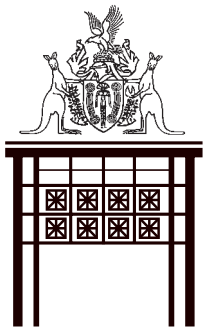

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

PUBLIC ACCOUNTS COMMITTEE

REPORT OF THE INQUIRY INTO THE ACCURACY OF THE BUDGET DATA PUBLISHED IN THE 2001-02 BUDGET PAPERS WITH RESPECT TO BOTH THE ESTIMATED OUTCOME FOR 2000-01 AND THE BUDGET FOR 2001-02

TRANSCRIPTS OF PUBLIC HEARINGS

REPORT NUMBER 38

MAY 2002

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TABLE OF CONTENTS

	Page No.
Committee Membership	ii
Editing Notation	iii
Police, Fire and Emergency Services	1-22
Department of Health and Community Services	23-52
Department of Infrastructure, Planning and Environment	53-68
Department of Employment, Education and Training	69-94
Department of Corporate and Information Services	95-109
Mr Steve Dunham, MLA, Former Minister for Health, Family and Children's Services	111-185
Mr Chris Lugg, Former Minister for School Education	187-214
Northern Territory Treasury	215-295
Mr Mike Reed, MLA, Former Treasurer	297-401
The Hon. J.L. Aagarrd, MLA, Minister for Health and Community Services	403-486

MEMBERS OF THE COMMITTEE
FOR THE DURATION OF THE INQUIRY

Dr C B Burns, MLA
(Chairman)

Mr S Dunham, MLA

Mr L F Kiely, MLA

Dr R S H Lim, MLA

Mr E McAdam, MLA

Mr G Wood, MLA

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POLICE, FIRE AND EMERGENCY SERVICES

Appearing before the Committee on 30 November 2001

Commissioner Brian Bates AM APM
Assistant Commissioner Doug Smith

2

The Committee convened at 9.04 am.

Mr CHAIRMAN: I welcome everyone here this morning, and call the Committee to order and open this public hearing of the Public Accounts Committee on Friday 30 November 2001.

This Committee operates under the Standing Orders of the Northern Territory Legislative Assembly, and I take this opportunity to notify people present in the public area that under Standing Orders, they are not permitted to record either sound or vision of these public hearings. Of course, the media is an exception but they operate under rules which they have been made aware of about what they can record and what they can't.

I welcome from Police, Fire and Emergency Services Commissioner Brian Bates and Assistant Commissioner Doug Smith, for appearing to brief the Committee on the accuracy of budget data published in the 2001-02 budget papers. Now, the Committee has ordered that evidence given before this Committee shall be sworn evidence and I would ask the Secretary to now swear in the witnesses.

BRIAN CHARLES BATES, sworn

DOUGLAS ALAN SMITH, sworn

Mr CHAIRMAN: Welcome, Assistant Commissioner Smith and welcome, Commissioner Bates, a particular welcome to you. We know it is your last day and we are very grateful that you have come along here today. We hope that we won't keep you too long and that you will be able to get along and enjoy your last day on the job with some celebrations.

The way the Committee has decided to proceed in this matter is we have formulated some questions as a Committee to ask you and then after we have asked those questions through me to you, each individual Committee member will then have the opportunity to ask you further questions.

Just to restate the position from the correspondence you sent us, basically there was a realignment of expenditure. If I could quote from your letter Commissioner Bates, you said that:

> *The final allocation for 2000-01 was $128.316m, however the figure published in the 2001-02 budget papers was $126.316m. The Under Treasurer advised the Commissioner of Police on 17 May of the financial tables which were to be published in the 2001-02 budget papers. These tables incorporate the $2m reduction to the 2000-01 estimates which was described as a realignment of estimates to allow for likely carryover of 2000-01 expenditure into 2001-02.*

So in other words just reading what you have written to us, it was requested of you to reduce it by $2m for a realignment of estimates to allow for a likely carryover in the following financial year.

The first question is what was the effect of the realignment on the agency's operations?

CMR BATES: First of all, Mr Chairman, when you look at the documentation, what you have just articulated is not totally correct. Whilst I accept the response that I have given, when you look at - on 17 May 2001, the draft Budget Paper No.2 provided by Treasury indicated that the allocation to be published would be $126.316m. But - and here is the but - subsequent documents, and they are recorded in the faxes that were forwarded to us on 19 June and 29 June clearly supported a figure of $128.316m. Now, that figure of $128.316m was also published in the Treasurer's Annual Financial Report 2000-01 which was tabled in the parliament during October 2001. So therefore, in answer to

the question, the $2m realignment had no negative impact on the agency's operation as Treasury had advised that this realignment was for presentation purposes only. So from my point of view, I was working on the figure of $128.316m.

Mr CHAIRMAN: All right. Obviously I have a suite of questions here which I will follow through in because that's what we agreed as a Committee would happen, but I would say that we will return to that particular issue a bit later.

Did the agency take any action to manage the expenditure within the 2000-01 estimate shown in the 2001-02 budget papers?

CMR BATES: Well, as a matter of course the department operates on a proper management of public monies. That is a general statement, but it is an important statement to make and through a small finance committee that I have, headed by the Deputy Commissioner and Assistant Commissioner Smith and the head of my finance area, that is regularly monitored and reported to me - in fact, almost every Tuesday morning at my Command Meeting, one of the items that is always discussed is the finance situation.

So specifically, to answer your question because I wanted to make that general acknowledgement first off all, that I have always considered of course the financial management of the agency as of utmost importance. One is dealing with public monies he and one doesn't take that lightly. There wasn't a need to take any specific action as such in the monitoring process because the advice in the figures we were working to was $128.316m, so I was comfortable with that situation.

Mr CHAIRMAN: So it was because you had been assured that this $2m was for presentational purposes only, so in your mind your expenditure was $128m.

CMR BATES: Well, that's fair comment, and of course that - in answer to my first question, of course, I have said that that was indicated and also published in the Treasurer's Annual Financial Report.

Mr CHAIRMAN: I will move onto the next question, and you may well have provided this to the Committee. What was the number and dollar volume of accounts received but not paid by the agency as of 30 June 2001?

CMR BATES: Well, first of all there would have been claims received by the agency that were in the process of being handled. That is a matter that is occurring all of the time and those accounts would have been processed through down to the appropriate delegate who would be approving an authorised payment before they came back upstream, of course, for the formal payment. But to specifically answer the question, the number of claims on hand as advised by DCIS was 379 with a total value of $206 830.

Mr CHAIRMAN: All right, thanks for that. What carryover expenditures from 2000-01 to 2001-02 were requested and approved under section 22 of the *Financial Management Act*?

CMR BATES: Well Treasury did not circulate its customary request for section 22 requirements for 2000-01, therefore there was a nil carry over requested from 2000-01 to 2001-02 under section 22 of the *Financial Management Act*. The department has a requirement to roll over some of its allocation into 2001-02, but was advised by Treasury that there was no mechanism last year to do just that.

Mr CHAIRMAN: Okay. The next question is: can you supply the original budget allocation variations during the year, budget estimates included in the subsequent years, budget papers and the

final budget allocation plus actual expenditures for the past five years for your agency? Are you able to table that?

CMR BATES: Yes, I am able to table that.

TABLED: Original budget allocation variations, budget estimates included in subsequent years, budget papers, final budget allocation, actual expenditure for past five years.

Mr CHAIRMAN: Can you provide details of the carryover of allocation under section 22(2) of the *Financial Management Act* for the previous five years?

CMR BATES: I am able to table that, too.

TABLED: Section 22(2) allocation carryover for past five years.

Mr CHAIRMAN: We will let our Secretary copy those as well and distribute them to the Committee. That concludes the six questions that I had to ask you as Chair. Now I will leave it to individual Committee members to question you.

Mr KIELY: Commissioner Bates, I am Len Kiely, I am the member for Sanderson. Commissioner Bates, you advised in your memo dated 12 November and your letter dated 12 November 2001 that the agency did not advise the Minister for Police, Fire and Emergency Services - it was also the Treasurer who'd approve the budget variations. You have also mentioned that you were advised by fax that Treasury were going to do the $2m realignment. Did that advice go in to the finance committee?

CMR BATES: Sorry, to the department?

Mr KIELY: The fax from the Treasurer advising that there would be a $2m realignment of the estimate of the published figure, did that go into the finance committee for discussion?

CMR BATES: Into the agency finance committee, oh, most certainly. All the documentation that comes from Treasury is seen by myself, the Deputy Commissioner, and Assistant Commissioner Smith. The action people, of course, are my finance people. Of course, I would note that when that document, the one 17 May 2001 came in, I was in fact absent at a senior officer's group meeting of the Police Ministers' Council. It was drawn to my attention as soon as I got back that that was being looked at and had been discussed with Treasury.

Mr KIELY: And is finance committee – that is a standing committee within the agency, a formal committee with minutes?

CMR BATES: Well, I don't say it's a formal committee with minutes, as such, because where finance is concerned, because it is such a continuing progress, I monitor the finance on an almost week-by-week basis. It is the reason, for instance, at the Tuesday meetings, where there are is summary record kept of those meetings, where finance is brought up as a matter of course as to how we are generally going from a finance point of view.

Mr KIELY: Was the discussions surrounding the facts which advised you of the realignment, were they minuted, and what were the outcomes that were - the impact that this advice would have on the agency, and as you've said that it is your job and you take job seriously about public moneys, was the

impact - the $2m realignment - discussed in the finance meeting? Was the outcome, with the effect and the outcome of what this meant to your agency budget minuted?

CMR BATES: It wasn't a matter of minuting. I've already answered the fact that it did not have any effect because we were worked to the $128m-odd. At the end of the day after clearing the situation with Treasury, whilst we were told it was for presentation purposes, further documentation from Treasury indicated in fact that the figure was the $128m-odd that we were in fact working to and that was the figure that we continue to work to.

Mr KIELY: To operational then, the advice of presentation purposes, the figure of $126m roughly was going to be stated had absolutely no effect on the overall operational abilities of the police services?

CMR BATES: That is correct at the end of the day. I certainly raised my eyebrows when I first saw it but later papers of course it indicated that it was the $128m-odd without going into the extra dollars so from that point of view that was our financial target.

Mr KIELY: Then this is probably best be going to Assistant Commissioner Smith. I don't think you were present at that meeting when the fax arrived; you advised that. What was the general feeling or what was the understanding of this fax within committee in the course of those discussions?

A/CMR SMITH: The first thing we did was to verify that the $2m that was indicated as being a reduction from a roll over. That was verified by the finance director with Treasury and we were informed then that it was for presentation purposes. That it would have no effect on the end of financial position that we were working to, the allocation that we were working to, so we just continued to work towards the $128.312m.

Mr KIELY: What was the Committee's view then of what the term 'presentation' meant? What did the Committee feel Treasury was trying to achieve?

A/CMR SMITH: You'd have to ask Treasury…

Mr KIELY: Well, I'm asking the Committee's feelings on - the committee has advised that you're having $2m taken for presentation purposes only. Wasn't there any query within Committee as to what was the motivation?

CMR BATES: I think actually the question should be directed to me as CEO and again I agree with the Assistant Commissioner, the fact of the matter that's a question that should be answered by Treasury. That's not a question for me as CEO. I/we queried Treasury and we found what the situation was and we worked with the $128m so I don't believe that's a proper question to ask me. It's a question that ought to be asked of Treasury.

Mr KIELY: You're advised by fax, Commissioner Bates, that Treasury were going to do the $2m realignment. Was there any communication between your agency and Treasury, any written communication, in regard to this $2m and what it meant seeking clarification?

What sort of clarification was sought by the agency in regard to what this $2m realignment meant?

A/CMR SMITH: The clarification was verbal. The budget paper isn't in fact the document, a forthcoming used budget paper isn't the document that we work to in any given year. Our allocation is what's in the ledger. The ledger was indicating that we were working towards an allocation of $128.312m. The document that you're speaking about that came to us was a draft confidential document. It was received on the evening of 17 May. It came in quite late, it was actioned on the

morning of the 18 May requiring a response by noon that day. We very quickly clarified the intent behind the $2m reduction for realignment purposes. We indicated, as the question that was asked of us in the fax of 17 May, we indicated that we had no problems with any issue of fact that was contained in that document.

Mr Kiely, we were responding to a confidential document and we were answering the question that was asked of us, and it is important for me to emphasise the point that we were asked a very specific question in that document that was faxed to the Commissioner. We replied to Treasury as required that we had no problems with any issue of fact that was contained in that document. We then continued because that document didn't represent our financial year budget position. That document was an indication of what was to be in the forthcoming budget paper. That budget paper wasn't supported by appropriation act at appropriations, and it wasn't supported by other material. So our responsibility was to work towards the appropriation with adjustments through financial year 2000-01. That figure was $128.312m and we continued to work towards that particular target.

Mr KIELY: So assuming clarification you were advised of the $2m presentation purposes, $2m figure, reported as $126m round figures presentation purposes, this was received by fax when you were advised of that. It was late at night. The next morning the Committee met and had verbal discussions with, I assume, the author of that fax. The author then put to rest any concerns that the Committee have or the members of the Committee in contact with Treasury that, you don't have to worry about this $2m; it's only for presentation purposes; we are not actually taking any cash out of the agency, and on that verbal advice the Committee then provided advice to the CEO there is no concern here we; continue as per our program. Is that about the size of it?

