAULKNER—I asked a different question of you.

Senator SHERRY—It is actually Senator Faulkner's question.

CHAIR—Let us give Dr Watt the call here.

Senator FAULKNER—I think Dr Watt has lost the plot slightly.

CHAIR—I do not think so. Let him finish.

Dr Watt—Costing spreadsheets on programs in the family and community services and health areas and in some of the employment area are amongst the most complex spreadsheets that one would use, certainly in our arena. They are huge. In fact we used to put a great strain on our IT system with some of the spreadsheets we use. It is not easy for an officer to remember the detailed assumptions that went into a series of costings that were done—as Senator Sherry asks, Senator Faulkner—a great deal of time ago.

Senator FAULKNER—That is very interesting, and I appreciate your broad and wide ranging answer, which I say respectfully to you was not an answer to my question; it was about spreadsheets. My question was about—

Dr Watt—I was explaining to you that despite the effort we put into estimates, the details of costings are such that they are very complex beasts. With all the efforts in estimates in the world, the details of costings are still very complex beasts. I think even for a good officer, which Mr Weiss is, it is very difficult to remember some of those assumptions.

Senator FAULKNER—I would like an answer to my question. My question was: what sort of departmental resources—can you quantify the resources—

Dr Watt—No, I cannot—

Senator FAULKNER—My question was not about spreadsheets. Do you have an officer or more than one officer responsible for bringing together estimates briefings? That is standard practice in most departments. Perhaps you could explain that to the committee.

Dr Watt—We do put a great deal of effort into estimates. As I have said, we take it quite seriously. But do we revisit every issue that the department has dealt with in the last 12 months? No, we do not. Do we revisit the full detail of everything? No.

Senator FAULKNER—Do you prepare specific briefs for the Senate estimates committee?

Dr Watt—Every department does.

Senator FAULKNER—That means that your department does.

Dr Watt—Yes, we do.

Senator FAULKNER—I am just asking what your practice is. How many briefs, for example, have you prepared for this round of Senate estimates?

Dr Watt—Off the top of my head I would not know, but we can get you the answer.

Senator FAULKNER—What about not off the top of your head? Can you open that folder and tell me how many you have?

Dr Watt—I think it is fair to say that we have prepared a large number.

Senator FAULKNER—What is a large number?

Dr Watt—I would not want to mislead anyone—several dozen.

Senator FAULKNER—And what is several dozen? How do we define ‘several’? ‘Several’ is very vague.

Dr Watt—I could count the number in my folder, if you would like.

Senator FAULKNER—Is it 50 to 100, let us say?

Dr Watt—There would be around 50 in this folder.

Senator FAULKNER—Fair enough.

Dr Watt—In this folder.

Senator FAULKNER—How many folders?

Dr Watt—I have one today—only one.

Senator FAULKNER—Would these briefs run to more than one page? I would expect they would.

Dr Watt—Some do, some don't.

Senator FAULKNER—So it is quite a significant number of staff hours—person hours—that go into this. That is true, isn't it?

Dr Watt—That is correct.

Senator FAULKNER—And I would expect that. I am not being critical; I am merely trying to ask. There is no conspiracy behind the question. I am just, as always, seeking information—

Senator Minchin—Which makes it even more suspicious.

Senator FAULKNER—But you are a suspicious person, Senator Minchin. That is what all your colleagues say.

Senator Minchin—I am, and I have good reason to be.

Senator FAULKNER—True enough. So many people in the Liberal Party appear to be suspicious of you, whereas in my case it is best not even spoken about. So a lot of effort does go in—

Dr Watt—Yes.

Senator FAULKNER—Do you have officers dedicated to this task or is it part of their responsibilities? I expect that you would but you might explain that to the committee.

Dr Watt—We prepare most of our briefs in the individual business groups, and people in our corporate area tend to pull the issues together.

Senator FAULKNER—Do you consider that to be a heavy responsibility? It is a significant responsibility.

Dr Watt—We take it seriously, yes.

Senator FAULKNER—Which SES official in the department is responsible? Who of your senior staff has responsibility for estimates coordination.

Mr Bowen—The head of the Corporate Group.

Senator FAULKNER—And I assume that that would include the coordination of answers to questions on notice and the like.

Dr Watt—That is correct.

Senator FAULKNER—Because staff have these heavy responsibilities, since you have been departmental secretary have you continued the initiative of your predecessor, Dr Boxall, for occupational health and safety reasons, and ensured that staff who are under pressure have massages available to them?

Dr Watt—That initiative has now ceased in the department.

Senator FAULKNER—Have you replaced it with some other occupational health and safety measure?

Dr Watt—Instead of focusing on one particular thing, which was the seated massages designed to deal with neck tension from looking at screens for long periods of time—

Senator FAULKNER—I am sorry; I should have said ‘seated massages’, because Dr Boxall was at great pains to point out to me that people were not horizontal when they were receiving those massages.

Dr Watt—People were certainly not horizontal; they were seated. I think Mr Suur might be better placed to tell you exactly what we have replaced those with.

Mr Suur—Regrettably, this is not my area of expertise.

Senator FAULKNER—They all say that! It is a good line, that!

Mr Suur—The massage program was discontinued from the end of June 2004. We have replaced it with a broader health promotion program which will include health awareness weeks, a walking program and reimbursement for people who undertake health checks with their general practitioners—matters that we think intervene more effectively in helping people manage their health and wellbeing.

Senator Faulkner—So what are the elements of that program? Walking sounds sensible.

Mr Suur—A walking program, health awareness weeks, probably some non-aggressive forms of exercise, like stretching classes and so on.

Senator FAULKNER—So the department provides stretching classes?

Mr Suur—We have not started that yet. We have made a decision to develop a program along these lines and we are in the process of developing a program. I hope that we can announce it in the next month or so.

Senator FAULKNER—So Dr Watt, you can assure me, can you, that for those officers of your department who are obviously understretched that sort of program will be more effective than seated massage?

Dr Watt—We believe it will be.

Senator FAULKNER—Anyway, it is very helpful for me to understand that. I am sure that now we have established that there is the capacity to relieve some of the stress in the department of finance—not with seated massages; they stopped in 2004 but with all the creative methods—Senator Sherry can now ask his questions about spreadsheets, which will no doubt cause you some stress. You might need to go and access some of those facilities that are made available.

Dr Watt—I will keep that in mind. The invitation remains: if you would like to come down and look at a spreadsheet you are very welcome to.

Senator FAULKNER—I have no plans to go anywhere near the department of finance; I value my health and safety far too much!

Senator SHERRY—My issue is not spreadsheets and looking at the operation of the spreadsheets; it is the key assumptions that are made. We are going into the lunch break, and

there key assumptions that I would like some answers to. Some answers have been provided, but on a matter of such major public expenditure—we are talking about a \$1.3 billion program here, to which there have been cost revisions to on a number of occasions—answers in respect of key assumptions can be reasonably expected.

Dr Watt—We would not normally release the details of an unpublished costing. It would not be up to me whether those details were released or not. We do not release the details of our costings; you know that. It is not something, I think, that we have ever done.

Senator BRANDIS—The latest advice about the policy surely contains details about a costing or advice to government about an aspect of policy.

Senator Minchin—It is reasonable to ask questions about the mechanics of the way in which the department goes about assisting a line department about how a costing is determined—

Senator BRANDIS—Advice to government is always regarded as policy, and then costings are an aspect of advice to government.

Senator Minchin—The mechanical way in which the department assists another department to reach a costing—

Senator BRANDIS—Maybe not.

Senator Minchin—is fair enough, I guess. But I do think it would be more appropriately asked of the health department. Our role is to assist the health department in informing cabinet of the costs of programs. We will help this committee as much as we can, but I think there are limits.

Senator SHERRY—But if you look at Treasury estimates you see that the information that is given on costings of programs, where it is relevant, by Mr Gallagher, for example, is quite extensive. He is not responsible for those programs directly, but he provides significant input into the costings thereof.

Dr Watt—We will refresh our memory as to exactly what Mr Gallagher is responsible for, but it is possible that there is a difference between programs and Mr Gallagher's broader modelling work, which is not program directed.

Senator SHERRY—There is in some cases, but information about specific programs has been very useful in that context. We will be back after lunch and we will hopefully be making further progress.

Dr Watt—We look forward to it.

Proceedings suspended from 12.30 pm to 1.36 pm

Dr Watt—We promised to respond to Senator Sherry's question on the number of government bodies in 1996. We have the answer to that.

Mr Hutson—The number contained in the 1996 list was 1,365.

Senator MURRAY—I would like to start with a comment. Our job as a committee is to critique budget papers and the thinking that lies behind them. However, when you read the papers and see the way in which they are put together and presented, I think every now and

again we should remind ourselves what a professional outfit the department and the government as a whole is in terms of the presentation of material and the attempts to make sure that information is well presented. Despite the fact that I have some criticisms in areas, I think the quality of your work should not go unnoticed.

Dr Watt—Thank you for that. There was a former Treasurer long ago who used to say that the Australian government produced Rolls-Royce budget documentation, and I think that, looking at documents around the world, there is still something in that. We do produce a pretty good set of budget documents.

Senator MURRAY—By the way, I am quite certain that I speak for the committee, not just for myself. I like both the presentation and the way it is assessed and analysed—and I like the statement of risks. This does tend to get passed by in estimates, because the government is such a solid, rolled gold, blue-chip outfit that you do not expect risks such as those outlined to ever descend upon you—God forbid that some of them do. Nevertheless, it is wise to be alert to them. A neat summation, for instance, is that table 1 on 11.4-11.5. It is a particularly useful summation in terms of what is a moving feast.

Dr Watt—That is new.

Senator MURRAY—Yes, I know, which is why I draw attention to it.

Dr Watt—It is a useful innovation. I find it particularly helpful when I have to read this thing.

Senator MURRAY—Within that table I would not argue for there to be an additional ranking of risks, because I think there is much risk attached to trying to do that. Nevertheless, when I went through the summations, which are very useful, I had the feeling that there were areas where more indicative information could be provided. For instance, you know that nothing in here is entered which is less than a \$20 million risk in a particular year. If you take, for instance, an item under 'Fiscal risks—expenses: Agriculture, Fisheries and Forestry', it refers to 'exceptional circumstances'. You basically said, if I can shorthand it, 'Look, you can't tell what the weather's going to do and therefore we can't put a figure.' But I believe you can put an upper figure because you have had experience, over some time, of the maximum amounts which have been spent in drought years. I think you should look for indicative figures. For example, in there you would say, 'In a previous high-drought year—whatever year it was—the total expenditure in that field was such and such' to give the reader an idea of what the real risk is.

In other areas you have done that. For instance, if you go to 'Treasury: Guarantees under the Commonwealth Bank Sale Act', you indicate the total liabilities, which are nominal, frankly. There is absolutely no chance that that represents risk. But you are conscious of the scale that has been addressed. So my question to you, with that very long introduction, is: do you recognise that there are still shortcomings in the information here? And would you take it on board to look for ways in which you can provide more indicative information, even in the summary form, from the perspective of those who are interested in this area?

Dr Watt—We are happy to take that on board. The only point I would note, to use your drought illustration, is that the scope for misuse of the figures is obvious. One thing about that

Treasury comparison, even though it is a huge upper bound, is that it is the theoretical maximum liability that could accrue if everything possible happened.

Senator MURRAY—It is actuarially assessed.

Dr Watt—That is right. Exactly—if all those guarantees were drawn on. The difficulty with something like a policy package, if a policy were to be continued, is: where do you actually pitch it—the worst ever, average or the best ever? It raises a lot of questions. I am happy to look at the issue.

Senator MURRAY—And there are other areas in here. For instance, litigation is mentioned in a number of areas. Sometimes litigation can be open-ended. For instance, if you have a class action arising from a public health issue like asbestos—not that the Commonwealth is liable, but I use that as an example—you could have a sky-is-the-limit kind of figure. But, quite frequently, you are at least able to say that the cost of conducting litigation is likely to be in the order of between such-and-such and such-and-such million as opposed to the cost of compensation or of remedial effects, which you would not be able to estimate, because that would be subject to the court's consideration.

Dr Watt—Indeed, in relation to the asbestos one, it is not just one piece of litigation but literally hundreds of them, many of which have not even thought of getting near the courts yet; some of them do not even exist. Again, I take your point. We will look at that. I note that some of the litigation ones do include quite hard costs against them. I just flicked through the document and passed over one.

Mr Bowen—It is page 13.

Dr Watt—It is page 13 which Mr Bowen draws my attention to, which is one for Defence on the F111 deseal/reseal program.

Senator MURRAY—Are you referring to 11-13?

Dr Watt—Yes, 11-13. And 11-8 and 11-9, where we have a litigation against Finance where we give the maximum damages that appear to be sought by the litigant.

Senator MURRAY—You will gather from my remarks that I am not making a universal criticism. I think the purpose of warning the parliament and the people of threats to the budget is to give them an idea of the scale of that potential risk where you can, and I am not convinced you are doing it in every case as fully as you could.

Dr Watt—We will see what we can do to improve it.

Senator MURRAY—Thank you. Turning to some questions I wish to follow-up on, I want to thank you for your answers to my questions concerning the tsunami aid package, which came in yesterday or Monday. The answer noted that the \$500 million concessional loan will have 'no direct impact on the fiscal balance or the underlying cash balance as transactions in financial assets have no impact on budget balances under the government finance statistics (GFS) framework'. In the Budget Paper No. 1 on page 178 under the heading 'Australia-Indonesia Partnership for Reconstruction and Development' it shows the forward estimates of \$115 million and then \$125 million for the out years following.

Dr Watt—Which page number was that?

Senator MURRAY—I think it is page 178. Sorry: I may have the wrong reference.

Mr Bowen—Which budget paper?

Senator MURRAY—My reference is Budget Paper No. 1. That has been given to me and I did not double check.

Dr Watt—I think it is Budget Paper No. 2. We have it now. It is the measures document.

Senator MURRAY—Yes, there it is at the bottom of that page. My question is simply this: are those the years when we expect the actual payments—the actual cash outlays—to occur? Is that when the payments to the Australian-Indonesian partnership will actually occur?

Mr Bowen—You are looking at the figures 115 through to—

Senator MURRAY—125. Yes.

Mr Bowen—That is the impact of the grants. It is not when they are actually spent; it is when the expenses are incurred. This is fiscal balance, so it when they are accrued. It is not when the actual cash goes out the door but it is when the grants are made.

Senator MURRAY—I am really interested in when the effect on our cash balances occurs. When does this sum of money leave Australian Commonwealth hands?

Mr Bowen—I would have to take that on notice. We will have made some assumptions about that and it will be inherent in the cash flow statements. I would have to have a close look.

Senator MURRAY—But it is not in there that I can see.

Mr Bowen—It is not obvious. I think it will be inherent in some other item. But we can certainly get that information for you.

Senator MURRAY—I will tell you the reason why I am interested in this. The Treasurer had stated in this budget that one of the biggest challenges was going to be funding the tsunami relief and seeing through the distribution of the very large sums that have been raised for relief. That, as a headline figure, is obviously very large. But if it is spread over a number of years it is actually very manageable, and that is what I want to know.

Mr Bowen—We will check. I should not guess but, for the purposes of estimating, I would think we have probably assumed that that these grants will go out in the year, or pretty close to it, that the expense is incurred. We will check that. You would have to bear in mind that we do not have a terribly good basis for assuming anything else at the moment.

Senator MURRAY—My concern was that the message from the government initially was: ‘A very large sum of money is going to hit us now.’ My feeling, after some months have transpired, is that in fact it is going to work out differently. It is going to be spread over a number of years.

Mr Bowen—It will be over a number of years.

Senator MURRAY—I have a similar theme on the tax cuts. The federal budget has delivered \$21.7 billion in new tax cuts over four years, according to the budget papers, which leaves an \$8.9 billion surplus in 2005-06. It is \$7.9 billion in the first out year and \$8.5 billion in the following years. Prior to the election, the Prime Minister, the Treasurer and the Minister

for Finance and Administration all commented that it would be a tight budget. It was given as one of the reasons, for instance, for breaking the health minister's election promise on the safety net. Senator Minchin said on *Meet the Press* on 13 March:

I would reject the story this week that we've got a \$10 billion surplus coming down the track. We have no evidence of that. We are sticking by the forecasts in our mid-year economic and fiscal outlook and we'll update that in the budget itself.

The stories indicate that a month and a half after that the Prime Minister and the Treasurer sat down and worked out the final tax cuts. If you did not have the tax cuts there would clearly be a \$10 billion plus surplus. That is a matter of mathematics. So my question is addressed to you as the officials responsible for giving ministers information on which they make their remarks to the public. When are you able to advise ministers of the Crown: 'Look, this is the kind of budget surplus we are now facing. We thought so much on MYEFO, we thought so much when the election was under way, but now we think so much'? Senator Minchin was stuck out there like a bunny, saying in March that there would not be a \$10 billion surplus, when, if he had been properly informed by the finance department, he would have known that it was way ahead of \$10 billion.

Dr Watt—I do have to correct you. The finance department is responsible for budget expenses. We do not have any insight into revenue matters. They are the province of the Department of the Treasury and therefore we do not have any insight into the budget balance. For example, I could and should—

Senator MURRAY—Put yourself in the minister's shoes. Someone looking back historically would say, 'Hang on. This bloke's very badly informed.' He gets his information primarily from you, doesn't he?

Dr Watt—I should not comment on whether the minister has ever seemed to be badly informed or not. What I can say is that we brief the minister on the expense picture in the budget. That is our responsibility. We are not responsible for revenue estimates. They are the responsibility of the Department of the Treasury. Therefore we do not brief the minister on revenue expenses, nor do we try to predict for him where the bottom line is going to be over the forward estimates or whatever.

Senator MURRAY—I have just paid you a deserved compliment on the quality of the material before us, which you have to assemble. That is your task. So at some stage before this went to print you would have known the figures. On 13 March the minister for finance was clearly not informed as to what the eventual surplus would have been but for the tax cuts. When were you informed about it?

Dr Watt—I become aware of the full budget picture when I see the budget documents. I do not see the budget documents that I am responsible for until budget day or a bit before. This is outside the expenses material; this is the other bits of the budget which Finance is not responsible for. While we are responsible for pulling the estimates together—you will find that we actually do the budget accounting—again it is only quite late in the piece that updated revenue numbers are plugged into that account.

Senator MURRAY—But you produce monthly financial statements, as you know.

Dr Watt—But the monthly financial statements are subject to two things. Firstly, they only ever cover the current budget year—never anything more. At the moment we are producing monthly financial statements for the financial year 2004-05 and nothing beyond that. Secondly, the interpretation of revenue is a matter for the Treasury, not me.

Senator MURRAY—But you can see the political problem, can't you? Next year it would be perfectly possible for a senior journalist interviewing the finance minister to say to him, 'How's the budget looking?' He would give an answer and they would say, 'But last year you were so completely uninformed you didn't even realise that the surplus before tax cuts would have been way over \$10 billion.' Isn't it exposing the spokesperson to a terrible problem?

Dr Watt—All I can say is that the Minister for Finance and Administration is not exposed on the basis of him not having information that his department does—we do not have the information.

Senator MURRAY—So it is Treasury's fault that the minister is stuck out there like a bunny?

Dr Watt—I would not have put it in those terms at all. I reaffirm that our responsibility is for expenses matters.

Senator MURRAY—The alternate view is that the minister would have known that, but I cannot conceive that he would mislead the public in that way, so I choose to believe he just was not informed. Turning to tax cuts, can you tell us briefly what you think the full economic impact of the nearly \$22 billion in new tax cuts will be on growth and inflation now that the budget has settled down and the analysis has come in from all the clever people who look at these things?

Dr Watt—That is a matter for the Treasury, not for Finance, I am afraid.

Senator MURRAY—I suspected that would be your answer. What economic modelling did the department of finance perform on the tax cuts prior to the preparation of the budget papers?

Dr Watt—None. We are not responsible for the revenue side or for changes to policies on the revenue side.

Senator MURRAY—I suspected that would be your answer too. In other words, you are taking the figures as given and therefore you do not authenticate them except in an addition sort of sense.

Dr Watt—To go further than that, nor do we consider the impact of the budget on the real economy—that again is a matter for the Treasury.

Senator MURRAY—But I assume you do do the arithmetical cross-checking to make sure it adds up.

Dr Watt—We are certainly responsible for the preparation of the budget accounts, but it is more than an arithmetic cross-checking; it is a hugely complex exercise. But it does not involve looking at the economic impact of the budget bottom line or components of the budget.

Senator MURRAY—From a prudential point of view, do you insist or ensure that those who provide you with figures—including Treasury and also other departments—have done modelling where it is appropriate and necessary? For instance, if they were calculating anticipated out year costs they would need to have a basis for their assumptions.

Dr Watt—I am talking about expenditure now. Part of the costing process and the testing that would go on in a costing process would involve ascertaining what work the departments had done on their cost estimates for either a new policy or an ongoing program. In some cases, we might well suggest that they need to do further work—and that could be of a number of different kinds—in order for us to be comfortable with the quality of the estimate. That is the expenses side. We do not do that in the revenue side.

Senator MURRAY—Just to wrap up my understanding of things, do you think the monthly financial statements could be improved to signal shifts that you can see are happening quite rapidly with respect to key trends in revenue and expenses which will have effects with respect to the cash balances and the surpluses and on other key indicators that the markets and the parliament are very interested in? We are not being informed—that is my judgment.

Dr Watt—Those statements as currently constructed focus on the actual monthly outcomes against either the budget estimate for the year or the midyear economic and financial fiscal update for the year. As long as you stick to actuals, it is a good statement. If you want to change the nature of the statement and make it something different, it would be a different statement. Yes, you could do something different. But for the moment the government has decided to stick with the actual numbers and leave it at that.

Senator MURRAY—You see, it was with pleasure that I noted that Treasury—

Dr Watt—Mr Bowen is whispering in my ear. It is not and is not designed to be a budget update.

Senator MURRAY—I understand that. But it was with pleasure that I noted that Treasury have decided to finetune and adjust their economic and fiscal forecasts.

Dr Watt—Their revenue models.

Senator MURRAY—I hope it was as a result of constructive criticism from many people, including me, and that there was a contribution towards that. The difficulty we face is that the government is losing face—if I can use that term—because increasingly it is failing to forecast accurately and the monthly financial statement is an important process in building up an overall picture, to which Treasury and you contribute.

Dr Watt—I appreciate the point you are making. But it is really one to make to the government, rather than to me. They are the ones who set the standard for those statements.

Senator MURRAY—I think it is not reflecting well on the expertise which is within your department when a month or two after major statements by the government—be it MYEFO or be it the budget or be it an election Charter of Budget Honesty statement—there is a very different picture emerging, particularly with respect to cash balances.

Dr Watt—I appreciate the point you are making. The only thing I can do is perhaps draw your attention to the table on page 2-3 of statement 2 in Budget Paper No. 1, which shows the

variations over time. We have also spent a long time trying to work on our budget estimates, because our expense estimates are not perfect either. We have problems. We have some programs that are difficult to estimate. We have a large number of programs to deal with—all sorts of problems.

Senator MURRAY—And I am not unreasonable; I expect there to be a statistical error.

Dr Watt—The only thing we took a bit of comfort from this year was that the parameter and other variations were quite low by historic standards. That is not to say they will be low next year; they may not be. We, like Treasury, spend a lot of time trying to improve our estimates.

Senator MURRAY—I would end this way: I ask that you ensure you are as conscious as possible of informed academic media and public opinion that government statements on their financial status are becoming less believable simply because they are so soon overcome by a subsequent statement.

Dr Watt—I would certainly never want to have my minister make a misleading statement on my account.

Senator MURRAY—Thank you. Those are all the questions I have.

Senator FAULKNER—I would like to ask Dr Watt very briefly about any significant departmental accommodation moves in the past 12 months.

Dr Watt—Yes, you can certainly ask that. We will have our departmental accommodation man here in 10 seconds.

Mr Bowen—Senator Murray, while we are waiting, my assumption that the cash outlays mirror the fiscal figures is correct. It is the best assumption we have.

Senator MURRAY—So the annual budgetary impact is relatively low in the scale of things?

Mr Bowen—Yes—well, \$100 million to \$125 million.

Senator MURRAY—Yes.

CHAIR—Senator Faulkner, you asked a question.

Senator FAULKNER—I asked whether there had been any significant DoFA accommodation moves in the last 12 months.

Mr Suur—In the last 12 months we have taken additional space in the Minter Ellison building, which is in the Barton precinct, and that was to accommodate AGIMO, which joined the department in October 2004. They were previously accommodated in the Burns Centre. We had an interest in consolidating them into a building in which Finance already had a tenancy, so they were moved from the Burns Centre to the Minter Ellison building. In addition, we took a little extra space in the Minter Ellison building to accommodate the Office of Evaluation and Audit, which joined the department in July 2004.

Senator FAULKNER—Could you say that last part again?

Mr Suur—Which joined the department in July 2004.

Senator FAULKNER—Yes, but which department?

Mr Suur—The Office of Evaluation and Audit.

Dr Watt—It evaluates and audits Indigenous programs. It used to be part of ATSIC.

Senator FAULKNER—Any others?

Mr Suur—I am not sure of the timing, but we did take some additional space in the Treasury building as well. This space was previously occupied by the National Capital Authority. That was a small amount of space—I cannot remember precisely how much, but probably about 500 square metres or something like that.

Senator FAULKNER—There were no changes in your area of the department, Dr Watt—the executive area?

Mr Suur—Some refurbishment has taken place in the John Gorton Building. It included the construction of a large conference room that allows meetings of up to 30 people to take place. That conference room was constructed in a wing of the building that includes the secretary's office.

Senator FAULKNER—What were the costs of the conference room?

Mr Suur—I do not have those figures with me.

Dr Watt—We are happy to get that for you.

Senator FAULKNER—Could you take on notice the disaggregated cost of the conference room?

Dr Watt—Yes.

Senator FAULKNER—Thank you very much. With your preparations for the sale of Telstra, are there new employees or are you utilising existing employees? You have a sale group or something, haven't you?

Dr Watt—We have a scoping study team—a team that manages the scoping study.

Senator FAULKNER—How many people are involved in that team?

Dr Watt—I can get an answer for you. I think the relevant general manager has just departed but we can get him back. If I said 'of the order of a dozen or so at the moment' I would be right, but, should the government move to sale, that team will have to grow.

Senator FAULKNER—So it is around a dozen people. Fair enough.

Dr Watt—It could be plus or minus three either way.

Senator FAULKNER—You might take on notice the precise figure.

Dr Watt—I will get you that number. We have with us Mr Lewis, who can answer these things.

Senator FAULKNER—Could you indicate how big the Telstra scoping study task force is?

Mr Lewis—I assume you are talking about our internal resourcing?

Senator FAULKNER—Yes, how many members does the task force have?

Mr Lewis—About 14. If I am out, I am only out by one either side.

Senator FAULKNER—When was it established?

Mr Lewis—It was established at about the end of March.

Senator Faulkner—Where does that team sit in terms of your departmental organisation. Dr Watt?

Dr Watt—Mr Lewis reports directly to me.

Senator FAULKNER—But you have other responsibilities as well, Mr Lewis.

Mr Lewis—I did when we last spoke, Senator. When we last spoke I was the general manager of the asset management group, but I have been taken offline for the purpose of this scoping study.

Senator FAULKNER—So your sole responsibility is to head that task force.

Mr Lewis—Correct.

Senator FAULKNER—And the task force reports directly to Dr Watt?

Mr Lewis—Yes.

Senator FAULKNER—Where is the task force located?

Mr Lewis—The task force is located in the Treasury building at the present time. The asset management group, which I used to head, is located in the Treasury building, and my small task force and I are still located there.

Senator FAULKNER—So that is basically with the other executive elements of DoFA?

Mr Suur—No, the executive elements of Finance are spread throughout a number of tenancies. There are some groups located in the Treasury building and some in the John Gorton Building. There are some in the Minter Ellison building and there are elements of some groups in Tourism House.

Senator FAULKNER—Dr Watt, you are located in the John Gorton Building, aren't you?

Dr Watt—I am.

Senator FAULKNER—Your team, for example is in the Treasury building.

Dr Watt—We are divided into a number of business groups, and I am a strong believer that the executive of a group should be with its group and not somewhere else. So where a general manager's business group is located outside the John Gorton Building so is the general manager. I do not have an executive wing or an executive team that is clustered around my office. I have seen departments that do it: there are two styles. PM&C has always operated on the basis that the deputy secretaries were around the corner from the secretary, and that was Treasury's style as well. I do it differently. I like senior officers to be with their staff.

Senator FAULKNER—Fair enough. Mr Lewis, you said that at the present time you are located in the Treasury building. Are there any plans to change that?

Mr Lewis—There are no plans to change that at this stage. Obviously, it will depend upon consideration by the government of the way forward in relation to Telstra.

Dr Watt—Should the government move to sale, Mr Lewis and his team will be moving into the John Gorton building.

Senator FAULKNER—What other elements of Finance are in the Treasury building?

Mr Suur—Ministerial and Parliamentary Services, with the exception of Comcar, are located in the Treasury building. Almost all of the elements, I think, of the Asset Management Group—

Dr Watt—All of the Asset Management Group.

Mr Suur—Yes, in fact, all of the elements of the Asset Management Group are located in the Treasury building.

Senator FAULKNER—What I am trying to understand is whether this indicates some special association with Treasury. Can you assure me, Dr Watt, that it does not represent any interface with Treasury in that sense? That is what I am trying to establish.

Dr Watt—No, it does not. If you cast your mind back, there was a time when Treasury occupied the B block end of the Treasury building and Finance occupied the Northbourne Avenue end. When Finance moved out of the Northbourne Avenue end, there was a major refurbishment and Treasury moved into it. Treasury's B block end was then refurbished and bits of Finance moved into that. So it is a historical accident.

Senator FAULKNER—Have you done any forward planning to try to get all of these departmental elements under the one roof? You have this spread all around the joint.

Dr Watt—We are spread around the joint, as you put it, quite a bit. That has been a product of the additional resourcing and the additional task the government has called upon the department to do. When we were called upon to do these things, there was no space in the John Gorton building and very little in Treasury. Fortunately, we were able to get what there was, but it was very little. So we have had to move into other buildings. With considerable reluctance, we have done it. It would be much easier for managers, I suspect, if we were all in one building, but we are not. Would we like to be in one building? Yes. Are we looking at the issue? Yes. At the moment there is no opportunity, certainly not anywhere near the Parliamentary Triangle, to do that.

Senator FAULKNER—If you establish a new element in the department—let us take the Telstra Scoping Study Task Force as an example—you really have to locate it outside the John Gorton building? You have no alternative?

Dr Watt—That is right.

Senator FAULKNER—There is just no space available?

Dr Watt—There is no space in the John Gorton building, unfortunately.

Senator FAULKNER—How concrete are your plans?

Dr Watt—They are not concrete at this stage. We have a few thoughts in mind, but it would take them a long time to come to fruition. Apart from anything else, there is nothing in the Parliamentary Triangle that could accommodate Finance in one building.

Senator FAULKNER—Is the fact that you are spread around a range of facilities a concern?

Dr Watt—It does make the task for managers, including me, a little bit harder. It also makes it a bit harder to get the different groups of Finance to work collaboratively at all levels. We do not have that trouble at the executive level, but, at a junior level, out of sight is sometimes out of mind.

Senator FAULKNER—So the Telstra Scoping Study Task Force was newly established in March 2005. Are there any other departmental elements that have been established since that time?

Dr Watt—No.

Senator FAULKNER—That is the only one, is it?

Dr Watt—Yes.

Senator FAULKNER—Are there any plans to establish any new departmental elements?

Dr Watt—No.

Senator FAULKNER—There is nothing in the pipeline?

