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SENATE

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

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SENATE
ECONOMICS LEGISLATION COMMITTEE
Monday, 30 May 2005

Members: Senator Brandis (*Chair*), Senator Stephens (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

Senators in attendance: Senators Bartlett, Brandis, George Campbell, Chapman, Conroy, Lundy, Mason, O'Brien, Robert Ray, Watson and Webber

Committee met at 9.02 am

INDUSTRY, TOURISM AND RESOURCES PORTFOLIO

In Attendance

Senator Minchin, Minister for Finance and Administration

Department of Industry, Tourism and Resources

Executive

Mr Mark Paterson, Secretary
Mr John Ryan, Deputy Secretary
Ms Patricia Kelly, Deputy Secretary
Mr Tim Mackey, Deputy Secretary

Outcomes and Outputs

Mr Drew Baker, General Manager, ICT Services Branch, e-Business Division
Ms Tricia Berman, General Manager, Innovation Policy Branch, Innovation Division
Mr Chris Birch, Acting General Manager, Performance Management, AusIndustry
Ms Vicki Brown, General Manager, International Energy Branch, Energy and Environment Division
Mr Don Bruncker, General Manager, Industry Analysis Branch, Industry Policy Division
Ms Chris Butler, General Manager, Business Development, AusIndustry
Mr Peter Chesworth, General Manager, Strategy, Office of Small Business
Mr Drew Clarke, Head of Division, Energy and Environment Division
Mr Peter Clarke, General Manager, Automotive and Engineering Branch, Manufacturing, Engineering and Construction Division
Ms Sarah Clough, Acting General Manager, Industry Sustainability Group, Tourism Division
Ms Tania Constable, General Manager, Resources Development Branch, Resources Division
Mr Ivan Donaldson, Executive Director, Australian Building Codes Board, Manufacturing, Engineering and Construction Division
Ms Robyn Foster, Acting Chief Financial Officer
Dr Michael Green, General Manager, Advanced Manufacturing and Space Licensing Branch, Manufacturing, Engineering and Construction Division
Mr Tony Greenwell, Acting General Manager, Policy, Office of Small Business

Mr Paul Griffin, General Manager, Business Entry Point Branch, e-Business Division
Ms Kerri Hartland, Head of Division, Innovation Division
Mr John Hartwell, Head of Division, Resources Division
Ms Marie Johnson, Head of Division, e-Business Division
Mr Barry Jones, Executive General Manager, Invest Australia
Mr Detlef Jumpertz, Acting General Manager, TCF and Construction Branch, Manufacturing, Engineering and Construction Division
Mr Terry Lowndes, Head of Division, Industry Policy Division
Mr David Luchetti, Acting General Manager, Aerospace and Defence Industries Branch, Manufacturing, Engineering and Construction Division
Mr Rob McKeon, General Manager, Industry Collaboration Group, Manufacturing, Engineering and Construction Division
Mr Ken Miley, General Manager, Trade and International Branch, Industry Policy Division
Mr Brendan Morling, General Manager, Industry Policy Branch, Industry Policy Division
Mr Paul Mornement, Acting General Manager, Online Systems Branch, e-Business Division
Mr Peter Morris, General Manager, Tourism Market Access, Tourism Division
Ms Janet Murphy, Head of Division, Tourism Division
Mr Kevin Noonan, General Manager, ICT Operations Branch, e-Business Division
Mr Philip Noonan, Head of Division, Corporate Division
Mr Kevin O'Brien, General Manager, National Energy Market Branch, Energy and Environment Division
Mr Steve Payne, General Manager, Minerals and Fuels Branch, Resources Division
Mr Bill Peel, Executive General Manager, AusIndustry
Mr Craig Penniford, General Manager, Pharmaceuticals and Biotechnology Branch, Innovation Division
Mr Ken Pettifer, Head of Division, Manufacturing, Engineering and Construction Division
Ms Karen Powell, Acting General Manager, ICT Operations Branch, e-Business Division
Ms Kerry Rooney, General Manager, Business Development Group, Tourism Division
Ms Margaret Sewell, General Manager, Safety Taxation and Projects Branch, Resources Division
Mr Paul Sexton, General Manager, Customer Services, AusIndustry
Mr Sam Skrzypek, General Manager, Small Business and Industry Programs, AusIndustry
Dr Terry Spencer, Acting General Manager, Chemical and Biological Metrology Branch, National Measurement Institute
Mr Garry Wall, General Manager, Energy Futures Branch, Energy and Environment Division
Mr Denis Waters, Acting General Manager, Business and Ministerial Services Branch, Corporate Division
Ms Sue Weston, Head of Division, Office of Small Business
Ms Judith Zielke, General Manager, Innovation Programs, AusIndustry

IP Australia
Ms Kate McRae, General Manager, Human Resource Management Group, IP Australia
Dr Peter Tucker, General Manager, Business Development and Strategy Group

Geoscience Australia

Dr Clinton Foster, Chief of Petroleum and Marine Division
Mr Peter Holland, General Manager, National Mapping
Dr Phil McFadden, Chief Scientist and Chief of Geospatial and Earth Monitoring Division
Dr Chris Pigram, Chief of Minerals Division
Dr John Schneider, Group Leader, Risk Research Group, Geoscience Australia
Mr Tony Robinson, General Manager, Corporate
Dr Neil Williams, Chief Executive Officer

Tourism Australia

Mr Geoff Buckley, Director, Strategy and Research
Mr Sasha Grebe, General Manager, Corporate Affairs
Mr John Hopwood, Executive General Manager, Corporate Services
Mr Scott Morrison, Managing Director
Mr Peter Robins, Manager, Tourism Research Australia

CHAIR—I declare open this hearing of the Senate Economics Legislation Committee. On 10 May 2005 the Senate referred to this committee the particulars of proposed additional expenditure in respect of the year ending 30 June 2006 for the portfolio areas of Treasury and Industry, Tourism and Resources. The committee is required 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, 22 July 2005 as the date for the receipt of written responses to questions taken on notice. The committee will consider the proposed expenditure for departments and agencies in the order in which they appear on the agenda which has been circulated in the room. Today's hearings will begin with the Industry, Tourism and Resources portfolio. The committee will examine the proposed expenditures of the industry division today, and the resources and energy divisions and the tourism division tomorrow morning.

Before we start, there are a few formal matters I should mention. I have been asked to remind everybody that mobile phones should be turned off or to silent operation while you are in the hearing room. 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. Giving false or misleading evidence to the committee may also constitute a contempt of the Senate. I also remind officers and senators that an officer shall not be asked to give opinions on matters of policy and should be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. Officers also have the right to object to answering a question in circumstances that are consistent with the Senate's privilege rules. All officers appearing before the committee are protected by parliamentary privilege with respect to their evidence.

I now welcome Mr Paterson, the head of the Department of Industry, Tourism and Resources. Mr Paterson, would you like to make any opening remarks?

Mr Paterson—I have no opening statement to make, Senator, but I would like to express my gratitude to members of the committee in working with us to try to schedule the

sequencing of the evidence being given today and identifying some matters to be dealt with tomorrow which means that it is less resource demanding, so I appreciate that.

CHAIR—We are always concerned to try and meet your convenience where we can. We will start with general questions.

Senator LUNDY—I have got some broader PBS questions but I would like the minister to be present so I will start with just some specifics relating to the PBS and staffing issues within DITR. Can the department tell the committee whether there has been an overall staff reduction from either the department or any of the specific programs within the department?

Ms Foster—Overall results from this budget are showing an increase of average staffing levels of eight from last budget.

Senator LUNDY—On page 62 of the portfolio budget statements there is a line item referring to employees showing that in 2005-06 it is 149,483 and then going on into the out years indicating a reduction. If there has been an increase of eight from last year to this year's allocation, can you describe the reduction over the out years?

Ms Foster—The out years reductions would take into consideration the policy ons and offs in programs in the forward estimates and would also take into consideration current wages rates, superannuation et cetera. So while we have got a peak now in the forward estimates, there are some programs that do drop off and that is why the employee wages will go down slightly. It is the normal flow of program funding.

Senator LUNDY—What does 'ons and offs' mean?

Ms Foster—New policy coming on, dropping off, programs lapsing, rephasings—those sorts of normal flows.

Senator LUNDY—It shows a net reduction of some \$9 million by 2008-09. Is that normal ons and offs?

Ms Foster—It would be, and for us to drill down any further on those figures I would have to do some more detailed analysis. But it is just showing the normal flow with the forward estimates and current funding.

Senator LUNDY—I would like some more detail because I have several more questions about this. Are you able to put a figure on employees against that reduction in expenditure for employees over the out years?

Ms Foster—We should be able to do that. We will see if we can get that information back to you today.

Senator LUNDY—Okay.

Mr Paterson—We could spend a lot of time on that analysis, but it is normal practice for programs that lapse to not have an ongoing life in terms of the forward estimates. We can spend a lot of time in the out years; we can be reasonably confident as to what the position is in relation to the current financial year. But what happens to programs is they are further enhanced as they are reviewed as new programs come on, and those numbers in the out years will obviously vary.

Senator LUNDY—How tightly are they forecast in terms of employee numbers? For example, there is this \$9 million cut to salaries, essentially. Can it be specifically offset against the changes and the ons and offs of the various departmental programs or is it an estimate on behalf of the department of an overall increase over time?

Mr Paterson—They are forward estimates so they give an indication of what we know at the present time we have approved in terms of projects that we are required to undertake along with base funding. But those approvals vary from budget to budget. So, yes, we can be confident about those numbers based on the programs that we are currently approved to administer but, as I said, we can spend a lot of time in the out years but the out years are the things that vary. This is an indication of the decisions that have been taken to date that we are aware of and the consequences of those decisions.

Senator GEORGE CAMPBELL—Accepting what you say, if you look at the year 2005-06, which is your peak, there is a decline of \$5 million in the next year. That is not that far away. There must be some significant shift in the programs to warrant the cut of \$5 million in terms of staffing.

Senator LUNDY—We are making it easy for you by just going to the next financial year—that is, 2006-07—where there is a \$5 million cut between this forthcoming financial year and that financial year. So can you explain what programs will be cut and what staff will be cut to satisfy that reduction of \$5 million?

Mr Paterson—When you say programs that will be cut, they will invariably be programs that will lapse or have a profile that is lower in the out years than in the current year. We will come back to you in relation to the detail of those numbers.

Senator Lundy—Is any officer at the table now able to match up those staffing reductions against changes or ons and offs in DITR programs?

Ms Foster—Not right at this moment; that will take a little while to do. We will have to look at the numbers.

Senator LUNDY—Have any staff been recruited to the department this financial year?

Mr Paterson—We are constantly recruiting staff.

Senator LUNDY—Eight staff was the number mentioned as being the peg.

Mr Paterson—That is a nominal headcount in terms of the approved allocation. Like any employer we are constantly recruiting staff. We have staff turnover, people are promoted, people pursue other career opportunities and people take leave, so we are constantly recruiting.

Senator LUNDY—Perhaps you could tell us what your turnover has been like—how many new staff have come on and how many have left?

Mr Paterson—It varies. Do you want overall numbers?

Senator LUNDY—For this current financial year.

Ms Foster—We would have to come back to you on that.

Senator LUNDY—Can you provide the committee with a table that shows current staffing against each of the groups, branches, sections and administered programs so that we can have a clear picture of the staffing resources allocated to each of those tasks within the department?

Ms Foster—For this financial year?

Senator LUNDY—If you have one for next financial year that would be helpful too, and then we can compare them.

Ms Foster—There is quite an amount of work to be done to provide such a detailed table. I am happy to do that but I would have to take the question on notice.

Senator LUNDY—Surely the secretary would have that as a matter of course for the good management understanding of where staffing resources were allocated at any given point in time.

Mr Paterson—Certainly we can prepare a table for you in relation to the current year's allocations. The allocations for out years are not made until we are confronted by the budget that we seek to implement for the out years.

Senator LUNDY—Going back to our earlier question, then, how do you determine that there will be an overall decline in expenditure on staff if you have not done those allocations? I thought that was the information to be pursued for us.

Mr Paterson—What we have indicated to you is that these are the estimates of the experience we will have in those out years, based on decisions that have been taken to date. But there will be additional estimates processes between now and then and there will be a budget between now and then. We allocate the resources at the start of the financial year and then modify the allocation of those resources depending on new priorities or new pressures that are brought to bear on us. So certainly we can give you an indication of the staffing allocations per division and the activities that those divisions will be required to undertake for the financial year we are about to enter—

Senator LUNDY—For 2005-06

Mr Paterson—because we have just gone through the process of allocating the resources for each division to meet the priorities that have been identified.

Senator LUNDY—Can you also provide them for the current financial year? You have agreed to provide them for 2005-06. I go back to my earlier point that if you have a notional expenditure on salaries for the out years, that tells me that you would have at least put some notional allocation of staffing resources against those out years based on what you think the programs will be.

Mr Paterson—We do not commit allocations to staffing resources to divisions in the out years, other than having a nominal indication in the forward estimates.

Senator LUNDY—Is that nominal indication in a dollar figure or in a number of employees figure?

Mr Paterson—Dollars.

Senator LUNDY—Only dollars? You do not break it down into numbers of employees?

Mr Paterson—It would be a waste of resources to undertake that exercise because we will be confronted by new challenges, with new budget priorities at the time, that we will have to implement—and that is the time we will go through the detailed allocation.

Senator LUNDY—So, given there is a \$5 million reduction in the subsequent financial year—in 2006-07—and then another reduction after that, what you know already is that you will have to find those savings in your human resources regardless of what the budgets say, or modified only by what the budgets say.

Mr Paterson—To the extent that decisions are taken for the subsequent years, we manage the allocation of staffing resources at that time depending on those priorities. If we made those decisions now we would not know the environment we are going to be operating in at that time.

Ms Foster—I can give you the average ASL across the forward years for employee expenses. I have the notional numbers in front of me.

Senator LUNDY—The notional numbers?

Ms Foster—Yes, the ASL numbers.

Senator LUNDY—The secretary just said that you did not do it with numbers of employees for the out years.

Ms Foster—At the very top level, and they are notional average numbers at the very top level, and not broken down—I do not have those. For employees in 2006-07 it is 1,661, for 2007-08 it is 1,667 and for 2008-09 it is 1,638. I stress again they are the notional numbers, and they are the average numbers worked out on the known funding for those years.

Senator LUNDY—What are they in 2005-06?

Ms Foster—In 2005-06, 1,750.

Senator LUNDY—In 2004-05?

Ms Foster—In 2004-05 we had 1,742. You can see there the increase of eight from 2004-05 to 2005-06.

Senator LUNDY—And the decrease of 89?

Ms Foster—Yes, from 2005-06 to 2006-07. I am told that they are largely due to the drop-off of some funding in BAA 1 and also in funding in Commercial Ready. It is the highest levels that contribute to those numbers.

Senator LUNDY—Any other programs?

Ms Foster—Not that I have in front of me, no.

Senator LUNDY—Are there any programs that you do not have in front of you that you know will be cut or reduced?

Ms Foster—They are the main drop-offs, offset by growth—there is some small growth in other programs.

Senator LUNDY—Are there any other programs, however minor, that will be either cut or reduced?

Ms Foster—Not that I can see here in front of me, no.

Senator LUNDY—That was not my question. Are there any others, whether you can see them in front of you or not?

Mr Paterson—We will get the detailed responses to your questions. I make the point—I am not seeking to defend my colleague—that Robyn Foster is acting CFO and has been in that role for two and a half weeks. Our former CFO, who had been with the portfolio in that role for 20 years, was recently promoted to the Department of Human Services and was therefore appearing in estimates for Department of Human Services last week. Robyn has been acting in the role of CFO for a relatively short period so if we are not on top of all of the detail immediately in our responses to your questions we will get you the answers.

Senator LUNDY—You would know whether there was going to be any other cuts or reductions to other programs within your department, surely?

Mr Paterson—In terms of substantial changes?

Senator LUNDY—No, that is not my question. Are there going to be any cuts or reductions?

Mr Paterson—We will come back to you with the detail of the answer.

Senator LUNDY—We will be working through the programs later in the day but I would like to have a general overview about the cuts or reductions to any programs within the department while we are going through these general questions and then later we will come to the detail of the specific programs that you identify will be cut or reduced.

Mr Peel—One program that will cease this year is the Shipbuilding Innovation Scheme. Funding for the administration of the R&D tax concession, which is several millions of dollars, runs out this year, so we will need to seek renewed funding in next year's budget for that program. But they are the only significant changes that I am aware of.

Senator LUNDY—I am sorry, can you tell me about the shipbuilding program again?

Mr Peel—The Shipbuilding Innovation Scheme ceases this year, and funding for resources in the department for the R&D tax concession runs out this year so we will have to bid for those resources in next year's budget. The program stays intact but the money to administer the program runs out this year. That would have an impact on staffing numbers in the forward estimates but we will be seeking that funding in the next budget.

Senator LUNDY—Are you able to put a staffing figure, in dollar terms or numbers of employees, against the termination of the resources supporting the R&D tax concession in next financial year, 2005-06? What I am asking is: to what degree did they account for the drop of 89 employees?

Mr Peel—Each quarter we undertake an assessment of where we are using our resources in AusIndustry, and the latest figure that I have for the R&D tax concession for 2004-05 was that we were using about 63 staff to administer that program.

Senator LUNDY—Why haven't the forward estimates and forward resources been allocated against that particular program's administration?

Mr Peel—It is just a normal factor of the budget process that funding is provided in four-year chunks, and then at the end of that period the funding is reviewed. In relation to the tax concession, we are coming to the end of that period so in the next budget we will have to bid for more resources for that program.

Senator LUNDY—When was the original forward year estimates for that tax concession allocated?

Mr Peel—The tax concession has been going for many years now but it would have been allocated, I guess, three years ago because, as I said, they are looked at in four-year chunks.

Senator LUNDY—Help me out here—what financial year would that have been?

Mr Peel—It would have been in 2001-02.

Senator LUNDY—Minister, is there any reason why the government would not have anticipated the ongoing tax concession program and provided for the department in the forward year's estimates rather than allow this situation to emerge where quite a substantial staff cut appears to be in train? Your officers say that this is normal and they will apply for funding next year, the implication being they will get it, and that drop in staffing levels will appear less dramatic, so is there a policy explanation for this approach?

Senator Minchin—It is normal across the government—you will find it in all departments and it certainly predates our government—that government programs, generally speaking, either are designated to lapse after a certain period in order to be reassessed and properly reviewed to ensure they are still meeting their objectives or are terminated, in which case a formal decision has to be made to reactivate them. This, like most other programs, is a lapsing program. It does not mean that it will terminate but, because it lapses, once the current round of funding approaches the expiry date the minister then responsible will be invited to come to the budget process to bid for that program to continue at a certain level of funding.

It is an absolutely normal and proper process. It ensures that programs just do not go on ad infinitum without any review or assessment of whether they are meeting their objectives. But it does mean that we always get this problem—that, by definition, if it is lapsing, the money in the years beyond the lapsing point will not appear. That always causes oppositions and other interest groups to engage in a certain bit of hysteria. Nobody should read into it any view that the program will not continue. On a program like this, obviously we have not made a decision to do so. I think it should be assumed that there will continue to be a program of this kind.

Senator LUNDY—Now is your opportunity to ensure that there is no concern or hysteria about the future of this program. Is it the government's intention to resolve this by making the appropriate allocation in next year's budget?

Senator Minchin—That will be a matter for the government to decide when we review the program. It will lapse and we will review it.

Senator ROBERT RAY—The finance minister would insist that that be in the forward estimates, if the decision was likely, or had been made, would he not?

Senator Minchin—Well it would not necessarily be listed as a program expenditure; there may be budget provision for it to continue.

Senator ROBERT RAY—Yes, you would have to make a budget provision for it. You have not, have you?

Senator Minchin—Sure, but I am not going to announce here and now that the program is going to continue.

Senator ROBERT RAY—I am not asking you to.

Senator Minchin—Obviously, we ensure that there is budgetary provision on an assumption that it is going to continue—but not specifically.

Senator GEORGE CAMPBELL—Who is undertaking the review?

Senator Minchin—For any program that lapses, the government will make a decision that it be reviewed. The government will decide that the line department, or the line department together with central agencies, should bring a review to the ERC. Normally they are internal reviews of the cost-effectiveness of the program and normal budgetary disciplines to ensure that programs are meeting their objectives. If the review confirms they are meeting their objectives or they can be tweaked in such a way that they will better meet their objectives then decisions are made accordingly.

Senator GEORGE CAMPBELL—That was a good non-answer.

Mr Paterson—It is worth noting we are using the R&D tax concession by way of example because we have to seek the administrative funding for that in next year's budget but there is no suggestion that there is any change in the numbers in relation to the R&D tax concession. We only need to bid for additional resources in next year's budget for the dollars associated with our administration of the program.

Mr Peel—That is right.

Senator GEORGE CAMPBELL—But the minister has just said that the program is under review.

Mr Paterson—It is the administration funding of the program that is under review; the program itself is ongoing.

Mr Peel—Perhaps I could clarify this. The R&D tax concession is a revenue forgone program so in cash terms no funds need to be generated for the program. The funding for the administration of the program lapses this year so we need to rebid for that. In tandem with that we are currently undertaking an evaluation of the effectiveness of the R&D tax concession. That is currently under way.

Senator GEORGE CAMPBELL—But there are two departments involved in this process, aren't there?

Mr Peel—Yes, the tax office and this department administer the tax concession.

Senator GEORGE CAMPBELL—Is the same thing happening in the tax office?

Ms Berman—Yes. In BAA1, Backing Australia's Ability 1, there was a review of the tax concession in 2000. As a consequence of that, you will be aware, two new elements arose: the premium and the offset. And part of that decision was that there would be an evaluation this coming financial year of the effectiveness of those. That is the evaluation that is about to take

place. That has been agreed to by the Treasurer and our minister and it will commence in the latter half of this calendar year. Part of that evaluation will consider the administrative costs associated with it.

Senator GEORGE CAMPBELL—And as a consequence of this, this department has not provided a line item in respect of the funding of those 63 employees who service or administer the tax concession in the department. Has the tax office done the same?

Ms Berman—The tax office also has not got administrative funding for the continuation of the tax concession; this is not unusual. The same thing was the case back in 2000, and part of 2001 provided the administrative costs. But the administrative costs are only for a certain number of years and then it is reviewed, because it could be, for example, that there are changes in the costs of administration associated with the pick up of the two new elements. So that will be taken into consideration as part of the review at the end of this calendar year.

Senator GEORGE CAMPBELL—Yes, I understand that, but it seems to me that, if you have a program—and Mr Peel says there is no intention of stopping it; it is ongoing—you may want to change it, but you would at least put some figures in the forward estimates, based on what you know about the existing program. You can always make a variation for the changes; you do that consistently. You have changed these programs every year for the past seven years, and you have still made provision for the staffing arrangements for the follow-up year. Why has staffing been discounted out of the forward estimates for this particular program, if the intention is for the program to be ongoing?

Mr Peel—We have tried to explain that this is the normal way the budget is managed, and that it has been managed this way for many years. The administration of the program has been funded for four years. Towards the end of that time we need to put in a bid for the following budget for another four years worth of funding. So it is just a normal process; there is nothing sinister about it at all. It is just a normal budgetary process that we are required to follow.

Senator GEORGE CAMPBELL—I have not been here when Labor have done budgets. I will have to take your word that is normal.

Mr Peel—It is just a normal process.

Senator LUNDY—You said before that the cost allocation on the R&D tax offset is ongoing and that there is no indication that it is going to stop in the out years, pending reconsideration and further budget allocation. Can you tell me where I would find in the portfolio budget statements those out-year allocations against the costs of the R&D tax offset?

Mr Peel—The R&D tax offset is part of the broader R&D tax concession, so there are no provisions in the out years for the tax concession. We need to seek those funds in the coming budget.

Senator LUNDY—For the tax concession?

Mr Peel—For the whole program, part of which is the offset.

Senator LUNDY—What is the timing of the review? Ms Berman mentioned that it would take place in the latter half of this calendar year.

Ms Berman—We anticipate it will probably commence in about September or October. We have been doing quite a bit of preliminary work and talking to the other agency about the process. A lot of effort has been undertaken to date to ensure that it is a comprehensive review. In fact, it was agreed I think two years ago between the Treasurer and our minister that this would happen at this time.

Mr Peel—Perhaps I could provide a little more clarification. Provision for the revenue forgone as a result of the tax concession, rather than provision for the resources to manage the tax concession, is contained in the Treasury tax expenditure statement. That shows figures for the total program going out to 2006-07.

Senator LUNDY—So it continues into 2006-07?

Mr Peel—That is correct.

Senator LUNDY—So revenue forgone or the cost of the actual—

Mr Peel—That relates to the expected cost to the budget of the tax concession rather than the resources required to manage it.

Ms Berman—In the second Backing Australia's Ability, they extended it out to 2010-11. So the revenue forgone figures for the tax concession go out to the years 2010-11.

Senator LUNDY—Was that in the budget statement?

Ms Berman—It would be in the last budget statement—last year.

Senator LUNDY—So we have the revenue forgone figures associated with the R&D tax concession extending to the out years of 2010-11?

Ms Berman—Yes.

Senator LUNDY—But in neither the tax office nor DITR do we have the resources for managing that R&D tax concession past the next financial year.

Ms Berman—They are still being determined.

Mr Peel—Correct.

Senator GEORGE CAMPBELL—Mr Paterson, has the department engaged any external consultants during the course of the financial year?

Mr Paterson—Yes.

Senator GEORGE CAMPBELL—Can you identify for us in what area and for what purpose the consultants were engaged?

Mr Noonan—Consultants are used across the range of the department.

Senator GEORGE CAMPBELL—Yes.

Mr Noonan—There is a table in the annual report which summarises the contribution made by division to consultancies. I am not sure if I am getting the drift of your question.

Senator GEORGE CAMPBELL—I am asking: in what area in the department were consultants used, and for what purpose were the consultants used?

Mr Noonan—I can answer the area question by referring to the annual report for 2003-04. The main contracts that were entered into—

Senator GEORGE CAMPBELL—That is 12 months out of date.

Mr Noonan—We do not have year-to-date figures on consultancies at the moment because we are just beginning to prepare our financial statements for the end of this year.

Senator GEORGE CAMPBELL—So no-one in the department knows, up-to-date, where there have been consultants employed and what they have been employed for? Is that what you are saying to me?

Mr Noonan—Each year there are nearly 200 consultancies across the department, so it is a hard question to answer.

Senator GEORGE CAMPBELL—I presume you do not go around to each of your areas and say, 'Would you please tell me who you have been employing as consultants for the past 12 month.' Surely you would keep a running sheet of the consultants that you have hired, what they have been hired for and what they have been performing. Presumably you would be paying them.

Mr Noonan—We only do the work of compiling a settled list of consultancies at the end of the year. We monitor the contracts going through the system. Whether they are divided into consultancies or contracts for services is something that we determine in the context of preparing the financial statements.

Senator GEORGE CAMPBELL—How long would it take you to get us an up-to-date list?

Mr Noonan—I could tell you a little bit about contracts generally but that would not necessarily be divided into consultancies and contractors. I do not have aggregate numbers by division. As I said, there are hundreds of these and they touch upon a wide variety of areas. Perhaps I could talk about the corporate ones which I am immediately familiar with in my own division. They cover matters such as providing security for the buildings that we are in; providing our panel firm of external legal providers and external property providers for a large number of property leases; maintaining our corporate systems, such as the finance system and the personnel system and updating them as things develop during the year, and running learning and development courses. So they cover a very wide range of activities.

Senator GEORGE CAMPBELL—I must say I am a bit disappointed that you cannot get these figures on an up-to-date basis. We know what is in the annual report for 2003-04. Can I ask you, Mr Noonan, to take that question on notice and provide us as soon as possible with a list of the consultancies, what area the consultancies are working in and for what purposes they were engaged, and the names of the firms who are performing the consultancies?

Mr Noonan—Certainly. I will take that on notice.

Senator GEORGE CAMPBELL—Has the engagement of consultancies impacted upon the staffing levels in the areas in which the consultants are engaged?

Mr Noonan—No. I would characterise our use of consultants as in areas where staffing resources are not appropriate either because of specialised skills or because economies of

scale can be achieved through engaging outside providers, as in the case of the security contract. It is not the case that particular consultancies impact on staffing levels. Rather they are two alternative ways of getting a job done between consultancies and engaging staff.

Senator GEORGE CAMPBELL—Are there any circumstances, Mr Noonan, over the past financial year where consultants have been engaged, which has resulted in staff being made redundant in a particular area where they have replaced existing directly employed staff?

Mr Noonan—No. In fact it would be uneconomic for us to be engaging a consultant when we had staff that were able to do the task. We would not do that.

Senator GEORGE CAMPBELL—And you can say that absolutely?

Mr Noonan—Yes, in the sense that I know of no case. If there were a situation where we had moved from internal resources to external resources it would be because there was an assessment made that that was a better way to meet the particular need.

Senator GEORGE CAMPBELL—Can you provide us also with a breakdown of the consultant courses over the last three years?

Mr Noonan—Yes, I can. In fact I can give you the last two full financial years. The contracts that we entered into during 2002-03 amounted to \$14 million—rounded to the nearest \$100,000—and for the following year, 2003-04, \$11.9 million.

Senator GEORGE CAMPBELL—So they have declined?

Mr Noonan—Yes.

Senator GEORGE CAMPBELL—Is that trend continuing?

Mr Noonan—I do not think there has been an ongoing declining trend. I do not have the numbers, but the numbers have been within budgeted expectations such that we have not noticed any trends.

Senator GEORGE CAMPBELL—Presumably you have got a projection for the next financial year and for the out years?

Mr Noonan—For 2005-06?

Senator GEORGE CAMPBELL—Yes.

Mr Noonan—No, we do not. The process that we go through is that allocations are made to divisions at a global number and then it is up to divisions—and they will do this over the next several weeks—to come back and say where and in what month they anticipate spending their allocations. So part of that exercise will be how much money they are intending to spend on consultancies.

Senator GEORGE CAMPBELL—Mr Noonan, where in the PBS statements are consultancies covered?

Mr Noonan—They would be covered under the notion of suppliers. There is no separate one-line heading.

Senator GEORGE CAMPBELL—What does that figure for suppliers in table 5.2 incorporate?

Mr Noonan—That covers consultancies and the contracts for services that I mentioned. For instance, all the rent on the buildings that we occupy will be covered in that and those amounts. There are a large number of other items—information technology contracts, for instance—where we have services provided to us, travel contracts and so forth. It is anywhere where there is an external party, not an employee of the department, providing a service to us.

Senator GEORGE CAMPBELL—Can you give us a breakdown of the line item supplier and its various subgroups?

Mr Noonan—Yes. I will take that on notice.

Senator LUNDY—Are you not required, under various motions put forward through the Senate, to compile a list of your consultancies anyway and provide that to the parliament?

Mr Noonan—There are two annual requirements. One is a list of consultancies, which is set out in the annual report, and then there is a list of all contracts over \$100,000. Both of those lists for 2003-04 are available on the internet site for the department. In fact, the list of all contracts over \$100,000, consistent with the Senate resolution, is available up to 31 December 2004. The task we have to undertake towards the end of the financial year is to make sure we are correctly characterising contracts between consultancies and contracts for services. There is not necessarily an obvious distinction.

Senator GEORGE CAMPBELL—On page 63 of the PBS at table 5.2 there is a line item ‘intangibles’. What does that cover?

Mr Noonan—That would be computer software in particular. That would probably be the largest component of it.

Ms Foster—It includes the amortisation of intangible assets—software.

Senator GEORGE CAMPBELL—Could you give us a breakdown of the items covered under that line item?

Mr Noonan—Yes, I will take that on notice.

Senator GEORGE CAMPBELL—On the same page there is a line item titled ‘other payables’.

Ms Foster—That line is in relation to accrued expenses. The GST payable is in there as well.

Senator GEORGE CAMPBELL—Again, can you take that on notice and give us a breakdown of the items contained under that item?

Ms Foster—Yes, certainly.

Senator LUNDY—Not so long ago you told us that the Australian National Audit Office prepared a performance audit on the department’s ability to account for their intellectual property assets. Can you point in the PBS to where DITR’s intellectual property assets are listed?

Ms Foster—I will come back to you on that one in a minute. I will just clarify that it is in the line I think it is in.

Senator LUNDY—Perhaps while we are waiting for that Senator Mason should begin his questions and we will come back to that in 10 minutes when he has finished.

Senator MASON—I have been asking a few questions—so I am not picking on your department—throughout estimates about absence management in the Australian Public Service. What is the personal leave and the sick leave taken for the most recent financial year for a full-time employee?

Mr Noonan—Yes, I can answer that: 7.67 sick days per person in the financial year 2002-03 and 7.59 sick days per person in 2003-04.

Senator MASON—How about personal leave?

Mr Noonan—I do not have the personal leave number in front of me. I can try to obtain it during the day.

Senator MASON—That would be great. Mr Paterson, that is quite low for the Australian Public Service. Is that good luck or good management? What are you doing to have such a relatively low level of sick leave? Do you have particular policies to address that issue?

Mr Paterson—We certainly focus as an executive on unplanned leave. We have benchmark reporting as part of our quarterly reporting system where all unplanned leave is reported on by division. We have targets that we aim for and any reporting outside that benchmark is addressed by the executive. It is an area where we apply a particular focus, along with our other quarterly reporting activities.

Senator MASON—Do you collect data about unscheduled absence, for example, the age of the person taking the time off, their gender, where they work, the reason they are taking the time off, the days they are taking off, whether it happens to be coincidentally a Monday or a Friday? Do you collect data like that?

Mr Paterson—Our quarterly reporting that comes to the executive does not break the data down in that way. Certainly the people who prepare the material for our quarterly reports examine the issues and look for any trends of behaviour that might suggest that leave was being used for other than the purpose it was intended. There is no evidence to me that we have any patterns of behaviour that suggest people are using sick leave other than for absences when they are unwell and it is an area where particular attention is given.

Senator MASON—For example, if I were sick, whom do I report to? Is it to the manager of the local unit?

Mr Paterson—Yes.

Senator MASON—When am I required to provide a medical certificate?

Mr Noonan—If over three days of leave is taken in any one period or over five days for the year. But there is also management discretion in both directions so that if there have been a lot of single days the manager can say, 'I want to see a sick certificate every time.'

Senator MASON—Does that ever happen, Mr Noonan?

Mr Noonan—In my experience it happened just the once and it led to a reduction in absenteeism. I do have the number for total personal leave: 9.62 days for 2003-04.

Senator MASON—Mr Paterson, that is nearly two weeks a year—it is nearly two five-day weeks a year. It is a little bit lower than in other departments, but that is on top of four weeks annual leave a year. That is six weeks that people are not in the office, on average, in your department. Are you satisfied with that?

Mr Paterson—I am satisfied that we are appropriately managing the absences. Personal leave is granted for a variety of purposes and these things are always looked at in aggregate. I think that the extent to which unplanned leave and personal leave can be planned leave, but still absences—bereavement leave, carer's leave—are things that fall into the personal leave category.

Senator MASON—Cultural leave, and so forth.

Mr Paterson—I think we strike the right balance.

Senator MASON—This is the last question or perhaps it is a reflection. Some other agencies and some other departments are in a far more difficult position than you and I think they are making quite a difficult choice at the moment about certified agreements and so on. Indeed, in many places the focus is coming right back to the work group in order to address the issue of absence management. But you do not feel, at this stage, in your department that is required?

Mr Paterson—As I said, this is one of the key measures in terms of our quarterly reporting across a range of activities. I think it is appropriately managed at the division and branch level. Managers, particularly those making decisions in relation to personal leave, ought to be in a position to make those decisions to meet the circumstances of the individuals who work in those divisions, and I think the balance is about right.

Senator MASON—Finally, I should just say that I note the figures for 2001-02 for the department. The figure has actually come down over the last three years.

Senator LUNDY—I turn to the figure on page 7 of the portfolio budget statement. There has been a portfolio funding decrease, compared with last year, of some \$3 million, yet we now know that there is going to be a net staff increase of eight. Can you explain that change?

Ms Foster—That is the portfolio number for the department. I have a full understanding of the changes in appropriations for the department but not a breakdown across the portfolio.

Senator LUNDY—Can you take me to the page of the PBS that relates to the overall appropriation for the department?

Ms Foster—At page 22 of the PBS you will see the overall appropriation and total resourcing figures for the department. If we are just looking at the overall department's position, on the departmental side of things there has been a decrease of about \$12.6 million, mainly in relation to the movement of Tourism Australia out of the departmental appropriations. If we are looking at the administered side for the department itself and total reductions in appropriations—and I am purely talking about appropriations here, not adding in other things like other revenue and resources—there has been a reduction of around about \$99.13 million, which is about six per cent, and that is made up of movements in new measures, re-phrasings, capital appropriations and program spreads due to changes in profiles and re-profiling across the department. That is purely looking at appropriations.

Senator LUNDY—Staying with those appropriations, we have been through the questions on staffing and some of the changes that are taking place, but can we go through these reductions more on a program basis or a policy unit resource allocation basis and itemise each of those?

Ms Foster—We will have to get back to you on that.

Senator LUNDY—While you are getting back to me on that—and I have to say that I think it is a pretty straightforward question to ask at budget estimates—did you find an answer on the question I asked about intellectual property?

Ms Foster—Yes, I did. We currently do not account for intellectual property. If you were to find it in the portfolio budget statements it is usually an item that is rolled up in the intangibles in the financial statements, but we currently do not account for intellectual property. We are currently developing a policy within the department in relation to intellectual property.

Senator LUNDY—Was that arising from the Audit Office recommendations?

Ms Foster—I believe so. We are currently looking at that.

Senator LUNDY—When do you intend to start allocating a value against intellectual property assets?

Ms Foster—I cannot give you a definitive answer. CFO would like to look at that in 2005-06 and see whether it is appropriate or not.

Senator LUNDY—Just going back to these figures, perhaps we could have another look at the overall reduction. You mentioned \$99.13 million—

Ms Foster—In appropriations.

Senator LUNDY—for the department itself?

Ms Foster—That is right. It relates to the summary of measures within the PBS and also the details of re-phrasings within the PBS and capital appropriations, so it is a mixture of those on different pages of the PBS. There is a fair amount of detail.

Senator LUNDY—Could you take me to each of those pages and illustrate where that \$99.13 million reduction in departmental appropriations is expressed?

Ms Foster—New measures are detailed starting on page 24, flowing through to page 26. Re-phrasings are—

Senator LUNDY—Sorry, what is on page 26?

Ms Foster—Look at pages 24, 25 and 26 for details of the summary of measures disclosed in the portfolio budget statements. They are the measures and you will see the effect of departmental and administered funding on measures taken through the budget process. We have a range of other variations, which I detailed on page 29, flowing over to page 30. We have the details of re-phrasings—

Mr Noonan—They are on page 28.

Ms Foster—On page 28, ‘Movement of administered funds from 2004-05’ are the detailed re-phrasings. So for example, on that page you can see that \$122.956 million has been re-

phased. It is a combination of the changes on those pages for which you get a bottom line of minus \$99 million. But it is appropriations only.

Senator LUNDY—So with the 2005-06 figure in the re-phrasings, \$122,956,000 is brought forward into this financial year from previous allocated funding in 2004-05. That does not represent a net overall increase of funding to the department and that is offset by the previous reductions in program funding?

Ms Foster—That is right. It is a combination of changes across the board.

Senator LUNDY—So without the re-phrasings, because these are existing resources, if you like, being moved forward, what is the overall reduction in appropriations?

Ms Foster—If you added re-phrasings back into that you would get a positive figure of \$22 million—is that right?

Senator LUNDY—I do not want to add re-phrasings in; I want to leave them separate for the moment.

Ms Foster—In the calculation of the total reduction in appropriations of \$99 million, taking into consideration their re-phrasings, it is \$123 million going in. So there is \$123 million in re-phrasings and there is an overall effect on new measures of minus \$51 million when you look at the measures table. When you add the measures table up for this capital appropriation, the changes from last year to this year in capital, there is a total of about \$20 million—\$11.8 million and \$8.2 million.

Senator LUNDY—Where is that capital?

Ms Foster—If you look at page 33 of the PBS you will see the administered and capital and departmental equity injections and loans which cover capital. Administered capital appropriations are detailed in the top half, and down at the bottom, departmental capital appropriations. We do not have any this year but we did have some last year, so when you are looking at the changes in numbers from last year to this year you would take off the capital appropriations from last year to see the movement in the change. So it is a combination of looking at the capital—what has happened in the measures and what has happened in the re-phrasings—to get a bottom line number.

Senator LUNDY—Just coming back to the reductions overall and their not being offset by the re-phasing or the administered capital figures—

Ms Foster—They are included in there, yes. If you start with last year's appropriations and you want to get to this year's appropriations to look at the changes, there are a number of factors. So rephasing does come into that because it is money moved from last year and rephased into the calculation for this year.

Senator LUNDY—I am still trying to get a picture of the straight-up reduction in appropriations in the 2005-06 financial year for this \$51 million.

Mr Mackey—There is a table on page 38 which attempts to summarise all those movements. It is broken up into two outcomes but the total picture would be achieved by combining the numbers for the two outcomes.

Senator LUNDY—What is the total picture when you combine the two outcomes?

Mr Mackey—In very general terms, as you can see, between 2004 and 2005 administrative appropriations are rising through outcome 1 and outcome 2, and departmental appropriations are falling somewhat for both outcomes.

Senator LUNDY—How is that fall in departmental appropriations, for example in outcome 1, reflected in the tables we have just been looking at?

Ms Foster—The largest impact on departmental appropriations from last budget to this budget is the movement of funds in relation to Tourism Australia. There were small parameter adjustments, but that is the large bit.

Senator LUNDY—How much was that?

Ms Foster—Tourism Australia flowing out was \$16 million, and that was offset by a small increase in external revenue and by the normal parameter adjustments.

Senator LUNDY—What else is included in that reduction of appropriations, beside the movement of tourism—because that does not account for all of it?

Mr Mackey—If we can go back to page 22, under table 2.1 you will see that under outcome 1 total departmental appropriations are \$209,957 million. That is the number that is reflected back on page 38 in the departmental appropriations for outcome 1, and similarly for the administered numbers for outcomes 1 and 2 and the departmental numbers for outcome 2. That is the source of those numbers.

Senator LUNDY—Where in the PBS can we see the specific reference to tourism having been moved?

Mr Paterson—That occurred last year. It is not in this PBS.

Senator LUNDY—It is just reflected?

Mr Paterson—Yes. You might recall that with the creation of Tourism Australia from 1 July last year we transferred into Tourism Australia some activities that were traditionally undertaken within the department. The Tourism Forecasting Council was one of those functions, and the funding that went with that activity was transferred across to Tourism Australia.

Senator LUNDY—There is still a difference, on my calculation though, of 232.5. Can you account for that?

Ms Foster—I have in front of me the overall impact on departmental figures, which, as I said before, came down to a net effect of minus \$12.6 million. That is factoring Tourism Australia moving out; the net parameter adjustments and the increase in the efficiency dividend from one per cent to 1.25 per cent, \$1,962 million; and net new measures, which is \$1.3 million. The total variation from 2004-05 to 2005-06 is \$13.033 million. So from last year's departmental appropriations the total bottom line effect is \$13.033 million, and it is made of those things. The largest thing is the adjustment for Tourism Australia. I have found a note on page 56 of the PBS which relates to Tourism Australia. It says that revenue from government is expected to decrease, and the amount shown in brackets there is minus \$13.033 million.

Senator LUNDY—I think in Budget Paper No. 2 there is a reference to the Business Entry Point under DITR. Can you explain that?

Ms Foster—On which page is that?

Mr Paterson—It is on page 239.

Ms Foster—That is simply stating that the provision of funding of \$9 million in 2005-06, \$9.1 million in 2006-07, \$9.2 million in 2007-08 and \$9.3 million in 2008-09 has been allocated to the forward estimates for the Business Entry Point. So it maintains the funding for that.

Senator LUNDY—Where does that show up in the portfolio budget statement for DITR?

Ms Foster—It is already in the forward estimates.

Mr Mackey—Because that was a lapsing program, provision had already been made for those numbers in the forward estimates. That is why it shows up as a blank on page 239.

Senator LUNDY—If it is already in the forward estimates of DITR, which expense item is it?

Mr Mackey—It is in outcome 1.

Senator LUNDY—If that has already been absorbed into it, the departmental allocations for outcome 1 do not show a commensurate increase based on those forward estimates, on an overall basis.

Mr Mackey—That is right.

Senator LUNDY—If the overall figures remain around the same or the changes are as described, doesn't that mean that there has been a relative cut in other areas to account for the absorption of that program?

Mr Paterson—It is a continuation of the program. The expenses for running the business entry point in 2004-05 are in these numbers and this budget approves the continuation of that. So the same numbers—or the numbers that Robyn Foster gave you a short time ago from Budget Paper No. 2—are in 2005-06. There is no reduction.

Senator LUNDY—When was that program transferred across?

