

# Finance and Deregulation Portfolio

4.1 The committee took evidence from the Department of Finance and Deregulation (Finance) and portfolio agencies on Wednesday, 28 May and Thursday, 29 May 2008.

4.2 The committee examined a range of topics including the following which are discussed below:

- Ministerial and Parliamentary Services;
- changes to the Portfolio Budget Statements; and
- the *Charter of Budget Honesty Act 1998*.

## Department of Finance and Deregulation

### *Ministerial and Parliamentary Services*

4.3 Considerable time was spent examining officers from the Ministerial and Parliamentary Services business group. The committee was provided with the usual insightful information on staffing levels.<sup>1</sup>

4.4 Senator Faulkner informed the committee that on 1 July 2008, when the Senate reflects the changes in distribution of Senators due to the 2007 Federal election, there will be additional staff positions created to support Australian Greens' Senators. During the hearing, Senator Faulkner declined to outline the specifics of the increase in staffing numbers allocated to the Australian Greens as a letter from Senator Faulkner advising of the changes had not been received by Senator Brown. Senator Faulkner advised the committee that he would take on notice the question of how many staff the Australian Greens' Senators would be entitled to.<sup>2</sup>

4.5 Senator Faulkner informed the committee that there is currently a total of 5 Ministerial staff with personal classifications that are paid above the standard salary range usually applied to other staff. This compares to over 30 who were employed at the higher level at the end of the last government.<sup>3</sup> This led Opposition

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1 Department of Finance and Deregulation, *Government Personal Position as at 1 May 2008*, tabled 28 May 2008. See: [www.aph.gov.au/Senate/committee/fapa\\_ctte/estimates/bud\\_0809/finance/tailed\\_documents/Government\\_Personal\\_Positions\\_28-05-09.pdf](http://www.aph.gov.au/Senate/committee/fapa_ctte/estimates/bud_0809/finance/tailed_documents/Government_Personal_Positions_28-05-09.pdf); Department of Finance and Deregulation, *Government staff personal classifications*, tabled 28 May 2008. See: [www.aph.gov.au/Senate/committee/fapa\\_ctte/estimates/bud\\_0809/finance/tailed\\_documents/Govt\\_Personal\\_Classifications\\_28-05-08.pdf](http://www.aph.gov.au/Senate/committee/fapa_ctte/estimates/bud_0809/finance/tailed_documents/Govt_Personal_Classifications_28-05-08.pdf).

2 Senator the Hon John Faulkner, *Estimates Hansard*, 28 May 2008, p. 15.

3 Senator the Hon John Faulkner, *Estimates Hansard*, 28 May 2008, p. 17.

Senators to question Senator Faulkner extensively about the decision making process for appointing staff with personal classifications.<sup>4</sup>

### *Changes to the Portfolio Budget Statements*

4.6 The committee discussed the different content and form of the recently released Budget Papers. Senator Abetz highlighted concerns about the new structure of the Portfolio Budget Statements (PB Statements) asking why there was a reduction in the number of pages devoted to the presentation of Budget information for various agencies.<sup>5</sup> A Finance official informed the committee that some previous information that was duplicated has now been placed into an 'agency resource statement' located within the PB Statements:

...key financial information was spread throughout the document and often repeated. What we were trying to do was to allow agencies just to provide the information in one place rather than at various times throughout the document.<sup>6</sup>

4.7 The issue of the changes to the PB Statements is further discussed in Chapter 1 of this report.

4.8 Senator Abetz sought a copy of the document *Portfolio Budget Statements Constructors Kit* that Finance has developed to provide advice to agencies about how they should be presenting their Portfolio Budget Statements.<sup>7</sup> This was tabled before the committee.<sup>8</sup>

4.9 The decision to no longer mandate the capital budget statement, and the property, plant, equipment and intangibles in PB Statements was also raised.<sup>9</sup> The Secretary of Finance responded that it did not make much sense for smaller agencies to have to include this information if it did not relate to them. He also explained that although these items may not be included in the PB Statements, they would still be included in financial statements.<sup>10</sup>

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4 *Estimates Hansard*, 28 May 2008, pp 16–20.

5 *Estimates Hansard*, 28 May 2008, pp 53–60.

6 Ms Kathryn Campbell, General Manager, Financial Management Group, Department of Finance and Deregulation, *Estimates Hansard*, 28 May 2008, p. 55.