Dr Watt—Not that I am aware of.

Senator FAULKNER—At some time in the future this scoping study task force will grow in size?

Dr Watt—Should the government choose to move to full sale.

Senator FAULKNER—How could it go back to the John Gorton building, for example, if you do not have any space?

Dr Watt—We are doing a bit of juggling in a couple of areas.

Senator FAULKNER—That does not really solve the problem.

Dr Watt—No.

Senator FAULKNER—There would be no particular advantage in having something like, say, the Telstra Scoping Study Task Force in the John Gorton building, as opposed to some other departmental element, would there?

Dr Watt—It depends a little on how quickly some of the tasks move. That is an area that is going to move very quickly. Should we move to sale there is an advantage in having it near where I am. The other point is that, once we move to sale, there would be a big advantage in having it linked to Budget Group, and Budget Group are in the John Gorton building.

Senator FAULKNER—What about the future fund?

Dr Watt—The future fund will not be in the Department of Finance and Administration; it will be a statutory authority in the portfolio. While finance is the portfolio department and may have some involvement, that will not involve very many people.

Senator FAULKNER—So what is the planning for that element?

Dr Watt—At the moment it is a bit too early to talk about accommodation.

Senator SHERRY—Where are the people dealing with it at the moment, because we have the program coming up?

Dr Watt—Finance and Treasury have been working jointly on this up until now. Maybe it is a task force or maybe it is a team that was announced in the budget and funded in the budget. That will operate in the Department of the Treasury until the legislation is in place and until board appointments are done. That will be an independent entity.

Senator SHERRY—The board will select the place?

Dr Watt—I assume so—the board or the CEO.

Senator FAULKNER—Wouldn't Mr Suur and you have a role in that?

Dr Watt—In appointing the board?

Senator FAULKNER—No. I think you said the place.

Dr Watt—Remember there are no people there yet.

Senator FAULKNER—I understand that. The reason I ask about the future fund is that you told me there were no plans for any additional groups.

Dr Watt—Remember the future fund is a stand-alone entity. It is in the finance portfolio, not the finance department. It will be like the CSS and PSS boards, which Senator Sherry is so familiar with. We have some policy responsibilities for those but that turns out to be very few people. The CSS and PSS boards are of course located in Civic.

Senator FAULKNER—As the secretary of the department are you across what the times frames are for the establishment of the administrative structure for the future fund?

Dr Watt—I can talk in a general sense. We can talk a little more precisely if you would like us to.

Senator FAULKNER—Just the broad picture. I am just trying to understand where this mob is going to go.

Dr Watt—Remember the mob will not come into existence until September or October this calendar year. So there is a little while to work that out yet.

Senator FAULKNER—I assumed—and I might be wrong—that Mr Suur would be doing preplanning on this. You are not going to give up your own office, Mr Suur, are you?

Dr Watt—Remember they will not be in the John Gorton building. There is no reason for them to be there. They are not part of the department.

Senator FAULKNER—Fine.

Mr Suur—We actively scan the market as part of maintaining our own office space. When the Department of Human Services was formed last year we assisted them to find accommodation. When the future fund is established and when the size of the fund and the best place to locate it are determined then we can assist them in identifying office accommodation and setting up operations because they will be part of the finance portfolio.

Dr Watt—You are not talking about a large number of people. It will be about 20 people, as Ms Doran reminds me.

Senator FAULKNER—Anyway, will you take on notice the costs of the refurbishment in relation to the conference room?

Dr Watt—I am happy to do that.

Senator FAULKNER—If we move to the next stage in the Telstra process, will that require any internal refurbishment?

Mr Suur—It would require some minor refurbishment in a wing of the John Gorton Building. That work is currently being tendered for.

Senator FAULKNER—We might flag this for the next round of estimates: can someone provide some information about the preplanning for the future fund?

Dr Watt—Sure. We can do that.

Senator FAULKNER—It may be that there is not an appropriate place to ask questions about this necessarily until the actual entity is established per se, but it seems logical to me—I hope you would agree—that those questions are asked of you until that occurs.

Dr Watt—That is fine.

Senator WONG—I have some questions about Finance's involvement in the welfare-to-work task force—I think that was the phrase.

Dr Watt—We will assemble the right people.

Senator WONG—Can you tell me who from Finance was on this task force? Is that the correct phrase? I think it was called a task force.

Mr Bowen—We did have one of our staff on the task force. We would not normally talk about individuals but—

Senator WONG—I am just wondering if the right person is at the table. I am happy to proceed.

Mr Bowen—The right people are at the table—not necessarily the person who was on the task force.

Senator WONG—I presume that is not a state secret.

Dr Watt—No, but we are happy to tell you the level of the—

Senator WONG—That is all right; I am not going to pursue that.

Mr Bowen—You have at the table the people from Finance who, to the best of our ability, can answer your questions.

Senator WONG—Perhaps you can tell me what Finance's role was in relation to the task force's activities.

Mr Bowen—If I may talk in general terms, our role on this task force is the same as the role we play on many such bodies. We really have two main roles. One, as we have talked about earlier today—I am not sure whether you were here—is to agree the costs of the proposals. The second is to provide policy advice in the development of the proposals.

Senator WONG—On the first one, the cost of proposals, that is a net cost, so you would look at any savings implications from policy changes as well as any additional spending initiatives.

Mr Bowen—We look at all aspects that influence the budget impact of the proposals.

Senator WONG—In the welfare-to-work package isn't it the case that there are savings to government in relation to some aspects of expenditure from 2006 onwards?

Mr Bowen—If you look at the budget papers you will see some measures that include savings, and that is made clear.

Senator WONG—I am specifically talking about expenditure in relation to benefit payments—leaving aside the savings which were imposed in relation to the Job Network, which I will come back to. But the decision made by the government is to reduce from 2006 onwards the level of payment to new entrants to the parenting payment schemes and the disability support pension. I presume, therefore, that Finance was involved in costing those savings, because they would occur within the forward estimates period.

Mr Bowen—As I said, we were involved in costing the entire package.

Senator WONG—Perhaps, Mr Bowen, you could point me to where in the budget papers the savings on those expenditure items are outlined.

Mr Bowen—I think the 16 measures are in Budget Paper No 2.

Senator WONG—Mr Bowen, I am asking a very specific question. Where are the savings on the parenting payment and disability payment measures outlined in the forward estimates?

Mr Bowen—All I can say to you is that the government has presented a package of \$3.6 billion.

Senator WONG—You are not answering my question, Mr Bowen. Did Finance cost the savings from these measures?

Mr Bowen—Finance costed the package.

Senator WONG—Therefore Finance must have costed the savings from the reduction in the parenting payment and DSP inherent in moving people onto a lower payment. Is that correct?

Mr Bowen—This package is a complex package, I think you would agree.

Senator WONG—This is a very simple question, Mr Bowen. I do not know why you cannot answer it.

Mr Bowen—The package is a complex package. There are many aspects to the package, and we costed every aspect of the package.

Senator WONG—Where are the costings and therefore the savings outlined in relation to the two specific areas—that is, people who would have been on the parenting payment and would have been costed into the forward estimates who are now going to be on the enhanced newstart allowance?

Mr Bowen—I can only repeat what I have said: the package has been presented as 16 measures in a glossy brochure and the information is there. Not every last detail of the costings is provided, of course, because it would be unintelligible to the reader if it was.

Senator WONG—This is not a small detail. I hardly think it is unintelligible to say, 'We previously costed this sort of expenditure for 650,000 parenting payment recipients and 70,000 DSP recipients. We are now going to save this much because this proportion of them

are going to be moving onto a lower payment.’ You said yourself, Mr Bowen, Finance prepared costings associated with the package. If you reached a net cost to the package, this must have been part of the costings. Why is it not in the budget papers?

Mr Bowen—I cannot comment on the presentation in the budget papers except to say that it has been presented as a \$3.6 billion package.

Senator WONG—Perhaps you can give me this: what are the savings to the newstart allowance resulting from the reduction in the parenting payment and DSP payment of the forward estimates? It is a very simple question, Mr Bowen.

Mr Bowen—I cannot give you that, but can I say that if that figure were produced it would be a very misleading figure because what we now have is a changed mix of income support payments. The fact that people might move from one form of income support payment to another might be able to be portrayed as savings, but the fact is that there is a net \$3.6 billion spend over the forward estimates on this package.

Senator WONG—We could be here a long time, Mr Bowen. I am asking a very simple question. You previously must have costed over the forward estimates period your likely expenditure on the parenting payment and the disability support pension. Correct? Can we just deal with that? That is the case, isn’t it? It is in the budget papers for the last financial year.

Mr Bowen—You are asking me to repeat what I have said. I have said that we costed all elements of the package, but I can only comment here today on what is in the budget papers.

Senator Wong—Did you have something to add, Minister?

Senator Minchin—Obviously, the cost of the continuation of the policy as usual is what would be reflected in the forward estimates. When you change policy, the cost to the government of the new policy proposal and framework is revealed in the budget. But we never reveal or itemise in the budget all of the individual elements that go into the formulation of the total cost of a new policy proposal which involves, as in this case, a continued costing for those who are currently on those benefits and, in the case of new entrants to those schemes, a different costing.

Senator WONG—Yes, and I am asking for that costing.

Senator Minchin—We never give all of the individual breakdowns that go to make up the package that is delivered.

Senator WONG—This must be one of the first packages the government has presented where you refuse to detail your savings measures.

Senator Minchin—No, as Mr Bowen is trying to say to you, this is a net spend. We do not go into all of the details as to how you arrive at a total net expenditure—

Senator SHERRY—You do go into detail, but you do not go into this particular detail.

Senator Minchin—but we itemise the cost of the measures.

Senator WONG—You must have gone into the detail because you do a net cost.

Senator Minchin—Sure, in our own workings, but they are not all, in any case, ever put into the budget.

Senator WONG—What is the difficulty with providing them to this estimates hearing?

Senator Minchin—It is not something we normally provide. We will tell you what the cost of measures that we are taking is. But we never go through the netting out of how you actually get to the bottom line. We give you the bottom line cost of all of the measures that are there and whether they have a plus or a minus next to them.

Senator WONG—I am asking for the minus next to the expenditure that would have been on the DSP and parenting payment.

Senator Minchin—I know that is what you are asking for, but that is not something we ever—

Senator WONG—You are not prepared to give it?

Senator Minchin—No—we never do and we will not in this case.

Senator WONG—You do not think that people are entitled to know exactly how much the government is saving—

Senator Minchin—We are spending.

Senator WONG—as a result of reducing people's incomes?

Senator Minchin—We are not reducing anybody's income.

Senator WONG—Of course you are.

Senator Minchin—No, we are not.

Senator WONG—Enhanced newstart is a lesser rate of payment than parenting payment and disability support.

Senator Minchin—That is for new entrants to those schemes under the new policy. We are not cutting anybody's income. That is a complete distortion of what we are doing.

Senator WONG—You do not think that people are entitled to know the savings to government as a result of a policy which pays people less than they would have paid before the budget changes?

Senator Minchin—We are detailing the additional spending that will be incurred as a result of all of the measures we have announced in the budget to enhance the movement from welfare to work as well as the cost of the benefits under the new arrangements for new entrants to those schemes.

Senator WONG—But not the savings to government?

Senator Minchin—It is sort of a hypothetical. 'If that went on without any of this' is just too hypothetical for words.

Senator WONG—It is hardly hypothetical.

Senator Minchin—It is. It is a 'what if' question.

Senator WONG—No, it is not. You would previously have costed expenditure over the forward estimates on parenting payment and DSP on projected inflows at the previous level. You now must have costed the projected expenditure on that cohort as a result of your changes. They clearly come within the forward estimates period. It is a very simple question and I do not understand why the government is so worried about providing it.

Senator Minchin—We are not worried. We are just not going to set a precedent. We do not detail the formulation that goes into reaching a net figure. We give you the net figure, which, in this case, is a net additional spend, as you know.

Senator WONG—In terms of modelling the assumptions that have been I think in the budget papers and also certainly in ministers' statements—that is, the assumptions about who will actually take up work and so forth—I presume that is a Treasury matter? Finance was not involved in that?

Mr Bowen—Treasury was a member of the task force. Treasury did a lot of that modelling.

Senator WONG—Was Finance involved at all? Can you comment on the assumptions about how many people are likely to move into work or is that a question for Treasury?

Mr Bowen—You may ask Treasury. Our position is that we do not comment on assumptions underlying our costings which form the basis of advice to government.

Senator WONG—I am talking about things which are detailed in the budget papers. Ministers have been making comment about 190,000 people moving into work. If that is part of the budget articulation, surely you can tell me who did the modelling which gave us 190,000 people?

Mr Bowen—It was Treasury. The Treasury models were used, yes.

Senator WONG—The so-called welfare to work package increases the range of payments which a particular cohort may access. In other words, for example, in parenting you are now going to have three sets, essentially, depending on when you are on the payment and the age of your child. Was any additional funding for this increased administrative complexity provided to the Department of Employment and Workplace Relations?

Mr Bowen—Throughout the package you will see that some funding has been provided to portfolio departments to help implement this package.

Senator WONG—What is the cost of the increased administration of this package for the employment department?

Mr Bowen—I do not have that figure immediately to hand. I could take that on notice for you.

Senator WONG—Perhaps you can also clear up something for me. The budget papers talk about 11,000 additional open employment places, but the public statements from the minister mention 20,000. From Finance's perspective, how many additional places in open employment were funded?

Mr Bowen—You would have to take that up with the Department of Employment and Workplace Relations.

Senator WONG—But you would stand by what is in the budget papers, presumably?

Dr Watt—Mr Bowen has asked you to take it up with the Department of Employment and Workplace Relations.

Senator WONG—Are you not going to defend your own budget figures?

Mr Bowen—We are happy with what is in the budget generally, but on a point of detail about a specific policy you are better talking to the policy department.

Senator WONG—I certainly will be doing that.

Dr Watt—And when we do not have access to what was actually said by the minister it is probably wise not to speculate.

Senator WONG—I have one question about additional funding. It has been suggested publicly that there will be additional funding available to the Job Network over and above what is in the budget. Has Finance been asked to cost any potential additional funding for the Job Network over and above what is in the budget?

Mr Bowen—I think my answer is no, but I am not sure what you are talking about, to be honest. I am not aware of a request for additional funding.

Senator WONG—Have you been asked to consider any additional funding for the Job Network over and above what is in the budget papers?

Mr Bowen—No, not to my knowledge—or not to our knowledge. We would know.

Senator WONG—If there were additional funding, where would that have to come from—the contingency reserve?

Mr Bowen—No. We had this discussion earlier. The contingency reserve does not actually provide you with any more funding. Speaking generally, the normal process is that, once the budget is over, if new funding proposals are agreed then funding would normally be provided at additional estimates later in the year.

Senator WONG—But you have not been asked to do any costings for that.

Mr Bowen—No.

Senator WONG—Just to confirm, Dr Watt or Mr Bowen, would you agree that in calculating the net cost of the welfare to work package you would have to cost the savings as a result of the reduction in payments to future entrants?

Mr Bowen—We cost every element of the package.

Senator WONG—So you have those costings but you are refusing to provide them to us.

Mr Bowen—I explained that we do not reveal unpublished costing data because it is part of our advice to government.

Senator WONG—Is it not normal, where you have a measure in the budget, to actually detail the savings as well? Take, for example, the Job Network. You detailed savings of \$457 million as a result of various changes being proposed to the Job Network. You have on the one hand a supposed increase in the number of cases funded, then you have a savings measure which is specifically detailed. Can you explain to me why you are prepared to do that in relation to the Job Network but, when it comes to welfare to work, you are not prepared to do that in relation to a very large expenditure on benefits?

Mr Bowen—I cannot comment on that. I can simply comment on what is in the papers.

Senator WONG—Were the costs, the net, the savings that we are discussing, the subject of advice to government?

Dr Watt—We do not normally disclose what advice we might and might not provide to government.

Senator WONG—When were the costings on this package provided to government? I can ask you when, Dr Watt.

Dr Watt—You can, and I am sure they were provided over a period of time.

Senator WONG—Perhaps you can tell me when the costings in the package that is in the budget were provided to government.

Mr Bowen—Dr Watt is actually correct—I suppose he is usually correct—this package was costed over a period of time, and the simple answer is that the government had our costings at the time they made their final decisions.

Senator WONG—When were the costings on this package finalised? And that is a very reasonable question.

Mr Bowen—They were finalised progressively.

Senator WONG—When were the costings on the welfare-to-work package finalised?

Mr Bowen—Prior to the decision being taken; I cannot be more specific than that.

Senator WONG—Surely you know when they were finalised?

Senator Minchin—He just told you.

Mr Bowen—Frankly, I do not have that information.

Senator WONG—Does someone have that information?

Mr Bowen—No.

Senator WONG—Surely someone in the department has that information.

Dr Watt—I do not think it is really appropriate for us to talk in detail about the finalisation of a set of costings. They were finalised in time for inclusion in the budget. Costings go on for a long period of time, believe me.

Senator WONG—Finalisation implies exactly what it says—finalisation. There really is only one finalisation of something and not a number of finalisations.

Dr Watt—That is right. It is finalised and then printed.

Senator WONG—I concede that it is not appropriate for me to ask you what the advice to government was; it is entirely appropriate for me to ask you timing questions. When were the costings finalised?

Dr Watt—I really do not think we can answer that.

Senator WONG—Perhaps you can find the person in the department who knows.

Dr Watt—I really do not think we can answer that. It is not an issue about knowledge. This goes to the advice of our interaction with government on policy issues.

Senator WONG—No, it does not.

Dr Watt—I am sorry, it does.

Senator WONG—It is perfectly normal in estimates hearings for senators to ask when advice—not what advice—went to government. I am asking: when were the costings finalised?

Senator Minchin—We have given you the answer. We are not adding to that answer. Now you may object to that—

Senator WONG—What is the answer?

Senator Minchin—We have just given you an answer.

Senator WONG—I did not hear an answer.

Senator Minchin—We can repeat the previous answer.

Senator SHERRY—It was not a reasonable answer.

Senator Minchin—You may not think so, but that is the answer. If you have a problem with that, I am sorry, but that is an answer.

CHAIR—It does seem like a process issue, Dr Watt. It is about the process between the department and the executive.

Dr Watt—I think the minister has indicated that we have nothing more to add.

CHAIR—Okay.

Senator WONG—Does ‘nothing more to add’ mean that you are not going to tell us? I gather that is a nod, Dr Watt?

Dr Watt—I think it was.

Senator WONG—Just one more thing: is it possible for the question that you took on notice, which was in relation to the additional funding to DEWR for the increased administrative burden of the package, to be provided later today?

Mr Bowen—We will have a look at that and do our best.

Senator WONG—If I come back later today, are you likely to have it?

Mr Bowen—I cannot guarantee that, but we will have a look at it for you.

Senator WONG—Thanks very much.

Senator SHERRY—Returning to the Medicare safety net, before the luncheon adjournment I referred to a 9 April press release of the Minister for Health and Ageing that stated that 34,000 individuals or families had accessed the scheme within its first month of operation and that 81 per cent of these were CCHs or received the FTB A and therefore accessed the safety net through the lower threshold. Had it been assumed—and I emphasise the word ‘assumed’—that 81 per cent of recipients would be concession card holders? It is now about two hours later, so perhaps Mr Weiss can update us.

Mr Bowen—We are going into the same issue again of the assumptions, which have not been made public, underlying a costing. We are not in a position to comment publicly about that.

Senator SHERRY—Turn it up! You gave answers to some of my earlier questions on this matter.

Mr Bowen—In general terms.

Senator SHERRY—In quite specific terms. Let me go back through some of the questions. Are you familiar with the questions I raised before lunch?

Mr Bowen—Broadly.

Senator SHERRY—Was any allowance made for the possibility that people would increase their expenditure? Was any allowance made for the possibility of fee increases or restructuring? What assumptions were this based upon—for example the number of people who would benefit as a proportion of those who had accessed the scheme under different rules? Where was data on the average out-of-pocket expenses obtained from? I got some positive answers to at least some of these questions. It is the same issue. I got detail.

Mr Bowen—I do not recall us providing detailed answers to those. We are happy to talk in general terms but we cannot—

Senator SHERRY—I am asking for a yes or no.

Mr Bowen—On what?

Senator SHERRY—The question I just asked, and which I asked before lunch. The health minister's press release referred to 81 per cent. Had it been assumed that 81 per cent of recipients would be concession card holders?

Mr Bowen—We literally do not have an answer to that question here.

Senator SHERRY—Okay.

Mr Bowen—We do not have that.

Senator SHERRY—Okay. You might take that on notice.

Mr Bowen—We can take it on notice. I guess we can see that in general there would have been some assumption about proportions.

Senator SHERRY—This goes to publicly released information by the minister.

Mr Bowen—That is after the event.

Senator SHERRY—So what?

Mr Bowen—It is not publicly releasing information about the costing.

Senator SHERRY—Eighty-one per cent was the figure given by the minister in his press release. I want to confirm whether in fact that was the basis of the assumption when the costings were being calculated. Presumably it was. I do not see what the great difficulty with this is, aside from the fact that the officer may not know here and now. I expected that he would know here and now; I expected that he would have known before lunch, given the focus that this issue has had, but he did not. I do not see it as an unreasonable question.

Senator Minchin—The problem is that you are seeking to lead the official down a path of revealing the basis for estimates. It is proper for you to ask the health department the basis on which their minister made that statement. But I do not think it is appropriate for you to use a statement by the health minister to try to seek from an official from the Department of Finance and Administration the details behind the way in which this was costed. They are separate issues.

Senator SHERRY—But we heard extensive evidence up to this point. For some reason the 81 per cent becomes the great barrier. We heard extensive information—

Senator Minchin—No, because as soon as an answer is given one way or the other on that—

Senator SHERRY—about Finance oversighting to varying degrees of the various assumptions of the costings of this matter. We get to the 81 per cent because of the minister's public announcement and we seem to strike a problem for some reason.

Senator Minchin—Because the department is quite properly not prepared to engage in a dialogue with you about the details of the way in which it costs this or any other policy. If you want to know about that 81 per cent, ask the health department, because it was their minister who talked about it.

Senator SHERRY—I referred to the date of the health minister's press release: 9 April 2004. You will recall that earlier you outlined the process of evaluating the financial expenditure by program—the discussion we had earlier.

Mr Bowen—Yes.

Senator SHERRY—And the discussion we had earlier about the CAM system—a separate system. At that point in time—we are talking about early April—was Finance involved in any discussions about whether or not the cost of the Medicare safety net might exceed expected projections? I am referring to that point in time—the early April period. Before you answer that, bear in mind that we are not far away from the budget of 11 May.

Mr Bowen—To my knowledge we were not engaged in such discussions but in April 2004 we would, of course, have been engaged in discussions about the measures for the 2004-05 budget.

Senator SHERRY—And you would have been commencing to update the costs.

Mr Bowen—We would have updated the costs for publication in the 2004-05 budget, yes.

Senator SHERRY—And at that point in time had you identified a likely increase in costs?

Mr Bowen—I think there is a point we are missing here: the actual program did not start until March 2004, so by April there would have been no real data to look at.

Senator SHERRY—There was no data at all at that point in time?

Mr Bowen—The program had not commenced.

Senator SHERRY—When the budget was presented on 11 May 2004 it provided for additional funding—this is only four weeks later—of \$241.3 million over five years, bringing the total cost to \$507 million. That is correct, isn't it?

Mr Bowen—I would say it was \$547 million.

Senator SHERRY—Okay; it was even higher.

Mr Bowen—That figure has not been published as a consolidated figure but you can do the arithmetic.

Senator SHERRY—So we had the safety net coming into effect on 12 March 2004, then we had a couple of press releases—I have asked about the press release on 9 April 2004—and then we have the budget on 11 May bringing the overall cost to \$547 million.

Mr Bowen—It is not surprising, because there were three measures involved in that—three changes in policy—which were quite explicit decisions of government which had a cost attached to them. You have identified them. The first one was in the 2003-04 budget, costing \$67.1 million, give or take the rounding. The second was in the 2003-04 MYEFO, costing \$199.2 million over four years. The third was in the 2004-05 budget, which added a further \$241.2 million, taking it to \$547.6 million. But—

Senator SHERRY—Sorry, at that point in time you have got to the budget—

Mr Bowen—I was going to make the point that the animal we were looking at in the 2004-05 budget is a different animal from the animal we were looking at in the 2003-04 budget.

Senator SHERRY—I accept that. We are now—with excruciatingly great difficulty, I might say—getting further down the track of this. At 11 May 2004, obviously Finance was involved and it agreed to those revised costings for the budget in 2004.

Mr Bowen—Yes.

Senator SHERRY—Let us move to June. On 28 June the health minister issued a press release stating that after just three months of operation—this had started on 12 March 2004 and then there were various add-ons—415,000 people were accessing the safety net compared with his projection on 17 March that 450,000 people would access the scheme in a year. So after three months of operation they were the numbers identified by the minister. Was the number of people accessing the scheme growing more rapidly than was projected in the budget released six weeks earlier? Had you picked that up in your monthly examination of the program update at that point in time—this is at the end of June?

Mr Bowen—My advice is that we had started to look at the estimates at that time, yes.

Senator SHERRY—What did you identify in the estimates when you started to look at them?

Mr Bowen—I think it is fair to say that at that point there were indications. This is part of a bigger program—and this is not a precise science either I might add—and we had early indications only at that time. It was a month—

Senator SHERRY—I accept that. If you are looking at one month's figures, you think there might be something unusual and maybe you look at another month's figures. So let us take it forward a couple of months more.

Mr Bowen—To August?

Senator SHERRY—Yes. On 23 August we had another press release from the minister that stated there were now 650,000 people accessing the Medicare safety net or 200,000 more than projected when the scheme was launched. What was your examination of the program? I assume we are beyond early indications by this time.

Mr Bowen—We were. August was a pretty significant month for all sorts of reasons. It was a significant month in looking at these estimates. Towards the end of August, the second half of August—and that is when, according to your comment, the minister put out his press release—we were in close consultation with the Department of Health and Ageing and we were looking very carefully at the numbers. I will be corrected if I get this wrong, but by that time also we had more recent data—is that correct?

Mr Weiss—Spend data.

Mr Bowen—We were getting better data through our monitoring.

Senator SHERRY—Sorry, Mr Weiss said you had the spend data?

Mr Bowen—I am right. It was data coming through our systems.

Senator SHERRY—This is the program data?

Mr Bowen—The spend data, the profile data.

Senator SHERRY—For the program?

Mr Bowen—Yes. Towards the end of August it did become clearer that this program was increasing faster than we had estimated at budget time.

Senator SHERRY—The finance minister was advised of this?

Mr Bowen—What happened—and this was a very significant month—on 31 August at 5 o'clock was the caretaker period commenced. We worked with Health and Ageing to get the revised estimates, which we got and validated in our system on 2 September. The caretaker period had commenced and we were not in a position to advise the minister of that change.

Senator SHERRY—Was that formally?

Mr Bowen—We did not advise the minister—

Senator SHERRY—At all?

Mr Bowen—We had discussions with his office, at officer level, prior to that, I might add—prior to the caretaker period.

Senator SHERRY—On this issue?

Mr Bowen—As this issue progressed. But at no time, to my understanding, until we finally crunched the numbers did we know the real magnitude of the change. We knew it was significantly greater as we got towards the end of August.

Senator SHERRY—And the significantly greater issue was communicated to the minister's office but not the precise figures?

Mr Bowen—No.

Senator SHERRY—The final number crunch?

Mr Bowen—No. That is right.

Senator SHERRY—You say that there were discussions with the minister's office. On what dates did those discussions occur? Was there more than one discussion?

Mr Bowen—Our recollection is that there were phone discussions. This happens all the time. We keep our office informed—that is normal business—as issues progress.

Senator SHERRY—I understand that.

Mr Bowen—We do not keep a record of every such discussion, and we have not in relation to this item.

Senator SHERRY—So there were a number of phone calls to the minister's office on this matter?

Mr Bowen—We cannot say how many there were, because we do not know, but there was at least one—

Senator SHERRY—Before 'we cannot say', did you have any discussions?

Mr Bowen—I did not have any discussions.

Senator SHERRY—Did Mr Weiss?

Mr Weiss—Yes, I did.

Senator SHERRY—On how many occasions?

Mr Weiss—From memory, two, three.

Senator SHERRY—Two or three. And that was prior to 31 August?

Mr Weiss—That is right.

Senator SHERRY—Can you recall whether they were on separate days? I would not expect you to remember exact dates but can you give me an indication of the time period—over a couple of weeks?

Mr Weiss—It would not have been over a couple of weeks. It would have been in the couple of days leading up to 31 August.

Senator SHERRY—I now come to you, Senator Minchin. Were the concerns of the finance department passed on to you before 31 August?

Senator Minchin—My recollection is that my personal staff indicated to me the gist of the conversation they had had with Finance, indicating that there may be some increase in the cost of the safety net but they had no reliable data, no figures, no brief, no nothing. There was—

Senator SHERRY—Not 'no nothing', surely.

Senator Minchin—no piece of paper, no formal briefing to me, no indication of—and I do not like relying on what to me at that stage amounted to hearsay.

Senator SHERRY—Hearsay? It is a bit more than hearsay.

Senator Minchin—It was not formal advice to me—

Senator SHERRY—It was not hearsay, though.

Senator Minchin—based on an analysis of what the potential increase in cost of this program might or might not be. It was not actionable information.

Senator SHERRY—It was not actionable information. That is your description?

Senator Minchin—Yes.

Senator SHERRY—Okay. Then, as finance minister, did you write to the Prime Minister or any other ministers regarding the cost of the Medicare safety net before the election was called on 31 August, if it was hearsay and you did not think it was—

Senator Minchin—I am not sure that I would want to comment one way or the other on my correspondence with other ministers.

Senator SHERRY—You have just said it was hearsay; you did not have documentation from the department. I ask again: did you write to the Prime Minister or any other minister regarding the increasing costs of the Medicare safety net before the election was called on 31 August? Did you communicate in writing?

Senator Minchin—I do not believe that I should go into any detail in this public forum about what private correspondence I had within the government—with ministers.

Senator SHERRY—You have referred to this as hearsay. You have told us that the concerns of Finance were passed on to you by—

Senator Minchin—I do not characterise it as concern. It was informal, unwritten advice from an officer of the department to a member of my staff.

Senator SHERRY—So you did not then write to the Prime Minister or any other ministers—

Senator Minchin—I am not confirming or denying any correspondence. I am not going into any revelations in this forum about my dealings with—

Senator SHERRY—I do not regard it as a revelation. It would seem to me to be perfectly normal that, if there were an indication of a cost increase—and I am not putting any more on it than the officers themselves have communicated to your staff; you said they passed this on to you in that general sense—you would write to the Prime Minister, the Treasurer or the health minister regarding the cost of the Medicare safety net.

Senator Minchin—You can speculate about what I may or may not have done in light of this circumstance, but I am simply not going to go into any detail about my communications or otherwise with other ministers in the government.

Senator SHERRY—Did you raise the issue with the Prime Minister, the health minister or the Treasurer before 31 August?

Senator Minchin—Again, I am not going into any detail about the internal workings of the government.

Senator SHERRY—I would have thought it was entirely appropriate given your position that you would communicate, either verbally or in writing, to the Prime Minister the information—not hard copy or detailed financial statements—on the general concern about

the increasing cost. It would not seem to me to be unusual if you had communicated that concern to the Prime Minister, the Treasurer or the health minister.

Senator Minchin—You are just asking the same question in a slightly different way. I can only repeat my answer, but I will not take up the time of the committee by repeating the same answer. You are merely speculating in a rhetorical fashion about what I may or may not have done in the light of the circumstances.

Senator SHERRY—I am asking you quite directly.