Mr Paterson—It was transferred from the Department of Employment and Workplace Relations in 2001 in the OEA changes.

Senator LUNDY—So why is it listed in the budget papers in the way it is?

Mr Paterson—Because it was a lapsing program. If it had not been authorised to continue, then you would have seen a reduction in the numbers. But in this budget the authorisation to continue that program for another four years has been made. That is why it is declared.

Senator LUNDY—Are the figures that appear in the budget papers reflected in the forward years of the departmental allocations?

Mr Paterson—That is correct.

Senator LUNDY—I would like to go back and cross-reference the answers given earlier to questions on notice about the changes and reductions to programs in DITR. The changes can

be explained by what we have just been through. There is an overall reduction because of the transfer of tourism into Tourism Australia and earlier there was mention of a reduction in the Commercial Ready program and the termination of the Shipbuilding Innovation Scheme. And, in the out years at least, the R&D tax concession resources were not there. What are the other items, programs or undertakings that have been reduced or cut in these budget documents?

Mr Peel—I do not believe there are any programs that have been substantially reduced or cut. I think the Commercial Ready program, which you mentioned as an example of a program that is being cut, actually has a larger appropriation next year than this year. So there has not actually been a cut in the Commercial Ready program.

Senator LUNDY—We received an answer earlier that that was an area where staffing allocations were possibly to be reduced. Perhaps it is an administrative cut.

Mr Peel—I mentioned the tax concession as an administrative cut rather than the program being cut. I mentioned the Shipbuilding Innovation Scheme as a program that is ceasing this year; there is the equivalent of one staff resource allocated to that program, so it is a very small program. But in terms of the programs that AusIndustry administers I am not aware of any substantial cuts to those programs.

Senator LUNDY—It makes me nervous when you keep saying ‘substantial’. Every time you have answered this question there has been that qualification.

Mr Peel—There are always small variations across years.

Senator LUNDY—We want to know what they are.

Mr Peel—Page 40 of the PBS lists all of the programs in outcome 1 and provides figures on the estimated actual expenditure for 2004-05 and the estimated budget for 2005-06. Outcome 2 is also listed; I cannot put my finger on it at the moment. There is also a summary of major variations to programs on page 59.

Senator LUNDY—Where are the administered appropriations for outcome 2?

Mr Peel—On page 48.

Senator LUNDY—Are there any programs that appeared in that list last year that do not appear this year?

Mr Peel—There are a couple of printing programs: the Printing Industry Competitiveness Scheme and the Enhanced Printing Industry Competitiveness Scheme.

Senator LUNDY—What about innovation schemes?

Mr Peel—Which ceased last year? There was the Innovation Access Program.

Senator LUNDY—That is here.

Mr Peel—That has been subsumed into Commercial Ready. I am not aware of any others.

Senator LUNDY—Your previous annual report, which always makes fascinating reading—

Mr Peel—I am sure it does.

Senator LUNDY—refers to an innovation awareness scheme.

Mr Peel—The Innovation Awareness program is not managed by AusIndustry. I was just talking about the ones that we look after.

Senator LUNDY—I did ask for innovation related programs.

Ms Berman—The Innovation Awareness program ceases in 2005-06. There is in the order of \$3 million difference between 2005-06 and 2006-07.

Senator LUNDY—Sorry, when does it finish?

Ms Berman—It finishes in June next year.

Senator LUNDY—Are there any others that have been reduced, changed or cut in the innovation area?

Ms Berman—As you will note, there are changes associated with the introduction of Commercial Ready because previously there was the Innovation Access Program.

Senator LUNDY—We will go into the details later.

Ms Berman—So there is a change there. The Biotechnology Investment Fund, again, has been moved into Commercial Ready. They are the major changes. The COMET program, the Stem Cell Centre and so on continue.

Senator LUNDY—Have we been through the complete list of changes?

Ms Berman—That is a complete list, over the years concerned, which is 2004-05 and 2005-06.

Senator LUNDY—And what about beyond that?

Ms Berman—There is no data there, at the moment.

Senator LUNDY—Sorry?

Ms Berman—As I just indicated, the National Innovation Awareness Strategy is completed in 2005-06, so there will be a drop in 2006-07.

Senator LUNDY—Are there any other programs like that that will be cut or reduced?

Ms Berman—No, because they have been picked up in Commercial Ready and so on.

Senator LUNDY—But that one is not, so that one stands out as not being picked up.

Ms Berman—That is correct.

Senator LUNDY—Are there any other substantial or otherwise changes, cuts, reductions to any programs in outcome 1?

Mr Paterson—I would just like to clarify, the Innovation Awareness Program that Ms Berman has been referring to is departmental funding, not administrative. The reason it does not appear in this list is because it is within departmental resources, not administrative resources.

Senator LUNDY—Let me ask the question again: are there any programs in departmental resources that have been modified, cut or changed, in either outcome 1 or outcome 2, whether or not they appear? Obviously, they will not appear in administered appropriations if they are

departmentally funded. I'm just trying to ask the question in every way I possibly can to find out what is going on in the department.

Mr Peel—I stand to be corrected, but I do not think AusIndustry manages any significant program out of departmental funding. All of the programs are listed, as I indicated on pages 40 and 48 of the PBS, and you can see the variations there. One that has been significantly changed is the Shipbuilding Innovation Scheme. There are other programs that are being changed but they are not being cut, for example, the TCF Program is being extended past 2005. The Automotive Competitiveness Incentive Scheme is being extended, so there have been a number of changes in the programs.

Senator GEORGE CAMPBELL—Has there been a cut in the TCF funding? I notice \$56 million had been clawed back.

Mr Peel—There is a figure in the PBS of just over \$57 million of the TCF fund; this is the pre-2005 TCF SIP fund. That is the identifications of savings from the program that have occurred over the life of the program and returning that—

Senator GEORGE CAMPBELL—Was that underspending?

Mr Peel—Underspending; that has been clawed back. So it was not a cut in the sense that there is money not available to pay any claims that we received and, in fact, if we do receive more claims than we have estimated, we can use a portion of that \$57 million to meet house claims.

Senator GEORGE CAMPBELL—So that is still available to you?

Mr Peel—It is still available.

Senator GEORGE CAMPBELL—Mr Paterson, can I just ask you a question to satisfy in my own mind the distinction between departmental funds and appropriations. When you talk about departmental funds, are you talking about the funds that are generated by the department itself—investments, interest rates?

Mr Paterson—No.

Senator GEORGE CAMPBELL—What are you talking about?

Mr Paterson—There are appropriations to the department and then there are administered appropriations. Pages 48 and 40 refer to administered appropriations, whereas the Innovation Awareness Program was a departmental appropriation. So it was not separately appropriated as an administered program; it was funded out of departmental funds. But they are still appropriations and the PBS distinguishes between departmental appropriations and administered appropriations.

Senator GEORGE CAMPBELL—Which is what I'm trying to understand. When you use the term 'departmental appropriation' you are talking about the block of money that is appropriated with the department to run the department.

Mr Paterson—Yes.

Senator GEORGE CAMPBELL—I suppose the appropriation is to fund specific programs. Is that a simple distinction?

Mr Paterson—Generally so; yes. And within the departmental appropriations, it is my responsibility, as secretary to the department, to allocate the departmental resources to undertake the suite of activities and to be able to move those allocations to meet the objectives that are set for us.

Senator GEORGE CAMPBELL—So from the point of view of senators sitting on this side of the table, we can very readily identify what is happening with the appropriations in all four programs but not so readily identify what you do with departmental appropriations.

Mr Paterson—Correct.

Senator GEORGE CAMPBELL—Unless it hits us in the face.

Senator LUNDY—Unless we ask the right question.

Senator GEORGE CAMPBELL—Or the wrong question at the right time.

Senator LUNDY—That is right.

Mr Paterson—There is very detailed transparent reporting in relation to the operation of departmentally appropriated funds, and that is one of the reasons that we publish a very detailed annual report which identifies what we have undertaken during the year and the resources that we have committed in undertaking those activities.

Senator GEORGE CAMPBELL—Those departmental appropriations are reported in detail in the annual report are they?

Mr Paterson—Absolutely. They are reported in minute detail.

Senator LUNDY—But only retrospectively?

Mr Paterson—Correct.

Senator LUNDY—Later on we want to go into more detail on each of these programs, but I just want to get something clear: can you itemise now the programs that are funded from within departmental appropriations which fall under outcome 2 and outcome 1? They are not listed separately in the PBS but fall into this category that Senator Campbell has outlined. They are referenced in the annual report, hence the Innovation Awareness Strategy and have formed part of the suite of programs that the department has delivered.

Mr Peel—I do not believe there are any programs that AusIndustry manages funded from the departmental area—there may be others.

Senator LUNDY—In relation to outcome 2?

Mr Mackey—I believe we can provide that information. We do not have it in front of us but we will take it on notice and provide it to you.

Senator LUNDY—That is not good enough because we would like to be advised today specifically what those programs are and of any—no matter how minor—changes, cuts or alterations there are to those programs in this year's budget?

Mr Mackey—We will attempt to provide that information to you today.

Senator LUNDY—We will come back to it when we move through the individual programs but we will make a point later in the day of returning to these general questions.

Mr Jones—I can talk about two of the programs in my area of responsibility now if you want.

Senator LUNDY—Thank you. Which outcome?

Mr Jones—This will be in outcome 1. There are two areas of funding in my area which basically fall off over the next couple of years. Funding for Axiss Australia terminates at the end of 2005-06; that is \$3.8 million a year.

Senator LUNDY—Can you just describe that program and what it does?

Mr Jones—Axiss is a part of Invest Australia which promotes Australia as a destination for global financial services investment. It used to be a unit of the Treasury but it was transferred to Invest Australia in 2003. Funding for that unit of Invest Australia terminates at the end of next year. There is currently a review of Invest Australia under way. That review encompasses Axiss Australia's activities so we would anticipate putting a bid into the budget next year to continue Invest Australia's and Axiss Australia's activities, but at the moment Axiss is shown as a terminating program.

Senator LUNDY—At the end of the next financial year or this financial year?

Mr Jones—In the May 2006 budget for the 2006-07 financial year—that is when we would anticipate putting in a budget bid.

Senator LUNDY—That figure is \$3.6 million?

Mr Jones—The figure is \$3.8 million.

Senator LUNDY—That program terminates when?

Mr Jones—It terminates in June 2006, so there is funding there for 2005-06 financial year but not for 2006-07.

Senator LUNDY—That is one program.

Mr Jones—The other one is the Structural Adjustment Fund for South Australia, where a portion of the money that was announced by the government under that activity is departmental funding to administer the program. We will start winding down that activity through the course of this calendar year so by 2006-07 there will be basically no continuing funding for administering that program, because by then all of the decisions will have been made on grants under the program and the residual activity will be very small.

Senator LUNDY—What is the dollar figure up against that?

Mr Jones—It is really small. There was a total of \$4 million across three financial years, so in 2005-06 there is not much allocated towards that. I do not have the exact figure with me. It is not very much, but I will have to check on the exact number.

Senator LUNDY—Is it less than \$1 million?

Mr Jones—It would be in the order of \$1 million.

Senator LUNDY—Please chase that up and get back to us.

Senator GEORGE CAMPBELL—As an aside, that structural investment fund was worth how much—\$45 million?

Mr Jones—The Commonwealth government put a total of \$50 million into the fund, of which \$10 million is not in this portfolio but in the Employment and Workplace Relations portfolio. So we had \$40 million in this portfolio and the South Australian government put in \$5 million. Of the \$40 million we are actually spending about \$4 million on administering the fund rather than on grants.

Senator GEORGE CAMPBELL—Where is that fund up to? Has the \$45 million been allocated?

Mr Jones—No, not entirely. We are still taking applications and will continue to take applications until 30 June 2006 or until the funds are expended.

Senator GEORGE CAMPBELL—How much of the funds have been expended so far?

Mr Jones—I think \$6.89 million has been announced so far as being expended.

Senator GEORGE CAMPBELL—And you have live applications for how much more?

Mr Jones—The live applications would be much more than that. There have been over 80 inquiries for the fund, including 25 formal applications.

Senator LUNDY—Are there any other programs or policy initiatives under outcome 1 in departmental appropriations that have had any changes, reductions or cuts?

Mr Paterson—We will take that on notice.

Senator LUNDY—That is not good enough. You cannot take it on notice; it is a straight-up question about the departmental allocations in the budget. Surely you would know.

Mr Paterson—The majority of programs that we administer are administered programs and are declared in the portfolio budget statement.

Senator LUNDY—Sure. I want to know about the ones that are not.

Mr Paterson—We have already taken that on notice. We indicated that we would get back to you later today and you said you would come back to us with questions when we provide that answer to you.

Senator LUNDY—Okay, we will come back to that later today.

Senator GEORGE CAMPBELL—Mr Paterson, page 181 of the PBS refers to an increase in the efficiency dividend from one per cent to 1.25 per cent and table 2.2 shows the department's expectations of savings with respect to the efficiency dividend for the years 2005-06, 2006-07 and 2007-08. What factors does the department take into account when determining its efficiency dividend?

Mr Paterson—It is a matter of government decision, and we are obligated to find those savings and to provide those savings to the budget. So, in administering departmental appropriations, that efficiency dividend is imposed. We then have to adjust the resources we have available within the portfolio to meet it.

Senator GEORGE CAMPBELL—When you are given an efficiency dividend to meet, what factors do you take into account in determining how you are going to meet that efficiency dividend?

Mr Paterson—At the end of the day, it is a reduction in the departmental appropriation that is available for us to undertake activities funded from it. Do we look at that efficiency dividend per se and work out how we are going to fund that? No, we do not. We look at the available resources allocated to us and what our obligations are in terms of delivering program administration and policy advice, and then allocate resources in accordance with the priorities. We have to make priority choices between desirable activities that we can no longer undertake or deliver in a different way.

Senator GEORGE CAMPBELL—Can you outline for us what the department has identified—for example, where it expects to realise these efficiencies for the next financial year?

Mr Paterson—We do not focus on that element of it; that is a given in terms of policy decision. What we do is look at the allocation of available resources and the priorities that are established with our ministers for the year ahead, and make priority choices about those activities that will be undertaken by the department. We focus attention on the use of our investment in capital, focus on the IT support that we provide, and ensure that we can meet the needs of program delivery and derive efficiencies from capital investment. It is a complex suite of compromises and trade-offs.

Senator GEORGE CAMPBELL—Would you take into account cutting the funding of programs?

Mr Paterson—We cannot fund departmental resources out of administered appropriations, but we have discretion within the departmental appropriation to allocate resources to the activities of priorities established by government.

Senator GEORGE CAMPBELL—For example, the program that Ms Berman was talking about—the National Innovation Awareness program—could be sacrificed in order to meet the efficiencies?

Mr Paterson—It depends on the priorities that are established within the portfolio, yes. The answer to your question is: to meet the constraints that we operate in—and we will always operate in a constrained environment—we have to make priority choices as to what activities are undertaken and what activities are not undertaken with the departmental resources provided to us. Could the National Innovation Awareness program be curtailed within the departmental appropriations? Yes.

Senator GEORGE CAMPBELL—What I am asking you is: in terms of meeting the efficiency dividend for 2005-06, what areas in the department got a low priority?

Mr Paterson—You are seeking to draw a direct link between the imposition of that efficiency dividend and the priority allocation of resources. I am putting to you that there is not that absolute direct link in the way your question suggests. We make conscious priority allocation decisions within the departmental resources that are available to us.

Senator GEORGE CAMPBELL—But some areas of the department must have suffered as a result of making those decisions?

Mr Paterson—We have to reduce activity in some areas and increase activity in others to meet the priorities that are established for us.

Senator GEORGE CAMPBELL—All I am asking you is in what areas you decreased your activity as a result of meeting the efficiency dividend.

Mr Paterson—It is not just the efficiency dividend; we have to undertake priority decisions across the full spectrum of our activities. We allocate new resources where we have new programs. Sometimes, in some decisions that are taken, we are required to absorb activity—and when you are required to absorb activity it means that if you have to outlay money you have to curtail your expenses in other areas; it is not just the efficiency dividend.

Senator GEORGE CAMPBELL—Perhaps you can outline to me the areas where you increased your priorities and the areas where you decreased your priorities.

Mr Paterson—In broad terms, we have increased resourcing to AusIndustry in terms of administering programs. We have increased resources to the Office of Small Business. We have increased resources to the energy and environment division for energy market activity. We have reduced some of our resources in the manufacturing, engineering and construction division. We make choices between them and allocate resources accordingly.

Senator GEORGE CAMPBELL—Why those areas in particular?

Mr Paterson—Because of the nature of the priorities that government has established for us in going forward. Each year it is a conscious decision. We are part-way through that planning process at present as we move to the new financial year. We have only recently got our budget allocation. We have looked at the overall allocations—the programs that we are required to administer, the funds that we are required to absorb and what resources we have available. The efficiency dividend is but part of that.

Senator GEORGE CAMPBELL—Is there an analysis done of the likely impact on those particular areas that you cut funding to?

Mr Paterson—We endeavour to ascertain what impact the program administration or the like might have, but do we say, ‘Is an adjustment at the margin in relation to the administration of a program or the undertaking of an activity within the department going to have a consequential effect to the economy of Australia?’ You cannot model that sort of an outcome.

Senator GEORGE CAMPBELL—But you could model the likely impact on that particular industry sector.

Mr Paterson—Not necessarily.

Senator GEORGE CAMPBELL—Why not? Economists are doing it all the time.

Mr Paterson—No, they do not do the fine margins that we are talking about in terms of administration.

Senator GEORGE CAMPBELL—It depends on the margin.

Mr Paterson—Any economic modeller who told you they could do it would have it wrong.

Senator GEORGE CAMPBELL—If it is one and sixpence, yes, I understand that.

Mr Paterson—That is right.

Senator GEORGE CAMPBELL—But I presume we are talking about bigger figures than that.

Mr Paterson—We are talking bigger than one and sixpence but we are not talking about something that any economic modeller could model in terms of the impact on their sector.

Senator GEORGE CAMPBELL—I am sure they would have a good try if you paid them enough.

Mr Paterson—We would not waste our money, because they could not do it.

ACTING CHAIR (Senator Watson)—How can you sustain an efficiency dividend over a 10-year period without cutting certain programs? Secondly, in terms of having to cover your efficiency dividend, is that not to some extent offset by increased requests from budget allocations in future years?

Mr Paterson—As I said in response to Senator Campbell, every year we have constrained resources and we have to make priority choices.

ACTING CHAIR—I know.

Mr Paterson—One of the constraints is an efficiency dividend; one of the constraints will be government decisions that require us to absorb new program responsibilities without additional resources. They are part of the ongoing business of managing a portfolio like this and we operate within the resources that are provided to us.

ACTING CHAIR—The second part of the question?

Mr Paterson—Which was?

ACTING CHAIR—Essentially, a department's requests are put forward through budget requests, probably for increased funds. Does not that request mitigate any efficiency dividend implication? With a cumulative effect of an efficiency dividend over the years you are more likely to require more money to cover your needed programs. So isn't it a sort of smoke and mirrors balancing act?

Mr Paterson—No, it is real.

Senator MURRAY—I know it is real, but that is the effect of it.

Mr Paterson—Programs terminate and funding for individual programs stops when the program ceases. With the nature of the portfolio we run, it will vary over time. Many of the activities that we undertake are program related and time limited, so at different points in time we allocate the resources available to us to the most important of those activities that we can undertake within the funding. We do not pretend that we can constantly undertake everything we have always done and anything new that might be expected of us. We make priority choices.

ACTING CHAIR—It was purely an observation. I am not decrying the need for the concept of an efficiency dividend.

Senator GEORGE CAMPBELL—But, as you have described it, Mr Paterson, it is not really an efficiency dividend, is it? It is the department forcing you to prioritise your expenditure.

Mr Paterson—The impact of an efficiency dividend is always, amongst other things, to force us to make priority choices. We always do.

Senator GEORGE CAMPBELL—But it does not necessarily mean that your department is operating any more efficiently.

Mr Paterson—It has to undertake activities without the resources that comprise that efficiency dividend.

Senator GEORGE CAMPBELL—Yes, but it does not mean that your department will be operating any more efficiently next year than it did last year. It means you have less resources to operate with.

Mr Paterson—And to undertake the activities that are expected of us.

Senator GEORGE CAMPBELL—Yes. The use of the term ‘efficiency’ I think is a pretty broad terminology in this context.

Senator LUNDY—‘Misleading’ I think is what you are trying to say.

Senator GEORGE CAMPBELL—I was going to say something stronger. In essence, you are being asked to provide more with less.

Mr Paterson—We are expected to fulfil the expectations of government with the resources they provide to us. Could we do more with more? Yes, always. Any organisation can. But we operate efficiently within the resources that are made available to us.

Senator GEORGE CAMPBELL—But we are talking in terms of efficiency in your department. We are not talking in terms of efficiency dividends like we would in a manufacturing factory, for example, where you might increase your productivity or you might put in new technology. You have not done any of that.

Mr Paterson—We do—we constantly invest in new technology; we constantly look at more efficient ways of undertaking activity. We try and strike the balance between what we invest in capital and what we put into people. We have to find better systems. We have to find more efficient ways of doing this, and the efficiency dividend is part of that.

Senator GEORGE CAMPBELL—Is there any relationship to the efficiency dividend of the reduction of \$9 million for employee costs?

Mr Paterson—The representation in the budget numbers takes account of the efficiency dividend and its impact. So we have to make the judgment within the allocation of resources within the portfolio as to how we meet that.

Senator GEORGE CAMPBELL—So the fact that there will be \$9 million less over the forward estimates for employees—

Mr Paterson—In nominal terms.

Senator GEORGE CAMPBELL—in nominal terms—would indicate that there will be a reduction in the number of employees over time.

Mr Paterson—You would expect if there is a reduction in resources available to us, given that many of our other costs are fixed costs over the long term, that staffing numbers is a

variable cost that varies from year to year. But we are constantly recruiting staff, so you can make those adjustments over time when you know what those adjustments are likely to be.

Senator GEORGE CAMPBELL—For the next financial year, according to table 3.1 of the PBS, you anticipate staff growth of 25 people next year, up from 1,400. How does that fit in with the reduction in employee costs identified in table 5.1?

Mr Paterson—I am sorry, could you repeat the question?

Senator GEORGE CAMPBELL—In table 3.1 on page 42 there is an anticipation that staffing levels will grow from 1,400 to 1,425 in that financial year, yet table 5.1 on page 62 shows a reduction in employee costs. How do you reconcile the growth in employees with the reduction in costs?

Mr P Noonan—I might answer part of that question. You are looking at a table that deals with outcome 1, so you need to put it with the table that deals with outcome 2 on page 48 to get the overall picture, which, as Ms Foster said earlier this morning, is for a predicted growth of eight.

Ms Foster—That is right.

Senator GEORGE CAMPBELL—A predicted growth of eight?

Mr P Noonan—That is right. That is the prediction, and that is compiled by asking divisions for their predictions. In the nature of the compilation of the PBS, it is not a perfect process because those predictions are made before the budget is tabled, so before divisions know the full picture. So it may well be that our staffing numbers decline by a few rather than rise by a few. That is something that we would only be able to assess once divisions have assessed—in the light of their allocations, which they have only just received—how much they can afford to spend on various activities, including employee costs.

Senator GEORGE CAMPBELL—But the decline from 2005-06 to 2006-07 is \$5 million.

Mr P Noonan—That is right.

Senator GEORGE CAMPBELL—On face value, that would be an indication that there was going to be a decline in staff.

Mr P Noonan—As between 2005-06 and 2006-07, we are a budget away from that and then another round of allocations to divisions and divisions' assessments about where they are going to spend their money between employee expenses, suppliers and so forth.

Mr Paterson—Mr Jones gave the example earlier of Axiss, which is a program that operates inside departmental appropriations. That is a terminating program for which we will seek new funding in the next budget. As it is a terminating program there is no out year funding in the forward estimates. If Axiss was not funded, then of course the staff impact would be there. But if a budget bid were to be successful for the continuation of Axiss then you would see those out year numbers adjusted.

Senator GEORGE CAMPBELL—Are you saying to me that the employment figures and the allocation in the budget papers for funding for those employees may not necessarily match up?

Mr Paterson—We have to make projections on what we have—

Senator GEORGE CAMPBELL—I think you said earlier that there are 63 employees who are not included in the current figures. Is that right?

Mr Paterson—The numbers that we have here indicate what has been approved in the forward estimates. By way of example, the continuation of Axiss within Invest Australia has not been approved, therefore there are no numbers in the forward estimates figures to reflect that.

Senator GEORGE CAMPBELL—And the same with the R&D tax concession—

Mr Paterson—Correct.

Senator GEORGE CAMPBELL—there are no figures in the forward estimates for that either?

Mr Paterson—For the staffing resources to undertake that activity—correct.

Senator GEORGE CAMPBELL—Which is 63 employees—is that right?

Mr Peel—Around 63.

Senator GEORGE CAMPBELL—So of the 1,400-odd employees that are identified in the budget papers, a proportion of them have not been given forward funding?

Mr Paterson—That is correct.

Mr Peel—That is right.

Senator GEORGE CAMPBELL—You would expect that they will?

Mr Peel—We have to seek that in the next budget.

Senator GEORGE CAMPBELL—Yes, you will seek that in the next budget, but at this point in time there is no money there to pay them beyond this financial year.

Mr Peel—There is money to pay them up until the next budget.

Senator GEORGE CAMPBELL—Yes, until the end of this financial year.

Mr Peel—That is right.

Senator GEORGE CAMPBELL—So whether those people continue or not is dependent on the government's attitude, policy wise, to those programs?

Ms Berman—Senator Campbell, I would like to clarify something with you. The funding for delivery of programs such as the tax concession is separated from the continuing program. That is not the case with normal programs which are appropriations as opposed to revenue forgone. So with COMET and Commercial Ready, the funding for the departmental delivery of policy is part of the appropriation—administrated and departmental are included. That does not happen with the tax concession, because it is revenue forgone. So you have to think of them differently.

Senator GEORGE CAMPBELL—But you still have to fund your staff.

Ms Berman—We do, but what I am saying is that the resourcing for the staff is not aligned to the revenue forgone figure; that is done separately for the tax concession.

Senator GEORGE CAMPBELL—I understand that. What I am getting at is that the figure in the papers, the allocation for funding employees, does not include funding for those 63 employees beyond the end of this financial year. You look after the policy of the R&D tax concession and the tax office looks after the spending of the money.

Mr Paterson—Next financial year.

Mr Peel—It is next year, not the end of this financial year.

Senator GEORGE CAMPBELL—The financial year covered by the PBS.

Mr Paterson—Correct. That is why, when we were responding to questions earlier about the out year numbers, we could not be precise about an allocation of those numbers because we are very much dependent upon the next budget.

Senator GEORGE CAMPBELL—How many employees fall into that category? Is it just the 63 or are there others?

Mr Peel—Sixty-three is our estimate of what we are currently using in AusIndustry on the tax concession, but there would be staff in the policy division, for example, who work on the tax concession who are funded through that as well.

Mr Paterson—The number for Axis is about 10 employees and for SAFSA it is five.

Senator GEORGE CAMPBELL—So the total is somewhere up around 100?

Mr Paterson—Yes.

Senator GEORGE CAMPBELL—Mr Peel just said there are more in the R&D.

Mr Peel—Yes, there would be a smaller number in the policy area that look after the tax concession as well. I do not know how many.

Ms Berman—It was about three to four.

Mr Peel—A handful.

Mr Paterson—So the real impact will be identified once we consider the outcome of next year's budget, not this year's budget.

Senator GEORGE CAMPBELL—Yes. I now understand that.

Mr Paterson—Senator Lundy asked a question in relation to SAFSA—for the breakdown of administered. We have got that number for you if you want that now.

Senator LUNDY—What is it?

Mr Jones—In terms of the departmental funding on SAFSA, in 2004-05 we spent \$2.071 million. In 2005-06 we expect to spend \$1.805 million, and then in 2006-07 it will be \$0.123 million. So the total over the three years will be \$3.999 million.

Senator GEORGE CAMPBELL—Mr Paterson, will the implementation of the efficiency dividend affect your graduate recruitment plan?

Mr Paterson—No.

Senator GEORGE CAMPBELL—Do you think that the meeting of the efficiency dividend will have any impact on your capacity to retain your experienced staff?

Mr Paterson—We are in a competitive labour market. We will always be confronted by challenges in retaining qualified staff. We do not lock people in. We employ talented people, and other people will also seek to employ some of those talented people at different points in time. So there is no guarantee that we will retain all the talented people that we would like. But we make priority choices in terms of allocation of resources, and keeping qualified talented people within the portfolio is one significant consideration in that allocation process.

Senator GEORGE CAMPBELL—How many of your staff are covered by AWAs?

Mr Paterson—The numbers vary by category. We published the numbers in last year's annual report, as I recall.

Senator GEORGE CAMPBELL—An updated number?

Mr P Noonan—As at 30 April 2005: 193.

Senator GEORGE CAMPBELL—And the rest are covered by collective agreement?

Mr P Noonan—There are two certified agreements which operate within the department: one that relates to the National Measurement Institute and the other which covers the rest of the department.

Senator GEORGE CAMPBELL—So the rest of the staff are covered by either of those two certified agreements?

Mr P Noonan—Yes.

Senator GEORGE CAMPBELL—Can you provide us with a breakdown of the take-up of AWAs by gender and classification?

Mr P Noonan—I can give you classification. At the APS levels—that is, APS1 to 6—it is 19; at executive level 1, 36; at executive level 2, 72; and for the SES, 66.

Senator GEORGE CAMPBELL—Do you have a gender break-up?

Mr P Noonan—I do not have a gender break-up.

Senator GEORGE CAMPBELL—Can you take that on notice and provide us with that?

Mr P Noonan—Yes.

Senator GEORGE CAMPBELL—Are you able to tell us how many of the staff who are on AWAs are being paid more than the pay band for their classification under the certified agreement?

Mr P Noonan—I cannot tell you how many are in that category. The AWA varies in what it provides, and certainly some salary levels would be above the certified agreement classification band, but I am unable to tell you exactly how. I would have to study each AWA, essentially.

Senator GEORGE CAMPBELL—If there are people in that category, why were they not just promoted to the higher classification?

Mr P Noonan—The extent to which the salary increase might exceed the band might be quite a small amount, not even enough to get to the bottom level of the next band. In several cases, that would be the case. In other cases, the AWA would relate to a particular project or

something that is of certain duration that is not going to go on indefinitely and therefore there is no justification to create a permanent position at that higher level.

Senator GEORGE CAMPBELL—Is it possible for you to take that on notice, Mr Noonan, and give us a breakdown of those figures?

Mr P Noonan—Yes. So this would be a breakdown of the number of AWAs—

Senator GEORGE CAMPBELL—The number of individuals on AWAs who are being paid at a rate higher than the band that they would be paid under the certified agreement.

Mr P Noonan—Yes, I can certainly take that on notice.

Senator GEORGE CAMPBELL—Is performance based pay available under the agency's certified agreement?

Mr P Noonan—No, except insofar as progression through pay points is linked to assessments under the performance appraisal system, so that somebody who is rated 'outstanding' can progress more quickly than they otherwise would.

Senator GEORGE CAMPBELL—How many staff in the agency are eligible for performance based pay?

Mr P Noonan—Excluding that category, there would be a subset of those on AWAs. So not all AWAs would provide for performance pay but certainly a proportion of them would. I do not have a number. I should say that I am addressing here the non-SES staff because that is where the certified agreements sit. All our SES staff are on AWAs, and that has been the case for some time. So there is no certified agreement that applies to our SES staff.

Senator GEORGE CAMPBELL—Could you take that on notice and provide us with those numbers?

Mr P Noonan—Yes.

Senator GEORGE CAMPBELL—Can you also provide us with a breakdown of the aggregate performance based pay outcomes by classification and by gender, and if performance based pay is available under the certified agreements as well as AWAs by a form of agreement? You said it is not, that it is only where it is linked to an increase—

Mr P Noonan—Yes. You would not normally characterise that as performance based pay under the certified agreement. But under the AWAs a number would have performance based arrangements.

Senator GEORGE CAMPBELL—Can you take that on notice?

Mr P Noonan—Yes.

ACTING CHAIR—We will take a break.

Proceedings suspended from 11.02 am to 11.19 am

CHAIR—The proceedings will now resume. Mr Paterson, Senator Lundy has indicated she would like to ask questions of the Office of Small Business immediately after the lunch break, which will be at 1.30 pm, so officers concerned with the Office of Small Business need not be here until then.

Senator LUNDY—I do not expect any questions will cross over, but we just wanted to mention that in terms of scheduling.

CHAIR—Thank you, Senator Lundy.

Mr Paterson—Before Senator Lundy begins, I have a commitment with my minister at midday. I will be gone for about 20 minutes, I would expect, if that is okay. Officers will be here.

CHAIR—That is fine, Mr Paterson.

Senator LUNDY—Can I just get an indication from officers about some questions that the department is undertaking to bring back to the committee, particularly itemising programs within departmental appropriations. When is it likely we will be able to get that information?

Mr Paterson—I do not anticipate it will be before the luncheon adjournment.

Senator LUNDY—Can we plan on seeing that after lunch?

Mr Paterson—Some time after lunch. Whilst the question may superficially appear to be a relatively straightforward one, it is not—and it does require us to look at the information in a different way. By way of example: before the adjournment we spoke about a business entry point. You might view that as a program, with its measure declared in the portfolio budget statement, but it is a departmental appropriation. There is another measure in the budget measures in Budget Paper No. 2 in relation to the Small Business Assistance Program. The departmental resources associated with that program are identified. We are trying to work out which part of the departmental appropriation falls under what you might describe as a program, and then be able to present the information in the way that you are looking for it. As I said, it is not straightforward.

Senator LUNDY—Well, keep working on it and we will get there.

Mr Paterson—We will.

Senator LUNDY—Can the department indicate whether or not it still follows the strategic blueprint for industry policy outlined in the original 1997 *Investing for growth* document?

Mr Paterson—I would like to reflect on that question.

Senator LUNDY—There have obviously been some policies made since, but perhaps it is a question better aimed at the minister. To what degree do you use that blueprint for industry policy as a reference point in achieving your government's industry policy goals?

Senator Minchin—I do not want to speak on the run on behalf of the actual minister, Mr Macfarlane. I just note that of course much has occurred since that particular report—including, most particularly, the Backing Australia's Ability program and the whole innovation statement which built on and took industry policy somewhat further than that statement. I think we had best come back to you with a more considered statement about the ongoing relevance of the section you refer to.

Senator LUNDY—On that basis, that paper was prepared—and it anticipated an average four per cent annual growth rate through to 2010. Is that your recollection of that particular document?

Mr Paterson—I cannot say that that particular forecast or prediction is something that was a feature of it. It does not stick in my mind. The core fundamentals of having a stable economy and getting the broad macro picture right, which were the essence of the messages that were conveyed in *Investing for growth*, certainly continue to be the case. The portfolio has changed in shape and nature since that time. There have been major programs, like the innovation program. Action agendas have been a core element of working with specific industry sectors. There have been a number of sectoral programs.

Mr Lowndes—The sorts of themes that the department broadly operates on—innovation, international competitiveness and investment—broadly have their origins in that 1996 document. A number of things, such as action agendas, originally canvassed them—as did, similarly, Invest Australia. As has been said, a lot of things have happened since 1996—but I think the basic drift of what was put out in that document is still broadly consistent with the basic overall framework for industry policy.

Mr Paterson—I do not recall precisely the element of the statement referring to four per cent growth but, if you reflect from 1996 to now, manufacturing industry value added has grown by an average of 4.2 per cent a year since 1996. So if that was a forecast in 1998 then it certainly reflected the experience of the last nine or 10 years.

Senator LUNDY—I will come back to those figures, but in terms of Backing Australia's Ability and subsequent policies when is the funding for BAA 2 due to conclude?

Mr Paterson—The financial year 2010-11.

Senator LUNDY—The original paper *Investing for growth* predicted an average four per cent annual growth rate through to 2010. You have not got that paper there, have you?

Mr Paterson—No.

Senator LUNDY—It did. What is the current Treasury forecast for the coming year?

Mr Lowndes—The current forecast for 2005-06 is three per cent.

Senator LUNDY—For 2005-06?

Mr Lowndes—Yes.

Senator LUNDY—Is it three per cent?

Mr Lowndes—Yes, three per cent.

Senator LUNDY—How does the department reconcile the forecast with the industry policy which is predicated on a document that anticipated a four per cent growth each year up until 2010?

Mr Lowndes—As the secretary said, I have not got the original document and the four per cent, but I doubt whether they would be making a forecast as such. The government forecasts normally only go 12 months or so ahead. It may have been some sort of longer run objective, but I do not think they would be looking at four per cent every year and, as the secretary has pointed out, on average since the time that document has been put out I suspect we are around the four per cent mark.

Senator LUNDY—I think the accurate description would probably be that it was an assumption upon which the policy was developed, and I certainly think that the subsequent performance has not reached that objective. So my question is: how does Backing Australia's Ability, particularly Backing Australia's Ability 2, measure up on achieving those sorts of growth objectives?

Mr Lowndes—Backing Australia's Ability is just part of the overall economic settings dealing specifically with the innovation area. I do not have the exact figures in front of me, but I would imagine that the economy has grown around that mark. Certainly since 1996 our overall growth performance has been very strong. BAA I do not think is predicated on a particular overall GDP number; so, again, I think the presumption in packages of that sort is to try to enhance the contribution of innovation towards an overall growth outcome. But BAA itself, as far as I am aware, does not have any particular growth targets in it.

Senator LUNDY—But you have already made the point that BAA 2 and other policies were linked back to or predicated on that original 1996-97 paper.

Mr Lowndes—What I am saying is that the general framework of policy has been based on that 1996 document. I would not go as far as trying to link it to exact figures, but again, as I said before, the broad framework of trying to have a fairly stable macro-economic environment, micro-economic reform and selected industry policy, and that industry policy focusing on innovation and international competitiveness and investment, which was outlined in that document, is still broadly how the overall philosophy of industry policy operates.

Senator LUNDY—What is the current growth rate of Australian industry?

Mr Lowndes—The current year figures, 2004-05, for GDP is two per cent.

Senator LUNDY—That is a long way from the four per cent figure that was at least the assumption of growth back in 1996-97.

Mr Lowndes—Yes, 2004-05 was a fairly low year; it is one of the lowest years we have had for a little while.

Senator LUNDY—Perhaps you could provide the growth figures since 1996-97 for industry.

Mr Lowndes—Yes.

Mr Paterson—It is worth noting the worst drought in living memory—a range of factors outside the control of Australia—has had an impact on Australia during that time, so we are looking at economy-wide measures. In 1998 *Investing for growth* would have been a target, I think, not predicating the policy on the basis of four per cent growth.

Senator LUNDY—Therefore, we should be able to disaggregate the industry sectors so that we can identify where the drought is impacting primarily, if you are saying that that is a reason for less than—

Mr Paterson—It is a reason for the budget forecast in relation to growth going ahead. They are composite numbers, and I do not think *Investing for growth* was predicated on the basis of four per cent growth of industry but four per cent GDP growth. It was a whole-of-government statement. I am advised that *Investing for growth* said, 'The overriding aim of our

extensive economic reform program is to deliver Australia an annual growth rate of over four per cent on average during the decade to 2010.’

Senator LUNDY—Let us have a look at the annual percentage growth numbers then.

Mr Paterson—Sorry, was that a question?

Senator LUNDY—I am sorry, I was waiting for Mr Lowndes to—

Mr Lowndes—I do not have the figures in front of me, but we should be able to get them from the office fairly soon.

Senator LUNDY—I would imagine you would be pretty familiar with what the annual growth rate of industry was within the last years.

Mr Paterson—We would not want to get a decimal point wrong in response to your questions.

Senator LUNDY—Do you happen to have at your immediate disposal the current growth rate for the different sectors of Australian industry in the absence of the aggregated growth rate?

Mr Lowndes—I think we have the sectors. Just in broad terms, agriculture, mining and manufacturing.

Mr Pettifer—What I have got here, which may be helpful, is that in 2003-04 manufacturing industry value added grew by 7.1 per cent over the previous year. So that is part of the picture.

Senator LUNDY—In 2003-04?

Mr Pettifer—Yes, over the previous year, over 2002-03.

Senator GEORGE CAMPBELL—Is that total across all areas of manufacturing?

Mr Pettifer—I cannot easily give you a breakdown of that. I have only got the aggregated figure. Do you want a breakdown? I can get a breakdown if you want.

Senator GEORGE CAMPBELL—Yes. Does it give you a breakdown between ETMs and STMs?

Mr Pettifer—It won’t. What I can get will not break it down that way, but I can give you—

Senator LUNDY—Can you get some reference material that does break it down that way?

Mr Pettifer—I am not aware there is a breakdown. There is certainly a breakdown of exports in that way. I do not think there is a breakdown of industry production or value added that gives you that particular figure. I am not sure how to calculate it.

Senator LUNDY—What figures can you provide in relation to the current growth rate of Australian industry, including manufacturing, on a subsector basis?

Mr Lowndes—The figures I can provide right here and now, for 2003-04, which is obviously the latest complete financial year—and I am talking here of broad sectors—are as follows: services annual growth, 4.2 per cent; manufacturing, 1.5 per cent; agriculture, 26.6 per cent; and mining, minus three.

Senator LUNDY—I am sorry; what was mining?

Mr Lowndes—Minus 3.3 per cent. I do not have the manufacturing figures by sector, but I have their contribution to GDP, so it is just a matter of someone getting a card from the previous year and working out percentages, which we can do shortly. But, as I say, I do not have the actual growth rates by sector in manufacturing with me at the moment.

Senator LUNDY—But the growth rate overall in manufacturing was 1.5 per cent.

Mr Lowndes—It was 1.4 per cent.

Senator LUNDY—How does that link back to the other figure that was given of 7.1 per cent?

Mr Pettifer—I was talking about value added. That was the figure I had. We will just have to look at this to do a reconciliation.

Senator LUNDY—It might be a good idea. Do you have available to you—and could you provide it today—a breakdown within the manufacturing sector along the lines of Senator Campbell's question—ETMs, STMs and so forth?

Mr Lowndes—Not in terms of overall growth. We can give you manufacturing by textile, footwear, wood paper products, metal products, machinery and that type of thing. I think there are figures on the export side where they are broken up, as Senator Campbell requires, but I do not think we have them in terms of overall production.

Senator LUNDY—So you do not have manufacturing, in terms of overall production, on a sector by sector basis?

Mr Lowndes—Not in terms of the ETM category that Senator Campbell referred to—something which they work out for export numbers.

Senator GEORGE CAMPBELL—But if you have the figures for those individual industry sectors, you would be able to provide a break-up.

Mr Lowndes—Yes. We can have those to you by the end of today.

Senator LUNDY—Hopefully before the end of the day. I have to say that I would have expected that these sorts of numbers were pretty fundamental to the industry department, and I think it is a poor performance that they are not available to the committee. So much of what we have asked for this morning is not available.

Mr Paterson—We endeavour to anticipate the full suite of questions that you may seek to raise and seek to have information available, but we cannot be expected to predict every question that you might come up with and have immediately at hand the answer to that question.

Mr Pettifer—I think it is fair to say, Senator, that we have subsets of the information you are asking for. I can give you the export figures for manufacturing in total for 1999-2004, for example, but it is going to take us a while to work through this. I think it is better if we go and do the numbers and provide them to you in the way you have asked the question.

Senator LUNDY—So far we know that you will be able to get the industry manufacturing sector breakdown for annual performance or growth and another suite of information relating

to the export performance of each of those sectors, including—and I am looking at ETMs and STMs—the export figures.

Mr Lowndes—Yes.

Senator LUNDY—We will wait for those. It is a fair comment to make that in a global economy Australian industry needs to be globally competitive, isn't it, Minister?

Senator Minchin—Of course.

Senator LUNDY—Of course. So industrial exports would need to be a key component of any suite of policies designed to achieve Australian competitiveness and, therefore, a key indicator in the level of Australian industry competitiveness. Is that a fair point?

Mr Pettifer—I am not sure who the question is directed to, but the manufacturing exports have been performing well over the last 12 months or so. They increased by five per cent in 2004, and they account for about 43 per cent of our total value of exports. So I think that is a fairly strong indicator of performance. Within that, the elaborately transformed area of manufacturing has done particularly well—things like passenger motor vehicles.

Senator LUNDY—What about other areas? I will come to that in more detail. I find it quite amazing that we have just asked you exactly that question about those breakdowns and you are now reading numbers back to me that you said you could not provide.

Mr Pettifer—No. You asked for the actual numbers and we said we would get them to you. I am giving you a summary of some of the key points that those numbers reveal.

Senator LUNDY—What is the percentage of one of those subsectors of automotive manufacturing that you have just outlined on exports, which is the very question you just undertook to get back to us on?

Mr Pettifer—I do not know whether I have a breakdown of automotive in terms of exports.

Mr Ryan—Senator Lundy, I think we are getting confused on this side of the table about what your question is. When you referred to industry we took that to be all industry sectors, so you will want mining, manufacturing and agriculture.