A/CMR SMITH: Give or take some nuances, yes. And I've got to again emphasise that the document that we are talking about that we received on 17 May, that we discussed in Committee on the 18 May, was a confidential document about a forthcoming budget paper. It had no legal standing if you like or no effect on the already agreed position that we were working towards for the end of the financial year.

We were within financial year 2000-01. Our ledger continued to show $128.312m as our target. That figure was supported by subsequent documents which if required I can produce here …

Mr CHAIRMAN: Yes, excuse me Assistant Commissioner Smith, I'd like you to supply the fax you're talking about and the other documents to this committee, please.

A/CMR SMITH: Certainly. The documents that I refer to is a document dated the 17 May.

Mr CHAIRMAN: So you have them here?

A/CMR SMITH: Yes.

Mr CHAIRMAN: Well, if we could have those copied please, Secretary.

A/CMR SMITH: That document you'll clearly identifies one which is marked 'draft confidential'. It was between the Under Treasurer and Commissioner of Police and it was talking about a forthcoming budget paper and it wasn't talking about the budget that we were working to in that financial year.

The second two documents that I speak of were documents that come through at the end of financial year verification process where you're going through ledger verification working towards the end of the financial year.

The first one of those documents that I'm referring to is dated 19 June 2001 and it's a document five pages long. I'd just indicate to Committee that at page 2 which is headed 'attachment B' indicates that the outlay by activity for 2000-01 is indicating that the estimated actual expenditure, and I emphasise again the word 'latest' was that we would have an actual expenditure of $128.316m.

Mr CHAIRMAN: So just to clarify - I'm sorry to cut across Mr Kiely here - but to clarify that particular document was in circulation after the estimate of $126m was given or was enforced upon you?

A/CMR SMITH: Mr Chairman, I've got to emphasise the point that the document dated 17 May was an indication of what would be published in Budget Paper No.2. It was neither a direction nor an enforceable document with respect to our financial year position. It was for a different purpose. The organisation was working to a figure of $128.316m and that is verified as I was saying in that document dated 19 June. That is the document that was our end of financial year verification document. We weren't working, or we weren't adjusting on the basis of the document dated 17 May. It was for a different purpose within the budgetary process.

Mr KIELY: Assistant Commissioner Smith you mentioned that that was a figure of $126m was purely an indication of the published figure and it had no …

A/CMR SMITH: It wasn't a document that was adjusting our allocation for that financial year, that wasn't its purpose.

Mr KIELY: So in the course of your communication with Treasury, was the agency informed that the figure was purely for publication purposes?

A/CMR SMITH: The words that we used were 'for presentation purposes'.

Mr KIELY: What was your understanding of the term 'presentation purposes'? What was the form of this presentation going to be? Your understanding is what I'm asking.

A/CMR SMITH: Well it's presentation in Budget Paper No.2.

Mr KIELY: So the bottom line here is if the agency had not received this request to advise - let me put it this way: Given the advice that there would be a $2m reduction or realignment of estimates for presentation purposes had absolutely nil effect on your budget and on your expenditure patterns or it did not change anyway that you were doing business, that the agency would still carry on with its set plans, that there was no requirement whatsoever and you were under no illusion that there was a requirement to change any of your expenditure patterns in line with the plan that you already had prior to the advice?

A/CMR SMITH: Yes, and if I could just continue with the documents that I was speaking of with the Chairman, that was subsequently confirmed, as I say, in the document that I've already tabled. It was further confirmed in our end of year monitoring ledger verification communications with Treasury, document dated 29 June, which we received from Treasury which consists of five pages, page 3 of which once again indicates that the outlay by activity for 2000-01 estimated actual was $128.316m. I table that, Mr Chairman.

TABLED: Treasury Document dated 29 June 2001, consisting of five pages.

A/CMR SMITH: The final document that I refer to that indicates why we adopted the position which we did, was the Treasurer's Annual Financial Report dated 2000-01 which was tabled in the Legislative Assembly on 23 October 2001, page 60 of which further indicates that our final allocation for financial year 2000-01 was $128.316m. Which again confirms the communication that we had that we were working to a targeted allocation of $128.316m. I think I erroneously said earlier $128.312m but it was $316 000.

Mr KIELY: I was just about to address this Assistant Commissioner Smith, but who is the person who you - I don't even know if it was you - the Committee was seeking advice and direction and clarification from in Treasury?

A/CMR SMITH: I have to take that on advice. The director of finance does the communication with our desk officer but I could take that on advice and get back to you very quickly.

Mr WOOD: I've just a couple of questions. The statement from Treasury, Commissioner, says realignment of estimate to allow for a likely carry over of 2000-01 expenditure into 2001-02. Now, do you know where they got the figures that they would come up with $2m when they've said this will be a likely carryover, did they discuss it with you? You've said that of course you didn't have to put in a carryover this year so did someone sort of say, 'Well, what's your likely carryover?', or have they made this up themselves?

CMR BATES: I will refer that to Assistant Commissioner Smith, he has got the detail on that.

A/CMR SMITH: If I may, Mr Wood. There are three figures that we are speaking of here, and you have to appreciate, and I am sure that Treasury will probably be able to explain this a lot better, at the time the Treasury is doing their estimate and at the end of financial year position they take advice from Agencies. Now Treasury at the time that they prepared the estimate that I believe you were speaking of with the $2m reduction, that was a document prepared in May. So we still had at that time had six weeks worth of expenditure that we have to try and forecast for the end of financial year position. We were working to a target of $128.316m as I have explained. Our actual expenditure, when the line was drawn on the ledger that financial year, we had spent around $126.600m, which was approximately $1.7m short of the final year's target. Now that was made up primarily of a number of things related to capital purchases in particular that we had committed to, but because a lot of those purchases were technical equipment that were coming from overseas with delivery issues and there were some software issues with some live scan equipment, it had occurred to us late May/early June at the latest that we would not be in a position to pay for those things because they would not have been received in time for the closing of the ledger and that we would most likely have to pay for them in the new financial year.

So in fact what we drew in cash out of our allocation in that year was $126.600m.

Mr WOOD: You normally would have asked for a carry over? Is that correct?

A/CMR SMITH: As we explained in the answer to the Chairman at question 4, this financial year just closed and the Treasury didn't provide the mechanism for that carry over. They didn't ask for that, so there is no carry over in which to be allocated.

Mr WOOD: This $1.7m, the Treasury would have been aware that you had, well you would have not been spending that money because of just what you said about capital equipment?

A/CMR SMITH: The process particularly towards the end of the financial year is one of constant communication between our finance people and a desk officer in particular in Treasury. Of course, Treasury have got to make sure that they've got cash available to pay for the commitments right up

to the closing of the ledger. Our primary concern of course is payroll, and then we work down through the various items but there is constant communication so Treasury would have been aware of those things.

Mr WOOD: So it would be fair to say that they've based their likely carry over on figures that you've got?

A/CMR SMITH: As to what they were thinking Mr Wood, I couldn't answer, but they were aware of the factual situation within the Northern Territory Police, Fire and Emergency Services ledger and our commitments.

Mr WOOD: I suppose the other, and maybe you can't answer it, but it just seems strange to me that there was such a perfect figure. It was just $2m round, like someone just, it would have been normal for a carry over to be such a rounded figure or would it be more exact when you give a carry over like $1.75m.

A/CMR SMITH: They were, sorry, they're matters that I am sure that Treasury will be able to give you a better answer on. Our information to them and their monitoring, I mean they monitor the ledgers personally themselves, they're monitoring our information I am sure for them to draw conclusions but as to what they were I couldn't answer.

Mr WOOD: When you would normally do a carry over, you wouldn't just sort of pluck a figure, when I say pluck a figure you wouldn't have a figure so round; your figure would be based on fairly precise …

A/CMR SMITH: We have a very precise set of numbers based on the things that we had committed to, what the value of those things were when the invoices were to be received and we when we were likely to have to pay for them. So, if it was, for example, a particular piece of equipment we would be expected to advise Treasury what it is that we've committed to, how much the invoices are likely to be and to seek a carry over for that particular purpose.

Mr WOOD: In other words you wouldn't just generalise it, just rough it up, a rough figure will do to carry over?

A/CMR SMITH: No, we would have to be detailed and very specific.

Mr WOOD: Thanks.

Mr DUNHAM: I have got three categories of questions. One is about the particular incident we are talking about here which is close to the end of the financial year. I would also like to question you about previous budgets and perhaps some future extrapolations.

Could I get it straight in my own head, you said that your ledger didn't change, but it appears from the documents here that it did change by a factor of $2m. So was there $2m taken off your ledger and a minus, sorry $2m taken from your budget on the premise that there would be a carry over of $2m, which was subsequently reinstated? Would that be the case? So this paper here which is a Treasury Paper shows that $2m was taken out for carry over purposes and from what I understand you are saying is that it was reinstated for the $128m on the basis that you then wouldn't need a carry over so you were told we are not going to ask you for a carry over because we are giving you the money back? We are not taking out the carry over, and then eventually Treasury's figure of $2m wasn't too bad because you actually had a $1.7m undercut.

A/CMR SMITH: As to …

Mr CHAIRMAN: Just a minute. Which document are you referring to?

Mr DUNHAM: I am referring to the Treasury document which is a fax on 17 May wherein Treasury made the adjustment. I assume this is the formal document that alerted you to the $2m, and it alerted you to it on the basis if I read in here: 'realignment of an estimate to allow for carry over which was' – and I understand where my colleague's coming from about being a round figure that back in May they assumed you'd be $2m under on the basis of the tardiness of suppliers sending goods, that sort of stuff.

A/CMR SMITH: As to the information that Treasury processed to arrive at that figure, I can't answer that question. I have indicated to Mr Wood that they are constantly in receipt of information from us. It is not two divided groups, in fact it is a partnership where we are constantly exchanging information. As the document clearly indicates, the one that you're referring to - that of 17 May, they formed a view, obviously, that there would be a need for a carry over of $2m at some stage prior to 17 May. They've indicated that clearly in that document. But what didn't happen was that the allocation was not reduced by $2m. That was the presentation of the accounts as they guessed or whatever, estimated it I think is probably much fairer, estimated it to be at that time when they were preparing that document. Again, I will have to defer to their thinking. I can't speak for them.

Mr DUNHAM: So your ledger, through the year, sorry, from this period from May right through to the end of the year stated $128m, even though you received a document saying that you had a $2m carry over.

A/CMR SMITH: No, that document is not talking about what the final allocation is to be. The document was talking on what they estimated it would be. So in fact the allocation that we were working towards continued to be the $128.316m. That document that you are looking at dated 17 May, I am sure the Treasury would have known in better detail how they arrived at those numbers, but that document is indicating that they will be presenting in Budget Paper No 2 that using their best information that they thought there would have to be realignment of the $2m reduction and carry over.

Mr DUNHAM: So could I put a scenario to you that in May, Treasury thought that you might not need $2m and in any event they were pretty close because it was $1.7m that you would need, they left your budget in your ledger in tact on the basis that you may well have to call on it. At the end of the financial year you came in under budget by $1.7m and you would have normally sought to have that carried over on the basis of a very itemised list that came to your $1.7m but were not given the opportunity to do so?

A/CMR SMITH: Without speaking on behalf of Treasury, that is a pretty fair assessment.

Mr DUNHAM: If I could go to previous to this budget and maybe in the future, I note from your five year figures that Police, Fire and Emergency Services have gone from a base of $93 900 to $128 000, so that is a significant increase in budgets over five years, totalling something like $35m starting from a base of $93m. So over the last five years, you have had a 33% increase if you like in budgets.

My question to you is, do you believe that growth rate is sustainable?

CMR BATES: That's a question for me to answer in the context of the Agency generally. Whether it is sustainable or not I guess depends upon the advice that I give my minister and needs of the Agency in the context of what is required. Whether it is sustainable at the end of the day is entirely a decision for others to make. It is not for me. It is for me to argue my case and my needs,

and then at the end of the day I am presented with the figures. So I could sit here and its a stop beating your wife situation, the fact of the matter is it is a matter that on one hand looking after public monies like that I could say yes it isn't sustainable, but if I've got needs I will argue my case for those needs.

Mr DUNHAM: So you would argue vigorously and parochially for your instrumentality and the issues of sustainability you would leave to Treasury and government?

CMR BATES: You got to believe it, Mr Dunham. Knock, knock.

Mr DUNHAM: Thank you. Now the other issue is about I guess process. It is a human services department. We are aware of the difficulties that have impacted on your budget with Timor, with ageing aircraft, with issues like the Falconio investigation. I guess what I am saying to you is in any event at the start of the year the figure will always be a best guess draft estimate and it will be subject to constant refinement through the year?

CMR BATES: Yes, that's fair comment in the sense of the sort of work that is done in the Agency of course can have its highs and lows in the context of whatever is happening. The Falconio investigation is a classic. The public and the parliament ought to expect me to manage my budget within the money that I am given, but in some situations of course, where you have got a major situation where you have got to pursue the issue whatever that issue may be, the Falconio investigation, you have to do that, and of course it is then very difficult to accept that the money that you have got is sufficient, and that's where I have got to turn around and say to my minister, 'Well I need to put forward some supplementation here'.

Mr DUNHAM: And that process is generally a negotiated process with Treasury asking for or negotiating the least possible amount and you are arguing for an amount that most replicates your expenditure?

CMR BATES: I will always argue for the best position that I believe is needed from my point of view as CEO.

Dr LIM: Mr Dunham asked his first question which was my question.