7 Senator the Hon Eric Abetz, *Estimates Hansard*, 28 May 2008, p. 54.

8 Department of Finance and Deregulation, *Portfolio Budget Statements Constructors Kit*, tabled 28 May 2008. See: [www.aph.gov.au/Senate/committee/fapa\\_ctte/estimates/bud\\_0809/finance/taled\\_documents/PBS\\_Constructors\\_28-05-08.pdf](http://www.aph.gov.au/Senate/committee/fapa_ctte/estimates/bud_0809/finance/taled_documents/PBS_Constructors_28-05-08.pdf) (accessed 16 June 2008).

9 *Estimates Hansard*, 28 May 2008, p. 60.

10 Dr Ian Watt, Secretary, Department of Finance and Deregulation, *Estimates Hansard*, 28 May 2008, p. 60.

4.10 Senator Murray also questioned officials about the changes to the Portfolio Budget Papers more broadly. Specifically, Senator Murray asked whether Finance has received any feedback about the resource statement contained in Budget Paper No. 4. The Secretary responded positively, and stated that he believed that the document enhances the transparency of the Budget Papers.<sup>11</sup> Furthermore he stated:

I think one of the tests of Budget Paper No.4, as it stands now, will be after this round of estimates hearings rather than still very much at the beginning of them. Whether it attracts any attention on other committees and gets any commentary and use will be one indication of whether or not the changes are useful.<sup>12</sup>

### ***Charter of Budget Honesty Act 1998***

4.11 Senator Fifield questioned Finance about the commitments the government made under *Operation Sunlight*, to amend the *Charter of Budget Honesty Act 1998* in order to provide access to the Opposition in the pre-election period to government costing resources.<sup>13</sup> The Secretary replied that Finance will provide advice to the government about this commitment, but that there were other priorities relating to the implementation of *Operation Sunlight* that needed to be addressed more urgently in the current Budget round (2008–09). He added that any other commitments would be addressed towards the second half of 2008.<sup>14</sup>

4.12 Other matters that the committee discussed during the examination of Finance included:

- car parking arrangements and alterations at Commonwealth Parliamentary Offices;<sup>15</sup>
- register of private interests for ministerial staff;<sup>16</sup>
- certification of management accounts;<sup>17</sup>
- the supply of, and technical support for PDAs to Members and Senators;<sup>18</sup>

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11 *Estimates Hansard*, 28 May 2008, pp 61–62.

12 Dr Ian Watt, Secretary, Department of Finance and Deregulation, *Estimates Hansard*, 28 May 2008, p. 62.

13 Senator Fifield, *Estimates Hansard*, 28 May 2008, pp 63–64.

14 Dr Ian Watt, Secretary, Department of Finance and Deregulation, *Estimates Hansard*, 28 May 2008, p. 64.

15 *Estimates Hansard*, 28 May 2008, pp 20–24.

16 *Estimates Hansard*, 28 May 2008, pp 24–26.

17 *Estimates Hansard*, 28 May 2008, pp 27–28.

18 *Estimates Hansard*, 28 May 2008, pp 38–40.

- the addition of the COAG working group to the responsibilities of Finance;<sup>19</sup>
- the progress made in implementing *Operation Sunlight*;<sup>20</sup>
- the government's deregulation agenda;<sup>21</sup>
- the application of the efficiency dividend;<sup>22</sup>
- advice given by Finance in relation to changes to the Medicare levy surcharge;<sup>23</sup> and
- consultants employed to undertake an audit into the Northern Land Council.<sup>24</sup>

## **Medibank Private**

4.13 The committee discussed a range of issues during its examination of Medibank Private, including:

- an overview of Medibank Private's performance;
- the effect of the changes to the Medicare levy surcharge;
- private health insurance premiums; and
- board appointments.

### ***Medibank Private's performance***

4.14 The Managing Director of Medibank Private informed the committee of the private health insurance fund's performance over recent years:

The fund over the last five years has performed very well. It had a tough journey back in 2002. The fund lost \$175 million. Since that time, we have had a steady and progressive improvement to our business performance, and the margin improvement continued right through on a steady basis, so that last year our financial results showed a net profit around \$295 million, with a revenue line-up of just over \$3 billion...<sup>25</sup>

4.15 Senator Cormann questioned the Managing Director about the company's role in the overall Australian health system, and what was the size of the share that the company delivered in private hospital services across Australia. A response was

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19 *Estimates Hansard*, 28 May 2008, pp 62–63.

20 *Estimates Hansard*, 28 May 2008, pp 64–69; *Estimates Hansard*, 28 May 2008, pp 75–78.

21 *Estimates Hansard*, 28 May 2008, pp 82–83.