Senator LUNDY—That is right.

Mr Ryan—The responses that you have just been given deal specifically with manufacturing.

Senator LUNDY—Yes. And Senator George Campbell and I also asked for a breakdown within manufacturing.

Mr Ryan—Yes, I understand that.

Senator LUNDY—That was also taken on notice to be provided later today.

Mr Ryan—Yes. And the response to that question is a time series. You want, over time, what is happening in the various subsectors of manufacturing, which is what we will do.

Senator LUNDY—In terms of growth and exports.

Mr Ryan—Correct. We just want to understand exactly what the question was.

Senator LUNDY—It is all of those figures, but two different measures.

Mr Pettifer—That is fine, but you were taking me to task for giving you some information now which seemed to suggest that we had all this information available to us. We do not. Because of the way the figures are aggregated, I cannot give you a figure just for automotive in terms of exports.

Senator LUNDY—What was the figure you just cited?

Mr Pettifer—The figure I just cited was that manufacturing exports increased by five per cent in 2004. I said to you that, within that, some areas of manufacturing have performed well. I mentioned the automotive industry in that context.

Senator LUNDY—But you do not have the numbers?

Mr Pettifer—I do not have the numbers here.

Senator LUNDY—So you cannot demonstrate that in figures at the moment?

Mr Pettifer—I can demonstrate it in terms of export volumes of cars, for example. Over the last 12 months both Holden and Toyota have exported record numbers of vehicles. You have to be careful about how that translates into export earnings, because the Australian dollar has been at a high level. So while the volumes have been quite strong, the actual value of the exports might not be as strong. So it is important to understand those sorts of differences.

Senator LUNDY—We will be able to understand a lot more clearly when you provide the figures. Do you think it is fair comment to say that exports of elaborately transformed manufactures have slowed considerably over the past four years?

Mr Pettifer—I do not have the figures for that in front of me. We will need to respond to that when we have the data available.

Senator LUNDY—I put it to you that they have in fact slowed considerably over the last four years. I would like to ask whether this has alerted the department to any concerns they have about the future shape of Australia's exports, given this trend.

CHAIR—I do not think, Senator Lundy, that is quite fair.

Senator LUNDY—Perhaps I could ask the minister to answer.

CHAIR—You have put a proposition to him that he has not accepted, and then you have said, 'Well, given that, don't you think that this is bad news?' He has not accepted the premise of the question. You are entitled to explore the topic, but I think you should do it in a way that does not ascribe a view to a witness that he has specifically forsworn.

Senator LUNDY—I have asked a question about those figures, and the department is unable to confirm them, but I understand that that is absolutely the case. So, given the department has shown a propensity to comment generally on the performance of various subsectors of manufacturing, I thought it was a reasonable question to put that proposition to the officer.

CHAIR—I do not want to debate it with you, but there is a basic rule here—that is, you cannot base a question on an assumption that is not accepted.

Senator LUNDY—I think the officers have shown a habit today of, when it is convenient, not having answers to questions on which I want to base a series of questions. And this is an example.

Mr Paterson—Senator, I take exception to that.

CHAIR—Senator, you are entitled to make that comment. Mr Paterson, you are perfectly at liberty to say as you have said. The officer has taken it on notice, I think. That is a standard practice.

Mr Pettifer—If you compare, as an example, the manufacturing exports, in 1999 they were \$52.7 billion and in 2004 they are \$65.4 billion. I can give you those sorts of numbers. But it is better, I think, if we come back to you once we have done the tables that you have asked us to do.

Senator LUNDY—Okay. We will come back to that. Exports were forecast to grow by eight per cent in the 2004-05 budget and six per cent in the 2003-04 budget. Those budget forecasts have not been met, have they?

Mr Lowndes—No.

Senator LUNDY—What were the figures for those two years?

Mr Lowndes—2004-05 was two per cent and 2003-04 was 1.6 per cent.

Senator LUNDY—That is a pretty poor performance against forecasts. Isn't that an indicator that the government's policies are not being effective in boosting the growth of exports?

Mr Lowndes—You are right, the forecast is a fair way under what was estimated.

Senator LUNDY—A fair way.

Mr Lowndes—There are a lot of factors involved in the overall export performance, including factors such as the appreciation of the dollar, and there have been some issues with, if you like, bottlenecks on the export side in terms of some resource projects. So there have been some factors that have contributed to the lower figure than what was forecast. Against that—and these exports are volume figures—the value growth has been quite a bit stronger because we have had some significant price rises in the resource sector.

Senator LUNDY—Any other explanations you care to put on the record at this point for that poor performance?

Mr Lowndes—The other aspect of it is that the domestic demand has been quite strong, which can influence the willingness of some sectors to seek out export markets. But I think the high exchange rate has been, overall, quite a significant influence on our export volumes. I think most of the surveys and so forth that you see of business groups have pointed out that that has been a fairly important factor.

Senator LUNDY—Did the department have any input into these forecasts, given the established basis or *raison d'être* is to have an export focus to remain internationally competitive?

Mr Lowndes—No, ITR are not involved in the budget forecasts.

Senator LUNDY—Was your advice sought in any way?

Mr Lowndes—No.

Senator LUNDY—Perhaps this is over to the minister: what cross-referencing with the performance of industry policy in achieving the export growth rates would have occurred during the budget if there was no communication with the department?

Senator Minchin—Senator Lundy, I think you should come along to the Treasury estimates hearings, because most of your questions seem really to relate to Treasury and the way in which it models the economy and makes its detailed forecasting estimates in the budget. They are not the responsibility of this department. You are welcome to come and ask Treasury the detail of how it reaches its estimates. Its responsibility within the government framework is to make those estimates. It is this department's responsibility to run programs designed to meet particular individual objectives which you are free to question them on. I refer you to Treasury for your more general questions.

Senator LUNDY—Thank you, Minister, I think I will take up that general invitation. It is important to establish now the role that the industry department plays as the administrators and managers of industry development and export capability and, therefore, export capability within Australian industry and the nature of the input into how those Treasury forecasts are developed. What we have heard so far is that there is no input. There is no formal input from these officers into Treasury for the determination of what that growth forecast will be. I find that extraordinary.

Senator Minchin—Again, you can ask Treasury how they reached their conclusions.

Senator LUNDY—I plan to, but I think you understand the point.

Senator Minchin—This department's job is to design and implement government programs, and you are free to question them about the efficiency and effectiveness with which they do that. It is not their job to get into the macroforecasting game.

Senator LUNDY—I ask the department, then, specifically what analysis has taken place on the factors that have impacted on Australian industry and prevented them from meeting these government forecasts of growth?

Mr Lowndes—Since you are talking about exports, in terms of analysis we obviously monitor what is happening with the figures. I did mention earlier the issue of bottlenecks in the export infrastructure, and the resources area of the department has been examining those issues.

Senator LUNDY—The resources area of the department?

Mr Lowndes—Yes. Most of the infrastructure bottlenecks relate to resource projects. In looking at actual export data, we are at the moment engaged in a consultancy with ABARE to look at trends in exports in a bit more detail. As part of that, we are doing some survey work, primarily with exporters in the manufacturing sector, to get a bit of an idea as to what factors are drawing on their export decisions. As I say, people on the resources side are looking at a specific identified problem. In the other area we are doing some economic research plus some survey work, essentially to try to get a better understanding of what factors are impacting on our export performance.

More generally, the department does have in its overall policy activities the action agenda processes—which have no doubt been discussed here before—where in particular sectors we might well be looking at export performance. Again, that can in itself lead to looking at any particular impediments to exporting. As I say, as a general rule, we have talked about issues such as BAA, the removal of the three per cent revenue duty in the budget and a lot of general policy activities that, while not directly linked to exports, are based on trying to improve our overall competitiveness. So I think we have a suite of some research and some analysis of specific identified policy impediments in the infrastructure area, plus the general operation of our programs and their link to innovation and investment also have some impact on our overall export performance.

Senator LUNDY—You have just outlined a whole series of internal work that is going on to analyse essentially the failure of industry policy to date to meet Treasury forecasts. To what degree are you analysing the impact of skills shortages on the failure of industry to meet Treasury's export growth targets?

Mr Lowndes—I did not mean analysing any failure of industry policy to meet the Treasurer's forecasts. The main department that deals with skills issues is the Department of Education, Science and Training. Our department is involved in a number of activities with that organisation which mainly fall under the general heading of ensuring that industry type issues are factored into the overall design and operation of the Commonwealth's activities insofar as they relate to skills development. For example, a national skills shortages strategy steering group is run out of DEST, and we are involved in that area. We tend to get more involved in specific areas such as tourism. We are involved in a working group that is looking at science, engineering and technology skills. We participate in various IDCs which deal with skill issues, and our action agenda process from time to time will identify skill issues in particular sectors.

In terms of actual programs that we operate, we do not run skills programs. I am sure you are aware that VET funding is basically run out of DEST. Similarly, the process of forecasting skill shortages by occupation is done at DEWR, so we are not directly involved in that. Our basic role, in summary, is that we are involved in these processes but we are not running them and overall what we seek to do is to bring into these processes, broadly speaking, the needs of industry. For example, we seek to comment on things that DEST are doing with VET from the perspective of trying to see that the system is as responsive to industry needs as it can be. We have some small programs in COMET and the small business area that deal with business skills, but they are quite minor in the overall scheme of things.

Senator LUNDY—What is the nature of the department of industry's involvement in the DEST strategy? Do you provide specific advice about the industries that are perhaps declining in their export growth? What are the criteria that prompt your advocacy of certain industries suffering from a skills shortage?

Mr Lowndes—I would not say it is directly linked to exports but, for example, in an action agenda process, where a sector identifies skills shortages we would seek to feed that information into DEST's planning processes and, in some cases, even pursue it in our own right. Tourism is a case in point. I do not know if we have anyone from tourism here and, as I say, I do not do tourism. I am speaking in general terms. Skills emerged as an issue during the

tourism white paper process last year. We have sought to inject particular working groups to look at skills shortages in that area with DEST. We will get information from industry and do some processing of it to form a view as to whether it is valid or not valid. We obviously get a lot of comments from industry about all sorts of things, and we do not go to other departments with all of them; we have a bit of a look at them.

Senator LUNDY—It sounds like the department's response to the skills shortage tends to be driven by action agendas or specific industry issues as opposed to any overarching approach. Is that a fair reflection?

Mr Lowndes—As I said, the levers in this area are with DEST; they are the department with overall responsibility for it. We will comment on overall issues. We do not purely confine ourselves to that area, but the area you have described is probably our main contribution. We are consulted by DEST on some of the bigger picture issues such as the overall operation of vocational education and training. We have input into that. So we do make some contribution beyond what you have said but, that said, our main role is on the specifics.

Senator GEORGE CAMPBELL—Is there a working group between the department and DEST on these issues?

Mr Lowndes—There is an overall skills strategy arrangement which involves us, DEST and DEWR.

Senator GEORGE CAMPBELL—Has that group looked at the development that is about to take place in the Kimberleys, in the iron triangle and in Gladstone, in terms of the resources industry, and the implications of that for skills shortages in the general engineering industry across the country?

Mr Lowndes—I think the Resources Division is on tomorrow, so I cannot answer that specifically. But there is a mining industry component to the skills strategy.

Senator GEORGE CAMPBELL—Are you saying the resources industry section of the department is excluded from the discussion?

Mr Lowndes—No, but they are not here today.

Senator GEORGE CAMPBELL—Presumably, they have been involved in the discussions; you would know what their position this.

Mr Lowndes—Yes, that is what I was about to say. They are represented on the mining industry skills shortages project, but I cannot say precisely what particular area that project is covering. They would have to discuss that.

Senator GEORGE CAMPBELL—Has that group developed an analysis of what is likely to happen in those areas?

Mr Lowndes—I am not personally on that group. That is handled by our Resources Division.

Senator GEORGE CAMPBELL—What group are you on?

Mr Lowndes—The skills shortage process breaks things up into sectoral groups such as tourism and resources. I am not personally involved in any of those working groups.

Senator GEORGE CAMPBELL—Is there anyone here who is involved in these groups?

Ms Kelly—The process of looking at skills and training, which is currently through ANTA, involves a series of industry advisory panels, so industry is advising directly into that process what its skills needs are. We are often included in that advice and we sit in on some overview groups that look at the whole system. For example, at the moment there is work going on looking at the post-ANTA environment, and we have been involved in those discussions with DEST and industry to ensure that industry is very closely involved in future advisory mechanisms as they are in the current ones. But we are not the conduit for that direct industry input into the skills and training advisory process.

Senator GEORGE CAMPBELL—I appreciate that explanation, but I am not talking about looking at the individual skills shortages and what industry might do to improve the supply of skills in those industry sectors. I am talking about a set of circumstances whereby something like \$30 billion in projected resources development is going to occur across this country in the next four to five years when there is an enormous shortage of engineering skills. Inevitably, they will draw those skills out of the general engineering sector in the capital cities which, if not addressed, will collapse that sector. That has major ramifications for every other industry in the country. I am asking the department: has an analysis been done of this? It is a broader economic issue than just the question of whether there is X, Y or Z number of plumbers or fitters in a particular area. It has much broader implications. Have you considered it, has it been discussed between the department and DEST and have any strategies been developed for meeting the particular demands that are going to occur? Some of the state governments have been doing some things.

Mr Lowndes—I am not aware of any work that is being done. If it were being done, it would be looked at by our resources area as part of their mining industry skills project. As far as I know, we do not have anyone from that area here.

Senator GEORGE CAMPBELL—Is there anyone here from the section that looks after heavy engineering or general engineering?

Mr Ryan—There is a process taking place within government that is looking at the whole skills shortage question. The engineering set of skills is going to impact on a wide section of different industries, including the resources sector but equally the energy sector. So we need to think not just of projects in the north-west of Australia, because there is going to be a skills shortage down the east coast of Australia as well. So I think a more comprehensive response to the skills shortage, rather than a very specific solution, will come to pass.

Senator GEORGE CAMPBELL—That is what I am asking. The knock-on effect can be horrendous for the economy.

Mr Ryan—Work that looks at this is being done across the departments, but the solutions have not come out yet.

Senator GEORGE CAMPBELL—But there is no-one in your department who is specifically involved in those types of discussions?

Mr Ryan—There are several people involved. There are several different areas inputting into that process.

Senator GEORGE CAMPBELL—What are those areas—Resources?

Mr Ryan—There is Resources. In the energy area, work is being done at both the Commonwealth and state level as part of the Commonwealth-state arrangements on skills shortages. That work feeds in as well. There is the tourism sector and I think there is also manufacturing.

Mr Pettifer—Our main feedback is through the action agenda processes, directly with DEST.

Senator GEORGE CAMPBELL—So there is nothing specific other than what is coming through the action agendas?

Mr Pettifer—That is right.

Senator GEORGE CAMPBELL—What are the implications for the innovations sector? What is being done to look at the uptake of new technologies to address these shortages?

Ms Berman—Skills shortages?

Senator GEORGE CAMPBELL—Yes.

Ms Berman—We have been doing quite a lot of firm interviews with people identified as ‘innovative’ through the programs we administer. Most recently we have looked at probably 120 firms. We have had discussions with them about the drivers and impediments to their work, whether they export or do not and so on, and skills shortages are a secondary concern. In terms of exports, the story is very uneven. There is a strong drive for that in the larger firms but the smaller ones are often only interested in supplying the local domestic market. There is another thing we are looking at which will enhance our understanding enormously. We have a large number of key performance indicators across all the incentives that we offer to firms. The changes in exports per year as a consequence of the support we are providing is being measured. So we are hoping to be able to show that the impact of getting assistance from the government through, say, the Commercial Ready program has caused an increase in exports.

Senator GEORGE CAMPBELL—But is your section looking at any programs related to promoting the uptake of advanced technologies as a way of addressing the skills shortages in sectors such as engineering? We know that the take-up of new technology has been notoriously slow in this country.

Ms Berman—You would be aware of the new Industry Cooperative Innovation Program, announced at the last election. That is exactly what you are talking to. It is about assisting in sectors, picking up new technologies and demonstrating their effectiveness to all of the firms in that sector to facilitate enhanced outcomes. That program commences on 1 July this year and will go out to 2010-11.

Senator GEORGE CAMPBELL—And you got only half the funding that you sought.

Ms Berman—We got funding for it.

Senator GEORGE CAMPBELL—You got funding for it, but you got less than half of what you sought.

Ms Berman—It was an election commitment, so we were not out there seeking funding at that point. It was the government’s decision to provide funding for this activity.

Senator GEORGE CAMPBELL—Will this embrace the sorts of concepts that Austool have been promoting, such as the linking of suppliers, consumers and producers?

Ms Berman—It certainly will. Part of coming forward for support there is about forming a partnership or consortium among firms and, hopefully, with research institutions if they can help with that technology transfer as well. You do not come in as an individual. You come in as a group within a sector, with the aim of increasing productivity in that sector, including exports. They are the measures by which we will be assessing the proposals that come forward.

Senator GEORGE CAMPBELL—And this has a five-year time frame.

Ms Berman—Five years—out to 2010-11.

Senator GEORGE CAMPBELL—And \$25 million.

Ms Berman—Yes.

Senator GEORGE CAMPBELL—It is not going to promote much.

Ms Berman—Hopefully, it will be so successful and result in such good outcomes that further funding will be provided.

Senator GEORGE CAMPBELL—It seems to me that this department lives on hope and very little else.

Ms Berman—We have done a lot of good work.

Senator LUNDY—Having explored the skills shortages issue and the department's involvement in that, I think it is worth going through the other reasons the department provided for the lack of performance in export growth. You also mentioned the appreciation in the dollar. Could you elaborate on the impact of that on Australian exports?

Mr Lowndes—The impact broadly is the increase in the cost of our goods in foreign markets, which directly reduces the competitiveness of Australian exporters.

Senator LUNDY—Could you outline figures for the Australian dollar's appreciation against the US dollar and could you also go through, for example, the Asian currencies so that we can get a clear picture of how the appreciation of the Australian dollar has impacted across different export markets?

Mr Lowndes—Which figures are you asking me to outline?

Senator LUNDY—The appreciation of the Australian dollar.

Mr Lowndes—I can tell you how much it has appreciated.

Senator LUNDY—Thank you.

Mr Lowndes—In May 2001, \$A1 was worth US51c. In April 2005, the amount had gone to US78c.

Senator LUNDY—What about Asian currencies?

Mr Lowndes—For the same dates, the yen has gone from ¥60.7 to ¥82.3. And to give a more overall picture, for the trade weighted index, which is kind of a composite of currencies,

the figures are 49.3 to 64. We have not changed much against the European currencies; it has been mainly the US and the Asian countries where we have appreciated.

Senator LUNDY—You said Japan. Can you go through China and other Asian countries?

Mr Lowndes—I can get the information; I do not have all the exchange rates with me.

Senator LUNDY—Is it fair comment that it has not appreciated as greatly in the group of Asian currencies than it has against the US?

Mr Lowndes—The US has been the main driver of it. As you can see from the figures I read out, we have appreciated far more against the US than we have against the trade weighted index.

Senator LUNDY—So, when you raise the appreciation of the Australian dollar as a reason for Australian exports not growing as much as they could, the reflection is more focused on our exports into those countries where the appreciation has been greatest but not necessarily the best overall picture?

Mr Lowndes—It is the countries but also the currency in which trade occurs. The trade that occurs in US dollars is relatively high. It is not just our trade with the US; it is a much higher proportion of the figure. Obviously, to the extent that we are trading in some currencies where we have not appreciated as much or, in fact, the trade is conducted in Australian dollars, which some goods are, it varies. As I say, it is clearly only relevant for those goods that are sold in markets against currencies where we have appreciated. The situation is also a little more complex in that the other side of it is that some goods which manufacturers or businesses import become somewhat cheaper. So there is another side to the equation. It is not just a one-way situation.

Senator LUNDY—You also mentioned infrastructure constraints. To what extent does the department get involved in identifying specific infrastructure constraints? You said the resources section was looking at some aspects of that.

Mr Lowndes—There is a working group with our people, Resources, the transport department and I think Foreign Affairs and Trade are also involved. It has looked at bottlenecks. I think they are mainly looking at coal related infrastructure. The Prime Minister also has his own task force on infrastructure bottlenecks that is run by Brian Fisher.

Senator LUNDY—What involvement does DITR have in that prime ministerial task force?

Mr Ryan—We had someone on the secretariat of the Prime Minister's task force.

Senator LUNDY—What sort of advice are you able to provide to that task force?

Mr Ryan—A lot of the work that we call the coal infrastructure work was provided to that task force.

Senator LUNDY—What about the impact of infrastructure constraints on other sectors?

Mr Ryan—Certainly some of the other infrastructure questions were discussed within that task force as well: for instance, the outlook for the energy sector—the predictions are a 50 per cent increase in demand—and what we would look for in the investment in that sector.

Senator LUNDY—Leaving resources, energy and so forth aside, what work has the department done on the impact of infrastructure constraints on other industry sectors such as manufacturing?

Mr Ryan—The infrastructure constraints have really only shown themselves up mainly at the ports on the coal infrastructure. That has been the key pinch point.

Senator LUNDY—Are you telling me you have not done any work on the impact of infrastructure constraints on sectors other than resources and specifically coal?

Mr Ryan—What we are doing at the moment is work looking at exports broadly and those factors that are impinging on exports development and growth. Infrastructure takes place in that consideration.

Senator LUNDY—Does that include infrastructure constraints on manufacturing exports?

Mr Ryan—It would, yes.

Senator LUNDY—You just said you were not; now you say you are. What is the nature of that input that the department has to the Prime Minister's task force on infrastructure?

Mr Ryan—The input that we had into the Prime Minister's task force was that we had someone on that secretariat and we provided information on some key infrastructure areas, in particular on resources.

Senator LUNDY—Where else?

Mr Ryan—The other area we dealt with would have been energy. Separate to that exercise we are conducting our own work to look at what might be constraints or impediments to export activity, and in the context of that work there would be consideration of what infrastructure may be impeding the development of exports.

Ms Kelly—We are also doing a tourism investment strategy that will look at tourism investment in a range of areas, including infrastructure.

Senator LUNDY—I would like to get this clear. There has been no input from the department into the Prime Minister's task force on infrastructure in relation to sectors other than energy and coal. Is that correct?

Mr Ryan—Yes.

Senator LUNDY—You have said that you are doing some work on investigating the infrastructure constraints on other sectors. What is the nature of that work and who are you ultimately providing advice for? Is the advice for the minister? Is it for the task force? I find it quite extraordinary that this work has not already been done in the context of the general political discussion and debate about infrastructure constraints and their effect in limiting exports generally. I am just making a comment.

Mr Pettifer—We do look, through the action agenda process, at constraints on a whole range of industry sectors. We work through that.

Senator LUNDY—But you have had no mechanism to pass that information on to the body that the Prime Minister has established to look at these constraints. That work has not been done.

Mr Pettifer—I just need to finish. We look at constraints to performance—growth, exports and those sorts of things—through the action agenda process. If infrastructure constraints are an issue they will come out through that process. I think I said at the last Senate estimates that I cannot recall any issues like that in the manufacturing sector—at least where we have done action agendas in recent years—being an issue. In relation to exports, there are occasional things raised on coastal shipping and those sorts of things. That has been an issue in the past, but it is not a major issue for manufacturing.

Ms Kelly—The export study that we mentioned earlier, which includes a survey of exporters to ask them about constraints, would highlight anything like infrastructure or skills that are constraining export abilities.

Senator LUNDY—You need to note that I am referring to the list that was given to me by the department of the factors inhibiting Australia's exports. So I am referring back to you the list of constraints that you gave me specifically about exports.

Ms Kelly—And I think the answer is that the key constraints have been in the area of resources.

Senator LUNDY—That does not provide an explanation for the decline in growth of a sector like manufacturing, does it?

Mr Pettifer—I do not know that we accept that proposition.

Senator LUNDY—You do not accept the decline in growth in manufacturing?

Mr Pettifer—Manufacturing is growing.

Senator LUNDY—Manufacturing is growing. But there has been a decline in the annual growth of manufacturing.

Mr Pettifer—Manufacturing is growing. Its share of the economy is shrinking, but that is because other sectors of the economy are growing more quickly. The industry is not shrinking; it is growing.

Senator GEORGE CAMPBELL—Export growth has dropped dramatically.

Mr Pettifer—We are going to get the figures on that.

Senator LUNDY—Since 1997 the growth in ETM exports has slowed sharply, and between 1997 and 2003 it only grew by 1.8 per cent, which was half the percentage of total export growth of 3.8 per cent. That is a marked decrease, whereas leading up to 1997 the annual rate of growth of ETMs was 13.8 per cent. That represents a dramatic and very disturbing turnaround that I would have expected would have prompted the industry department to respond far more stridently in policy terms than has occurred. At the moment we are still getting a lot of pushback from officers that there has been any decline in growth at all, yet I think it is pretty well established that that is the case. What are the reasons for that decline in growth in exports? If you cannot provide one, then it is reasonable for us to make the assumption that it is because the government's policies are not effective.

Mr Lowndes—We have just covered the issue of the appreciation of the exchange rate. We have talked about the impact of fairly strong growth in domestic demand which will often see people supply that demand rather than export, and we have talked about particular

infrastructure bottlenecks on the resource side of things. So I think we have given you some indication as to what the factors are. I do not want to talk about particular figures. The growth rates in exports generally have slowed—I do not want to talk about ETMs or particular sectors, but overall that has happened. It has been the case right across all sectors, not just in manufacturing. In fact, manufacturing has done as well as some of the others in recent times. But the change in the exchange rate is quite a big factor. It is also the case that export growth in the late 1990s was very strong, and you are not going to see it grow at those levels indefinitely. Exports do move around quite a bit across periods so, while the numbers recently have been quite low, I do not think you are going to see figures like those in 1995-96, when it was growing quite strongly, continue indefinitely. There is also a general trend—although this is getting off the point a little bit—in that, in terms of the overall demand for goods in the economy, there is a switch from manufacturing goods to services. This is an overall development, and the manufacturing sector in most countries is relatively lower now that it was years ago.

Senator LUNDY—I want to refer you to the DHL Export Barometer, which is an analysis from Austrade, which states:

Capacity constraints were considered important to 25 per cent of all exporters over the past 12 months and are expected to be an impediment in the year ahead for 23 per cent of those surveyed. Of those who have been negatively impacted by capacity constraints, manufacturing capacity is considered the biggest impediment to sales (63 per cent) followed by infrastructure (road, rail, ports and sea) on 27 per cent and blockages in supply chains on 12 per cent.

How does the department factor that sort of information into its policy advice and programs?

Ms Kelly—That would be not only infrastructure but also high-capacity utilisation by companies of their own plant and equipment et cetera. What we have seen is a very strong response in the capital expenditure figures that have come out in the last month or so. I would have to look up the exact figure, but I think there has been about a 13 per cent increase in capital expenditure by companies themselves to try to overcome these things. But there is often a lag between when the demand grows and when the capacity comes in to meet it.

Mr Pettifer—I think a strong domestic economy means that sometimes producers focus on the domestic opportunities rather than on the international opportunities. So that probably has had some impact too.

Senator LUNDY—What does that say about your industry programs and your overarching policy to look at improving exports to remain globally competitive? Doesn't that point to a fundamental weakness?

Mr Pettifer—I am just saying that if the domestic economy is strong that is going to drive a lot of your capacity utilisation.

Senator LUNDY—So you are saying the focus of exporting businesses turns inward?

Mr Pettifer—There are some who will, yes. There are some manufacturers who will sell on the domestic market rather than look for export opportunities. That is all I am saying.

Senator GEORGE CAMPBELL—Didn't the last changes to the EMDG also have an impact on the export side? You must have got that coming back from manufacturers. No-one is responding—will I take that as a yes?

Mr Ryan—I do not know the answer. I do not think we have looked at that particular question.

CHAIR—I think, Senator Campbell, at Senate estimates, of all places, silence is not consent.

Mr Lowndes—At the moment the EMDG is being reviewed by Austrade. That review process will pick up any particular concerns emanating from the last set of changes. One point I would make is that the EMDG is largely directed at small business exports. In terms of the sort of bigger-picture numbers that we are talking about here—

Senator GEORGE CAMPBELL—That was a change that was instituted the last time around which has caused concern amongst manufacturers who are exporting. I am sure you have picked that up because it has been all over the *Financial Review*.

Mr Ryan—The point we would make is that if manufacturers are identifying capacity constraint as their biggest issue, and they are meeting domestic demand at a time when our exchange rate is very high—that is, imports are relatively cheap—that shows their competitiveness is very high but they have to choose which markets they are going to put their goods into. From our perspective, it is just showing how competitive they are.

Senator GEORGE CAMPBELL—But the other side of it is that they are so uncertain about their future markets that they are not prepared to put the investment into their capacity.

Mr Ryan—As Patricia Kelly has mentioned, if you look at the recent figures for capital expenditure, one of the things that we have seen as the economy has been reducing unemployment is that capital expenditure has been increasing, so they are looking to build capacity, but it takes time to do that.

Senator GEORGE CAMPBELL—But if you look at the AiG's PMI, there is a great deal of uncertainty amongst manufacturers about the future, and one of the factors is the high dollar. They have moved from what was, two or three years ago, a 52c dollar to what is now a 77c dollar. That is an increase of a third. That is a huge cost impost to absorb.

Senator LUNDY—Having worked through some of what the department says are reasons for the reduction in growth of exports, does the department itself undertake any forecasting about the growth in exports or indeed industry sectors to inform policy development and the long-term prospects of Australian industry?

Mr Lowndes—As I mentioned before, we do not do export forecasts. The government's numbers are done by Treasury. There are some sectoral forecasts done for tourism but in terms of forecasts for sectors as such we do not specifically do that.

Senator LUNDY—If the department of industry does not do sector forecasts, who does that work?

Mr Lowndes—The overall forecasts for the economy are done by Treasury. In terms of specific sectors, there are some forecasts done by ABARE in resource and agricultural areas. There are forecasts not of sectors but of demands for particular skills—I mentioned earlier the doctors occupational skill forecasting was done by DEWR. But, in terms of forecasting beyond that, that is the extent of what we do.

Senator LUNDY—So it is not done? There is no forecasting of sectors other than the ones you have just outlined.

Mr Lowndes—Some of it would be part of the Treasury's overall forecasts. For example, there are forecasts of investment, which include construction and engineering and that type of thing.

Senator LUNDY—Manufacturing perhaps?

Mr Pettifer—They are not forecasts but certainly in an action agenda process the industry looks to its future—what the opportunities are, what sort of growth it could possibly achieve and what impediments there are, and that forms the basis of the action agenda. So in that sense it happens.

Senator LUNDY—But it does not happen on an overarching basis to inform general industry policy direction?

Mr Pettifer—Within my division it is the action agenda process that does it.

Senator LUNDY—So the answer to my question is no. Do you think that that lack of analysis to predict the future directions of important sectors of industry like manufacturing have contributed directly to the policies of this government allowing the decline of these sectors or—let me put it in the most positive context—preventing them from reaching their potential in an overall environment of growth?

Mr Lowndes—These sectors have not declined. Manufacturing has continued to grow. As has been said before, it is just growing—

Senator LUNDY—Export growth of eight per cent remains well below the average of the export growth achieved by Labor of 10.8 per cent on an annual basis. So we have declined on average since this government came to power. My question is: isn't this evidence of a poorly developed industry and trade policy that is not targeting important sectors?

CHAIR—Senator Lundy, you know that the officer cannot be asked to comment on policy.

Senator LUNDY—If there was no analysis done of the future of these industry sectors, can I ask the department, given they have not done any analysis, whether or not they have actually come up with any alternative policies which could rectify the problems based on the existing evidence.

Ms Kelly—The department works very closely with the Department of Foreign Affairs and Trade on free trade agreements and we work with industry sectors to look at the potential benefits and growth areas that can be achieved through free trade agreements. As you know, there are four of those currently being negotiated, so a significant amount of our attention is directed to that.

Senator LUNDY—That is probably a good point to come back on after lunch, because without any analysis of any forward-declining growth or reduction in annual growth of these industries it is not surprising that in those free trade agreements which specifically do identify certain vulnerable industries—for example, automotive, TCF and the miscellaneous manufacturing sectors—those industries will be left out there in the cold if you are not doing

the work to analyse the impact. Can you tell me whether or not the department does any analysis of the impact of those free trade agreements on the future of these subsectors?

Mr Ryan—The fundamental for us is that we look at the international competitiveness of industry. We are looking at what are the impediments that would stand in the way of making our industries more competitive. Whether they export or whether they compete against imports is neither here nor there. Through the action agendas, we go through in some detail with each industry the things that need to change, the things that need to happen, to make them more internationally competitive. I think that what you are seeing today is that, when capacity constraints is the issue for industry, when they are competing against imports and when the dollar is very high, their international competitiveness is definitely improving.

Senator LUNDY—Can you answer my question about the level of analysis done within the department on the impact of free trade agreements, specifically China?

Ms Kelly—Largely, those analyses are done by the Department of Foreign Affairs and Trade, but we participate in those and Mr Lowndes could give you further information.

Mr Lowndes—I will talk about the process with China since it is topical. There has been some economic modelling done as part of the feasibility study and we were involved in that exercise. There were also fairly extensive industry consultations with particular sectors including manufacturing along with Foreign Affairs, going around the state capitals and various forums. Meetings are held to get industry views and, as I mentioned earlier, we participate with Foreign Affairs in the various bits of economic analysis as well as the overall feasibility study, and we will continue that work with them as the negotiations unfold. We do most of our work with DFAT. We are part of the negotiating team on Australia's behalf and, as I say, we operate with them but nonetheless we basically as part of that we look at the particular areas which are of interest to this portfolio, which are essentially the manufacturing side of it and also the investment issue which is an issue with the China FTA in terms of investment opportunities in China. There is a fairly extensive network of consultations and processes and the process is quite transparent and industry input is quite actively sought.

Senator LUNDY—We might come back to that a bit later. In the absence of any analysis by this department on some of the changes in the trends of export manufacturers, how does this department provide advice to Treasury and to DFAT in respect of free trade agreements about the potential for a negative impact on those sectors?

Mr Lowndes—As part of the feasibility study there is economic modelling done of the effect of changes on particular sectors and, while DFAT commissioned that, we are part of the process. It is also the case that the overall policy development in areas such as motor vehicles and textiles is informed by quite comprehensive analysis as part of these Productivity Commission reviews so there is a lot of material there in terms of the effect of policies on these sectors and the prospects and analysis of their competitiveness. So I think we have got the feasibility study and that work on the China FTA, plus we have a stock of knowledge and networks in the department that are formed through putting together the packages that we have in those key sectors.

Senator LUNDY—But you do not do the actual analysis. That is done by the external consultant with input—right?

Mr Lowndes—Yes, but that does not mean that we do not understand it or that we cannot use that as part of the policy advisory processes. The analysis of the Productivity Commission reviews and those feasibility studies are all publicly available and they are certainly there for us to use as appropriate.

Senator LUNDY—If that is the approach then, what have the results of that economic study, which shows the vulnerabilities in those three sectors, prompted the industry department to do in response—anything?

Mr Lowndes—We have a PMV and a textile industry with extensive programs in those particular areas as a result of the—

Senator LUNDY—That was put in place before this feasibility study was made public. Are you saying it was done specifically in anticipation of the China free trade agreement?

Mr Lowndes—No, the PMV and TCF plans were put in place. There is no China free trade agreement at the moment; they are just starting negotiations.

Senator LUNDY—But you offered that up as a response to the negative impact on those sectors flagged in the China free trade agreement feasibility study economic plan.

Ms Kelly—The feasibility study will guide our input into the negotiation of the free trade agreement and, as Mr Lowndes has said, we will be part of that negotiating team and we have a number of officers committed to work on it full time.

Senator LUNDY—We will come back to this later.

CHAIR—Do you want to start with the Office of Small Business at the resumption?

Senator LUNDY—Yes.

CHAIR—How long are these officers excused for then?

Senator LUNDY—I think the way the Office of Small Business operates we need to have departmental officers at the table as well.

CHAIR—I see. The committee is adjourned until 1.45 pm when we will resume with officers of the Office of Small Business.

Proceedings suspended from 12.45 pm to 1.48 pm

Mr Ryan—Before we start, can I add to an answer I gave this morning. In addition to what I said this morning, there was one other area of the department that had input to the infrastructure task force. This was the area of tourism, which put a formal submission to that review.

Senator LUNDY—I have a follow-up point. That additional information still illustrates the point that, whilst the department is taking the opportunity to provide submissions from tourism and input on coal and energy, the department did not take the opportunity to put forward a submission on manufacturing or other industry sectors beyond those you have described. I now have questions relating to small business and some more general questions. I would like to turn first to the regulation reduction incentive fund. What is the incentive component of the regulation reduction incentive fund?

Ms Weston—This is an election commitment to further encourage the local government sector to press ahead with regulatory reforms that specifically benefit home based business.

Senator LUNDY—I am just trying to drill down a bit into what incentive means. Does that mean providing the local government sector with specific incentives to take that action?

Mr Peel—It is essentially a grants program.

Senator LUNDY—I was aware of that. What formal selection criteria are used to determine successful applicants, and what is the level of funding they would receive under the regulation reduction incentive fund?

Ms Weston—We are calling it the RRIF in the department. The election commitment asked that we consult with the small business community and so on, and we have just completed a consultation phase. We are now in the process of determining what the criteria should be, based on that consultation. The criteria are in the process of being determined; they have not been finalised at this point, although we are working on that. Was there another part to that question?

Senator LUNDY—What level of funding would they receive? Are there any fences put around the funding that any individual applicant could receive?

Ms Weston—That is a factor we are considering in the guidelines too.

Senator LUNDY—I will come back to those issues of timelines shortly. What material was distributed to local governments to inform them of the fund and perhaps to engage them in this consultation process?

Ms Weston—The minister wrote to some 700 local councils as well as to ROCS, regional organisations of councils. She has issued a press release. The minister and the department have engaged with the Australian Local Government Association, and we have also asked industry associations to make submissions to us.

Senator LUNDY—The minister has written to 700 local councils and issued a press release?

Ms Weston—Yes.

Senator LUNDY—She wrote to ALGA also?

Ms Weston—She has met with the Local Government Association, as have the department, and we have also asked industry associations for comments.

Senator LUNDY—How did you contact the industry associations?

Ms Weston—The press release was a factor. As well, I spoke at the Small Business Coalition during that time.

Senator LUNDY—Are you telling me that you contacted industry associations by a press release?

Ms Weston—And by speaking personally with the Small Business Coalition.

Senator LUNDY—Did you say you spoke at their forum?

Ms Weston—That is right.

Senator LUNDY—Was that the extent of the engagement?

Ms Weston—We meet with industry associations from time to time. It was a topic of conversation. We also did some early qualitative work with industry associations, asking them what they considered to be areas of concern for local government. That was another form of engagement.

Senator LUNDY—Going back to speaking at the Small Business Coalition forum, are you able to point to any specific meetings between either the minister or the department and small business industry associations on this issue or including this issue?

Ms Weston—There have been a number. My colleague has reminded me that the minister mentioned it at the National Small Business Forum, which was held in April.

Senator LUNDY—I am just asking about specific meetings, not about when the minister has mentioned it in a speech.

Ms Weston—We met with the Housing Industry Association, who made a submission. I have spoken with the Australian Chamber of Commerce and Industry at a specific meeting. We have also spoken to the Australian Local Government Association—

Senator LUNDY—You mentioned that.

Ms Weston—I would need to clarify, but COSBOA is another one that I spoke to during that period.

Senator LUNDY—So this is the period following the election where you were specifically consulting about this fund—not prior to the election?

Ms Weston—Yes.

Senator LUNDY—So COSBOA was one of them?

Ms Weston—I would need to check that.

Senator LUNDY—If you could take it on notice. The information I want is about specific meetings that were convened around this issue or that identifiably had this issue on the agenda—not references in speeches at events, but specific engagement. Regarding the exercise of writing letters, organising meetings and issuing press releases, were the costs of the resources associated with that effort built up against the \$50 million fund itself?

Ms Weston—Yes, that is right.

Senator LUNDY—What was the total cost?

Ms Weston—I do not have a cost for that activity. I will have to go back and find that out for you.

Senator LUNDY—Can you give me a ballpark figure?

Ms Weston—I am sorry; I do not have that here but I can find it out for you.

Senator LUNDY—Given that the coalition's Promoting an Enterprise Culture policy document stated that the regulation reduction incentive fund would be operational in 2004-05 with \$10 million allocated against it in that financial year, can you tell me how much was actually expended in the financial year of 2004-05? I guess that figure would be to date, given

that we have not quite finished the financial year yet, but what you would anticipate the expenditure to be in this financial year?

Ms Weston—As part of the budget process there was some money moved into the following financial year, so of the \$10 million I think about \$5 million ended up being in this financial year. Some of that money was for some IT demonstration programs, which my colleague from e-Business Division will be happy to talk about. There was other money for non-IT demonstration programs and for some other research and development work associated with the program.

Senator LUNDY—What about general administration, such as the sending of letters and coordinating, one would hope, at least some meetings?

Ms Weston—There was some money allocated to the consultation part of the program.

Senator LUNDY—Do you have those figures?

Ms Weston—I do not have it down to that level of detail, Senator, but I will be able to find that out for you. But I can say that \$297,000 was allocated to my division for that program policy development implementation phase, which would have included that consultation.

Senator LUNDY—Did someone else have the costs against the IT demos, the other demos and the R&D work?

Ms Johnson—I will speak to that. The business entry point is managed within e-Business Division. As part of the RRIF IT demonstration projects, there were a number of projects which commenced this financial year in a range of areas around the country—Queensland, South Australia, WA, Victoria and several in New South Wales. These involve a number of councils in each of those areas coming together in clusters to undertake a range of projects to bring online some of the most onerous local government transactions, particularly those experienced by small and home based businesses. Those transactions vary from cluster to cluster. So, as I said, there are a good 20 or more of those transactions coming online.

Senator LUNDY—I just want to understand something before we go into that. In terms of the grants for the RRIF program overall, I understood from earlier comments that the grant criteria was still being developed and had not been finalised.

Ms Weston—The consultation phase has been completed. We are now working on that and obviously need to consult with the minister.

Senator LUNDY—On the criteria?

Ms Weston—On the criteria.

Senator LUNDY—So with the IT demo projects we are talking about separate grants under this overall RRIF scheme—

Ms Johnson—No.

Senator LUNDY—Or is it money that already has been allocated?

Ms Johnson—It is within the overall RRIF allocation, but a smaller amount of funding was set aside to, if you like, kick-start some activities in local governments in the area of online demonstration projects.

Senator LUNDY—How much was set aside?

Ms Johnson—Three million dollars.

Senator LUNDY—When was that set aside?

Ms Johnson—That was set aside in this year's budget as an election commitment. Each of those projects involves approximately \$100,000 for each council undertaking a project.

Senator LUNDY—So what is the difference between the grant funding for which criteria is still being finalised and the grants that you are describing as part of the IT demos?

Ms Weston—As Marie Johnson just mentioned, this year there were some IT and non-IT demonstration programs which were to kick-start the program and to give councils an idea of the sorts of things they could do to reduce regulation for the home based business-small business sector. The main part of the program will start from funding that is available from 1 July 2005. That is what we are developing the criteria for.

Senator LUNDY—So we are dealing with two stages, if you like, in issuing the grants out of this fund.

Ms Weston—That is right.

Senator LUNDY—Can you give me a cost against the non-IT demonstration projects?

Ms Johnson—I am running just the IT demonstration projects. So it is specifically for that purpose.

Mr Peel—Senator, are you after the grants component that is currently being designed?

Ms Weston—No. I think it was the non-IT that you were looking at?

Ms Johnson—Non-IT.

Senator LUNDY—Yes. I understood that out of the funding currently expended, or that will be expended in this financial year, there was \$297,000 on administration and \$3 million on the IT demonstration projects. But I also need a number for some research and development work and non-IT demonstration projects.

Ms Weston—We have allocated \$390,000-odd for the non-IT demonstration programs.

Senator LUNDY—And the R&D work that you mentioned?

Ms Weston—About \$2.4 million is allocated to the R&D work.

Senator LUNDY—How is that being expended, or has that been expended?

Ms Weston—Part of it is being expended on a benchmark survey of local government compliance costs. The other part is being expended on a methodology—it is part of the application process in reality—to help us work out what red tape reduction will be achieved through the various activities of local councils. So when councils apply for a grant they have to demonstrate to us how their grant will reduce red tape for home based businesses in their local area.

Senator LUNDY—So, of the \$2.4 million, how much is spent on the preparation of the methodology and how much on the benchmark survey?

Ms Weston—The allocation for the survey was \$1.5 million, and the allocation for the costing methodology was \$890,000-odd.

Senator LUNDY—So is it right to say that the administration, the IT demonstrations, the non-IT demonstrations and that R&D work are all being done in this current financial year and therefore added together, and that that represents the 2004-05 expenditure on this program?

Ms Weston—Yes, Senator.

Senator LUNDY—What is the total?