Mr KIELY: I would just like to pick up on a scenario that Mr Dunham went through with you, Assistant Commissioner Smith, was that Treasury are constantly looking at Agencies' performance and Agencies' best guesses and trying to outguess I suppose and to come up with a figure. But in the case of this specific instance, was the Police, Fire and Emergency Services of the view that Treasury were taking this $2m away because they had a better estimate of what the expenditure would be? Or were Police, Fire and Emergency Services of the view that this $2m was for presentation purposes only and that it would not have any impact whatsoever on your operational line?

A/CMR SMITH: The situation that we're confronted with as we move through the financial year is that there is different things impacting on the budget. The document dated 17 May represented Treasury's view of what it would be at the end of the financial year to present that in Budget Paper No 2. That is a process that happens each year. So six weeks, seven weeks prior to the end of the financial year, they are preparing Budget Paper No 2, and they are putting together how they see the end of financial year position but we are still six or seven weeks out from the end of the financial year. They formed a view based on their assessment of our expenditure and the information that they've got obviously from the Agency and from the bid, and they're forming a particular view that that would be the end of the financial year expenditure. As it is indicated in Budget Paper No 2 - I don't have the documents with me here, if I could just refer to the Commissioner's copy - the document of 17 May, to put collective focus on what the heading says, the heading is talking about

the outlays for the Agency and the subheading that we are speaking of belongs to the attached to it, is realignment of estimate to allow for a carry over of expenditure into the next year.

Mr KIELY: What I am driving at Assistant Commissioner Smith is that earlier on, unless I was mistaken, when you are saying that the committee met in this fax and that they received advice that it was for presentation purposes only, and that there will be no effect on the operational.

A/CMR SMITH: No, and …

Mr KIELY: … and you said, if I'm not wrong, you said that you kept on with your expenditure patterns as they were set prior to the receiving of that fax. So the fax had nil effect on your actual operational plans and they way they were budgeted. Now that's what the committee did after receiving that fax. So in this particular instance - and I'm sure that many of us here are aware of how budgets work and how Treasury to play a good role in having a look and keeping a good hand on the taxpayers dollar ensuring that it's spent wisely or allocated wisely. However, in this particular case, was the finance committee in the belief that $2m would be taken out of the ledger and if so, what plans were put in place to change the way your expenditure patterns were? To which I believe you told us that no, the finance committee was fully comfortable in the knowledge that this $2m was going to be recorded for presentation purposes only, and I'm talking about this specific instance, was for presentation purposes only and provided advice to the CEO that the department could keep on operating as it did prior to receiving this fax because it fact the $2m - that advice would have nil effect on the department.

A/CMR SMITH: All that's correct, yes. Yes, but [inaudible].

Dr LIM: Okay. You had in your mind that your total budget is $128.316m and you have a fax that says okay, let's reduce by $2m and on best estimates by six weeks out of the end of the financial year, there was perhaps up to $1m of fat because the equipment's not arriving while you operated your budget line, there was up to $2m that you might not be spending at all. I mean, really, both scenarios would be quite justified is what I am driving to drive at?

A/CMR SMITH: Yes.

Dr LIM: Whereas what Mr Kiely's driving into one particular direction, I am saying both scenarios are both very logical and both very, very possible and probable.

A/CMR SMITH: Yes. There are three figures that we are speaking of and they're represented in table 1 that the Commissioner tabled earlier. There is the figure which is the Treasury estimate which was contained in the fax of the 17 May.

Mr CHAIRMAN: That's $126.

A/CMR SMITH: That is Treasury saying that they believe that the Northern Territory Police, Fire and Emergency Services will spend about $126.316m with $2m realignment for possible carryover. Now, that is something I am sure that you'll have to address to Treasury, but to me that indicates that they're believing that we would spend about $126.3m.

That didn't change the way that we did business because we had it confirmed to us on 18 May that our allocation remained $128.316m. Therefore there was no need to change the way that we were going towards the end of the year financially. As it turned out, at the end of the financial year we had spent, at the close of the ledger, $126.6m. At that time we had quite a significant number of capital items that hadn't arrived which included about $300 000 worth of live scan equipment, for example, that we had to pay for this financial year. It included about $170 000 for two vessels which have now

arrived and have now paid for this financial year. So there was a list of items which, maybe six or seven weeks out if you added them all up and you looked at that personnel and capital expenditure our operational expenditure, would cause someone to draw the conclusion that we would probably only spend in fact about $126.3m.

That didn't have any impact on our final year allocation. It didn't reduce our final year allocation and it would have been perfectly lawful for us to have spent up to $128.316m. So Dr Lim, the scenario put by Mr Kiely and the scenario put by you are both very, very acceptable scenarios, I think.

Dr LIM: Thank you.

Mr CHAIRMAN: I've got some questions. It seems to me from the evidence that's been put so far that you were given an allocation of $128m.

A/CMR SMITH: After variations.

Mr CHAIRMAN: Yes, and then we come into the budget cycle in May and basically Treasury says: 'We want to revise - we're revising the estimates down to $126m'. You, in the police force, thought: 'Well, basically we believe our expenditure's going to be $128m and we will continue on in our spending pattern to spend $128m,' but in the final analysis you spent $126m because there was approximately $2m of items that you've itemised before which delays the development of the forensic section software, late deliveries of safety equipment which I assume are safety vests, TV security system, boats, trailer, vehicle equipment and photocopier, so approximately $1.7-2m remained unexpended at the end of the year because there were these items that basically hadn't arrived or hadn't been delivered. Is that …

A/CMR SMITH: If I could just correct one thing, Dr Burns. The words that you've used don't accurately reflect the scenario, I think. The situation that we were confronted with was that that document dated 17 May didn't reduce our authorised allocation for the year. It indicated the estimate as at sometime before 17 May, obviously, that what Treasury thought our final expenditure would be …

Mr CHAIRMAN: Yes, I understand that. So the $126m was a Treasury estimate?

A/CMR SMITH: Yes.

Mr CHAIRMAN: Okay, so ...

A/CMR SMITH: Now, we didn't have to - if they were reducing our allocation to $126m, I would have had to have taken some significant steps because I still had commitments of about $1.7m-$1.8m. If they were reducing our allocation, I had to do some pretty fast work to reducing expenditure down to $126m. Once I have committed to a particular item, I've got to keep that within the allocation. So I'm saying: 'I've got $128.3m to spend. What is that made up of? It is made up of 75% salary,' so we put a particular line in the ledger there and say: 'Right. That's not going to change by the end of financial year by much.' If they had have reduced it to $126m, I would have had to reduce commitments and actual expenditure to 30 June so it came in at $126m, but because I didn't have to reduce commitment and expenditure down to $126m, I didn't have to change anything that we were doing.

Mr CHAIRMAN: Yes. I understand what you mean and I accept what you say about the Treasury estimate of $126m, but I'm coming to a question here in that you continued on in your pattern of spending believing that you would spend $128m. There was approximately $1.7m-$2m of hardware let's say, of different things that hadn't been delivered by the end of the year, and that

accounts for the $2m that - at the end of the day that weren't spent out of the $128m. But there was no carryover of that $2m. So in other words - is that correct? Into the next financial year?

A/CMR SMITH: If I could take your question in two parts, it's probably the most accurate way to answer it.

Right up to 30 June 2001, our ledger carried commitments and actual expenditure of about $128.3m. We were at all times either actually or committed to a bottom line of $128.316m. So therefore I didn't have to reduce anything down to $126m. I can't commit to things if I don't have an allocation that I can put against it. So, if you like, the end of financial year position was always around the $128m mark, but because, as you indicated, there was a number of items that weren't delivered, the commitment then has to be rolled forward into this current budget.

Mr CHAIRMAN: But it wasn't.

A/CMR SMITH: No, the commitment was.

Mr CHAIRMAN: The commitment was?

A/CMR SMITH: Yes.

Mr CHAIRMAN: But there was no - my understanding is that there was no contra entry in there to actually carry that carry $2m over.

A/CMR SMITH: There wasn't.

Mr CHAIRMAN: There wasn't? So it wasn't actually carried over. So in other words, you had to carry, in this financial year, your department has to carry and wear that extra $2m within the existing budget without having access to what should have been carried over from the previous financial year?

A/CMR SMITH: As at this time, yes, that's correct.

Mr CHAIRMAN: So is that going to have an effect on services?

CMR BATES: Well, let me answer that. It's already been reported it's a matter of public - the minister in the parliament – I haven't got the date here - as a result of my advice to him reported what the situation was. So as the Assistant Commissioner said, yes, it did have an effect.

Mr CHAIRMAN: Would you like to quantify that effect in for this Committee in terms of services? What may have suffered, where you've had to find possible savings to accommodate this approximate $2m?

CMR BATES: Well, there had been a supplementation made to the department as a result of the submission that went forwarded to Cabinet. So from the point of view of the advice that I gave the minister of the difficulties that I had, I immediately got a supplementation to assist on that and we are at the present time working through how we will cope with the rest of the financial year.

Ask me the specifics. At this stage, one of the things I would say is this is a very fluid situation to try and pin it down to exact situations is almost impossible. But again, one of the reasons why there is a constant monitoring of the finances within the agency is to cater for this sort of situation. But we're still working through that. And, as I say, the detail has been already indicated in a matter of public record.

Mr CHAIRMAN: Either to yourself Commissioner Bates or Assistant Commissioner Smith, wouldn't a more transparent way, do you think, to actually - would have been to carry over the funds? I know this is probably a question for Treasury, but it seems to me that the funds were first flagged up to be carried over. They were then carried over and then the poor police department has to go and ask for a supplementation because it was never carried over.

CMR BATES: Mr Chairman, I think it's a matter of public record again what my position and attitude was, and reported then to the minister.

Mr KIELY: Assistant Commissioner Smith, when you were talking about commitment and obligation and all this sort of thing and that you can only spend the money that you've been given, it would be a breach of – what? the *Financial Management Act* or the *Treasurer's Directions* or something, wouldn't it if you overcommitted or if you exceeded what you were allocated, is that correct?

A/CMR SMITH: Well, firstly I would have to answer to my CEO. He would be most unimpressed if I committed to things we didn't have funds for. It would in fact be a breach of the *Financial Management Act* and it would just be very, very poor practice to put the organisation in a position where it was committed in one way or another through a financial year to spend more than it had.

So therefore when you sit down and you review your financial position, the things that we do is we look at costs that are not variable, and there's a pretty - give or take operations like the Falconio case - there's a pretty standard amount of funds with an agency like ours that have to be paid for personnel costs and they're in that vicinity of about 75% to 70% of the total budget. There's not a lot of discretion in that. So it's a reasonably comfortable position to sit looking at the financial year and say: 'Here's the personnel cost.' The fluidity in personnel costs comes about because of attrition. So if we have a low attrition rate then, of course, we retain a lot more people and if we were recruiting against anticipated attrition, you can get into some trouble there because we're recruiting large groups compared to other agencies.

When I sit down and I'm doing the forecast, working with the Director of Finance and her staff, we look at the things that we've committed to, the estimates for personnel costs, operational costs that we can reasonably forecast, and if that's exceeding the allocation that we have, then of course that's bad practice and we have to take steps to reduce it.

Financial year 2000-01 that wasn't an issue, because if you added up our commitments and our estimated expenditure in any way, that we would not have exceeded the $128.316m.

Mr KIELY: So it would be a very rare thing indeed for Treasury to knowingly breach an agency, to unknowingly come in and say: 'You're committed here. Here's your allocation. We're taking $2m off you and therefore you're over committed'?

A/CMR SMITH: I'm sure that if that situation occurred, I'd be briefing the Commissioner and then there would have been a communication. Like, I can't speak for the Commissioner obviously, but I would have informed the Commissioner that I now am likely to exceed my final allocation, but that wasn't the case in 2000-01. I had no reason to be concerned.

Mr KIELY: Okay. So when you or the members of your Committee rang to clarify the intent of the $2m transaction, what did the Committee or what did you think was the intent behind it?

A/CMR SMITH: We had no concern about that particular issue because there is a range of vehicles available to us …

Mr KIELY: Can I just go back to what you said about [inaudible]. If you were going to overspend, you would tell the Commissioner straight away that you were going to overspend and you would expect that your neck would be on the block - just figuratively of course. What I am getting it is that you were virtually being placed in breach because there was $2m was going to be coming off, so to clarify what that $2m was, you phoned up - someone on the committee, I assume, phoned up to ask Treasury what was the intent. So what was your view of intent?

A/CMR SMITH: I have to reiterate an earlier point. We didn't have our final year's allocation reduced by that document. What that document was indicating was the estimated end of financial position as Treasury saw it at some time prior to sending the fax to us. They were estimating that we would not spend our total allocation. Now, our allocation never varied from the $128.316m once we, through variations through the year, got to that particular end of financial year position. What that document was indicating was that they were going to present in Budget Paper No. 2, hence the words 'for presentation purposes', a figure which was $126.316m adjusted because at that time someone within Treasury obviously thought they would have to realign unspent expenditure to carry it over into the new financial year. We didn't have any concern about that financial year's end of year position because when I totalled up all of the things that I could see that we would have to either pay for or that we were committed to, it did not exceed the $128.316m. So at the end of the financial year, if you look at our final [inaudible] it was $126 …

Mr KIELY: I am not looking at the end of the financial year. I am quite comfortable that you did not exceed your $128m allocation. I am very comfortable there. What I am asking you is that when you were advised that there was $2m coming off the estimate there, and the communications between your agency and Treasury, and then the word came back, I am asking you what was the word that came back? What was the stated intent?