Senator Minchin—I have given you an answer. I cannot change the answer.

Senator SHERRY—Did you do anything or not?

Senator Minchin—I am not going into the detail of what I may or may not do internally. It is an internal matter of the government.

Senator SHERRY—I do not want to know the detail—

Senator Minchin—Yes, you are. You are asking me specifically.

Senator SHERRY—I just want to know—yes or no—whether you communicated this to any of those officers.

Senator Minchin—I have already told you that I am not going to give you any information as to the internal communications of the government.

Senator SHERRY—When did you, either in writing or verbally, raise this issue with the Prime Minister, the health minister or the Treasurer?

Senator Minchin—Same question; same answer.

Senator SHERRY—Chair, I am not going to what was in any correspondence. I am not even going to ask what was in any verbal communication. I think it is a fair and reasonable question to ask whether the minister actually communicated, in writing or verbally, with any of those three ministers.

Senator Minchin—Sure, you can ask, but I am entitled to give the answer I am giving.

Senator SHERRY—No, I think it is perfectly reasonable for the Senate to expect an answer to that question.

Senator Minchin—No, it is not.

Senator SHERRY—Why didn't you then? If you did not write—

Senator Minchin—You are asking the same question. I am giving you the same answer. I am not prepared to go into any detail about what, if any, communication occurs internally within the government on this or any other matter, I am sorry.

Senator SHERRY—So information about an escalating cost was communicated to your office—and we know your staff passed it on to you—from Mr Weiss. There were two or three conversations, apparently. You did not communicate that or pass that on? I am talking about the period up until 31 August.

Senator Minchin—You keep putting the same rhetorical question. The question is no different. This is the sixth version of it, I think.

Senator SHERRY—That is because I think it is a perfectly reasonable thing to answer.

Senator Minchin—The answer is the same. We can sit here all afternoon, but I will give you the same answer.

Senator SHERRY—So you are refusing to answer and that is it?

Senator Minchin—I have given you an answer.

Senator SHERRY—No, you are refusing to answer.

Senator Minchin—My answer, as said six times now, is that I am not going into the detail of what, if any, communications go on within the government on this or any other matter.

CHAIR—We will take a break.

Proceedings suspended from 3.15 pm to 3.32 pm

CHAIR—I call the committee to order.

Dr Watt—Earlier, Senator Faulkner asked for the fit-out cost of the conference room done in the executive area of the John Gorton Building nearly 12 months ago. The cost was \$49,500.

CHAIR—Thank you, Dr Watt.

Senator SHERRY—We were going on to the future fund. I just want to go back to an issue with the minister that we were talking about prior to the break. Minister, we heard from Mr Bowen, in his earlier evidence about the Medicare safety net, that in June and July there were early indications of a cost increase in the Medicare safety net beyond that which was projected. Then we heard in August—it was a significant month—that they were looking very closely at the numbers. It became clear in August that the costs were increasing beyond that which were estimated. And we heard from Mr Weiss that there were two or three discussions with your staff about the escalating cost beyond the projections for the cost of the Medicare safety net and that these concerns were passed on to you. Do you recall an interview on *AM* on 2 September with Matt Brown?

Senator Minchin—Yes, I do.

Senator SHERRY—And do you recall being asked about the forward estimates and the increasing cost of the Medicare safety net?

Senator Minchin—I actually have a transcript of that interview in front of me.

Senator SHERRY—I thought you might. When you were asked about a cost blow-out in the budget, didn't you say, 'No, there is not a cost blow-out'?

Senator Minchin—I remind you that I had not been given anything by way of a formal brief on this matter. The department has already indicated that it was not until parliament entered into the caretaker period and they went through the PEFO and the Charter of Budget Honesty exercises that there was anything by way of a formal position on the issue of the safety net. What was conveyed to my office earlier was by way of oral, informal advice. That is the background. The context of this interview was very clearly Minister Abbott's decision in relation to obstetrics. The proposition was that what had occurred in relation to obstetrics had led to 'a cost blow-out'. I noted in the course of that interview that my understanding of

the advice that I had to hand at the time of that interview was that in relation to the issue of obstetrics that decision would lead to an increase in expenditure of some \$8 million to \$10 million per annum, which was the cost of adding it to the rebate. At that stage, there was certainly no advice about what that might do in relation to the safety net. That was the context of the question and the context of my answer.

Senator SHERRY—I put it to you minister that you did not know the precise figure and had not received a formal written briefing on the cost blow-out in the Medicare safety net. However, Mr Weiss, on two or three occasions, had spoken to staff in your office about a cost blow-out and the staff in your office had passed that on before 31 August. How did you maintain on 2 September that there was not a cost blow-out?

Senator Minchin—I do not know that the words ‘cost blow-out’ were ever used in either the conversation that occurred between the department and my staff or the one that occurred between my staff and me. Secondly, I can only repeat that the question put to me in this interview related to the decision made by Minister Abbott in relation to obstetric services.

Senator SHERRY—A cost blow-out is normally accepted as being an increase in cost beyond that which is forecast: a cost blow-out. I put it to you, Minister, that you misled Matt Brown on *AM* and the listeners on 2 September—you misled the Australian public—and that you had been informed of a cost blow-out in respect to the Medicare safety net. That is what I would put to you, Minister.

Senator Minchin—I appreciate that that is the proposition you would like to air. All I can do is—

Senator SHERRY—It is a reasonable conclusion.

Senator Minchin—All I can do is deny it because at no stage was I ever formally advised by the department of any projections based on any concrete set of numbers or formal estimates in relation to the cost of the safety net. The department has already advised you that that did not occur to any extent until the caretaker period had commenced. It was impossible for me to work on the basis of formal advice which I had not received. I repeat that the question that was put to me was very specifically in the context of this decision in relation to obstetrics.

Senator SHERRY—So despite the fact that Mr Bowen, obviously concerned, communicated and Mr Weiss—

Mr Bowen—No, Senator: I did not.

Senator SHERRY—I did not suggest you communicated to the minister.

Mr Bowen—I did not communicate with anybody.

Senator SHERRY—Who did you communicate it to? Did you communicate it to Dr Watt?

Mr Bowen—No. What we said previously—it is on the record—is that Mr Weiss had two to three conversations with the minister’s office.

Senator SHERRY—Yes, and you said—

Mr Bowen—I did not.

Senator SHERRY—I know you did not; I am not suggesting that.

Senator Minchin—You did previously.

Senator SHERRY—No, I did not suggest that. What you said in respect to late June and early July was that there were early indications—those were your exact words—in respect to costs increasing. Then we got to August. You said: ‘August was a significant month. There was close consultations with the health department.’

Mr Bowen—In the latter half of the month.

Senator SHERRY—Okay: the latter half of the month. That is fine. You said ‘we were looking very closely at the numbers and it did become clear’. Then Mr Weiss—

Mr Bowen—But I think I said—I know I said—that we finalised the numbers on 2 September.

Senator SHERRY—I agree with that. You finalised the numbers, but Mr Weiss was sufficiently concerned to ring the minister’s office on two or three occasions, apparently in that last week in August before the election was called, to communicate the concerns about the increasing cost—the blow-out, to use the commonly used terminology—to the minister’s staff, which were passed on verbally to the minister.

Dr Watt—I have two points, so as not to put words in Mr Weiss’s mouth. One, I do not think that Mr Weiss said he phoned the minister’s office; I think he said he had conversations with them. And, two, I did not hear Mr Weiss use the word ‘blow-out’.

Senator SHERRY—No, he did not use the word ‘blow-out’; it was ‘cost increase escalation’. But I used the word ‘blow-out’. It is the commonly used terminology. The point about the phone call is interesting, actually—I did not pick that up. Did he visit the minister’s office and give a face-to-face, or was it a phone call?

Dr Watt—The point I was making was that you said Mr Weiss called the minister’s office.

Senator SHERRY—Yes, because I assumed it was a phone call.

Dr Watt—I am not disputing there was a phone call. I am saying that Mr Weiss did not say who made the call to whom.

Senator SHERRY—Certainly Mr Weiss gave the indication to this committee that he made the phone calls. I am sure he said that.

Dr Watt—I do not think so.

Senator SHERRY—Let us ask him.

CHAIR—Do you want to ask Mr Weiss some questions?

Senator SHERRY—Yes. Let us bring him back.

Mr Weiss—I cannot recall precisely who initiated the phone calls. I have discussions with the minister’s office on quite a regular basis, with either party initiating the conversations.

Senator SHERRY—About this issue?

Mr Weiss—About a range of issues that relate to my areas of responsibility.

Dr Watt—About a range of issues.

Senator SHERRY—Including the costing with respect to the Medicare safety net?

Mr Weiss—Yes.

Senator SHERRY—And that was on two or three occasions, I think you said?

Mr Weiss—Yes.

Senator SHERRY—And I think you said that was in the week leading up to the end of August?

Mr Weiss—I think I said the days leading up to 31 August.

Senator SHERRY—But it was before 31 August?

Mr Weiss—Yes.

Senator SHERRY—So I come back to you again, Minister. You were informed about a cost blow-out, but you maintained on 2 September, after you had been informed, that there was no cost blow-out?

Senator Minchin—I can only repeat what I have already said. My staff advised me of the conversation or conversations that had occurred with Mr Weiss. I had no brief, no formal advice; there were no numbers; and I took it as having the status that that implies. The caretaker period commenced on 31 August, and by that stage I had not received any formal advice about any change in the projections in relation to the safety net. I was asked in that interview about the effect on the cost of the safety net of the decisions in relation to obstetricians. I informed the reporter that we had estimated the cost of the safety net at about \$110 million a year and that the addition of the MBS item would add about \$8 million to \$10 million in costings. So I chose to describe that—that is, going from \$110 million to \$120 million—as not meeting the definition of ‘cost blow-out’.

Senator SHERRY—So by 31 August you were not overly concerned. Is that what you are saying?

Senator Minchin—I had no basis to say anything other than what I said in that interview. Those were my only public comments on the matter.

Senator SHERRY—But coming back to 31 August, the conversations had been passed on to you by your staff. At that point in time—summarising your position—you were not overly concerned?

Senator Minchin—I am not commenting one way or the other on my state of mind. I have already told you: I am not commenting one way or the other—

Senator SHERRY—You referred to it as ‘hearsay’ at one stage.

Senator Minchin—on what, if any, conversations or communication there may have been internally. It amounts to hearsay in that there was nothing in writing, no formal advice. The department has already said they did not ‘crunch the numbers’ until the caretaker period, when they did so in the context of PEFO, so in that sense, in my view, it had the status of hearsay.

Senator SHERRY—I think it was more than hearsay, but that is your description. So on that basis you would not have written to the Prime Minister, the Treasurer or the health minister communicating anything, would you?

Senator Minchin—If you come back to the questions you were asking before the tea break—

Senator SHERRY—If it falls into the category of hearsay—

Senator Minchin—all I can say again is that I am not going to discuss in this forum what, if any, communication has gone on internally within the government.

Senator SHERRY—You describe the informed views communicated to you from Finance as hearsay—that is how you describe their advice—being passed on to you verbally.

Senator Minchin—It went from one officer, to a member of my staff, to me. In legal terms, yes, that is actually hearsay. Secondly, it was oral. Thirdly, by definition, it was not in writing and not formal. So yes.

Senator SHERRY—So as to your apparent lack of concern, you would not have written because it was just hearsay—

Senator Minchin—You can characterise my state of mind as much as you like but I am not going to reveal my state of mind. I am not going to go into the question—

Senator SHERRY—During the break you might have had occasion to rethink. Apparently, because it was hearsay, as you describe it, you would not have written to the Prime Minister or the health minister. Have you reconsidered your position over the break?

Senator Minchin—I am sorry, I did not spend the 15 minutes reconsidering my position. I can only—

Senator SHERRY—You have a copy of the transcript, though, of what you said, on 2 September.

Senator Minchin—I had that long before that. I have had this for some days.

Senator SHERRY—And you brought it in with you, I noticed.

Senator Minchin—I assumed that you might want to ask some questions about this matter and I wanted to refresh my memory as to what I may have said during the election campaign on this matter. I am quite happy to talk about that but I am not happy to talk about what, if any, communications may have occurred on this or any other matter internally within the government.

Senator SHERRY—I now refer to the future fund. Page 2-9 of Budget Paper No. 1 states: The Government ... will establish a Future Fund to offset superannuation liabilities ... Accordingly, page 9 of the 2005-06 of the Finance portfolio budget statement shows the new Future Fund Management Agency. Who are the officers in the agency at the present time, if not statutorily—

Dr Watt—There are no officers in the agency at the present time.

Senator SHERRY—Who are the responsible officers who are dealing with this issue as listed?

Dr Watt—The officers who are currently dealing with this issue are located in the department of finance and the Department of the Treasury. The Future Fund Management Agency will not exist until after 1 July—some time in the new financial year—but in the meantime we have some people from our Financial Management Group who have been handling our involvement in the establishment of the future fund.

Senator SHERRY—I just do not want to get caught up in having issues referred to Treasury.

Dr Watt—You will, because both departments are actively involved in different bits.

Senator SHERRY—It is not listed separately in the Treasury estimates, is it?

Dr Watt—No. Let me back up a bit. The future fund is to be in the Finance portfolio.

Senator SHERRY—Yes, I understand that.

Dr Watt—But the implementation team is currently in the Department of the Treasury, and Treasury was appropriated funding in this budget for next financial year, 2005-06, for that implementation role. It is \$900,000 for implementation advice.

Senator SHERRY—So the two officers we have here are currently the two officers—

Dr Watt—They are the senior officers handling the issue in Finance.

Senator SHERRY—Who are the officers in Treasury dealing with this matter? I assume you know; you have to be meeting them.

Dr Watt—We do know. You never like disclosing names, for obvious reasons, but I believe that David Tune is the responsible deputy secretary and David Martine is the responsible division head.

Senator SHERRY—I just want to make sure that they are present at Treasury estimates, that is all.

Dr Watt—I assume they will be.

Senator SHERRY—I assume that but it is not always the case. I have been through some experiences—

Senator Minchin—We will assist—

Senator SHERRY—That is fine—good.

Dr Watt—I am sure they will be now.

Senator SHERRY—I am sure they will be too—now. On page 11 of the portfolio budget statement there is a great big pie chart. Figure 3: Administered appropriations for agencies in the portfolio, 2005-06 says:

Department of Finance and Administration, 27.53%

The rest of the pie chart is absolutely dominated by:

Future Fund Management Agency, 72.47%

It looks very impressive, but what does the 72.47 per cent represent in this pie chart?

Dr Watt—The government said that it will do two things—and I will get this confirmed by my officers—firstly, it will transfer part of this year’s budget surplus into the future fund and, secondly, it will transfer part of its existing balance with the Reserve Bank into the future fund. I think the figure that was used in the budget papers—and I will need to check this—is \$16 billion.

Ms Doran—That was the estimate for the transfers in the first year.

Dr Watt—I take it—and I will confirm this—that that is by way of administered appropriation, and that is what that is.

Senator SHERRY—That is the 72.47 per cent?

Dr Watt—Yes, I have had that confirmation.

Senator SHERRY—But it does not indicate that. It looks an impressive pie chart, from the finance portfolio’s point of view, but 72.47 per cent has to stand for something.

Dr Watt—I am not sure that it is the most useful pie chart that I have ever seen, to be perfectly honest.

Senator SHERRY—I did wonder why it was appearing so quickly. So that represents approximately \$16 billion, and the 27.53 per cent represents the other appropriations—

Dr Watt—which, as you would know from your past experience, are mainly superannuation.

Senator SHERRY—Table 2.1 on page 23 shows that total administered appropriations for the portfolio in 2005-06 are \$5.3 billion, of which approximately \$5.1 billion is for special appropriations. Is that correct?

Mr Staun—Yes.

Senator SHERRY—Can I confirm that that does not include the FFMA? If not, why is it included in the chart but not in the table?

Mr Staun—I can confirm that.

Senator SHERRY—It is not included?

Mr Staun—No, it is not included.

Senator SHERRY—Why is it included in the chart but not in the table?

Mr Staun—The two are separate. Dr Watt said that it was perhaps not the most useful pie chart. The chart above shows the departmental appropriations for the agencies in the portfolio—that is, departmental. This chart is trying to show the administered split. In the portfolio, clearly the future fund is the main portion of the administered expenditure.

Senator SHERRY—Given that further observation that it is not the most useful chart, why was it included?

Mr Staun—Perhaps a stalker’s defence: it seemed like a good idea at the time.

Senator SHERRY—In a joint press release from the Treasurer and the Minister for Finance and Administration—

Dr Watt—Hang on: there is a bit of a difference. The appropriation chart—table 2.1—that you are looking at on pages 22 and 23 is for the finance department only. So the future fund administered should actually be under future fund administered, which is at the back of the PBS on page 239 and beyond.

Mr Staun—That is correct.

Dr Watt—That is why it is not shown in that table but shown in the pie chart that deals with the overall portfolio.

Senator SHERRY—The pie chart has caused some confusion.

Dr Watt—The pie chart is for the overall portfolio, for all agencies; the table is not.

Senator SHERRY—A joint press release from the Treasurer and the Minister for Finance and Administration on 10 May states:

The Fund will be managed by an independent statutory board ... which will make investments in accordance with a broad investment mandate issued by the Treasurer and the Minister for Finance and Administration.

It refers to unfunded public sector superannuation liabilities. Could we be just clear: what unfunded public sector liabilities are to be covered by the future fund? Which funds or schemes?

Ms Doran—The unfunded liability that will be covered by the future fund encompasses the schemes for the CSS and the PSS, the two civilian schemes; and the DFRDB and MSBS, the military schemes. They form the substantial portion of the unfunded liability. There are some smaller components for the Governor-General's scheme and a judges scheme.

Senator SHERRY—And parliamentarians?

Ms Doran—Yes—my apologies—and the parliamentary scheme.

Senator SHERRY—But you have not made it clear whether in fact they are included in the unfunded public sector superannuation liability. So are those latter schemes—for judges, Governors-General and parliamentarians—to be covered by the future fund?

Ms Doran—Yes.

Senator SHERRY—All of them?

Ms Doran—Yes.

Senator SHERRY—The whole lot?

Ms Doran—That is right.

Senator SHERRY—Two general public sector schemes, one closed, one open and to be closed; two military schemes, one closed, one still open; schemes for the judges and the Governor-General, still open; the parliamentary fund, closed.

Ms Doran—That is right.

Senator SHERRY—That is it.

Ms Doran—That is it.

Senator SHERRY—Those are the liabilities. We had some very useful information from Mr Bowen about percentages of GDP when doing future costs. Were either of you here when he made those comments earlier?

Mr Hutson—No, I was not.

Ms Doran—No.

Senator SHERRY—I will come back to those comments a bit later in another context. There is the Department of Finance and Administration. I have here the last two actuarial reports that have been published on the PSS and CSS and the MSBS and the DFRDB schemes—that is, the 2002 reports. Obviously, there is one important change with respect to the PSS: it is to be shut from 1 July 2005. Are you aware of that?

Ms Doran—Yes, that is correct.

Senator SHERRY—Do you have an updated actuarial report on the consequences that flow from the closure of the PSS?

Ms Doran—The formal actuarial reports are done on a triennial basis, so the next report is not due until 30 June 2005.

Senator SHERRY—That is not what I asked. Do you have an updated report?

Ms Doran—No, we do not have an updated report as such. We did have some actuarial costings done on the effect on the unfunded liability from closing the scheme.

Senator SHERRY—So you have an updated costing of the consequence of the closure of the PSS?

Ms Doran—That is right.

Senator SHERRY—We know about the closure of the PSS defined benefit plan. Some figures were provided to me—apparently on Monday—on the resulting reduction in the defined benefit plan accruals and interest expenses through to 2008-09. Are you aware of that?

Ms Doran—I am aware of those.

Senator SHERRY—Do you have the figures beyond 2008-09? You referred earlier to actuarial calculations. Do you have the figures beyond that period?

Ms Doran—Not in the form that is presented there. We only do budget figures for the four-year out period.

Senator SHERRY—That is not what I asked. Of course I know—I have the figures for 2008-09. They are here in front of me. I asked: do you have the figures—the actuarial calculations—beyond 2008-09?

Ms Doran—There are two sets of figures, if I could perhaps clarify. The figures that were presented in the answer to the question on notice are actually our internal budget estimates—projections of the unfunded liability—and in those numbers we can derive the break-out of the figure, which is the reduction for the closure of the PSS. We have separate numbers which have been provided by the actuary—not in a formal report—which provide an estimate of the

adjustment to the unfunded liability on the project basis, given the scheme's closure. Those numbers were produced on the same basis as the 2002 long-term costing report.

Senator SHERRY—Good, that is useful. If they are on the same basis, presumably they would be set out in a form. In the PSS and CSS 2002 report is a monetary figure and a percentage of GDP.

Ms Doran—That is right. Could you please tell me the page?

Senator SHERRY—Do you have updated figures in that form for the closure of the PSS?

Ms Doran—I am not sure that we have them as a percentage of GDP, but we certainly have the monetary figures.

Senator SHERRY—Okay, let us take the monetary figures. Page 27 of the 2002 report goes through the dollar costs of the CSS, which peaked in 2004 and will drop away by 2042. The PSS will increase to \$907 million in 2042. Do you have the new figures through to 2042?

Ms Doran—The projections we have do go through to 2042, and they provide the split by CSS and PSS. You will notice that one of the notes below the table says that the figures have been adjusted to 2002 dollar terms—

Senator SHERRY—Yes.

Ms Doran—using the discount rate in the scheme. That means they have been brought back from nominal values to real values in 2002 dollar terms. The projections I have on the basis of the scheme being closed are actually in nominal dollar terms.

Senator SHERRY—Can you provide us with the new actuarial figures to 2042?

Ms Doran—Yes, we can take that on notice.

Senator SHERRY—Do you have a copy of them there?

Ms Doran—As I said, they are in a different form to what is in this table.

Senator SHERRY—I understand the caveat—they are in a different form—but can you provide those to the secretariat?

Mr Hutson—I think we will have to take that on notice.

Senator SHERRY—Why do you have to take that on notice?

Ms Doran—I have them very informally, just on a sheet of paper.

Senator SHERRY—As long as they are typed out, not handwritten—

Ms Doran—They are not terribly formal.

Senator SHERRY—I make allowances; I do not get too hard or stropy. Would it be correct that the closure of the PSS on 1 July 2005 will result in a drop in the real long-term costs of the PSS—both in dollar terms and as a percentage of GDP?

Ms Doran—If I could just clarify: it results in a drop in the unfunded liability at the time—

Senator SHERRY—That is right.

Ms Doran—but not necessarily in the cost of the scheme. That, in fact, may take some years to emerge.

Senator SHERRY—We have an escalating cost of the PSS, according to the 2002 report.

Ms Doran—An escalating unfunded liability.

Senator SHERRY—Yes. The 2002 report shows a drop both as a money figure and as a percentage of GDP. The consequences of the closure of the PSS on 1 July 2005—I do not know the amount yet, because I have not seen the figures—would be a drop in those figures from 2002 in money terms and the unfunded liability—

Ms Doran—Yes.

Senator SHERRY—and the further drop as a percentage of GDP.

Ms Doran—In the unfunded liability—yes, that is correct.

Senator SHERRY—Looking at page 27 of the 2002 report—and the 2002 report was before the PSS was closed—

Ms Doran—Yes, that is right.

Senator SHERRY—We have adjusted figures.

Ms Doran—Yes.

Senator SHERRY—They show that, in fact, the peak year for the cost of the CSS and PSS as a percentage of GDP, on this chart anyway, occurred in 2003, at 0.41 per cent of GDP. Then it drops slowly down to 0.29 per cent of GDP by 2042.

Ms Doran—That is what the table shows.

Senator SHERRY—So the closure of the PSS, which is not included in this document, would show a further reduction over time—and, as yet, I do not know the actual reduction—as a percentage of GDP. That is logical, isn't it?

Ms Doran—That is logical. It would take a number of years for that effect to kick in.

Senator SHERRY—Yes, but there is a further drop. So it is a matter of fact, isn't it?

Dr Watt—Your analysis is partial. The real driver of the future cost of Public Sector Superannuation liabilities is the military schemes.

Senator SHERRY—I am going to get to those. I have not forgotten about the military schemes. I have not forgotten about the judges' scheme, the politicians' scheme or, indeed, the Governor-General's scheme.

Dr Watt—I doubt that the last three are drivers of any significant costs.

Senator SHERRY—You would be surprised. Have you had a look at them?

Dr Watt—In terms of the overall aggregate, no matter what their individual behaviour is they are not anywhere near as big as the others.

Senator SHERRY—There is still a significant cost. But, anyway, that is an argument for another time.

Ms Doran—Can I just clarify something before we move on. In terms of the numbers—and I do have them available—after the scheme has closed, they are numbers for the projection of the unfunded liability as opposed to estimated costs of the scheme.

Senator SHERRY—And I think you said you do not have them as a percentage of GDP?

Ms Doran—No, I do not.

Senator SHERRY—Why were figures not obtained as a percentage of GDP on the closure of the PSS?

Ms Doran—The numbers were not obtained in the context of a full, formal actuarial report. As I said before, they were undertaken on the 2002 basis, so there was no update, assumptions or any other factors. They were really just provided to inform our own estimates in the costing process. We will await the 2005 report to get the full values.

Senator SHERRY—But they are critical in the context of the unfunded liabilities for super funds to be covered off by the future fund.

Ms Doran—That is correct.

Senator SHERRY—They are the basis of it.

Ms Doran—As of June this year, we will get a full actuarial report that provides the comprehensive analysis.

Senator SHERRY—I am puzzled about why that was not included in the future fund announcement. Maybe this question is one for Dr Watt, who, I assume, was involved in this process.

Dr Watt—To some extent. My recollection is that the way the future fund analysis was done was in terms of dollars, not as a percentage of GDP. There is no magic in doing it as a percentage of GDP. We knew we had a future dollar liability. Therefore, all of the assessment that was done was on how you match that in terms of dollars. That was the way the calculation was done.

Senator SHERRY—I was going to make this point anyway without the very helpful observation of Mr Bowen earlier—very helpful, I thought it was—that drew our attention to the fact that we should be looking at, as well as the raw costs, the percentage of GDP. Why wasn't it done?

Mr Bowen—Perhaps I should clarify that. I made the comment that at times it is very useful to do that. But I think that, if you check the record, I said that that is not something you would necessarily do all of the time.

Senator SHERRY—But isn't it true that, in the three-year actuarial assessments of the PSS and the CSS, normally part of the report is percentage of GDP? That is one of the normal bases for calculation and publication.

Ms Doran—It has been a normal part of the way the actuary has prepared his results.

Senator SHERRY—That is right. I am just a bit puzzled about why the declining percentage of GDP in the cost of unpaid superannuation liabilities in respect to the PSS was not identified in the context of the future fund.

Dr Watt—There are two points: (1) you are focusing on the future fund announcement and it was not in the future fund announcement, and (2) no matter how you look at the future liabilities for superannuation, from all sources in the Commonwealth, they are fairly large

numbers. I think the focus of the future fund is the fact that they are a large and growing liability, and they are on our balance sheet.

Senator SHERRY—Sure, and so are unfunded age pension costs, which are a significant long-term liability too, aren't they?

Dr Watt—I do not think you will find them on our balance sheet.

Senator SHERRY—Yes, they are on the balance sheet, but they are still—

Dr Watt—No, they are not.

Senator SHERRY—They are not on the balance sheet? So they are a significant issue as well, aren't they?

Dr Watt—The Commonwealth has a number of long-term costs which, as you and I both know, the *Intergenerational report* identified. They have been tackled in different ways.

Senator SHERRY—I am referring to the comparison with what are mainly unfunded age pension costs—and there is some lump sum involved in the PSS and CSS.

Dr Watt—The Commonwealth is unique in that it has responsibility for both the age pension and superannuation liabilities. No-one else has that. As I said, we show the superannuation liabilities on our balance sheet.

Senator SHERRY—This is more an issue for Senator Minchin, I think. Has any consideration been given to establishing a future fund for the increasing age pension liabilities?

Senator Minchin—I have participated in and observed discussions about the whole range of future expenses to which a future fund could be directed. It is good that people are focusing on the increasing liabilities, in a 'general' sense, that the Federal Government face as the population ages. That shows that our efforts in the last few years have had some success. We are even getting the opposition to focus on the quite significant financial challenge posed by the ageing of the population. Having succeeded in reducing Labor's debt so substantially and having agreed to maintain a market in Commonwealth government securities, we see an asset picture developing that needs to be managed and properly directed. We have decided that, on balance, the best thing to do with the development of that asset base is to direct it towards the real balance sheet problem and the legal liability that we have for our own employees.

I think that is a very good thing to do with this asset position we are about to find ourselves in. Sure, there will always be debate where people will say, 'You could have tagged those funds to some other expenditure,' but our employees are a primary responsibility of ours. They are a legal liability. To their credit, some of the states have funded these liabilities in a variety of ways. We think it is a pity that federal governments over the last 100 years have not provided properly for their employees, so we intend to do so. I accept that there will be debate and people will say, 'You could have done something else'. The point to make is that by doing this we are putting future generations in a better position to meet things like the growth in health expenditures and age pensions.

Senator SHERRY—Minister, the closure of the PSS assists in reducing future costs, doesn't it?

Senator Minchin—It is one of the good decisions.

Senator SHERRY—I am not suggesting that it solves it, but it does reduce the cost.

Senator Minchin—It was a good decision to make, and I am pleased to have had public sector union and opposition support for it, because it means that the liabilities will not be as great as they otherwise would have been.

Senator SHERRY—The closure of the parliamentarians' super fund, similarly, has reduced future liabilities.

Senator Minchin—It has meant that the liabilities will not be as great as they otherwise would have been.

Senator SHERRY—Yes. It has reduced those liabilities.

Senator Minchin—Sure. There is a mosaic to try to contain future costs.

Senator SHERRY—That is right. Talking about this mosaic—

Dr Watt—I think it has reduced the rate of growth in future liabilities rather than reduced them.

Senator Minchin—It has meant that the costs will not be as high as they otherwise would have been. The costs keep growing.

Senator SHERRY—Yes, in money terms. But the costs as a percentage of GDP—which I am really pleased that Mr Bowen very incisively drew our attention to—were declining.

Senator Minchin—All that is saying is that we hope that the economy, with the continuation of good public policy, will grow faster than these liabilities, but the liabilities continue to grow. We are doing a whole range of things to try and contain them, to which you have pointed. But that does not negate the need for them to be met. We think the best thing to do with this asset position is to dedicate it to meeting that liability. That is all.

Senator SHERRY—The mosaic, as you refer to it: CSS is closed, PSS is to close on 1 July 2005, the parliamentarians scheme is closed, MSBS is closed, DFRDB is still open as a defined benefit fund, the judges scheme is still open—

Mr Weiss—Excuse me: we think it is the other way round.

Senator SHERRY—The MSBS is still open as a defined benefit fund. The judges scheme is still open and the Governor-General's scheme is still open. They are all to be covered off in terms of the future fund. What are your plans for the three schemes that are still open, Senator Minchin?

Senator Minchin—I can only speak for schemes I am responsible for, and I am responsible for the CSS, the PSS and the parliamentarians scheme. You may wish to direct questions on the other schemes to the responsible ministers or their representatives.

Senator SHERRY—So there is no government policy to close the remaining open defined benefit funds?

Senator Minchin—No.

Senator SHERRY—Just as a matter of interest, we have been referring to the costs, both GDP percentage costs and monetary costs. Why wasn't there a chart published of these costs out to 2042 similar to that which is presented in the last two actuarial costs in the budget papers so we could actually see these costs in a broken down year-by-year form? Was any consideration given to publishing that material as part of the future fund material in the budget?