Ms Weston—The total in departmental allocation is \$3,487,000. The IT demonstration part of that program is under administered funds. I think it is right to say \$1.6 million will be in this year and the balance of that \$3 million will be in next year.

Senator LUNDY—Are the non-IT demonstrations part of the departmental allocation?

Ms Weston—That is right.

Senator LUNDY—I just want to check where the money being spent on IT demos out of the \$3 million appears in the portfolio budget statements. I think \$1.6 million appears in the administered appropriations for the Regulation Reduction Incentive Fund. If you add together—presuming the remaining \$1.4 million—

Ms Weston—It would be in that \$35,000.

Senator LUNDY—In relation to the rest of the funding, obviously if you add \$35,552 and \$1.6 million together it does not total \$50 million. Is there another outyear allocation against this particular fund?

Ms Weston—It is just next to it. Next to that \$35,000 is \$6.5 million.

Senator LUNDY—Sorry, I am looking at page 40.

Ms Weston—I am looking at page 29.

Senator LUNDY—So that would be \$6 million. So what does that total?

Ms Weston—\$43.6 million.

Senator LUNDY—So where is the remaining \$6.4 million?

Ms Weston—\$3.4 million this year is the administration and the R&D. Next year, my understanding is \$2.1 million—

Senator LUNDY—In departmental allocations?

Ms Weston—That is right; and the following year, in the tail of the program, \$740,000.

Senator LUNDY—So a total of \$6.4 million out of a \$50 million fund is quite a substantial proportion for administration of a grants fund. Why is it so big? That is \$6 million that local governments thought they were going to get to facilitate the reduction of red tape, yet \$6 million dollars is effectively being spent on the administration of the exercise.

Ms Weston—This is the first time that the Australian government has undertaken an activity like this. There was no costing methodology available to assess this. There was not any benchmark information about what the regulation concerns were at the local government

level. So there was a significant need for some research and development work to be done to make sure that this particular program could meet its objectives. I do note the election commitment mentions that it is an initial fund. I cannot predict whether that means there is a plan for that in the future. But there was certainly a need to get some of this R&D work done first.

Senator LUNDY—I think the policy document said that \$10 million would be expended in the existing financial year. That was certainly pitched up as part of the government's Promoting an Enterprise Culture policy statement and it was used quite stridently by the coalition to demonstrate a commitment to reducing red tape. Yet we find that a very small proportion of that actually gets allocated to, in this case, local governments—I think \$1.6 million. That is a long way from the promised \$10 million.

I put it to you, Minister, that that represents quite technically and formally a broken promise to small business, given the proportion of funds to be spent in that election year commitment has not been met. Secondly, the high proportion of administrative costs—some \$6.4 million—is certainly outside of the promise that the Howard government made to small business and local government in addressing red tape. I do not think anyone would have interpreted from the policy statement that nearly \$6.5 million of this \$50 million fund would be spent on trying to create the actual program. It is a huge proportion. Are you able to respond to that?

Senator Minchin—I am not going to get into an argument with you about broken promises. You can state your view. We do not believe it is a broken promise, but I will allow the secretary to respond to your assertions.

Mr Paterson—We have indicated that, of what you describe as \$6.5 million in the administration of the program overall, \$2.4 million of that was in relation to the benchmark survey and the methodology. There is no benchmark survey to measure this from. If the survey was not undertaken, then you could well have expended a significant amount of money on programs to reduce red tape without being able to demonstrate there had been any corresponding reduction in red tape; and the methodology to assess the costings is a critically important part. If you take that out of the \$6.5 million over three years, then it is not exorbitant administrative expenditure. We have programs that range from five to 15 per cent. This is well in the low half of that range of program administration. In terms of the \$10 million in the current financial year, on page 28 of the PBS there is a rephrasing of \$1.1 million from the current financial year into 2005-06.

Senator LUNDY—No, I think we have covered that. Wasn't that rephrasing the other half of the \$3 million for the IT demos?

Ms Johnson—Some of it was rephrasing.

Senator LUNDY—That is right. So the pitiful amount that was going to be spent in the 2004-05 year has had to be rephased as well. That is a pretty poor performance, isn't it?

Mr Paterson—No, it is not. Not at all. It is a program that has never before been undertaken by the federal government. If you are going to have a \$50 million program overall, you establish the benchmarks of it upfront. We have put out some demonstration projects on the IT and some demonstration projects on the non-IT, established a proper

benchmark survey to be able to establish the information base, and then developed the methodology and the costing tool. I do not see that as pitiful performance by any measure.

Senator LUNDY—I put to you it would have been more honest to say to small business the government was going to prepare a fund that provided for some \$43.6 million in their general grants scheme and \$3 million in their IT demonstration scheme, rather than dress it all up of as a \$50 million fund, of which a huge proportion of many millions of dollars would actually be allocated to its development.

Mr Paterson—That is not a comment that we can respond to, Senator.

Senator LUNDY—I think it is a point to the minister.

CHAIR—I think the minister is responding with haughty disdain.

Senator LUNDY—Yes, haughty disdain. How many submissions did the department receive with respect to the \$3 million allocated to the IT demonstration projects?

Mr Griffin—In the relatively short period we had available to do all this, we went out through our general networks seeking local governments who were interested in carrying out these IT demonstration programs within the short time frames that were allowed for them. We received a number of responses, and we have managed to enter into deeds of grant with most of those councils that responded. We are still in discussion with some of those, and we have not quite formalised those deeds of grant yet.

Senator LUNDY—Which councils did you approach, seeing you had to solicit interest in this endeavour, presumably to try and get something on the books in the short space of time—

Ms Johnson—The responses from the local governments concerned, as Mr Griffin said, came through our formal governance arrangements with the BEP. We can provide you with a full list of those councils that we are entering into agreements with, but they do include clusters of councils—Brisbane City Council, a number of WA based councils, a number in South Australia, a number in Victoria.

Senator LUNDY—I would like the details for that.

Ms Johnson—We can provide those.

Senator LUNDY—Can you make them available now?

Ms Johnson—We will make those available to you before the end of the day.

Senator LUNDY—We are getting a very long list of things for the end of the day. This is the first cab off the rank with respect to this grants program. I would expect that you would have here at least a list of the recipients of grants.

CHAIR—Do not be argumentative, Senator Lundy. The officer has said you will get your answer; all right?

Ms Johnson—Mr Griffin has those at hand.

Senator LUNDY—Excellent.

Mr Griffin—I can read them out. In Victoria, we have Whittlesea, Surf Coast, Murrindindi, Casey, Manningham and Wellington; in New South Wales, Armidale Dumaresq—that is one council—Guyra, Uralla and Walcha. Those two are a consortia. They

have joined together as a consortia of councils to work together to produce a number of online deliveries.

Senator LUNDY—Sorry, both of those groups constitute one grant?

Mr Griffin—No, they constitute two consortia—a Victorian consortia based around Whittlesea as the lead council there, and the New South Wales consortia based around Armidale Dumaresq as the lead council there. In South Australia we have Adelaide City Council and Grant; in Queensland, Brisbane City Council; and in Tasmania, Hobart City Council. We are discussing grants with councils in Western Australia and the Northern Territory.

Senator LUNDY—Can I go back to my original question: which local governments or consortia of local governments did the department approach with a view to organising them to achieve one of these grants?

Mr Griffin—It was not simply a matter of our approaching them or making a phone call. We used our networks which are already in place with our state and territory government colleagues as well as Local Government Association colleagues. There were not a large number of councils who were able to actually do this at short notice. These councils were basically already in the business of looking at that process, and this grants scheme came along at an opportune time for them to take them up. Other local government authorities have indicated they will wait until the full round comes into place next year and apply for a grant then, because they were not ready or unable to move in the short time frames available.

Senator LUNDY—In using your networks to solicit a response to the availability of these funds, what did that process formally involve—a letter of offer to these councils or you provided them with some documentation to which they responded? Can you step me through that and also provide the committee with an example of the correspondence used to elicit this response?

Mr Griffin—Yes. We instigated a number of meetings with these councils to discuss the types of things that they were looking at doing in being able to utilise the types of deliverables that they were attempting to deliver to provide a demonstration effect. These demonstration effects would include such things as being a good model that other councils could adopt and providing outcomes that were able to be replicated in other local government areas and could practically and sensibly deliver a net benefit to the small business sector, particularly the home based business sector, in their areas. So it typically involved registration processes, processes that small businesses have to take with local government to enable them to both start up a business and continue trading as a business in those local government authorities.

Senator LUNDY—When you had those discussions with the councils, was that with the lead council? For example, in the Victorian group did you have those discussions with Whittlesea or with all of the councils involved?

Mr Griffin—In the case of Armidale Dumaresq, it was with representatives of all of those councils. In the case of Whittlesea, it was with Whittlesea, which is the lead council, and a number of representatives from other councils, as well as delegates. But primarily it was Whittlesea who put together the program. In Armidale Dumaresq we spent a lot of time putting that program together with the four councils concerned.

Senator LUNDY—So a considerable amount of expertise from the department was invested in making these projects fly?

Mr Griffin—We already have a considerable amount of expertise within the BEP, and we simply deployed that expertise in this direction.

Senator LUNDY—What is the breakdown of funding to each of these recipients?

Mr Griffin—Each recipient receives no more than \$100,000.

Senator LUNDY—Has each of the recipients you have described received its \$100,000.

Mr Griffin—Under the grant scheme they can receive up to \$100,000 if they deliver against the grant outcomes.

Senator LUNDY—So how did you establish the grant outcomes, given it was all fast-tracked?

Mr Griffin—We set up a series of criteria, if you like, by which we could judge what would be a reasonable outcome, but the reasonable outcome had to be focused on delivering an online service into the small business sector.

Senator LUNDY—How did you determine that for each of these groups? Did you ask the council? Did you make it up?

Mr Griffin—We sat down and developed a project plan with specific deliverables associated with that which demonstrated a capability of delivering into that small business sector.

Senator LUNDY—So the department and the council or councils sat down and worked that out?

Mr Griffin—Yes. Departmental officers and council officers sat down and worked out that forward work plan, project plan—whatever it is called—and incorporated that as part of the grant deed.

Senator LUNDY—How do you propose to acquit these grants?

Mr Griffin—Typically with an IT project we would propose to make progress payments against various deliverables in those time frames against various milestones.

Senator LUNDY—Given that you have allocated only \$500,000 of the \$1.6 million to be expended in the first financial year, you are running out of time, aren't you? Don't you need to allocate that before 30 June?

Mr Griffin—That is right. We have a number of programs beavering away very closely as we speak. They are hard at it.

Senator LUNDY—So which councils are involved in the discussions?

Mr Griffin—For future programs? At present it is difficult to really give an outline of those. We are speaking to a number of them, but we have not altogether firmed those up. So it would be inappropriate for me to give the names of those councils until we firm them up and actually sign the grant deeds. Some of them are keen and they do not proceed when they look at what is involved. Others are often not so keen and they do proceed when they realise that

they can do it. It is probably inappropriate if we name those at present until such time as they do sign up.

Senator LUNDY—Can you provide the committee with that information as it becomes available and those agreements are signed?

Mr Griffin—Certainly.

Senator LUNDY—How hard is the government having to push councils into signing up to these grants?

Mr Griffin—I think it is not hard to push those councils that are capable and have the administrative leadership to do it. I think other councils will look to the outcomes that are produced in this particular program and use those as models to move forward. At the local government level I think it is fair to say a number of attributes go into being able to form groups of councils or being able to actually deliver. One of those is generally the wherewithal. In the past we have found that generally the larger councils provide leadership in this area. Particularly those councils that are on the fringes of urban development, around the large urban areas, are relatively large organisations with the IT infrastructure and the professional wherewithal to undertake these programs. In the past there has been no real difficulty with those councils sharing their intellectual property and their expertise with the smaller councils.

Senator LUNDY—Would you describe them as leaders?

Mr Griffin—Indeed. These councils here we would describe as the lead councils particularly in that field.

Senator LUNDY—So it would be a fair categorisation of at least this part of the Regulation Reduction Incentive Fund that you are rewarding those councils that are already showing leadership in the area of online services to small business?

Mr Griffin—I think it is better to say that we are providing them with the opportunity to demonstrate how they would achieve some very desirable outcomes, and provide leadership and direction as well as models for other councils to avail themselves of.

Senator LUNDY—I just put to the minister and perhaps the secretary that I think this illustrates that, in order to get some runs on the board early with this, given that such a vast proportion of the money was moved from the current financial year into the out years, the government have approached the local councils most capable of providing these services and given them a grant of \$100,000 on the basis of having something to say against the performance criteria relating to this grants program. Don't you think that is a bit of a shabby short cut and it bears little relationship to actually providing genuine regulation reduction for small business?

Mr Paterson—The premise upon which your question is based is false; therefore, all the conclusions you draw from that are also false.

Senator LUNDY—What false premise was that?

Mr Paterson—You said that the vast majority of the money has been moved from this year into out years. That is not the case.

Senator LUNDY—It was in terms of the original allocation in the budget document which said that \$10 million would be allocated in the 2004-05 year.

Mr Paterson—It is a \$50 million program.

Senator LUNDY—What we now know is that that promise was broken.

Mr Paterson—So the majority of the money has not been moved from this year into next year.

Senator LUNDY—I beg your pardon?

Mr Paterson—I said it is a \$50 million program; therefore, the majority of the money has not been moved from this year into the out years.

Senator LUNDY—I take that point. My point referred to the original \$10 million that was allocated for this financial year.

Mr Paterson—And \$1.1 million of that has been moved into the next financial year.

Senator LUNDY—That is correct.

Mr Paterson—So that is not the majority of that \$10 million either.

Senator LUNDY—The point I am trying to make is that the \$10 million is not being spent in this current financial year.

Mr Paterson—Not all of the \$10 million will be spent in the current financial year, that is correct; \$1.1 million has been rephased into next year.

Senator LUNDY—That is right, of a \$3 million project.

Mr Paterson—Of the \$10 million—

Senator LUNDY—Of the \$3 million in IT demonstrations—

Mr Paterson—Yes.

Senator LUNDY—We know that \$2.4 million has been spent on methodology and benchmarking.

Mr Paterson—Correct.

Senator LUNDY—And that not quite a million dollars has been spent on non-IT demos and administration.

Mr Paterson—Yes.

Senator LUNDY—That does not total \$10 million.

Ms Weston—The numbers for this year are: \$1.5 million, survey; \$1.6 million, IT based; close enough to \$0.4 million for the non-IT best practice; close enough to \$0.9 million on the methodology; and then close enough to \$0.7 million on the program policy and implementation. That is just a bit over \$5 million.

Senator LUNDY—Just a bit over \$5 million.

Ms Weston—That is right.

Senator LUNDY—\$5.5 million; I am out by half a million dollars. The point is that a substantial proportion has been taken out of this financial year, and that still constitutes a broken promise by the Howard government. What are the actual reduction initiatives proposed by the successful—I cannot say applicants, because they were solicited responses—recipients of these grants, say, in Victoria? Whittlesea Council has an excellent reputation for taking initiatives in the online area and has for many years now. What are they doing in addition to their previous good work that justifies a grant of \$100,000?

Mr Griffin—Two major things: firstly, looking at the specific compliance issues that small business has to deal with with council, and looking at building a system across six local government authorities to basically utilise economies of scale. In other words, instead of each of the six councils developing their own system, developing one which will suit all six councils. That in itself is a fairly substantial piece of work that we see as being very useful in red tape reduction, reducing the back end overheads of the council to provide compliance services, and the efficiency of doing so, to be able to look at that service far more efficiently.

Senator LUNDY—So what difference will it make to small business specifically as opposed to helping councils reduce their own costs of administration?

Mr Griffin—From a small business perspective, it allows them to get access to these types of compliance issues 24 hours a day, 365—

Senator LUNDY—Give me an example of a compliance issue?

Mr Griffin—A compliance issue, for example, may well be being able to set up a small business at home, being able to meet the number of council compliance issues there.

Senator LUNDY—So the application to run a home based business?

Mr Griffin—If you like, yes, the general suite of applications necessary to run a home based business. Being able to do that online and do that in a way that it can be carried out online, seven days a week, being able to be responsive online, not having to visit the council offices frequently as they presently do and being able to record the information that they lodge online for record purposes.

Senator LUNDY—So does Whittlesea currently provide that service?

Mr Griffin—It provides that service in some areas, yes. Perhaps the most notable is, as you say, the excellent work they did in the food safety program, being able to lodge a food safety program online. The idea is to leverage off that experience of delivering a complex online program to expand it into a broader range of product, online product, as well as enable the small business to record that information electronically into their systems for record purposes.

Senator LUNDY—Let me get this clear. Whittlesea was already providing this home based business application service, and this funding is to expand it to other councils?

Mr Griffin—This funding I think is to diversify what Whittlesea can do as well as expand it into a range of other councils. Some of those other councils also have expertise in this area as well. Instead of each council reinventing the process, the idea is to spread a number of processes out to a number of different councils and all leverage off the developments that are done in the individual councils as one.

Senator LUNDY—You do not think there would have been economic incentive for them to collaborate in this way anyway—that a grant is necessary?

Mr Griffin—We do not have a crystal ball. But this program enabled this to catalyse this, to hasten it, and to put it into reality.

Senator LUNDY—Can you take on notice to provide the specific examples of the regular reduction initiatives through each of the current grants, the five consortia that you outlined, and also take on notice when you do finalise agreements with councils that you are continuing to negotiate with, presumably resolved by the end of this financial year, to provide the additional information for them as well?

Mr Griffin—Certainly.

Senator LUNDY—As part of that, to provide the actual amount of the grant and the conditions by which the groups need to acquit against that grant.

Mr Griffin—That was a grant deed. We will provide you with copies of the grant deed.

Senator LUNDY—What happens if you do not expend the full \$1.6 million allocated in this current financial year for this program? Is it possible to rephase it at this late stage or will it just go into consolidated revenue?

Mr Peel—My understanding is that it will be possible to seek rephasing at additional estimates.

Senator LUNDY—Given this part of the grant program was fast-tracked, how similar will the criteria be—because we have heard it is still being developed—for the 2006-07 proportion of grant funding, which I think we established was going to be \$35.552 million.

Mr Paterson—It is 2005-06.

Senator LUNDY—I am sorry, 2005-06, yes.

Ms Weston—I guess the answer to that is that we are still developing the guidelines. I can say that some of the advice that has been given to us is that it will be useful to look for consortia of groups to come together so you get some strategic and widespread solutions to some of the red tape in local councils. They are the sorts of things we are having a look at as we develop those guidelines. Can I take the opportunity to say I was a bit unclear about small business representative groups and to confirm that the minister wrote to 34 small business representative groups in February 2005.

Senator LUNDY—Can you provide copies of the correspondence that the minister wrote—a copy of the correspondence to local councils, a copy of the correspondence to ALGA and a copy of the correspondence to the various business groups and a full list of the business groups?

Ms Weston—I will confirm that with the minister.

Senator LUNDY—Thank you. Will there be any caps on the amount of money under the grant program starting 1 July?

Ms Weston—That is a good question, and one that has been exercising our mind as well. With the advice we have had that consortia may be the way to go, that could become

problematic. So we are still considering that aspect as we go forward with our guidelines. But it is a very important question.

Senator LUNDY—Can I go back and check another figure, the figure for 2004-05 of \$35.5 million. What proportion of that is non-grant expenditure, or is that all allocated to the grant funding?

Ms Weston—That is administered funding.

Senator LUNDY—So that is all—

Ms Weston—That is right.

Senator LUNDY—Thank you. How confident are you that there will be adequate interest in these grants, given that you pretty much have one year to allocate \$35 million, where such an effort has had to be undertaken at least in the early stages for the initial \$3 million, to the extent that even some of that had to be rephased? Are you confident that you are actually going to be able to spend this money in an efficient and helpful way?

Ms Weston—This is another one that we do not have a crystal ball for. But we have actively engaged with the Australian Local Government Association, and I think they will be quite useful in helping to make sure that there is a sufficient level of interest. We are certainly going to be using connections such as ALGA to assist in making sure that the program is sufficiently promoted.

Senator LUNDY—Going back to my original question about the title of this one and its intent, it says 'incentive fund', but what we have seen already with at least the test run, the \$3 million, is that the money can effectively only go to those councils that are already investing in these types of initiatives in order to speed them up—therefore, making it more of a reward for good work already done. So, in essence, it will broaden the digital divide in providing online services between the councils that have not been doing anything and arguably need the funding the most and the councils that are eminently capable of actually getting out on the front foot and spreading their wisdom around with a bit of help from a government grant.

Mr Paterson—I do not think that the evidence that has been provided to you would lead one to that conclusion. Clearly, the consortia that have been engaged this year are about demonstration projects. If you are going to take a demonstration project with a particular partner, it is useful that you have a degree of confidence that that partner can demonstrate a reduction as a demonstration to those who might not be up to the same level. You would not pick the least capable to be a demonstration partner in the first phase of this, you would pick somebody who is capable of delivering an outcome and demonstrating to other councils what can be done by pursuing this activity and then roll the program out in the way that is proposed.

Ms Johnson—The model of demonstration programs that we have been operating in the BEP over a number of years has had a framework where we undertake a demonstration project with a lead council and then replication to other councils less capable of initially undertaking that work. You may have heard about the Penrith building development application. Penrith did that, but Penrith are now hosting that for Cootamundra and Snowy Rivers, those rural councils that did not have the upfront capability to do this. It is the same

approach that we are undertaking in these instances, not just to put online that which is already off line in the same model but often to change the model of delivery itself. Whilst it might appear that some of these are the more capable councils, the underlying concept is to replicate to those other councils less capable in the first instance.

Senator LUNDY—I think that reinforces the point I was making that the demonstration project, you argue quite legitimately, was targeting the easy pickings, the councils most capable to get it done quickly and to help the minister get some fast runs on the board. But the point is that that will not necessarily translate to the broader fund, because the money inevitably goes to those same councils, if they are the ones capable of spreading their capability.

Ms Johnson—In fact, there is a point of leverage we are trying to apply here in this first round in kick-starting these programs. It is not just about targeting those which are easy but to look at the replication opportunities, and that in fact is the real dilemma for this. The opportunity here is to leverage a capability that has an investment and then to roll that out in a replication, whether it is in the cluster of projects or the subsequent projects that occur in other years.

Mr Griffin—In terms of the Armidale Dumaresq project, I think it is fair to say that none of those shires involved would have the wherewithal to produce the IT infrastructure by themselves. But as a group they can. It is those types of capital investment structures that this is trying to demonstrate, not just the service delivery out to small business but the ability of four shires to come together to produce the necessary capital base to do this. This incentive fund has really catalysed that process. In many ways, we probably look at that as fairly much an outstanding success rather than just as providing money to those that are already capable of doing it.

Senator LUNDY—Just following that point, one thing I am sure the government knows only too well with their various experiments with sourcing their information technology is that, once you invest in the capital equipment to provide a new IT service, one of the substantial costs is the ongoing service and maintenance costs for those IT systems. How will this grant system, on the one hand, assist councils to fund those ongoing costs which become a burden on their annual budgets and provide for a means by which small business itself has their skills developed to the point where these services mean something? Again, the government would know from real life experience that just because you build it that does not mean they will necessarily come. Can you address both of those points and tell me how this program will address those problems?

Mr Griffin—For these aggregated groups, part of the process for Armidale Dumaresq is for them to identify the cost savings from recurrent expenditures that they will be able to put into the maintenance of these systems in the future, and they are very, very satisfied that they will be able to do that. By putting together four administrative systems held by small shires into one centralised administrative system to deliver, they are very convinced. In fact, that is the basis on which they have moved forward, that there will be cost savings and they will be able to reduce the maintenance structures. In many ways, that reflects this notion towards having consortia of councils doing this, because there are economies of scale that can reflect

in ongoing savings that can be used in driving the maintenance and the underpinning infrastructure development that exists in there.

With regard to the second question, part and parcel of this is that inside business entry point we have developed a product called the transaction manager, which is a transaction manager for small business. It is proving to be quite popular, because it enables small business to deal online with government and manage the records they create, as well as being able to provide information they have already developed and pass it on to government through prefilling forms—that type of arrangement.

In many ways, this is an act of faith by a government that is basically looking to see small business transform the way they do business more into this online environment and to provide a number of facilities to assist them in that process. This means that local government will be able to provide a range of compliance issues that have been burdensome or, in many ways, onerous to small business and put it into an online environment where it is less onerous, more accessible and more doable by small business. In many ways, we see this as a very positive outcome of transforming small business dealings with local government.

Senator LUNDY—I would expect you do. What about the small business side of the equation and the skills and experience necessary to make use of online services?

Ms Johnson—If I could answer that question in this way: for the demonstration projects we are undertaking under the RIFF program one of the benefits that is expected to be seen is that where small businesses in particular are dealing with a number of local councils the benefits to small business accrue in a number of ways. One is that they are able to deal with those particular councils in the same way. Very often, particularly in the New England cluster of councils, the councils will deal with businesses across council borders. From the small businesses' perspective, previously that meant multiple interactions in relation to the same type of transaction. There is some streamlining that is occurring across councils. The benefit to small business is less of those duplicated interactions.

In terms of skills for small business, the Sensis report released almost a year ago now did speak about the way in which small businesses were taking up the use of the internet and the web for the purposes of procurement and in fact undertaking transactions with one another. Small businesses in particular are focused on interacting online.

Senator LUNDY—Is any of the money from these grants being spent on small business or small business groups to facilitate the pull side of the equation as opposed to the push?

Ms Johnson—The IT demonstration projects have been set up in relation to the councils that—

Senator LUNDY—So the answer is no?

Ms Johnson—If I could just say in general the user group testing does occur with local businesses within the area, and that will probably be part of an implementation strategy, although the general issue around skills development is not addressed in the IT demonstration projects.

Senator LUNDY—I have two more brief questions before I ask about a review. Where these services are consolidated to achieve economies of scale, will they be managed in house

by the lead council or is the idea to try to outsource these services in some way, understanding full well that some of them probably are already outsourced anyway, and this could represent an expansion of that outsourcing program?

Mr Griffin—I think the answer to that one in general is that by and large they will probably be managed in house by the councils, although there might be some outsourcing of appropriate associated services, communications services, those types of things. But with regard to the actual infrastructure and the running of the applications, the maintenance of the applications, they would be generally managed in house by the councils using appropriate contractors or outsourcers where appropriate.

Senator LUNDY—What about accountability with a group initiative by a number of councils? If there was a complaint coming from a small business, they may believe the service being provided had not been administered correctly. What is the accountability trail or the liability trail on behalf of the group of councils or the individual councils?

Mr Griffin—Those councils, Senator, as you are aware, have legislative responsibility under the local government legislation. Those types of complaints or whatever will be addressed within the full discourse of that legislation.

Senator LUNDY—With due respect, though, we have been there before with the federal government and perhaps it is analogous to what could arise with the local government situation where, by virtue of either an outsourcing contract or multiple agencies involved, it creates quite serious problems in terms of finding the right department or entity responsible for a given error.

Mr Griffin—I think part of this process that we are undergoing is to enable those councils to build up or to encourage those councils to build up successful models. It is difficult to—and it is not our role to—dictate what has to go into those models, but suffice it to say that the work we have done in the past and the work we have observed in the past particularly in some of these councils has been that they have been able to build the appropriate sorts of models. I am not aware of any particular doctrines they follow. They tend to follow good business practice rather than some doctrine of whether they outsource or insource or whatever. To a large extent it is up to them and their activities within the meaning of the legislative restraints they live under to deliver an effective and efficient service.

Senator LUNDY—Are there plans for reviewing these demonstration programs being put into place and, if so, where will the funding for that administrative exercise come from?

Ms Weston—I think I am right in saying that we have planned an evaluation in the out-year, which is 2006-07. The funding for that is part of the administrative cost I mentioned for that year.

Senator LUNDY—For the next financial year?

Ms Weston—For 2006-07.

Senator LUNDY—How much have you allocated for that review?

Ms Weston—I think it is around \$100,000. If that is not correct, I will get back to you.

Senator LUNDY—Thank you. Is that review separate from the normal acquittal process of either the demonstration projects or the plan's main fund?

Ms Weston—Yes. AusIndustry will be delivering the major grants program part of that for us and they will be looking after the acquittals side of it. So it will be separate, yes.

Senator LUNDY—Through the acquittal process of the demonstration fund, how will the government know if the local government has not implemented the initiative as indicated and will that result in either a withholding of funds or a request that funds be reimbursed to the government?

Mr Griffin—We work through a series of progress payments with an initial payment being made up front, generally around 40 per cent, to initiate the project, and then a number of progress payments being made against deliverables. In the past we have carried out similar sorts of procedures and I do not think we have ever had a local government authority that has failed to deliver. It is a fairly robust structure. These local government authorities go about this in a serious way. They appoint appropriate project managers. I think the risk analysis is properly done and has been properly done. There are no great serious risks in these programs being able to be delivered. However, there is always a level of risk. If for some reason these programs were to fail to be delivered then they would have to be looked at fairly closely as to what type of remedial action might be taken as a result of that. But I reiterate that the risks of these programs failing is not high.

Senator LUNDY—Are you going to have progress payments for the main group of grants beginning in 1 July as well?

Mr Peel—The program is still being designed, but it would be our usual practice to have progress payments against defined milestones in the contract and reviews of performance along the way.

Senator LUNDY—How many officers from AusIndustry will be allocated to administering the Regulation Reduction Incentive Fund?

Mr Peel—At the peak of the program, which is 2005-06, I think the ASL that we have allocated is 16 for that.

Senator LUNDY—Sixteen? Is that full-time equivalents?

Mr Peel—Yes, 16.1 actually. That is on the basis that we will get many hundreds of applications. If that does not turn out to be the case, obviously there would be less than that.

Senator LUNDY—Are you anticipating you will get many hundreds of applications?

Mr Peel—We will have to wait and see. There are 706, I think, local government authorities around the country. Potentially they could all apply.

Senator LUNDY—Thank you for that. I would like to go on now to the Small Business Incubator Program. I think we may have touched on this previously, but can you give me the official definition of a small business under the Small Business Incubator Program?

Mr Peel—Yes. A small business is defined as a business having fewer than 20 full-time or equivalent employees, and this does not include not-for-profit organisations or industry associations, professional representative and/or lobby groups and local, state or Australian

government agencies or departments. A tenant is a small business either at start-up, that is, one newly formed or an established business.

Senator LUNDY—Considering that the review of the Ballarat incubator has been finalised and the Minister for Small Business and Tourism indicated to the shadow minister on 24 May 2005 that the Ballarat small business incubator is generally complying with its major contractual obligations under the Small Business Incubator Program, can the committee be provided with a copy of that review?

Mr Peel—I will take that on notice and check that out.

Senator LUNDY—Are you claiming that it has cabinet-in-confidence status?

Mr Peel—It may have sensitive commercial information as far as the incubator is concerned, but we will review it and consult with the incubator and, if possible, make it available to you.

Senator LUNDY—The standard response from that is you are able to deal with any commercially sensitive information by advising the committee of that sensitive information and the committee takes it into account in our decision to make that part of the review public?

Mr Peel—I think I have got an obligation to consult with the organisation about whom the review is conducted before making that information available, Senator.

Senator LUNDY—I would suggest you have an obligation, with due respect, to your minister to see whether it attracts cabinet-in-confidence status and, if not, you have an obligation to provide it to this committee.

Mr Peel—I will check the rules, and if that is the case I will obviously do that.

Senator LUNDY—What were the contents of the review?

Mr Peel—As the minister indicated to the shadow minister, the review concluded that the Ballarat small business incubator was complying with the requirements of its contractual arrangement. It had not, with the exception of Senator McGauran, let space to tenants undertaking activities that were excluded under the agreement and it also indicated that the small business incubator at Ballarat could improve its compliance arrangements by providing more regular reports to AusIndustry. It was a bit tardy in providing those reports.

Senator LUNDY—Was Senator McGauran's lease the only aspect where non-compliance was identified?

Mr Peel—Apart from some lateness in the incubator providing its regular reports to AusIndustry.

Senator LUNDY—So that was an additional point of non-compliance?

Mr Peel—That is correct.

Senator LUNDY—How does AusIndustry determine major and non-major contractual obligations under the program? I highlight the word 'major', because that was the word that the minister used.

Mr Peel—Maybe I could address that question by saying, Senator, that we enter into contractual arrangements with incubators on the basis that we provide them with funding to

do certain things. So if they are not undertaking the activities for which we provide them with funding, we would regard that as a major compliance breach.

Senator LUNDY—So you would define the McGauran tenancy as a major contractual breach?

Mr Peel—Yes, I think we said last time that was an arrangement excluded specifically by the contract.

Senator LUNDY—Can you outline the review findings with respect to all tenants, including Senator McGauran?

Mr Peel—I have already mentioned that the review found that the accommodation taken up by Senator McGauran was inappropriate. The review did not find any other inappropriate accommodation arrangements in the incubator.

Senator LUNDY—Can you indicate whether Senator McGauran signed a lease, and provide the information regarding the terms of the lease and any penalties incurred for breaking the lease?

Mr Peel—I am not sure that Senator McGauran actually got around to signing a lease before he gave notice of his intention to terminate his agreement. I think he may have signed a licence agreement, though, with the incubator.

Senator LUNDY—I presume the review would have been able to establish whether a lease was signed or not.

Mr Peel—I believe he signed a licence agreement with the incubator.

Senator LUNDY—A licence agreement with the incubator?

Mr Peel—That is right, to occupy the space.

Senator LUNDY—Did that constitute a lease?

Mr Peel—Similar to a lease. There is probably a legal distinction between the two.

Senator LUNDY—So if Senator McGauran did not sign a legal document which constituted a lease, how on earth was he able to occupy the building?

Mr Peel—I believe he signed a licence agreement, Senator.

Senator LUNDY—In lieu of a lease?

Mr Peel—Let us call it a lease.

Senator LUNDY—You are the one who made the distinction.

Mr Peel—Yes, I was just quoting from the report. I believe he signed a licence agreement, which is very similar to a lease. I am not sure of the legal distinction.

Senator LUNDY—So is it common practice of the Ballarat or indeed other incubators to use a licence agreement in lieu of a lease?

Mr Peel—It is, because it allows the small business incubators to part company much easier than a formal lease arrangement. I think that is the distinction.

Senator LUNDY—Does the lack of a formal lease in the legal sense that you describe increase the department's vulnerability in any way to their obligations as a landlord, if you like, or a program manager in this circumstance?

Mr Peel—The obligation to us is that they operate as a small business incubator and that the majority of their tenants are small business incubators. Obviously, if they have a lease or a licence agreement with a small business, that constitutes a formal agreement that we can review and satisfy ourselves that they are meeting those requirements. If they have no such legal documentation, it would be difficult for us to conclude that they are fully meeting their requirements.

Senator LUNDY—Can you confirm whether Senator McGauran had signed a licensing agreement?

Mr Peel—Yes.

Senator LUNDY—He had?

Mr Peel—He had.

Senator LUNDY—So what were the terms and conditions by which that was relinquished when he was forced to move out?

Mr Peel—He was required to give one month's notice to the incubator, which he did on 15 February.

Senator LUNDY—What was the rent that he was paying?

Mr Peel—It was \$8 a square metre. I think we covered that last time, Senator.

Senator LUNDY—So he was required to pay one month's additional rent?

Mr Peel—Yes, Senator.

Senator LUNDY—And vacate the building immediately or was he allowed to stay on?

Mr Peel—My understanding is that he never actually occupied the building, Senator.

Senator LUNDY—So the question of whether or not he was removed immediately is not relevant?

Mr Peel—The question of?

Senator LUNDY—If he was given one month's notice—

Mr Peel—He gave one month's notice.

Senator LUNDY—Was he required to?

Mr Peel—The licence agreement required that a tenant that leaves the incubator has to give it one month's notice.

Senator LUNDY—So the incubator did receive the rent for that one month's notice period.

Mr Peel—That is my understanding, yes.

Senator LUNDY—Has the department's investigation of the Ballarat incubator caused any concern about the broader program or forced you to perhaps investigate all other incubators for the purpose of identifying misuse?

Mr Peel—We did, as I think I indicated at the last hearing, undertake a tenancy review of all of the incubators, and the conclusion of that review left us quite satisfied, with one or two minor exemptions, that there were not any real issues for us to be concerned about.

Senator LUNDY—Has the Small Business Incubator Program been altered in any way as a result of what happened with Senator McGauran getting a tenancy agreement with the Ballarat incubator?

Mr Peel—No, it has not been altered as a result of that.

Senator LUNDY—Is the Office of Small Business satisfied that the incubator program will have a long-term role to play in assisting small businesses to have confidence in the program?

Ms Weston—AusIndustry will be able to tell you the number of graduates and the current tenancies and so on. I think that there is a role for incubators in the current arrangement. The government has just recently announced that it will extend that program for a further two years beyond the original four years. So there is a role for incubators.

Senator LUNDY—Have any small businesses graduated from incubators as yet?

Ms Weston—Quite a number. I will ask my colleague to provide you with that.

Mr Peel—Since 2000, which is when I think the figures go back to, 1,314 tenants have moved out of incubators, and about 60 per cent of those have graduated successfully from incubators.

Senator LUNDY—For how long after their graduation from the incubator do you track the success or ongoing viability of these businesses?

Mr Peel—We do not track the individual businesses, but the incubator itself has to keep in touch with us and report on its activities for 10 years after the funding agreement ceases.

Senator LUNDY—So the incubator itself reports on the activity of its graduates?

Mr Peel—No, it reports on how it has developed and graduated small businesses. We do not in AusIndustry track the individual businesses.

Senator LUNDY—Just using the general statistics about the failure rate amongst first year businesses, how are you going to measure the long-term benefit of having a small business incubated in this way if you do not monitor the ongoing viability of any of these businesses?

Mr Peel—My understanding is that the Office of Small Business undertakes regular evaluations of the program. That is probably a question best directed to them.

Senator LUNDY—The same question to you, Ms Weston?

Ms Weston—We do evaluate the program. We are currently doing an evaluation of the incubator program along with another element of the program in that we will be talking to the real businesses themselves who have been participants and beneficiaries in the incubator program, and we expect that to give us some information as to how viable businesses are when they leave the incubator. That should fit in nicely with work being done through the ABS, too, on business entries and exits.

Senator LUNDY—So would the ABS be able to source or perhaps specifically identify the graduated incubatee companies and report on their ongoing viability or not?

Ms Weston—I wouldn't have thought so.

Senator LUNDY—No, I would not have thought so, either.

Ms Weston—But that will give a general industry across-the-board small business—

Senator LUNDY—So the bottom line is you are not able to see what happens after the first year, the second year or the third year and compare success rates?

Ms Weston—I am not sure how far back we go in terms of speaking to people who have been participants in the program. That is something that I could find out.

Senator LUNDY—If you could take that on notice.

Ms Weston—Sure.

Senator LUNDY—Just going back to the issue of regulatory compliance and red tape, has the Office of Small Business reviewed the level of government regulatory compliance facing small business?

Ms Weston—When you say 'review', what are you looking for there?

Senator LUNDY—I am asking in the context of I think it was early last week, the Business Council of Australia released a quite hefty document about the level of red tape confronted by business. The government itself made some pretty hefty claims in the very early years that they would reduce the amount of red tape substantially. I think there were some quite outlandish claims originally. I was just wanting to know if you are looking specifically at that, whether you have prepared any reports, done any analysis for the purposes of, one would hope, relieving some of that burden on small businesses?

Ms Weston—Yes. The federal election commitment was very early in the government's term. The Office of Small Business takes an active interest in regulation and in the work done by departments and agencies in terms of regulation. We work very closely with the Office of Regulation Review in relation to the small business impact side of regulation impact statements. We also have a responsibility to be consulted in relation to draft government policy that may go to cabinet that may have a small business impact. We take that responsibility very seriously. We have responsibilities now with the Regulation Reduction Incentive Fund, and we work within government to try and encourage departments and agencies to better assess the small business impact on proposals going forward; in other words, to have a look at what they are asking small business to do.

Senator LUNDY—So you do keep a monitoring role?

Ms Weston—Yes.

Senator LUNDY—Where does that information or analysis get fed into—for example, to Treasury, who are compiling their various tax policies, GST, et cetera, superannuation?

Ms Weston—We are in constant contact with the Treasury and the tax office through a number of fora, and we do take an active interest in the sorts of things that they are doing. We have regulatory performance indicators, for instance. We measure those and report those

through the annual review of small business, which is on our web site. They incorporate elements of departments' and agencies' performance in relation to the regulation impact statement plus some other measures. We also encourage departments and agencies to meet their obligations under the annual regulatory plans where they are encouraged to report their current and future regulatory activities. There is a link to that through our web site as well through to the various department and agency activities through our web site.

Senator LUNDY—Has the number of government regulations with which small business must comply increased or decreased over the last 12 months?

Ms Weston—I do not have the exact details. If you read the annual report of the Productivity Commission, they would indicate that the government introduced new regulations this year.

Senator LUNDY—By that you mean there has been an increase; am I correct?

Ms Weston—It does not recall those regulations that have been taken off the books. So I can say that that report records an increase in new regulations. It does not say the counter side to that.

Senator LUNDY—But you would know, given the ongoing analysis you do of this issue. Could you tell me, as the government's expert on these matters, what was taken off the books to offset the Productivity Commission's identified increases in red tape for small business?

Ms Weston—There were a number of offsets. I could not tell you exactly whether they matched up with the number of new regulations. But there were a number of new measures to reduce red tape. For instance, annual reporting and payment of GST, taking off the super reporting. There were some other benefits, for instance, the tax office's business portal, which allows BASs to be lodged online and so on. There have been a number of activities, including the ABS reducing compliance with surveys by 40 per cent and so on.

Senator LUNDY—Just on the BAS lodgment online, do you classify something going from a paper document to online as a reduction in red tape?

Ms Weston—If it reduces the time and cost of the business doing business, that would be a reduction in compliance, yes, in red tape.

Senator LUNDY—Just to play devil's advocate, the ATO, certainly in the first year of the GST, had software that was notoriously buggy and therefore increased problems for small businesses trying to comply with their quarterly statements. I am just not sure that putting something online necessarily means less red tape. If you have got to fill it out online you have got to fill it out on paper. You have got to have a fast internet connection for the online service to be any good. We know a lot of small businesses are frustrated with that.

Ms Weston—I understand that the new business portal is very well received, as is the new taxation portal. But they are obviously questions to take up with the tax office.

Senator LUNDY—I appreciate that. Just on the business entry point, in terms of the construction of that web site, what is the optimal internet connection speed required for that site to work efficiently?

Ms Johnson—The business entry point is currently or has just been redeveloped. A new improved site will be launched fairly soon. The way in which the site is designed is to minimise the amount of graphics so as to improve the download across any internet connection. In addition to that, we recently launched a new ABN look-up service, which does not require any form of advanced internet connection. It is a machine-to-machine look-up, so it enables the exchange of data to happen quickly, at any time, automatically without any manual intervention. More and more of our services are not about having fancy graphics or a particular internet speed of connection but about having more streamlined machine-to-machine communication. We look at a whole range of factors when designing both the web site and the services that it supports.

Senator LUNDY—Thank you. My original question was: what is the optimal kilobits per second speed required to use the current business entry point web site?

Mr Griffin—We have tested the new web site down to 14.4—

Senator LUNDY—Sorry, not the new one.

Mr Griffin—We have tested the web sites down to 14.4 baud rates, and they are quite practical at that rate.

Senator LUNDY—Why have you tested it to that level given that government policy now requires as a licence condition that all connections must be at least 19.2 kilobits per second?

Mr Griffin—We are very pragmatic.

Senator LUNDY—I think you are acknowledging that the government policy to achieve the 19.2 kilobits per second does not work. But it is good that it works at 14-point—

Ms Johnson—It actually takes into account the fact that end users have a whole range of different systems of different ages.

Mr Griffin—In some cases, they only have that capability through their modem. So no matter what the telco delivers, that is what they are going to get.

Senator LUNDY—Yes. I appreciate that. So it was tested at 14.4 kilobits per second. Was that the new web site or the current one?

Mr Griffin—The present one works and the new one will also work quite practically at that speed.

Senator LUNDY—This is probably a question for Tax, but does the business entry point offer any downloads of software that facilitate business engagement with government?

Mr Griffin—Yes.

Senator LUNDY—I know the tax office does, but does the business entry point?

Mr Griffin—Yes, we offer two specific downloads for individual businesses, one of which Ms Johnson has already outlined, the look-up tool for the ABN public information, and that is a downloadable tool that enables them, instead of having to carry out an individual look-up for every ABN, for every number, to put in a multiple list of numbers and simply press the button, which enables that look-up to be automated. The second one we offer is a transaction manager. As I alluded to before, that is a tool that allows business to manage their

transactions. We have put that out in one form and it has proven to be quite popular. However, we do get a considerable amount of feedback from small business as to how we improve it. And we look forward to putting out that improved version, which is a downloadable version, in the not-too-distant future, in the next three months or so.

Senator LUNDY—How long do both of those downloads take to download on a 14.4 kilobyte per second connection?