CMR BATES: I think we have already said that, Mr Kiely, in [inaudible] that it's come back for presentation purposes only. You are asking ourselves to really comment on something that Treasury have to comment about.

Mr KIELY: All right. Well I will move on, Commissioner Bates. While you may now know what Treasury purposes was, I ask what do you think their purposes was to this presentation purposes only? I mean - so I am not asking you to second guess, but in the committee when you discussed it, what do you think? Did you discuss what Treasury's purposes were in committee?

A/CMR SMITH: The document was indicating to us what they were going to put in the final budget paper when it went to the printers. The only issue that the committee specifically discussed was the question of the rollovers because we had commitments at that time – and they are indicated in the material that is Tabled with the Chairman. The only issue that we had was that okay, we are going to have a position where there is going to be quite - some quite significant capital items that won't be paid for in financial year 2000-01 and that we are going to have to address those in financial year 2001-02. That was the only issue that came out of that particular document.

Mr KIELY: So the notification of the $2m [inaudible] didn't raise any real eyebrows in the committee?

A/CMR SMITH: That was Treasury's estimate of the cash reduction that we would need to be able to pay our bills in 2000-01.

Dr LIM: May I just set a scenario for you? Tell me first when are budget papers prepared for publication?

A/CMR SMITH: You would have to ask Treasury, but it happens in early May.

Dr LIM: In early May. So I worked out roughly that the agency's weekly expenditure would be about $2.5m every week.

A/CMR SMITH: We spend between $10-10.5m a month.

Dr LIM: Okay. So come six weeks out of the end of June, you would have expended approximately, say, $110-113m of your total budget. Just roughly.

A/CMR SMITH: Yes.

Dr LIM: Very roughly, and I am not going to hold you to it. So when Treasury and yourself came around and talked about what you got left for the six weeks and there was about $15m, Treasury said to you: 'Look, on best estimates with your equipment coming, with your personnel costs, and your operations cost, we don't think you will spend the full $15m. We really think you need $13m. We will take this $2m off. However, if you do need to have the rest, it is still there, but we need to take it off so that we can prepare our budget papers which we have to present now - we can't wait for another six weeks - to know exactly what your expenditure will be by 30 June. We need to have the figures now to print our books for presentation to parliament.'

My question is: would that be a fair scenario, that the figures have to be worked out well in advance of the 30 June? All you have got is best estimates that any person can humanly possibly get?

A/CMR SMITH: Dr Lim, once the budget process took place after the end of the financial year and the documents that were presented to parliament were very accurate because they did in fact represent the two figures: the allocation and the actual expenditure. The situation where the budget is now prepared before the end of the financial year ends up creating three figures.

So the three figures, and they are the ones that are in our table 1 - and perhaps this is why we are all here – the three figures are: that there is an estimate that is prepared in May; that there is an allocation which is approved through the various parliamentary and Treasury processes; and then there is an actual expenditure.

As our table one indicates you actually end up with three figures, whereas historically, before the budget timing was changed, you only had two figures. Without speaking for Treasury again, and I think your scenario is probably better put to them, that is a very, very realistic scenario.

Mr DUNHAM: That's a good point and I note that your figure - your original budget was actually $121m and your final allocation budget was $128m. So over the course of last year, there were a number of occasions when the CEO had to do exactly what he's just done to the current minister and go and say: 'I need several million dollars more'. So I suppose what I am saying to you is that the inference that this is some terrible thing that you have only had one shot and when your budget comes down, that's it, there's no other shots. But during the last year, for instance, there were several million dollars worth of occasions when your budget was changed by virtue of exactly the same approach that the current Commissioner's employed of going to the minister, explaining the situation and getting Cabinet, in this last case I note, to improve the budget by $2m.

So already this year we have seen that there has been an opportunity to improve it by $2m, and I would suggest that there may be other opportunities where you or your successor is going to have to go to the minister and say: 'We need to adapt this fluid budget.' So to infer that there is only one shot in the locker, that you get your money and then its terrible because if its not in that budget, you

are a dead duck is probably a wrong inference and there are several opportunities during the year to address your budget state. Would that be fair?

CMR BATES: Yes, I think that is fair in a general sense because by the very nature of the agency, the way things can occur, there is always a need of course to keep your minister across just what the situation is and seek adjustments, seek assistance. Of course, before you do this, you talk with Treasury on the situation just to see what other arrangements may be able to be made.

Mr DUNHAM: Thank you.

Dr LIM: In fact you did very well. You managed to get $4-5m from your minister in 2000-01.

CMR BATES: I never do well enough, Dr Lim.

Mr CHAIRMAN: I have got a question here as Chair. Basically - and its something that's been concerning me as we have been listening here this morning about some of the things that have been said. Did it concern you that the budget papers which were to be tabled in parliament were showing figures lower than the agency was working towards? I guess, allied to that, did it concern you that figures would be tabled in the parliament that patently - that your understanding at the time - had a figure that was not the estimate of the police force? It was an artificial figure.

CMR BATES: One can be concerned, but at the end of the day we've been through this situation, haven't we, and explained? So being concerned is one thing. How far else should I, as a CEO, be taking it? You're asking me to say something which is a matter for Treasury.

Mr CHAIRMAN: We will certainly be asking Treasury that question.

CMR BATES: But I think that's the reality of it all, isn't it? We have tried to articulate and take you through the exact situation of what's occurred here. Sure, I can say I was concerned. But to take it further than that would be quite mischievous of me, frankly. Because if I'm concerned - I will let my minister know if I am concerned, and I did that, didn't I, in answer to your question in relation to monies that we thought were going to be carried over? So certainly, I think my record shows that I haven't been backwards in coming forwards if I felt concerned about it. But it has got to be put in the right context.

Mr CHAIRMAN: Are there other questions from Committee members?

Mr DUNHAM: Just an observation. Thank you, Commissioner, for you meritorious service to the Northern Territory. I know this is your last day and I thank you for what you've done.

Mr CHAIRMAN: Well, I don't know whether we've finished our questioning. I, as Chairman, would have carried that out at as well. Mr Kiely, have you got any further questions?

Mr KIELY: Just - I am not sure if this one has been asked or not, so I will throw it down on the table and if it has, you can just say: 'Well, look, we've answered that one'. I will give you a good wrap up to for your service to the Territory, Commissioner Bates.

Were there any needs for this financial year of funds to be carried over requested on your agency from Treasury? So were there any needs this financial year for funds to be carried over, requested by your agency in the context of those estimates, with the presentation $2m?

A/CMR SMITH: I hope I am answering the right question. At this stage, my responsibility is to work towards the allocation that I am given. As to whether there will be a need to ask for a

carryovers to pay for commitments that we have got this year, it is too early for me for say. We have got an allocation now of $131.5m roughly, and my responsibility at the end of the fifth month of the financial year is to have a particular target, and we are working towards that target of $131.5m. As to whether or not there is going to be difficulty as we come towards the closure of the financial year, it is too early for us to tell. The Commissioner has briefed the minister on a number of issues, financial issues that will impact on our ability to get to that target of $131.5m, but it is far too early for us to be estimating rollovers or carryovers or anything like that.

Mr KIELY: No, it was more in the context of a shortfall because we didn't request any funds to be carried over from the previous budget. As I understand it the Police, Fire and Emergency Services didn't make it in. There was not request from Treasury and there is no Section 22 to carryover. So because there is no carry over I mean this didn't have any effect on your abilities?

CMR BATES: I think I have actually answered that question whilst you were out, Mr Kiely, to a question the Chairman asked.

Mr KIELY: Yes, okay. Thank you.

Mr CHAIRMAN: There is probably just one last question or clarification. I would like to ask either the Commissioner or the Assistant Commissioner just to tell me whether my understanding is correct. There was a note from Treasury that talked about realignment of estimates to allow for the likely carryover 2000-01 of approximately $2m into this financial year. So that was the facts from Treasury talking - if I could quote here, it says – well: 'The table was incorporated a $2m reduction to the estimates which was described as a realignment of estimates to allow for a likely carryover of approximately $2m' and at the end of the day - and then subsequently, you applied for the money to be carried over but Treasury didn't allow that money to be carried over. Is that correct, what I have said there?

A/CMR SMITH: No. In answer to your question No.4 Mr Chairman, at the commencement of proceedings, we indicated or the Commissioner indicated in answer to your question No. 4 in your written questions, that Treasury didn't circulate its customary Section 22 request for carryovers.

Mr CHAIRMAN: So you didn't actually apply for that carryover?

A/CMR SMITH: If I may.

Mr CHAIRMAN: Sorry.

A/CMR SMITH: At that point, we didn't have the vehicle to request any particular carryover. Section 22 is the vehicle of that point for carryovers. But there is another way to seek that funding, and that is at the commencement of the new financial year is to indicate to Treasury the commitments that you have carried over from the previous financial year and then to commence negotiations with respect to how they may be funded. That process, of course, is something that's been ongoing.

Mr CHAIRMAN: Hold on, I think I'm missing something here. So, Treasury identified $2m to be carried over, and yet it never was. Who's responsible - in the normal cycle of events, who's responsibility is it to initiate an application for that money to be carried over?

A/CMR SMITH: They're both – both Treasury and the agency have a responsibility here, because they are commitments that impact on your financial integrity. The process, historically, is that towards the end of the financial year, Treasury would circulate information that's required for a section 22 carry-over. At the close of last financial year, 2000-01, a section 22 request wasn't

circulated to agencies, so therefore, that particular vehicle wasn't available to us. Discussions with Treasury indicated that the appropriate way for us to deal with it this particular financial years, was to make the application at the commencement of the new financial year. We've made that request, and, of course, that's in the process and the Commissioner's briefed the minister on the impact.

Mr CHAIRMAN: So if I could just clarify this – Treasury identified the need for a carry-over in their fax, and yet, at the end of the day, didn't provide you with the vehicle to allow you to carry that money over?

A/CMR SMITH: There's two vehicles – they didn't provide one of them.

Mr CHAIRMAN: And why didn't you pursue the other one?

A/CMR SMITH: We have been pursuing it.

Mr CHAIRMAN: Oh, I see, as a supplementation …

A/CMR SMITH: As a matter of course, the thing that we do at the commencement of the financial year, is to indicate to Treasury commitments that are now carried over from the previous financial year, and to identify how that intends to be funded.

Mr CHAIRMAN: Okay, thanks for that. Are there any other questions from the committee?

Mr KIELY: Mr Chairman, I have one question, and I would ask the two gentlemen to bear with me, I am not totally across this. But, as a result of your fax received on 17 May, in respect to the $2m reduction – is that the right term? Or …

A/CMR SMITH: If I understand what you mean.

A WITNESS: It's written down there, the …

Mr KIELY: And you are obviously concerned about it enough to phone the Treasurer's office - or someone was within your department.

A/CMR SMITH: As a matter of clarification, yes.

Mr KIELY: And then, of course, when – from your experience either – when the published figures were not a true indication of what your actual budget was, did that concern you, in your experience? Has it ever happened before? Is this the first time?

A/CMR SMITH: We didn't have a reduction in the actual allocation that was available to us, and therefore, it didn't cause us concern. Once we'd clarified with Treasury that it was only for the purposes of presentation in the forthcoming budget paper.

Mr KIELY: I guess the question is, in your experience either, is this process …

A/CMR SMITH: This happens each financial year.

Mr KIELY: … a normal process.

A/CMR SMITH: It happens each financial year. Where you have got the – if I can make an observation, Mr Chairman, I think it is the product of the timing of the budget cycle and the way that the preparation of material is. It's several weeks out, the estimates are being done, and then as we

get to the close of the financial year, we've got an allocation that we're still working to. And that happens every financial year. I forget which year the budgetary processes were changed, but it's quite some time ago. And since that time, we've had this particular cycle.

Mr CHAIRMAN: All right. Well, there's no other questions from the Committee, so on behalf of the Committee, I'd like to thank Commissioner Bates for his meritorious service to the Territory, and we wish you and Mrs Bates a very happy retirement and we're looking forward to your return to Darwin after a long caravan holiday around Australia.

CMR BATES: Thank you, Mr Chairman.

Mr CHAIRMAN: On behalf of the Committee, thank you for your very fine service to the Territory.

CMR BATES: Thank you.

A/CMR SMITH: Thank you.

The Committee adjourned at 10.15 am.

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

Appearing before the Committee on 30 November 2001

Mr Paul Bartholomew, Chief Executive Officer
Ms Joanne Schilling, A/Assistant Secretary Business & Operational Support

The Committee reconvened at 10.35 am.

Mr CHAIRMAN: Welcome to everyone again to this second session today. I particularly welcome Mr Bartholomew and Ms Schilling. I call the Committee to order and reopen this public hearing of the Public Accounts Committee. I have already welcomed Mr Paul Bartholomew, Chief Executive Officer of the Department of Health and Community Services. Ms Joanne Schilling is Acting Assistant Secretary, Business and Operational Support. They are appearing to brief the Committee on the accuracy of the budget data published in the 2001-02 budget papers. The Committee has ordered that evidence given before this committee shall be sworn evidence and I would ask the Secretary now to swear in the witnesses.

PAUL JOHN BARTHOLOMEW, sworn

JOANNE MARGARET SCHILLING, sworn

Mr CHAIRMAN: Thank you, Mr Secretary. Now both witnesses, you've been issued with a copy of the Legislative Assembly Guidelines dated 20 August 1992 and the Public Accounts Committee Guidelines for Witnesses. Are there any matters of concern in relation to those Guidelines that you wish to raise at this stage?