Ms Doran—No. I believe there was a publication of the liability number projected out to that time. The main issue is that the actuarial reports are undertaken at different dates and so we do not have a consistent base for the numbers in the form that you are looking for. In particular, we do not have access to military numbers at that level of detail.

Senator SHERRY—But you certainly had to take into account the military liabilities when calculating the total liabilities that need to be met by the future fund, didn't you?

Ms Doran—The liability number, yes, but in an aggregate form, not as a percentage of GDP. It was based on their last actuarial report, which was 1999, I believe, so they are somewhat out of date numbers.

Senator SHERRY—No, it is 2002 for the military. I have a 2002 figure.

Ms Doran—I apologise. The numbers I have in front of me are based on the 1999 report.

Senator SHERRY—You have the figures for 1999? I hope they are not the figures you used in your calculations for the future fund!

Ms Doran—No, they were not. But projected out to 2042 they are the numbers I have in front of me.

Senator SHERRY—Isn't it true that the MSBS, which is still open—that is the military fund; DFRDB is closed—added to the DFRDB represents a decline as a percentage of GDP over time?

Ms Doran—I do not have that data available.

Senator Sherry—Did you look at that data in respect to the liabilities for the future fund?

Ms Doran—Not as a percentage of GDP.

Senator SHERRY—You did not look at this report, then?

Ms Doran—The military schemes are not our direct responsibility.

Senator SHERRY—I know they are not your direct responsibility. However, they are part of the base for the accumulation of moneys in the future fund to meet the unfunded liabilities, are they not?

Ms Doran—That is right. They form part of the unfunded liability, yes.

Senator SHERRY—When examining these unfunded liabilities there are seven schemes, with three closed and one to close very shortly; why wouldn't you look at this? The first thing I did, even before I looked at the budget papers, was have a look at the last actuarial cost projections that were publicly available. It would seem to me to be pretty reasonable to look at them.

Ms Doran—We did look at the quantum of the liability and that is the number that has been used as the target for future fund estimates et cetera. But as a percentage of GDP, no, that was not relevant to our considerations.

Senator SHERRY—Do you have that 2002 report there?

Ms Doran—I do not, no.

Senator SHERRY—Does it surprise you to hear that the peak years for liabilities as a percentage of GDP for the DFRDB and the MSBS were actually 1992-93 and 1993-94 at 0.21 per cent of GDP?

Ms Doran—I have not seen the figures so to that extent it is a surprise. We have already identified that it peaks for the PSS and the CSS and I think that is a fact of the GDP growing at a faster rate than the liabilities themselves.

Senator SHERRY—If we come forward to 2004-05, which is the closest period to where we are at the present time, the DFRDB and the MSBS declined to 0.17 per cent of GDP and by 2044-45 the cost of the DFRDB and the MSBS—and I am assuming the MSBS will still be open at that date—will be 0.11 per cent of GDP. That is a significant reduction as a percentage of GDP, isn't it, over time?

Ms Doran—That is a reduction over time, yes. The numbers you are looking at there are the annual costs of the scheme as opposed to the unfunded liability itself. While I do not know as a percentage of GDP how that figure grows, it certainly grows in dollar terms over the projection period.

Dr Watt—It also suggests that the assets of the future fund viewed as a percentage of future GDP are not as large as they might look from here.

Senator SHERRY—Yes, we will get to that. When you were looking at the base costs of the unfunded super liabilities, in your total cost in money terms do you have a breakdown for the politicians in the parliamentary scheme? There was no breakdown in the budget papers. You had the raw figure, the total cost—

Ms Doran—For the unfunded liability?

Senator SHERRY—It was not even clear which schemes were being covered. We have cleared that up. Can you give us a breakdown of the figures for each scheme in money terms of the liabilities?

Ms Doran—I can give you a breakdown based on 30 June 2004 numbers, which total a liability of \$88 billion. In dollar terms by scheme the CSS is about \$47 billion—

Senator SHERRY—That is a shut scheme.

Ms Doran—That is right. The PSS is \$11 billion—

Senator SHERRY—Just to clarify that, that was before the closure obviously because it is 30 June 2004.

Ms Doran—That is correct. That number will not change on closure. It will begin to decline but it will stay at that figure initially. For the defence schemes: the DFRDB is \$22 billion and the MSBS is \$7 billion—these are in round numbers. The residual makes up the

other schemes. I only have that as an aggregate figure. I think you will find the residual is about \$1.5 billion.

Senator SHERRY—So that is the parliamentarians, the judges and the Governor-General.

Ms Doran—That is right.

Senator SHERRY—I would have thought in the context of what was a big announcement in the future fund that those figures would have been provided in the budget papers and the announcement documents. It was a big issue of public discussion.

Dr Watt—The future fund is a big issue of public discussion, but the budget papers are always a compromise. There is always a lot more you can put in there than you actually have space to do.

Senator SHERRY—It was not even apparent which public sector super funds were being covered. We now know, but it was not apparent from the budget announcement. People have been referring to public servants. Obviously military personnel are public servants, but I do not think anyone out there—or many informed observers, for example—knew that the military funds were included. I certainly think there was some confusion about whether the judges, the Governor-General's or parliamentarians schemes were also included, and they are all cost items.

Dr Watt—There clearly may have been more than one announcement at budget time, but someone has just showed me the joint press release by the Treasurer and the Minister for Finance and Administration which came out under the Treasurer's banner and which talked about the Australian government's unfunded superannuation liabilities.

Senator SHERRY—Yes.

Dr Watt—I do not think there was an attempt there to confine it to Public Service superannuation liabilities.

Senator SHERRY—But it has been commonly referred to as Public Service.

Dr Watt—Not by me.

Senator Minchin—Commentators have chosen to interpret it to mean that, but our expression has been general and all embracing.

Senator SHERRY—Yes, but it was not clear to many commentators that it was all embracing, Senator Minchin; that is my point. That has been clarified, which is just useful to know, because I think—

Senator Minchin—Fair enough. We are happy to clarify that.

Senator SHERRY—certainly from the observations of some commentators it was not clear whether the military was in or out. In fact, some people even know that there is a special, still open, defined benefit for judges and the Governor-General. But we now know that it is all included.

CHAIR—There is a bit of disquiet around the halls of parliament from my new colleagues, Minister—the ones who are not entitled to the old parliamentary superannuation scheme. Does the government have any proposals to look at that?

Senator Minchin—I would say a couple of things. The government, I think with the support of the opposition, knowingly and in a very up-front way changed the arrangements and legislated to provide that new arrangements would apply to everybody elected from the date of the new election. We endeavoured to make sure that the scheme was as flexible as possible, with salary sacrificing and things like that. Every candidate for parliamentary office at the last federal election who was not already in the parliament knew exactly what superannuation arrangements would apply to them. If they did not like it, they were free to not run for office.

CHAIR—Yes.

Senator Minchin—They all chose to do so and knew exactly what the remuneration arrangements would be, so no-one can say that anyone was misled as to the arrangements. It does have the side-effect, which we acknowledged at the time, that there are now two different sets of superannuation arrangements prevailing, but that is inevitable. There is nothing you can do about that once you have moved from defined benefit to accumulation, and that happens in every workplace where you have some workers on a defined benefit scheme and some on accumulation. That happens throughout the Western world as, increasingly, everybody moves from defined benefit to accumulation funds.

There has been no decision by the government to refer this matter to the Remuneration Tribunal. The Remuneration Tribunal could seek a reference, I suppose, but we have certainly not made a decision ourselves to refer that matter to the Remuneration Tribunal, and I am not sure how one would deal with it in any event. You would only, in a sense, compound the problem. If you changed the salary arrangements just for new members, then you would have two sets of salaries and two sets of superannuation.

CHAIR—I am not suggesting there are any easy answers.

Senator Minchin—All I can say is that we made it apply prospectively so that everybody signs up knowing exactly what the remuneration arrangements will be.

CHAIR—I can say—and this certainly not a partisan comment—that there is discontent, I think it is fair to say, amongst some members of the class of 2004. I just thought I would ask the question on their behalf.

Senator Minchin—Fair enough. It is quite proper that you do so. But, as you know, they do not have to pay the contribution that we do. Senator Alan Ferguson, who used to work in this industry, is a good source of advice on this. If they do invest properly all of the moneys that we are forced to contribute to the defined benefit scheme on top of the nine per cent, they can put themselves in a pretty good position.

Senator SHERRY—Has that advice been actuarially signed off?

Senator Minchin—No—

Senator SHERRY—I am sure some people would appreciate seeing a copy of it! I will go back to the future fund. The joint press release refers to a broad investment mandate. Minister, I know that you have made some broader comments about the investment mandate publicly since the press release, but what does ‘broad investment mandate’ mean in terms of this announcement?

Senator Minchin—The government has announced that the government will determine a broad investment mandate, which will form the framework within which the board itself will then operate. As you have noticed, Treasury has issued a tender for professional advice on the determination of that broad investment mandate. So that is now a task that the government will pursue based on good advice. I really cannot add to that. It will emerge as we make a decision. The only thing I have said, and I think the Treasurer has said, in response to the proposition that it should invest in infrastructure is that, within the broad mandate, we would envisage that this fund will be able to invest in listed infrastructure vehicles. That is really all we have said about this because of the interest in that issue.

Senator SHERRY—Indeed, in any broad investment mandate, you would expect some proportion of moneys to be invested in some type of infrastructure.

Senator Minchin—We have indicated that we would not expect it to be investing directly.

Senator SHERRY—That was going to be my next question.

Senator Minchin—We have said that, based on our current thinking, it would be investing in financial assets and, while listed infrastructure vehicles would almost certainly be within the mandate, it would not be open to the fund to invest directly in infrastructure projects. But that remains to be determined.

Senator SHERRY—So, as to roads in rural and regional areas, dams and irrigation schemes, that sort of infrastructure would have to stand by itself in terms of its financial viability within the broad investment mandate rather than as a specific investment direction?

Senator Minchin—At this stage we do not envisage that sort of direct investment being open to the fund at all. To the extent that the mandate allows the fund to invest in listed infrastructure vehicles, they have to stack up as being the best use of the funds from a commercial point of view and, within the overall mandate, get the best possible return for the government within a risk parameter which will be determined in order to maximise our capacity to meet these liabilities.

Senator SHERRY—I have noticed, particularly from some National Party members, some very grand pronouncements about pipelines, irrigation and roads. You are smiling, Minister—I notice that.

Senator Minchin—I am a happy fellow.

Senator BRANDIS—I do not think they were all announcements, Senator Sherry. They may have been—

Senator Minchin—Wishful thinking!

Senator BRANDIS—conjectural.

Senator SHERRY—I did see a list the other day from a National Party Queensland state member, as a matter of fact, which looked to me to be a very bountiful list of investments in rural and regional Australia that could be funded by the future fund.

Senator Minchin—But is it not the case, Senator Sherry, that your own party is saying that it will use the proceeds of the fund to invest directly in infrastructure? So you may perhaps

find yourselves not far apart from the National Party. But, if that is a position you wish to occupy, that is up to you.

Senator BRANDIS—Forced together, Senator Minchin.

Senator SHERRY—Are you describing the National Party as socialists, Senator Brandis? The press announcement refers to a broad investment mandate set by the government as distinct from an investment strategy set by the board. What is the difference?

Senator Minchin—Within the broad mandate—I do not want to speculate too much, but it will be quite a broad mandate—the board itself would determine a more specific mandate about classes of investment.

Dr Watt—And how it might get there as well. Do not forget that the board will have a large amount of funds to invest and it will need a strategy for, in time, moving that from cash to other forms of assets. That will be a very important decision for the board.

Senator SHERRY—Or there may be some direct asset transfer.

Dr Watt—The Commonwealth government has not ruled out the possibility of that in relation to Telstra shares. I think that is what the minister has said. But I think commentary to date has indicated that there will be a funds transfer from the budget and the Reserve Bank but has not talked about any asset transfer.

Senator SHERRY—Is it not true that the CSS/PSS board directly manages—through its fund managers—some \$13 billion of superannuation assets at the present time—

Senator Minchin—It is something of that order.

Senator SHERRY—part of a liability for superannuation public servants?

Senator Minchin—Are you leading towards the question of why we did not give this responsibility directly to the CSS/PSS board? Is that where you are heading with this?

Senator SHERRY—Yes.

Senator Minchin—I have been asked about that and have responded publicly to that proposition on the following basis. (a) we think the CSS/PSS board does do a very good job. I think it is a great board.

Senator SHERRY—I have the figures here. It does a ripper of a job.

Senator Minchin—I think it has done extremely well, and it does work well as a trade union and government appointed body. But it has a very specific legislative responsibility. It has a responsibility for the management of members' own funds, and it does that well. I think that is quite separate from a responsibility for the management of what will be a much bigger fund that is directly a government asset—to meet the government's side of the superannuation responsibility. That is different from the employee-employer responsibility for managing the employees' own funds under a separate piece of legislation which may provide a slightly different mandate.

Senator SHERRY—There are more issues to explore, but you refer to the employer's money in this instance. Is it not true that most superannuation funds in the private and public sectors are managing both employer and employee contributions? In fact, I cannot think of

any superannuation fund that does not do that. Certainly most are managing some proportion of employer contributions in a superannuation fund. So I do not see the validity of your argument that, because this is the employer contributions to meet the unfunded public sector liabilities, it should not be managed alongside the employees' \$13 billion—which is apparently very well managed, according to the stats provided to me.

Senator Minchin—I do not want to say anything that reflects at all on the CSS/PSS board. I think it does a good job. It would be quite unfair for any inference to be drawn that, because it has trade union representatives on it, we chose not to use that vehicle. That would be unfair. I think the trade union movement puts good representatives on the CSS/PSS board. The board does work well in managing employee contributions. But, on balance, we have decided that this should be set up under a separate statutory instrument to manage what will be a substantially bigger fund, with a board specially chosen for that purpose and with a separate investment mandate. I think that is a reasonable, on balance, decision, and it should not be read as any reflection on the very good job that we think the CSS/PSS board is doing.

Senator SHERRY—I want to get to some of these other issues but it is true that the government appoints—

Dr Watt—The analogy is not quite exact. On the private sector analogy you used, in that case the fund would usually make payments directly to employees. There is no suggestion that the future fund will make direct payments to employees.

Senator SHERRY—Of course not, but it is to offset the liabilities on the funds being paid to the employees ultimately—

Dr Watt—It is to offset the liabilities but not to make direct payments to employees.

Senator SHERRY—I accept that.

Dr Watt—It offsets the liabilities.

Senator SHERRY—But I do think that is a semantic argument. You are setting up a separate organisation to manage X billions of dollars—\$16 billion initially—when an already existing organisation, as you have said, and I will get to the statistics in a moment, is managing \$13 billion very competently. It begs the question: why set up a separate organisation for the same outcome?

Senator Minchin—I have explained why the government chose to go down this path. I cannot add to the explanation. It is reasonable for you or anybody else to say that it was open to the government to place it all under that board. We have chosen not to do that but to set up a separate legislative structure. On balance we think that is the right course, without wishing in any way to reflect on the board or seek to denigrate or attack the contrary argument. We are just saying that as a matter of on-balance judgment we have decided that this is the best thing to do to ensure that this quite significant initiative is and is seen to be dedicated to the task at hand, is and is seen to be separate from the government, and is and is seen to be having a very high-quality board chosen for that task under a separate legislative instrument. We think it requires separate legislation. Yes, you could have had, under separate legislation, a transfer back, but I think on balance that this is the right course, without saying that there are no

arguments in favour of the proposition you are putting. So we have reached an on-balance decision.

Senator SHERRY—I am looking at what was very kindly provided to me by the CSS-PSS board, the investment earnings rate and the record of the 10 years to 2004 for the PSS and the CSS. There are two important issues here. The investment earnings rate for the CSS averaged 8.35 per cent per annum over the 10-year period to 2004 and the investment earnings rate for the PSS averaged 8.51 per cent over the 10 years. The total expenses costs—this is a rough calculation because I had to work out a percentage—are between 0.3 and 0.4 per cent. I do not think you could find a better superannuation fund, could you?

Senator Minchin—We are delighted with its performance, and I have never said anything to the contrary. As I have said, I have gone out of my way to make it clear and to reinforce that our decision is in no way a reflection on that board, which has a particular task which it does very well. We just think on balance that we should have a separate structure. We may well end up with a different investment mandate for the management of this substantially larger fund than is operated by the CSS-PSS, so it is an on-balance judgment.

Dr Watt—There are a couple of points that are worth making. One is that both funds are so large that there are unlikely to be any economies of scale from combining them. They are not funds of a few million dollars; they already reap whatever economies of scale there are to get there.

Senator SHERRY—Yes.

Dr Watt—The other point worth thinking about is portfolio diversification. You can diversify in all sorts of ways, and one way to diversify is different funds. I remember that for years the AMP ran a number of different statutory funds simply because it wanted that portfolio diversification. There is something in the argument for having a separate fund.

Senator SHERRY—I do not accept the diversification argument. That is something I do not agree with you about. It seems to me that you are setting up a separate structure and duplicating what the CSS-PSS does very well at the present time. It is no coincidence that the approximate staff numbers and levels of expertise are going to be very similar, if not identical, to those on the CSS-PSS board in terms of types of expertise required, knowledge of investment, overseeing investment markets and consultants. You are duplicating it at an additional \$30 million cost.

Dr Watt—On the investment side there will be strong similarities; on the superannuation side the future fund will not need the CSS-PSS board's expertise on superannuation issues.

Senator SHERRY—It is very good expertise.

Dr Watt—But we will not need it, because the future fund is a pool of assets which is used to offset a liability; it does not have any direct relationship with superannuation per se.

Senator SHERRY—But is it not true that with this issue about access to the future fund the majority in parliament can change the legislation at any time it wishes, if there is a majority in both houses of parliament?

Senator Minchin—One parliament cannot bind another parliament, sure. That is a fact of life. We understand that. I have made it clear that at the end of the day, of course, the

parliament itself in a democracy is open to changing it. But, as the government, we will seek to persuade this current parliament to set it up in a particular fashion. Of course, we cannot deny that future parliaments may wish to take a different course.

Senator SHERRY—But it is true, is it not, that it is much more difficult—in fact, it is a constitutional issue—for future parliaments, of any political persuasion, to remove funds from a superannuation fund? That is a matter of fact.

Senator Minchin—Yes.

Dr Watt—Wouldn't that only be the case if the funds in the future fund were specifically earmarked for individual members?

Senator SHERRY—Sorry?

Senator Minchin—Let us say that in the legislation we gave the responsibility to manage this fund to the CSS-PSS. A future parliament can could change that. The point Dr Watt is making is that the funds are not directly attributable to individual members' accounts. What we are talking about is the professional management of a pool of assets. Yes, you could go down your path, but again a future parliament could change that. So I do not know think—

Senator SHERRY—I would suggest that a future parliament would find it very difficult to undo such an arrangement—both politically and constitutionally. Anyway, that is not the way you decided to go. I just wanted to highlight those issues because they have been raised. Given these are the assets to offset the unfunded public sector superannuation liabilities, the individuals concerned who have these unfunded public sector liabilities in a sense do have an interest in the management of the future fund, do they not?

Dr Watt—No.

Senator SHERRY—They do not? Why not?

Mr Hutson—Because the benefits which they are entitled to receive are guaranteed by separate legislation. The future fund is there to offset the government's liability to the individuals. Whether the future fund will be successful, as we fully expect, does not affect the return to the individuals, which is guaranteed by the legislation.

Senator SHERRY—So it not intended that there be any employee representatives as such on the board?

Senator Minchin—We have not come to the point of determining the composition of the board. We want a high-quality board, but we have not said anything about who or what types of people might be on it.

Senator SHERRY—Who will set the remuneration for the board?

Senator Minchin—I think we announced that the Remuneration Tribunal will do that.

Senator SHERRY—So it will be the Remuneration Tribunal?

Senator Minchin—Yes.

Senator SHERRY—Has the material I asked for earlier been made available to the committee secretariat?

Ms Doran—We were going to take it on notice to provide the liability numbers later.

Senator SHERRY—Okay. I thought you were passing it up.

Ms Doran—No.

Senator SHERRY—The joint press release states that the amount of the initial investment in the fund will be finalised once the 2004-05 final budget outcome is known. Can you confirm the date when the final budget outcome will be published? It may not be a specific date, but approximately.

Mr Hutson—It is currently scheduled for early to mid September.

Senator SHERRY—We have touched on this already. The current projection is that the initial transfer to the fund will be around \$16 billion.

Ms Doran—That is the estimate that has been used in the budget papers.

Senator SHERRY—If we are assuming that the fund is established legally by the end of this year, when is it envisaged that the \$16 billion approximately will be transferred over?

Ms Doran—That will be an issue considered in more detail in the implementation plan. In fact, the tender that has gone out recently to the asset consultants also sought advice on an entry strategy to the market. One of the important considerations will be the timing with which that money is placed on the market. It would be expected that the component of that \$16 billion which represents the 2004-05 surplus may be more readily accessible—so as soon as legislation is in place and structures are in place, with some consideration of timing on the residual amounts.

Senator SHERRY—That \$16 billion is not just the 2004-05 surplus, is it?

Ms Doran—It is also made up of some previous years' surplus.

Senator SHERRY—I understand it includes the value of deposits with the RBA—

Ms Doran—That is correct.

Senator SHERRY—which stood at \$14.85 billion as at 30 June. So we have a substantial sum of money deposited at the Reserve Bank at the moment—

Ms Doran—Yes. The component of that that has been assumed in the initial transfer I understand to be in the order of \$10 billion.

Senator SHERRY—So \$10 billion of the \$14.85 billion currently listed under Australian Office of Financial Management is I think at the Reserve Bank—or a large proportion of it is. Is it?

Ms Doran—I can confirm that.

Senator SHERRY—So there is the \$10 billion—wherever it is; I am assuming it is at the Reserve Bank—of the \$14.85 billion currently listed under the Australian Office of Financial Management plus X and a probably figure of \$16 billion. So X will be about \$6 billion from the current budget surplus for this year when the final budget outcome is known. Around September some time the figures will be released.

Ms Doran—That is right.

Senator SHERRY—I understand that the underlying cash surplus is projected to be \$9.2 billion and the fiscal surplus \$7 billion for 2004-05; is that correct?

Dr Watt—What are you quoting from?

Senator SHERRY—‘Statement 1: fiscal strategy and budget priorities’, page 1-3. The estimate for the underlying cash balance is \$9.2 billion and for the fiscal balance is \$7 billion. Why then is the initial transfer not closer to \$21 billion? That \$21 billion would be the \$14.85 billion, which is under the office of management—we know that is there, but \$10 billion of that \$14.85 billion is being transferred—and the \$7 billion in the fiscal surplus for 2004-05?

Ms Doran—My understanding is that the estimate has been made up, as I have said, of \$10 billion assumed to be taken from current deposits with the RBA and then the surplus estimate for the year less around \$2 billion to meet maturing debt commitments of the government.

Dr Watt—I think you are touching now on debt management issues which we are not privy to. That question would be better addressed to Treasury. I think the government has also said that \$6 billion is the estimate for the transfer from this year’s surplus.

Senator SHERRY—Yes, the \$10 billion already on deposit—

Dr Watt—But the final number will be addressed when we get the final budget outcome.

Senator SHERRY—I accept that we are dealing with approximate figures at the moment.

Dr Watt—I think the reason for that is best addressed to Treasury.

Senator SHERRY—Page 7-3 of Budget Paper No. 1 states:

... the Government will use budget surpluses to build a dedicated financial asset fund ...

Does this mean all future surpluses will be transferred to the fund, or does it mean ‘part of’?

Dr Watt—I do not think you can assume it will be all. Again, I think that is something that is better addressed to Treasury. This is a Treasury statement.

Senator SHERRY—The reason I asked that is that some media commentators have assumed it means all. I have seen quite a number of commentaries about this.

Senator Minchin—My understanding of the position is that the government, in the course of the budget process each year, will make a decision about the extent to which—if any—surpluses will be directed to the future fund.

Senator SHERRY—The joint press release states:

The Fund aims to accumulate financial assets to offset the Government’s ... superannuation liabilities by 2020.

I can confirm that the objective is to grow the future fund assets to \$140 billion by 2020, to match the projected superannuation liability that was announced.

Ms Doran—Based on our current estimates—yes, they are the numbers.

Senator SHERRY—The joint press release states:

Achieving this aim will require significant investment by the Government and the continuation of good fiscal management.

Can you explain what that means in terms of meeting the objective?

Ms Doran—I think that statement means that in order to meet that target number—be it \$140 billion or of that order—by 2020, you would need to make significant ongoing contributions to the fund. The seed capital of \$16 billion obviously is not enough to get you to that point.

Senator SHERRY—You must have made some assumptions about the investment rate of return and the amount of capital required to be put into the fund in order to reach the \$140 billion balance by 2020. That would be right, wouldn't it?

Ms Doran—We have not made any assumptions in the budget papers, beyond the seed capital amount of \$16 billion that will go into the fund and the commitment to the reinvestment of earnings of the fund.

Dr Watt—You can run all sorts of numbers based on what you contribute, when, how much each year over time, how much in a lump sum, how much from other sources and what the investment rates are. It is really not something we would be able to speculate on.

Senator SHERRY—You can speculate through an actuarial report on the level of unfunded superannuation liabilities. Surely you can get actuarial advice about projected long-term rates of return and the necessary capital plus accumulated rates of return to give you the outcome of \$140 billion by 2020.

Dr Watt—You can get actuarial advice on that. What that actuarial advice will not tell you is the pattern of contributions. They are driven by something else.

Senator SHERRY—Yes, but you can get actuarial advice on likely rates of return.

Dr Watt—You can get actuarial advice on likely rates of return but, as I said, they will not tell you anything about the pattern of contributions.

Senator SHERRY—Yes, and that is a decision for the government.

Dr Watt—And that area is critical.

Senator SHERRY—I accept that it is the decision of the government to put assets in—but you can get actuarial advice about the rate of return. That is done by all superannuation funds.

Dr Watt—Sure.

Senator SHERRY—Minister, I understand that in a very recent speech, on 19 May, you made the point that the existing superannuation schemes had achieved a rate of return of over eight per cent in 10 years. That was the 19 May address to the ABN AMRO Communications Conference 2005.

Senator Minchin—Yes.

Senator SHERRY—That is correct?

Senator Minchin—It is correct that I made a speech to that conference and released the speech.

Senator SHERRY—And the observation about the eight per cent plus rate of return?

Senator Minchin—I am trying to remember exactly what I said. I think I was saying that there was an industry average of around eight to 10 per cent per annum over the past 10 years. I think that was the expression I used.

Senator SHERRY—You did not say ‘industry average’, you said:

... the government’s existing superannuation schemes have averaged a return of 8% p.a. over the past 10 years.

Senator Minchin—Okay.

Senator SHERRY—That is factual; I am not arguing with that. It is actually 8.51 and 8.35 per cent, as I referred to earlier. So is it reasonable to expect that this is the average rate of return that will be achievable on future fund investments?

Senator Minchin—We have not indicated, and will not indicate, an expected rate of return. By definition that is impossible to do. Until we define our broad mandate and the board then, within that broad mandate, defines its own mandate, and risk parameters are set and classes of asset determined, one cannot start speculating about what these funds might earn—it will not be up and running until certainly, the end of this year—and then you would have to base your projections on what markets might look like out into the future. We have certainly not made a decision at any point to indicate target returns. But within the mandate, which will have to be a careful one—at the end of the day it is taxpayers’ money—we expect it to maximise the returns to maximise our capacity to meet the liabilities. I suspect that we will not be indicating specific returns that we would anticipate.

Senator SHERRY—But won’t the board at some point in time need to do an actuarial calculation of the projected rate of return in order to establish how much capital needs to be placed in the fund so that you avoid the problems of either overcapitalising or undercapitalising, like any superannuation fund would be required to do?

Senator Minchin—Yes, sure. As I think we have said, as and when the fund gets to a point where actuarially it is capable of meeting the liabilities, the government of the day—and I think it will be established on the basis that the government of the day will then be in a position to determine what other objectives may be determined for future surpluses—

Senator SHERRY—So it is possible that once there is an actuarial projection that liabilities are met—

Senator Minchin—Yes.

Senator SHERRY—if in fact there is a revised projection that shows that there is a surplus in the fund, you are leaving open the possibility of using that in another way.

Senator Minchin—Obviously, that is presumably well down the track but, by definition, the government of the day—this will probably be in the legislation—will be in a position, the liability having been actuarially covered, to determine what future surpluses, if they exist, might be used for. Remember that the *Intergenerational Report*, which we published, shows that on the basis of existing government policy the nation’s federal finances will be entering into underlying deficit in the middle of the next decade. What we are doing is, in a sense, like what a good farmer would do: making hay while the sun shines. While there are projected surpluses, we intend to divert them into this fund in order to meet this liability. The fact is that

without fairly significant policy change we all face the reality that Commonwealth finances will enter into a stage of underlying deficits.

Senator SHERRY—It might not surprise you but we have been taking some actuarial advice on this. I am informed that \$16 billion goes in in the last quarter, the beginning of this year or the beginning of next year—that is, the \$16 billion seed capital that is available—only the four surpluses that are forecast over the forward years will go into the fund and the current forecast Telstra sale proceeds go into the fund, approximately \$30 billion. If those elements go into the fund in the appropriate years and at a nominal rate of return of six per cent per annum—bearing in mind that the two public sector funds have been over eight per cent—by 2020 the future fund will hold assets of \$171 billion, which would be \$31 billion more than the estimated superannuation liabilities of \$140 billion if that eventuated.

Senator Minchin—There are a number of ifs there, of course.

Senator SHERRY—But they are not, I think, unduly optimistic ifs.

Senator Minchin—If the government decides to sell Telstra, which it has not yet decided; if the government achieves a certain return for those shares; if it decides to put all those proceeds into the future fund; if the surpluses forecast are realised; if all those surpluses go into the future fund; if it gets a return of six per cent—obviously everyone, including you, can speculate as to what may occur if a whole series of things eventuate.

Senator SHERRY—I do not speculate; I take actuarial advice.

Senator Minchin—But, sure, you are right: if all those things were to happen, that is what would occur.

Senator SHERRY—I take actuarial advice on government policy, in this case—which we have.

Senator Minchin—Yes, but, as I am saying, a whole lot of things have to occur for your scenario to be reached. The sooner the nation is in a position to cover those liabilities, the better, and then future governments will be free—if they are in a position to have excess funds—to determine whether they want to hold them in the future fund structure and use them for another purpose or set up another structure for another purpose. That will be a matter for the government of the day. We will have fulfilled our responsibility to future governments and future generations by covering these liabilities as quickly as we possibly can.

Senator SHERRY—I will give you another base case scenario. I am informed actuarially that, if the government contributed no surpluses beyond the \$16 billion confirmed in September—let us say that it is \$16 billion—and only half the Telstra proceeds to the future fund, on a six per cent earnings rate, which I am informed is conservative, by the year 2020 there would be sufficient accumulated assets to meet the \$140 billion in liabilities.

Senator Minchin—Fine. I am not quite sure what the point is.

Senator SHERRY—I will get to that in a moment. I actually think I know what your point is with respect to the National Party, but I will get to that in a moment.

Senator Minchin—But these are all hypotheticals. You can make your projections and you can say whatever you like. Sure, I am not going to dispute your projections because I do not have the figures in front of me, but you might just get to your point.

Senator SHERRY—Can I ask the group of public servants involved: have you obtained any actuarial projections on outcomes through to 2020 based on assets inputted and variable rates of return? Have you done any work on that?