Mr Griffin—I can tell you that the ABN look-up tool takes about two minutes to download over a quite slow network.

Senator LUNDY—What do you mean by ‘quite slow’? These are the nuts and bolts issues that confront small businesses.

Mr Griffin—My home receives about 16 bauds. I download it in about two minutes. It is a reasonably practical proposition over quite a slow connection.

Senator LUNDY—And the transaction manager?

Mr Griffin—At the present time we do not offer the downloadable as a production environment. At the present time it is a web service. Businesses would come on and get that web service. We do have the beta form of the downloadable, and it is still being tested in being able to offer it as downloadable over slow networks. But it is quite downloadable over the slow networks. We have not finalised the actual time and we have not optimised around being able to download it quickly and efficiently, but we will.

Senator LUNDY—Mr Paterson, can you tell me whether the business entry point project, particularly the IT infrastructure, is one of those projects being actively monitored by the department of finance? We took evidence the other evening that they were monitoring a number of federal government IT projects, not on a departmental basis but on a project-by-project basis.

Mr Paterson—I am not aware of any specialist oversight. This is a project that is on track. It had its funding renewed. That is one of the measures that was outlined in this budget. I am not aware of any issues.

Senator LUNDY—Can you take on notice to provide a list of all of the regulations that have been introduced in the last 12 months for small business and all of the regulations that have been removed in the last 12 months?

Ms Weston—That would be a fairly extraordinary request.

Senator LUNDY—Sorry, the impression I got from your answers was that that information was available, perhaps through the Productivity Commission?

Ms Weston—The Productivity Commission have reported an aggregate number of new regulations, and I could ask them for that information. As to what has been taken off the books, I do not have that information.

Senator LUNDY—So who monitors the ebb and flow for the purposes of assessing red tape for small business—anybody? I would have thought that was the role of the Office of Small Business?

Ms Weston—I think that that would be a fairly large task.

Senator LUNDY—Does the regulation impact statement process provide perhaps a source of data to get the answer to that question?

Ms Weston—The regulation impact statement process is about the flow of regulation, new regulation or amended regulation. That is how they can determine largely, I would imagine, the number that they put in their annual report.

Senator LUNDY—Perhaps this is one for the minister. How on earth can the government claim to reduce red tape for small business when you do not have a benchmark for the amount of red tape in the first instance? Does that not just show that claim to be completely hollow?

Senator Minchin—I do not have in my head knowledge of the extent to which among government agencies there is awareness of the stock of regulation. But that does not negate the veracity of the government's intent to seek to minimise the impact of red tape on business, whatever the current stock.

Senator LUNDY—It just seems to me a bit odd. We have just been through in some detail the Regulation Reduction Incentive Fund, which has spent some \$2.4 million on establishing benchmarks and surveys, yet the department does not have the capability of establishing a benchmark overall on the level of red tape that small businesses confront anyway. I just find that quite extraordinary and completely undermining of any claim the government makes of taking seriously this issue of reducing red tape.

Senator Minchin—Except that for every small business it is almost an impossible thing. Businesses are affected by local, state and federal regulation. They operate in different industries with different levels of regulation according to the type of industry. It is just such a massive ball of string.

Senator LUNDY—But you are spending \$50 million on the Regulation Reduction Incentive Fund, with the direct implication that local governments are somehow massively responsible, because that is where you are spending your money, at least on the pilot. But from the federal perspective there has been no effort to even do an audit of the sorts of red tape or compliance that small business confronts from a federal level. What is going on?

Ms Johnson—Perhaps I could answer from a business entry point perspective. The business entry point operates a number of online facilities, one being the National Business Licence Information Service, from the Commonwealth level, and that is an inventory of business licences across the Commonwealth government. Through the business entry point, businesses can access business licence information from all of the states as well. In addition to that, the transaction manager, which we mentioned previously, has an index of the most common business compliance activities that businesses undertake with government. That is an inventory from the three levels of government. We have at the moment some 5,600 different forms, applications, licences in that inventory in the transaction manager. That of course does not just relate to small businesses but to all potential business dealings with government from the state, local and Commonwealth levels.

Senator LUNDY—Do you have any involvement in the area of small business access to government contracts or is that handled primarily by AusTender, which is now in Finance?

Ms Johnson—Through the business entry point, we have linkages to all government contracting web sites, but we do not have policy coverage of that. But we do facilitate the access to that.

Ms Weston—The Office of Small Business with the Department of Finance and Administration do jointly survey contracts issued for SMEs for the Australian government, and we monitor on a year-by-year basis the SME take-up of the participation in the procurement market. You will be wanting that detail now, won't you?

Senator LUNDY—Yes. Well anticipated.

Ms Weston—In the 2003-04 year, 27 per cent of purchases by value went to SMEs. The government requires a minimum overall level of 10 per cent SME participation. That amounted to some 52 per cent of the 185-odd thousand contracts commissioned. Also some 96,554 contracts went to SMEs.

Senator LUNDY—Are you sourcing that data just off your statistics from the web site or the gazette data?

Ms Weston—The department of finance do that. We jointly fund that.

Senator LUNDY—So it would be sourced from gazette data?

Ms Weston—If it is not, I will let you know.

Senator LUNDY—I ask that, because I know DOCITA recently undertook their own investigations relating to ICT contracts. They engaged a consultant who prepared a different methodology that involves surveys, not just the pure gazette data. Are you aware of that?

Ms Weston—I think that had been raised with me recently. I am not sure whether this survey is done according to that methodology.

Senator LUNDY—Could you take on notice to provide the full methodology for this survey, and also whatever results you have got on the system? I presume they are published on the web site.

Ms Weston—I will have to confirm that. It would be with the department of finance, because they have government responsibility for procurement. I will confirm where it is located.

Senator LUNDY—As to your involvement in that, to what degree do you promote that information amongst SMEs and help them access government contracts?

Ms Weston—As my colleague has mentioned, we link that to all our connections.

Senator LUNDY—I raised this in the document at that estimates, but recently an industry group that was representative of both small businesses and IT industry organisations put forward an independent report highly critical of the government's purchasing practices relating to IT—ICT in particular. The report identified a series of very specific barriers preventing small businesses, SMEs, from accessing government contracts. Is that a policy area that the Office of Small Business has prepared any analysis on, done any research on, and are you familiar with the independent report I am referring to?

Ms Weston—You will need to tell me the name of the independent report.

Senator LUNDY—I shall indeed. The report is a report to the Minister for Communications, Information Technology and the Arts, Senator Coonan. It is called *Procurement reform of Australian government: major acquisitions from telecommunications and ICT*, which usefully forms the acronym PRAGMATICT. It is developed by the industry members of the ICT SME Joint Industry-Government Working Party.

Ms Weston—I am not familiar with that report. We do have an interest in that from a small business perspective. But obviously the policy lies with DCITA.

Senator LUNDY—I suspect it is with Finance now. The problem is we do not know where the policy development lies. DCITA are not doing it. That is why I have brought it here. It is clearly an issue about barriers to small businesses doing business with government. They are getting no satisfaction and have embarked upon quite an unprecedented effort in putting forward an independent report to a government joint working group. Ultimately the question is: is there any point in their coming to see the Office of Small Business?

Ms Weston—That report has not been made available to us. We are of course interested and we do speak regularly with DCITA on issues such as broadband and other access issues in relation to small business. They have not raised that report with us.

Senator LUNDY—What would be the forum through which you would raise these issues and concerns with both DCITA and the Department of Finance and Administration, the purchasing policy area?

Ms Weston—We do, as I said, have bilateral consultation with that department.

Senator LUNDY—Have either of those departments raised specifically these problems, the type identified in this report, with the Office of Small Business with a view to an unprecedented level of cooperation to assist Australian small businesses?

Ms Weston—They do not need an unprecedented level of cooperation, from my perspective. But, as I said, that report has not been raised with us. We would be obviously interested to have a look. We do look at access issues generally, and broadband, for instance, is one where we relate with DCITA.

Senator LUNDY—It is not about broadband; it is about—

Ms Weston—I understand that, but I am just saying that access issues are important for us as well.

Senator LUNDY—It specifically goes to red tape, though, and in particular overspecification of tenders where small businesses are required to fulfil a large raft of capabilities to even be eligible to submit a tender, which has the effect of building a very high brick wall that is difficult for them to climb over. That would be the sort of issue you would be concerned about as the Office of Small Business?

Ms Weston—Yes.

Senator LUNDY—It is another form of red tape, after all. I am surprised it is not out there as a more substantive issue within the charter of the Office of Small Business.

Ms Weston—We are aware issues around the tender arrangements have been raised from time to time. But that report particularly I have not seen.

Senator LUNDY—What level of involvement and consultation has the Office of Small Business had with the preparation for the introduction of super choice?

Ms Weston—It has been around for some time. Of course, we have consistently taken an active interest in that particular policy since it was put forward in the late nineties. For instance, we have regularly liaised with Treasury on how the policy would be implemented in the Taxation Office in relation to their education campaigns. We are members of ATO consultative groups such as the small business advisory group, which is a tax office group of small business people where they put some of their ideas forward. We are also a member of the Commissioner for Taxation's small business consultative group, and choice of fund was raised in both those forums. Choice was also raised with our small business council. Also the tax office themselves have undertaken obviously some consultation in a variety of ways.

Senator LUNDY—When did the Office of Small Business have the opportunity to provide their views on super choice through the ATO's SME advisory committee?

Ms Weston—In terms of the implementation, earlier this year, for instance, I went to a commissioner's small business consultative group where the issue of choice was discussed at length.

Senator LUNDY—Was the policy itself discussed or just the implementation?

Ms Weston—Obviously we had the legislation passed in June 2004, so we are now up to the implementation phase.

Senator LUNDY—Just going back a bit further, what level of consultation was there with the Office of Small Business in the preparation of that legislation?

Ms Weston—Some of it predates my time in the Office of Small Business, but I understand that we have consistently talked with Treasury about this particular regulation.

Senator LUNDY—You mentioned the small business consultative committee under the auspices of the ATO.

Ms Weston—The small business advisory group?

Senator LUNDY—No, you mentioned another consultative group.

Ms Weston—There is the small business council, which is under the auspices of this department.

Senator LUNDY—Sorry.

Ms Weston—In this year they were also shown a copy of the form, for instance, and a general discussion was held about choice and their views.

Senator LUNDY—What was the view or analysis of the Office of Small Business about the impact on small business administration and, indeed, red tape of that form?

Ms Weston—Obviously with any of these issues going forward, we like to make sure that the department or agency bringing that forward is aware of the way small business operate, the operating environment, and how they are likely or not to manage. For instance, in the early days it was always a concern with the small businesses themselves about what their role might be in providing any advice or providing a number of funds that small business could

pick and choose from. So those are the sorts of things we made sure were heard by the departments or agency developing the policy.

Senator LUNDY—Did the Office of Small Business ever express concern that small businesses might find it difficult to comply with super choice when it is introduced?

Ms Weston—With any policy, we are always trying to make sure of the operating environment—what people's payroll systems are like or whether they are electronic in their super payments or whether they pay things by cheque, those sorts of things. We spend a lot of our time trying to convey that message.

Senator LUNDY—Did the Office of Small Business consult on behalf of the government with small business representative groups and the business software providers regarding the introduction of super choice? You mentioned the small business council.

Ms Weston—Yes.

Senator LUNDY—But also this whole issue of ability to comply, hence involving software providers?

Ms Weston—Software provision is a tax office issue. We have talked with MYOB from time to time. I am not sure whether choice was part of those discussions—although more recently we talked with MYOB about their new software that allows businesses to electronically make payments to super funds on behalf of their business at some fairly reasonable rate. It is MYOB M-Powered Superannuation. It is a dollar per month per employee. They will slash paperwork, they say. Largely, the tax office would take responsibility around software provision.

Senator LUNDY—You say you have consulted with MYOB. Are they the only software company you consult with or liaise with? I know there are several competitors in the field.

Ms Weston—We did not consult per se on what the software providers are doing. This one did come up in discussion, so one of my people chased that up to see what they were doing.

Senator LUNDY—And what are they doing?

Ms Weston—Just what I mentioned. They have a solution for superannuation contributions that they are offering into the marketplace. There are other providers, too. With the choice of superannuation having been operating in Western Australia for some time now, there are people in the market who act as clearing houses for cheques, whatever.

Senator LUNDY—Just going back to the software issue, you are obviously not particularly active in finding the software service providers and discussing with them the timing of the introduction of perhaps their product upgrades to facilitate small business compliance. So my question becomes: why not put your efforts into chasing up MYOB?

Ms Weston—That is a role for the tax office.

Senator LUNDY—Is it?

Ms Weston—I believe so. We do keep in close contact with the tax office. They keep us up to date with issues such as this and the implementation of it.

Senator LUNDY—Are any officers from the Office of Small Business on an interdepartmental committee for the introduction of super choice or concerning super choice?

Ms Weston—We are at the stage now where super choice is at our doorstep. I think what is happening now is that the education campaign is off and running. Various hotlines and web sites and so on and telephone lines are in operation. At this particular point the tax office and the superannuation group within the tax office, along with wage line, are taking the running on that.

Senator LUNDY—I think you have answered my next question, which is: what is the involvement of the Office of Small Business with any of those hotline web site queries, concerns, issues or problems small business may have?

Ms Weston—We have spoken with both the Taxation Office and the Treasury about what their plans are. We have organised briefings for the people we are involved with: for instance, our small business answers field officers. We have had a briefing with them on choice of fund. We have arranged for them to be provided with copies of the employers' choice guide so that as they are out there talking to real small business people in regional Australia they ensure that they are aware of this new government program. There are also links to the various sites through our business entry point.

Senator LUNDY—Essentially you are using Taxation Office material to promote it?

Ms Weston—I think that probably at this particular point you want to ensure that information is consistently provided.

Senator LUNDY—Do you do any qualitative assessment or analysis of the experience or feedback you get from small businesses on issues such as, in this case, super choice and the lead-up to its introduction on 1 July?

Ms Weston—If small business raise with us issues that they may have around the way something is developed or a piece of information they are not happy with, we will chase that up with the department agency. I have to say that I do not recall our having any information to date that people have said that they are not happy with a particular aspect of it. That may come in the fullness of time, but we have not hit 1 July yet.

Senator LUNDY—So how would the minister for small business gain an insight into the concerns regarding super choice? Does the minister get any feedback from you at all on this issue for that purpose?

Ms Weston—Yes, she does. It is a fairly active program of getting out to talk to people. She was, for instance, at the recent COSBOA national summit and would have had feedback there.

Senator LUNDY—Thank you.

ACTING CHAIR (Senator Watson)—We might take a break now.

Mr Paterson—Have you finished with the Office of Small Business? Can you give us an indication as to where you might be up to after the break?

Senator LUNDY—We are back to where we left off. I think we were moving across both outcome 1 and outcome 2—AusIndustry run programs, departmental programs and some of the innovation programs.

Proceedings suspended from 3.45 pm to 4.05 pm

Senator O'BRIEN—I just want to clarify the position with regard to resources and tourism for this department. My understanding is that we will not reach them this evening and that we will commence on those items first thing tomorrow morning.

Mr Paterson—That is correct. The program that was agreed with the committee was that resources and energy issues would be up first tomorrow morning and then Tourism Division and Tourism Australia would follow.

Senator O'BRIEN—It was not made clear to me before today, unfortunately.

Mr Paterson—We have none of those officers here now or expected tonight.

Senator O'BRIEN—Okay. I will leave everyone to their tender mercies and come back in the morning.

Senator LUNDY—I just want to ask a couple of follow-up questions in relation to the business entry point, particularly given the minister's announcement of additional funding for this particular initiative. Do you have the figures on the previous expenditure on the business entry point—I know it did transfer from DEWR some time ago—and also the out years expenditure for the business entry point?

Ms Johnson—The current budget announcement is for \$36.4 million over four years and that is in the out years at the rate of \$9 million, \$9.1 million, \$9.2 million and \$9.3 million out-turned into those out years.

Senator LUNDY—And the previous expenditure?

Ms Johnson—In the previous years the expenditures for the business entry point have been between \$6.5 million to about \$7.1 million each year.

Senator LUNDY—Do you know precisely?

Ms Johnson—That is varied from year to year, so in some years there is a greater degree of activity. That has attracted a high level of funding, so historically our expenditures over the previous several years have ranged between \$6.5 million to \$7.2 million.

Senator LUNDY—So the jump to \$9.1 million, \$9.2 million and \$9.3 million can be explained by?

Ms Johnson—The funding level is consistent with previous years and the funding of between \$6.5 million to \$7.2 million is an internal allocation.

Senator LUNDY—You will need to spell it out for me. That leaves quite a few million dollars that you do not spend on business entry point that is allocated for that purpose. What happens to that?

Ms Johnson—The \$6.5 million to \$7.2 million in various years is funding which is directly related to business entry point activities—projects, personnel et cetera. The difference

between the internal allocation and the appropriation is a range of departmental overheads not taken into account to the internal allocation.

Senator LUNDY—What sorts of departmental overheads?

Ms Johnson—They would be a range of corporate type services: legal services, our own IT support services for the business entry point, a range of SES services and contract support services.

Senator LUNDY—Which contractors are engaged to support the business entry point website?

Ms Johnson—We have a range of both contracts and contractors and we would be happy to provide those to you; there are quite a large number. It is mostly internally operated.

Senator LUNDY—That was my understanding.

Ms Johnson—It is an internally operated initiative. There is an element of the infrastructure which is managed in an arrangement with the Department of Employment and Workplace Relations and so in that sense that is a service DEWR provide for us; that is our secure web posting and the secure gateway for the business entry point.

Senator LUNDY—So do you pay them?

Ms Johnson—Yes, we do.

Senator LUNDY—Is that what that \$2.53 million accounts for?

Ms Johnson—No, we pay DEWR in the order of about \$450,000 a year.

Senator LUNDY—Could you provide a full breakdown of the provision of site costs—that is, the amount ranging between \$6.5 million and \$7.2 million—and then also itemise the remaining proportion of that allocation, including details of contract value and contractors, into departmental payments—the full kit and caboodle?

Ms Johnson—We can certainly do that.

Senator LUNDY—I would have to go to DEWR to get the original development cost of the web site, wouldn't I?

Ms Johnson—No, we can provide full costings. Typically each web redevelopment costs in the order of \$500,000 to \$600,000, but that is just the web redevelopment. That does not take into account all the applications and infrastructure that underpin that.

Senator LUNDY—How much of that money is for software licensing?

Ms Johnson—I would have to get back to you on that. We have a range of software licences in relation to the business entry point, including content management type licences and various software monitoring for the site. There would be a large number of licences involved in operating the business entry point, but we can provide those for you.

Senator LUNDY—I look forward to it.

Ms Johnson—It is a list.

Senator LUNDY—Thank you. Please take all of those on notice. Mr Paterson, I understand that you have got some information back on earlier questions asked.

Mr Paterson—Yes. I propose that we start with the responses to the questions you asked on the sectoral breakdown of manufacturing contribution to exports and some of the historical data. Mr Lowndes will present that to you.

Mr Lowndes—I have really just got the statistics you asked for.

Senator LUNDY—Are you able to table those?

Mr Lowndes—Yes. Just to summarise briefly, the average rate of GDP growth between 1996-97 and 2003-04 is 3.8 per cent.

Senator LUNDY—I am sorry, can you start that again?

Mr Lowndes—The annual rate of growth in GDP from 1996-97 to 2003-04 is 3.8 per cent. The 2004-05 figure we have is still an estimate but, if you include that, the average is 3.6 per cent. With the other figures we have just got the numbers you asked for.

Senator LUNDY—What was the annual growth figure—not the average—between 1997 and 2003? You just gave us an average figure of three per cent.

Mr Lowndes—In 1996-97 the figure was 3.8 per cent; in 1997-98 it was 4.5 per cent; in 1998-99 it was 5.3 per cent; in 1999-2000 it was 3.8 per cent; in 2000-01 it was 2.1 per cent; in 2001-02 it was 3.9 per cent; in 2002-03 it was 3.2 per cent; in 2003-04 it was 3.8 per cent, and the budget estimate for 2004-05 is two per cent.

Senator LUNDY—And the percentage growth of industry for each year?

Mr Lowndes—For manufacturing in total?

Senator LUNDY—Yes, to start with.

Mr Lowndes—I will just read through the same stuff as before. For 1996-97 it was two per cent; in 1997-98 it was 3.3 per cent; in 1998-99 it was two per cent; in 1999-2000 it was 0.9 per cent; in 2000-01 it was 2.6 per cent; in 2001-02 it was 2.6 per cent again; in 2002-03 it was three per cent; in 2003-04 it was 1.4 per cent.

Senator LUNDY—And disaggregated?

Mr Lowndes—I could read it all out, but there are about 10 different categories.

Senator LUNDY—Perhaps you could provide that. Could you just go through the ETMs.

Mr Lowndes—The ETM figures—as I think I mentioned before—are figures just for exports. They do not have numbers. I will explain when I give you the figures; otherwise it will be quite confusing.

Senator LUNDY—Why don't you have ETM numbers for that percentage growth per annum?

Mr Lowndes—The ETM numbers are things that are worked out by DFAT based on their trade data. They are not ABS figures, as such, so they do not match up with the—

Senator LUNDY—The export figures or the growth figures?

Mr Lowndes—The figures for ETMs.

Senator LUNDY—For growth or export?

Mr Lowndes—The figures we have for ETMs just relate to exports and they are calculated by DFAT based on detailed data that they have on exports.

Senator LUNDY—Has any analysis been done by the industry department, for example, on industry growth of ETMs as a subsector of manufacturing?

Mr Lowndes—I would think the analysis would be done.

Senator LUNDY—Have you done it?

Mr Lowndes—I have not done it.

Senator LUNDY—Why not? Why hasn't the department done it, given the issues and certainly CIE reports et cetera about the decline of the ETM sector?

Mr Lowndes—The analysis and the work that we would do would be based on particular industries, such as the vehicle industry, the pharmaceutical industry and so forth, some of which fall into this particular category. We do not use the ETM as such as an analytical instrument.

Senator LUNDY—I understand, Mr Lowndes. Has the department ever considered doing such an analysis using the ETM as the measure, given the critical importance—as everyone would argue—that the ETM sector has to Australia's potential to add value to and improve our manufactured exports?

Mr Paterson—I think Mr Lowndes was halfway through answering that question, which was to indicate that we examined—

Senator LUNDY—He actually answered the question that I asked him very well. Now I think it is more a policy issue of whether or not you devote resources to doing an analysis looking at this issue in another way, if the data is not available.

Mr Paterson—We do not have any present plans to do that.

Senator LUNDY—My question then becomes: why not, given it is such a crucial economic indicator of export performance?

Mr Paterson—Because we make priority choices amongst a range of desirable activities that we could undertake and we do not have any present plans to undertake that activity.

Senator LUNDY—Are you concerned about the slowing growth of ETM exports and the sector itself?

Mr Paterson—We are concerned about ensuring Australian industry is competitive, and that is where the focus of our attention is.

Senator LUNDY—Are you aware of any other department having done any research or analysis in relation to this particular sector—or, indeed, any reports?

Mr Paterson—I am not aware of any personally.

Senator LUNDY—Back to you, Mr Lowndes, to give us some more numbers. I think you were going to refer to the DFAT export numbers in relation to the ETMs.

Mr Lowndes—We have the raw numbers. I am just quickly doing the percentage figures so I can read them out for you. The figures we have are just totals. I have just very quickly

done some rough percentages. I will not verify this, but they give you the right idea: 1996-97 is plus 9.3 per cent, 1997-98 is plus 2.3 per cent, 1998-99 is minus 3.7 per cent, 1999-2000 is plus 15.5 per cent, 2000-01 is plus 14 per cent, 2001-02 is minus 0.5 per cent, 2002-03 is minus seven per cent and 2003-04 is minus four per cent.

Senator LUNDY—Do those figures provoke any reason to be concerned, or any reason to perhaps do such an analysis, within the department, of the performance of that particular sector?

Mr Lowndes—As I mentioned before, we have commissioned ABARE to do some overall analysis of our export performance; and part of that is to do some surveys of manufactured exporters. So in an overall sense we are doing some analysis of our export performance. We do have active sectoral policies in the area of motor vehicles, pharmaceuticals and so forth which cover some areas here.

Senator LUNDY—They are obviously not working particularly well, given that the original policy of the government was to have growth in the area of four per cent.

Mr Paterson—Not in relation to ETMs per se.

Senator LUNDY—I know that. The point is that the figures look reasonable, at least on average across a number of years, but within that you have a critical sector that is declining. The last three years have that sector in the negative. Even though it does cut across automotive, pharmaceuticals and a whole range of sectors, you have a trend here and you are not doing anything about it.

Mr Paterson—You have said that on a number of occasions and you are not responding to the answers you are being given. An indication has been given on at least three occasions today, if not more, that an export study in relation to manufacturers is being undertaken in conjunction with ABARE. That will inform some of these activities.

Senator GEORGE CAMPBELL—The thing that jumps out at me with these figures is the exchange rate. It is pretty obvious that, where we performed best in terms of ETMs—and even in manufacturing generally—our exchange rate would have been very favourable in terms of export and the reverse when it was unfavourable. Will looking at exchange rates and their impact on our export capacity be a factor in the study with ABARE?

Mr Lowndes—Yes, it will certainly be one of the issues they look at.

Senator GEORGE CAMPBELL—When will the study be completed?

Mr Lowndes—It is scheduled to be completed in July.

Senator GEORGE CAMPBELL—Presumably that will go to cabinet—or will it become a public document?

Mr Lowndes—I am not sure at the moment. It is a departmental consultancy. We have not really made any decisions at the moment as to what we are going to do when it is finished.

Senator GEORGE CAMPBELL—Is it your intention that it will form the basis of policy recommendations to cabinet?

Mr Lowndes—It will certainly be the subject of analysis as to whether or not there is anything we can do on the policy settings.

Senator GEORGE CAMPBELL—Will that involve consultations with the constituency outside—manufacturers and so forth?

Mr Lowndes—Part of the study is a survey, so we are trying to have regard for what is going on in the world in putting the exercise together. There are two strands to it: there is the statistical analysis and possibly some econometric modelling, and talking to actual manufacturers.

Senator LUNDY—Was it an initiative of this department to have this study done?

Mr Paterson—Yes.

Senator LUNDY—On the basis of some of these disturbing figures? Was that what prompted you?

Mr Paterson—We obviously monitor performance on an ongoing basis. This is one of the areas where we have identified a priority. We want to understand the detail and better understand the drivers. It is easy to reach conclusions on the broad numbers in relation to exchange rates. We have made mention of that this morning. The higher dollar obviously puts us under much greater competitive pressure. We want to get a sense from an exporter's perspective as to the factors providing opportunities for them—enhancing them—or impeding them.

Senator LUNDY—To go back, I think you were able to provide the percentage growth figures for the different sectors—that is, TCF and auto. If you have that information, can that be circulated now to the committee? We can then have a look at it and come back to those numbers later. Mr Paterson, do you have additional information about the departmental appropriation and programs?

Mr Paterson—The order that I suggested was that the next to come back would be in relation to staffing issues and the gender breakdown questions that you raised and some of the recruitment numbers.

Senator LUNDY—Okay, over to you on that one then.

Mr P Noonan—I can provide answers to two issues that were raised this morning. First of all there is a breakdown of AWAs by gender. At the SES level I said there were 66 AWAs and 50 of those are held by males and 16 by females. At executive level 2, including some technical classifications, there are 72 AWAs: 54 male and 18 female. At executive level 1, there are 36 AWAs: 23 males and 13 females, and at the APS1 to APS6 level there are 19 AWAs: eight male and 11 females.

Senator GEORGE CAMPBELL—Just before you move on, would those figures you have given us reflect the gender makeup of the department?

Mr P Noonan—It does approximately. I just looked at a table for overall staffing in the annual report for last year and these numbers were fairly equivalent. Some classifications were a bit higher and some a bit lower, but on very small numbers I did not think there was any statistically significant difference. I was also asked about the turnover of staff—the separations and commencements so far this year. From 1 July 2004 to 30 April 2005 we have had 149 separations of ongoing staff and 316 commencements of ongoing staff.

Senator GEORGE CAMPBELL—So that is a net growth of about 160.

Mr P Noonan—Yes. The larger part of that is a structural change. On 1 July the National Measurement Institute was created, and two units new to the department, the National Measurement Laboratory and the National Standards Commission, contribute about 120.

Senator LUNDY—Now departmental appropriations.

Mr Paterson—A number of the programs with departmental appropriations we spoke about this morning but I will include them here. There are 11 measures that I would describe as programs that are part of our departmental appropriation. We mentioned earlier today the National Innovation Awareness Strategy which is a component of BAA 1. These are not price adjusted numbers, so for 2004-05 the National Innovation Awareness Strategy was—

Senator LUNDY—I am sorry, can we do these by outcome? If that is too complicated just keep going.

Mr Paterson—It should not be too hard; I just do not want to give you the wrong numbers.

Senator LUNDY—If you give us the list and then you can go back and tell which is an outcome.

Mr Paterson—For the National Innovation Awareness Strategy, \$2.896 million in 2004-05, and \$4.09 million in 2005-06. That is outcome 2. The other measure that has an impact on both outcome 1 and outcome 2 is the National Biotechnology Strategy. It is \$5 million in each of those years but that is split between activities in outcome 1 and outcome 2. The remaining programs are all outcome 1. The figures for the Indigenous Communities/Mining Industry Working in Partnership program are \$300,000 in 2004-05 and \$500,000 in 2005-06, and the Australian Building Codes Board is \$1 million in each of those years. The allocation for the business entry point that we talked about earlier is \$8.96 million in each of the years.

Senator LUNDY—How does that stack up against the budget papers, because the budget papers have 9.1, 9.2 and 9.3?

Mr Paterson—They are price adjusted. These numbers I am giving you are not price adjusted. We had a conversation earlier today in relation to the efficiency dividends. In terms of departmental appropriations you get price adjustments but then efficiency dividends and overheads that need to be managed, so I am giving you non-price adjusted numbers. BEP: \$8.9 million; Invest Australia—the investment attraction component is \$11 million in each of the years; ISONET SAMP, which is the support for major projects activity, is \$1 million in each of the years; the Invest Australia Axiss activity which we talked about earlier today is \$3.8 million in each of the years, and the National Offshore Petroleum Safety Authority is \$2 million in 2004-05. There is no 2005-06 departmental appropriation for that because the National Offshore Petroleum Safety Authority was the creation of a new authority. We expended departmental resources to create the entity and recruited staff and established the activity—

Senator LUNDY—Will it become an administered expense?

Mr Paterson—It is now an independent statutory authority which will recover its fees from charges on the industry. The National Biotechnology Strategy I have mentioned. Tourism in protected areas was a measure in the tourism white paper, which is \$1.059 million

in 2004-05, and \$1.925 million in 2005-06. There is a small program funding for the Lancefield Reserve, which is \$10,000 in 2004-05. Those programs are where we have got departmental appropriation and we essentially pay other organisations or their specific programs. The business entry point is part of departmental appropriation but it has been identified as a measure now. For the business entry point, as the evidence this afternoon has clearly indicated, the majority of that expenditure is internal expenditure on departmental activity but, given your focus of attention on it as a program, we have included it. It is the same with Invest Australia and Axiss. ABCB is an ongoing activity; it is a cooperative effort between the Commonwealth and the states, and that is the component that the Commonwealth makes to ABCB.

Senator LUNDY—Thank you for that. I did my best to make notes, but are you able to table the document to which you were referring?

Mr Paterson—I can see no reason why not. Outcome 2 is the first one on that list and part of item 9 which is the National Biotechnology Strategy. The remainders are outcome 1. It is just not recorded on the document that I tabled.

Senator LUNDY—Thank you. I want to go briefly to administered appropriations. TechFast concludes in June 2005.

Mr Paterson—TechFast was a one-off contribution in the current financial year. It was an initiative funding, as I recall it, for the Australian Institute for Commercialisation, who had a commercialisation project so it was supported out of departmental appropriation for this financial year.

Senator LUNDY—What is the expected outcome of that investment of public money?

Mr Paterson—I think that I said it was paid out of departmental appropriation—that is administered TechFast.

Senator LUNDY—I appreciate that. I have moved on to administered appropriation—I just want to tidy up a few loose ends. We will be going into some of these programs a little bit down the track. I want to ask about the reduction of the Innovation Access Program and TechFast.

Ms Berman—In relation to TechFast it was a one-off \$2.5 million. The funding was provided to the Australian Institute for Commercialisation for them to do some pilot work on linking up research institutions and small and medium sized businesses with a view to transferring IP from the research institution into a useful outcome in firms. A contract was set up, the process is in place and all the funding will be expended by the end of June this year. We will be receiving a report from the contractee about how it has progressed but we expect it will result in transfer of IP and, hopefully, improve competitiveness in the firms that have picked up the IP and translated it into new technologies.

Senator LUNDY—Is that report going to be made public?

Ms Berman—At this point I am not in a position to comment on that. Part of our contractual obligation was that they would give us a report on the outcome. We will pass that to the minister and he can determine what he does with it.

Senator LUNDY—In anticipation of that report, I place on notice for a copy of that to be provided to the committee when it is able to be provided, either when it is public or when it is on the public record.

Ms Berman—Certainly.

Senator LUNDY—I think we will leave it there. I have some other questions about the Innovation Access Program later, so we will come to that.

Senator GEORGE CAMPBELL—Mr Paterson, can you give us an update on the legal action being taken by the department against Kimberly-Clark?

Mr Peel—Yes. Kimberly-Clark appealed to the Administrative Appeals Tribunal against a departmental decision not to grant them certain funding under the TCF SIP program. The Administrative Appeals Tribunal upheld the department's decision. Kimberly-Clark have now appealed that decision to the Federal Court. The Federal Court upheld Kimberly-Clark's position and we have now appealed the Federal Court's decision to the full bench of the Federal Court.

Senator GEORGE CAMPBELL—Did the full bench of the Federal Court find that Kimberly-Clark was eligible for TCF SIP funding?

Mr Peel—It has not yet handed down its decision.

Senator GEORGE CAMPBELL—It has not handed down its decision but you have appealed it.

Mr Peel—The hearing is on 20 June.

Senator GEORGE CAMPBELL—You said the Administrative Appeals Tribunal found in favour of the department?

Mr Peel—That is correct.

Senator GEORGE CAMPBELL—And there was an appeal to a single judge of the Federal Court.

Mr Peel—Yes.

Senator GEORGE CAMPBELL—Who found in Kimberly-Clark's favour?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—So they found in fact that they were eligible for TCF SIP funding?

Mr Peel—What the court did technically, I think, is refer the case back to the Administrative Appeals Tribunal for further review because it disagreed with some of the positions that the Administrative Appeals Tribunal had taken. We have appealed that decision to the full bench of the Federal Court and that hearing is on 20 June.

Senator GEORGE CAMPBELL—Has the department provided any grants to the company?

Mr Peel—It has.

Senator GEORGE CAMPBELL—Can you outline what those grants are?

Mr Peel—Under the confidentiality provisions of the program I am not able to provide that to you unless I seek the permission of Kimberly-Clark. I am happy to do that and take it on notice.

Senator GEORGE CAMPBELL—I presume it is on the transcript in the Federal Court?

Mr Peel—I am not sure that it would be. What would be on the transcript of the Federal Court are the grants that Kimberly-Clark is seeking and that we are denying, rather than the grants that they have actually received.

Senator GEORGE CAMPBELL—I will ask you to take that on notice and seek their approval to provide us with those figures.

Mr Peel—We will do that.

Senator GEORGE CAMPBELL—Did the moneys that were granted to Kimberly-Clark meet their claim in full or in part?

Mr Peel—No. Kimberly-Clark has applied for a range of grants, some of which we have agreed to; others are the subject of the Federal Court appeal.

Senator GEORGE CAMPBELL—Just out of curiosity, Mr Peel, can you identify what Kimberly-Clark's Australian sales were in the year they claimed the TCF SIP grant?

Mr Peel—No, I do not have that here. I will take it on notice.

Senator GEORGE CAMPBELL—Did the decision of the Federal Court determine that Kimberly-Clark's manufacturing activities fell within the parameters of the TCF SIP scheme?

Mr Sexton—Kimberly-Clark does receive some assistance from the department under this scheme in relation to its non-woven fabric manufacturing. But, according to the transcript of the trial, the other activities that it is also claiming assistance for cover such things as baby napkins and incontinence products. That is the area where the department has rejected its claims.

Senator GEORGE CAMPBELL—But didn't the Federal Court ruling find that that came within the parameters of the TCF SIP scheme?

Mr Sexton—It found the ruling that the AAT had made to be something which it considered incorrect, and therefore referred it back to the AAT for further consideration.

Senator GEORGE CAMPBELL—When you say it found it 'incorrect', it found that the decision of the AAT to exclude those issues from eligibility under the SIP scheme was wrong.

Mr Sexton—In effect, that is correct.

Senator GEORGE CAMPBELL—So in fact they found that came within the parameters of the scheme?

Mr Sexton—That is correct.

Senator GEORGE CAMPBELL—It would have been easier to give that answer first up, Mr Sexton. I also understand that the court was critical of the department for amending the scheme to exclude the products in dispute. Was that the case?

Mr Peel—No.

Senator GEORGE CAMPBELL—No?

Mr Peel—No.

Senator GEORGE CAMPBELL—When did the department amend the scheme? Was that the regulation that was introduced at a Senate estimates hearing a couple of years ago?

Mr Sexton—The amendment was made or implemented around the time that the AAT brought down its decision. I think you are referring to a *Financial Review* article, which implied that the judge had in some way criticised the department, and the secretary in particular, for bringing down this amendment. In fact, what happened in the court case was that Kimberly-Clark invited the judge to consider whether the clarifying amendments that the department had made to the scheme could or should be taken into account in determining what the proper construction of the scheme was prior to the amendment being made. Therefore, the judge's comments were in that context and they should be in no way seen as a negative comment on the department or the secretary.

Senator GEORGE CAMPBELL—What did the judge say exactly about it?

Mr Sexton—I do not have those words in front of me.

Senator GEORGE CAMPBELL—Are you saying he did not criticise the department for amending the scheme in the middle of the process?

Mr Sexton—Correct.

Senator GEORGE CAMPBELL—He did not?

Mr Sexton—That is not my understanding. It is not our legal people's understanding either.

Senator GEORGE CAMPBELL—If he did not criticise you for amending it, why did he refer it back to the AAT?

Mr Sexton—He referred the case back to the AAT. The decision by the AAT to reject the application in the first place was what he referred back.

Senator GEORGE CAMPBELL—On what grounds? That this amendment should not have been put through?

Mr Sexton—The amendment was a clarifying amendment, which we undertook to further clarify the meaning of the scheme as we understood it at that time.

Senator GEORGE CAMPBELL—I understand that, Mr Sexton. I was here when the minister read out the amendment. He actually presented it at an estimates hearing. I cannot understand what the judge said about it and why he referred it back to the AAT.

Mr Sexton—He did not refer the amendment back to the AAT. He referred the whole case back to the AAT.

Senator GEORGE CAMPBELL—But I understand that he made some adverse comments about the amendment and the fact that the goal posts had been shifted during the consideration of the application.

Mr Sexton—It is not our understanding that he did make negative comments. The reference to negative comments comes from a journalist's reading of the case. It is not our understanding of the case.

Senator GEORGE CAMPBELL—You say that the matter is down for a hearing on 20 June?

Mr Sexton—Yes.

Senator GEORGE CAMPBELL—Who is appearing for the department?

Mr Sexton—I cannot identify the name of the barrister that will be appearing.

Senator GEORGE CAMPBELL—You do not know who it is?

Mr Sexton—I can get you that name. I do not have it handy.

Senator GEORGE CAMPBELL—Is it someone from A-Gs or is it an outside consultant?

Mr Sexton—We are using the Attorney-General's Department.

Senator GEORGE CAMPBELL—Can you advise us how much money has been spent on this matter to date?

Mr Peel—I think we will have to take that on notice.

Senator GEORGE CAMPBELL—Can you take on notice the breakdown of the cost of the AAT action, the Federal Court action and the appeal?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—While we are on the issue of legals, can you tell us how much the department has spent on external legal advice this financial year?

Mr Peel—I cannot tell you how much the department has spent. I can tell you how much AusIndustry has spent on external legal advice though.

Senator GEORGE CAMPBELL—Can anybody give us a departmental figure, Mr Paterson?

Mr Paterson—Mr Noonan can.

Mr P Noonan—You are after external legal costs for this year?

Senator GEORGE CAMPBELL—Yes.

Mr P Noonan—We have spent \$4.655 million GST-exclusive up to 18 May. That includes IP Australia and Geoscience Australia.

Senator GEORGE CAMPBELL—You spent \$4.665 million?

Mr P Noonan—That is right.

Senator GEORGE CAMPBELL—Can you advise us, Mr Paterson, what point the tendering process for the establishment of the external legal service panel is up to?

Mr P Noonan—I can answer that. The expressions of interest have been invited, so the tender is out for public response at the moment. I think August is the expiry of the current panel.

Senator GEORGE CAMPBELL—Can you tell us how many tenders have been received?

Mr P Noonan—The tender period has not closed yet.

Senator GEORGE CAMPBELL—It closes in August?

Mr P Noonan—That is when the current panel expires, so we have to get through the whole decision-making process by that time.

Senator GEORGE CAMPBELL—Can you tell us which firms are on the current panel?

Mr P Noonan—Yes: the Australian Government Solicitor, Mallesons, Blake Dawson Waldron and Corrs.

Senator GEORGE CAMPBELL—Corrs Chambers Westgarth?

Mr P Noonan—That is right.

Senator GEORGE CAMPBELL—A story appeared in the *Financial Review* on 20 May saying that tenderers for the department need to have an expertise in space law, among other areas. Is that your understanding of the department's tendering rules?

Mr P Noonan—We have said that those who provide a tender must cover the full range of services that the department is interested in, and space law is, indeed, one of those areas. But what the article omitted to say is that it is possible for firms to group together as a consortium, so if they lack expertise in one particular technical area, such as space law, then they could recruit another specialist firm in that area and put forward a tender on that basis.

Senator GEORGE CAMPBELL—But you will only consider tenderers that cover the full range of services?

Mr P Noonan—That is right.

Senator GEORGE CAMPBELL—What is space law?

Mr P Noonan—I might leave it to my colleagues who work in space regulation. We licence space launches from Australia, so questions relating to that would come up under space law.

Dr Green—We have domestic legislation, the Space Activities Act 1998, which we administer in the department and which regulates space activity in Australia and by Australians outside Australia. We get advice from time to time about the operation of that law and its subsidiary regulations. There is also international law relating to space. This is principally the five UN space treaties which Australia is signatory to and which from time to time we need advice on in relation to particular space activities.

Mr P Noonan—One item I would add to that is that we use satellites ourselves, particularly the National Measurement Institute, so acquiring satellite time is another question that the departmental legal function would have to deal with.

Senator GEORGE CAMPBELL—In what jurisdiction would you pursue issues relating to space law?

Dr Green—Under the Space Activities Act, in Australia. The international space treaties have various complicated international dispute resolution procedures.

Senator GEORGE CAMPBELL—I have never seen a legal system yet that was not complicated—that is why George is such a wealthy person. How many firms in Australia would have expertise in space law?

Mr P Noonan—I do not know the answer to that question.

Senator GEORGE CAMPBELL—How integral is it to the department's legal service requirements? Is there an expectation that there is going to be a booming business in the space law jurisdiction or conflict?

Mr P Noonan—Dr Green heads a branch that is heavily involved in those questions, and I have also identified another division that makes extensive use of satellites. So it is not an insignificant need that we have and it is worthy of being specified in the request for tenders.

Senator GEORGE CAMPBELL—How many of these cases would go into a jurisdiction for argument?

Mr P Noonan—I am not aware that we have had any cases where disputes have led to litigation, but of course it is our objective to avoid that as far as possible.

Dr Green—In terms of advice we have taken on that, we have advice on interpretations of the act. We have advice on whether or not particular proposals for approval meet the requirements of the act or the regulations and interpretations in relation to particular proposals.

Senator GEORGE CAMPBELL—In the current financial year, how often has the department required external legal advice on space law?

Mr P Noonan—We would have to take that on notice.

Senator GEORGE CAMPBELL—Dr Green?

Dr Green—I am not aware that I have sought legal advice in this most recent financial year.

Senator GEORGE CAMPBELL—Is it a handful or is it a regular occurrence?

Mr P Noonan—I would have to take on notice how much work is in that area, but the number that I quoted before for external legal services includes Geoscience Australia, which would be another entity which would make extensive use of satellite time. But I could not say how much that involves legal work.

Senator GEORGE CAMPBELL—Can you take it on notice to provide us with the answer to that for the current financial year and last financial year? Could you also take on notice what proportion of the department's legal services spending has involved space law matters?

Mr P Noonan—Yes, I can.

Senator GEORGE CAMPBELL—Is it normal for departments to require tenderers to provide the full range of legal services required?