22 *Estimates Hansard*, 28 May 2008, pp 83–86.

23 *Estimates Hansard*, 28 May 2008, pp 69–74.

24 *Estimates Hansard*, 28 May 2008, pp 89–92.

25 Mr George Savvides, Managing Director, Medibank Private, *Estimates Hansard*, p. 40.

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provided that Medibank Private is the largest procurer of hospital services in the country.<sup>26</sup>

### ***The effect of changes to the Medicare levy surcharge***

4.16 With the government's recent Budget announcement to increase the threshold of the Medicare levy surcharge, Senator Cormann asked the Managing Director about a range of issues concerning the effect on Medibank Private's operations.

4.17 Senator Cormann asked whether Medibank Private had been advised by the government of its plans to change the Medicare levy surcharge prior to the release of the Budget on 13 May 2008. The Managing Director replied that he was not advised of the government's plans in advance.<sup>27</sup>

4.18 In response to questioning from Senator Cormann about the likely outcome of the changes of the Medicare surcharge will have on its customer base, the Managing Director of Medibank Private replied:

We would expect that the Medicare levy surcharge changes that have been made or indicated will contract the growth in that particular cohort of members who come through on those salary bands. We have seen the Treasury assumption document. Out of that, and we are not necessarily saying it is exactly the same view we have, but, if you use it as a guide, it has the ability to slow down our hospital growth rate probably by about, at the light end, seven per cent and maybe up to 10 per cent.<sup>28</sup>

### ***Private health insurance premiums***

4.19 Senator Fielding asked several questions relating to the basis on which private health insurance companies seek approval to increase their premiums. Senator Fielding was particularly interested to know if increases in premiums are granted by the government above the consumer price index, which is often used to justify increases.<sup>29</sup>

4.20 The committee was informed that the Private Health Insurance Administration Council (PHIAC), the regulator of the sector, sets the criteria for increases. Senator Fielding asked Medibank Private whether they would be prepared to table their submission to PHIAC. The Managing Director stated that it was highly sensitive commercial document, whilst Senator Sherry indicated that he would consider the issue of supplying the document on notice.<sup>30</sup>

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26 *Estimates Hansard*, 28 May 2008, pp 40–41.

27 *Estimates Hansard*, 28 May 2008, p. 43.

28 Mr George Savvides, Managing Director, Medibank Private, *Estimates Hansard*, pp 45–46.

29 Senator Fielding, *Estimates Hansard*, 28 May 2008, p. 49.

30 *Estimates Hansard*, 28 May 2008, p. 49.

### ***Board appointments***

4.21 Senator Bernardi questioned Senator the Hon Nick Sherry, representing the Finance Minister, about whether the government has decided to reappoint board members who hold appointments that expire in June 2008. Senator Sherry replied that he would provide this information on notice to the committee.<sup>31</sup>

### **Australian Reward Investment Alliance**

4.22 The committee discussed a range of issues during its examination of the Australian Reward Investment Alliance (ARIA), including:

- scrip lending, margin lending and short selling.

### ***Scrip lending, margin lending and short selling***

4.23 Several Senators were interested to question the ARIA about the practices of scrip lending, margin lending, and short selling. Senator Watson questioned officials on whether ARIA participates in scrip lending.<sup>32</sup> An official from ARIA replied:

No...securities are lent through an arrangement with our custodian and the transaction of lending securities is undertaken by our custodian rather than by ARIA itself...there are strict purposes for which stock is lent under our agreement with our custodian. Our rights to dividends, franking credits, bonus issues, voting rights and every other entitlement that goes with out shares is preserved. We do not participate in vote renting I think is the expression.<sup>33</sup>

4.24 Senator Watson asked when Senator Murray could expect to receive answers to Questions on Notice that he had provided to ARIA well before the hearings: in order to facilitate a more informed discussion of the topics he wished to discuss. The committee was informed that ARIA had sent the answers to the Minister's office where they were yet to be cleared.<sup>34</sup> On 13 June 2008 the answers to these questions were tabled.<sup>35</sup>

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31 *Estimates Hansard*, 28 May 2008, pp 52–53.

32 *Estimates Hansard*, 28 May 2008, p. 93.

33 Mr Peter Carrigy-Ryan, Acting Chief Executive Officer, Australian Reward Investment Alliance, *Estimates Hansard*, 28 May 2008, p. 93.

34 *Estimates Hansard*, 28 May 2008, p. 94.