Ms Doran—Yes, we have done some work. In fact, I would suggest that the modelling involved is not terribly complex; it is actuarial projections. It is fairly simple to roll up some assumed contributions with some interest at an assumed rate. I will make a couple of points. There are a range of scenarios and a range of ifs on the assets side in terms of what asset value might be reached by 2020. Similarly, there are uncertainties on the liabilities side, and the \$140 billion number could equally be run on a range of scenarios to come up with different numbers there. I think that is the very reason that the mechanism that we will look to use in the future fund is to have regular actuarial management that will look to target whatever the current best estimate of the liability figure is in terms of establishing an asset target for the fund. That management will look to ensure that the fund never achieves a surplus position, so money will not be able to be put into the fund once it is getting close to that asset target. Similarly, once the liability is fully funded, the fund will go into a draw-down phase to manage the run-down of the fund as well.

Senator SHERRY—You have done a range of scenarios. Are they available for public discussion?

Ms Doran—As I said, they are numbers that could easily be done almost on a sheet of paper with a calculator.

Senator SHERRY—It is not quite that easy. I have actually tried, but I went to some actuaries to get some advice.

Ms Doran—It can be done with some simple assumed dollars of contribution and a rate of return.

Senator SHERRY—You have done some work on alternative scenarios, and I think that is important to the public debate. Is it possible to make those alternative scenarios available?

Senator Minchin—We will take that on notice. As the officer has said, everybody out there in the financial community has done their own little desktop projections, as have you.

Senator SHERRY—That is from their own self-interest point of view. It has nothing to do with sound government finance, I suspect.

Senator Minchin—We will take it on notice.

Senator SHERRY—Minister, as part of legitimate public debate, what level of contribution is required, given a reasonable actuarial forecast on both the rate of earnings and the liability, is an important issue. You are committing some element of surpluses, and there is a legitimate public debate about whether or not the extent of future surpluses and/or all of the Telstra proceeds—or in fact any of the Telstra proceeds—should be committed to a future fund to meet the liabilities. That is a legitimate public debate.

Senator Minchin—Whenever the government make policy decisions, they are debated. We have made a policy decision, one that has generally been very well met, but of course there will be debate about the merits or otherwise of our policy decisions.

Senator SHERRY—I will give you another scenario, Minister. Our actuarial advice is that if an average surplus of \$2.5 billion per annum was contributed to the future fund then there would not need to be any Telstra proceeds, for example, placed into the future fund to meet the projected \$140 billion liability by 2020.

Senator Minchin—There are any of scenarios and any number of hypothetical pictures you can paint. But I bring you back to what the government have decided, which is that we will set up the future fund and we will make a decision each year as to the extent to which we place surpluses in the fund. We will continue to do so until this fund is capable of meeting our unfunded superannuation liabilities. We have left open the question as to whether not, if we decide to sell Telstra, any of the proceeds will go into this fund. That would be a decision we would make in the context of the overall requirement. That obviously, by definition, leaves it open for you and others to speculate about what happens if the fund gets to its target on a particular day. I cannot stop any of that speculation. We will just go ahead and set the fund up. We will put funds in it and we will do so until it meets its liabilities. Then, if we are still in government and we still have surpluses, we will deal with those issues as they arise.

Senator SHERRY—I am interested in knowing what scenarios you have modelled. For example, The Nationals would be particularly interested in that last scenario: that no proceeds of the Telstra sale would go into the future fund, but \$2.5 billion of future surpluses would, and the liabilities would be met.

Senator Minchin—As I said, the future fund is coalition government policy. All the policy that we have announced in relation to this future fund is supported by the Liberal and National parties.

Senator SHERRY—Is Telstra?

Senator Minchin—I will say, I think for the third time, that we have not made a decision to sell Telstra. We are conducting a scoping study into that question. We have not made any hypothetical decision about what we would do with the proceeds of the Telstra sale. We have indicated that the future fund would be a logical place for some or all of the proceeds to go, but we have not made such a decision, let alone a decision that would lead to there being any proceeds.

Senator SHERRY—If you are not going to provide the scenarios you have modelled, would you at least provide them to The Nationals in the interests of informed public debate?

Senator Minchin—The Nationals, as part of the federal coalition government, have participated fully, through their executive members, in the decisions that have led to the budget announcement.

Senator SHERRY—Have they been given a copy of the modelled scenarios?

Senator Minchin—The main thing we are trying to do is to protect this fund—

Senator SHERRY—No, they have not!

Senator Minchin—from the ravages of future Labor governments, should such a dreadful situation ever arise in the future.

Senator SHERRY—No, they have not been given one—that is the obvious response. I would be interested to see their response if they were ever given the alternative scenarios on modelling of asset placement from Telstra. The joint press release says:

The Future Fund will be quarantined from the rest of the Budget through legislation.

Can you explain what that means? Are there any comparable examples, other than existing superannuation funds, which are good examples? But are there any others?

Mr Hutson—What is proposed is a statutory special account. That provides the appropriation authority and it also means that the funds are identified specifically for the future fund.

Senator SHERRY—Will the legislation require fund earnings to be hypothecated to meet outlays on public sector super, once the balance is met?

Dr Watt—I am not sure what you mean. Would you repeat the question?

Senator SHERRY—When the fund is in balance—let us say \$140 billion and \$140 billion—will the moneys that are paid out be hypothecated to meet the outlays on public sector super?

Mr Hutson—Are you asking whether, once the fund is in balance, the drawdowns from the fund will be matched to public sector superannuation liability payments?

Senator SHERRY—Yes.

Mr Hutson—The answer is yes.

Senator Minchin—That is how we will pay for it. Basically, at the moment, we just pay it straight out of the budget. In future, we will be in a position where the payment that currently comes straight out of the budget will come out of this fund.

Senator SHERRY—Will the fund earnings be available for any other purpose, other than superannuation expenses, in any circumstances?

Senator Minchin—No.

Ms Doran—The legislation will provide that drawdowns from the fund can only be for the purpose and to the extent of superannuation payments.

Senator SHERRY—In the case of the liabilities for, let us say, the parliamentary fund, the judges fund and the Governor-General's fund, would that not mean a payment back to the government?

Ms Doran—All of the payments will flow back through the consolidated revenue fund.

Senator SHERRY—The parliamentary fund is closed, so there will be moneys going out to meet a declining liability. I do not know what year it peaks. So the flow back from the fund will come to the government to meet the liability it has paid in those cases.

Mr Hutson—That is correct.

Senator SHERRY—Budget Paper No. 1 shows projected future fund earnings and the Australian government cash flows statement at statement 2, appendix B. Box 1 on page 2-9 states:

In the absence of an investment mandate, the budget and forward estimates assume the ... investment of seed capital will earn a return equal to yields on other term deposits held by the Government.

Do the returns shown in the forward estimates reflect only the projected initial investment of \$16 billion or also subsequent investments?

Ms Doran—No. The only subsequent investments are the reinvestments of the earnings on that initial \$16 billion.

Senator SHERRY—What is the rate of return on term deposits currently held by the government?

Dr Watt—You had better ask that of the Treasury; that is an AOFM issue.

Senator SHERRY—But, presumably, in using that, it is a lower rate of return than you would otherwise expect in a future fund?

Dr Watt—Possibly.

Senator SHERRY—Possibly? There would be no sense in establishing a future fund if it were.

Dr Watt—I do not know what the AOFM rate of return is, so I do not want to speculate on it.

Senator SHERRY—Otherwise you would just leave it on deposit.

Senator Minchin—The Treasurer has publicly said that we could just leave it at the Reserve Bank and earn the current 5½ per cent. But, based on the evidence of the performance of other managed funds, we should be able to establish this future fund on the basis of being able to earn somewhat more.

Dr Watt—On average, you would expect that, but occasionally we have inverse yield curves.

Senator SHERRY—Yes, very occasionally, but it does happen.

Dr Watt—It is very occasionally now; it used to be quite common.

Senator SHERRY—Yes. Looking at the record of the PSS, three out of 10 years.

Dr Watt—You will find inverse yield curves very common in the eighties and the early nineties. We may not be over those decades yet.

Senator MINCHIN—We had bad governments in those days.

Senator SHERRY—You should not be so critical of Mr Fraser. We are very kind to him. Mr Howard was Treasurer then.

Senator Minchin—But you are making the government's point. We believe that, as we pay off debt and have an asset position, rather than simply leave it in the Reserve Bank we should put it into a managed position.

Senator SHERRY—But my point is that the returns in the forward estimates on this initial \$16 billion are based on very conservative projections—that is, the existing.

Dr Watt—They may turn out to be conservative. They were based on the only estimating assumption we had, which is what we currently earn with the Reserve Bank.

Senator SHERRY—You could have got an actuarial assessment, couldn't you?

Dr Watt—But without knowing what the investment mandate is.

Senator SHERRY—Coming back to the investment mandate, there has been a lot of discussion about this, and you have to set it up. What is wrong with the existing superannuation investment mandate—the prudent person principle?

Senator Minchin—As you know, we have said that we will establish a broad mandate. We are seeking advice on that, and we will come to a conclusion. I am not ruling anything in or out as to what that mandate will be, but it may be that the government believes that, in terms of its broader responsibility, it wants to indicate classes of assets that it does not think that this fund should invest in—I do not know; I do not particularly want to engage in speculation about it. However, the field is currently open as to what that mandate will be.

Senator SHERRY—The simplest and most effective principle is the one that works at the moment, which is the prudent person principle which superannuation funds apply. It works—it certainly worked in the case of the PSS and CSS.

Senator Minchin—Sure, and I guess that our advisers will test that as one of the options.

Senator SHERRY—I am just surprised that it has not been tested already.

Senator Minchin—We only announced the policy about two weeks ago. We have put out a tender for professional advice on the terms in the mandate—

Senator SHERRY—Yes, after a lot of work, but you could have announced a prudent person principle in accordance with superannuation law and common law, which the entire funds management industry operates under at the present time—and very satisfactorily.

Senator Minchin—We could have, but we did not.

Senator SHERRY—Why didn't you?

Senator Minchin—I guess we will be legislating for this structure in the August-September period, and in the meantime we will develop what we have described as a broad mandate.

Senator SHERRY—I noticed something in the *Financial Review* today about a meeting on Friday. There was a meeting with some guidelines and discussions with fund asset managers.

Ms Doran—That was the briefing day related to the tender that Treasury has put out for asset consultants.

Senator SHERRY—How do they go tendering if they do not know what the principle—the definition—of the mandate is?

Ms Doran—The purpose of the tender is to get advice from asset consultants in order to inform the decision on the investment mandate.

Senator SHERRY—So the meeting on Friday with the asset consultants was to help establish the mandate principles to start with before you actually go to the fund managers and say, ‘Here is the dough; put your bids in.’

Senator Minchin—It is the briefing of tenderers for that tender, isn’t it?

Ms Doran—That is right.

Senator Minchin—People who respond to the tender we put out for advice on the determination of the broad investment mandate will be briefed on what the government is seeking from them in relation to this tender.

Senator SHERRY—But you do not have an investment mandate yet.

Senator Minchin—That is why we have asked them to advise us on it.

Senator SHERRY—At this stage, it is a meeting to advise on the investment mandate.

Senator Minchin—To tell them what the brief is. The brief is to advise the government in its decision making as to the investment mandate.

Senator SHERRY—I am surprised that you have not done that already.

Senator Minchin—Why are you surprised by that? We have only just announced in the budget that we are establishing a future fund. It will have a board and an executive agency, and at the time of setting up the structure the government will indicate a broad mandate, and within that the board will set its specific mandate. We have laid out a plan and a time line.

Senator SHERRY—I take it there was some consultation with people involved in superannuation. There was, because I asked about the mandate and investment principles in the last estimates hearing in February.

Senator Minchin—For a future fund?

Senator SHERRY—Yes.

Senator Minchin—In relation to the policy we had at the election?

Senator SHERRY—Yes—and there was obviously some work going on at that time. I am surprised that this issue has not been cleared up yet.

Senator Minchin—The fund cannot be set up until somewhat later this year; it has not been legislated for. It is appropriate that we take our time to develop this mandate, and we are seeking professional advice on determining it.

Dr Watt—It seems there is enough to do as there is. With what has been done so far we are getting there as quickly as we can.

Senator SHERRY—Are you not sure that the simplest thing would have been to put it in the CSS-BSS board?

Senator Minchin—We have already answered that question.

Senator SHERRY—Can you confirm that both the income and any realised capital gains will be reinvested in the fund?

Senator Minchin—It is government policy that the earnings of the fund will be reinvested.

Senator SHERRY—And that includes capital gains?

Senator Minchin—Yes.

Senator SHERRY—In terms of reinvestment in the fund, the only purpose will be to meet future underfunded public sector super liabilities?

Senator Minchin—Yes.

Senator SHERRY—The dividends currently received from Telstra are accounted for in the GFS budget. Is that correct?

Dr Watt—That is correct.

Senator SHERRY—Are the dividends accounted for as revenue?

Dr Watt—That is correct.

Senator SHERRY—Are they counted towards the underlying cash balance?

Dr Watt—That is correct.

Senator SHERRY—Can you explain how dividends from the fund are to be accounted for in the GFS budget? Are they accounted for as revenue and are they counted towards the underlying cash balance?

Ms Hazell—I will start with your question about whether they are counted towards the underlying cash balance. If you look on page 2-21 of Budget Paper No. 1 you will see at the bottom of that cash flow statement that the GFS cash surplus/deficit is defined and the future fund earnings are then subtracted from that to give the underlying cash balance.

Senator SHERRY—So they are not included?

Ms Hazell—They are not included in the underlying cash balance definition.

Senator SHERRY—So they are therefore not included as revenue?

Mr Kaufmann—In respect of your specific question on dividends from Telstra, they are included above the line, up in cash receipts from operating activities and investing activities, and do count for the bottom line, but the future fund earnings do not.

Senator SHERRY—Can you explain on what basis the different treatment is proposed for dividends from Telstra, when it is 51 per cent, slight majority ownership by government, and dividends from Telstra if it were part of the future fund holding?

Mr Hutson—That is explained in the box on page 2-9. It states:

The Government is reporting the underlying cash balance excluding Future Fund earnings ... because the earnings will be reinvested to meet future superannuation payments and are therefore not available for current spending.

Dr Watt—They are explicitly quarantined. That is the point.

Senator SHERRY—I know what has happened. Have you taken advice from the Audit Office on this treatment?

Mr Kaufmann—This is not a matter for the Audit Office.

Senator SHERRY—I did not ask that. I asked: have you taken advice from the Audit Office?

Mr Kaufmann—No, we have not.

Senator SHERRY—From who else outside Finance have you taken advice on this accounting treatment?

Ms Hazell—The Department of the Treasury.

Senator SHERRY—I think they are one and the same thing, frankly.

Dr Watt—Not quite.

Senator SHERRY—You are in roaring agreement on what is an incorrect accounting treatment, as I understand it.

Dr Watt—No, that is not the case.

Senator Minchin—That is to assert there is a breach of some standard, but there is not.

Senator SHERRY—What about the ABS? Have you consulted with the ABS on the accounting treatment?

Ms Hazell—Yes, we did consult with the ABS.

Senator SHERRY—What was their view?

Ms Hazell—The ABS did not express a particular view on the underlying cash balance redefinition. Their concern was with the fact that the GFS cash surplus deficit definition had not changed.

Senator SHERRY—Why was that advice not followed?

Mr Hutson—It was followed.

Ms Hazell—I said they did not express a view on the redefinition of the underlying cash balance.

Senator SHERRY—Why did they not express a view? Were they asked?

Ms Hazell—They were asked about the proposed layout in 2.21but, as you are aware, the ABS is concerned with the GFS definitions of cash surplus deficit. The underlying cash balance is not a GFS definition.

Senator SHERRY—So that is why they were not concerned?

Ms Hazell—That is why they did not express a view.

Senator SHERRY—So no view was expressed? Was anyone else consulted?

Ms Hazell—Not that I am aware of.

Senator SHERRY—Was anyone else consulted that you are aware of, Dr Watt?

Dr Watt—No, nor do I think anyone should have been, unlike the situation concerning the ‘cash balances’ definition the government used in its budget papers. Consultation was quite legitimate in that context.

Senator SHERRY—Where will the unrealised capital gains and losses be reported on the fund?

Mr Kaufmann—As I understand it, they will be reported in the special account that will be set up for the fund.

Senator SHERRY—Will they be reported in Budget Paper No. 1, statement 2, table B4, ‘Australian Government general government sector statement of other economic flows’?

Mr Kaufmann—That would be the intention.

Senator SHERRY—They will or they will not? ‘Intention’ is not necessarily ‘will’.

Mr Kaufmann—As has been said before, we do not know what the mandate will be, what the returns will be but, if there are unrealised gains and losses, they will go to the statement of other income.

Senator SHERRY—I have just about dealt with all the questions on the future fund for this estimates hearing.

Dr Watt—We are very pleased to hear that. We look forward to more questions in the future.

Senator SHERRY—There will be a lot more.

Senator MURRAY—It is not completely over!

Senator Minchin—We love talking about it!

Senator MURRAY—I think Senator Sherry has been through as much of the nuts and bolts as he can right now, but I want to go back—it might occasion the minister needing to answer rather than the secretary, depending on the question—to the very thinking that lies behind this matter. If I think about it as an economist, I am looking here at an opportunity cost, Minister. What I see is that you could categorise the money that is going to the future fund as money which goes to speculative investment, in the sense of asset classes like shares, which are not necessarily investments such as infrastructure investment. They speculate on capital gains, on capital growth and on the health of the stock market. I am putting a deliberate flavour to this. And the returns are going to be used for consumption, namely by people whose productive lives have ended because they are in retirement. That is one approach.

The alternative would be to take the same money and invest it, for instance, in infrastructure, in our land and our people, which would contribute to our future wealth and would therefore be invested for production, not for consumption. That is the kind of choice you are faced with where there is a large amount of money at hand. Minister, there is a lot of criticism in a general sense—not, I think, in a personal or particular sense—about Australia needing to invest much more in infrastructure, training, research, innovation and universities. You are well aware of all that. Did the government go through an opportunity cost analysis? Why did they choose what I think is a consumption oriented approach rather than a production oriented approach?

Senator Minchin—With respect, I think your premise is a false one. It implies, wrongly, that the government has some choice about whether it pays its superannuation liabilities. The

point we have been trying to emphasise publicly and here is that the government has appropriately and properly a legal liability to pay what are now unfunded superannuation liabilities. It is a problem we have inherited from 100 years of federal governments not having made any provision for their superannuation liabilities. Those liabilities are legal and must be paid. We do not have a choice about whether they are paid or not, so we are not faced with a broad canvas which says we could decide to pay these liabilities or we might not. The choice would only be that we leave the payment of the liabilities to come from the budget each year, from the current expenditure.

Senator MURRAY—That is right.

Senator Minchin—We have been successful in turning around the Commonwealth finances so that they are in a position where we have effectively paid off the general debt and we have decided to keep a market in Commonwealth government securities, so there will still be some gross debt out there which will be matched with assets. We made a separate decision to do that, and I think for good reason. We forecast the generation of surpluses at least for the next four years, albeit that the *IGR* shows the Commonwealth going into chronic deficit in the middle of the next decade. We have decided that, given that we are in a position where we will have an asset position to match gross debt, the choice was that you just leave that asset position at the Reserve Bank or you invest it.

Yes, to the extent that we have an asset position, at least for a period, the questions are: how is that invested and what do you do with the proceeds? They are two separate questions. We have decided that it will be invested via a dedicated fund with separate management, a separate legal structure, and what will inevitably be a relatively conservative mandate, I suspect, and that the proceeds will be reinvested to go to these fixed legal liabilities. The alternative would be to say that, yes, you could still have an investment structure of some kind but the proceeds could go somewhere else, or that you could just leave it at the Reserve Bank, or that you could just bring to general government revenue the earnings from the Reserve Bank or wherever else the asset was held. Yes, it is legitimate to pursue all those options. We have made a very conscious and deliberate decision that, on balance, the most responsible thing to do—given the luxury, in a sense, of the position we are in as a result, frankly, of good management of the nation's finances—is to set up a structure which ensures that we are capable of meeting a legal liability from a dedicated fund.

To the extent that our management of the economy—and that of future governments—is sufficiently successful, there will potentially still be surplus positions. Certainly, down the track, the budget will be in better shape in a recurrent sense because of this legal expense which we face every year. I think \$3.8 billion a year of recurrent spending now goes to superannuation. That would mean \$7.5 billion would come out of the budget every year from 2020 if we did not do this. The budget will be freed up for future governments to make decisions about investing in infrastructure or meeting health costs or whatever it is. We are doing future governments a favour by giving them more budgetary flexibility in putting in place a structure now which fixes up or covers off a liability that they do not have a discretion about. It must be met.

Senator MURRAY—As you know, I ask this question because there is the expectation of a substantial lump sum being freed up which is capable of being utilised in a number of ways.

That is the proceeds of the sale of assets. The choice is to invest that to create wealth or to put it into a future fund, where it is less likely to create wealth because of the way in which it would be invested. That is just my judgment. I accept that there is a debate. But let us come back to the surplus stream. I will just deal with 2005-06. The budget says that \$2.4 billion will be spent to meet the liabilities of that year—in other words, current liabilities—but the unfunded super liability will grow in that year by a further \$4.5 billion. The budget figures then show \$95.6 billion as being the total unfunded liability. If you were to cap the unfunded liability and say, ‘That’s it; that’s the end,’ and then fund both the current and future liability, which is what is happening, as it grows you would halve the surplus but you would still be left with a surplus. So, based on its forecasting, the government could have met future unfunded liability plus the annual superannuation requirement that you have to pay out to members and beneficiaries. That is all available to you in your thinking. At the heart of my question is this: if you have chosen to go the route you have, does it lock you out from then having sufficient money to meet what is a very high demand for further investment in infrastructure, training, skills and universities and so on?

Senator Minchin—No, because every year the government will go through a budgetary process where it decides, against a given revenue, what its priorities are for new or additional expenditures. They can include all the things you have listed. The government makes a determination about the appropriate macroeconomic setting and the sort of surplus that is responsible or appropriate for overall management of the economy. Whatever the net effect of all those decisions is, the government will then make a decision about directing that to the future fund. So the government and future governments will be in a position where they will determine their budget priorities, allocate expenditures accordingly and then the residual will be *prima facie* dedicated to the future fund to meet this fixed liability. That is what we have done this year. We have put money into AusLink and other infrastructure expenditure, and the surplus that results will go to the future fund

Senator MURRAY—But you are aware that there is strong political and community pressure—and in community I include business—for much greater expenditure on water, salinity, ports, rail and universities. The list is very long. All those are predicated to assist in productive growth. They will improve our efficiency and our ability to grow the wealth of the country. The concern is that if that money, which will come from the sale of an asset, is locked up in the manner forecast then the opportunity to generate that productive growth will be missed.

Senator Minchin—The preface to all this is that government have not yet decided to sell Telstra. That is the only asset you are talking about. There are two sources of funds: surpluses, and we have talked about that, and asset sales. The only major asset that you have indicated that there may be some proceeds from is Telstra, but we have not decided to sell it; we have not got parliamentary approval to do so. We have been quite clear that we have not said that the proceeds would necessarily go into the future fund.

Senator MURRAY—Let us be sure I understand exactly what is happening. The future fund is built from two components: the first is surplus funds available and the second is asset sales.

Senator Minchin—But the government would make a decision discretely, on each occasion, about the surplus and about the asset sale. A decision is yet to be made, because what we would do with the proceeds of the Telstra sale is hypothetical. The Treasurer has expressed a personal, prima facie position that the best thing to do with the proceeds would be to put them in the future fund, because that will enhance our capacity to reach the point sooner of being able to meet the liability that we have and must pay. To the extent that we do that, it means future surpluses would be available for other purposes, or the budget will have more flexibility to meet other expenditures or enable tax cuts—because we are not talking about just going on spending. But that is premature; we have not made a decision about Telstra.

Senator MURRAY—The purpose of my question is to establish whether you as a government, and you as a minister contributing to the debate, still very much have in mind the opportunity cost balance—

Senator Minchin—I accept that.

Senator MURRAY—as to how the money should be used most productively in the national interest—

Senator Minchin—We do.

Senator MURRAY—and whether or not you are solely dedicated to the issue of concentrating on this unfunded super liability.

Senator Minchin—We are focused on the unfunded superannuation liability—

Senator MURRAY—I used the word ‘solely’.

Senator Minchin—because we have cleared decks of the general government debt.

Senator MURRAY—That is right.

Senator Minchin—We have now reached a point where there is effectively no net debt, which leaves the government free to focus on our other balance sheet liability—our unfunded superannuation liability—a liability about which we have no choice. I do not want to create a false impression. We do have a real focus on our responsibility to ensure that liability is provided for, because not doing so has been a failure of past governments. We observe that a number of state governments, to their credit, have provided for such a liability. But we are also mindful of our ongoing responsibility for appropriate investment through the budget—as we have in this budget—into roads, education and everything else. There are very substantial expenditures in all those areas in this budget that will continue to be made. Budget management also involves us not wanting to put too much pressure on taxation and being mindful of the impact on overall economic settings—growth and interest rates—of the government’s fiscal policy.

Senator MURRAY—The unfunded super liability lifts from a budget figure of \$95.6 billion in 2005-06 to a budget figure of \$105.2 billion in 2008-09. I think that is correct. That is about a \$10 billion increase. When does it stop lifting, based on your projections and plans? When does it start falling? The budget figures only go forward four years; that is why I ask. I presume you have done long-range modelling.

Senator Minchin—I have 2040 in mine—

Senator MURRAY—When does it start to fall?

Senator Minchin—It at least stabilises; it stops growing.

Ms Doran—In fact, our projections for the unfunded liability run out to 2042. At that point it has not stopped growing. It is fairly close to stabilising at that point, but, while the MSBS remains open, that component of the liability continues to grow and in fact becomes a substantial portion of the total unfunded liability at that time.

Senator MURRAY—So what you are doing is effectively flattening the graph, not turning it into—

Ms Doran—It has not turned yet by that point.

Dr Watt—It continues to grow in nominal terms.

Senator MURRAY—I suspect I will be dead by then!

Senator Minchin—I doubt it, Andrew—not with advances in modern medicine!

Senator MURRAY—It is a long way away! Thank you.

Senator MOORE—I have some follow-up questions from February about the audit process for Indigenous services. We got information about what was happening with the transference of Indigenous programs across other parts of the public sector. In answer to a follow-up question we were told that OEA is developing a three-year rolling evaluation plan in consultation with mainstream departments to look at what is happening across those programs. What is the current state of that rolling audit program? Has it started? Is there a time frame? With whom are you consulting on that process?

Mr Alfredson—That is correct. Pending the actual passage of the ATSIIC Amendment Bill, we entered into a memorandum of understanding with a number of other Commonwealth agencies which administer Indigenous specific programs. We developed a six-month program, which commenced around 1 January covering the period till 30 June. We have commenced work on that program. I suppose there are about seven or eight audits under way at the moment in accordance with that program. Also, with the passage of the ATSIIC bill, I am required as the director of that office to develop a program up until 30 June 2007.

Senator MOORE—So that is the original three-year rolling program?

Mr Alfredson—That is correct. Currently I am in the process of developing that program in consultation with a number of agencies across the Commonwealth. To give you an idea, there are about 18 agencies which currently run Indigenous specific programs. I have entered into discussions with those. We will also be seeking advice, as I am required to, from the Minister for Finance and Administration and also Minister Vanstone in relation to the priorities within that program. I hope to have that program finalised towards the end of June or early July.

Senator MOORE—Can we have a copy of the interim six-month program that you set up?

Mr Alfredson—Yes. I can certainly make that available to you.

Senator MOORE—Can we also have from you a list of the agencies with whom you have consulted—the 18?

Mr Alfredson—Yes, I can give you a list of all those agencies. We will not be doing work in all of those agencies. Some of those programs may not be material. I can certainly give you a list of the agencies we have been having consultations with.

Senator MOORE—You are hoping to have at least the preliminary idea of the three-year plan by the end of June?

Mr Alfredson—Yes, by the end of June.

Senator MOORE—And that will be a public plan?

Mr Alfredson—Yes, provided that has gone through the clearances and I am happy with it, I will issue that plan to all the agencies and hopefully put it up on the internet too so it is available.

Senator MOORE—Can we get a copy to the shadow minister?

Mr Alfredson—Yes.

Senator MOORE—I know you put it up on the internet, but just in terms of process we can get—

Mr Alfredson—Yes.

Senator MOORE—I believe that would be Senator Carr.

Mr Alfredson—Once it is finalised, yes, we can certainly make that available.

Senator MOORE—At the same time we were talking with OIPC about their role and the crossover in terms of how the two groups will be working together in the process. They gave us specific information that they would be monitoring and evaluating performance at the whole-of-government level, supporting the newly formed secretaries group and looking at the development and the public release of annual reports for each of those groups so that there will be a public perception of exactly what is going on across Indigenous programs. Is there going to be a formal link between your agency, the OEA, and OIPC in terms of the monitoring and evaluating work that they are doing? It seems to me that you are both monitoring and evaluating. I am not yet absolutely clear about how those two roles overlap.

Mr Alfredson—There is a form of advisory committee which is run by the Office of Indigenous Policy Coordination and which is looking at the wider evaluation side of Indigenous programs. I am already an observer on that advisory committee and, in that context, some of the work that I do will be made available to that committee for inclusion in the annual report that will go across, giving a view on the overall holistic state of Indigenous programs for the Commonwealth. So that relationship has already commenced, and I would see that, hopefully, some of that work would be subsidiary to that overall evaluation framework that OIPC is developing at the moment.

Senator MOORE—One of the things we talked about when we were looking at the legislation was how formal that advisory group would be and how often it would meet, and we talked about getting commitments out of various people that senior people would be in

attendance regularly at those meetings. You said that you are an observer in your OEA capacity at the meetings of the advisory group?

Mr Alfredson—Yes. I have been extended an invitation to participate on that committee as an observer. I do not think I should be a member of it. Most of the members of that advisory committee are from the agencies that are delivering particular programs, but I like to keep my independence, in terms of the sort of work I do. I do not think I should necessarily be directed in the evaluation work and audit work that I perform, but I am very happy for the work that my office does generate to be included in any sort of overview of the evaluation framework of Indigenous programs across the Commonwealth.

Senator MOORE—Is that as formal a relationship as your group and OIPC are going to have?

Mr Alfredson—Yes. I also get invited along to a number of meetings which deal with whole-of-government matters—again, purely from the point of view of an observer—and that gives me an idea of maybe where some of the more strategic directions are in terms of Indigenous affairs.

Senator MOORE—How many people are in your unit?

Mr Alfredson—There are about 13 at the moment, and I also rely fairly heavily upon contract staff—

Senator MOORE—As required.

Mr Alfredson—and I do contract out a lot of work too.

Senator MOORE—So the expectation would be that you personally would be attending those meetings rather than someone whom you delegate it to?

Mr Alfredson—Normally I would go along to those meetings. If I were not available, I would ask my deputy to attend those meetings.

Senator MOORE—Will OEA have any role in developing the secretaries group's annual reports?

Mr Alfredson—No. As I said, I do not think—

Senator MOORE—You do not think so?

Mr Alfredson—Not a direct role, no. I think it is up to government agencies and government to decide how that report is developed but, if I do a report or an evaluation, I am happy to have a summary picture of that evaluation reported there in the overall or wider context.

Senator MOORE—Does your group put out its own report?

Mr Alfredson—Yes. When we do a particular audit or evaluation I would report that to the parliamentary secretary, Dr Stone, and then that report would be passed on to the relevant portfolio area responsible for that program to either implement or consider. Could I just have that question again?

Senator MOORE—It was just about what exactly your role would be and whether you have an annual report. So you would actually have an OEA report which would include the roles your group had taken on?

Mr Alfredson—That is correct. In the past, my office has always produced a report and that has normally been included in the ATSI annual report, and that practice will continue. So, whatever work my office does, I will be including that report in the annual report of the Department of Finance and Administration.