Mr P Noonan—I do not think that would be an unusual request. Indeed, as a matter develops, we may not know exactly what legal issues are going to arise. The best way for us

to deal with that is to deal with a firm or a group of firms that we know will be able to cover all the issues no matter where the matter goes.

Senator GEORGE CAMPBELL—Is the requirement on space law going to put a limitation on the amount of competition that there will be out there for this legal work?

Mr P Noonan—I do not anticipate that. In fact, I think that at the moment the state of the legal market is such that there will be keen competition for this tender. If there be a major firm that lacks this particular specialty, then I imagine they will acquire it by putting forward a bid jointly with another specialist firm.

Senator GEORGE CAMPBELL—Do you think this sort of tendering is consistent with the government's principle that procurement practices should encourage competition?

Mr P Noonan—Yes. It is an open tender, so everybody is entitled to bid for it to provide the services we need. As I indicated earlier, I think it will be a very competitive process.

Senator LUNDY—Can you point out to me where I can find detail of the Automotive Competitiveness and Investment Scheme?

Mr Peel—There is a reference to it on page 60 of the PBS.

Senator LUNDY—Can you explain the operation of that scheme and why it would not appear as an administrative expense? I presume that is because it is a revenue forgone initiative.

Mr Peel—Yes. The participants in the scheme earn import credits rather than cash money. So it is a revenue forgone scheme.

Senator LUNDY—Where is it administered? If it is administered by the department, why didn't it pop up as a program with departmental appropriations attributed to it?

Mr Peel—The program is administered by AusIndustry through our Victorian office. I think the departmental funding, as was explained this morning, is reported in one lump amount, if you like, for the department as a whole.

Senator LUNDY—I appreciate that, but I thought that was part of the question that you came back with answers on.

Mr Peel—I thought you asked about which programs are funded from departmental. The ACIS is not funded from departmental but, of course, the staff who manage the program, as are all other staff of the department, are funded through the departmental appropriation.

Senator LUNDY—Are there any other programs in that category, where AusIndustry administers them, albeit there might be revenue forgone or the actual cost of the program is elsewhere?

Mr Peel—Yes. There is the R&D tax concession that we mentioned this morning and the ACIS program that you have just mentioned. Other revenue forgone programs are the Tradex program, which is an import-export scheme, the Enhanced Project By-Laws Scheme, and a program called Certain Inputs to Manufacture. All of those programs provide the beneficiaries of those programs with import credits. There is a new scheme, as part of the TCF post-2005 package, called the Product Diversification Scheme, which also provides import credits.

Senator LUNDY—Going back to the Automotive Competitiveness and Investment Scheme, how many participants are there in the scheme?

Mr Peel—There are 245.

Senator LUNDY—What is the level of funding or offset that they receive by virtue of their participation in that scheme?

Mr Peel—There are a number of categories of participants in the scheme. There are motor vehicle producers who can earn in uncapped credits 15 per cent of the value of the production of passenger motor vehicles sold in Australia and New Zealand multiplied by the current PMV tariff rate. Motor vehicle producers can also earn, under the capped portion of the scheme, 10 per cent of the value of the production of passenger motor vehicles sold in Australia and New Zealand multiplied by the current PMV tariff rate. Additionally, 25 per cent of the value of all other production of passenger motor vehicles, other than those passenger motor vehicles sold in Australia and New Zealand, multiplied by the current PMV tariff rate and 10 per cent of the value of investment in plant and equipment averaged over the preceding three years.

Other participants in the scheme, automotive component producers, automotive machine tool producers and automotive service providers, can earn 25 per cent of the value of investment in plant and equipment averaged over the preceding three years and 45 per cent of the value of investment in R&D averaged over the preceding three years. Recently, there was a new \$150 million R&D component of the ACIS program available to motor vehicle producers on a competitive grant like basis that provides them with duty credits as well.

Senator LUNDY—Are you able to provide the breakdown of how much each of the participants claimed under the scheme—for example, in the motor vehicle producers category?

Mr Peel—In broad terms, the scheme is divided on a 55-45 basis, with about 55 per cent of the value of the scheme going to motor vehicle producers and 45 per cent to the other categories, but I do not have a specific breakdown for each category with me today. I would have to take that on notice.

Senator LUNDY—If you could take it on notice. Where are the annual outcomes of this scheme published each year? Is that in the annual report of the department?

Mr Peel—Yes, the department's annual report would have that.

Senator LUNDY—Does that have the individual scheme participants and the notional value of their participation in this scheme to their firms?

Mr Peel—No, it does not have that. The scheme until very recent times kept that as confidential information. But the recent amendments to the scheme now require participants to agree to their participation and the amount of benefit they receive from the program being made public, so that is something I would anticipate we would be publishing in the future.

Senator LUNDY—When did that change become operational?

Mr Peel—I think it became operational on 14 April this year.

Senator LUNDY—You will be able to report on participants from that date?

Mr Peel—Any participants from that date will be able to make public the benefit that they have received.

Senator LUNDY—When is the first report likely to be made public?

Mr Peel—Probably at the end of the first year of the new program. It is a calendar year program so potentially in December 2005 I think, which is actually the end of the first half-year of the program.

Senator LUNDY—In terms of making that public, is the mechanism to publish it on the web site to include it in your annual report?

Mr Peel—We have not determined that but those sorts of mechanisms would be appropriate.

Senator LUNDY—What is the value of the revenue forgone that is lined up on this program overall?

Mr Peel—As I mentioned, a new scheme has been introduced post 2005, but under the current scheme the total value is about \$2.8 billion over the five years of the program. \$2 billion of that is in capped credits and \$800 million to \$900 million in uncapped credits.

Senator LUNDY—Where can we find those figures in the budget documentation?

Mr Peel—I am not sure they are there. I will check with the CFO but certainly we publish them in our annual report.

Mr Paterson—The revenue forgone is in the Customs component so I am not sure where they publish it but it is not published in our PBS.

Senator LUNDY—I appreciate that. Can you tell me what those numbers are on an annual basis, perhaps starting with the current financial year and incorporating the changed program or additional \$150 million that you mentioned?

Mr Peel—In the current financial year as at 30 April we have issued \$321.79 million in capped credits and \$158.97 million in uncapped credits.

Senator LUNDY—Are you able to break down the capped and uncapped between the different categories, motor vehicle producers, automotive component manufacturers et cetera.

Mr Peel—We are, but I just do not have that here so I will take that on notice.

Senator LUNDY—That was for 2004-05 as at 30 April. What are the out year's projections for revenue forgone?

Mr Peel—For 2005-06 our projections are \$267.47 million in capped credits and \$123.14 million in uncapped credits.

Senator LUNDY—In 2006-07?

Mr Peel—The scheme finishes in 2005-06 and the new scheme takes over from there.

Mr Sexton—Those figures that Mr Peel just provided for 2005-06 are for the scheme as we have it at the moment.

Senator LUNDY—Yes, but there is overlap in the introduction of the new scheme, isn't there?

Mr Sexton—There is. In 2005-06 one scheme ends and the next scheme begins.

Senator LUNDY—So what are the 2005-06 figures for the new scheme?

Mr Sexton—I do not have a breakdown between capped and uncapped, but the total figure for 2005-06 is expected to be—and I say expected to be—\$542 million in total. So you need to deduct those figures that Mr Peel has just given you and that will give you the figures for the new components.

Senator LUNDY—I can do that.

Senator GEORGE CAMPBELL—Did I hear Mr Peel say it was a calendar year?

Mr Peel—Yes, ACIS is based on a calendar year.

Senator LUNDY—I am sorry, can you help me reconcile that then. The 2005-06 figures in the old scheme are calendar figures?

Mr Peel—Did you want to know the figure for 2005-06 under the old scheme or were you going to ask me something else?

Senator LUNDY—You gave me that figure. I just need you to clarify Senator Campbell's point.

Senator GEORGE CAMPBELL—But 2005-06 is for a financial year, isn't it? When does ACIS start—1 January?

Mr Peel—Yes, 1 January.

Senator GEORGE CAMPBELL—In 2006?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—So there will be a six-month overlap?

Mr Peel—Yes.

Senator LUNDY—So how do you reconcile it? It is not really a straight deduction from \$542 million of those earlier numbers you gave me.

Mr Sexton—No, some of the ACIS credits in relation to the present scheme will actually be provided in the first quarter of the 2006 calendar year.

Senator LUNDY—Now you have lost me.

Mr Sexton—If you look at it on a financial year basis, 2005-06, our total estimate for the program is \$542 million. You need to deduct from that the figures that Mr Peel provided which is our estimate for the remaining benefit in the current program ACIS 1.

Mr Peel—Which total—I am just doing it in my head—about \$390 million. So \$390 million of that \$500 million-odd that Mr Sexton mentioned is under the current scheme and the balance would be under the new scheme.

Senator GEORGE CAMPBELL—Is it possible that some players will be drawing money from both pots in the first six months of 2006?

Mr Sexton—The participants lodge their claims on a quarterly basis. They have 45 days after the end of the quarter to lodge their claims, so we will be paying out the final benefits

under ACIS 1 in about February/March of next financial year. At the end of the first quarter of 2006, which concludes at the end of March, we will be paying out the first tranche of funds under ACIS 2 just before the end of the financial year.

Senator GEORGE CAMPBELL—So why does it appear on the surface that there is a six-month overlap when in practice there will not be—because of the limits to funding? Is that what you are saying?

Mr Sexton—Yes.

Mr Peel—There is a six-month overlap in their operation, but certainly they would not be paid twice out of both schemes for the same activity.

Senator LUNDY—So that \$542 million minus \$390 million, which is the total of the capped and uncapped component of the existing program, leaving \$152 million, will be added to the new notional costs to government that will begin on 1 January 2006?

Mr Peel—It will come from that, yes.

Senator LUNDY—What is that number?

Mr Sexton—That total program is the same as for ACIS 1, which is about \$2.8 billion over five years.

Senator LUNDY—So now can we have the out year breakdowns of that?

Mr Sexton—I do not have those.

Mr Peel—It is \$2.8 billion from 2006 to 2010.

Senator LUNDY—Working on calendar years?

Mr Peel—Yes, the program works on calendar years. But we will give you a break-up in financial years, because I think that is probably easier for you. Also, from 2011 to 2015, the program halves to \$1.4 billion for that period of time. So the program now goes out to 2015 from 2006 for a total of \$4.2 billion over that period.

Senator GEORGE CAMPBELL—The figures that you have given in the out years are only indicative figures, aren't they; there is no capping on an annual basis of this scheme?

Mr Peel—There is a capping of a portion of the scheme. There is the \$2 billion component that is capped.

Senator GEORGE CAMPBELL—But there is no capping on an annual basis?

Mr Sexton—That is correct. The overall scheme is modulated such that we cannot exceed the \$2 billion over the five years.

Senator GEORGE CAMPBELL—But in any one year it could be substantially more?

Mr Peel—It depends on activity in the industry in that particular year.

Mr Clarke—Just to possibly clarify the out year projections, there is inherent instability obvious in the uncapped credits because the sales on which the credits are made may or may not be made. But the estimated dollar figures—and I have given this in evidence to you before—are \$722 million of uncapped credits over the calendar years 2006 to 2010 inclusive and \$461 million for the years 2011 to 2015. Obviously that will vary, but if you add those

two figures, plus \$2 billion for the first tranche and \$1 billion for the next, you will get the government's \$4.2 billion.

Senator LUNDY—So 244 recipients—

Mr Peel—No, 245.

Senator LUNDY—I am sorry; I must have misheard you. Are you able to provide information of the average amount of the imputation credit to those 245 recipients?

Mr Peel—We could do that, but it would be a rather distorted figure. A significant amount of funding goes to the four motor-vehicle producers and the balance goes to the other 241, so an average figure would spread the motor vehicle producers' claims across the whole population and probably would not give you a good figure to work on.

Senator GEORGE CAMPBELL—What is the break-up of funding between the two groups? I am talking not about the individuals but the four plant producers. What proportion of the funding is going to them vis-a-vis the 241 who, I presume, are component suppliers in the main?

Mr Sexton—The capped funding is allocated to two separate pools—55 per cent of it goes to the four motor-vehicle producers and 45 per cent goes to the rest of the supply chain. The uncapped funding all goes to the four motor-vehicle producers.

Senator LUNDY—What conditions are attached to funding?

Mr Peel—The eligibility criteria?

Senator LUNDY—Yes, under the existing program.

Mr Peel—The eligibility criterion for motor producers is that they have to be producers of at least 30,000 motor vehicles or 30,000 engines annually. The automotive component producers must produce at least \$500,000 of at least one kind of automotive component annually for use as original equipment in at least 30,000 motor vehicles or 30,000 engines or be Australian producers of at least \$500,000 of original equipment annually where that production represents at least 50 per cent of the total value of the producers' automotive component production. For an automotive machine tool producer, they must be Australian producers of at least \$500,000 of automotive machine tools or tooling annually where at least 50 per cent of that production is used to produce original equipment. For automotive service providers, they must be Australian providers of at least \$500,000 of automotive services annually where at least 50 per cent of those services relate to the production of motor vehicles or original equipment.

Senator LUNDY—Is workplace change a factor when eligibility for funding is being considered?

Mr Peel—That is probably a question for my policy colleagues at the other end of the table.

Mr Clarke—It is not within the legislation and it is not within the criteria.

Senator GEORGE CAMPBELL—And it is not within the criteria?

Mr Clarke—No.

Senator LUNDY—Is that the same in the new program?

Mr Clarke—The new program essentially uses the same criteria as the old one.

Senator LUNDY—So it is not part of the legislation and not a criterion you have been applying?

Mr Clarke—Not within the act.

Senator LUNDY—Apparently the Minister for Workplace Relations, Kevin Andrews, has expressed concern over what he describes as the slow pace of workplace reform in the automotive industry. An article in the *Sunday Age* on 1 May referred to the possibility that the level of assistance the federal government provides to the automotive sector could be under threat unless it speeds up its IR changes. Can the department advise whether any such considerations are under way?

Mr Clarke—I think there is a ‘nuclear ships’ response to that sort of thing. That would be a policy issue for ministers to answer, and I do not think we could offer a view on that.

Senator LUNDY—I appreciate that, but I am asking whether any work has been done on this or whether there has been any involvement between the department and, for example, the Department of Workplace Relations on this matter.

Mr Clarke—The Minister for Workplace Relations has indicated that he and the Minister for Industry, Tourism and Resources will be reporting to the government during the course of this year on productivity improvement and workplace relations reform. We are engaged in discussions with the Department of Employment and Workplace Relations on how to bring such a report forward, and we are also working with them in going out to talk to industry to see how their productivity is improving and how their workplace relations activities are changing.

Senator GEORGE CAMPBELL—Is this the industry generally or the automotive sector?

Mr Clarke—It is the automotive sector.

Senator GEORGE CAMPBELL—Are you aware of any areas of the industry where agreements have not been made in accordance with the provisions of the Workplace Relations Act?

Mr Clarke—I am not aware of any, but it is not an area of any expertise on my part.

Senator GEORGE CAMPBELL—Wouldn't that be a fundamental question you would ask the participants? If they are making their agreements consistent with the current laws then it is a bit rough to be threatening them with activity or withdrawal of support if they are making the terms and conditions of the current act.

Mr Pettifer—I think the questions you are asking are really best put to the Department of Employment and Workplace Relations.

Senator GEORGE CAMPBELL—I will do that tomorrow.

Senator LUNDY—We will have that opportunity, but I think it is very important for us to understand the degree of involvement that this department has had in any interdepartmental committees on this issue. You have mentioned that there are already discussions taking place

with the Department of Employment and Workplace Relations. Can you elaborate on the nature of those discussions and on the degree to which the departments are looking at programs such as this to try and pursue, as Minister Kevin Andrews has pretty much put on the record, an industrial relations outcome?

Mr Clarke—I think we would have some difficulty there. The two ministers would be reporting to cabinet and the work that we are doing would be in developing that work. So I am not sure that I can help you with the detail of the policy that is being discussed.

Senator LUNDY—Are the discussions taking place through an interdepartmental committee?

Mr Clarke—No, not an interdepartmental committee.

Senator LUNDY—Can you describe who was in attendance at the meetings you alluded to earlier? You mentioned earlier there were discussions between the Department of Industry and the Department of Employment and Workplace Relations.

Mr Clarke—We have had discussions at my level with the Department of Employment and Workplace Relations.

Senator LUNDY—Have the matters that have been under discussion gone to cabinet as yet?

Mr Clarke—Which matters?

Senator LUNDY—In relation to—

Mr Paterson—We do not respond to questions about matters that may or may not have been taken to cabinet.

Senator GEORGE CAMPBELL—Mr Clarke said earlier discussions were taking place with the Department of Employment and Workplace Relations in relation to these issues.

Mr Paterson—Correct.

Senator GEORGE CAMPBELL—I accept what you are saying, that you do not determine whether matters are taken to cabinet, but I suppose the question can be rephrased to whether this joint group have put propositions or proposals to the ministers concerned or whether it is still a work in progress.

Mr Paterson—Once again, we do not comment on policy advice that may or may not have been given to government.

Senator GEORGE CAMPBELL—I am not asking you to tell us what the policy advice is. I am asking whether you have provided advice to the two ministers or whether it is still a work in progress between the two departments.

CHAIR—Usually, Mr Paterson, it is acceptable to ask whether something has happened. You cannot be asked what the advice was, or even for the outcome of discussions, but I think it is alright to ask whether unidentified or unspecified advice was provided.

Mr Pettifer—It is a work in progress.

Senator GEORGE CAMPBELL—So at this stage it is still a work in progress?

Mr Pettifer—Yes.

Senator LUNDY—Has the department received any feedback or input from the automotive industry on its views about these proposed changes or these issues under discussion?

Mr Clarke—I am not sure what you mean by proposed changes. The department is intending to go and talk to the industry. It has had some talks and it is going to continue talking to them, so I am not sure what you are talking about in terms of proposed changes.

Senator LUNDY—The proposed changes, or the direct implication in the newspaper article, where the Minister for Employment and Workplace Relations expressed concerns about the slow pace of workplace reform in the automotive industry, thereby making the implication that there will be some condition attached to recipients of this scheme that relate to workplace relations.

Mr Pettifer—That might be an implication that you have drawn, but it is not necessarily correct.

Senator LUNDY—Have you received any feedback from the automotive industry on this issue?

Mr Pettifer—We have had discussions with the industry about their enterprise agreements and the sorts of provisions that are in those agreements.

Senator LUNDY—What sorts of discussions have you had?

Mr Pettifer—They have just told us what they are.

Senator LUNDY—Did you ask them?

Mr Pettifer—They came to see us, I think. Kevin Andrews raised this particular issue at the annual Federal Chamber of Automotive Industries dinner, so I think the industries have just been aware of the issue and they just wanted to keep people apprised of developments.

Senator GEORGE CAMPBELL—It is true that they have expressed concern, isn't it?

Mr Pettifer—Not to my knowledge. They have not expressed concern to us.

Senator LUNDY—Then why would Mr Andrews's speech have prompted them to come to see you about the contents of their workplace agreements?

Mr Pettifer—They just wanted to keep us informed of what they have done.

Senator LUNDY—Did they express a view that they were concerned about the potential for conditions to be attached to this scheme relating to workplace relations?

Mr Pettifer—We have not had a discussion with them in those terms.

Senator GEORGE CAMPBELL—Mr Pettifer, why would you go to those companies for copies of their agreements when they would be available through the Industrial Relations Commission?

Mr Pettifer—We talk to the industry all the time about their business prospects and how they are travelling—what some of the competitive challenges are and how they are meeting those.

Senator GEORGE CAMPBELL—But it is very rare for you to talk to them about industrial relations and the terms of their agreements.

Mr Pettifer—As I said, this issue has been raised and the industry wanted to ensure that we were up to speed with developments. That is what it is: they have come to see us about those particular issues.

Senator LUNDY—Did they come to see you to reassure you that the pace of workplace change was in fact adequate so as not to invite an imposition by the Minister for Employment and Workplace Relations as a condition of this scheme?

Mr Pettifer—I would not necessarily link the two things. I think they have explained the details of the agreement and how they see that providing increased flexibility in the workplace.

Senator LUNDY—In other words, they are coming to you saying, ‘We are reforming at a rate of knots and therefore we should not be subjected to any additional conditions.’

Mr Pettifer—You are imputing the second bit. I am just saying that they have talked to us about the first bit.

Senator LUNDY—Going back to the point Senator Campbell made earlier, can you confirm that, in accordance with the current act, it would not be possible to impose any condition on the recipients of this scheme such as linking the participation in this scheme with workplace changes that the government may impose?

Mr Clarke—I do not quite know how to answer that question. I do not know if I can make any sense of it.

Mr Pettifer—The current act indicates what conditions in the scheme need to be met for a payment or an import credit to be granted. In that sense the conditions are clear; they are set out in that act.

Senator LUNDY—For this scheme?

Mr Clarke—They are set out. As I said, I am not quite sure what you are aiming at.

Senator LUNDY—I am referring to the Workplace Relations Act.

Mr Clarke—But are you saying if the government was wrong—

Mr Pettifer—Is it the Workplace Relations Act that you are talking about?

Senator LUNDY—Yes.

Mr Pettifer—Sorry; I misunderstood.

Senator LUNDY—Yes, I realised that.

Mr Pettifer—That is a matter you would have to raise with the Department of Employment and Workplace Relations. I am not an expert on the Workplace Relations Act.

Senator LUNDY—What I am trying to ascertain is whether or not the industry department has an interest in ensuring that the companies that are participants in this scheme are compliant with the Workplace Relations Act. Do you have an interest in that matter and would that be a test for eligibility in itself?

Mr Pettifer—We have got an interest in ensuring there is a competitive manufacturing industry in the automotive sector, and ACIS is part of that. We hope the actions of companies are consistent with remaining internationally competitive and that includes all aspects of their business.

Senator LUNDY—And would that include compliance—

Senator GEORGE CAMPBELL—If you were a fair reporter, Mr Pettifer, you would have to say that is the case: that there has been significant change in that industry over the past decade or so; that they are internationally competitive; that they are exporting; and that many of their working practices are in advance of many of the countries around the world that they compete with. Wouldn't that be correct?

Mr Pettifer—It is certainly true that the sector has been transformed over the last decade or so and they now export about one-third of their output.

Senator GEORGE CAMPBELL—Significantly transformed?

Mr Pettifer—Yes, the situation was less than 10 per cent a decade ago. Yes, they are much more competitive than they were, that is true.

Mr Paterson—It is also true to indicate, Senator, that they remain one of the two significant sectors for which higher than standard tariff protection continues to prevail.

Senator GEORGE CAMPBELL—That is right. But it is also true, Mr Paterson, that between now and the year 2015 there will be significantly less support for the industry. One would assume that by 2015 they are going to have to stand on their own two feet, so they do not need any whips to give them the message that they have to continue to improve between now and then.

Mr Paterson—We have made no comment in relation to whips.

Senator GEORGE CAMPBELL—Well, we know where the government is coming from.

Senator LUNDY—On these issues of flexibility in the workplace, how many industrial disputes have been at the various passenger vehicle manufacturing plants over the last nine years?

Mr Pettifer—I do not have that figure in my head. I think it is a matter you should raise with the Department of Employment and Workplace Relations.

Senator LUNDY—Have you been paying any visits to these workplaces recently—with DEWR?

Mr Clarke—I said earlier that we have, yes.

Senator LUNDY—So Workplace Relations and Industry have been visiting workplaces?

Mr Clarke—Yes.

Senator LUNDY—So this consultation on workplace agreements—you were visiting the main vehicle plants?

Mr Clarke—You are assuming that our interests are all in the workplace relations. We are actually reporting on productivity improvements in the industry and workplace competitiveness. We have, fairly naturally, a focus on the productivity improvements that are

being obtained and DEWR has focused far more on the workplace relations, which is their area of expertise.

Senator LUNDY—Was this scheme in particular ever tied to industrial relations changes?

Mr Clarke—I am not quite sure what you mean. The government, in making its decision in terms of post 2005, clearly had an expectation of industry that it would attempt to remain competitive and implement workplace relations reform that kept it competitive. There was a fairly explicit statement that there was that expectation.

Senator LUNDY—And we have just heard that that expectation has pretty much been met as far as DITR's analysis is concerned.

Mr Clarke—I certainly heard Senator Campbell say so.

Senator LUNDY—I did not hear any disagreement from the table. Is there any disagreement?

Mr Paterson—Could you repeat the question, Senator?

Mr Pettifer—You are asking us to express an opinion.

Senator Colbeck—Senator Campbell expressed his opinion on the reform of the automotive industry—

Senator LUNDY—What is your opinion? You are representing the minister?

Senator Colbeck—and the government might have a different opinion. If you are asking whether the program that is being discussed at the moment is or might be tied to a particular set of arrangements that would be a matter of government policy to be set at the time but I am not aware of any specific policy decision in that context at this time.

Senator GEORGE CAMPBELL—Would you expect to be aware, Senator Colbeck?

Senator Colbeck—As I said, I am not aware of any policy.

Senator GEORGE CAMPBELL—Would you expect to be aware?

Senator Colbeck—Not in the position that I am sitting in right now, no.

Senator LUNDY—So if there were, the chances are that you would not know about it anyway.

Senator Colbeck—That is a possibility, Senator Lundy.

Senator LUNDY—What level of staff in Industry has met with representatives of DEWR?

Mr Clarke—I mentioned that it has been at my level and below.

Senator LUNDY—When exactly were those meetings?

Mr Clarke—There have been several meetings over the last several months.

Senator LUNDY—I am looking for the detail, Mr Clarke.

Mr Clarke—Are you asking for formal minutes of meetings—that sort of thing?

Mr Pettifer—Do you just want meeting dates? We can give you meeting dates, I presume.

Senator LUNDY—When, how many times, where and who else was involved.

Mr Clarke—You may be disappointed in terms of the detail you get. We have had preliminary discussions of a very general nature. I can get back to you with dates, hopefully, and who attended.

Senator LUNDY—That would be useful. Can you try and chase that information up now, and also which companies you visited.

Mr Clarke—Over the dinner break, Senator Lundy?

Senator LUNDY—Over the dinner break would be fine. Also which companies were visited and when. We will come back after dinner and get that information.

Mr Pettifer—The only problem is that I am not sure we will be able to get that over the dinner break. I am not sure who will be back in the department over the dinner break to get that.

CHAIR—Mr Pettifer, no doubt you will try to get it; and if you cannot, then you can come back, perhaps, tomorrow or, if not, take it on notice.

Senator LUNDY—Perhaps I could ask Mr Clarke, as a participant in those meetings, where you went and which companies were visited?

Mr Clarke—I have not been to any meetings.

Senator LUNDY—You have not been?

Mr Clarke—No.

Senator LUNDY—I am sorry, I thought you said you were involved.

Mr Clarke—No, I said that our department has and that officers have, and I would certainly be participating in some of them.

Senator LUNDY—Mr Pettifer, were you involved in any of those meetings?

Mr Pettifer—No.

Senator LUNDY—Was anyone in the room involved in any of those meetings?

Mr Clarke—They were lower level meetings. The people were meeting the component sector. It was simply at officer level.

Senator LUNDY—I thought that in answer to a question I asked you that you said you or your level was involved.

Mr Clarke—I said my level was involved in meetings with DEWR—that is correct.

Senator LUNDY—But not the visits?

Mr Clarke—No.

Senator LUNDY—I just want to clarify, on page 60, the reference to total administered grants having decreased by \$53.9 million. It refers to the Automotive Competitiveness and Investment Scheme. Can you just go through again how that reconciles with the information you have just given me?

Mr Peel—This is the \$64.2 million?

Senator LUNDY—Sorry, \$62.8 million.

Mr Peel—It is simply an estimate of what is likely to be paid next year, and the difference between that and this year. It may not come to pass but, based on our best estimate at the moment, that is what we have got from the industry.

Senator LUNDY—Can the department update the committee on what involvement it has had in the preparation of the China free trade agreement feasibility study?

Mr Lowndes—We worked with a group of officials from DFAT and other departments. As part of that process, there was some consultations with industry and some economic modelling et cetera, that was done as part of the document. As I say, this department was part of the team with DFAT that contributed to putting the exercise together.

Senator LUNDY—What involvement did DITR have in the preparation of the economic study that informed the feasibility study?

Mr Miley—You mean the modelling study done by the Centre of Policy Studies at the Monash University, or the feasibility study itself?

Senator LUNDY—The Monash University economic study.

Mr Miley—We participated in the actual tender board for selecting the modellers, we had some discussions with the modellers in the early design of the model, and we made some comments on some preliminary results. But it has to be understood that the model and the modelling results were produced independently. We just passed comment on some of the parameters and how they looked. The Productivity Commission also had some input in providing some data, for example. But overall it was an independent study, as previous modelling exercises have been.

Senator LUNDY—Have you had the opportunity to analyse the economic modelling and form an opinion on whether or not you agree with it?

Mr Miley—Not as such. Broadly the results are, I think, consistent with what you would expect to come from this sort of computable general equilibrium model, but unless you do your own model you cannot say whether the specific quantum of change in each sector is one that you would agree with. But the general pattern we would certainly agree with. The model indicated contraction in some industry sectors—you would have expected that—and some growth in exports and growth in output in others; that pattern seemed to be quite plausible.

Senator LUNDY—Have you tested the results of that economic model against your own assessment or analysis?

Mr Miley—In broad terms, in the consultations with industry—which we also participated in—the industry and the unions were of a similar view as to the pattern of outcomes from the model. I do not think there is a large amount of disagreement in the community about the outcome of this model.

Senator LUNDY—Can I ask you the same question about the findings contained in the feasibility study per se. Does the department agree with those findings? Would you care to endorse the findings?

Mr Miley—I do not think it is my position to endorse the findings but—

Senator LUNDY—I guess I am not asking you whether or not you agree with them.

CHAIR—Let him answer the question in his own way. Mr Miley, what were you saying?

Mr Miley—I was just saying that we participated in almost all the consultations with industry that took place. There were public submissions, or there was a call for submissions from interested parties, and we looked at those submissions as well—particularly in the areas of interest to the portfolio which cover a lot of the areas that the feasibility study itself covers. I think that the feasibility study itself and the conclusions it came to were consistent with the views that were provided in those consultations. There were, as you know, case studies in the feasibility study, and they reflected broadly what would be expected by the different sectors as outcomes from full liberalisation of trade in goods, services and investment between the two countries. So in broad terms, yes, if you had full liberalisation of all of those things then there would be benefits and the benefits would be broadly in line with the feasibility study's own conclusions.

Senator LUNDY—Given the outcome of the feasibility study but also the impact on sectors of the Australian manufacturing industry in the findings, did the department advise the minister of the findings once the feasibility study had been made available—or, indeed, prior to that?

Mr Miley—As you would know, the feasibility study was released after government consideration of the feasibility study and the question of whether the government would proceed to negotiate an FTA with China. In that process, we provided advice to the government, of course, about the feasibility study and the issues that bore on that decision.

Senator LUNDY—Did the minister seek advice from the department on the findings of this study and the likely impact of an FTA with China on the Australian automotive industry either before or after the announcement to proceed was made?

Mr Miley—It is getting close to an area—

Senator LUNDY—No, I am not asking for the actual advice but whether or not advice was requested.

Mr Paterson—I would ask for a ruling on that, Chair.

CHAIR—Sorry, I was not concentrating. What was the question again?

Senator LUNDY—The question was: did the minister seek advice from the department either before or after the feasibility study was announced and the government had agreed to proceed with negotiations? Again, Chair, I am not asking for the advice; just whether or not advice was sought from the department—and when, basically.

CHAIR—As long as it does not go to the character of the advice or reveal what the advice was, I think it is acceptable to ask whether advice passed between the department and the minister.

Mr Paterson—We have already answered that advice did pass between the department and the minister. It is a question of whether we respond to what the minister may have sought from us.

CHAIR—You see, Senator Lundy, the problem is—

Senator LUNDY—I am only trying to—

CHAIR—I understand it is a fairly fine line here. Communications between the department and the minister are plainly not something that the officers can be asked about, but the sequence in which events happened is, in my view, something they can be asked about. Here you are asking: was advice sought by the minister? If that means did advice go from the department to the minister, that is a proper question and, as Mr Paterson said, there has already been an answer to that. If it goes beyond that to opening up what the minister might have asked of the department then it is not allowable. Do you see the distinction I am trying to make?

Senator LUNDY—Yes. When did the minister seek that advice? I presume by your answers it was before the feasibility study was made public and before the government agreed to proceed with negotiations.

Mr Miley—I think one of the problems I have with the question is that we always seek to anticipate his needs rather than expect him to dictate to us at every turn what he will need. And that is really how this process has gone forward. He has been kept informed of all of the processes in relation to trade negotiations on a regular basis, and we are in fairly regular contact by phone and by email with his office, so the idea that he has asked—

Senator LUNDY—I am not trying to impugn anything, to stay within the parameters of the chair's ruling.

Mr Miley—I am not sure that he has, but that does not mean he was in any way uninterested in the issue. Certainly advice on what the feasibility study and the industry said about the impact of an FTA were communicated to him.

Senator LUNDY—Prior to it being announced?

Mr Miley—Throughout, yes.

Senator LUNDY—In the department's view, based on the findings of the feasibility study, does the department believe that a free trade agreement with China is in the Australian automotive industry's best interest?

Senator Colbeck—I am not sure that is a question. That is not a question that we are required to express a view on.

CHAIR—I do not think that is a proper question. It is the policy of the government, as a matter of public record, that a free trade agreement with China is a good idea. By that question you inevitably ask the department to deal with something which plainly it cannot be asked to do and that is to editorialise about government policy.

Senator GEORGE CAMPBELL—We are not asking the department what the government's view is; we are asking them what their view is.

Senator Colbeck—It is not their position to express their views, Senator Campbell, as much as you might like them to do that.

Senator LUNDY—In terms of effort by the department in your own analysis and participation in this work with DFAT preparing for this study, what input did you provide that you can also provide to the committee about the potential impact on Australian industry, and

specifically the industries that we now know will be negatively impacted by the free trade agreement? So any research or analysis done prior—

Mr Paterson—We cannot provide advice that we may have provided to government. You have asked us what can we give to you in relation to the input to the process of government taking a policy decision. We cannot provide that advice.

Senator LUNDY—But that means any report that has ever been produced in recent times about manufacturing will become eligible under that criteria, so I am not asking for—

Mr Paterson—You asked us what advice we provided.

Senator LUNDY—What input was provided to that whole analysis by DFAT and other agencies and departments? Can you point to any reports that may have been prepared by the department going to the nature of the figures we were talking about earlier about the shape of Australian manufacturing exports to date—that sort of report in any consolidated form.

Mr Lowndes—As part of the feasibility study we do provide quite a bit of statistical information and so forth. We work on it with DFAT and there is input from our department. There were a lot of statistics and so forth through the report. I think we had someone seconded over there for a while on the actual process. As I guess you would expect a department in an IDC process to do, we participate in it in those areas where we have expertise. We provide data and information and so forth to DFAT in the consultations that we have with them. We are also involved to the extent that we can facilitate as part of those processes. We know a little bit more about industry sectors than perhaps DFAT do, and we can help them out on that. There are also some technical issues with the trade agreements, on rules of origin and so forth, where we add to the process. It is essentially like an IDC process. They are in charge of it, but we provide input in the areas where we have the expertise.

Senator LUNDY—I do not know if I have interpreted this correctly, but I think at last year's round of budget estimates the department said it had provided DFAT with some type of preliminary assessment, analysis, or feasibility study on the China free trade agreement and that some consultations had occurred generally around that issue at the time. I do not know if I am interpreting that reference correctly. Was there any in-house document produced for that purpose?

Mr Miley—There was no document produced for DFAT.

Senator LUNDY—Not necessarily for DFAT, but for your own use.

Mr Miley—There are documents that do discuss China and the prospects for greater integration with the Chinese economy and things of that sort, but they are not specifically for this process. In this process the feasibility study is a joint document of the Chinese and the Australian governments, so it proceeded by a proposal of drafts and then discussion between the two governments. There are sensitivities on both sides and there was some discussion about how the feasibility study would be termed, and so it was a quasi negotiation in a sense.

We participated fully in those sessions where it came across the department's or the portfolio's responsibilities. So we participated in the drafting sessions with the Chinese, both in Australia and in China. We provided some text for the feasibility study and we provided comment on text that came from other parties. So it is not a formal exchange of

correspondence where there is a letter sent and then another one that comes back; it is a continuous process of developing the document. We were part of that process not only in my area, where it is something of a conduit, but in the other line areas of the department that have the expertise in those sectors. Those sectors go beyond just manufacturing. We have resources, energy and tourism. They are also very important ingredients in this particular FTA.

Senator LUNDY—Thank you for that. That still points to at least some level of organisation and planning in the department that compiled this data to be in a usable form for your officer who is participating directly in that process. I would like to place on notice or ask you directly for any documents prepared for that purpose by the department that informed that officer's work as part of the interdepartmental committee.

Mr Paterson—We will take the question on notice and examine whether there are any documents independent of the provision of advice to government on policy considerations.

Senator LUNDY—I am not looking for that, because I do understand the rules, but I am sure there are basic documents outlining the state of play in these various sectors that would have been used as a resource as part of this exercise.

Mr Paterson—If there are documents that fall outside the restriction then we will provide them to you.

Senator LUNDY—What is the department's role now that the contents of the feasibility study are known? We have got some economic modelling which does show a negative impact on the miscellaneous sector, automotive and particularly wearing apparel within textiles, clothing and footwear? What activity has that prompted within the department to start addressing those issues, given formal negotiations are now underway?

Mr Miley—There is a process now of more consultation with industry, with other stakeholders such as the unions and NGOs and particular individual enterprises. There have been consultations so far ahead of the first formal round of negotiations, which took place in Sydney on 23 May. But that was very much a formal kick-off rather than being a negotiation, but there have been some consultations ahead of that in Sydney, Melbourne, Brisbane and Perth. There will now be further and wider consultations with stakeholders that will be led by DFAT but we will participate in all of them. The consultations will be in all the capital cities, and it is possible that there will also be some in regional centres, but it is a matter of reaching as many people as possible.

In constructing the list of organisations that they want to reach out to, we have been asked to provide as much as we can in terms of identifying organisations and firms that should definitely be directly apprised, but I think there will also be some advertisements available so that there will be a wide catchment of participants in those consultations. They will happen during June and they will go on into July.

Senator LUNDY—Just to drill down a little further, could you take on notice the full list of organisations that have been contacted by the department for the purpose of consulting on the Chinese FTA.

Mr Miley—They will have been contacted by DFAT—rather than having multiconsultations and multicontact it occurs through DFAT—but we can give you a list of those for the feasibility stage and also the stage so far. We do not have a list of those who have been circularised for the upcoming consultations.

Senator LUNDY—But DFAT will?

Mr Miley—They should have; you will have to ask them.

Senator LUNDY—In terms of the round of consultation that you just described being focused on June and July, is that anticipating the timetable that the government has to conclude those negotiations?

Mr Miley—There is no official timetable. There is no target date, so I think the program of negotiations will develop. There are two parties to this, so it is a matter of seeing how they develop. The first stage will be information exchange so that each side gets a much better idea of the taxation, tariff and regularity regimes that exist in each other's country. Australia is very transparent but China is not, and it requires a lot of investigation to get an improved idea of the regimes. That is the first objective.

Senator LUNDY—It is more of an information providing exercise as opposed to gathering feedback at this stage?

Mr Miley—In the consultation or—

Senator LUNDY—Yes.

Mr Miley—From now on and throughout the feasibility study I am sure the idea of where Australia's negotiating position would be has been developing, and where the negotiations would be most fruitful in terms of getting concessions from China have been developing. That is the focus of the consultations that took place in May and that will take place: people being asked where we will get bang for our buck in negotiation.

Senator LUNDY—On that theme, is the purpose of the department's participation in these DFAT managed consultations to provide an independent stream of advice back through the minister for industry as part of that exercise, so that the minister is presumably then able to represent his portfolio responsibilities at cabinet level in the government's policy considerations? Again, I am not trying to second-guess what the advice is or what cabinet will do. I just want to establish whether or not the idea of the exercise is for you as officers of the department to be able to provide specific advice on the impact on existing Australian industry through this exercise.

Mr Miley—Yes.

Senator LUNDY—Have those sectors that have had an identified net negative impact, or participants in those sectors, made any direct representations to the department or to the minister, that you are aware of, about the situation that the China free trade agreement will leave them in?

Mr Miley—I would have to check whether they have made direct representations to the minister, but they participated throughout those consultations with the textile and clothing industries. Most recently, at the Melbourne consultations we spoke with the textile employees

union and with the AMWU in Sydney. The vehicle manufacturers, through their association, the parts manufacturers and individual firms, have participated and put their views.

Senator LUNDY—And firms from the TCF sector?

Mr Miley—Yes. One of the consultations was with the executive council—although that is probably the wrong terminology—of the textile and fashion industry association. Most of the major, longer-standing textile firms were represented around the table.

Senator LUNDY—The other category that showed a negative impact was ‘miscellaneous manufacturers’—certainly on the table in the economic modelling. Can you describe the sorts of manufacturers that fall into that category and whether or not you have had any representations from employers and unions that would be covered in that category.

Mr Miley—It is a sort of residual category.

Senator LUNDY—It is everyone else.

Mr Miley—One group that has made representations is toolmakers. They immediately come to mind.

Senator LUNDY—So they would fall into that miscellaneous category?

Mr Miley—I think they would fall into that rather than one of the other areas, yes. I would have to look back through to see. There would be fabricated metal products and things of that sort.

Senator LUNDY—Have you had representations from employers in that category?

Mr Miley—The toolmakers were the only ones that immediately came to mind, because they did mount a campaign, but I would have to look at that. To some extent I think there would be some in the submissions that have been made. Those are not necessarily public, which is one of the issues—some firms prefer not to have their submissions made public. But they have passed through DFAT rather than coming direct to us. That is the channel where everyone gets to see it within the government rather than it coming to this department alone.

Senator GEORGE CAMPBELL—I have some questions for the Australian Building Codes Board. Mr Donaldson, what was the outcome of the DDA access to premises standard deliberations by the board at its meeting on Thursday, 26 May?

Mr Donaldson—No, I cannot, because advice has not been written up yet, nor presented to the federal ministers who requested it. That will not happen until we put together a comprehensive outline of the advice that they wish to put. It is a very complex issue, and there are a whole range of implications associated with it. We had indicated to Commonwealth and state ministers back in April that we would provide that advice during June, and that is what we intend to do.

Senator GEORGE CAMPBELL—Is it fair to say that the board has adopted a recommendation to put to the Attorney-General and to the minister?

Mr Donaldson—The obligation we have is to report back to the industry minister. The Attorney-General has responsibility for the DDA, of course. It is fair to say that the board’s position is pretty much finalised. We have been asked to clarify some matters in terms of

impacts, and I am doing that at the moment. I expect to be able to have that resolved in the next week or so.

Senator GEORGE CAMPBELL—There was a draft standard put out for circulation, as I understand it.

Mr Donaldson—Yes, there was. That was quite a while ago. That was early in 2004, and it was the subject of a public document that we reviewed. It arose from the deliberations of one of the board's committees called the Building Access Policy Committee. That organisation was formed up from state officials, Commonwealth officials and a whole range of stakeholders from industry, peak disability groups, local government and a number of the building professions. That committee did develop a proposal which went to public comment, as I say, in 2004. It is still on the table. It is a proposal that attracted a considerable amount of attention and interest—I think we received something like 300 responses about it from the community, from industry and elsewhere. The Building Access Policy Committee has been looking at those responses and the reactions to it over the last six months or so. The advice coming from the Building Access Policy Committee to the board has taken those consultations into consideration in finalising its position.

Senator GEORGE CAMPBELL—Is it fair to say that that draft recommendation has formed the basis, modified in whatever way it has been modified, of the recommendation to the minister?

Mr Donaldson—I would not say that. A better way of putting it would be that it is a starting point. The Building Access Policy Committee has to have regard for the response that it receives from various parties. Some people believe that that proposal went far too far; some people believe that it did not go far enough. It was a starting point, but that is all it would be in my mind.

Senator GEORGE CAMPBELL—Is there a timetable for the presentation of the standard to parliament?

Mr Donaldson—That is a matter for the Commonwealth. I am responsible for the Commonwealth and state technical body. I do not know what timetable the Commonwealth has in mind. The first thing that has to happen is for my board to report to the industry minister. The commitment that we made on that was that we would do that in June. As to how it happens after that, you would need to speak to my Commonwealth colleagues in the Attorney-General's Department, given that the Attorney-General is responsible for the Disability Discrimination Act.

Senator GEORGE CAMPBELL—I have some other questions in relation to this, but I think I will put them on notice. You may not be able to answer them now, but you may be able to answer them in June. They go to some of the technical aspects of the issue.

Senator LUNDY—In the few minutes we have left before the dinner break I have some questions about the department's role in the impact of ratifying the Kyoto protocol and the impact of climate change.

Mr Paterson—If you want detail, the energy and environment issues were scheduled for tomorrow, along with resources.

Senator LUNDY—Fine.