Mr BARTHOLOMEW: No, we're clear on those, thanks, Mr Chairman.

Mr CHAIRMAN: The Committee prefers all evidence to be given in public but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private session, you may apply to do so. The Committee will then adjourn and give consideration to your application. For the Hansard record, starting from my left, would you please state your full name, address and the capacity in which you appear today.

Ms SCHILLING: I am Joanne Schilling. I'm Acting Assistant Secretary, Business and Operational Support for Health and Community Services.

Mr BARTHOLOMEW: Paul Bartholomew, Chief Executive Officer of Department of Health and Community Services.

Mr CHAIRMAN: I thank you both for appearing today. Now we did outline to our previous witnesses that the way the Committee will carry out this particular session is there are a series of questions that we've formulated as a Committee which I'll ask as Chairman and then individual members of the Committee will then ask you questions as appropriate.

So the first question is - Did the Agency take any action to manage expenditures within the 2000-01 estimate shown in the 2001-02 budget papers?

Mr BARTHOLOMEW: Thank you, Mr Chairman. The estimated expenditure for 2000-01 as shown in the 2001-02 budget papers was not the actual approved allocation for the Department. The approved allocation at the end of May 2001 was $443.456m. During June 2001, a further $3.5m from Treasurer's Advance was added to the approved allocation giving a total of approved allocation of $447.456m. However, in order to remain within its approved allocation, the Department had to severely curtail any discretionary activities during 2000-01. This action was commenced in mid March 2001 when it was obvious that the existing level of expenditure across the Agency was unsustainable.

The actual expenditure for the Department as at 30 June 2001 was $447.240m which was $216 000 less than the approved budget.

Mr CHAIRMAN: Thank you. Can you inform the Committee what was the financial situation of the Agency's budget at the end of the March quarter of 2001?

Mr BARTHOLOMEW: At the end of March 2001, the Department was clearly in an unsustainable budget situation. At that time a memo was distributed to the managers of the Department on 13 March requiring tight restrictions on discretionary expenditure for the remainder of the financial year. At the end of March the internal management report showed a large variation year to date of $15.7m. That is on a cash flow basis the expenditure for the end of March was $15.7m over budget. If that expenditure trend had been maintained, the Department's total expenditure at the end of the financial year would have been $462m.

Mr CHAIRMAN: Thank you. What was the number and dollar value of accounts received but not paid by the Agency as of 30 June 2001?

Mr BARTHOLOMEW: Mr Chairman, according to the records provided by DCIS the number of accounts on hand at the 30 June 2001 was 3148 accounts at a total value of $2 540 711. This level of accounts on hand at the end of the financial year does not appear to be unusual particularly as processing of accounts ceases a few days before year end in order to finalise all accounting systems processes and I believe that the Committee has documentation. In terms of the table, if you just look at the accounts on hand over the last five or six years or so, you can see that that figure $2.5m is broadly consistent with the normal situation.

Mr CHAIRMAN: Okay, thanks for that. The fourth question: Can you supply the original budget allocation variations during the year budget estimate included in this subsequent year's budget papers and the final budget allocation plus actual expenditures for the past five years for your Agency? And I have done that Mr Bartholomew and it is quite a complicated table. Did you want to make any comment on the table at all?

TABLED: 2000-01 final Budget allocations.

Mr BARTHOLOMEW: No. I think that we've - what we've tried to do there is answer the question in some detail because it is a complex process as you move through the year in each financial year. So perhaps I'll just leave the information as tabled and be prepared take any questions on it.

Mr CHAIRMAN: Thank you. Similarly in question 5 you have provided details to the committee of the carryover of allocation under section 22(2) of the *Financial Management Act* for the previous five years did you want to make any comment on that? I see there's quite a large zero on the 2000-01 financial year compared to some quite large entries in previous years. Did you want to comment on that at this stage or leave it for later?

Mr BARTHOLOMEW: I could ask Joanne Schilling to provide perhaps a detailed answer but my understanding is there were no requirement for us to carry forward any funds from 2000-01 into 2001-02 nor were we requested to provide any such advice by Treasury.

Ms SCHILLING: In addition to that we had actually during the March budget process carried forward, and you can see this in the previous table, carried forward $797 000 where we knew that projects would not be completed in the year and that was the required money for them to complete

those projects in the following year so we actually had already transferred money in advance and it did not actually show the previous table.

Mr CHAIRMAN: Thanks. Now as Chair I thought I'd ask a couple of other questions of Mr Bartholomew which I think are important. Now, in the previous session we interviewed Commissioner Bates who of course has been the CEO of his department for quite some years so I think if members of the committee would bear with me I think it's important to establish Mr Bartholomew's sort of background in the current position so can you tell us, Mr Bartholomew, when you took over as CEO of Territory Health as it was then?

Mr BARTHOLOMEW: I've been in this position since February this year. Prior to that position I was in the deputy CEO position for - how long - since May 2000.

Mr CHAIRMAN: And you assumed the position in?

Mr BARTHOLOMEW: February this year.

Mr CHAIRMAN: February. As Acting CEO?

Mr BARTHOLOMEW: Yes and was appointed in June.

Mr CHAIRMAN: In June. Now I actually recall the announcement of your appointment as CEO, Mr Bartholomew, I think it was a function in Health House on the fifth floor there and the then health minister was very effusive in his praise of you. Can you recall some of the comments he might have made on that particular occasion?

Mr BARTHOLOMEW: No, not particularly Mr Chairman. I think it was an occasion where we were launching the revised version of the Strategy 21 which is our strategic plan for the organisation. I was fortunate enough that the minister took that opportunity with a large number of people from our colleagues of the non-government sector and other departments present to announce my appointment. But I take your word for it he was nice about me; I don't actually recall it.

Mr CHAIRMAN: Well, I recall the words integrity and respect and ability and a long standing commitment to the health and welfare of people in the Northern Territory. Do you mind just going back and telling us something about your sort of work history in the health area in the Northern Territory?

Mr BARTHOLOMEW: Yeah sure. I came to the Territory in 1974 and was actually involved at that time in the working in the then Public Service Commissioner's Office on transition arrangements with the public sector as we moved toward self-government. Subsequently, I worked in the then department of Community Development in a number of positions but primarily the position of assistant secretary for the Northern Region of that department. I then went to Western Australia in 1985 and worked as a regional director with the Department of Community Services in that state. I was transferred to Melbourne for four years and was Deputy Director General of the Victorian Department of Community Services, subsequently Community Services and Health. Transferred back to Western Australia, managed Juvenile Justice in Western Australia for a number of years and then was deputy head of the Disability Services Commission in Western Australia which was a statutory authority charged with a provision of support to people with disabilities in that state and then returned to the Northern Territory in May 2000.

Mr CHAIRMAN: Well, that's quite an impressive CV. I guess the question will arise and I'll throw it open to committee members in a minute, but can you tell us the circumstances that gave rise to the

memo that you wrote to the current Health Minister Mrs Aagaard detailing your concerns about the budget estimates process from last financial year into this financial year?

Mr BARTHOLOMEW: Yes, Mr Chairman, most people well certainly sitting around this table would be aware certainly when any new minister is appointed, and clearly with the change of government, the department was charged with providing comprehensive briefings on a whole range of issues to a new minister and obviously one of the very important aspects of those was briefing the minister on the budget situation.

So during the course of those briefings I informed my minister that in my view the department was facing a very difficult budget situation. My estimate to her was that we were actually facing a shortfall of some $20m to discharge the responsibilities of the department to the Territorians. Sometime after that advice, Minister Aagaard requested me to provide a written briefing to her as to how that situation had arisen and it was at that time that I provided that memo to her.

Dr LIM: Can I ask about how that request was made? Was it an oral request or a written request?

Mr BARTHOLOMEW: It was oral.

Dr LIM: It was an oral request. Can you recall the conversation that …

Mr BARTHOLOMEW: No, but there was nothing in the nature of the conversation that I found to be in anyway unusual. It was a request to provide information as to background of the department's difficult budgetary situation that she'd previously been briefed on.

Mr BURNS: Have you got any other questions? Other members? The member for Nelson.

Mr WOOD: Mr Bartholomew, you state there that in the second paragraph in summary there was no official reduction of $8m in the Territory Health Services 2000-01 budget in order that the 2001-02 budget figure could be presented falsely as a 2.5% increase.

What gave rise to you saying that it was a false figure?

Mr BARTHOLOMEW: Well, it was false in the sense that the figure presented in the budget papers as our projected estimated out turn for 2000-01 in fact was never reflected in the allocation provided to the department and, on the basis of the expenditure by the department during the year, the figure that was presented in the budget papers was not in anyway reflective of our likely end of year expenditure.

Mr WOOD: What I'm getting at is the word 'falsely' of course implies I suppose some sort of deliberate attempt to change something as against perhaps presenting something incorrectly. So when you wrote 'falsely', are you making a presumption that it had been a deliberate misrepresentation of the actual figure or something that you wouldn't normally describe as just a either a mistake or done just incorrectly?

Mr BARTHOLOMEW: Well, I rely I suppose in terms of some understanding of this and the audit trial itself in Treasury which I think has previously been provided which says, 'realignment of current year budget to ensure an increase in estimates for the 2000-01 budget year of 2.5% gross. This adjustment for presentation purposes only'.

Mr WOOD: It's true, did you at any time ask for instance Treasury what the words 'presentation purposes' meant? Did you perhaps say was this some technical term used by Treasury or did you ever query what that presentation purposes meant?

Mr BARTHOLOMEW: I didn't personally. We did receive assurances from Treasury that it didn't impact upon our allocation for that year and that was a principle area of concern of ours. So we were confident about the fact that the actual money that was available to us to spend in 2000-01 was still available to us and that we could still meet our commitments. But I didn't query the term 'for presentation purposes' at all, no.

Mr WOOD: They never said to you at any stage similar to what they said to the Department of Police, Fire and Emergency Services, that this was to be a realignment of estimates to allow for a likely carryover of 2000-01 expenditure into 2001-02?

Mr BARTHOLOMEW: That …

Mr CHAIRMAN: Just before Mr Bartholomew answers that we'll allow him to pour himself a drink of water.

Mr BARTHOLOMEW: I was just going to refer him to Joanne Schilling because I certainly didn't have that discussion myself with anybody from Treasury, but I'll ask Joanne to recount any discussions that she may have had.

Ms SCHILLING: I can't recollect as such but certainly in the initial stages indication that it was for presentation purposes and there may have been references to potential carry forwards in subsequent conversations, but that was not the thrust. The main thrust that was indicated to us was that it was presentation purposes and that our actual approved allocation had not altered.

M**r WOOD:** And your carryover really bears no relation to this figure, whereas in the previous advice from the department or the minister for Police, Fire and Emergency roughly their two figures were fairly close. There carryover figure was $1.7m and it rounded up to $2m. Your case you only had a carryover of $797 000 and the actual amount that's been adjusted is $8m. That would be a fair comment that they don't bear relationship with one another?

Ms SCHILLING: In the past our carry overs and right at the end of the year have generally been for the last couple of years have been in the order of $3m which is carried over but in addition to that generally in March or April if we know that a project has been delayed and that's quite often the case where perhaps the Commonwealth has given us additional dollars during the course of the year to commence a project, or a project runs over a calendar year rather than over a financial year, we do move or request during the normal budget process in March that we have a need to take some funds from the current financial year and move to the forward year because the project won't be completed in the current financial year. And in those two cases the two previous years that was in the order of almost $3m, $2.9m in one year, $2.8m. During the budget year in question, we actually moved only almost $800 000. That was the only year that we had in advance to carry money forward and as we're actually a department - and you can only carry funds forward if you have funds available - and as a department normally we were struggling in any case to meet the demands for our services.

Mr WOOD: I suppose I was trying to compare what was argued before was the reasons for something happen seeing if it was a uniform argument of your department. In other words, the police have an argument the $2m was being carried over which was roughly what they thought would be carried over anyway; in your case you've actually carried over $800 000 but the change in the budget estimates was actually $8m, so there's no correlation between the two.

Ms SCHILLING: As I said if it was a business as normal year I would have expected we maybe would carry forward in the order of $3m.

Mr WOOD: Still well below the figure. The other question I'd like to ask, did Ken Clarke actually stated here, that he intended to adjust the Territory Health Services final budget figure for 2000-01 so the following year budget could artificially be shown as providing an increase at least equivalent to the CPI? That is factual?

Mr BARTHOLOMEW: I don't want to be held to exact words that were spoken here. What I will say about that conversation is that Mr Clarke informed me that he had a direction from the then Treasurer who was concerned that the budget papers would show an increase for the following year at least equivalent to CPI and that to enable that to happen the estimated budget outcome for 2000-01 would be reduced.

Mr WOOD: Did he intimate any reason?

Mr BARTHOLOMEW: No. Only that his understanding that the Treasurer had said that he wanted the budget to show an increased estimate equivalent to CPI.

Mr CHAIRMAN: This is a determination of Mr Reed.

Mr BARTHOLOMEW: Yes.

Mr WOOD: And - my final question for the moment, Mr Bartholomew. You stated you kept the Minister for Health continually informed as the budget process continued, but there was no change in the decision to artificially reduce by $8m the 2000-01 budget. Do you have any idea how many times you would have informed the minister when you say continually?