Senator MOORE—When we see the first annual report of Indigenous services across the Commonwealth, which is how I am picturing what will happen at the end of the financial year, will you be in that one as well—

Mr Alfredson—Yes.

Senator MOORE—or only in the report of Finance and Administration?

Mr Alfredson—Where I have done some major work, like major evaluations, I imagine that they would be included in the wider report.

Senator MOORE—With maybe some cross-referencing, so people could see that your agency would be included in whatever the omnibus is of Indigenous affairs across the Commonwealth?

Mr Alfredson—Yes. Elements of my work would appear in that report, and I will also have my own separate report, which will go into the annual report of the Department of Finance and Administration.

Senator MOORE—So, as soon as you have a developed phase of the three-year plan, we will get a copy of it from you and the people with whom you are consulting. Will that have time frames of your expectation of audits in it as well?

Mr Alfredson—Yes. As I said, we have tried to develop that up until the period of 30 June 2007. That gives time frames of when the particular audits and evaluations are proposed. I have some discretion to change that. There is no doubt that audit reports change when programs change. In some cases, agencies may decide to bring a particular evaluation forward in their own area, so I would not want to duplicate that sort of work. In some cases, the internal audit of an organisation may say: 'We're going to look at that this year. We need to have a look at that.' So I will have to be a little flexible in terms of changing some of those priorities. At the end of the day, if I decide I need to do that work, that is my legislative responsibility and I can do that work.

Senator MOORE—And it is your decision?

Mr Alfredson—It is my decision.

Senator MOORE—You take advice from the other agencies, but the actual plan—when it is done and the change in format—is finally your decision?

Mr Alfredson—Yes, and that is set in the legislation.

Senator MOORE—Senator Crossin asked in February about Torres Strait Islanders who live on the Australian mainland, because that is quite a contentious area. OIPC stated that everything—the kind of service delivery, the auditing of programs and so on—would be done

within individual agencies. Has OEA given any thought as to whether and how it will be able to assess the effectiveness of programs for Torres Strait Islander people living on the mainland?

Mr Alfredson—I have not got anything planned in our forward thinking, our strategic thinking, at the moment. I have not really included anything along those lines. In the past, before I became director, the Office of Evaluation and Audit did a major evaluation of services in terms of delivery to the Torres Strait Islanders particularly on the mainland. It is something that my office has done in the past and, no doubt, could do again in the future. At this stage, I have to say that I do not have anything within the plan to look at that.

Senator MOORE—So it was not in the six-month plan and at this stage it may not be in the three-year one?

Mr Alfredson—No. OIPC are correct in saying that individual agencies will handle that under the particular Indigenous specific programs that they administer.

Senator MOORE—I have one more area of questioning that is to do with Crocfest. We found out yesterday when we asked questions of the Department of Transport and Regional Services that in their forward estimates they have not allocated funding to Crocfest, and they have in the past under that process. In questioning, from my understanding, they said they had not done so because there was going to be a Department of Finance and Administration audit into Crocfest. Is that an OEA audit?

Mr Alfredson—That is correct; within the six-month program.

Senator MOORE—Is that one of the original six-month priorities?

Mr Alfredson—Yes. We identified that and are looking at that as a possible evaluation in the early part of our planning, but because of the size of it—it is not a very large program—we are just doing an audit of that at the moment.

Senator MOORE—Why was it selected to be done? The first six months were really the original part of your action plan. Was there any particular reason why Crocfest was suggested? Were there complaints or concerns about it?

Mr Alfredson—There have been a few complaints which were not very definitive. We were largely, through our planning, looking at evaluations and the work we could do. Most of the Crocfest is funded or administered by the lead agency, which is the Department of Health and Ageing. When we were going through and doing our preliminary assessment planning work, bearing in mind that we had never done any work in that particular agency before, that cropped up as a potential evaluation. But I have just decided to do a small audit on that. There are about eight or nine agencies involved with the funding of that particular organisation. That is the major reason we put that on.

Senator MOORE—Can you tell me what any of the concerns were?

Mr Alfredson—I think there was initially some concern in that people were not quite sure whether the services that were being provided were meeting some of the wider objectives of the Crocfest in terms of assisting Indigenous people on health issues and those sorts of wider issues. It was very broad.

Senator MOORE—Were they community concerns as opposed to departmental concerns?

Mr Alfredson—Yes, it was a little bit community, or more so. Then, when we started to do some work, we noticed a few concerns in some of the planning work we were doing. That was essentially not so much what has driven it; it has been driven more by the fact that we were thinking of an evaluation originally. But I am just saying that it was not big enough to warrant it.

Senator MOORE—Was it also to do with the volume of funding that goes into the Crocfest?

Mr Alfredson—Yes, it is a small amount of funding.

Senator MOORE—You said that was in your original six-month plan. How far down the track are you with that audit of Crocfest?

Mr Alfredson—That audit is currently under way at the moment.

Senator MOORE—Can you give us any preliminary information or is that something that waits until you conclude the audit?

Mr Alfredson—No, that would normally wait. I am not in a position to give that. I know that work has commenced on it. That only started a couple of weeks ago, so it has not advanced that far.

Senator MOORE—We know that Health and Ageing is the lead agency on that one, because it has been under that guise of health. Health and Ageing have included funding for the Crocfest in their 2005-06 budget. It is a bit down on what it has been in the past. Is there any reason that they have actually put into their budget funding into the future and another agency has actually waited for your audit? Is there any kind of coordination? If there is an audit going on and you have been discussing that with all of the people who are involved as part of your job, is there not some kind of guideline which says, 'All in or all out,' or something like that?

Mr Alfredson—I do not handle the budgeting side of it. I am not responsible for determining what sort of money is put into a particular project like that. I guess that is up to the agencies. I understand that is normally coordinated through an interdepartmental committee arrangement. They handle that, with Health and Ageing having the lead agency role.

Senator MOORE—So that is another round of committees at which you are not an observer?

Mr Alfredson—Yes. I do not get involved in that committee. I am just saying that I think a lot of the funding for the Crocfest is determined by that sort of interdepartmental committee.

Senator MOORE—When do you expect this particular audit on Crocfest to be concluded?

Mr Alfredson—I would say that around 30 June we would be getting close, or maybe a bit later on.

Senator MOORE—Going back to the two-level plan that you have—the six-month one followed by the one that is going on—is the expectation that any of those audits will slip over?

Mr Alfredson—Yes, some of those will slip over. We will try and build that in. With what we have programmed within the six months, we have just started some of those audits and they are fairly large. A number of those will go into the next financial year. So we will include them in the program which will end on 30 June 2007.

CHAIR—Thank you.

Proceedings suspended from 6.13 pm to 7.30 pm

ACTING CHAIR (Senator Murray)—I call the committee to order. Senator Sherry, you have the call.

Senator SHERRY—I have a few questions for the Commonwealth Grants Commission. Under current law, can the allocation of GST moneys be done without the consent of the states?

Mr Nicholas—To be honest, the Grants Commission's job is one of advising the government on how the GST might be allocated amongst the states. Our job finishes once we provide the advice. I am not sure what happens and what the decision making processes are after we provide a report to government.

Senator SHERRY—So you have no knowledge of that?

Mr Nicholas—No, I do not. Treasury are the people who take our advice and go from there.

Senator SHERRY—Are your recommendations binding on Treasury?

Mr Nicholas—No. They are advice to the government and recommendations.

Senator SHERRY—To date, have they been rejected or amended?

Mr Nicholas—Not that I am aware of.

Senator SHERRY—Is there a specific reference in the legislation to the Grants Commission's role?

Mr Nicholas—The intergovernmental agreement on Commonwealth-state financial relations does have a reference in it which says something to the effect that the GST is to be shared amongst the states on the basis of fiscal equalisation principles. At another stage in the agreement it has words to the effect that the GST is to be shared amongst the states on relativities that are based on or take account of the advice of the Grants Commission.

Senator SHERRY—So it is an advice only?

Mr Nicholas—Yes.

Senator SHERRY—So, if the Commonwealth wanted to change the recommendation, it could do so—and presumably without reference to the states if it chose to do so.

Mr Nicholas—I am sorry but I am not party to the decision making process once the commission has delivered its advice to government. Treasury are the appropriate people to ask about how the commission's advice gets treated and how those decisions are taken.

Senator SHERRY—Does the commission believe that it has the necessary data to back up its methodology for the calculation of the recommendations on GST revenue distribution?

Mr Nicholas—The commission's methods are extremely detailed. They take account of all of the things that states do on both the expenditure sides of their budgets and on the revenue sides of their budgets. We make use of extensive amounts of information. There is no resiling from the fact that the commission's decisions do at times involve certain amounts of judgment. The commission has accepted that it uses a lot of information and it is perhaps getting to the stage where its assessments may be pushing the reliability and the tolerances of the information. But, to this stage, the commission believes that the judgments and the recommendations that it has made are the best that it can make in the circumstances.

Senator BRANDIS—I assume the relativities and the fiscal equalisation formula is based on some sort of economic model. Is that right?

Mr Nicholas—The relativities are based on a principle of equalisation which, in a nutshell, says that the states should receive sufficient funding to provide them with the financial capacity to provide the same standard of services as everybody else.

Senator BRANDIS—I understand that. I have read the annual reports. There is a base value of one, isn't there, and then the different grants are a deviation from one, depending upon the application of those principles to individual states' circumstances?

Mr Nicholas—We start, effectively, with an equal per capita share and then we add to or subtract from that, depending upon our assessments of the differences between the states in the cost of providing a common standard of services and their ability to raise taxes at a standard rate of revenue effort.

Senator BRANDIS—Pausing there: when you do that, is that done on the basis of some sort of economic model or among other things on an economic model?

Mr Nicholas—It is based on assessments that we make of revenues that states would collect if they applied an Australian average revenue-raising effort to the tax bases that they have at their disposal. On the other side of the budget, it is based on assessments that we make of what we believe the states would spend if they were providing the same standard of services, given the economic and demographic environment in which the states are providing the services.

Senator BRANDIS—Whether or not you call it a model, a method like that can only be operationalised if you apply variables to certain fixed assumptions?

Mr Nicholas—Yes, we start with an assumption that, if everything were equal, all states would be able to provide the same standard of services if they spent the same amount of money per capita.

Senator BRANDIS—But there must be more sophisticated assumptions like that, surely?

Mr Nicholas—We then go on and look to see to what extent the demand for states' services is influenced by the composition of the population. Take a fairly straightforward example: a state which has a higher proportion of its population in the school age groups would be assumed to require a higher standard and a higher level of expenditure to provide the same standard of education services as everybody else.

Senator BRANDIS—Are those assumptions crystallised in mathematical formulae to which the variables are applied on an annual basis?

Mr Nicholas—It relies on a range of mathematical formulae and computations, including observations of what services the states are providing and the costs that they incur in providing those services and observations about the differences in the demand for services, differences in the age make-up of state populations and so forth. Differences in where people live have an impact on the cost.

Senator BRANDIS—Are those assumptions and those formulae revised and, if so, how often?

Mr Nicholas—We have a five-year work cycle and an annual cycle within those five years. Over recent times we have been asked every five years to review the methods by which we calculate state requirements, and then those methods are held constant and every year between those five-year reviews we are asked to put the latest set of numbers into those methods.

Senator BRANDIS—That is what I was trying to get at. The constants—or what I have called the assumptions—are reviewed on a five-year cycle?

Mr Nicholas—Yes, the methods are reviewed on a five-year cycle.

Senator SHERRY—That covered some of the areas I was going to move to. Regarding the formulae, if we call it that, is there any review of your five-year review?

Mr Nicholas—Our five-yearly reviews are done in a very open and consultative fashion, involving submissions from the states and an evaluation of those submissions. We provide feedback to the states, as we are going through the five-year process on the methods, and the commission's thinking about where it is going with its assessments. It then makes its report and if the report is accepted then those methods stay for the next five years.

Senator SHERRY—Has the Audit Office ever examined your processes, your methodology and your formulae?

Mr Nicholas—No, the Audit Office has not examined them.

Senator SHERRY—Regarding the allocations that are made to New South Wales and Victoria; do you stand by those on the formulas that you have established?

Mr Nicholas—They are the commission's assessment of the comparative requirements of those states to provide the same standard of services, assuming they are making the same standard of revenue effort.

Senator SHERRY—Is it correct that approximately \$13 billion of GST revenue is sourced from the state of New South Wales but only \$10 billion goes back to that state?

Mr Nicholas—I can only affirm the \$10 billion. The commission has no estimates at all of the amount of GST revenue that is actually collected from any one jurisdiction.

Senator SHERRY—Would the tax office have them?

Mr Nicholas—I doubt that the tax office has them either, but we certainly do not.

Senator SHERRY—Do you know who would?

Mr Nicholas—No. The best I know is that they are prepared by people making estimates based on gross state product and so forth. However, I can only emphasise that that is my understanding; the commission has no estimates of that nature.

Senator SHERRY—I will check with the tax office next week. You refer to people making estimates of gross state product. Who are these people?

Mr Nicholas—The Australian Bureau of Statistics makes estimates of gross state product. I understand that commentators and so forth make their estimates of how much goods and services tax will be collected in each state by reference to those gross state products.

Senator SHERRY—My next question does not flow on as a consequence of that answer. On 10 September 2004, the pre-election economic and fiscal outlook, commonly known as PEFO, was released. I want to deal—not at great length, I must say—with the process under which the estimates were compiled. Is it a similar process to the pre-budget process—that is, the agencies update estimates in the accrual information management system known as AIMS?

Ms Campbell—The agencies did update their estimates to allow us to complete PEFO.

Senator SHERRY—On the basis of AIMS?

Ms Campbell—Yes.

Senator SHERRY—Is Finance required to approve those updated estimates and costings?

Ms Campbell—Finance validates those estimates.

Senator SHERRY—What is the time frame for the preparation of the PEFO? When are the estimates finalised, and when was the document printed?

Ms Campbell—The agencies were asked to put their estimates into the system two days after the election had been called. If I recall correctly, that was 2 September. We had to have the estimates in on 2 September so we could consolidate the estimates and produce and publish the document by 10 September.

Senator SHERRY—Was it published on the 10th?

Ms Campbell—Yes.

Senator SHERRY—Is the minister—in this case, the minister for finance—required to sign off on the PEFO estimates?

Ms Campbell—No. The secretaries of the finance department and the Treasury sign off on the PEFO document.

Senator SHERRY—What about the individual ministers or secretaries in each department?

Ms Campbell—Is that for the line agency departments?

Senator SHERRY—Yes.

Ms Campbell—The chief finance officers of the agencies sign off on their estimates as they are placed into the AIMS system.

Dr Watt—That it is the standard estimates practice.

Senator SHERRY—So with Health, the two secretaries sign off on that for the Health portfolio.

Ms Campbell—The chief financial officer of the health agency signs off as the estimates are placed into the AIMS system.

Senator SHERRY—The PEFO of 2004 showed a \$142 million increase in the Medicare safety net for 2004-05. Can you confirm that this was more than double the cost of \$122.1 million for 2004-05 at the time of the 2004-05 budget? I am not going to hold you to the nearest million or rounding up.

Mr Bowen—I just have to confirm that that was actually the estimate at 2004-05. It sounds right to me.

Senator SHERRY—We will accept the accuracy of the figure. I accept that you have not double-checked that.

Mr Bowen—Sorry. I just do not have not the figures with me today.

Senator SHERRY—Does Finance validate that revised costing as part of its process?

Mr Bowen—Yes.

Senator SHERRY—What is the reason for the cost increase?

Ms Campbell—The reason was outlined in the PEFO. It was the higher estimated rates of family registration and out of pocket expenses.

Senator SHERRY—Does that include the number of people accessing it through the lower threshold or the average payment?

Mr Weiss—What are you referring to?

Senator SHERRY—The signing off of the revised costing on the Medicare safety net.

Mr Weiss—Yes.

Mr Bowen—The increase in PEFO.

Senator SHERRY—I was asking for the reasons for the cost increase that was signed off in PEFO.

Mr Weiss—It was due to two factors: higher than estimated rates of registration and higher than estimated out of pocket costs.

Senator SHERRY—My question was: does that include the increase in the number of people accessing it through the lower threshold or the average payment? Was that included within those two reasons or are they separate?

Mr Weiss—By 'lower threshold' do you mean the lowering from \$500 to \$300 in March?

Senator SHERRY—Yes.

Mr Weiss—The full estimated impact of that lowering of the threshold was included in the measure that was published in the 2004-05 budget.

Senator SHERRY—I want to come to an election costing issue. On 27 September 2004, 17 days after PEFO, there was a costing of Labor's better priorities which indicated that the cost had increased to \$169 million for 2004-05. What was the cause of the cost increase by \$27 million from that PEFO costing to the costing that was released as part of the costing of Labor's better priorities, 17 days later?

Mr Weiss—I am not entirely sure where you get the figure of \$169 million from. I could hazard a guess at where you got it from. It is double the figure of \$84.5 million that was included in the costing that Finance published under the charter. Is that it?

Senator SHERRY—No. When the PEFO was released, it showed that the Medicare safety net was at \$142 million.

Mr Weiss—It was \$142 million higher than at budget.

Senator SHERRY—Yes. That was the increase. Seventeen days after 27 September, there was a costing of Labor's better priorities. That indicated that the increase in the cost of the Medicare safety net was not \$142 million but \$169 million.

Mr Bowen—That is not correct.

Senator SHERRY—Why is it not correct?

Mr Bowen—The publicly released costing document—and I will just clarify that we are referring to the same document, but I think we are—costed the abolition of the safety net.

Senator SHERRY—Yes—as a saving.

Mr Bowen—Yes. It costed the removal of the safety net in its entirety. The figures that were costed were \$84.5 million for 2004-05, \$315.7 million for 2005-06, \$377 million for 2006-07 and \$447.8 million for 2007-08.

Senator SHERRY—What does that total?

Mr Bowen—That totals \$1.225 billion. The costing for 2004-05 was a part-year costing because I think the removal of the safety net was proposed to occur from 1 January. So, effectively, it was costed for part of the year.

Dr Watt—Mr Bowen's point being that you cannot double the part years to get a full year.

Mr Bowen—Because you get more expenditure later in the year.

Senator SHERRY—It was not a constant relationship that—

Mr Bowen—No.

Dr Watt—That is right. Taking the abolition from 1 January takes out the more expensive half-year.

Senator SHERRY—Don't those figures that you have just given me reveal that the cost of the Medicare safety net had increased from the initial \$440 million to just over \$1.2 billion—approximately?

Mr Bowen—At the 2004-05 budget, the consolidated figure of the three measures we talked about earlier was \$547.6 million over four years. You are right that at PEFO it was a much higher figure. The figure at PEFO that was published with the 2004-05 increase identified is consistent with the figures in the Charter of Budget Honesty costing.

Senator SHERRY—You raise an interesting issue on the Charter of Budget Honesty Costing. You would recall that there was some discussion there about assumptions on behaviour response.

Mr Bowen—Yes.

Senator SHERRY—I notice that the Charter of Budget Honesty specifically makes reference on page 5 to:

Assumptions regarding behavioural responses of the people affected by policies will be taken into account where it is normal practice to do so. In some instances, behavioural effects will be a significant element of the costing. Where there are significant behavioural effects, the assumptions used in the costing will be clearly identified in the publicly released costing report.

Was that the case when this was costed during the election period?

Mr Bowen—We costed this in accordance with the guidelines that you just read from.

Senator SHERRY—What were then the identified reasons—

Mr Bowen—I would just add that there were no behavioural assumptions in this costing because we simply backed out what was in the forward estimates to take out the Medicare safety net.

Dr Watt—This was simply removing what was in the budget balance—nothing more.

Senator SHERRY—Were the key reasons for the cost increase still the same at that point?

Mr Bowen—Nothing had changed at that time from the PEFO estimate.

Senator SHERRY—So the key reasons were the same?

Mr Bowen—The key reasons were the same. I do not know whether you have it in front of you, but the last sentence in the costing says:

The overall difference is due to additional items being added to the Medicare Benefits Schedule, greater than expected numbers of families registering for the safety net, and higher growth in out-of-pocket expenses ...

Senator SHERRY—Was there any change in their relative importance?

Mr Bowen—My recollection, and I can be corrected if I am wrong, is that the two months between the start of the financial year and when we did PEFO was the period when we started to have a very hard look at these costings and, as I said before, we finalised the revision of the costings on 2 September. To my knowledge, there was no change from that estimate to the estimate that we published in PEFO or the estimate that we published in the charter costing.

Senator SHERRY—That was on 27 September?

Mr Bowen—Yes, it was.

Senator SHERRY—On 10 May 2005, the Minister for Health and Ageing stated during question time that he and the government were briefed on the increasing cost of the Medicare safety net. Was the Department of Finance and Administration or officials involved in those briefings?

Dr Watt—I am not clear on what timetable the minister is referring to.

Senator SHERRY—Let us take this year, up till the announcement of the change.

Mr Bowen—The extent of the increase in the safety net really became apparent publicly when we published the Charter of Budget Honesty costing.

Senator SHERRY—Back on 27 September?

Mr Bowen—Yes. That was in the caretaker period and, of course, there were no briefings at all. You said that Minister Abbott's statement was on 10 May.

Senator SHERRY—Yes.

Mr Bowen—Clearly, there was discussion on a range of issues, including health issues and this issue, in the budget context this year.

Senator SHERRY—Were there discussions last year after the election was over and the ministry was sworn in again?

Dr Watt—I do not think we can comment on that.

Senator SHERRY—Why not? I am just asking if there were discussions that Finance were involved in.

Dr Watt—I do not think we can comment on it.

Senator SHERRY—Why not?

Dr Watt—If there were discussions within government with which Finance was involved then I do not think Finance should comment.

Senator SHERRY—By then—let us deal with after the election period; the caretaker period is over—was there a formal notification to the minister, in this case Senator Minchin?

Mr Bowen—To be honest, I cannot recall, but it was clearly on the public record at that stage, because of our charter costing, that there was a new cost for the Medicare safety net. It was in the public domain at that point.

Senator SHERRY—Yes, sure, but presumably after the election was over and, in this case, Senator Minchin was sworn in in the same position, there would have been an update briefing, a written briefing, on this issue.

Mr Bowen—We do budget update briefs for the government from time to time, apart from the published briefs, and, to the extent we did that, this would have been covered there. I do not have a memory of this specific issue.

Senator SHERRY—Yes, but, you see, up until the caretaker period—and the minister and I had a bit of a conversation about this earlier in the day—the minister said he had not received any sort of formal briefing.

Mr Bowen—That is correct.

Senator SHERRY—There would have been phone calls to his office and staff, and his staff communicated it to him.

Mr Bowen—That was because of the extremely tight time frame from when the estimate was finalised.

Senator SHERRY—I do not want to go back over that now. We have traversed that. But, at some point in time after the election was over and the minister had been sworn in, there must surely have been some briefing of the minister with an update. At some point in time there must have been.

Mr Bowen—It was business as usual again after the election. The focus, of course, was very much on making sure initially that the election commitments with expenditure associated with them in 2004-05 were actually implemented. That was our focus and the focus of the government at that time.

Senator SHERRY—Yes, but this was an election commitment.

Mr Bowen—What was an election commitment?

Senator SHERRY—The Medicare safety net was a big issue in the election. There was a rock-solid, ironclad guarantee. That was thrown around a bit in the election. We are talking about election commitments here. Doesn't it fall into that context?

Mr Bowen—My point was that the focus after the election was on implementing the commitments that had funding associated with them for the 2004-05 financial year. There were a large number of them.

Senator SHERRY—I accept all of that. But I do not see what is so hard here. It would just seem to me to be totally responsible and obviously logical of the department to have formally communicated to the minister in writing—because he complained that he did not get it in writing prior to the election being called—about what was happening with this program's costs.

Dr Watt—We would have updated the Minister for Finance and Administration on the emerging expenses picture. I do not remember the timing of specific briefs on that. I suspect that the issue of key program costs was covered. They would be normal events. But, as to when and in what form, at this juncture I do not know. Subject to the minister, I am happy to take it on notice and check.

Senator SHERRY—Okay. Is it also correct to assume that there had been communication with the health department on this issue?

Mr Bowen—We have stated that this costing—not the Charter of Budget Honesty costing, but our costing generally—was prepared in consultation with the health department on this issue.

Senator SHERRY—I come back to the issue of the health minister. Was Finance involved after the election in any direct meetings with the health minister on this case?

Mr Bowen—No.

Senator SHERRY—Or his staff?

Mr Bowen—Not to my knowledge.

Mr Weiss—Do you mean his ministerial office staff?

Senator SHERRY—Yes.

Mr Weiss—No, there were no meetings.

Senator SHERRY—So, presumably, information or formal advice would have come through the health department?

Mr Bowen—I presume so, but you would have to ask the health department.

Senator SHERRY—Yes, I know I would, but it did not come from Finance in any direct sense?

Mr Bowen—No, it did not come from Finance.

Senator SHERRY—Alternatively, or in addition, it could have come from the minister himself—that is, from Minister Minchin to Minister Abbott.

Dr Watt—That is something we would not speculate on.

Senator SHERRY—Minister, I am just asking about the discovery by the health minister of the cost blow-out in the Medicare safety net. Finance was not involved in any briefings of the health minister. It is a reasonable assumption that the health department would have been, on this issue. Did you formally write to the health minister after the election?

Senator Minchin—No, not that I recall. The department has taken on notice the question of when and how it formally advised me about the situation regarding the safety net. I am happy for them to consider that question. No doubt, at some point in the budget preparatory phase post election, I was advised of the projections with regard to the safety net. That no doubt occurred. I am not quite sure when. I have no knowledge of how the health minister came to be informed of the situation regarding the safety net, but my advice would have been in the context of the senior ministers review in the preparation of the 2005-06 budget. Other members of the senior ministers group presumably would have been advised at a similar time.

Senator SHERRY—I have a couple of questions about appropriation bills Nos 5 and 6. I understand that the government may introduce additional budget appropriation bills to meet immediate expenditure within the current financial year. That legislation may have been introduced into the House of Representatives—I am not sure; I have not checked. Appropriations bills Nos 5 and 6 are unusual, as I understand it, in the sense that it does not happen after most budgets. What is the purpose of appropriation bills Nos 5 and 6?

Ms Hazell—Appropriation bills Nos 5 and 6 are to provide some additional funding for a couple of issues in particular. One is for some depreciation funding for some cultural and heritage assets.

Senator SHERRY—Did you say ‘depreciation of funds’?

Ms Hazell—Cultural and heritage assets. There is some funding for ANZSOG as well and there is some additional funding relating to some programs for the Australian Taxation Office.

Senator SHERRY—Are the funds appropriated under these bills available only to meet anticipated rather than already incurred expenditure?

Ms Hazell—It is to meet expenditure for those purposes during this financial year.

Senator SHERRY—But this period between now and the end of June?

Ms Hazell—Yes.

Senator SHERRY—That is an unusual circumstance, isn't it?

Ms Hazell—There have been bills Nos 5 and 6 in the past. There were bills Nos 5 and 6 last year as well.

Senator SHERRY—What about in prior years? I am told that it is unusual in the sense—

Dr Watt—We acknowledge that it is not usual; it is not the norm. Ms Hazell is right: it was the case last year as well. As to the previous case, we would have to take that on notice.

Ms Hazell—I have just been advised that it was not prior to last year.

Dr Watt—It has happened in the past.

Ms Hazell—But not for some time.

Senator SHERRY—I think it was in the quite distant past—going back 10 or 15 years, so I am told; I have not been given the last date. As to the ATO expenditure you mentioned, what is that about?

Ms Hazell—It is to do with some grant programs where the organisations are now, as I understand it, subject to FBT, and the grant payments are needed basically to be topped up to allow the organisations a phase-in period. More detail is probably better asked of the Australian Taxation Office.

Senator SHERRY—Do these special appropriation bills have to be signed off by the Department of Finance and Administration and the minister? Do they need that formal approval process?

Ms Hazell—The bills are subject to the same approval process as any other appropriation bill. Are you talking about the estimates in the bills themselves?

Senator SHERRY—Yes.

Ms Hazell—The answer to that would be yes.

Senator SHERRY—Page 3 of Budget Paper No. 4, under ‘Structure of Appropriations’, makes no mention of appropriation bills 5 and 6. Is that because they are infrequent?

Ms Hazell—I am fairly certain that the answer is yes.

Senator SHERRY—I want to go back to the Medicare safety net issue to understand the finance department’s understanding of how the health department was paying for the Medicare safety net when the costs exceeded projections. As discussed earlier, the cash and appropriation management model, or CAM, of AIMS maintains a record of annual appropriations passed by the parliament and the funds transferred to agencies against appropriations. Did CAM detect that the funds being transferred to pay for the Medicare safety net were likely to exceed the original costing?

Mr Bowen—I picked up a couple of questions there. On the issue of how they could pay if the costs went up, the Medicare safety net is funded under a special appropriation—in other words, under an appropriation which is embedded in particular legislation, not the annual appropriations. On the issue of whether the CAM system would have picked up that matter, I would have to defer elsewhere. On the appropriation issue, it is part of a much broader appropriation, and we can give you the detail of that. On the issue of the CAM system, I think earlier answers would suggest that that would not have been identified.

Ms Hazell—I would have to take on notice whether that particular estimate and the likelihood of the need for more funds above the estimate were identified. Special appropriations are based on estimates, and the CAM system records that estimate. It is only when it is likely that a draw-down will exceed that estimate that it triggers a need for a review

of the estimate in the CAM system. Special appropriations are appropriations at law and, depending on the type, are not limited by dollar amounts.

Senator SHERRY—They are unlimited?

Ms Hazell—Some special appropriations can be by time or dollar, but a lot are not limited. That is the purpose of a special appropriation.

Senator SHERRY—So in this case there was no limit?

Mr Bowen—They are entitlement based.

Senator SHERRY—Entitlement based rather than money limited?

Mr Bowen—Yes.

Dr Watt—And remember that it is not an appropriation for the Medicare safety net per se, but a much broader appropriation.

Senator SHERRY—So when the program itself was originally set up it was set up under the special appropriation not limited by money?

Mr Bowen—That is correct.

Dr Watt—Under an existing special appropriation within legislation.

Senator SHERRY—Within the existing framework of legislation?

Mr Bowen—Yes.

Senator SHERRY—So the department was not going to run into a problem about meeting the cost under an existing appropriation?

Mr Bowen—No.

Senator SHERRY—And therefore there would not have been any funds diverted from other appropriations or programs to cover that cost?

Mr Bowen—No.

Senator SHERRY—I think I can safely say that that is the end of my questions on the Medicare safety net and its variable aspects. I want to turn to the budget cut in spending on the Job Network of approximately \$0.5 billion over four years. Was Finance involved in costing proposals to achieve savings through that measure?

Mr Bowen—Yes, we were.

Senator SHERRY—What were the assumptions used to determine the saving based on?

Mr Bowen—I think we have been down this path earlier. They are not published assumptions. They were part of our advice to government on a policy matter and we really cannot comment on the detail. I think the broad rationale for what was done has been published in the budget measure on that item. The overall funding for Job Network has gone up in this budget. The Welfare to Work reform package does provide an additional \$681.1 million over four years for Job Network, which more than offsets the reductions that you were talking about.

Senator SHERRY—What role does the Department of Finance and Administration have in regard to travel procurement policy?

Mr Hutson—Finance has taken a facilitation or coordination role across the APS. We have done a number of things following the earlier review into air travel, which I think was in November 2003. We have overseen the March and September 2004 reviews of agency air travel policies and practices against the recommendations of that review. We have conducted air travel forum meetings on a monthly basis to facilitate the exchange of ideas and better practices between agencies. We issued guidance to agencies about best fare of the day, which is the government's policy regarding the purchase of airline travel. We have engaged in regular consultation with both airlines and agencies on travel issues.