Mr Paterson—If they are general questions we can deal with them now, but it may be prudent for us to manage it tomorrow morning.

Senator LUNDY—I think that probably makes sense. Can the department tell the committee about the TCF Strategic Investment Program and go through the time frame of the old program expiring and the new one beginning following the passage of legislation last year.

Mr Peel—The current program ceases next year, and there is provision in the estimates for that. Under the new program, companies can start claiming for activities undertaken the year after that.

Senator LUNDY—There is a \$57.7 million saving identified in the budget. Can you provide an explanation as to how that saving operates in the changeover of the old to the new?

Mr Peel—One of the features of the existing scheme is that any unspent money each year is rolled over to the final year of the scheme. Next year we will reach the final year of the scheme. We have estimated how much we will need in the final year, in conjunction with the department of finance, to pay out the claims that we anticipate to have on hand, and we have estimated a surplus of \$57 million which will be returned to the budget. However, if we receive claims in excess of our estimate, we can call back some or all of that money to meet those claims, so no legitimate claim will be in jeopardy as a result of that.

Senator LUNDY—Does the \$57.7 million represent an underspend that would otherwise have been either rolled forward or indeed claimed within the current financial year which you say is still a possibility?

Mr Peel—It is a series of underspends rolled forward to this final year of the program and if demand dictates it can be used to meet that demand, but we estimate the demand will be \$57 million less.

Senator LUNDY—Can you please identify on an annual basis leading up to 2005-06 what the underspend was and how that \$57 million accumulated?

Mr Sexton—The underspend in the first year, 2001-02, was \$26.82 million. In the second year, 2002-03, it was \$20.44 million. In 2003-04 it was \$12.09 million. In the present year, 2004-05, our best estimate is an underspend of \$11.21 million. They add up to a total \$70.56 million, which you add to the 2005-06 figure of \$129.6 million to get a total of \$200.16 million in 2005-06. Our estimate of expenditure in 2005-06 is \$142.45 million. Deducting that estimate from the total amount available gives you \$57.72 million.

Senator LUNDY—Why is that amount not being rolled forward into the new program?

Mr Sexton—It was a policy decision that the two schemes would be separate.

Senator LUNDY—Minister representing the minister?

Senator Colbeck—The new program is a new program with the same funding allocation.

Senator LUNDY—I cannot recall in the parliamentary debates, but was it identified at that time that any remaining underspend would go back to consolidated revenue and not be rolled forward into the new program?

Mr Peel—It has certainly been the subject of discussion at estimates hearings in the past, and I have said that it will be returned to consolidated revenue at the end of the program.

Senator LUNDY—Was it anticipated that it would be quite so much?

Mr Peel—I think at the beginning of the scheme, industry significantly overestimated their likely drawdown on the program. I guess our expectations have been that they have been a bit ambitious in what might be claimed under the program. I guess we expected that they would underspend, but the magnitude of it we could not estimate exactly.

Senator LUNDY—What is AusIndustry's analysis of the reasons why this program was consistently underspent?

Mr Peel—It may be a policy question, but from an AusIndustry point of view it is simply that the claims that we receive from industry each year were less than the amount of money available for them to claim, so the activity that they were undertaking did not match the funds available.

Senator GEORGE CAMPBELL—Presumably the upside, Mr Peel, is that those that did apply got all the funding that they applied for?

Mr Sexton—That is correct.

Senator GEORGE CAMPBELL—So there was no modulation required?

Mr Sexton—There has not been, no.

Senator LUNDY—Have you received any complaints about the administrative processes required to get hold of some of these funds that could point to perhaps an issue about overly demanding red tape preventing access by industry to this program?

Mr Peel—Some companies may have complained to our people from time to time, but nothing has come to me as a systemic issue that industry has complained about in that respect.

Senator GEORGE CAMPBELL—The regulation that was introduced—the one that is now before the Federal Court—would have been a factor in it, surely?

Mr Peel—It was a factor for one company.

Senator GEORGE CAMPBELL—It was a factor for a number of companies, as I recall. There were a number of companies which applied and which fell outside that regulation.

Senator Colbeck—That would happen in a number of government schemes. Companies might apply for it but might not necessarily fall within the guidelines when they believed that they did, so that might not necessarily be specific to this particular scheme.

Senator GEORGE CAMPBELL—The point I am making, Senator Colbeck, is that at the time the scheme was introduced they did qualify. There was a regulation introduced in the middle of the process which excluded a number of companies—companies who were producing artificial grass and so forth.

Senator Colbeck—They might have believed they qualified; that is probably a fair point.

Senator GEORGE CAMPBELL—They certainly did qualify.

Senator Colbeck—From my understanding of discussions here today, that matter is still to be resolved. They might have believed they qualified, but the department obviously believed that they did not.

Mr Peel—My understanding is that it is an issue for one company that we have talked about before. There may be others out there that are affected, but it is certainly not a big issue that has come to our attention.

Senator GEORGE CAMPBELL—They have not pursued it, I agree.

Mr Peel—I do not know what I do not know.

Mr Paterson—Or they did not make their case in the first instance.

Senator GEORGE CAMPBELL—If the government had been confident that they did not qualify, it would not have introduced the regulation.

Mr Sexton—The department's and the government's reason for the amendment was simply to clarify the intent that we understood was always there.

Senator GEORGE CAMPBELL—I am not arguing with you. I supported the regulation when it was put in—I thought it was a sensible thing to do. But I am just making the point that, before that regulation was put in, some companies would have been eligible, and the fact that they were excluded—

Mr Paterson—We took a different view to that. We did not believe they were eligible. The whole genesis of the Kimberly Clark action is that they believed they were eligible and we believed they were not.

Senator GEORGE CAMPBELL—The full bench of the Federal Court will settle that in June.

Mr Paterson—It will, but I am not aware of any other companies that made application that would—

Senator GEORGE CAMPBELL—I am aware of at least one company that was producing artificial lawns that made an application and that was excluded as a result of this regulation being put in place.

Senator Colbeck—Sorry, what was it producing?

Senator GEORGE CAMPBELL—Artificial turf.

Senator LUNDY—The overarching issue of course is that, with a chronic underspend in this program, the response of the government to all of these technical issues was to tighten up the eligibility criteria to make it even harder for companies to access. Therefore it was maintaining and perhaps preserving that ongoing underspend rather than working out ways in which to make the funding more accessible to companies in need that would benefit from access to quite a substantial amount of funding not spent every financial year.

Mr Paterson—You would expect of us to administer appropriately the program that we have been given, not to see an application and find a way to hand out money.

Senator LUNDY—I am not suggesting—

Mr Paterson—We were expected to manage that program in accordance with the government's intention, and we administered that program, in our view, consistent with the government's expectation. It is not about us trying to find—

Senator LUNDY—My comment, Mr Paterson, is more of a policy nature. Senator Colbeck can try and respond to it. If the government sees a chronic underspend in an ongoing program in this way, it is within the government's obvious capacity to make changes to that program to make those funds available, in an entirely legitimate way, in accordance with the program that the department has to manage. In this case, the government chose not to make any changes to get those funds out, and that is why they have gone back to consolidated revenue.

Mr Paterson—Correct.

Mr Sexton—I would not characterise it as a 'chronic underspend'. It is probably of the order of seven or eight per cent.

Senator LUNDY—Every year for five years!

Mr Sexton—Seven or eight per cent over five years.

Senator LUNDY—Over \$10 million for a couple of years.

Proceedings suspended from 6.30 pm to 8.04 pm

ACTING CHAIR—The committee will resume. Mr Paterson, do you have a question or a comment?

Mr Paterson—Senator Lundy asked some questions before the break. If we may, we would like to respond to them before we start a new area of activity—it might be helpful.

ACTING CHAIR—No problem. Yes, thank you.

Mr Paterson—You asked some questions of Mr Clarke in relation to meetings.

Senator LUNDY—Yes.

Mr Paterson—He has the answer.

Mr Clarke—You asked for some details of meetings. First of all, I will mention the meetings with DEWR. Since the election, there was a meeting on 29 November 2004. Present at that were myself and Mr Jonathon Chamarette from my branch. From DEWR were Ms Diane Merryfull, who is an assistant secretary, and Stuart Watson, who is a director of their manufacturing team. At the meeting on 8 February, there was Mr Mark Durrant and Jonathon Chamarette. Mark Durrant was the then section head, in charge of Automotive. That was a meeting with Stuart Watson, who is from the manufacturing team, Sophie Daltry of the manufacturing team and Phil Crotte of the manufacturing team. On 2 May, there was myself, Mr Durrant, Jonathon Chamarette and from DEWR there was Diane Merryfull, Stuart Watson, Phil Crotte and Sophie Daltry. They are the meetings.

For completeness, Mr Pettifer mentioned that we have had discussions in a general sense with the motor vehicle producers. There was a meeting on 4 May 2005 where Mr Pettifer, myself and Mr Jeff Beeston, who is the current section head in Automotive, met with Ms Allison Terry, who is the executive director of Corporate Affairs, and Anne E. Ryan, who is

the executive director of Worldwide Purchasing, where there was some discussion of workplace relations issues. There was another meeting on 11 May 2005, where Mr Pettifer, myself and Mr Beeston met with Mr John Egan, who is a senior executive at the office of the president of Toyota, Mr Bernie O'Connor, the divisional general manager of Human Resources, and Ms Heather Box, who is corporate manager of Workplace Relations.

As far as meetings with the components sector goes, there have been four meetings the department attended. On 7 April in New South Wales, there was a meeting with Tristar Steering & Suspension Australia in Marrickville. On 12 April in South Australia, there were two meetings, one at 10 am with TI Automotive in Kilburn and one with Cooper-Standard of Woodville North. On 13 April at 10 am, there was a meeting with INC Corporation in Dandenong South and with Woodbridge Australia in Laverton North. On 14 April, there was a meeting at 1 pm with a firm called Socobell in Spotswood. On 21 April in New South Wales, there was a meeting at 10.30 am with Dana Australia Limited.

Senator LUNDY—Thank you for that comprehensive answer. Were those meetings minuted and can you provide the minutes to the committee?

Mr Clarke—Which minutes are you talking about? I do not know if there are minutes as such.

Senator LUNDY—Either the interdepartmental ones or indeed the meetings with representatives of industry.

Mr Clarke—There are no minutes at the interdepartmental level. As for the meetings with industry, I will have to take that on notice. I have not seen them.

Senator LUNDY—If you could, I would be grateful. Thank you. That shows quite a concerted effort, particularly through the April period, in meeting with not only a number of car manufacturers but also the components sector. What objective was trying to be achieved from those consultations, from the department's perspective?

Mr Clarke—First of all, the meetings with the motor vehicle producers were at their request—they came to see us—so there was no purpose behind those meetings from our viewpoint. Obviously we are listening to them. With the meetings with the others, the objective was to look at workplace relations and productivity improvements that have happened at the industry level.

Senator LUNDY—Along the lines of what we were discussing?

Mr Clarke—More or less, yes.

Senator LUNDY—I do not want to go through it all again.

Mr Clarke—No. That is right.

Senator LUNDY—If you could take that on notice—

Mr Clarke—I will take that on notice.

Senator LUNDY—that would be helpful. Thank you.

Senator GEORGE CAMPBELL—This question is probably addressed to you, Ms Berman, although I am not sure. In a response I got to a question on notice—it was question

41—the answer indicated that, as part of the policy development work which led to the establishment of the Industry Cooperative Innovation Program, the department had a discussion with a number of action agenda industries regarding cooperative innovation projects involving R&D and proof-of-concept activities that generate significant spillover benefits. I presume that this was one of the factors that led to the introduction of ICIP?

Ms Berman—First of all, there was consultation associated with the introduction of the Commercial Ready program. As you know, some elements of the Innovation Access Program were consequently included in the Commercial Ready program. Those consultations raised a number of issues, some of which related to the need not only for technology diffusion specific to a firm but also as a group within a sector—the pick-up of technologies. So that feedback was examined in the department and the minister was made aware of it. As you know, the ICIP, as we call it, the Industry Cooperative Innovation Program, emerged as part of the election commitment last year.

Senator GEORGE CAMPBELL—Can you just explain to us how the program is going to work?

Ms Berman—As you know, the program is being officially launched this week, so I can give you some of the broader perspective. It is very much focused on improving not only sector take-up of new technologies but also the introduction to new technologies. Part of the design process involves forming a consortium or partnership between those who are applying within a sector. So a case has to be built by the applicants that, as a consequence of participation in support from government, there will be an increased innovative outcome and pick-up of technology that will in turn improve the productivity of that particular sector.

Senator GEORGE CAMPBELL—Is this targeted at providing assistance to sectors to develop their own technology or is it targeted at sectors to assist them to cooperate in purchasing pieces of technology which they would time share or use cooperatively?

Ms Berman—It is both, in a sense. It is certainly the first one. We anticipate, because Australia is a very small component of the global environment, that it will in turn result in picking up technologies and transferring them across a sector, to enhance that sector's productivity. But that will have to come forward as a consolidated perspective from the members of the consortium. So some of it will be demonstrating that these technologies—and perhaps adaptation of them in the Australian environment and sector—will enhance that particular group of industries.

Senator GEORGE CAMPBELL—And what type of funding will be available to these groups or consortia?

Ms Berman—It is something that is really being announced on Thursday. But it ranges from tens of thousands of dollars up to several million for a project.

Senator GEORGE CAMPBELL—But it is not a big amount. I think the biggest amount is \$6.3 million 2007-2008.

Ms Berman—Yes.

Senator GEORGE CAMPBELL—So what sorts of grants are we talking about here and for what specific purpose?

Ms Berman—I think the discussion papers that went out, and other consultations, have suggested that it is appropriate to have two levels of assistance—a low level, which is in the order of \$100,000, and then a level which provides assistance up to the order of \$2 million to \$3 million. We anticipate that there will be people who apply for the first component with a view to moving on, if that is successful, to the second component, which is a larger quantum of money.

Senator GEORGE CAMPBELL—I want to understand how this is going to function in practice, because it is an important area, particularly for a lot of the small and medium enterprises, of which there are plenty. There are two examples. There is a group of companies in Dandenong in the engineering industry. Several years ago they put together resources and bought a cutting machine, which they time shared. What sort of funding would be available to them? That is about buying new technology which would not have been available to an individual company. Collectively, they have been able to purchase it and share the time on it. What sort of funding would be available to them in those circumstances?

Ms Berman—Up to in the order of \$3 million. That is not \$3 million without any contribution from the applicants. They also have to provide contributions. The level of funding would be assessed competitively, meaning that, should nine or 10 proposals come forward, if one or two of them were outstanding and the others did not meet the hurdle, one or two would get support and the others might not. I cannot be much more specific than that. But there are going to be quite stringent requirements on that sector to show that, as a consequence of picking up and using the technology and disseminating it among other members of the sector, there will be an enhancement in productivity.

Senator GEORGE CAMPBELL—Okay. So that sort of consortium would qualify for some type of funding, probably up to \$3 million?

Ms Berman—Yes.

Senator GEORGE CAMPBELL—You are probably familiar with the Austool proposition at Ingleburn. What sort of funding would be available to a consortium such as that, which is essentially a centre of excellence, involving training, showcasing their products and learning new technology from international products in the toolmaking industry?

Ms Berman—It will be done on a project by project basis. That means that there has to be an innovative element to it. It has to enhance productivity and it has to involve technology—the demonstration, transfer and pick-up of it and so on. Without seeing specific details, I am not going to make that decision. That will be something that the IR&D Board will be making. So all I can say is that, against the criteria, which will be there in place, the most competitive will be supported. It could be that even in the first round quite a large number of competitive proposals come forward and get supported.

Senator GEORGE CAMPBELL—Is the criteria flexible enough to accommodate a range of different activities?

Ms Berman—Yes.

Senator GEORGE CAMPBELL—When will we see the criteria?

Ms Berman—On Thursday.

Senator GEORGE CAMPBELL—On Thursday?

Ms Berman—Yes.

Senator GEORGE CAMPBELL—I see.

Senator LUNDY—Is it aimed at funding information technology projects, such as supply chain software, that could facilitate exchange between industry suppliers and partners?

Ms Berman—It is generic, meaning that any sector can come forward. The one clear message that came out when it was announced last year was that proposals coming forward from those sectors that were associated with an industry action agenda had their competitiveness enhanced where recommendations or clear messages that this would help their productivity were being picked up from that action agenda.

Senator LUNDY—Was that a reflection of the fact that there are very few, if any, funded programs associated with the action agendas per se?

Ms Berman—No, not at all. I think the inference is that that sector has looked at itself and it has seen where it needs to enhance its productivity and where innovation or pick-up of new technologies may help that to happen. Therefore, the case is stronger than for cases where that has not been clearly gone through as a process.

Senator LUNDY—It gets a bit hypothetical because we have not seen the criteria. But, for example, in the area of information technology, will there be anything excluding the adoption of proprietary products to apply industry wide, given the pre-existing sensitivities of those sorts of initiatives anyway?

Ms Berman—I think that is looked at in the background information that people who are applying need to consider. Thursday will reveal the situation.

Senator LUNDY—Thanks.

Senator GEORGE CAMPBELL—Are the four staff members that have been allocated to the ICIP new staff or have they been transferred from another program?

Ms Zielke—The staff we have working on the program at the moment have come from other areas of the department to work on the program. We are also employing new staff to take us to the ASL level of four under the program.

Senator GEORGE CAMPBELL—Is there any particular reason why the majority of the funding does not come on stream until 2006-07 and 2007-08?

Ms Berman—I will pass that to my AusIndustry colleagues because they are better at managing the money when called upon.

Ms Zielke—The money reflects the way in which it is expected to be spent. So the first round will actually be completed during the first half of the 2005-06 year. So there will only be moneys going out the door in relation to new projects for six months of 2005-06. Then we will have a full 12 months in relation to ongoing agreements after that.

Senator GEORGE CAMPBELL—You have not yet called for applications. That will happen on Thursday, will it, with the announcement of the program?

Ms Zielke—Yes, it will.

Mr Peel—I think it is actually Wednesday, Senator.

Senator GEORGE CAMPBELL—We wondered why we could not find anything on the web site, not that we have ever been able to find anything on the web site of AusIndustry. And there is substantial interest in the program, I presume? You would not be introducing this if there were not?

Ms Berman—There is interest. There was considerable turn-up to the consultations that were held in December. We have ongoing queries about the program. So we are expecting a strong set of applications.

Senator GEORGE CAMPBELL—Are any particular areas showing interest or is it across a spectrum?

Ms Hartland—I think we received about 40 submissions, so it is across quite a broad area.

Senator GEORGE CAMPBELL—And this, I presume, is essentially seen as a replacement for the IAP, the Industry Access Program, or it fills that void?

Ms Berman—It fills the need for the consortium approach, which is across a sector. As you know, Commercial Ready is more per firm. It can be cooperative, but it tends to be more firm based, whereas this is a sector enhancement as opposed to a firm enhancement program.

Senator GEORGE CAMPBELL—There was a report some time ago—I am not asking you to confirm it or deny it—in the press that officers of the department had sought \$56.7 million in funding for industry wide projects. The funding for this is \$25 million, which has come out of the Commercial Ready funding. Is that going to be sufficient, in your view, to meet the level of demand?

Ms Berman—I think we will be in a position to comment on that after the applications for the first round come in. It is very difficult to predict, as you would know, what the response will be.

Senator GEORGE CAMPBELL—How is the funding going to be applied? Is it going to be capped funding, or is there a capacity to go back and seek additional funds if the demand is greater than your expectations?

Ms Berman—It is a \$25 million program, as identified by the budget process. As you would be aware, it can happen that the demand and the quality of applications is extremely high. We could suggest that more resources may be needed there. But it is rather early to be making suggestions like that until we see what comes forward.

Senator GEORGE CAMPBELL—I accept that. But as I understood the Commercial Ready approach, it was put together in the way it was in part to give greater flexibility in terms of what programs you could fund. What I am really asking is whether that flexibility will extend to the ICIP program as well, given that money has been taken out of the Commercial Ready program to fund it in the first place?

Ms Berman—I am not quite sure I understand what you are saying. Do you mean that money could move from one program to another?

Senator GEORGE CAMPBELL—Yes. I understood that one of the theories behind the Commercial Ready approach was to give you greater flexibility in the way in which you were

able to fund programs. Instead of having all the boxes, it was supposed to actually allow you to be able to move between the boxes a bit, in terms of meeting any perceived and demonstrated need that was out there. I am really asking whether that principle will flow across to the ICIP program as well.

Mr Paterson—We do not have the flexibility to make a judgment call. If there were to be greater resources demanded for this program out of Commercial Ready, we could not of our own volition make that judgment. It would be a matter for government to decide.

Senator GEORGE CAMPBELL—Sorry. I understand that.

Ms Zielke—Senator, if you are referring to the ability to be able to fund more than one activity under the program, in the way we do in Commercial Ready, yes, that flexibility will exist under ICIP at this stage.

Senator GEORGE CAMPBELL—Going back to the Commercial Ready program, Mr Peel, at the last estimates hearing you mentioned that in March this year you were planning to continue the Commercial Ready consultation process, to find out how the program was travelling and deal with any problems that may have arisen since October last year. Did those consultations occur?

Mr Peel—What we did in March was to get together the chairs of the various IR&D Board committees that oversee the program. We got some feedback from them about how they saw the program progressing and about any issues they had in terms of the management of the program through the IR&D Board. The IR&D Board intends now, after that discussion, to have some public consultations about the program and how it is going. They will start in the next few weeks, I understand.

Senator GEORGE CAMPBELL—Who will participate in those public discussions?

Mr Peel—Essentially, it will be AusIndustry staff. We may use members of the board as well to assist us to consult with a range of customers of the program, to find out how they have found it and what issues they have had with it and so on.

Senator GEORGE CAMPBELL—In your answer to my question on notice, you said that only 18 per cent of attendees at the Commercial Ready seminars had previously obtained IR&D start funding and that seven per cent of attendees had received DIF funding. In terms of the consultations that you are talking about, will they all be with companies that are participating in the Commercial Ready program?

Mr Peel—Yes.

Senator GEORGE CAMPBELL—So there will not be other general consultations with industry in general?

Mr Peel—It was not meant to be an all-singing, all-dancing full public consultation process. It was really reality checking with people that had been through the program about any issues that they had with the program and that we could take back in and have a look at. So it was not meant to be like ads in the newspapers calling for submissions and that sort of thing. It was meant to be much more low-key than that. Bear in mind that the program has actually only been going for a few months in any case, really.

Senator GEORGE CAMPBELL—Is there any proposal for the IR&D to go back and look at some of those definitional issues raised in respect of the ICIP?

Mr Peel—That is one of the issues the board will look at in reviewing how the program has gone to date. The other thing that the board is producing is a Commercial Ready guide to eligible activities under the program that could be made available to potential customers. We think that will be released in the next month to six weeks or so, to make exactly what activities qualify under the program a bit clearer.

Senator GEORGE CAMPBELL—So it is possible we could see something emerge out of this procedure in terms of the general definition of IR&D?

Mr Peel—It is possible, yes. It just makes sense that you suck it and see for a while and then pause to have a look at how the program is going and build back any learning into the program that you have found.

Senator GEORGE CAMPBELL—I think it is long overdue. Can you tell us how many grants have been made since the program's inception?

Mr Peel—I think the figure is 27.

Senator GEORGE CAMPBELL—What is the general value of those grants?

Mr Peel—So far, we have committed \$25.06 million under the Commercial Ready program.

Senator GEORGE CAMPBELL—The budget for 2004-05 was \$211 million. Is there an expectation that that will be spent?

Mr Peel—No. There have been some movements of funds in the program. The budget for grants for 2004-05 was \$192.96 million. Through the additional estimates process we moved \$37 million into the out years of the program, as a result of slippage of grants. Some money has also been transferred to the Renewable Energy Development Initiative, which is a new program to be launched shortly. There is a \$9 million rephasing request that we made through the budget process which has not been approved. So the funding or the spend that we expect to achieve this year is \$144.74 million.

Senator GEORGE CAMPBELL—And that is the full amount allocated, or will there be moneys rolled over into next year?

Mr Peel—There are funds rolled over into next year. Of the \$37 million that I mentioned that had been pushed forward to the out years, \$9 million will go to next year's funding. So next year will have \$199.5 million in the program.

Senator GEORGE CAMPBELL—On page 59 of the PBS there is an amount of \$54.8 million listed as a variation in Commercial Ready spending. What does that refer to?

Mr Peel—I think that is the difference between the \$144 million that we are going to spend this year and the \$199 million that we are going to spend next year.

Senator GEORGE CAMPBELL—In answer to question on notice No. 45, you said \$25 million was being taken from the Commercial Ready program in order to pay for the ICIP. However, on page 63 of Budget Paper No. 2, reprioritisation of just over \$20 million is shown. Where is the other \$5 million coming from?

Ms Zielke—It relates to departmental funds. Given that departmental funds for the Commercial Ready program had already been provided, some of those departmental funds will now be allocated to ICIP.

Senator GEORGE CAMPBELL—So it is a reprioritisation of \$20 million plus \$5 million out of departmental funds?

Ms Zielke—Yes.

Senator GEORGE CAMPBELL—Mr Peel, Industry Capable Network Ltd is not an AusIndustry program?

Mr Peel—No.

Senator GEORGE CAMPBELL—Mr Pettifer, I understood that the ICNL was to be a fully self-funded operation.

Mr Pettifer—The government has had a desire for some time for ICNL to become more self-sufficient, and that is still the case. But there are some limits on that. The government has decided to provide \$1 million per year of funding for ICNL.

Senator GEORGE CAMPBELL—When was that decision taken?

Mr Pettifer—It was taken in the budget.

Senator GEORGE CAMPBELL—In this budget process?

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—So does that mean that there was a gap in their funding, or you have covered that gap through this funding?

Mr Pettifer—With the \$1 million and the decision to enable them to retain cost recovery from their own ICNL activities and the SAMP program, we think there will be enough money for them to continue on as they are now.

Senator GEORGE CAMPBELL—Page 239 of Budget Paper No. 2 lists ICNL revenue from user charging over the next three years at \$300,000. The PBS lists the revenue at \$250,000. Why is there a discrepancy?

Mr Pettifer—It relates to different estimates that were made during the budget process. One estimate was made by the Department of Finance.

Ms Foster—I think it is due to rounding. One is \$250,000 in this book and it is rounded up to \$300,000 in the budget paper.

Senator GEORGE CAMPBELL—I wish my pay would be rounded up in the same way.

Mr Pettifer—The point is that we cannot estimate precisely what the figure will be. We think it will be in about that range of \$250,000 to \$300,000.

Senator GEORGE CAMPBELL—And how long will the funding continue for?

Mr Pettifer—The government has indicated that it will provide funding for the next three years.

Senator GEORGE CAMPBELL—The next three years?

Mr Pettifer—Yes.

Senator GEORGE CAMPBELL—That is open to review, I presume?

Mr Pettifer—That is right, yes.

Senator LUNDY—Can the officers update the committee about the Pharmaceuticals Partnerships Program.

Mr Peel—We have had 18 successful applications for the program to date resulting in grants in two rounds of the program—11 successful applications in round 1 and seven in round 2. This resulted in \$87.1 million in grants for round 1 of the program and \$46.8 million in grants for round 2 of the program.

Senator LUNDY—I understand \$14.6 million was allocated under the program for 2004-05. How much of that was spent?

Mr Peel—We expect to spend \$7.6 million in this financial year.

Senator LUNDY—How come there is such a dramatic underspend?

Mr Peel—Essentially because the companies that have received the grants have advised us that they are not able to proceed in line with the timetables they originally provided to us when they applied for the grants.

Senator LUNDY—I note in the PBS that \$2.5 million is being moved across to 2006-07. Is that a rephasing?

Mr Peel—That is a rephasing, yes.

Senator LUNDY—If so, can you direct me to where the rest of the \$7 million underspend from 2004-05 was moved to?

Ms Zielke—An amount of \$4.5 million was actually moved out of the program at additional estimates and moved into future financial years. In addition to that, we sought rephasing of another \$2 million, which has not been agreed to. That is actually reflected—

Senator LUNDY—Sorry, it has not been agreed to?

Ms Zielke—Has not been agreed to, which is reflected on page 29.

Senator LUNDY—Why wasn't that agreed to? That is a bit unusual. Every rephasing so far that we have heard about at least has been agreed to.

Mr Peel—I think that is a question you have to raise with the Department of Finance.

Senator LUNDY—Indeed.

Mr Paterson—You will not know about rephasing until the matter is listed.

Senator LUNDY—No, obviously not. Was the department given any explanation from the Department of Finance why this particular element of rephasing was rejected?

Mr Peel—No.

Senator LUNDY—So out of the \$4.5 million, you are saying that was rephased in the additional estimates. Into what financial years was it rephased?

Ms Zielke—Into 2007-08 and 2008-09.

Senator LUNDY—What amounts in each financial year?

Ms Zielke—Sorry, \$1.5 million into 2007-08 and \$3 million in 2008-09.

Senator LUNDY—Thanks for that. Can you give me the totals for that program in each of those financial years, taking into account those rephasings?

Mr Peel—Yes. I will start at 2004-05. There was \$7.6 million in 2004-05, \$23.2 million in 2005-06, \$34.3 million in 2006-07, \$39.4 million in 2007-08 and \$41.1 million in 2008-09.

Senator LUNDY—Would the underspend in the 2004-05 year have anything to do with the complexity of making an application? Did you receive any comments or complaints from the sector to that effect?

Mr Peel—No. We did not. As I said, it is simply a factor of the companies and their research projects not proceeding to the timelines that they had originally indicated.

Senator LUNDY—Do you have any expectation that the \$23.2 million allocated for 2005-06 will be reached or perhaps not reached? What is your expectation about that?

Mr Peel—I guess I could say that these sorts of programs where we provide grants to companies that rely on them achieving particular milestones, particularly in areas such as research and development, which are quite uncertain, tend to require rephasings from year to year. There will always be at least some companies that do not meet those milestones and some companies that might reach them more quickly than they anticipated. So my expectation is that further rephasing of the program in the years ahead will be required.

Senator LUNDY—Perhaps this is best directed to the minister. Given that the Department of Finance rejected the rephasing of \$2 million, does that increase the likelihood that the government will not permit further rephasings?

Senator Minchin—We consider every request on its merits in the Department of Finance. If the case for rephasing is sufficiently persuasive, then there is every chance.

Senator LUNDY—Minister, you are in a unique position in terms of perhaps reflecting on the question I asked earlier, which was: why was the original request for rephasing for that \$2 million in the budget papers rejected?

Senator Minchin—I have offered Mr Paterson a briefing on that matter. Perhaps you would like to take that up with the Department of Finance.

Senator LUNDY—You could perhaps use the coffee break and then Mr Paterson can come back and tell the committee.

Senator Minchin—I cannot remember the reasons for every rephasing request being denied. Of course, there are many that are dealt with in the course of a budget process.

Senator LUNDY—Sure.

Senator GEORGE CAMPBELL—And he is such a generous individual too.

Senator Minchin—I hope I do not have that reputation, Senator Campbell. I will be ruined.

Senator LUNDY—It seems quite petty but, quite seriously, there have been many rephasings of programs in this department and, indeed, other departments. I think this is the

first one where I have at least asked the right questions to identify where a request was rejected. How unusual is it to reject a rephrasing request for something like this—an ongoing program?

Senator Minchin—I do not want to comment on that on the run. I do not recall the rationale for that particular one. I am happy to be reminded overnight, if you would like me to come back tomorrow.

Senator LUNDY—Take it on notice?

Senator Minchin—Yes, sure. I am happy to do it.

Senator LUNDY—That would be excellent. If you could come back tomorrow, that would be even better, if you can provide any particular insights.

Senator Minchin—Staff, are you watching?

Ms Zielke—Can I take the opportunity to correct something I mentioned earlier. You asked about the rephrasing that took place at additional estimates. I am afraid I gave you an incorrect figure. We actually rephased \$7.5 million across three years in relation to that. So we took \$2.5 million out of 2004-05, \$1.5 million out of 2007-08 and \$3.5 million out of 2008-09. As a result, that adds up to \$7.5 million. We returned \$5 million to 2005-06 and \$2.5 million to 2006-07.

Senator LUNDY—I want to write all that down. Are you able to provide those figures to the committee? It saves me writing them down.

Ms Zielke—I am sorry, I was looking at the two years rather than the three years. I can provide that to you and take that on notice.

Senator LUNDY—If you could provide the details just while the committee is sitting, rather than having me wait three months to get it on notice.

Mr Peel—I could give you the rephasings for each year. In 2004-05, we moved \$2.5 million out of the program. That went to 2006-07. In 2005-06, we brought forward \$5 million under the program, which was accounted for as \$1.5 million in 2007-08 and \$3.5 million in 2008-09.

Senator LUNDY—I think I have it, thanks.

Senator GEORGE CAMPBELL—In terms of the Productivity Commission R&D survey, you indicated in a question on notice that the first report was due out in April this year. Can you tell us where that is up to?

Ms Berman—What you are referring to is a study of R&D trends that commenced about this time last year in the Productivity Commission—looking particularly at business R&D. The report is not complete. In fact, this week, on Thursday, we are meeting to talk with the Productivity Commission about the draft they have at the moment. I imagine within the next month or so the report should be finalised. But it is not out yet.

Senator GEORGE CAMPBELL—It is not finalised at this stage?

Ms Berman—No. It is not.

Senator GEORGE CAMPBELL—And we can expect it in about a month?

Ms Berman—I am saying that after Thursday I may be in a better position to be able to say when it might be.

Senator GEORGE CAMPBELL—If you can be more definite after Thursday, Ms Berman, would you mind letting us know?

Ms Berman—Certainly, yes.

Senator LUNDY—I want to follow up with respect to the R&D tax concession. We asked questions earlier in the day in some detail about the administration of that program within the department. Can the department advise specifically what it means by ‘labour related R&D activity’ given the web site states:

The 175% R&D tax concession provides a high level of support for those companies that increase expenditure on labour related R&D.

Ms Berman—It is referring to support being provided for the employment aspect of R&D. In other words, it is the salaries that are incurred through researchers undertaking that activity. It does not extend beyond that. That is what the 175 per cent premium is about.

Senator GEORGE CAMPBELL—Is it part of this current review into tax concessions generally?

Ms Berman—It is, yes. The review, when announced at the beginning of 2001 or so, was about those two new elements in particular—the offset and the 175 per cent premium.

Senator LUNDY—What are the general eligibility criteria for businesses wishing to register for this higher tax concession?

Ms Berman—I will pass that to my colleague.

Mr Peel—The eligibility criteria for each element of the concession?

Senator LUNDY—The 175 per cent.

Mr Peel—The 175 per cent. A three-year history of registration, eligibility to claim the R&D tax concession or a history of receiving grants under the R&D Start Program. It applies only to labour related expenditure, as we have already mentioned. Companies must increase their R&D expenditure above a base level determined by their average allowable expenditure over the previous three years, which is moderated where they have significant prior year downswings. So that is taken into account.

Senator LUNDY—Are there any other conditions attached to this, either now or under consideration, for the review?

Mr Peel—All there is in addition is the general eligibility criteria for the tax concession overall, which is that companies must be incorporated in Australia. R&D activities must comply with the statutory definition of research and development which is contained in the act. There is a minimum expenditure threshold of \$20,000 per annum, although companies undertaking R&D at a lower figure can claim the concession if they undertake that R&D through a registered research agency. The results of the R&D must be exploited on normal commercial terms and to the benefit of the Australian economy.

Senator LUNDY—Thank you. Are there currently any linkages between eligibility for the 175 per cent and the government’s workplace relations changes?

Mr Peel—No.

Senator LUNDY—Is there any discussion taking place in the review or otherwise about linking the government's workplace relations changes to eligibility criteria of this particular R&D tax concession?

Mr Peel—Not that I am aware of or have been involved in, no.

Senator GEORGE CAMPBELL—Mr Paterson, I have some questions on syntroleum. Is Mr Hartwell here?

Mr Paterson—He is not. He will be tomorrow morning.

Senator GEORGE CAMPBELL—That is fine. Is there a review currently taking place into the venture capital industry?

Mr Paterson—There is.

Senator GEORGE CAMPBELL—What is the time frame for the review?

Ms Hartland—You are probably aware that submissions were called just recently, earlier this month, for the review. The submissions close on 10 June. After that will follow a consultation process. A review team has been set up which is headed by Brian Watson—a group of three experts are involved—with David Miles and Gary Potts. It is basically a 12-month review process.

Senator GEORGE CAMPBELL—So they are due to report when—June next year?

Ms Hartland—It is due to link into budgetary processes.

Senator GEORGE CAMPBELL—To feed into the budgetary processes?

Ms Hartland—Yes.

Senator GEORGE CAMPBELL—So it is earlier?

Ms Hartland—Yes.

Senator GEORGE CAMPBELL—What are the terms of reference of the review?

Mr Peel—I have a copy of the terms of reference. Would you like me to table them?

Senator GEORGE CAMPBELL—Please. Who did you indicate was undertaking the review?

Ms Hartland—Brian Watson is the chair.

Senator GEORGE CAMPBELL—What is his background?

Ms Hartland—He has a firm called Georgica Pty Limited. You would probably know that David Miles is the head of the IR&D Board, among other positions. Gary Potts is a former deputy secretary in Treasury and now does work for, among other people, the Productivity Commission.

Senator GEORGE CAMPBELL—The venture capital regime was amended in June 2004, was it not?

Mr Morling—Yes. It was amended in June 2004.

Senator GEORGE CAMPBELL—Why the decision to have a review into the venture capital industry given that the regime had just been amended?

Ms Hartland—The VCLP is obviously one program among a suite of venture capital programs. The venture capital review is designed to look at the broad venture capital climate, if you like.

Senator GEORGE CAMPBELL—This review, I presume, is looking at all of the issues. Why would you amend provisions in relation to one part of the venture capital industry and then call a review into the broad industry? It is putting the cart before the horse a bit.

Mr Morling—The original venture capital regime was passed through parliament in December 2002 effective from July 2002. Following the passing of that legislation, the industry came back to us with a number of technical amendments and one new policy area that they wanted put in place to make the regime actually work effectively. There were a number of discussions over that period to amend the legislation, which was effectively amended in June 2004. Prior to those amendments in June 2004, we basically had not seen any action in the program. Since those amendments in June 2004, we have seen around \$1 billion in committed capital come through that program.

Senator GEORGE CAMPBELL—At the time these amendments were made, were you aware that a review was going to be carried out, or was that a decision taken subsequently?

Mr Morling—The first public mention of the review was in September last year. The minister announced as an election commitment that, if re-elected, the government would undertake a review of the venture capital regime.

Senator GEORGE CAMPBELL—So at the time the amendments were made in June 2004 there was no indication that there was going to be a review of the industry?

Mr Morling—Not that I am aware of, no.

Senator GEORGE CAMPBELL—Policy on the run, Minister.

Senator Minchin—Not from this government, Senator Campbell. Not a chance.

Senator GEORGE CAMPBELL—It is \$66 billion worth.

Senator Minchin—Very well considered and put through.

Senator GEORGE CAMPBELL—I cannot find any funding listed in the PBS to fund the review. How is it being funded?

Mr Morling—In the budget papers themselves, there was a document put out entitled *Meeting the election commitments*. There is a line in there to note that the review is being undertaken and that it will be met from within the department's resources.

Senator GEORGE CAMPBELL—So it is being funded out of the department's administrative expenses. What is the cost of the review?

Mr Morling—The amount put into that budget document, I believe, was \$200,000.

Senator GEORGE CAMPBELL—How are you, Mr Jones?

Mr Jones—Very well, thanks.

Senator GEORGE CAMPBELL—Can you provide us with a brief overview of the program's purpose and the key performance indicators?

Mr Jones—Of Invest Australia's performance?

Senator GEORGE CAMPBELL—Yes.

Mr Jones—Sorry. I missed the beginning of that.

Senator GEORGE CAMPBELL—Can you provide us with a brief overview of the program's purpose?

Mr Jones—The purpose of Invest Australia is to promote Australia as a destination for foreign direct investment and to attract investments into Australia by foreign companies.

Senator GEORGE CAMPBELL—What key performance indicators do you have?

Mr Jones—The performance indicators for Invest Australia are listed in the portfolio budget statements. Pages 44 and 45—page 45 in particular—give the high-level key performance indicators for Invest Australia. For example, in quantitative terms, key performances are the number of investment leads we generate, the number and value of investment successes that are confirmed and the employment and export impacts of investment successes confirmed.

Senator GEORGE CAMPBELL—You provided an answer to me to a question on notice about new investment projects. Is it possible for you to update that material and advise us what the project actually is and what the value of the project is?

Mr Jones—I am not sure I have the answers to the questions on notice with me. Did I provide you with a list of successes in 2003-04?

Senator GEORGE CAMPBELL—There were about three pages of, yes, new investment projects. There were 62 new investments valued at \$78.8 billion, potentially creating a safeguard for 1,300 jobs. It was in the annual report for 2003-04.

Mr Jones—Yes, that is correct. And would you like further details on individual projects?

Senator GEORGE CAMPBELL—About what the individual projects are, yes, and the value of the individual projects.

Mr Jones—I guess we are getting into some sensitive areas with some projects there where the companies have indicated to us that they are a little reluctant to actually use the further details of their investments for commercial-in-confidence reasons. Perhaps I can answer in general terms. The range of those investments is from very small amounts of money—in the tens of thousands of dollars in terms of the investment value with only one or two jobs—up to multibillion-dollar projects. So there is a very broad range in terms of the value of those individual projects. As you can see from the list of industry sectors in that answer, again, they are scattered right across the economy, from agriculture through to mining, manufacturing and into the service industries. Again, the nature of the investments varies enormously depending on the sector they are in. As I said, providing individual details of individual investments does start to get us into areas of commercial-in-confidence.

Senator GEORGE CAMPBELL—But the information is pretty scant. Take, for example, the first one, where it says ‘industry sector finance’. That could be buying shares on the stock exchange for all we know. That is a pretty broad definition of an industry sector.

Mr Jones—Buying shares on the stock exchange is not part of the investment that we attract. We specifically do not target investments in the real estate sector—

Senator GEORGE CAMPBELL—I presume you do not.

Mr Jones—or portfolio investments.

Senator GEORGE CAMPBELL—But that bit of information is meaningless.

Mr Jones—In all cases, what we are targeting is the companies establishing operations in Australia or expanding the operations they already have here.

Senator GEORGE CAMPBELL—I understand that. But why can’t that information be provided? We are not asking for any commercial-in-confidence information. If they have set up a bank or a factory or if they are processing minerals, I would not see that as being commercial-in-confidence.

Mr Jones—Some of the companies we deal with are sensitive about providing details such as the number of jobs in the establishment they are setting up here or the precise nature of the business they are establishing here.

Senator GEORGE CAMPBELL—I did not ask you to indicate the number of jobs.

Mr Jones—You just want a description of the investment, essentially?

Senator GEORGE CAMPBELL—Yes. What the investment is and what the value of it is.

Mr Jones—I should be able to provide the description of the investment. Where possible, I will provide the value. There may be some instances where the company does not want us to disclose the individual value, but I will see what I can do there.

Senator GEORGE CAMPBELL—All right. Take it on notice. If there is commercial sensitivity about it, you can indicate that. Does your program have an annual budget?

Mr Jones—Yes, it does.

Senator GEORGE CAMPBELL—What is the value of it?

Mr Jones—The total annual budget for Invest Australia at the moment is in the region of \$25 million.

Senator GEORGE CAMPBELL—It is \$25 million?

Mr Jones—Approximately.

Senator GEORGE CAMPBELL—How is that shown in the PBS? It is actually a program, isn’t it?

Mr Paterson—It is one of those ones about which I responded earlier this afternoon. It is departmental funding.

Senator GEORGE CAMPBELL—So it comes within your department?

Mr Jones—There are a number of elements of our funding. Mr Paterson today spoke about a funding line, if you like, of \$11 million for the core business of Invest Australia. There is \$3.8 million relating to Axiss Australia, which is our global financial services element. The structural adjustment fund for South Australia, which we also spoke about today, is another element of our funding in terms of the assessment of applications under that fund and the administration of that fund. Then there are some other elements which are components of broader departmental funding, in addition to those discrete elements. So there is an ongoing element, if you like, of our funding, which is minor, as well as those separately identified elements which terminate or lapse at various points in the future.

Senator GEORGE CAMPBELL—But the South Australian fund would be a program, wouldn't it?

Mr Jones—It is a separate program, largely administered by Invest Australia.

Senator GEORGE CAMPBELL—It has a direct allocation of money for that purpose?

Mr Jones—Yes.

Senator GEORGE CAMPBELL—Which you administer through Invest Australia?

Mr Jones—That is correct, yes.

Mr Paterson—So a proportion of the funds that were allocated for that structural adjustment fund are provided to the department to administer the program, and that is undertaken by Invest Australia.

Senator GEORGE CAMPBELL—Do you have any overseas offices?

Mr Jones—Yes, we do. We have nine overseas offices.

Senator GEORGE CAMPBELL—Are they included in the \$25 million?