35 Senate Finance and Public Administration Committee, answers to questions on notice, 12 May 2008 (received 13 June 2008). See: [www.aph.gov.au/Senate/committee/fapa\\_ctte/estimates/bud\\_0809/finance/index.htm](http://www.aph.gov.au/Senate/committee/fapa_ctte/estimates/bud_0809/finance/index.htm) (accessed 18 June 2008).

4.25 Officials were asked by Senator Watson whether ARIA participates in the practice of margin lending. It was stated that ARIA does not margin lend because it is a regulated superannuation fund that is not leveraged and does not borrow.<sup>36</sup>

4.26 When asked if ARIA participates in short selling an ARIA official replied that it does. In defence of the practice the official stated:

There would be some hedge fund managers who are engaged by [ARIA] who participate in what is known as short selling...that practice is in accordance with the law and those managers operate under investment mandates and investment agreements entered into with ARIA. One of the requirements in those investment management agreements is that the managers comply with the law.<sup>37</sup>

## **Future Fund Management Agency**

### ***Status of the Future Fund***

4.27 Senator Brandis opened his examination into the operations of the Future Fund Management Agency (the Future Fund) with general questions relating to the status and value of the fund. A Future Fund official informed the committee that the performance of the fund generated a return of 2.7 per cent during the last financial year until April 2008. This figure is expected to move towards, and possibly over and above, four per cent by the middle of May 2008 due to a recovery in the equity markets.<sup>38</sup>

4.28 Furthermore it was stated that the components of the fund were estimated to be spread across three areas: 30 per cent invested in equities; 5 per cent in debt instruments; and 65 per cent in cash. When asked to state what the 30 per cent invested in equities is currently valued at the official from the Future Fund stated that it was worth \$14 billion.<sup>39</sup>

4.29 When asked to comment on whether the spread of two thirds of the Future Fund's investment located offshore was thought to be appropriate, it was stated that the balance between funds invested offshore and in Australia was right and appropriately diverse for the type of fund it is.<sup>40</sup>

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36 *Estimates Hansard*, 28 May 2008, p. 95.

37 Mr Peter Carrigy-Ryan, Acting Chief Executive Officer, Australian Reward Investment Alliance, *Estimates Hansard*, 28 May 2008, p. 96.

38 Mr David Neal, Chief Investment Officer, Future Fund Management Agency, *Estimates Hansard*, p. 104.

39 Mr David Neal, Chief Investment Officer, Future Fund Management Agency, *Estimates Hansard*, p. 104.

40 Mr David Neal, Chief Investment Officer, Future Fund Management Agency, *Estimates Hansard*, p. 105.

4.30 When asked by Senator Brandis to provide the aggregate value of all equities in the fund as its highest point in the current financial year, Senator Sherry and officials responded that the answer to this question would be provided on notice.<sup>41</sup>

***Margin lending, stock lending and short selling practices***

4.31 Senator Murray examined the Future Fund's approach to margin lending, short selling and stock lending practices.<sup>42</sup> The General Manager of the Future Fund explained that the Future Fund does not have a policy regarding margin lending because it is prohibited from any form of borrowing, and that for this reason margin lending would be an illegal activity for the Future Fund.<sup>43</sup>

4.32 On the question of the Future Fund's stock lending practices Senator Murray defined his question between two different classes to stock lending: profit taking; and stock lending for the purposes of voting. In reply the General Manager stated:

The legislation does specifically permit the board of guardians to engage in securities lending. You would appreciate that securities lending is a practice used by many institutional investors, both here and around the world. The Future Fund does not engage presently in securities lending. We have decided to wait until the current reviews of market activity with respect to securities lending is finalised.<sup>44</sup>

4.33 Responding to Senator Murray's question in relation to the practice of lending shares for voting rights, the General Manager stated that he was aware of that the value of voting rights transfer to the party who is lent shares. Similarly to the practice of stock lending Senator Murray was concerned that the Future Fund does not currently have a fixed view on whether it condones the practice of lending shares. The General Manager acknowledged Senator Murray's concern and agreed to convey Senator Murray's concerns to the Future Fund's board.<sup>45</sup>

4.34 On the question what practices does the Future Fund currently maintain in relation to short selling, the committee was informed that there is currently no mandate with any investment manager used by the Future Fund to adopt this practice, and it is a practice that the Future Fund will not engage in.<sup>46</sup>

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41 *Estimates Hansard*, 28 May 2008, p. 105.

42 *Estimates Hansard*, 28 May 2008, pp 110–113.

43 Mr Paul Costello, General Manager, Future Fund Management Agency, *Estimates Hansard*, 28 May 2008, p. 110.

44 Mr Paul Costello, General Manager, Future Fund Management Agency, *Estimates Hansard*, 28 May 2008, p. 111.

45 *Estimates Hansard*, 28 May 2008, pp 111–112.