Senator SHERRY—Does DOFA or an official of DOFA chair the travel forum?

Mr Hutson—Yes, Mr Loudon chairs that forum.

Senator SHERRY—And it meets monthly approximately?

Mr Loudon—Yes.

Senator SHERRY—Who else attends these meetings?

Mr Loudon—The forum is made up of the material agencies, in the main, of the Commonwealth, so departments of state and a number of large agencies. Attendance varies from month to month depending on the agenda.

Senator SHERRY—Mention was just made of the best fare of the day. Is this a policy that applies to Commonwealth officers?

Mr Loudon—To Financial Management and Accountability Act agencies.

Senator SHERRY—That applies?

Mr Loudon—Yes.

Senator SHERRY—What is the department's definition of the best fare of the day?

Mr Loudon—It is the cheapest fare that suits the business requirement.

Senator SHERRY—That suits the business requirement?

Mr Loudon—Yes.

Senator SHERRY—What does that caveat mean?

Mr Loudon—As the need for travel is to attend meetings or other events, you need to be able to ensure the suitability of the flight time and access—

Senator SHERRY—Connecting flights?

Mr Loudon—Yes. You also need to take into consideration whether it is available inside or outside business hours and the effect on issues such as family and work-life balance.

Senator SHERRY—You mentioned the family issue, for example. That is really something that the individual officer is going to make a call on, to some extent.

Mr Loudon—In the Commonwealth, the base practice would be to have that travel approved by a supervising officer—a manager. This would be through putting forward a case for what the best fare was and the suitability of the travel overall, not just the fare.

Senator SHERRY—Does DOFA take any follow-through action to ensure that the best fare of the day applies in each appropriate agency and department?

Mr Loudon—There are a couple of things—one is that agencies are responsible for their own budgets and expenditure, which the chief executive would oversee. Most agencies that we deal with have processes to look at how they are progressing against the best fare of the day policy, but we also work with agencies to look at ways of ensuring that best fare of the day is offered. It is a continuous process. Most of the arrangements for the best fare are actually undertaken at the agency level under the contractual arrangements they have with providers.

Senator SHERRY—Has DOFA identified a failure by any government agencies or departments to meet the best fare of the day policy?

Mr Loudon—No, I think that even when the earlier report was undertaken it was shown that most agencies had appropriate policies and practices in place.

Senator SHERRY—You say ‘most’.

Mr Loudon—At that stage; that was at the end of 2003. The reviews we have had of agency practices suggest that they all have appropriate policies in place, but that all the decision making is undertaken in a devolved environment. That is why they have monitoring and other processes in place in agencies.

Senator SHERRY—The cost of Commonwealth travel is approximately \$300 million per annum?

Mr Loudon—We do not collate total expenditure on travel. We think that the \$300 million is probably on the high side.

Senator SHERRY—Who does the collation?

Mr Loudon—Each agency has its own travel budget.

Senator SHERRY—There is no overall compilation of those figures?

Dr Watt—No. Indeed, within agencies travel is just like any other running cost, so it is broken down and considered on an individual basis.

Senator SHERRY—You therefore do not have any identification of the breakdown by airline?

Mr Loudon—No, not at the central level. Not across all agencies.

Senator SHERRY—If the breakdown is in existence it would be contained within the agency.

Mr Loudon—Most agencies would have an idea of how much their expenditure is, but it may be devolved.

Senator SHERRY—Would it surprise you—I do not know whether you are aware of this—that the average cost of air fares in Australia has reduced by around 50 per cent in the past four years?

Mr Loudon—There are a number of industry studies that have different views on whether there has been a reduction in air fares overall. They look at the total available fares in Australia across different airlines.

Senator SHERRY—Can you confirm that you know of the reduction?

Mr Loudon—Yes, we know that there has been a downward trend in fares.

Senator SHERRY—I accept that there has been a downward trend. Whether it is 50 per cent or whatever—you do not know?

Mr Loudon—No.

Senator SHERRY—I suppose this relates to my earlier question. What is the trend line in the Commonwealth's total expenditure on airline travel over the last three years?

Mr Loudon—We do not collate that information.

Senator SHERRY—Which travel management company is responsible for aviation bookings for DOFA officers?

Mr Suur—Qantas Business Travel is responsible for the provision of airline and travel management services for Finance.

Senator SHERRY—Is that true of other agencies?

Mr Suur—We are part of a travel cluster that is led by the Australian Taxation Office and the Department of Health and Ageing. I do not know how many departments or agencies are members of that cluster, but it is a pretty big cluster. There are tens of members, and the ATO and Health and Ageing are the lead agencies for that cluster.

Senator SHERRY—It sounds like it would probably be the biggest cluster.

Mr Suur—I do not know enough to comment on that, but it is a big cluster.

Senator SHERRY—I am trying to work out who is clustered in what. How would I find that out?

Mr Hutson—You would need to ask each agency.

Senator SHERRY—Which cluster they are a part of?

Mr Hutson—Which travel manager they are using.

Dr Watt—I am sure that Health and the ATO would know who was in their cluster.

Senator SHERRY—Yes, but I do not want to go to every agency and ask which cluster they are in. I thought there might be a simpler way to obtain the information.

Senator MOORE—Are all agencies part of a cluster?

Mr Hutson—No. Some would be making their own arrangements.

Senator MOORE—So the cluster arrangement is not a standard practice? Amidst all the agencies, will some be lumped in clusters like you are and others be alone?

Mr Hutson—Yes.

Senator MOORE—Is the decision regarding that totally devolved to the leadership team in each of those agencies?

Mr Hutson—Yes.

Senator SHERRY—So in the case of Finance and the others that are members of the cluster, there is presumably an identified saving for being in this grouped arrangement?

Mr Suur—At the time when membership of the cluster was made available, we did some figuring and found that there were distinct advantages for us in joining the cluster. For example—and I do not have the numbers with me—the discount that we could achieve on regular fares as a member of the cluster was significantly more than we could achieve individually. We made a decision to join the cluster at the time when Ansett Airlines collapsed. We had a contract with them, and we were, like a number of other agencies, left without a contracted provider. The cluster was being pulled together at the time, and the opportunity for us to become party to an arrangement that offered us significant savings over what we could leverage ourselves in the marketplace was an attractive one for us and one that led us to a decision to join the cluster.

Senator SHERRY—Is there any time period for this arrangement?

Mr Suur—There is, but the cluster is operating on the basis of a letter of intent which was issued on 1 April 2003. The final contract has not been signed. There are differences of views between cluster members and Qantas about things like frequent flyer points.

Senator SHERRY—So you have an agreement, but there is no binding contract?

Mr Suur—I prefer to look at it as though we have a discount.

Dr Watt—That is a better way to look at it. We have an agreement and we have the discount—we just do not have the contract.

Senator SHERRY—So if you want to change the arrangement there is no legal impediment to doing so.

Mr Suur—It is a non-exclusive arrangement in any case.

Senator SHERRY—Will it be reviewed at any point in time? I understand the circumstances back in 2003 with Ansett's collapse.

Mr Suur—In principle, the arrangement was a three plus one plus one arrangement—three years plus one year plus one year. However, given the informality of the current arrangement, I do not know whether those sorts of formal strictures will govern how the contract unfolds.

Senator MOORE—So it is in principle.

Mr Suur—Yes.

Senator SHERRY—Defence is not included in your cluster, is it?

Mr Weiss—No.

Dr Watt—From memory, Defence is a stand-alone contract.

Senator SHERRY—Apparently, Defence’s domestic aviation travel in 2003-04 was \$110 million. That is domestic travel. It was \$48 million for international travel. I am not criticising them for the travel. Does DOFA have any knowledge about the application of the ‘best fare of the day’ procurement policy that Defence has applied?

Mr Louden—Only from the reports they have provided that they are adhering to the policy and have the practices and policies in place to ensure that that is the case and also that they monitor it, as do other departments.

Senator SHERRY—So, at these travel forum meetings you go to, there are reports?

Mr Louden—Not at the forum meetings. The forum meetings are designed to exchange better practice as the main thrust.

Senator SHERRY—Where are these reports conveyed?

Mr Louden—As part of the review after the early report, in March and September 2004 we asked agencies to provide us with information on progress against implementation.

Senator SHERRY—Has there been any report since that day?

Mr Louden—No. They were the two formal reports that we had.

Senator SHERRY—Will there be any further formal reporting?

Mr Louden—We continue to work with agencies, but, at this stage, we do not have any plans for a further report.

Senator SHERRY—In the reporting, has there been any significant variation between government agencies and departments and the airlines they travel on? I am talking about domestic travel.

Mr Hutson—We have also collected information about monthly usage by airline, depending on which airline they use—that is, whether they use Qantas or smaller airlines. The answer to that is yes, there is quite some variability between agencies.

Senator MOORE—Who collects those reports? I heard that there is no formal reporting process. You just said that you collect—

Mr Hutson—There are two types of reports. The first report is a report about how they are implementing ‘best fare of the day’ across their agency as a policy.

Senator MOORE—And that is just corporate management?

Mr Hutson—And there is also monthly reporting on their usage of smaller airlines.

Senator MOORE—Would that not have answered the question you asked earlier, Senator Sherry? My understanding was that Senator Sherry asked earlier about the use of the different airlines across the service. We were told that we did not keep those reports. If you keep monthly reports on the usage of individual airlines, wouldn’t that be able to be compiled in some way?

Mr Hutson—I thought the senator’s earlier question was about travel expenditure. We do not have travel expenditure information.

Senator SHERRY—I asked about travel expenditure.

Senator MOORE—I thought you asked about use of airlines too.

Dr Watt—It was in the context of travel expenditure.

Senator MOORE—If I wanted to know how many of the Commonwealth clusters and individual agencies use Qantas, how many use Virgin and how many use other local airlines, I could get that information?

Mr Louden—We have total figures in relation to national usage of Qantas and its subsidiaries and the smaller airlines in percentage terms. The reason we look at it in the aggregate sense is that, because of the nature of the airline market, where each route has a different competitive tension, airline usage in patterns varies considerably depending on—

Senator MOORE—You would have to have a lot of caveats in the final discussion, but you would be able to find out on a quantum basis what percentage of the usage one company has?

Mr Louden—If you look at it in those terms, the substantial amount is in favour of Qantas because of the large size of the airline and its subsidiaries. The only differentiation in smaller airlines is between Regional Express, Virgin and other. In the month of March, of the airlines we collect data from there was a 92.7 per cent usage of Qantas and a 7.3 per cent usage of the smaller airlines.

Senator MOORE—Of all others?

Mr Louden—Yes.

Senator SHERRY—Does the clustering arrangement that the Department of Finance and Administration has include access by Commonwealth officers to club membership?

Mr Suur—No, it does not. We pay separately for club membership.

Senator MOORE—Do you have a discount on that?

Mr Suur—We have a general corporate rate, but I cannot tell you in percentage terms what that discount is.

Senator MOORE—But there is some discount.

Mr Suur—It is not some extra special deal or anything like that; it is whatever the standard discount rate is.

Senator SHERRY—Is that negotiated separately?

Mr Suur—I think it is part of the cluster arrangement. There is a discounted rate that applies to cluster members, but they have to pay for each membership. We do not get a bunch of free memberships as a result of being a member of the cluster.

Senator SHERRY—There is no loss leading, in other words.

Mr Suur—No—at least not to our benefit.

Senator MOORE—Maybe if you signed that contract.

Senator SHERRY—You seem fairly relaxed that the contract had not been signed.

Mr Suur—We were in a position of getting next to nothing, and now we have an arrangement where we get a reasonable discount. We are pursuing signature of the contract. I

think it is important to have a contractual arrangement but, frankly, for us, frequent flyer points are a deal breaker.

Senator SHERRY—What do you mean by that?

Mr Suur—By that I mean that we would prefer to sign a contract that did not give us frequent flyer points, and Qantas is not prepared to negotiate an arrangement on those lines.

Senator SHERRY—It has not been prepared to negotiate that for any public service.

Mr Suur—At the moment we have an informal agreement that we do not acquire frequent flyer status or tier credits for finance staff, and other agencies have been able to reach a similar accommodation with Qantas, but they are not prepared to formalise that, as I understand it, in a contractual arrangement. Where we are sitting at the moment gives us what we want. If it were to be formalised in a contractual arrangement, we would not get what we want.

Senator SHERRY—What is the general discount level that you have managed to achieve as a result of the arrangement?

Mr Suur—I do not have that detail with me, but my recollection is that it is well in excess of 20 per cent, perhaps in the order of 30 per cent, but I will have to take that on notice.

Senator SHERRY—Okay. I have a few questions on net appropriations under section 31 of the FMA Act. I understand that section 31 of the FMA Act 1997 enables the finance minister to enter into agreements relating to the netting of certain appropriations. With whom are these agreements made, with individual agencies administering those appropriations?

Mr Hutson—As a general statement regarding section 31, the finance minister can enter into an agreement with the minister of the responsible agency for certain appropriations to be net appropriations. The purpose of those agreements is to enable revenue that the agency receives from certain activities to essentially be reappropriated so that that expenditure can then be used for other purposes. A simple example would be that if an agency were to have excess furniture it could sell it off and that would increase its appropriation by the value of the sale proceeds received, which could of course—if the agency wished—be applied towards replacement furniture.

Senator SHERRY—The intention of the section 31 agreements is to allow certain cash receipts without having to pay these receipts to the official public account. You have mentioned an example. Are there other types of receipts?

Mr Hutson—A very large number of other sorts of receipts would be covered by various section 31 agreements. I think you said ‘without having to be paid to the official public account’.

Senator SHERRY—Yes.

Mr Hutson—All of the money which agencies receive would be paid to that account but the section 31 agreement effectively reappropriates the consolidated revenue funds so that the agencies can get the money out again.

Senator SHERRY—Is there a list available of the receipts?

Mr Hutson—Of the types of receipts or the total receipts?

Senator SHERRY—The types of receipts.

Mr Culhane—We do not have a list. It would be detailed in each individual agreement. But, in general, the agreements typically provide for three or four types of receipts.

Senator SHERRY—Is there a commonality across the agreements on types of receipts?

Mr Culhane—Yes. There is not 100 per cent commonality, but the receipts were built on a template, typically, so a large number of them would be very similar.

Senator SHERRY—Can you give me a few more examples? I am not looking to get you to go away and do it all.

Mr Culhane—Yes. I have an example here. Typically they provide for receipts from the sale, leasing and hiring out or other dealing with goods; the provision of staff and other services; the sale of minor assets that are departmental in nature, for departmental section 31 agreements; the transfer of long service leave entitlements between agencies—typically receipts of an administrative type nature.

Senator SHERRY—You have referred to ‘minor assets’. What are we talking about there—computers, furniture, cars?

Mr Culhane—It depends on the agency in question but, typically, yes—certainly computer furniture, office equipment and those sorts of things.

Senator SHERRY—Is there a distinction between those types of assets and, say, buildings?

Mr Culhane—Yes. The government has a policy in relation to the proceeds of sale of buildings, so that would not typically be covered by section 31 agreements.

Senator SHERRY—Do you have a section 31 agreement with the Department of Defence?

Mr Culhane—There is an agreement with the Department of Defence.

Senator SHERRY—Do you know what sorts of issues are covered there?

Mr Culhane—I do not have a copy of that agreement with me. I would have to take that on notice.

Senator SHERRY—I am just thinking of another issue involving the Department of Defence, but we might pursue that with the Department of Defence.

Dr Watt—It would be a very interesting question to ask.

Senator SHERRY—It was at about this time last night, actually. The DOFA web site states:

All departmental items and four administered items listed in the schedules to the Appropriation Acts are marked with "net appropriation".

Mr Culhane—That is correct.

Senator SHERRY—Can you explain what that means?

Mr Culhane—Yes. I think it is section 10 of the appropriation act which provides that, for appropriations in the appropriation acts which are marked ‘net appropriation’, the

appropriation is increased by the amount of any receipts detailed in a section 31 agreement under section 31 of the FMA Act. So it really identifies those appropriations which potentially may have a section 31 agreement in relation to them.

Senator SHERRY—So these things are sold and the moneys flow in to the OPA then flow straight back out to the department, for whatever reason.

Mr Hutson—It is available to the department to draw on to spend.

Senator SHERRY—Do you know what they typically do with the moneys that they draw on?

Mr Hutson—In the majority of cases a lot of the expenditures would be applied to departmental purposes. The example that I gave was one where they sold furniture and they used it to purchase new furniture, but they could equally use it for any other departmental purpose.

Senator SHERRY—Is there any reporting requirement of those types of expenditure by the department back to you? Do you keep some sort of idea about what is going on?

Mr Culhane—It is not so much a matter of reporting to the department of finance. There are requirements to separately identify section 31 receipts in agency financial statements.

Senator SHERRY—So if we wanted to know, we would go to the appropriate—

Mr Culhane—Part of the financial statements for the agency.

Senator SHERRY—In the particular agency and they are able to detail it. So there is no formal requirement back to Finance as such?

Mr Hutson—No.

Senator SHERRY—The web site goes on to say:

Section 9(1) of Appropriation Act Nos. 1 and 3 provides that the departmental items listed in the Schedules can be increased by the amount of receipts covered by a section 31 Agreement. The increase cannot be more than the amount of cash received.

Can you explain what that means?

Mr Culhane—Yes. It is limiting the amount of increase in the appropriation to a maximum of the level of receipts. So if an agency sold some furniture for \$100 it could not then increase its appropriation by \$200; it would be limited to a maximum of \$100.

Senator SHERRY—Capped?

Mr Culhane—Capped. It could be a lesser amount, but it is capped.

Senator SHERRY—It cannot be a greater amount?

Mr Culhane—That is right.

Senator SHERRY—It could be a lesser amount.

Senator MOORE—Is it possible that a department could pay off its efficiency dividend in that way?

Mr Culhane—I am sorry, pay it off with that?

Senator MOORE—Balance their books with the efficiency dividend. It would take a lot of \$100 payments, I know, but could they adjust the books in that way?

Mr Hutson—To the extent that they can use their surplus assets to sell and using a sections 6 and 31 agreement increase the appropriation which is available to them, at least on the face of it that is their call.

Senator MOORE—That is their devolved call.

Mr Hutson—Potentially that is very good and efficient management.

Senator SHERRY—Unless we walked into a department and there were no chairs or computers—

Senator MOORE—Or no pot plants.

Mr Hutson—That would not be efficient.

Senator SHERRY—What about maintenance contracts? They would not be covered by this, would they? It is a service. The department could say, 'We are not going to have any maintenance for a period.' Would that count?

Mr Hutson—It would not help them in terms of their section 31 at all; it would be maintenance expenditure which had not been met.

Senator SHERRY—Yes, deferred, in effect.

Mr Hutson—Deferred.

Senator SHERRY—They could keep on deferring it.

Mr Hutson—There would not be a role for section 31.

Senator SHERRY—It cannot be used in that way?

Mr Hutson—No.

Senator SHERRY—The web site also states:

Section 9(3) of Appropriation Act No.1 provides that the four administered items listed in the Clause can be increased by the amount of receipts covered by a section 31 Agreement. The increase cannot be more than the amount of cash received. No other administered receipts may be spent under the Act. Receipts related to those four items do not have paid into the Official Public Account.

What is that in relation to? That is off the web site. The web site goes on to state:

However, there are a number of special appropriation acts which authorise **select** agencies to expend certain administered receipts (where those receipts are not paid to the OPA) or amounts equal to those receipts (where those receipts are paid to the OPA).

Mr Hutson—Could you repeat the question?

Senator SHERRY—My understanding is that the web site goes on—I think we are going to overlap in the response—to say:

However, there are a number of special appropriation acts which authorise **select** agencies to expend certain administered receipts (where those receipts are not paid to the OPA) or amounts equal to those receipts (where those receipts are paid to the OPA).

Mr Culhane—Can you tell us which document on the web site you are reading from?

Senator SHERRY—I do not think I have that with me. You are not familiar with that? I am not going to press them too hard, Senator Murray; I am just interested in this issue.

Mr Hutson—I am particularly interested in the fact that you talk about a special appropriation. Special appropriations are contained in legislation which is administered by individual departments. The statement that you have read from is potentially entirely correct, but we do not have the detail to be able to describe those particular bits of legislation that that section of the web site is referring to.

Senator SHERRY—I must say that this is not the burning issue of the day. I was just interested in a little more understanding in this area. It was something I had not explored before. Are you aware of any circumstances where any agency has netted appropriations—that is, spent receipts—where a valid net appropriation agreement was not in place? Has that happened? While you are considering that, are you aware of any agency that has spent receipts other than on items covered by the appropriate agreement?

Mr Hutson—I do not know if you are aware of this, Senator, but at the moment the Australian National Audit Office is undertaking a performance audit on section 31 agreements. As part of that there have been a number of issues thrown up regarding a number of section 31 agreements. Those issues are currently being resolved. So the answer at the moment is that I cannot give you a definitive answer on that—we have a number of issues which have been thrown up by the conduct of the audit by the ANAO and we are still looking into them.

Senator SHERRY—So has ANAO published that report?

Mr Hutson—No, it has not been completed yet.

Senator SHERRY—So they are obviously in discussions about their recommendations before it is published.

Mr Hutson—That is right.

Senator SHERRY—I will read that with interest before the next estimates. I have some questions about public sector superannuation advice. I will try not to cross over to ComSuper, CSS or PSS. I do not know whether it might be easier to have them together, if that is convenient. Some of them might cross over.

I am not sure whether I should raise this issue here; it might come in the later program. My understanding is that legally, in the event of a full sale of Telstra, the 2½ thousand Telstra employees who are currently members of the CSS will no longer be eligible to remain members of the CSS scheme under the current legislation. Is that correct?

Ms S Wilson—It is government policy that private sector employees would not remain in the Australian government schemes, the CSS and the PSS. However, for Telstra employees to cease to be members following a sale, there would need to be legislative change. There is nothing in the current legislation that would exclude them.

Senator SHERRY—I am a bit confused by that response. If Telstra were sold, would it require a legislative amendment to allow those people who continued on with Telstra to remain members of the CSS?

Ms S Wilson—At the moment, as long as they remained employees of Telstra, under the current legislation they would remain scheme members.

Senator SHERRY—But if Telstra is sold, is it the case that they can continue to be members?

Ms S Wilson—It would not be government policy for them to continue to be members. Certainly with previous sales of organisations, people have not remained in the CSS or the PSS after the body ceased to be government owned.

Senator SHERRY—That is not a response to exactly what I asked. You said it is not government policy. I am asking about legislative impediments at the present.

Ms S Wilson—I suppose it depends on the body that is being sold and how the legislation is set up. In the case of Telstra there is no existing legislative provision that would exclude people from the CSS if Telstra were sold.

Senator SHERRY—But there are some 2½ thousand Telstra employees who currently are members of the CSS. There is a Telstra super fund, isn't there?

Ms S Wilson—Yes. I understand so.

Senator SHERRY—The vast bulk are members of that fund. Not unnaturally—I have had a few calls about this—the issue is being raised. It is possible, as I understand it, in whatever final legislation is passed with respect to the sale proceeds—if the sale proceeds and all those sorts of caveats—to ensure that there is a provision that allows those Telstra employees to continue to remain in the CSS. The government could legislate to do that if it wished.

Ms S Wilson—It would not be necessary to do that.

Senator SHERRY—The government would need to change its policy. Can we have an update on this issue, Dr Watt? It must be being raised in the context of consideration of selling Telstra.

Dr Watt—I would need to take that on notice. We are not responsible for preparing the sale legislation. The sale legislation is being prepared by the Department of Communications, Information Technology and the Arts, and the minister for that department is the responsible minister.

Senator SHERRY—But your department is responsible for the CSS.

Dr Watt—That is correct and, from what my officers are saying, at the moment this issue has not been broached.

Senator SHERRY—It has not been raised?

Ms S Wilson—Not in any official sense because there has not yet been a decision to sell Telstra.

Senator SHERRY—In an official sense it may not have been, but are any Telstra employees or members of the CSS raising this issue with the CSS?

Ms S Wilson—I am not entirely certain.

Dr Watt—Not that we are aware of. Is ComSuper aware of any?

Mr Bator—We are not aware of any.

Senator SHERRY—I am surprised at that, because I have had a few calls about it in the last few months. Minister, have you considered the position of the 2½ thousand Telstra employees in the CSS if Telstra is sold?

Senator Minchin—I am sure the matter will be duly and properly considered if we do decide to proceed to a sale.

Senator SHERRY—But there has been no decision to date on this matter?

Senator Minchin—No.

Senator SHERRY—I want to ask a few questions in order to save legislative time, which the government might be happy with, and the time of other committees. Two bills that I read this week go to the creation of the PSSap as a new accumulation fund and the application of so-called choice of super for PSSap members once the fund is created. It is my understanding that the contributions to what will become the PSSap are to be 15.4 per cent from the employer. Is that correct?

Ms S Wilson—Yes.

Senator SHERRY—If an employee from 1 July 2005—and then from 1 July 2006, when I think the legislation is active from—chooses a fund other than the PSSap it is not clear to me, and it might be clear to you, so you might be able to inform me, whether they can insist on the 15.4 per cent being paid to another fund.

Ms S Wilson—There is no mandated requirement for that to occur. That is a matter for the employee and employer to agree. It depends on the arrangements under which choice is offered.

Senator SHERRY—So if an employee chooses another fund they would not necessarily receive the 15.4 per cent; they would only receive the nine per cent?

Ms S Wilson—It really would depend upon what is offered.

Senator SHERRY—What you mean by ‘what is offered’? The 15.4 per cent is the standard offer, is it not?

Ms S Wilson—The 15.4 per cent is mandated for the PSS accumulation plan, but there is no particular contribution rate mandated for people who choose to leave the accumulation plan, apart from the minimum superannuation guarantee.

Senator SHERRY—So if they choose to leave the PSSap there is no mandated 15.4 per cent employer contribution?

Ms S Wilson—It is not mandated.

Senator SHERRY—Then you would not have too many leaving it, would you?

Ms S Wilson—I could not possibly comment on that.

Senator SHERRY—It stands to reason—nine per cent versus 15.4 per cent. It does come back to the notification. If that is the case, and I thought that was the case from reading it, what is the process for all employees to be made aware of the 15.4 per cent in respect of the PSSap, when established, versus perhaps nine per cent with another fund if they choose that?

Ms S Wilson—One way they would be notified is through the standard choice form, which employers have to offer their employees. If there is a possibility there could be reduction in the employer contribution rate, that has to be shown on the standard choice form.

Senator SHERRY—For example, when a new employee joins a department or an agency after the PSSap has commenced would the PSSap be informed that that employee has commenced, for them to approach the new employee?

Ms S Wilson—I am not too sure. The PSS accumulation plan will be the default fund for Public Service Act agencies until an employee nominates another fund; the agency will pay contributions to the PSS accumulation plan.

Senator SHERRY—So it is open to an agency to pay the 15.4 per cent to another fund if it wishes?

Ms S Wilson—Yes.

Senator SHERRY—But it does not have to?

Ms S Wilson—It is a business decision of theirs, subject to certified agreements and Australian workplace agreements.

Senator SHERRY—So there can be a workplace agreement that does not contain the 15.4 per cent? My understanding is a workplace agreement can be entered into with any superannuation fund to bind the employee to that fund. That is correct, is it not, under the choice of fund legislation?

Ms S Wilson—I understand so, yes.

Senator SHERRY—So is it possible for a department or an agency to enter into a workplace agreement with a superannuation fund other than the PSSap?

Ms S Wilson—They could specify another scheme as the scheme to which they are going to pay employer contributions, in a workplace agreement.

Senator SHERRY—As a consequence, they would not have to pay the 15.4 per cent?

Ms S Wilson—That is a possible outcome.

Senator SHERRY—It seems to be a pretty unfair outcome, if that should occur.

Ms S Wilson—It is really the basis of the choice legislation for superannuation.

Senator SHERRY—It is unfair in other contexts too.

Ms S Wilson—The workplace agreement is an instrument of negotiation between employer and employee—

Senator SHERRY—Turn it up!

Ms S Wilson—so the same choice applies at that stage.

Senator SHERRY—We are going to get into industrial relations. If you believe that, you are kidding yourself. The other advantage of the PSSap—this is my understanding, at least—with the agreement that was negotiated with the CPSU is that the administration costs will continue to be paid by the government or the agency as distinct from the employee.

Ms S Wilson—That is correct.

Senator SHERRY—And that will continue with the PSSap?

Ms S Wilson—That is correct.

Senator SHERRY—The other issue in this is portability. Under choice, there is the great mantra of portability. Will new employees who join the PSS—at least this year, until the PSSap is established and the choice of fund comes in on 1 July next year for agency employees who commence after 1 July this year—be able to transfer moneys into the accumulation fund from other funds that they have from previous employment?

Ms S Wilson—Would you mind repeating that, please? Who exactly were you talking about?

Senator SHERRY—An employee starts after 1 July this year—they are in the accumulation fund. That is the subplan to start with until the PSSap is established legally.

Ms S Wilson—Yes.

Senator SHERRY—One of the principles of choice is the ability of a person to transfer moneys from a previous fund into the fund—

Ms S Wilson—That will be a feature of the PSSap.

Senator SHERRY—That will be allowed?

Ms S Wilson—Yes.

Senator SHERRY—That was not clear to me when I looked at the legislation.

Ms S Wilson—You would not find that in the legislation. It is in the trust deed and rules.

Senator SHERRY—I have not seen the trust deed yet. The legislation will come first and the trust deed will follow.

Ms S Wilson—Yes, but there is already a trust deed and rules for the PSS accumulation plan, which is a subplan of the PSS. The new trust deed will reflect the provisions of that one. It is not intended to change the features of the established subplan.

Senator SHERRY—To the minister: in an earlier discussion we touched on AWAs and government agencies or departments specifying a lesser amount than 15.4 per cent. Is that your understanding of the agreement that was reached with the CPSU on this matter—specifying another fund other than the PSS and then the PSSap?

Senator Minchin—Subject to advice, we agreed that the government contribution would be the 15 per cent.

Senator SHERRY—Yes, that is what I thought.

Ms S Wilson—It was 15 per cent to the PSS accumulation plan.

Senator SHERRY—Yes, but my point is that there could be a workplace agreement which specifies a different fund—therefore, the 15.4 per cent would not apply; it would be nine per cent.

Ms S Wilson—It would really depend upon what the employer has agreed to pay.

Senator Minchin—So, what are you saying? If a public servant chose another fund—

Senator SHERRY—No. An AWA can specify a fund. In law it can require contributions to go to a specified fund.

Senator Minchin—Yes.

Senator SHERRY—So, if a department establishes an AWA, it can specify a fund legally, which overrides choice. The employee has no option. The employee joins that particular department and the fund specified is something other than the PSSap, which is to be created. As a consequence, the 15.4 per cent contribution does not apply.

Senator Minchin—I would not have thought that was the case, but is it?

Senator SHERRY—That legally can happen.

Ms Doran—That is a provision that is part of the framework for choice and so covered in the superannuation guarantee act that sets out those provisions. It is an element of the broader choice framework.

Senator SHERRY—It is not choice, in other words. AWAs override fund choice.

Senator Minchin—Yes, okay. But at the end of the day it is the employee who is knowingly choosing that course. Is that not the case?

Ms Doran—That is right.

Senator SHERRY—I would argue that they are not. Either you have choice or you do not. Minister, is this issue new to you in this context?

Senator Minchin—Yes, it is. I am happy to pursue it. I would like some briefing on that.

Senator SHERRY—Could you have a look at it, because it has been raised with me.

Senator Minchin—I have not come across it.