Mr BARTHOLOMEW: Oh no, I'm not prepared to put a number on that but I did bring it to my then Minister's attention and indicated my concern to him.

Mr KIELY: Was that by memo or by telephone?

Mr BARTHOLOMEW: I think both personal conversation and by memo.

Mr CHAIRMAN: Thank you. Mr Bartholomew, do you think we could have a copies of that particular written correspondence, so could you supply them.

Mr BARTHOLOMEW: I'm unclear what the conventions are about providing copies of advice that are provided to the previous government. I'd like to take some advice on that.

Mr CHAIRMAN: Well, you could take some advice on that, but this Committee does have the power to request documentation.

Mr BARTHOLOMEW: Okay.

Mr KIELY: Mr Bartholomew, Ms Schilling, I believe you were in the audience before when Commissioner Bates and Assistant Commissioner Smith were giving evidence before the Committee, and we talked about the $2m and the effect that it had on their ongoing operation, on the expenditure patterns to the plan that they had and they advised that the papers were for presentation purposes only and that business kept on as usual - on the figures that they had before, advised of the facts. In your case, on the advice on the telephone or whatever means you were advised of, you told

them - you made clear that the $8m was for presentation purposes only and that you would keep on basically in the same vein and try to come in on your original budget, is that in effect what occurred?

Mr BARTHOLOMEW: Well, that's my understanding of it. My understanding was we were advised there would be no alteration to our approved allocation.

Ms SCHILLING: That's correct, the approved allocation were one and the same.

Mr KIELY: We heard it happening over in Police, Fire and Emergency Services, now in Territory Health Services, or former Territory Health Services. Would that affect then this reporting with one figure over here, and then this working by two agencies now on another figure up here, would that mean that the government was indeed working on two sets of books?

Mr BARTHOLOMEW: I think that's a matter you should put to others. I mean, our concern was we had the money in our budget papers that we required for the budget for that year to meet our requirements.

Mr KIELY: Okay. What the Treasurer - the then Treasurer - in his statement to the House in the Appropriation Bills 2001-02 stated, if you bear with me for a minute, I've got more papers here that - stated with the help of Hansard references as well.

Mr CHAIRMAN: Yes, if you could quote the Hansard reference.

Mr KIELY: All right. It came off the internet, all of them because I was going to read them later. Is that okay? That bit there.

Mr CHAIRMAN: The 29 May.

Mr KIELY: He was talking about - sorry about this - - -

Mr CHAIRMAN: Possibly while the Member for Sanderson is finding his place are there other questions.

Dr LIM: I do have some questions, Mr Chairman. Mr Bartholomew, I asked a question earlier about how the request was made, that message to you and you said it was a verbal request. I ask you to try and recollect what was said to you - just reading the tone of your memo, I think it's important that we understand how and what was said to you because of the way the memo was written. Could you try and recollect on it if you possibly can, what was said?

Mr BARTHOLOMEW: Dr Lim, I can't. I can't recollect the words the minister used when she requested me to provide the information. What I can say to you is that there is nothing in there that sticks out in my mind as being anything unusual about any request.

Dr LIM: That was done within a day or two of the minister being sworn in, and went to the first briefing or was that a request made quite a while after she was sworn in as the minister? Do you recall?

Mr BARTHOLOMEW: I don't - I'm not sure about all of the dates. The day of my memo, that was the 27 September, and I think it would have been no more than a week earlier than that when she asked me to provide the information to her.

Dr LIM: Some three weeks or so after she was sworn in, sort of thing? All right. How would you describe your memo. Would you describe it as fulsome, comprehensive, political, basic?

Mr BARTHOLOMEW: What I've tried to put down there is a faithful recollection, faithful record of my recollection of the events as they took place.

Dr LIM: In that there is a memo you sent, you also included an audit trail which showed that adjustment. It's got here, adjustment for presentation purposes only. Was there a subsequent document of this type for the year 2000-01. Because this document - this attached audit trail indicates a reduction of work of your $8m. I understand from all the figures that were quoted this morning that in fact the $8m was reinstated. So was there an audit trail on it?

Mr BARTHOLOMEW: It is actually two pages. There is a page 2 and a page 3, and the next page, if you turn over the page, it actually shows the reinstatement of those dollars. The reinstatement of that money in the same financial year.

Dr LIM: Okay, thank you. Now, coming back to the memo. Do you agree that some of your commentary was made about your memo. For instance it was described that your memo is undeniable, and I quote this from Hansard of Thursday 25 October 2001. And I quote: 'it was described that your memo is undeniable proof of how far the former government leaders were prepared to let their ethics and extent sink in an ultimate and vain attempt to hold onto power in the Territory'. Would it be true.

Mr BARTHOLOMEW: They weren't my words.

Dr LIM: No, no. I agree they are not your words. But that was how your memo was described. Would you agree or disagree that that is what your memo ..

Mr BARTHOLOMEW: Let me say something about this. I was asked to provide advice to the minister. That's what my memo does. At the time of writing that advice to the minister, that's my understanding of what I was doing. I had no indication at that stage that it was going to go beyond the minister. It was a piece of advice that I was writing to her. It wasn't written for any other purpose.

Dr LIM: So your understanding was that you wrote a confidential memo to your minister.

Mr BARTHOLOMEW: Yes.

Mr CHAIRMAN: You've got other questions to ask?

Dr LIM: I have but I'm happy for others to ask.

Mr KIELY: Yes, I was just going to ask one question if I may, Paul, and I think May 9 when you first spoke to the minister Dunham at that time?

Mr BARTHOLOMEW: No I was in Sydney on May 9th. I was actually trying to look through back copy of my diaries this morning. It would have been within a week of that.

Mr KIELY: So about a week later?

Mr BARTHOLOMEW: I rang Mr Dunham through my mobile phone on 9 May but I didn't subsequently meet with him about it probably until a few days after that.

Mr KIELY: So, in respect of this memo, where you expressed your alarm in respect of this proposed deception as described, was that on the 9th or after the 9th - that was the first time you phoned him?

Mr BARTHOLOMEW: On the 9th I informed minister Dunham of the conversation that I had with Mr Clarke.

Mr KIELY: Okay, Paul, can you recall what that conversation was with minister Dunham at that time on the 9th?

Mr BARTHOLOMEW: Not in detail. I had the discussion with the Under Treasurer. I phoned my then minister and said this is the information that is being conveyed to me, I had a concern, it was expressed to the minister about the potential impact of that, particularly on our budget situation for the following year. And then my responsibility as CEO is to provide the best possible services to the residents of the Northern Territory, and I was concerned that the impact of this change in terms of our budget situation next year would mean that we would in fact be seen to have a budget increase, which was not in fact there, where the money had already been spent, and that would impact upon my capacity to discharge my responsibilities.

Mr KIELY: And just further, you said that you had made other phone calls- you had other phone conversations with the then minister in respect of this.

Mr BARTHOLOMEW: I had other meetings with the minister subsequent to that phone discussion, yes.

Mr KIELY: Would you like to describe or recall those conversations with him, to the best of your ability?

Mr BARTHOLOMEW: Well, look I think this is again getting into a bit of a grey area. I've always regarded the matters of communication between myself and the minister as matters that should be treated matters between those parties, and I'm really quite uncomfortable about providing information to any government about discussions other than in general terms, that I had with the previous minister.

Mr KIELY: Found my spot. I was referring to the wrong documents not to the Appropriation Bill delivered by Mr Reed, its actually the Minister for Territory Health Services' response to that.

Mr DUNHAM: You are quoting me here or …

Mr KIELY: I'm quoting you.

Mr DUNHAM: Good.

Mr KIELY: In his reply the minister said, ;therefore it is recognised that the need for capable stewardship of the significant taxpayers dollars and the important services they pay for is absolutely critical. As with all other Northern Territory government agencies, the 2001-02 budget for Territory Health Services has been prepared in accordance with Northern Treasury guidelines for working for outcomes'. The Northern Territory Treasury guidelines, are they incorporated now into the concept of the principle of presentation - adjustments for presentation purposes? Is that the standard of budget preparation according to these new guidelines?

Mr BARTHOLOMEW: I think you should put that question to Treasury, Mr Kiely.

Mr KIELY: When I saw presentation purposes in Police, and I've seen presentation purposes in Territory Health Services, I was wondering if there was any direction? Is there any direction that you know of?

Mr BARTHOLOMEW: No. I mean I haven't seen any incidents like this previously or subsequently.

Mr BURNS: So this is an extraordinary event.

Mr BARTHOLOMEW: Well, I haven't in my experience seen such a form of words used previously.

Mr KIELY: I noticed in your CV, Ms Schilling that you were employed from 1990 wasn't it roughly working within the budget areas of various NT government agencies.

Ms SCHILLING: Principally Treasury for the first five years, yes.

Mr KIELY: Is this the first time that you've, or have there been other occasions that you are aware of where there have been adjustments made for presentation purposes or is this the first one that you ran across?

Ms SCHILLING: I am not aware of other circumstances like that.

Dr LIM: I still – I am dwelling on the memo a little bit because I feel this memo is quite significant. Mr Bartholomew, have you ever spoken to the current Chief Minister about this at all?

Mr BARTHOLOMEW: Yes, I have, Dr Lim.

Dr LIM: Could you tell us or detail the discussions on that?

Mr BARTHOLOMEW: They have been very brief discussions. The Chief Minister approached me for my permission for the document to be used in parliament, and I gave my assent to that, and that is essentially been the totality of the discussions.

Dr LIM: So when you wrote it, you anticipated it would be between you and the minister only and you wrote it the way you did.

Mr BARTHOLOMEW: Yes.

Dr LIM: Then subsequent to that you spoke to the Chief Minister and as she said you knew in advance that the matter would be made public and gave your consent.

Mr BARTHOLOMEW: That's correct.

Dr LIM: So where does that leave you in terms of the Code of Conduct? Does it go anywhere - you know, I am sure can send this and does it breach anything?

Mr BARTHOLOMEW: Well, not to my knowledge. It certainly hasn't been brought to my attention that it does.

Dr LIM: You were saying earlier in answer to a question from the member for Sanderson that you were talking about your limited time with Territory Health Services. How many budgets have you personally been involved with for THS?

Mr BARTHOLOMEW: Two.

Dr LIM: Good experience, moderate experience, limited experience - what would you say?

Mr BARTHOLOMEW: I think you have got to put it in the context. I don't think that the budgetary process that is followed by the Northern Territory government, there is not a significant difference to the ones that are followed by the Commonwealth government and the Western Australian government. I have been in senior executive service for 18 years, and I have been closely involved with matters to do with the budget preparations and negotiations and discussions for everyone of those periods. So I don't feel as though I lack any experience in dealing with issues to do with budget preparation matters.

Mr KIELY: Who was the liaison with Treasury on exercise?

Mr BARTHOLOMEW: Joanne Schilling.

Mr KIELY: Well, first of all who was the liaison point in Treasury? I am keen to know that.

Ms SCHILLING: I think …

Mr KIELY: Well you can take advice on that.

Ms SCHILLING: Thanks, I will take advice on that.

Mr KIELY: What I am looking for is whether the person that you were working with in Treasury, whether they were exceeding their delegations or not? That is what I am keen to find out. Did you have any discussions about intent of what to say a million dollar presentation purposes - - -

Ms SCHILLING: We were advised that it was for presentation purposes.

Mr KIELY: For presentation?

Ms SCHILLING: Yes.

Mr KIELY: Why do you think Treasury wanted to publish a figure of - what was it $145m – you can correct me on that – when they knew this was wrong?

Ms SCHILLING: I can't answer that. I think you will need to talk to Treasury.

Mr KIELY: You are not prepared to make a subjective …

Mr BARTHOLOMEW: I don't think it should be asked.

Ms SCHILLING: I don't think I am in a position to answer that.

Dr LIM: If I may ask another question of Mr Bartholomew. Earlier you talked about when you wrote the memo to the minister, and you said that she made a request to you about a week before that. I think in the response to a question from the member for Nelson, you expressed concern about the size of the money involved. If you were that concerned, it took to the minister first of all three weeks before she made the request to you, three weeks after she was appointed as minister, yet you took another week to get a memo to her? It took perhaps another month before it became public.

That is two months down the track and I just wonder how serious that was. I mean the timing to me doesn't seem so appropriate in terms of the significance, magnitude or seriousness of the issue.

Mr BARTHOLOMEW: I think my response - I would have to go back and check it in the transcript - but I think my response to the previous question was that it would have been no longer than a week. It may have been two days, I don't recall. Certainly in a - I would have gone back and provided the advice as quickly as I could, depending upon what other commitments that I had. But I am not sure what other comment I am being asked to make here. The matter, certainly I regarded very seriously. The reality was that we had a situation where on the published budget figures for 2001-02 we had a situation where there was a deficit of $575 000 on our figure that we actually expended into the previous year. So I was very concerned about the fact that we actually had a significant budget deficit situation. We actually had less money in the new year than we had spent in the previous year and out of that I have got, the department has commitments that are not negotiable, like payment for wage increases, payment for indexation, payment of cross border charges, so it was certainly a matter of very significant concern to me.

Dr LIM: There are many things within the health budget that is regulatory controlled, is that what you are saying?

Mr BARTHOLOMEW: Well in government, I mean if you have a nurses EBA you have got to pay it. There was I think the third year of the Administrative and Clerical EBA - had to pay it, you can't negotiate. Cross border charges you have got to pay. Indexation, you actually, the non-government sector knows its in the budget and they expect us to pass onto. So there are a whole lot of things that before you can provide any new services you actually got a fundamental issue that you face that you've actually got to address.