46 Mr Paul Costello, General Manager, Future Fund Management Agency, *Estimates Hansard*, 28 May 2008, p. 110.



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### ***Building Australia, Higher Education and the Health and Hospitals Funds***

4.35 Senator Fifield questioned Finance officials about the differences between the Future Fund and the three newly announced funds: the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.<sup>47</sup>

4.36 The Secretary of Finance replied that there were substantial difference including: the proceeds of the Future Fund are not to be drawn down until the value of the fund has reached a specific target, whilst the other funds are designed to be accessed for specific spending purposes from the financial year 2009–10. The Secretary also stated that resources from the funds not including the Future Fund will be subject to ‘advisory processes’ about how the resources will be spent.<sup>48</sup>

### **Australian Electoral Commission**

4.37 The committee explored the following issues with the Australian Electoral Commission (AEC):

- current investigations into compliance matters; and
- electoral advertisements.

#### ***Current investigations into compliance matters***

4.38 Following on from previous practices the AEC provided an update on compliance matters that it is currently investigating.<sup>49</sup>

4.39 The AEC outlined the specific matters, which include: an allegation involving payment of legal fees; donations made by the Transport Workers Union to the ALP in New South Wales; and contributions made by trade unions to the ALP.<sup>50</sup>

4.40 The AEC informed the committee that there is currently a smaller number of investigation matters because there is an increase in the awareness of people's legal obligations under the *Commonwealth Electoral Act 1918* (Electoral Act). An official stated that there were several reasons for this:

It has mainly [been because of] the internet and by letters that we have been making people aware of their obligations, and particularly with the new 314AEB obligations on third parties. The first lodgements under that obligation were required in February. We are still going through and evaluating those who indicated that they did not have an obligation to return, and we will be doing various compliance audits to ensure that we are

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47 Senator Fifield, *Estimates Hansard*, 28 May 2008, p. 115.

48 Dr Ian Watt, Secretary, Department of Finance and Deregulation, *Estimates Hansard*, p. 115.

49 *Estimates Hansard*, 29 May 2008, pp 3–4.

50 *Estimates Hansard*, 29 May 2008, p. 3.

reasonably satisfied that they are current in indicating that they did not have any reportable expenditure above the \$10,300 limit.<sup>51</sup>

### ***Electoral advertisements***

4.41 Senator Carol Brown questioned AEC officials about the legislative framework that defines under what circumstances electoral advertising must be authorised. Specifically Senator Brown was interested in advertising in newspapers that mimic news content.<sup>52</sup>

4.42 The committee was informed that this is difficult to determine as the definition of electoral matter in the Electoral Act is very wide. In the case of newspaper content an AEC official stated that there are two relevant provisions of the Electoral Act that apply. Furthermore, that even if it was believed that a criminal offence had occurred, that the chances of successfully convicting someone was remote:

Our problem is that, if we are going to police this, we are dealing with a criminal offence and we would need to have evidence of the requisite criminal standard of proof to be able to successfully do a prosecution. There is a grey area there. We have published on the internet Electoral Backgrounder No. 15: Electoral Advertising. We try to give an explanation as to what the legal requirements are. But there is a grey area there.<sup>53</sup>

4.43 Other matters examined by the committee with the AEC include:

- consultation between the government and the AEC about the Commonwealth Electoral Amendment (Political Donations and Other Measures) Bill 2008;<sup>54</sup>
- the AEC's submission to the Joint Standing Committee on Electoral Matters;<sup>55</sup>
- current Federal electorate redistributions;<sup>56</sup>
- the Electoral Reform Green Paper;<sup>57</sup>
- the AEC's financial statements;<sup>58</sup> and
- Key Performance Indicators and targets.<sup>59</sup>

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51 *Estimates Hansard*, 29 May 2008, p. 4.

52 Senator Carol Brown, *Estimates Hansard*, 29 May 2008, p. 4.

53 *Estimates Hansard*, 29 May 2008, p. 5.

54 *Estimates Hansard*, 29 May 2008, pp 5–6.

55 *Estimates Hansard*, 29 May 2008, pp 6–7.

56 *Estimates Hansard*, 29 May 2008, pp 8–10.

57 *Estimates Hansard*, 29 May 2008, pp 10–16.

58 *Estimates Hansard*, 29 May 2008, pp 17–18.

59 *Estimates Hansard*, 29 May 2008, pp 19–20.