Proceedings suspended from 9.16 pm to 9.31 pm

Mr Hutson—Earlier we answered in respect of questions by, I think, both Senator Moore and Senator Sherry that we did not collect information regarding expenditure on air fares. I am advised that 24 agencies from the total of 80-odd do actually supply us with that information. However, it is obviously not complete, and we do not normally use it.

Senator MOORE—Why do some of the agencies supply that information? It is interesting—either you collect it or you do not.

Mr Hutson—At this stage that is not entirely clear to me, but 24 agencies do routinely supply it to us.

Senator MOORE—Do not tell them or they will stop.

Senator SHERRY—It must be that they do not want to upset Finance. That is why they are providing information.

Dr Watt—The worst thing is to have information that you do not do anything with; that is when you are at your most vulnerable.

Senator SHERRY—The government has foreshadowed the introduction of transition to retirement legislation. Will that operate in respect of federal public sector employees in the PSS or the CSS?

Ms S Wilson—The SIS regulations—the Superannuation Industry (Supervision) Amendment Regulations—have been amended and will come into effect on 1 July this year to allow superannuation schemes to release superannuation benefits on transition to retirement. However, it is not mandatory, and there would need to be some significant changes to the rules of the PSS and the CSS for it to apply to those schemes. At this time, no decision has been taken about whether the schemes will be changed to allow benefits to be accessed at that time.

Senator SHERRY—So it is not intended that it will apply?

Ms S Wilson—No decision has yet been taken. It has not been considered yet.

Senator SHERRY—Over to you, Minister.

Senator Minchin—I have no comment on that at the moment.

Senator SHERRY—What about the Defence Force funds?

Ms S Wilson—That is a matter for the Department of Defence. We do not have a role in that.

Senator SHERRY—What about the transition to retirement of the Governor-General and judges?

Ms S Wilson—Again, we do not have a role in that.

Senator SHERRY—I will not touch on the parliamentary fund, because some people might have some rude thoughts about the transition to retirement of parliamentarians. Isn't it a bit odd that we now have the regs for transition to retirement but they do not apply—as yet, anyway—to public sector employees in the PSS and the CSS?

Ms S Wilson—At this stage, the department is still looking into how it could be applied. We are looking into the legal ramifications of any changes. At this stage the minister has not had an opportunity to consider the matter because we do not have sufficient information at the moment to complete our briefing.

Ms Doran—It is perhaps worth pointing out that the provisions will apply in the accumulation plan. So, in a more typical lump sum accumulation plan, these sorts of features are more readily incorporated. In terms the defined benefit schemes, it does raise particular issues. Those issues were acknowledged in the explanatory memorandum—I believe it was for the SIS regulations. That is the reason that the provisions were brought in as not mandatory but, rather, permissive. That is part of the reason.

Senator SHERRY—I understand the difficulties with the defined benefit fund, but it just seems to me that, if there is a policy of transition to retirement legislation, at least the option should be available.

Ms Doran—The options are being considered at the moment but, as we previously said, we have not reached a position where we have briefed the minister.

Senator MOORE—Is there a time in which to make a decision?

Ms Doran—No, there is no time frame on it.

Senator MOORE—There is no need to make a decision on this by 2006?

Ms Doran—No, the regulations are permissive, not mandatory, and there is no time frame on them.

Senator SHERRY—I think the next question is in your ballpark, Mr Gibbs—I have touched on this before with you. There has been a dispute with a number of people—they seem to be in the Northern Territory in the main—about accessing their CSS superannuation or part of their lump sum entitlements. You are aware of that—we have discussed before?

Mr Gibbs—It is both pension and lump sum as far as I am aware, but I am aware of it.

Senator SHERRY—I am not sure whether I raised it with you before, but are you familiar with a gentleman by the name of Mr Gray?

Mr Gibbs—I am aware of Mr Gray, yes.

Senator SHERRY—I thought you might be. In terms of fairness to the individual, I am not going to go to the individual complaints. But there are a number of questions that Senator Crossin has placed on notice. Are you aware of those questions in relation to the general issues?

Mr Gibbs—Yes, I am aware of those.

Senator SHERRY—Can I have your assurance that there will be a response as expeditiously as possible?

Mr Gibbs—I do not think it is up to me to give a response to a question put on notice.

Senator SHERRY—In part it is. It is referred to you, you prepare the response and it goes to the minister's office.

Mr Gibbs—We are providing information to enable a response as early as possible.

Senator SHERRY—To the minister's office?

Mr Gibbs—Yes.

Senator SHERRY—And that is up to the minister?

Mr Gibbs—Yes.

Senator SHERRY—On that issue of expeditious response, you may recall that, at the last estimates, I asked about the investment earnings rate and the total expenses over a 10-year period. Do you recall me asking you about that?

Mr Gibbs—Yes, I do.

Senator SHERRY—Can you recall when you provided that information to the minister's office? If you do not have the exact date, the approximate date you provided it would be useful.

Mr Gibbs—I understood that the answer to that question has been tabled.

Senator SHERRY—It was provided to the committee on Monday.

Mr Gibbs—I do not have in front of me when I provided the information to the minister's office.

Senator SHERRY—Was it a few days ago?

Mr Gibbs—I do not have it in front of me, but it would have been earlier than a few days ago.

Senator SHERRY—A lot earlier?

Mr Gibbs—I honestly cannot say.

Senator SHERRY—In March?

Mr Gibbs—I cannot say. It would have been one of my officers who put it together. It probably did not even come across my desk before it went, so I honestly do not know.

Senator SHERRY—Can you throw any light on the time frame, Minister?

Senator Minchin—I am sorry?

Mr Gibbs—This is a response to a question on notice about—

Senator Minchin—Mr Gray?

Mr Gibbs—No, it was actually about investment returns—

Senator SHERRY—Earnings rates and expenses.

Mr Gibbs—and earnings and so forth. I think it was given to the committee on Monday.

Senator SHERRY—The committee did not get the response from your office until Monday. I did not get it in my office until today when I asked about it because the committee was up here and it was not passed on to me—and I do not blame the committee for that. I am concerned about the time lag—whatever it was—between the response, which came not from Mr Gibbs personally but from one of his officers, coming into your office and it getting to the committee.

Senator Minchin—They are normally very efficient. I do not have before me the dates it came to my office and when it went out.

Senator SHERRY—Could you take it on notice to provide me with the date—

Senator Minchin—I will, sure, because I do like—

Senator SHERRY—that you received it in your office?

Senator Minchin—I am happy to do that because I like a quick turnaround.

Senator SHERRY—I know you do.

Senator Minchin—I am happy to follow that up.

Senator SHERRY—I am much more concerned about the Treasurer's activities in this regard, but I was a bit concerned that I did not get it until Monday.

Senator Minchin—Fair enough.

Senator SHERRY—Mr Gibbs, can you give us the date it was sent from the officer through to the minister's office?

Mr Gibbs—Yes.

Senator SHERRY—Sorry, I had digressed from the issues surrounding Mr Gray and others. My recollection is that it was on receipt of legal advice; there was not any change to

the acts or the regulations that prevented the payouts to individuals who believed that they were eligible for the payout and applied. That is correct, isn't it?

Mr Gibbs—The circumstances were that in dealing with an inquiry it became clear to ComSuper that persons were potentially being paid benefits when they should not have been paid. That caused us to then ensure that only lawful benefits were paid. That meant that certain people who had a previous expectation—and not an unreasonable one because in fact we had told people that they would be paid in certain circumstances, which was wrong—would not be paid.

Senator SHERRY—And some had been paid, hadn't they?

Mr Gibbs—And undoubtedly some had been paid. It was wrong; it was an error. But unfortunately for those individuals who were in the queue—so to speak—to be paid, the CSS board has no ability to pay a benefit in those circumstances. It was not any review or change of interpretation, as some people seem to think; it was simply that an error was discovered and the process which was in error had to be stopped. It was as simple as that. We have apologised to those people in those circumstances—as we should.

Senator SHERRY—For them to access part of their CSS superannuation entitlements, it would require either a change to the current law as it stands and/or the regulations?

Mr Gibbs—It actually would require a change to SIS. Indeed, the change that comes into effect on 1 July 2005 may well allow people who have a deferred benefit to be paid part of their CSS benefit—that is, their pension, not their lump sum, because as you know you can only get paid a non-commutable income stream after preservation age but before retiring from the work force.

Senator SHERRY—So it may solve part of the problem?

Mr Gibbs—It may solve part of the problem. There are additional problems, potentially, in the Northern Territory because of specific regulations that apply there. So there is more than one group of people, but it may solve part of the problem for some of the people.

Senator SHERRY—Over to you, Minister. I have a letter that you sent on this matter. Are you familiar with the letter to Mr Gray?

Senator Minchin—I recall signing at least one letter, if not two, to Mr Gray.

Senator SHERRY—The letter of 6 October is to Mr Gray. This was a—

Senator Minchin—It was on 6 October?

Senator SHERRY—The stamp says 6 October. It says, 'Mr Gray, I refer to your conversation with Chris Keane in my office regarding difficulties you have encountered accessing your CSS superannuation entitlements. Following representations from David Tollner on your behalf'—it is not surprising that this made an appearance in the Northern Territory during the election campaign—'I am pleased to confirm that a re-elected coalition government would conduct a review to examine the circumstances of CSS members such as yourself who have been unable to access their CSS benefit following a change in their employment conditions. Such a review would encompass those members who had acted in good faith prior to the announcement of the change in ComSuper's interpretation of this

provision. Subject to the outcome of this review, a re-elected Howard government would consider legislative changes to assist those members such as yourself who have been adversely affected by these changes.’ The letter was signed by you.

Senator Minchin—It is a very good letter.

Senator SHERRY—It might be a very good letter but where is the review up to?

Ms Doran—The review has progressed significantly. The findings of that review are much as Mr Gibbs has already explained, in that it has become clear that there was an error in advice and that Mr Gray, in particular, was caught up in the recognition of that error.

Senator SHERRY—That was known before, anyway. Everyone who knew about it knew he was caught up and everyone knew about the issues that Mr Gibbs has outlined.

Ms Doran—The particular circumstances of Mr Gray’s case were investigated as part of that process, as were the options for remedying his particular circumstances. Again, as Mr Gibbs has indicated, it is a matter of law that those payments cannot be made under the SI(S) Act unless there is a change of employment—a condition of release under the act.

Senator SHERRY—We know all that, and Mr Gray knows all that too. What has the outcome of the review been—anything that he does not know yet?

Ms Doran—The review has confirmed the facts of his case, the legal situation and that changes to legislation would be required to remedy his particular situation.

Senator SHERRY—Has he been informed of everything—everything that he already knew—that has been carried out in your review to date?

Ms Doran—The review has not yet been completed to that point.

Senator SHERRY—Is it intended that there will be legislation to remedy the situation of Mr Gray and others?

Senator Minchin—I am awaiting formal advice from the department about the review and any recommendations they wish to make to me as a result of the conduct of that review. I would not want to pre-empt it.

Senator SHERRY—It does not sound likely. All we have had so far in this review is an exact outline of the circumstances we already knew about.

Senator Minchin—It was proper to undertake to examine the case. That process is nearly complete, as I understand it. I await that advice and any recommendations that may come from it. I cannot say any more than that.

Senator SHERRY—The letter indicates more than an examination of the existing facts. You say:

... a re-elected Howard government would consider legislative changes to assist those members such as yourself who have been adversely affected by these changes.

Senator Minchin—That is being considered as part of this, and I await the advice of my department.

Senator SHERRY—When is the review likely to wrap up?

Dr Watt—Very shortly.

Senator SHERRY—I think it is already over, by the sound of it. What do you mean by ‘very shortly’—a few days?

Dr Watt—I think it will be even sooner than a few days. I think you can say that finality is nigh.

Senator SHERRY—It certainly sounded like it. Okay. I suspect it is not okay from the point of view of Mr Gray and the others who are affected, but it got you through the election campaign anyway, Senator Minchin. Mr Gibbs, are there other employees at ANU who are affected by this?

Mr Gibbs—ANU is one of the agencies.

Senator SHERRY—Telstra and the University of Canberra?

Mr Gibbs—Yes. Telstra, the University of Canberra, ANU—

Senator SHERRY—I recall one complaint to me from the University of Canberra—I think it was last year. Are there any others, other than in the Northern Territory?

Mr Gibbs—ADI is the other one that I am aware of.

Senator SHERRY—Coming back to the investment rate of return information, are you able to provide us with an update on the investment earning rate for this financial year?

Mr Gibbs—Yes, I can. The investment earning rate to the end of April, for both CSS and PSS, is just over nine per cent on a financial year to date basis. Again, there are some minor differences, but it is just over nine per cent in both of those funds.

Senator SHERRY—At this point in time, are we on track to exceed or certainly to meet the average of just over eight per cent?

Mr Gibbs—I never like to say that five weeks out from the end of a financial year—markets can be funny things—but certainly we are in excess of that 10-year average so far this financial year.

Senator SHERRY—You may not have this to hand, but in relation to the figures prior to 1995, going back over a 10-year or 20-year period, is there any significant variation from that just over eight per cent average?

Mr Gibbs—I was not around in the schemes or funds at the time, but the early nineties were a period of some volatility in returns, particularly in these funds. From memory, 1990 and 1991 were not good years for these funds, but that was mainly because the funds were very overweight in property. Going back to the eighties, these funds were not allowed to invest in shares, so the only growth asset they could have was property. So they had a very overweight position in property and, as you recall, the very early nineties were not good years. There was quite a significant crash, in fact, in property prices. The overweight position meant the performance, particularly in 1990 and 1991, was not good. On the other hand, if you go back even further, for example, to 1987, when we had the famous October sharemarket crash, not having any shares at that time and having property was very good. You can only look at these things over average periods of time.

Senator SHERRY—That is why I asked about the 10-year average.

Mr Gibbs—The 10-year average is what we look at. If you wanted to go to a 20-year average, I am still reasonably confident—and our long-term objective is in fact, on average, seven per cent per annum—that over 20 years that would have been achieved. I am not sure that it would have been exceeded, but it would have been achieved.

Senator SHERRY—Just on your long-term objective, do you get actuarial advice and asset consultant advice on this?

Mr Gibbs—We get asset consultant advice on expected returns from different asset classes. The long-term objective is then determined by the board, based on that advice but also based on what risk profile the board wants to take for the funds. There is not much point in having an objective without understanding the risk profile. You can have an objective which is to double your money tomorrow, but the only way you can do that is to take unacceptable levels of risk, so there is not much point in having that objective. So the two go hand in hand. You cannot get an actuary to predict what your return will be without understanding what your mix of asset classes will be. We put all the projections together, look at what risk we are prepared to take—that is, how often we are likely to have a negative return—and then determine an objective and a risk profile from there.

Senator SHERRY—I think I asked you this on the last occasion and I think the answer was positive: will the moneys contained in the PSSap, when it is established, be invested by your organisation?

Mr Gibbs—Yes.

Senator SHERRY—It was not clear to me in the act whether or not that was correct.

Mr Gibbs—The money will be invested by the PSS board as the trustee of the PSS accumulation plan. It will be invested in accordance with either the member's choice—because we will have a member investment choice regime—or, in the absence of a member making a choice, there will be a default investment strategy, which will be very similar to the investment strategy of the PSS defined benefits scheme and indeed the CSS.

Senator SHERRY—So hopefully it would turn out similar sorts of averages to those we have seen in the past?

Mr Gibbs—If the accumulation plan had been in existence for 10 years, the result of the default strategy would be exactly the result of the PSSdb average that we have provided to you.

Senator SHERRY—Will there be a cost to the member for the active investment choices that you propose to offer—as a direct charge, because it is more expensive?

Mr Gibbs—The cost of the choices will be built into the returns. In other words, the cost of investing will come off before we declare the return. The only additional cost will be if members switch between choices more than twice in a year. If that were to happen, an administrative fee will be charged for the extra switches. So there will not be any cross-subsidisation between members who want to switch every second day and members who do not switch at all. We will allow members two switches in a year for free.

Senator SHERRY—So there is some cross-subsidisation to that extent?

Mr Gibbs—To that extent, although that is very small in the overall scheme of things—in fact, immaterial.

Senator SHERRY—With respect to the expense ratio for funds under management, you provided the total expenses for each year. Has that changed at all in this financial year?

Mr Gibbs—You asked me this question last time and I said it was relatively stable. It has crept up by a basis point or two over the last two or three years. It might be three basis points. That really reflects two things. Firstly, we have moved to more active investment mandates and they are more expensive than passive investment mandates. We hope to offset that by getting better returns by outperforming the index returns. Secondly, the cost of just simply administering the scheme—in particular, regulation and the like—has gone up marginally, which has had an impact.

Senator SHERRY—With the advent of the fund choice legislation with respect to the PSSap—and it was acknowledged earlier that new employees will be able to transfer funds in—will you be seeking to do that? Is the fund itself encouraging that?

Mr Gibbs—Yes. In fact, members can now roll existing money into the PSSdb, and significant amounts of money are rolled in on a regular basis.

Senator SHERRY—I should have asked this question earlier, but the PSSap will not be public offer, will it?

Mr Gibbs—No, it is not public offer but people who are members, upon being employed in the Australian government sector, will be able to roll other superannuation moneys into the fund.

Senator SHERRY—What will happen if they cease to be an employee of the Commonwealth? Can they leave the money in the fund if they choose to do so?

Mr Gibbs—Yes, they can leave their money in the fund as a preserved benefit or, because it is now going to be fully funded, they may now roll their entire benefit out of the fund and into another fund.

Senator SHERRY—I am not sure whether you gave me the figures on the new accumulation fund. I think I did ask whether you had projected figures on the growth as a consequence.

Mr Gibbs—Yes.

Senator SHERRY—I am not sure whether you gave those to me.

Mr Gibbs—We did not get actuarial. We did our own very simple calculation which was based on average salary, 15.4 per cent times the number of new employees—that is not net addition; that is every new employee—a year and we simply rolled that forward and projected again investment earnings at our long-term rate. The reason that we have not provided that to you is that those figures were done before choice of fund. So they assumed that absolutely everybody, 100 per cent of new employees, would be members of the accumulation plan. With choice of fund, that would be a very brave assumption.

Senator SHERRY—Even with the investment return, the expense ratio, and the government or the departments and agencies paying the admin costs, it would seem to me to

be supremely illogical in a rational, informed decision-making market that anyone could possibly choose anything but this fund.

Mr Gibbs—We are very confident of our ability to compete in this new environment, but we would not ever like to say that we would get 100 per cent of people. There will be some people who, for whatever reason, may choose another fund. They might have an existing self-managed superannuation fund, for example—there are all sorts of reasons why we would not want to assume 100 per cent, but we certainly assume that the new accumulation plan will grow very steadily.

Senator SHERRY—What was the approximate figure before the choice of fund legislation was announced?

Mr Gibbs—Do you mean in the first year?

Senator SHERRY—Let it take it through five years—if you have those figures.

Mr Gibbs—I do not have them off the top of my head. But I think it after five years be around \$300 million. I am happy to provide the numbers we originally did, on the clear understanding that they were done before choice of fund.

Senator SHERRY—That is fine.

Mr Gibbs—I am happy to do that.

Senator SHERRY—I understand the caveat. The only exception, as we have heard tonight, is that an agency or department can in law have an AWA that precludes the PSSap, apparently.

Mr Gibbs—You would probably know more about the general choice of fund arrangements than I do. But, as I understand it, if a fund is specified in an AWA or certified agreement to be the fund into which an employer will pay contributions then that is where the employer pays the contributions and that overrides choice of fund provisions.

Senator SHERRY—In those circumstances, where an agency or department entered into such an arrangement or was proposing to enter into such an arrangement, would you believe it to be proper that you as an organisation be consulted by that agency or department?

Mr Gibbs—That is not something that the board has considered.

Senator SHERRY—Would your organisation want the opportunity to explain to any potential new employees the benefits of the fund?

Mr Gibbs—Obviously, and I think there will be adequate opportunity for us to be able to do so. Of course, there is also the choice form, which we mentioned before, where it has to be disclosed if the employer is currently paying more than the SG and choice would lead to them paying less than the current amount. Plus, we have very good existing relationships with all of the employers departments and so forth and we are working with our administrator to make the transition to the AP as smooth as possible. We think all of those arrangements are satisfactory from our point of view.

Senator MOORE—Mr Gibbs, my understanding is that up until now there has been very clear access in and out of the department from your people, telling people what is going on. It surprises me that you said on the situation about discussion with the employer if they had

chosen to go to another fund that you had not considered that. Given the fact that you have been preparing for this for a while, that that is something that has not been worked through is surprising to me. I am just putting that on the record.

Mr Gibbs—What I said was that it had not been specifically considered by the board. We are waiting to see the precise arrangements that might apply.

Senator MOORE—So it may have been considered by the administration but not considered as an agenda item by the board. That is clearer than saying that it had not been considered.

Senator SHERRY—Given your record and the costs that you have given to us through the minister, it will be interesting to examine the record of the future fund vis-a-vis your record, Mr Gibbs.

Mr Gibbs—I do not think the future fund is an area that I need to comment on.

Senator SHERRY—Isn't it true that your organisation contains very similar—if not the same—levels of expertise to those which will be contained in the future fund?

Mr Gibbs—I do not know. I can only assume that the future fund will need to have employees with some of the skills and expertise in some of the categories where we need to have employees, such as investment professionals and investment back office staff and the like.

Senator SHERRY—That begs an obvious question, doesn't it?

Mr Gibbs—It is not a question for me.

Senator SHERRY—I thought I would give it a try.

Dr Watt—Mr Chair, if Senator Sherry has finished and Senator Moore has no questions, have we finished outcomes 1 and 2 as far as the department is concerned?

Senator SHERRY—Sorry.

Senator MOORE—You will regret that, Dr Watt!

CHAIR—I wish you had not raised that!

Dr Watt—I will retract the question!

[10.06 pm]

Senator SHERRY—I was a bit carried away with the super, yet I do have some questions for outcome 2, Improved and more efficient government operations. I got so focused on the future fund and super that I was forgetting my other obligations.

Dr Watt—Can I let the officers for outcome 1 go?

Senator SHERRY—Yes. All of outcome 1 is gone. I have a few questions on outcome 2.

Dr Watt—I take it also that you do not want to see the CSS and PSS boards or ComSuper again?

Senator SHERRY—No.

Dr Watt—Thank you.

Senator SHERRY—I have some further happy news. The questions on outcome 2 relate to the possible sale of Telstra. I do not have questions in respect of outcomes other than this matter.

Dr Watt—Thank you. We will let the officers for the rest of outcome 2 go.

Senator SHERRY—I understand from a speech delivered by the minister that the scoping study is expected to provide advice on the possible sale of Telstra by the middle of this year. Other than the reference to the middle of this year, can we be more precise in terms of timing?

Dr Watt—I think the middle of this year is about right—pretty much close to the middle.

Senator MOORE—The end of the financial year?

Dr Watt—The calendar year.

Senator SHERRY—I understand from the same speech that the ‘sale legislation is drafted to accommodate all sale process contingencies’. Does this mean that the legislation would seek to allow the sale process to proceed in a number of alternative ways?

Mr Heazlett—Sale legislation was drafted and introduced into the parliament in 2003. That sale legislation did provide for a broad range of possible sale approaches. There is no other legislation currently in existence.

Senator Minchin—Senator Sherry, what I was saying was that the results of the scoping study would help inform, in terms of sale options, any tweaking or finetuning of the sale legislation before it was re-presented to the Senate.

Senator SHERRY—The speech indicated that the scoping study will deal with a number of issues, including what demand there would be; what price is achievable; whether it can be sold in one tranche; what alternative selling methods there are; whether foreign ownership limits should be raised to 49 per cent, while always guaranteeing majority Australian ownership; whether a by-back is part of the picture; whether a hybrid is part of the picture; and what role a future fund can play in taking part of our stock. That is a summation of the issues you have raised. With regard to proposing to sell the government’s stake in Telstra in one tranche, is it your obvious preference to do that, Minister?

Senator Minchin—I have said on numerous occasions that I think it stands to reason that *prima facie*, all things being equal, the government would prefer to exit Telstra in one stage, but that is subject to the criteria we have laid out and subject to the advice of the scoping study. Given that it has been our policy to be out of Telstra for some 10 years now, it would be desirable, *prima facie*, that we remove ourselves from the register entirely in one hit. The government has not made a decision to do so. We will make a decision based on the results of the scoping study.

Senator SHERRY—I note your preference. I was aware of that. Why is the sale reflected in the budget papers in three tranches and not one, then?

Senator Minchin—As we have said many times, that is simply an operational assumption. It is not a government decision; it does not indicate a government preference. It is simply for the purposes of reflecting the government policy—which is to sell—in the budget. It is just an estimating assumption. Yes, we could have put another assumption but that is the one we have

had for some time. It could well be what in fact occurs. For the purposes of the budget, it is transparent and it reflects the policy, but it does so by way of that assumption rather than another.

Senator SHERRY—Just so that the National Party are clear on this particularly, there is no commitment that if the Telstra sale proceeds all of the proceeds from the Telstra sale would go into the future fund?

Senator Minchin—No, there is no such commitment.

Senator SHERRY—The media seem to have assumed—some of them, at least—that all of the sale proceeds will go into the future fund.

Senator Minchin—They are wrong to conclude that any such decision has been made.

Senator SHERRY—You are apparently having EconTech look at the issue of a Google style auction?

Senator Minchin—That is correct.

Senator SHERRY—This is a contract arrangement with them, presumably?

Senator Minchin—Yes, let by the department based off a competitive tender.

Senator SHERRY—They have been successful in the competitive tender?

Mr Watt—That is correct.

Senator SHERRY—What is the total price of the tender?

Mr Watt—I would need to refresh my memory. I look to other officers.

Senator SHERRY—Approximately?

Mr Heazlett—It is in the order of \$200,000.

Senator SHERRY—Minister, I know you went to the US and one of the issues you looked at was the Google style auction. You say in your speech:

My experience from the US suggests a Google-style auction is not necessarily the way to go ...

Why is it that, after you undertaking this undoubtedly invaluable trip to the US—whatever the cost of that was, and I am not interested in that—and making what seems to be a reasonable conclusion, we are now getting EconTech spending \$200,000 to examine this?

Mr Watt—EconTech's brief is much broader. It is looking at alternative selling techniques, of which the Google style approach is one—but only one. It is also looking at other auction or tender methods.

Senator Minchin—We said at the time we announced that we would conduct the scoping study—which was back in February or so—that on the one hand we would have the scoping study but on the other we would also engage a separate study of other sale options. That is what the EconTech brief is about. But there has been some public discussion about the question of a Google style auction and its relevance to Telstra, and so naturally that was the subject of discussions I held in the US. I reflected publicly on the general thrust of those discussions, but that is not to say that we do not want a very thorough and professional

examination of alternative selling options by EconTech. I will be very interested in the outcome of it.

Senator SHERRY—Your speech states that the scoping study is considering whether a buyback is part of the picture. What is meant by that?

Mr Lewis—Perhaps I can help with that. A buyback would be an opportunity for the company—if it formed the view it was in the interests of all shareholders—to acquire some of the shares that the Commonwealth, as vendor, has as part of an offer.

Senator SHERRY—So is it examining whether it is feasible or how it would be structured and executed or both?

Mr Lewis—Probably all of those things.

Senator SHERRY—Minister, given it was your speech, can you explain what was meant by the statement:

Whether foreign ownership limits should be raised to 49%, while always guaranteeing majority Australian ownership?

Senator Minchin—As you know, it is government policy that Telstra remain majority Australian owned, which I guess means that by definition it has got to be at least 50.1 per cent. The current method for giving effect to that policy is one we inherited, I think, which is that the maximum foreign holding is 35 per cent. The government has not made a decision to change that, but we are quite openly saying that we want the scoping study to examine the implications of any movement up from 35 per cent—by definition to a maximum of 49 per cent—and the implications of such a legislative change upon the wholesale process.

Senator SHERRY—In response to Senator Conroy's question on the theme of selling Telstra to buy Telstra, if it could be summarised as such, and the context of the future fund. You indicated that the future fund might own Telstra shares, and it does seem to me to be a very strong argument that when it is established it would at least own some Telstra shares. What examination has been given to that transfer approach?

Senator Minchin—That will be looked at as part of the scoping study. I think I remarked in that speech on the general question of the role that the future fund might play in the sale process.

Senator SHERRY—There is no reason why the government's current total holding in Telstra could not be transferred into the future fund, is there?

Senator Minchin—We are not allowed to do so by law.

Senator SHERRY—If the laws change, of course.

Senator Minchin—If the laws change then theoretically that would presumably be an option available to the government.

Senator SHERRY—Wouldn't one of the advantages of such an approach be that you would minimise sale costs and funds management costs in a future fund?

Senator Minchin—There would be a whole lot of costs and benefits to a whole variety of different scenarios. That is what the scoping study is all about. We could go through any

number of scenarios tonight and identify costs and benefits, but really that is what the scoping study is about.

Senator SHERRY—In the speech, you note that the \$5.25 price assumed in the budget is not a target—but you go on to say:

... if the proceeds were to go into the Future Fund and the Fund can earn higher returns than the RBA, then the share price needed for an appropriate return may not be as high.

What is meant by that statement?

Senator Minchin—I guess I was pointing to the possibility that there is an opportunity cost in the government's single investment being held entirely in Telstra, as opposed to it being held in a more diverse arrangement, and that it is not unreasonable for the government to examine that in coming to a decision about the circumstances of the sale and for us to have satisfaction that we have met our criteria—that is, achieving an appropriate return.

Senator SHERRY—You also stated:

... if cost savings can be achieved through a good scoping study—either costs within the company or sales costs—then this could change the sale equation as well.

What is meant by that statement?

Senator Minchin—As the opposition, your attacks on the sale have focused on the government's published assumptions about sale costs.

Senator SHERRY—Part of them.

Senator Minchin—It has been a big part of them. Those assumptions are simply based on relevant experience in past asset sales. Being conservative and transparent, we have put them into the budget. Obviously, if it appears that we can sell our remaining shares at a much lower cost than that indicated or would be anticipated by reference to past experience, then that would also change the equation.

Senator SHERRY—Is that not a signal that the government is prepared to accept less than \$5.25?

Senator Minchin—We have never said that \$5.25—as I said in that speech—was or should be seen as any sort of target price.

Senator SHERRY—You go on to say:

A formal decision to sell part or all of our shares in this term has not yet been made, but the Government will need to make a decision one way or the other in the second half of this year.

Is that a reference to the calendar year or the financial year?

Senator Minchin—The calendar year.

Senator SHERRY—Why does the government need to make a decision one way or another in the second half of the calendar year?

Senator Minchin—Obviously we do not want a sale coinciding with the date of the next election. That would be fairly obvious. If you assume that the government would naturally want to have a sale process completed in an appropriate period prior to the due date of the next election, then, based on the advice as to the length of time the sale process can take—and

it is a very lengthy process, depending on the sale methodology—it brings you to having to make decisions in the second half of this year.

Senator SHERRY—There is one other comment I note in your speech: you say you ‘reject the criticism from the ALP that the future fund should be spent on infrastructure’. That is not actually what we announced.

Senator Minchin—I am happy for you to enlighten me, but, as I understood it, you were indicating that the earnings from the fund would be available for spending on infrastructure. I do not think I have really misrepresented you.

Senator SHERRY—Yes—earnings. You clearly indicated that the whole thing is going to be used for infrastructure, which is not correct.

Senator Minchin—I did have in my mind your policy, which, as I understand it, is to use the proceeds on infrastructure. I am sorry if you feel I have misrepresented your position.

Senator SHERRY—I do, and I look forward to addressing an ABN AMRO communications conference to outline it at an appropriate time. I thought we would end on that happy note.

CHAIR—Thank you for your attendance here today.

Committee adjourned at 10.25 pm