Dr LIM: Treasury imposed a target of what $435.956m? Is that a rough figure?

Mr BARTHOLOMEW: That was in the published estimates being $435.9m.

Dr LIM: Yes, $435.9m.

Ms SCHILLING: But that was not our budget target. Our approved allocation was at that time from memory $444m. It was to be $8m more than that. That was – our allocation did not alter despite that was a published estimate of the number, that wasn't the target that we were working to.

Dr LIM: That being the case, were you working to the $444m or were you working to the $435m.

Mr BARTHOLOMEW: We were always working to $444m and that was the agreement we had with Treasury.

Dr LIM: And you did not bring in any measures to try and contain it, sort of try and get rid of $444m if you possibly could?

Mr BARTHOLOMEW: No absolutely not, because we had approval. The agreement with Treasury we had an approved allocation and that was $444m. In fact, we would have exceeded that but during June Treasury through Treasurer's Advance provided us with another $3.5m to meet other commitments such as the expenditure that we had around the Victoria River and Borroloola floods and other items that I've identified there. But we were always working towards an expenditure target of …

Ms SCHILLING: Ultimately $447m.

Dr LIM: Can I just call a point of order Mr Chairman. I think this hearing is a very serious matter, and members and members of the public continue to walk in and out of the room. We have a consultant here, if you need to have other consultation, I think you can do that during recess rather than walking in and out, so that members can ask advice from others. I think that is inappropriate. Let's sit here. Let's do it properly and if you want to call the witnesses back at a later stage with other questions, you can do that. I think it is distracting. Can I request you do that?

Mr CHAIRMAN: You can request it. I am the Chairman and so far I don't have a problem but I take your point. So I would like to ask Mr Bartholomew some questions in relation to his memo.

You rang the then Health Minister, Mr Dunham, and expressed your alarm at this proposed deception and you said that you thought the Auditor-General would discover it and it would reflect poorly on THS and the minister. You say there that Minister Dunham expressed serious alarm at the information and he wanted to be kept informed of all developments. Did you have an expectation that Minister Dunham would take action to redress this situation? Was that your hope in laying your very valid concerns about this deception on the table, did you hope that Minister Dunham would actually rectify or redress this situation?

Mr BARTHOLOMEW: Well, I think it would be fair to say that I believed I had a real effective working relationship with Minister Dunham, and I was confident that he would take whatever action he was able to take to try and address the situation.

Mr CHAIRMAN: Did he inform you of any action that he'd taken?

Mr BARTHOLOMEW: No, and I didn't expect him to. I mean I left it. Throughout this process I regarded it that it was clearly a matter of policy for the government and it was a matter that needed to be addressed at a political level. It was a matter for the minister. It was not my business to be continually intruding into that matter. I regard it as a matter that was most appropriately dealt with by the minister.

Mr CHAIRMAN: So you had an expectation that he'd relay your very valid concerns and you got presented falsely an artificial reduction and you had the expectation that he would relay those concerns from a CEO of a major organisation within the Public Service higher up the tree into Cabinet and to the Treasurer and that this situation would be redressed?

Mr BARTHOLOMEW: I think that is going too, far Dr Burns. I think that I regard it as my responsibility to inform the minister. I really don't think it was appropriate for me to speculate then what the minister did with that information.

Mr McADAM: Yes, Paul, just in respect of these telephone conversations with the then minister, in your opinion was the then minister fully informed on all occasions in respect to your concerns?

Mr BARTHOLOMEW: I would hope so.

Dr LIM: We are jumping over the place. Let me follow up the question that I had earlier. Now we talked now about the $447.4m that has been suggested as your final budget estimate. Did you calculate on $0.5m and above the published figures? Have you any further comments to add to other than this was your understanding?

Ms SCHILLING: Only that the published number was for presentation purposes. Our approved allocation was not altered. We had a level of commitments and it's very difficult to try and pull a hospital up short or community services and where there is constant ordering and using of products it is not as though we can't then having purchased and provided services in May, not pay for them in

June, for instance, and so it's not something that we just stop, otherwise you've got the entire business community not being paid for the goods that they have provided to a government service.

Dr LIM: … put that down here to have the $3.5m Treasurer's Advance to cover?

Ms SCHILLING: That's correct.

Dr LIM: What containment measures did you bring into the department to try and keep costs down so that the budget can go?

Mr BARTHOLOMEW: Well, a variety of things. We tightened right up on things like travel of staff, training, things that you don't like to do. But your first objective is to try and protect your absolute core services. We froze any purchase of new computer equipment and things like that. So it did have an impact but we tried to target those areas where it would have the least impact on our core services.

Dr LIM: So you think discretionary services would be cut back?

Mr BARTHOLOMEW: Well there's always that, there's always a cost to that you know you're talking about travel, you're talking about staff who go out and support the staff in the remote communities providing services to people, you're talking about public health services. You're talking about services where people might be dentists and so on, someone might be travelling from one centre to another centre so it doesn't come at no cost but you do actually …

A MEMBER: A great cost to the community.

Mr BARTHOLOMEW: … at least try and limit to the fact that you still have to there are things that you have to do you have to provide hospital services, you have to provide services through your health clinics, you have to supply child protection services. So you just do your best that you can and managers do the best that they can but obviously it comes at some cost.

Dr LIM: Given that a fairly large $34m blow-out for this year which includes the $16.5m blow-out hospital services are you confident that you can do this and you will be able to contain it?

Mr BARTHOLOMEW: I'm not sure where the blow out figure is?

Dr LIM: Well you've got $34m extra from this mini-budget.

Mr BARTHOLOMEW: Our correct appropriation – it is not a blow-out …

Dr LIM: Well it's an increase, let's say, on the previous budget.

Mr BARTHOLOMEW: Yes.

Dr LIM: You've been given another $34m.

Mr BARTHOLOMEW: Yes.

Dr LIM: Are you certain that you can control THS expenditure for the rest of this financial year within those bounds?

Mr BARTHOLOMEW: Absolutely. Then I think if look at the table that I've provided on page 4 there has not been one instance since 1995-96 where the department's expenditure has exceeded its

approved budget. I think it's a matter of fundamental accountability that the department lives within its budget and we will do so again.

Mr KIELY: Mr Bartholomew, I don't see this as a case of taking whether it's good budgeting or not. I think you have a very hard agency to manage and you've come in on budget time and again and I commend you, your budgetary staff and all your employees for what is a very, very difficult area of community service.

What I'd like to look at however, is this presentation figure, I think that's the real crux of the matter here is in how things are recorded. Now, we have this $8m which is being rolled out for presentation purposes of which the agency was fully aware of, was not going to believe in their books that you will still continue on as if it were there and I'm comfortable with that and I'm comfortable in the way that you managed that budget. But, and I guess this one goes to you Ms Schilling, as a budget person looking at that published figure and when the proposed budget for the future and as it looks like your expenditure, I mean what did imply to you as if you were to pick that up you not knowing that this $8m which is being taken out of your estimate and been published, if you were to look at that without the knowledge that you have of how this occurred, what would those figures present to you? What would those figures present to a person in the community looking at THS economic performance?

Ms SCHILLING: You mean in relation to the final outcome or do you mean purely as a budget paper was presented?

Mr KIELY: Well, could look at both.

Ms SCHILLING: Okay. Purely as the budget was presented it would appear that if I'm a layman in the street I've picked up the budget papers which would be highly unusual but I've picked up the budget papers opened them to Territory Health Services and I would see that there is an increase across the two years of about 2.5%, and if I happened to do budgets at home and stuff then I would think well the agency would be able to manage with that budget because there should be provision there for wage increases, there would be provision there for CPI increases, indexation, and because it was only that 2.5% increase across the board that would mean that providing that there was absolutely no growth in demand for any of the health services, and I am becoming less of a layman as I speak, then I would realise that the agency should be able to manage from one budget to the next providing there was no growth in demand and no other extenuating circumstances - another flood or another East Timor coming into Darwin and having to provide health services etc etc. So barring unforeseens that would appear to be reasonable.

On the second part of your question in relation to the budget number being presented at $435m and our final expenditure being $447m that would cause me concern as a layman again it would appear that we had severely mismanaged. It would most likely raise concerns and if I happened to also have read the Auditor-General's Reports of the last few years, I would be aware that the Auditor-General concentrates on performance of agencies, concentrates on the increase from the start of the year to the end of the year of the budget and the budget progression, and I would be concerned because it would appear as possibly mismanagement or poor work performance or out of control expenditures.

Mr KIELY: Whereas on the initial on the first figures that you gave Treasury, if they were rolled out as such under those scenarios they would actually reflect the true, proper and good performance of the agency. Would that be right?

Ms SCHILLING: Had our budget rolled out and appeared in the budget papers as the number that we had approved at that time, and at that time the number would not have been $447m it would

have been about the $444m, it would have showed that the agency would only have an increase of about $2m from one financial year to the next.

Mr KIELY: Can you tell me why, and I think some of the others here might have an answer to. Why is it that it's important the forward estimate when you provide that, how much effort do you put in to make sure that's as accurate as it can possibly be and why - well is it a 'let's just this slap this thing up and get it into Treasury on time', that's the primary motivation or is there a lot of work goes into preparing your estimate to Treasury and the basis for it and then why does that estimate - how does that estimate inform Treasury?

Ms SCHILLING: Our processes have varied from year to year, as seen in the way we approach it within the agency, and in some years it has been depending on circumstance. It's very difficult when you've got people in operational areas out in the bush in a clinic somewhere and they've got a particular health situation or community services type situation there, and they are trained professionals in particular field of environmental health or social services or whatever, and they have some genuine ideas or ways of if they could do a particular project or initiate some other health services or change the way things are done and it would come so they would they could in their minds see a change in outcome.

So in inviting parts across the agency to and this going back some years, inviting them to help develop the budget submissions and consulting right across the agency as to what their needs are and identifying the needs, that sets up an expectation that some of those things may get funded through the Cabinet process, or in the last few years looked at the strategic directions in the agency, identified the areas of need, a lot of effort in pooling information is taken into that and growth in demand, all of those factors are taken into that and the budget submissions across a range of areas are developed and costed. It's that detailed work that then is presented in an entire budget submission that copies go to the minister for endorsement and go to Treasury for them to then assess, work on and then it finally goes through the various budget cabinet processes.

So it's not just knocked up …

Mr KIELY: So it's not knocked up and said well this looks like this'll do and someone come along and say well …

Mr BARTHOLOMEW: Yeah. We have a very small break from one budget to the next so one budget's handed down and within a few months you're developing your arguments and your case of information, your figures and starting to discuss with Treasury the next budget. So it's a very complexed and protracted process.

Mr KIELY: Now if I can just trip of into the realms of being hypothetical, but it has a little bit of basis in fact. We have what looks like a $2m realignment; police were advised $2m and they continued operating on full knowledge that really it was only a shuffling of figures and the reported figure here. I believe we're seeing the same thing in THS where it was $8m, we'll put that in the same basket as this $2m. Now, if it were to be that across other agencies this sort event occurred that other budget areas, other CEOs have been called up and said look that forward estimate you put in we're going to - you keep on operating the way you are, we're just going to knock off some another $4m or another $1m. Would this have any sort of accumulative effect somewhere down the line and in what - what would be the outcome. I'm asking you as a budgets officer, I mean, what would be the outcome of such a strategy?

Ms SCHILLING: That's really a question for Treasury, my main concentration for the last seven years has been health and community services.

Mr BARTHOLOMEW: Look, we can only answer questions from the point of view of Health and Community Services, Mr Kiely. Our three concerns in order were our capacity in terms of 2001-02 budget that that one had provided a reasonable amount of funds for us to provide our service which we're responsible for. The issues around a possibility of a perception that the budget estimates actually represented the budget estimate figure, the 2001 actually represented our approved budget and therefore there could be perception about mismanagement in the department and they really are our concerns. Our main concern is about impact of the fact that it looked as though we had a figure in next year's budget in terms of an increase which in fact was not there.

Mr KIELY: The basis of the question was – it is not too often that I get myself a knowledgeable budgets person in front of me and I was asking from that base - not asking for a Territory Health Services opinion on it. I was asking more as a person who deals in figures on a daily basis.

Dr LIM: Mr Bartholomew, looking at your response to your question 5 about the five-year figures, 1995-96 we have $317m budget and this year you've got $446m budget.

Mr DUNHAM: No, $481m.

Dr LIM: $481m - that's a significant rise over the five year period. If you average that out over an annual basis it's what …

Ms SCHILLING: That's actually over six years.

Dr LIM: Over six years, sorry. Almost $30m a year increase per year averaged. Would you first of all agree with my simple mathematics? Are you happy with that?

Mr BARTHOLOMEW: Yeah, it was very patchy isn't it. So you get big increases and then almost nothing and then there's another spurt …

Dr LIM: If you look at the graph do you think that's sustainable in terms of health provision in the Northern Territory?

Mr BARTHOLOMEW: Do I think it's sustainable?

Dr LIM: Yes. That each year we are going up by $20m to $30m, $35m, $20m, $35m, $40m?