Mr Jones—That is correct.

Senator GEORGE CAMPBELL—And how many staff are involved in Invest Australia?

Mr Jones—All together, about 110.

Senator GEORGE CAMPBELL—And how many of those are overseas?

Mr Jones—Twenty-seven.

Senator GEORGE CAMPBELL—In how many countries?

Mr Jones—There are nine offices in seven countries.

Senator GEORGE CAMPBELL—I presume they are the usual suspects?

Senator LUNDY—Could you just run through the countries those offices are in and their locations?

Mr Jones—Certainly. Our offices are located in London, Paris, Frankfurt, Singapore, Shanghai, Beijing, Tokyo, San Francisco and New York.

Senator GEORGE CAMPBELL—Do you have much staff turnover?

Mr Jones—Our turnover is about on a par with the rest of the department, I think. As Mr Paterson indicated during the course of today, staff turnover is one of the data points that the

departmental executive examines on a quarterly basis. We usually compare pretty well with the rest of the department. We are about on average with the rest of the department, I would say.

Senator GEORGE CAMPBELL—At page 61 of the PBS, it states:

Cash used for investing activities will reduce significantly from \$228.9m in 2004-05 to \$47.3m in 2005-06.

Does any of that relate to Invest Australia?

Mr Jones—Not to our core activities, no. As the paragraph goes on to say, part of that is due to the funding for projects that Invest Australia has something to do with. But it is not our core activities, no.

Senator GEORGE CAMPBELL—So what does the reduction refer to?

Mr Jones—I could not answer that.

Senator GEORGE CAMPBELL—Can anybody answer it?

Mr Jones—I think the officers are checking the data.

Ms Foster—I believe it is in relation to Comalco, Rio Tinto and AMC dropping off on the capital front.

Senator GEORGE CAMPBELL—But that is about half of the \$228 million. Where has the rest of it gone?

Ms Foster—I am not sure where you get the \$228 million from.

Senator GEORGE CAMPBELL—It says:

Cash used for investing activities will reduce significantly from \$228.9m...to \$47.3m.

If you take the \$84 million and the \$45 million, that is about \$170 million. There is \$50 million somewhere not identified.

Ms Foster—I will have to get back to you on that one. We will just check the figures. We can come back to you before the end of the evening.

Senator GEORGE CAMPBELL—Mr Jones, is there a review of the program currently being undertaken?

Mr Jones—Yes.

Senator GEORGE CAMPBELL—When is that due to be completed?

Mr Jones—There is an external review being undertaken by the Allen Consulting Group. We are expecting them to report to us in June.

Senator GEORGE CAMPBELL—Does that review relate to the program's performance in meeting its objectives?

Mr Jones—Yes, it does.

Senator GEORGE CAMPBELL—And they are due to report in June?

Mr Jones—That is correct.

Senator LUNDY—I would like to ask a couple of general questions relating to the impact on Australian businesses of the US-Australia Free Trade Agreement. I am happy for these to be taken on notice if necessary. I referred earlier in the day to an independent report of an ICT-SME joint industry-government working party. The document raises an issue that has more general implications for Australian businesses trying to tender for work in the US for US government clients. The small businesses and the industry associations who have put their name to this report state that under the new FTA arrangements programs such as the US government's Small Business Set Aside Program would no longer exclude Australian SMEs—or so it was claimed in the lead up to the agreement. This report states emphatically that that is not the case. It is the immediate concern of Australian small businesses that the vast majority of business they expected to be able to bid for will be unavailable to them because of the US government's Small Business Set Aside Program. So what I am seeking from officers is any confirmation of that or any awareness of this problem that seems to have emerged post the signing of that agreement. I wonder whether or not you have received any complaints from Australian small businesses that have now confronted the issue, following their efforts to enter the US market?

Mr Lowndes—I am not familiar with the particular report so I think we will have to take that on notice.

Senator LUNDY—Are you familiar with the problem or the issue?

Mr Lowndes—We have had no-one raise that with us.

Senator LUNDY—Do you have any knowledge about the US government's small business set aside program, which requires a minimum goal of 23 per cent by value of procurements to go to small business?

Mr Lowndes—I am aware they have a sort of a set aside policy, yes.

Senator LUNDY—And that is geared at specifically limiting participation within that percentage to American owned and independently operated small businesses?

Mr Lowndes—I understand that is right, yes.

Senator LUNDY—Can you confirm whether the claim by the government during the debate or discussion about the US Free Trade Agreement was that Australian companies would not be precluded as a result of that legislation?

Mr Lowndes—We will have to take that on notice.

Senator LUNDY—If you could take that on notice. I may put a few additional questions on notice in relation to that program.

Mr Lowndes—Sure.

Senator LUNDY—Minister, before I leave this subject, can I ask whether you have received any complaints or concerns about what these small businesses are saying, that they were effectively misled as to the impact of that particular procurement element of the US Free Trade Agreement. They thought they were going to get access to that part of the US market and now will not.

Senator Minchin—I have not. But that is not to say that the Minister for Small Business and Tourism has not. I am just not aware of it myself.

Senator LUNDY—I guess it is a question to take on notice for not only the small business minister but also the industry minister, given such a proportion of Australia's export prospects in this regard are actually small businesses trying to do business in the US. Quite a substantial economic benefit was posted against the fact that Australian small businesses would get access to markets like the US procurement market.

Mr Paterson—And they will.

Senator LUNDY—I am sorry, Mr Paterson, but these small businesses are saying that the sorts of work and contracts that they could access because of their relative size and scale in the Australian market are already fully occupied by the businesses that are eligible, being US small businesses, that can retain, if you like, full access to this contract work by virtue of the US set aside program. So it would only be outside that space where the US small businesses operate that the Australian small businesses can in fact be eligible. But because of their size and scale they will not be anyway.

Mr Paterson—We have taken the detailed question on notice.

Senator LUNDY—If you could ask the minister to respond to that. Thank you. I think we are right to have a break now and then come back and do the agencies.

CHAIR—All right. Let us get ourselves sorted out. Senator Lundy and Senator Campbell, who can go?

Senator GEORGE CAMPBELL—We are on to the agencies.

Senator LUNDY—They can all go.

Senator GEORGE CAMPBELL—Except I have to find out where the \$50 million went.

CHAIR—The identified agencies cannot go. The agencies are IP Australia and Geoscience Australia. Is that right?

Senator LUNDY—That is correct.

CHAIR—Okay. Everybody other than those officers from IP Australia and Geoscience Australia is excused, thank you. We will suspend until 9.30 pm.

Proceedings suspended from 9.20 pm to 9.31 pm

IP Australia

CHAIR—The proceedings are resumed. I invite to the table officers of IP Australia.

Senator GEORGE CAMPBELL—Mr Tucker, are you aware of the current status of the Commonwealth government's licence on syntroleum technology?

Dr Tucker—No, I am not.

Senator GEORGE CAMPBELL—You are not aware. Was IP Australia at any time consulted by the industry department in respect to its dealings with syntroleum?

Dr Tucker—If you can advise me about when that consultation might have taken place, I could perhaps answer the question.

Senator GEORGE CAMPBELL—It probably could have been any time over the past five or six years, I suppose. More important is the past 12 months.

Dr Tucker—I am not aware that that consultation has taken place. But then I have been with the organisation for four years, so if it preceded the period I have been there, I would not know about it.

Senator GEORGE CAMPBELL—Are any of your colleagues aware?

Ms McRae—No.

Senator GEORGE CAMPBELL—They are not. Can I ask you to take on notice the issue of the government's licence with syntroleum technology. Would you make yourself familiar with it? Perhaps I might put some questions on notice to you in relation to that.

Dr Tucker—We will take that on notice.

Senator LUNDY—Do IP Australia have any involvement in pursuing the general recommendations of the Australian National Audit Office's reports into the intellectual property management of government agencies and departments?

Dr Tucker—Yes. IP Australia is part of a group of three agencies—IP Australia, the Attorney-General's Department and previously the Department of Communications, Information Technology and the Arts—to attempt to push forward the recommendations of the ANAO report.

Senator LUNDY—Are you able to give a status report on the progress of agencies against the recommendations of that audit report?

Dr Tucker—Yes. The group of three agencies has met a number of times to plan the way forward with implementing the recommendations. The decision was made to, first of all, advise agencies that this activity was taking place. The secretary of the Department of Communications, Information Technology and the Arts wrote to departmental heads advising that this activity was taking place, what agencies were involved in that activity and the general outline of what we were hoping to achieve. In that letter it advised agency heads that we would be developing essentially a better practice guide and some principles that agencies might follow in developing their IP policy and management practices.

Senator LUNDY—So at what stage of development is that better practice guide? Has it been distributed yet to agencies?

Dr Tucker—No, it has not been distributed to agencies. My assessment of the current state of play is that it is in the very early stages of preparation.

Senator LUNDY—Have you got an indicative timeline about when that better practice guide may be distributed? We did ask the department earlier about the status in response to the audit office report and it was clear that there was no listing of IP assets in the assets of the agency or department. They indicated that that might happen next year. So that told me that it was still at a very early stage as far as identifying IP assets and listing them in the financial statements.

Dr Tucker—I find it difficult to answer that question because, as I say, the better practice guide and the principles that go with it are in the early stages of development. There have

been some changes in responsibility from the Department of Communications, Information Technology and the Arts to the Attorney-General in relation to copyright, so that has led to some change there. I would have to say that has delayed the process.

Senator LUNDY—With those copyright issues and intellectual property related issues having gone from DCITA to A-G's, was this one of them, the responsibility for overseeing the implementation of these recommendations?

Dr Tucker—My understanding is that the leadership for the group of three has now gravitated to the Attorney-General's Department because the personnel from the communications department have gone with that activity to the Attorney-General's Department.

Senator LUNDY—Do you think DCITA will stay on this interdepartmental group? I am just curious.

Dr Tucker—I can only assume that, because the recommendation of the Audit Office was that the three departments move this project forward, so they would retain an interest in the project.

Senator LUNDY—Are you able to advise the committee whether or not IP Australia or this committee has received any policy direction from government in terms of the financial reporting protocols around intellectual property assets?

Dr Tucker—Perhaps I could ask my colleague to answer that question.

Mr Pereira—There have been changes with the international accounting standards coming into effect next financial year, so the direction in the policy is definitely coming from the Department of Finance and Administration and interpreted by the ANAO. It is just a matter of government agencies taking account of what changes there are. In light of Dr Tucker's comments on the broader issue of recognising IP assets, all this needs to be taken into account in the context of future financial reporting. With the international standards now bedded down, there should be a lot of work coming out of the Department of Finance and Administration—and I am sure there already has been—helping us define what that reporting requirement is.

Senator LUNDY—I do not know whether you will be able to answer this, but is it anticipated that in next year's portfolio budget statements there will be a line item valuing intellectual property assets?

Mr Pereira—The Department of Finance and Administration has asked agencies to delineate changes in their expected budgets coming out of the changed accounting standards. IP Australia is not anticipating any changes at this point. Because we are in the early stages of implementation of the international standards, it is hard to say what those changes will be until the reporting arrangements are looked at. Part of that is being looked at as we speak by the ANAO in their audits of opening balance sheets for agencies. So we will know more, but there is nothing, to my knowledge, in IP Australia that has been identified.

Senator LUNDY—Could you take on notice to provide to the committee details of any substantive developments in this area, even in establishing policy or the issuing of the guidelines.

Mr Pereira—Yes.

Senator LUNDY—Does IP Australia get involved in policies relating to the ownership of intellectual property as a result of contracting out arrangements within the Commonwealth?

Mr Pereira—Regarding tender processes?

Senator LUNDY—I will use an example to illustrate my question. For example, when the Commonwealth government engages an IT contractor to develop software, currently I understand Commonwealth policy is to do what they can to retain the intellectual property rights on the software that is developed. There has been some discussion with industry groups on arrangements to allow the contractor to at least have the rights to distribute that product in export markets based on the intellectual property developed in the government contract. I do not know if you would be involved.

Mr Pereira—I do not know of any formal role for IP Australia in that regard. It is more a procurement policy issue for the Department of Finance and Administration, I would think. We may be involved if we are asked to comment on that. I think it is also agency by agency. With the new procurement guidelines—I must admit I do not have anything in front of me—there would have been treatment on intellectual property in light of the Commonwealth procurement guidelines.

Senator LUNDY—Did you want to add something to that?

Mr P Noonan—Yes, I could. The intellectual property rights would be in the nature of copyright or computer software. These are not matters that are directly the concern of IP Australia so I would not expect IP Australia to have a role.

Senator LUNDY—So IP Australia are correct when they say this is a matter for the department to determine according to your responsibilities under the FMA Act?

Mr P Noonan—Each agency would have to apply the guidelines. Neither the department nor IP Australia would have a role in setting those guidelines.

Senator LUNDY—So I will refer my questions to the Department of Finance. Finally, with regard to the general role of IP Australia in the management of intellectual property in Australia, what have been the major trends arising that you have been able to identify since the start of the Australia-US Free Trade Agreement? For example, there was quite a bit of debate about the lodgment of patents in the lead-up to the signing of that agreement.

Dr Tucker—Are you referring to trends in patenting and trademarks?

Senator LUNDY—Patent lodgment or any disputes arising out of patents. I know the Patents Act was not amended, from memory, or only amended in a minor way.

Dr Tucker—No. There were some minor amendments made to the Patents Act. There were no amendments to the Trademarks Act. We introduced a new Designs Act anyway. In terms of overall activity in all of those with intellectual property rights—that is, patents, trademarks, designs and plant breeders rights—it is too early to say whether the Australia-US Free Trade Agreement has had an impact upon those trends. It is early days and it is hard to attribute any change in those lodgments of applications, for instance, to the agreement.

Senator LUNDY—Has there been any rise in the lodgment of applications or indeed in the lodgment of applications for patents or trademarks in Australia that already exist in other jurisdictions?

Dr Tucker—I do not think I understand your question.

Senator LUNDY—I am talking about the lodgment in Australia of a trademark or patent that exists in another jurisdiction to have the same patent or trademark applying.

Dr Tucker—In general terms, there has been quite a strong increase in trademark applications in recent years. There has also been a strong increase in patents, but that has levelled off recently. It is generally tied to economic conditions around the world. In terms of the number of applications that are arriving in Australia from other countries, there is no discernible change in those that could be attributed to the agreement. We are seeing in the patenting area that about 90 per cent of patents applied for in Australia are from overseas applicants anyway. But there is no change that we could attribute to any agreement or other factors.

Senator LUNDY—What is the IP special account for?

Mr Pereira—The IP Australia special account operates under a section 20 determination against the FMA Act. The finance minister has made a determination on the standing appropriation which the special account represents. We can deposit moneys to and withdraw moneys from that account for any purpose incidental to the oversight of the administration of IP rights in Australia. I do not have the actual wording of the section 20 determination, but I could make it available to you.

Senator LUNDY—So do you use that special account for any operational funding?

Mr Pereira—All moneys received by IP Australia are booked against that special account. All payments made by IP Australia come from that special account.

Senator LUNDY—But your departmental appropriations for operation are separate to that?

Mr Pereira—Only two per cent of IP Australia's funding comes from departmental appropriations. But they are deposited to that account. Ninety-eight per cent of our funding from customers is deposited to that account.

Senator LUNDY—So it does come from that. Are you subject to the efficiency dividend increase?

Mr Pereira—We are technically. Only a very small portion of our departmental appropriation of \$1.75 million relates to an item that would be subject to it. I think on rounding we missed an adjustment this year. We were rounded down below \$1,000, so no adjustment was made.

Senator LUNDY—Are there any changes to staffing in IP Australia as a result of the budget statements?

Mr Pereira—Of the budget statements that you have in front of you, the numbers were prepared in January this year. At that time, we were anticipating adjustments of some 20-odd

staff upwards. In the months since then, there has been further work on the recruitment of patents examiners. It is likely to be more than the 20 indicated.

Senator LUNDY—Bringing your total full-time equivalent staffing to what?

Mr Pereira—Approximately 800. That is my understanding.

Senator LUNDY—Is that likely to remain steady in the out years?

Mr Pereira—The growth that we will see as we have the current examiner intake could take us to over 800. But there are the usual losses of staff due to the factor of the ageing work force, so there is no plan to increase significantly in the long term. However, there could be increases in the short term as we take advantage of recruitment opportunities in the coming year. So as the attrition catches up, those numbers will come down again.

Senator LUNDY—I might take the opportunity to put a few more questions on notice. Thank you.

Mr P Noonan—You asked about the international accounting standards. Perhaps I could add something there. What is happening at the moment is that all agencies are applying those standards to their financial statements as at the middle of last year. They will then have to apply them again in the forthcoming end of financial year. At the same time, we are applying the national standards to this year's set of accounts. In fact, that is the priority so that once that is done on the normal time frame, people will be able to compare what we have done against the national accounts with last year's national accounts. Then both those sets of accounts will be restated on a slightly lower priority but adjusted for the international accounting standards so that there will be a direct comparison again between the two years. So there is an overlap between the two accounting processes. But that will take the next several months. It will in fact run beyond the normal time frame for producing the financial statements. Only then will you be able to see all the adjustments that have been made as a result of the international standards.

Senator LUNDY—To what degree will those changes impact upon the layout and the formula used in the department's portfolio budget statements?

Mr P Noonan—I do not think they will significantly affect the portfolio budget statement layout or format, but the numbers will be adjusted. We are only just in the process of working out what those adjustments are. It will take us a few more months to work that out.

Senator LUNDY—So what are they in the area of?

Mr P Noonan—There is a range of areas. Not being an accountant myself, I perhaps will not speculate on that, especially as a number of them are still in discussion.

Senator LUNDY—We will interpret that as a hefty qualifier on anything you are about to say.

Mr P Noonan—A number of those issues are still under discussion between the Department of Finance, ANAO and ourselves working out exactly what should be done as the international accounting standards are applied to our department's accounts.

Senator LUNDY—Do you expect that that will result in a line item for intellectual property assets? Is that your understanding of what the new standards means, or one aspect of it?

Mr P Noonan—Separating that out from intangibles, that is an issue I am not qualified to answer.

Ms Foster—We do not know yet. It is still being worked through. I would imagine that there would be probably a bit of difference in the presentation of the financial statements, but that is still unclear as yet.

Senator LUNDY—I think you took on notice separating out the intangibles line item, didn't you?

Ms Foster—I think we did, yes. We did. I will have to check that. We did, yes.

Senator LUNDY—If you did not, I will put that on notice. Thank you very much. Thank you to IP Australia.

CHAIR—The officers from IP Australia are excused. I invite to the table officers from Geoscience Australia.

Senator WEBBER—I want to spend most of my time focusing on the funding for the national tsunami warning centre. Can you outline how much will be spent in 2005-06?

Dr Williams—At table 2.2 at page 119 of the portfolio budget statements we have the breakdown of figures for expenditure of the tsunami money for the four years.

Senator WEBBER—Can you take me through that, because I do not have it in front of me. I have been somewhere else until now. I apologise for that.

Dr Williams—I will ask Dr John Schneider to give you a breakdown as he has been intimately involved in the planning of the system.

Senator WEBBER—That would be lovely. Thank you.

Dr Williams—It is page 119.

Dr Schneider—The breakdown is this: for resourcing, we have \$2.9 million in 2005-06 followed by \$4.3 million, \$4.3 million and \$3.3 million in the final year of a four-year program. For equipment, we have \$4.2 million in 2005-06 followed by \$1.7 million, \$0.4 million and nil for the final year.

Senator WEBBER—Now the total package of money, as I understand it, is \$21 million. That is divided up between Geoscience Australia, the Bureau of Meteorology and Emergency Management Australia. Is that right?

Dr Schneider—The \$21.2 million is for Geoscience Australia.

Senator WEBBER—That is all for you?

Dr Schneider—Yes, of \$68.9 million total.

Senator WEBBER—That is right. It is late at night; I am easily confused.

Mr Robinson—The table on page 174 of Budget Paper No. 2 will give you how much goes to each agency in which year.

Senator WEBBER—Of the \$21 million that goes to Geoscience Australia—and you have roughly taken me through capital and what have you—can you give me a bit more of an outline of how that will be spent? What will you spend it on?

Dr Schneider—In terms of the equipment, that will be primarily spent on seismographs and upgrading seismic equipment and telecommunications equipment for a variety of installations basically within Australia and external to Australia so that we can provide better locations and magnitudes of earthquakes. So that is primarily for instrumentation. The operations funds will be for two parts. The first part is to put in place a number of implementation staff who will be charged with basically putting in place those stations. The remainder will be putting in place a 24/7 operations centre at Geoscience Australia.

Senator WEBBER—The 24/7 operations centre, whose responsibility is that? Is it Geoscience Australia? Is it BOM?

Dr Schneider—There are effectively two mirrored operations centres.

Senator WEBBER—So we are having two centres?

Dr Schneider—One, as was outlined by Dr Love last week, will be in Melbourne with regional offices providing support to that and issuing warnings. The other will be in Canberra based at Geoscience Australia. It will be primarily for detecting earthquakes and issuing notification about potentially tsunamogenic earthquakes.

Senator WEBBER—And the one in Canberra will be staffed?

Dr Schneider—That will be staffed 24/7.

Senator WEBBER—Which is a bit of a change to the current arrangement.

Dr Schneider—Correct.

Senator WEBBER—We had a bit of a discussion before about that.

Dr Schneider—Yes. The current arrangement is 24/7, but people are basically on call.

Senator WEBBER—It is 24/7 without people there all the time.

Dr Schneider—They are basically on call, correct.

Senator WEBBER—Do we think this is an improvement, or is it just a reaction?

Dr Williams—It is a vast improvement.

Senator WEBBER—It is a vast improvement. Is it something that Geoscience Australia has felt the need for for a while?

Dr Williams—I think the world in general did not appreciate the need for the sort of system we are now building. It took the worst earthquake and tsunami in recorded modern history to show just how devastating these events can be and to show up deficiencies in the systems around the world.

Senator WEBBER—When it is staffed 24/7, is that just by one officer, or do we have a view on how we are going to manage that?

Dr Schneider—The basic idea is that there will be at least one person on staff at his or her computer 24/7. Depending on the time of day, obviously there would be other support people.

But we have not worked out the detail of exactly how that will work. That is something that is a work in progress.

Senator WEBBER—So when do we envisage this centre will come on line and you will have all that detail worked out?

Dr Schneider—We have put in place a team leader, a group leader, Dr Barry Drummond, who is taking charge of developing Geoscience Australia's system. We are in the process of putting in place three senior people—a project leader, manager and contract manager—over the next week or so. Basically by 1 July we will have in place a core capability so that we can move this forward as quickly as possible.

Senator WEBBER—I presume all those people are working fairly closely with the other two agencies involved in this project?

Dr Schneider—Yes. We have had numerous meetings—I would say over the last six months probably on at least a weekly basis—with the Bureau of Meteorology. We have had quite a number of meetings as well with Emergency Management Australia and with Foreign Affairs in putting all this together.

Senator WEBBER—Good. I notice from your web site that the agency talks about updating Australia's seismic monitoring. Can you explain whether this is actually about increasing the number of seismic monitors, upgrading existing equipment or purchasing new equipment?

Dr Schneider—For the tsunami warning system?

Senator WEBBER—It is just a general statement on your web site so it obviously has something to do with it.

Dr Schneider—The answer is yes. We are in the process of that, yes.

Senator WEBBER—The answer is all three, is it?

Dr Schneider—All three, yes. We are in the process of upgrading instruments, putting in new ones and improving communications.

Senator WEBBER—And how many new ones are we having and where?

Dr Schneider—There are several new ones that are proposed, but I would have to say they are not cast in stone because they do require negotiation with overseas people.

Senator WEBBER—Where are we looking at?

Dr Schneider—Let me just pull out a map of that. I can provide you with that. Again, I qualify this with the fact that we will need to discuss these with our neighbours and there will be some negotiations about the exact locations. But, tentatively, they will be on Campbell Island, Chatham Island, Niue, Rabaul, Weewak in PNG and Christmas Island. They are the key ones. There would also be upgraded stations. The upgraded ones are primarily stations that are existing installations that are owned and operated by, for instance, an organisation based in the US called the Incorporated Research Institutions for Seismology. They operate a global network of seismograph stations. We have been in discussion with that organisation to provide some additional telecommunications capability for a number of those stations. I am

not sure of the exact number but it is in the order of probably 10 or 12 of those stations. We would be also upgrading some existing seismographic stations on Australian territory as well.

Senator WEBBER—Have we identified where they are?

Dr Schneider—There is one at Narrogin, one at Learmonth and one at Fitzroy Crossing. We are putting a new one in at Gove off the Gulf of Carpentaria. There is one at Charters Towers, which is again an existing station; Buckleboo, Canberra and Hobart and then potentially new ones on Lord Howe Island and Norfolk Island. So that is the plan.

Senator WEBBER—And how much do each of these new ones cost?

Dr Schneider—The new ones are in the order of about \$650,000 basically installed. That covers the gear as well as the cost of installation. The upgraded ones—

Senator WEBBER—Cheaper?

Dr Schneider—are much, much cheaper.

Senator WEBBER—It may be late but even my brain can do that. And how far along the path are we with actually negotiating—this is probably more a DFAT question than anything—with these overseas entities about installing some of these new ones?

Dr Schneider—I can tell you that with regard to the Indian Ocean because we have basically been in discussions with Indian Ocean nations since the Boxing Day tsunami. We have only recently started discussing the collaboration in the south-west Pacific. In the Indian Ocean area, we have had some discussions with Indonesia, India, Malaysia and Thailand as well as Mauritius and other countries. But primarily I suppose our most in-depth discussions have been with India and Indonesia because they are similar to Australia in putting in their own dedicated national tsunami warning systems.

Senator WEBBER—And that is progressing smoothly?

Dr Schneider—Yes, it has been. I think the last meeting we had with them was at Mauritius about a month ago.

Senator WEBBER—I heard about that. You were talking earlier about upgrading some of the existing installations. Can you perhaps give me an overview of the state of our existing seismic monitoring network?

Dr Schneider—Such as?

Senator WEBBER—What is it like? Are there any other challenges? This is your opportunity to bid for more money and more resources.

Dr Schneider—Well, the network as it exists is primarily designed to detect, locate and estimate magnitudes of earthquakes within Australia. It has never been designed for the purpose of really locating or doing an accurate job of measuring earthquakes outside Australia. So the present tsunami warning system is designed to really augment the system to provide that additional detection capability and rapid alert capability. Within Australia, it is still quite a sparse network. In some cases, there are places where we could certainly use more instrumentation, but it is adequate to provide a basic understanding of seismicity down to about magnitude three. But, yes, it is a system that has been in operation for quite a while. As a seismologist there are certainly places where I would make an improvement.

Senator WEBBER—So it is adequate but not optimal?

Dr Schneider—I would say it is not optimal.

Senator WEBBER—Can you outline for me the priorities in the development of the around-the-clock operations and analysis centre over the coming year? Where do you think you will be at 12 months from now?

Dr Schneider—We have not finalised our plan so it would be quite difficult to say exactly where we will be in 12 months. We operate a 24/7 system now which is able to provide basic information about earthquakes. We would certainly hope that in 12 months we would have at least our core operational centre up and running and we would have a few of our external stations in place. But those plans really require some additional work over the next month or two to develop.

Senator WEBBER—So when is it anticipated, then, that we will have the centre actually up and fully functional?

Dr Schneider—The proposed system will be fully up and running and 100 per cent operational in four years.

Senator WEBBER—But not before then?

Dr Schneider—We will have bits and pieces of that and certainly an augmented capability within about a year. But we will not have the full—

Senator WEBBER—And what is the first bit that will be up and running then?

Dr Schneider—Our objective, of course, would be to have our operations staff up and running within about a year. I think the funding actually is phased in over a number of months. In approximately a year, I think, we are expected to have that fully staffed.

Senator WEBBER—So how many extra staff is that?

Dr Schneider—I think it is nine or 10 staff full time. That includes basically six people around the clock to manage the operations centre. It also includes some IT support. I think there is a scientist position. The scientist position is part of the non-ongoing staff. It is basically six staff for the operations centre and then a couple of other additional support staff to assure that the communications system is up and that we are up and running with the computer system.

Dr Williams—In addition to those staff that Dr Schneider has just outlined who are ongoing, there will also be an additional four in non-ongoing positions who will be involved in the setting up of the equipment and breaking in the telecommunications and getting that all up and running.

Senator WEBBER—When the centre starts to become operational, I am taking it for granted that it will actually be linked to other international warning centres, or are we a standalone facility here in Canberra?

Dr Schneider—Again, I think as Dr Love pointed out the other day, basically on the Indian Ocean side the organisation of a regional tsunami warning system is being coordinated through the Intergovernmental Oceanographic Commission out of UNESCO. The basic idea there is to put together a system of national warning systems. So Australia, together with

Indonesia, India and perhaps others, would form the core of that Indian Ocean capability. On the Pacific side, there is the Pacific Tsunami Warning Centre based in Hawaii. They are also operating under the auspices of the IOC. They will continue to maintain the central facility for issuing warnings. Australia will feed data to them. We have yet to work out the protocol as to how that will manifest itself in terms of, say, regional warnings around Australia. But presently it is their role to issue those warnings.

Senator WEBBER—But we are working on that?

Dr Schneider—We are working on that.

Senator WEBBER—You will be pleased to know I do not have much more. On a different issue, I notice that one of your key priorities for this year is to acquire and interpret marine survey data to find new offshore petroleum fields, which is something of significant interest to me given that I am from Western Australia. Can you perhaps bring the committee up to date with the current view regarding the availability of offshore petroleum?

Dr Foster—I am not quite sure of the question.

Senator WEBBER—Perhaps we can start with what we are doing in terms of meeting that key priority. We will start back there.

Dr Foster—In terms of the new program, we have released in April this year the Bremer Sub-basin directly—this is from Albany—and the Vlaming Sub-basin towards Perth along with other areas. They are the two that resulted from the new government program.

Senator WEBBER—So they are the two priorities—

Dr Foster—They are the two frontier priorities.

Senator WEBBER—of offshore exploration. Apart from those two priorities, what is on the list? Where is the potential?

Dr Foster—In consultation with industry, we have agreed on a program to look towards the offshore central North West Shelf in the Rowley Sub-basin. In the Arafura Sea, currently a program has just been completed.

Senator WEBBER—I want to ask you about that in a tick.

Dr Foster—We predict it will go for acreage release next year. They are the primary areas to date.

Senator WEBBER—I think my friends in Victoria have asked me to put in a plug for doing some work there, but we will not get on to that. In terms of the Arafura Sea, when I was talking to Dr Love the other night, he was saying that you have had a vessel up there exploring.

Dr Foster—The vessel was looking for natural hydrocarbon seepage on the sea floor as an indication of producing petroleum systems.

Senator WEBBER—Was it successful?

Dr Foster—That survey was completed on 29th of this month. There is a wealth of data to be analysed.

Senator WEBBER—When do we anticipate we will have that analysed?

Dr Foster—That will contribute towards the acreage release package. That should be available in April 2006. There will be, of course, earlier results, but that is the official launch in keeping with the acreage release program.

Senator WEBBER—The National Oceans Office tell me that you also found sea creatures that we did not know were in Australian waters.

Dr Foster—It was a different cruise.

Senator WEBBER—Sorry.

Dr Williams—We do petroleum related cruises and marine environmental cruises.

Senator WEBBER—I thought you went together and did it all at once.

Dr Williams—Different equipment, different objectives, different areas.

Senator WEBBER—I understand that there is different equipment and very different objectives, absolutely. When do you anticipate you will have the work done in the North West Shelf?

Dr Foster—That survey is scheduled to take place in the second quarter of next financial year.

Senator WEBBER—So when will we have the results of that?

Dr Foster—There will be interim results as it comes along. Again, always to acreage release. These are the petroleum surveys for acreage release.

Senator WEBBER—Those are all the questions I have, so thank you very much.

Senator LUNDY—We might get an early mark yet; we will see how we go. I would actually like to ask Geoscience Australia about their spatial information assets and geospatial datasets. Some time ago, the then minister for industry signed off on the finalisation of the spatial information action agenda. One of the significant recommendations of that action agenda is for business and government to develop jointly a common approach to spatial data access and pricing and formulate a copyright policy that maximises benefits to Australia. It goes on to say the industry considers that this will be achieved through:

...the pricing of data at a cost of distribution, with minimal copying and royalty restrictions.

I am reading that from the spatial data information industry's final report, if you like, called *Positioning for growth*. I am interested in the extent to which Geoscience Australia has been able to engage with the spatial data information industry to progress some of these recommendations or indeed respond to them from the perspective of Geoscience Australia. I am certainly fully aware of some of the implications for the agency of these matters. I am interested to hear what policies are adopted by Geoscience Australia in response to this report.

Dr Williams—I will begin that answer and then hand over to Peter Holland. The spatial data access and pricing policy within the government is run by the Office of Spatial Data Management, which is housed within the Geoscience Australia building. The director of that group answers to me with accountability for that policy. We have an overarching policy executive that looks after the big strategic picture for that activity. We then have a spatial data

management group which looks after the day-to-day interests. Mr Holland chairs that group. I might just start by saying that the policy is making good progress. In 2003-04, government agencies in total distributed some 52,565 scheduled spatial datasets. It was agreed in setting up the policy that once a dataset is designated as being part of this policy it goes on to the schedule. That could be a Geoscience Australia dataset. It could be from, say, an environmental agency or Agriculture. They get distributed free of charge over the Internet or at the marginal cost of transfer. So the figure I gave you sort of is the sum total of what was released last financial year.

Senator LUNDY—It is 52,000 plus.

Dr Williams—It is 52,565 separate datasets. It might have been several copies of one. But there has been a massive movement of spatial data out into the industry.

Senator LUNDY—That sounds like a lot. Is it a lot relative to previous years? Can you reflect on the growth of demand for this type of geospatial information?

Mr Holland—There has been a dramatic growth in take-up of Commonwealth spatial datasets under the policy since the policy was introduced in September 2001. It has been in operation now for three and a half years. Geoscience Australia has experienced a tremendous take-up of its particular datasets, particularly those datasets that relate to geophysics, mineral resources and topographic information. I do not have the exact figures in front of me in terms of a before the policy and after the policy comparison. We can provide them to you. But there has been a huge surge in demand.

That has been facilitated in part by investments by Australian government agencies. GA, for example, has invested quite heavily in its Internet infrastructure to make it easier for users to select and download datasets under the policy. The managing group that Dr Williams just referred to has just recently introduced a single licence arrangement that covers all of the agencies across the Commonwealth so that a user now no longer has to go to separate agencies in order to reach agreement on licence conditions. There is a single licence that covers access to datasets under the policy across the whole of Australian government.

Senator LUNDY—But for all of the datasets on the schedule?

Mr Holland—Correct.

Senator LUNDY—So when was that specifically implemented, that general licence?

Mr Holland—It is a relatively recent arrangement and took effect, I think, in January this year.

Senator LUNDY—So what is the process for an organisation wanting to obtain that single licence?

Mr Holland—The process works in several ways. There is a portal provided through the Office of Spatial Data Management web site. That portal points to the agencies from whom the datasets can be obtained. The user has the option of going to those individual agencies and selecting datasets that they may wish to acquire. Alternatively, Geoscience Australia hosts a mechanism for agencies who wish to use the common licensing arrangement to actually access those datasets through Geoscience Australia. So in a sense there is a one-stop shop for certain datasets.

Senator LUNDY—What does a single licence cost?

Mr Holland—The policy provides that for datasets that are obtained online there is no cost. So the licence is effectively a contractual mechanism whereby the user acknowledges that the Commonwealth holds copyright in the datasets and discloses some very basic information about intended use. That is not an onerous requirement for information from a user. It is principally used by the data supplying agencies to show where the datasets are being used so that they can then factor those users into future plans for the development of the dataset. So it is a very simple process and it is a low-cost process in terms of the time taken to tick and flick the licence.

Senator LUNDY—Thank you for that. In terms of the datasets on the schedule, you mentioned downloads. I would imagine some of these maps and graphically expressed datasets would be quite substantial files. How do you go providing that as a download service? To what extent does it cause a problem for people downloading who do not have pipes fat enough to do it? Indeed, what is the burden on your system in providing so many downloads?

Mr Holland—Paper products are not covered by the policy. The policy applies only to digital data. But, as you correctly say, there are data files that are very large in size. For example, the satellite imagery that Geoscience Australia provides under the licence is far too big for online download, by and large. Under those circumstances, the policy allows for product pricing to take effect. That is, the cost of distribution pricing is based on the cost of the reproduction of the dataset on to an appropriate medium.

Senator LUNDY—Like a CD-ROM or something?

Mr Holland—Correct. Or, more and more these days, a DVD or something similar. However, in terms of relatively large file sizes and user interest in online access, anecdotally we are finding that there is a take-up, in a sense, of broadband services by a segment of the user base—that is, more in the private sector and in the general user community. Government agencies, by and large, have always had access to relatively large bandwidth connection and therefore have found it relatively easier to take possession of large volume datasets.

Senator LUNDY—Thanks for that. What has the response been from other agencies and departments about getting them to come in under this policy to provide datasets for the schedule? Can you give some examples of other datasets from other agencies that are part of the scheme?

Mr Holland—I guess in the first 12 months to 18 months of the policy the agencies that brought datasets on to the schedule were those agencies that traditionally had been in the business of supplying spatial information. Those agencies were the Geoscience Australias of this world: the Department of Agriculture, Forestry and Fisheries through, say, the Bureau of Rural Sciences; and the Department of the Environment and Heritage, say, through the Environment Resource Information Network—those sorts of physical sciences agencies, if I can call them that—and CSIRO to a certain extent. What we have found, though, very pleasingly, in recent times has been an upsurge in interest by the social policy agencies, for example, in potentially making some of their datasets that are not subject to privacy constraints available under the policy. I cannot give you specific examples at this point. But

the take-up of agencies that have volunteered to put their datasets on to the schedule, the range of agencies, has certainly increased in the latter period.

Senator LUNDY—What are your policies with respect to archiving those datasets and your relationship with Australian Archives in that regard? Commonwealth agencies and partners do have obligations under the archives. I am wondering whether these datasets fall within those obligations?

Dr Williams—We can possibly speak for Geoscience Australia. We have our corporate information management strategy. An integral part of that strategic plan is that our datasets do get archived and comply with the act. I assume that is the case with the other agencies. But within our agency that is something that we spend a lot of time getting involved in.

Senator LUNDY—What has the resource impact been on Geoscience Australia for this initiative? Were additional resources supplied or is the cost recovery genuinely associated with costs you incur? Therefore, have you been able to keep the whole thing cost neutral?

Mr Holland—I guess we have noticed a small decline in revenues from sale of product, as you would expect.

Senator LUNDY—As people go online?

Mr Holland—Yes. We did not have a very large revenue base to start with in that regard. But we have seen a slight reduction in revenues. On the other hand, we have seen significant efficiencies in terms of getting the product out into the marketplace. It is far more efficient for us to have our datasets available on a central server and have people suck them down a pipe than it is to have staff dedicated to packaging products and sending them out through the normal postal channels. The resources that are applied in our agency now to the whole area of information management and information dissemination are quite different to what they might have been five plus years ago. I guess that is probably partly a reflection of the impact of the policy. But it is probably more to do with the reality of the user side of the marketplace and the technology growth in our own agency. It has been a natural progression to move into the arena of digital dissemination of information. We have appropriately shifted capacity in response to that.

Senator LUNDY—And what about impacts on the cost of maintaining IT systems and servers that are capable of moving these large datasets around?

Mr Robinson—It would be very difficult to give a precise answer to how much the growth in the requirement for storage of digital data could be attributed to the policy. Needless to say, the growth is continuing and quite substantial. More and more of the organisation's work ends up as massive GIS datasets. We have a growing storage need electronically. I would not be able to say how much of that is due to the change in policy. Obviously it has had an effect.

Senator LUNDY—I guess what I am trying to ascertain is whether or not there are any identifiable additional costs as a result of this policy in any area. There does not seem to be anything of any notable substance.

Mr Robinson—We have not done a detailed analysis. But there are costs and there are savings, obviously.

Senator LUNDY—Thank you. It is all very interesting. Can I just ask you about your purchaser provider arrangements with the Department of Defence. I was reading with great interest page 128 of the PBS. Geoscience Australia has a role in the capture, presentation and distribution of topographic maps and data on behalf of the Department of Defence. Can you elaborate on the details of that arrangement, including Geoscience Australia's capacity to cost recover for these activities?

Mr Holland—The arrangements that we have with the Department of Defence are quite extensive and very important in terms of the core business of Defence and of GA. The service delivery arrangement that we have with Defence relates specifically to the production of maps and digital mapping data for the department and for the storage and distribution of maps and digital data on behalf of the Department of Defence. Those arrangements are paid for through charges levied on Defence. We utilise, at least insofar as the map production side of the arrangement is concerned, our existing contract arrangements with private sector suppliers that are already being utilised for the production of our own Geoscience Australia maps and digital data.

I guess the essence of the minister-to-minister agreement between our own portfolio minister and the Minister for Defence was to increase the efficiency of those particular activities being undertaken. It has allowed, in the case of Defence, a focus offshore as opposed to in the past a focus both onshore and offshore. Quite naturally, Geoscience Australia, being the Australian government's civilian agency involved in this particular activity, is able to leverage the existing infrastructure that we have in place in order to meet Defence's requirements for map products and for storage distribution of map products from our own infrastructure.

Senator LUNDY—So essentially, if I am interpreting this correctly, you have increased your capability in response to Defence's needs but still within a cost neutral environment?

Mr Holland—We have basically leveraged existing contractual arrangements that were in place to support Geoscience Australia. We have put more money through those channels, if you like, that is Defence money, in order to meet both Defence requirements and our own requirements. There has been a very small amount of additional management requirement that we have built into the agency to support the defence need. But by and large it has been leveraging existing contractual channels. In the case of the map storage facility, it is just putting all maps into the existing warehouse building.

Senator LUNDY—To what degree, if any, is Geoscience Australia involved in the strategy for the protection of Australia's critical infrastructure, which I think is administered by Attorney-General's?

Dr Williams—We have an involvement in that activity through our geohazards and geospatial group. That activity is primarily in the provision of spatial datasets and expertise for the requirements of that activity.

Senator LUNDY—So are you involved in any of the interdepartmental committees or strategy working parties? I cannot remember how they described it.

Dr Williams—Yes.

Senator LUNDY—Do you know which ones specifically?

Dr Schneider—There are a couple of committees associated with it. There is national spatial information for the National Security Committee and an Australian government committee which is basically for the Australian government component of that. You mentioned the PACCT, the acronym for Publicly funded Agencies' Collaborative Counter-Terrorism research program. Basically CSIRO, DSTO, Geoscience Australia and a couple of others are involved. ANSTO is the other key one.

Senator LUNDY—I am happy for you to take that on notice.

Dr Schneider—I guess our involvement is primarily through a project that we are in the process of developing with Attorney-General's on critical infrastructure protection. That work feeds off some of the work we have been doing historically on natural hazards. It is also a natural fit for some of the counterterrorism work.

Senator LUNDY—Thanks. When the security and critical infrastructure initiatives were announced, did Geoscience Australia get any budget allocation as part of that initiative, or have you had to absorb the costs of being part of this within your annual appropriations? I just cannot remember an allocation to Geoscience Australia.

Dr Williams—There was a budget allocation made to A-G's. Some of that money in turn was assigned to us for our activities.

Senator LUNDY—How much?

Mr Robinson—I think in the last financial year it started with \$200,000 for four years.

Senator LUNDY—For four years?

Mr Robinson—It is \$200,000 each year for the next four year. It is four lots of \$200,000.

Senator LUNDY—So it is \$800,000 all up. Thank you. Finally, the efficiency dividend has increased from one per cent to 1.25 per cent. What are you having to cut to deliver not only the efficiency dividend annually but now the increased efficiency dividend?

Dr Williams—I guess I would repeat the answer that Mr Paterson gave this morning. We endeavour to be much more efficient in the management of the agency. It is a great incentive to work hard to ensure that what we do is efficient and that we do it differently and do it better. Mr Robinson has talked about a lot of the IT areas and the information management. We can get savings by doing things in a centralised fashion, for example, and that is what we are doing with our information management. It used to be in each of the divisions and it is all being put in one central group within the agency. So it is all of those management type issues that goes to the administration of the agency.

Senator LUNDY—Based on Senator Webber's questions, I think you have a net increase in the number of full-time equivalent staff?

Dr Williams—Yes.

Mr Robinson—We are talking about 20 net.

Senator LUNDY—To follow that up, are there any programs or initiatives within Geoscience Australia that have had to be modified or reduced as a result of the increase in the efficiency dividend that you are able to point to?

Mr Robinson—There is no particular program that we have cut specifically because of that extra 0.25 per cent. It is affecting all areas equally. There are, of course, things that we adjust because of efficiencies but not precisely because of that extra 0.25 per cent, no.

Senator LUNDY—I have no further questions.

CHAIR—The proceedings are adjourned until 9 am tomorrow morning.

Committee adjourned at 10.41 pm