Mr BARTHOLOMEW: Well, first of all let me just clarify this years budget. It's about half and half so $16m and about half of the figure is actually one-off money so it's not recurrent and they're the things that just expenses like an outstanding bill for cross border charges and a few other things that we just had to pay. It won't actually got into our base on a long term basis. But yeah, well I don't know it's not for me to make a judgement whether it's sustainable or not. What I do know is that this is an area where anyone who's been associated with it would recognise as probably the most difficult area in terms of trying to manage demand in terms of hospitals, in terms of disability services and in terms of aged care, a whole range of things. The demands are out there. We've got a ageing population, we've got increasing chronic diseases patterns and so on. Yeah, it's a very difficult situation. Ultimately it's up to government to make those priorities but I'll certainly continue to push the case for the department as hard as I can.

Dr LIM: As a health provider myself for almost 30 years I fully appreciate the many factors that are involved with health care and sometimes there's no control. For instance you talk about cross border charges, I mean, how do you control the number of patients that are referred interstate? And so my question is: do you think this continual rise is sustainable, and is it reasonable to keep on going along that line, or somewhere, some time, somehow, you've got to say: 'Hang on a minute.

You can't do that, otherwise the Territory Health budget will consume the whole of the Territory budget'.

Mr BARTHOLOMEW: I'm not sure where this gets to in terms of the terms of reference of the committee …

Mr CHAIRMAN: Yes, I was just going to – just hold on there, Mr Bartholomew. I guess our inquiry is about the accuracy of budget data published in the 2001-02 Budget Papers. So, if the member could make the relevance of his question to our inquiry. I think it is slipping into irrelevance …

Dr LIM: No, it's not. I wish it were.

Mr KIELY: Yes, it is.

Dr LIM: I wish it were. Now, as I said, I have been a health professional for the last 30 years, and I do appreciate health costs and how difficult it can be. The question I am asking is: is it reasonable to expect the health budget to keep on going upwards forever?

Mr BARTHOLOMEW: Well, I am prepared to answer the question. You don't just keeping doing the same things over and over again, so the answer to the issues to do with hospital costs, the acute costs of providing services in this community which you have to. We have to go and put – swing the emphasis more into prevention, early intervention, health promotion, education, housing, all of those sorts of things, because you will never address the issue if you just continue to plug dollars into the fact, after people have gone into hospital. I am sure I'm not saying anything, Dr Lim, that you're unaware of.

So, the potential all the time is to look for opportunities to be putting more funding into those areas where - whilst they don't have an immediate impact – over time you are going to make a difference. That's what you have to try to …

Mr CHAIRMAN: Thanks, Mr Bartholomew. I might just ask a question here. We've heard that the original allocation – and correct me if I'm wrong here – the original allocation in the 2000-01 year was $432m. It ended up at $447m – is that correct?

Ms SCHILLING: Yes.

Mr CHAIRMAN: At the time when the $8m was artificially removed from the estimate, it was $436m, is that – well, it brought it back to $436m. Is that correct?

Ms SCHILLING: Yes, except our allocation didn't change.

Mr CHAIRMAN: No, your allocation didn't change. Well, I'd just like your comments on these comments that were made in *Hansard* on 31 May 2001, by the then Health Minister, member for Drysdale, Mr Dunham, in the *Parliamentary Record* No 28, page 7789. He said …

Mr DUNHAM: Can I have your question?

Mr CHAIRMAN: I knew I would be asked.

Mr DUNHAM: I'm supporting. He was attributing to the wrong audit for a starters.

A MEMBER: That's right, Mr Dunham.

Mr CHAIRMAN: So:

As shown in the budget papers at this time last year, a total of $432m was allocated for Northern Territory Health Services in the 2000-01 budget. During the year this amount has been increased by a further $3.9m …

I'm putting my own words here – which brings it up to approximately $436m,

… predominantly relating to funding carried forward from the previous financial year and to specific purpose and externally funded items.

So, was that estimate that was made by the then Health Minister, of $436m – would he have been informed by that stage that the estimated expenditure or the allocation was $447m? This was on 31 May 2001. I'm asking you, Mr Bartholomew, or Ms Schilling, that question.

Mr BARTHOLOMEW: I think that the minister was aware that our approved allocation was unaffected by the adjustment of the $8m.

Mr CHAIRMAN: So, in other words, that statement if he knew otherwise - was incorrect?

Mr BARTHOLOMEW: Well, I can't – I don't want to comment on the particular statement, but …

Mr CHAIRMAN: Well, I am asking you to.

Mr BARTHOLOMEW: I think that the …

Mr CHAIRMAN: He made a statement …

Mr BARTHOLOMEW: … state of those was - sought reassurance that we had the money in the budget at all times, that our allocation had been unaffected.

Mr CHAIRMAN: But that allocation was a lot more than $436m, was it not? And he was aware of that? Yes or no, please.

Mr BARTHOLOMEW: If the minister knew the actual detail of the budget figure, I don't know. But he did know that – whether the minister – I think you should ask the minister that question …

A MEMBER: We will.

Mr BARTHOLOMEW: … but, he certainly understood that our appropriation was unaffected by the adjustment of the $8m. I'd prefer, really, that you ask the minister that stuff.

Mr CHAIRMAN: But you'd informed him about $444m and $447, well prior to 31 May?

Mr BARTHOLOMEW: Well, the $447m was – only came about during June, so the $444m was a figure that was …

Mr CHAIRMAN: So, he would have been aware of that $444m? That was the basis of your memo to him, saying that this $8m was artificial, and that you would need every cent of that $444m. And yet he comes into parliament and gives a total of $436m.

Dr LIM: Mr Chairman, if I may – I don't want to interrupt the flow of questioning and answering. But in all fairness, you were the one who raised the issue that we would not badger our witnesses. And I suggest that you are pretty close to that.

Mr CHAIRMAN: I am not badgering the witness, I'm just asking for an answer.

Dr LIM: I'm just thinking of Mr …

A MEMBER: Good on you, Dr Lim.

Mr BARTHOLOMEW: I just would prefer to restrict my conversation, my evidence, to the information that I provided the minister, rather than trying to provide a commentary on statements the minister might have made.

Mr KIELY: A couple of quick technical questions for you, Ms Schilling. I enjoy asking you technical questions. When were the budget papers presented to …

Ms SCHILLING: I don't recollect the exact date. I think it was 27 May, but I …

Mr KIELY: No, I'm not going to - just round about 27 May?

Ms SCHILLING: Yes, late May. I can't recollect the actual date.

Mr KIELY: When were the Treasurer's Annual Financial Statements, when are they produced? Just from your knowledge.

Ms SCHILLING: The Annual Financial Statements this year were produced a little later than normal, I think, in October. They're normally out towards the end of September, once the auditor has finished. I do know the auditor was still working in early October, so I think they came out in late October.

Mr KIELY: Oh, yes. So we have the budget papers - - -

Ms SCHILLING: Yes.

Mr KIELY: … which has got the presentation figure …

Ms SCHILLING: Yes.

Mr KIELY: So the budget papers, the presentation figures, comes down in May …

Ms SCHILLING: Yes.

Mr KIELY: … but the Treasurer's Annual Financial Statement's not due until October?

Ms SCHILLING: Well, it's normally around about September …

Mr KIELY: September.

Ms SCHILLING: … when the audit is finished. The Auditor-General normally conducts an audit first and they come out in September, or I think it is October this year.

Mr KIELY: There's never ever anticipation that it would be before 18 August, is it? Like, you wouldn't expect it to be …

Ms SCHILLING: Oh, no, no.

Mr KIELY: No.

Ms SCHILLING: I mean, the auditor takes the full three months, pretty much, to – because he doesn't only audit …

Mr KIELY: So, we have the …

Ms SCHILLING: … Treasury information, but he audits information in DCIS and in major agencies.

Mr KIELY: We have the false figures printed up on late May. Of course, no adjustments, or nothing's to be found out until October. I mean, if you were going to detect any discrepancies, that's when it would be, would it? Any deviations?

Mr BARTHOLOMEW: From the point of view of a person outside the process, that sort of thing?

Mr KIELY: Yes, yes.

Mr BARTHOLOMEW: I guess that could be right.

Mr KIELY: Well, lucky for the events of 18 August.

Dr LIM: Mr Chairman, I was …

Mr BARTHOLOMEW: Is that a question?

Mr KIELY: No, that's a statement.

Mr CHAIRMAN: That's a statement.

Dr LIM: I was trying to get some answers about growth factors. and all that, to know my rationale. What I am tyring to work out in my own head, is how management within THS functions.

Now, Professor Percy Allan recommended a series of measures to address his perception of budget problems. Have you read them? Are you aware of them? Which of these measures that you've read would you implement in the now Department of Health and Community Services?

Mr BARTHOLOMEW: I am still struggling to find the relevance to the terms of reference …

MEMBERS: Yes.

Dr LIM: Yes, I will …

Members interjecting.

Dr LIM: … in your mind …

A member interjecting.

Dr LIM: Hang on a minute! This is a Public Accounts inquiry. Surely I can ask question that will help me decide what relevance all the information that we have will be put together, to see what we put together.

A Member: That's specifically, that's a question you haven't answered.

Dr LIM: The terms of reference are quite wide, and I suggest to you that my questions that I put to Mr Bartholomew are relevant in terms of the management of Territory Health Services. This is not relevant to the management of Territory Health Services. This is not relevant to the management of Territory Health Services.

Dr BARTHOLOMEW: Well, that's up to the committee to decide.

Dr LIM: Well, I'm saying that …

Mr CHAIRMAN: I'll allow Dr Lim some questions along this regard …

Dr LIM: Just to find out from you if you read, first, Professor Percy Allan's …

Mr BARTHOLOMEW: Yes, I've read them and I went to one of his workshops.

Dr LIM: And he spoke about budget problems and the measures that he thinks should be brought into Territory government to try and resolve some of the difficulties there. Are there any things within his recommendations that you'd bring into THS?

Mr BARTHOLOMEW: Yes, I think that we're about to, for example, look very closely at any of our executive positions that fall vacant. We would be wanting to see whatever opportunity you can streamline that. We're also looking at a very significant project across our hospital systems to look at if we can streamline to do with management and administration, and look at some consistency of policies and procedures to reduce costs. We're going to look at the way we run our regions and districts again, to see if we can reduce some of the costs in terms of our administrative and support structures. A lot of the costs, of course, are outside of our control – like indexation, wages and …

Dr LIM: You said that.

Mr BARTHOLOMEW: We'd also look, as a matter of course, as we always do, at opportunities in all area of discretionary expenditure, to see whether we've got opportunities to make savings.

Dr LIM: So when you talk about the executive, you're talking about retrenchment of executives, attrition, is that what you're looking for?

Mr McADAM: Fair go, Richard!

Mr CHAIRMAN: No, I'll just rule against that question.

Dr LIM: What, is that part of …

Mr CHAIRMAN: No.

Dr LIM: That's not part of the summation.

Mr McADAM: I don't see what it's got to do with budgets.

Dr LIM: It's got a lot to do with budgets. It's got a lot to do with budget!

Mr McADAM: Paul, in your memo, you describe the reduction as being artificial. And you go on to say that the reason was perhaps to falsify the budget. Given your vast experience at a senior level in the public sector, have you ever experienced this sort of situation previously?

Mr BARTHOLOMEW: No, I haven't.

Mr McADAM: Never?

Mr BARTHOLOMEW: No.

Mr CHAIRMAN: Okay. Are there other – member for Nelson.

Mr WOOD: Just a general question: Mr Bartholomew, it's about the reasons why you've raised these issues. It would be fair to say that it's not just that you are CEO – I think you said you also work for the Northern Territory community. This is not just a matter of whether this was financial impropriety – but it's also that it would give the Territory Health Service a bad name, that they'd be seen to have figures that were really not true. I suppose it also would reflect back on you, yourself. So, these concerns from the memo are not just purely technical, you might say, but they're basically how a government is run, and how it's seen by the community? Would that be fair?

Mr BARTHOLOMEW: My principal concern throughout this has always been that there is sufficient funds in terms of the budget to provide the services that the community requires. The fact that there was $8m shown in the estimates, which was not in – was in fact already spent – caused me concern in terms of the capacity to provide those services to people.

Mr CHAIRMAN: Are there further questions from the committee?

Dr LIM: Yes, I have more questions.

Mr CHAIRMAN: Please keep them relevant.

Dr LIM: The government has made significant promises in THS for - did you understand that they will all be met, with $34m extra that you're going to get this year?

Mr BARTHOLOMEW: Oh, absolutely, I would be – I think I'd be certainly concerned if, in terms of this year, I was unable to meet the commitments that were to start this year. Of course, the commitments are spread over a 4-year time frame, so this is but the first year of that process.

Dr LIM: I mean, I look at, first of all, say, the renal unit at Tennant Creek. The funding there, you've got $0.4 - $410 000 for the year 2002-03. Then $420 000 2003-04, and then another $10 000 extra for the subsequent year. Is that going to be enough to fund a renal unit?

Mr BARTHOLOMEW: Oh, initially, yes, the $400 000 is about right. It actually enables us to put 8 chairs down. I'm happy to provide you with a separate briefing, Dr Lim, on the budget.

Mr CHAIRMAN: If I could just intercede here, and intercede a question Mr Bartholomew that the budget papers that Dr Lim is referring to is being prepared under the Fiscal Integrity and Transparency legislation that has just been introduced into the Territory. Would you or Ms Schilling like to make comment about how that makes the estimates that Dr Lim is talking about in comparison

to what has happened here previously where estimates have been the province of the Treasurer, and now estimates are the province of the Under Treasurer. Would you like to comment on any of that?

Mr BARTHOLOMEW: No, not particularly. I think it is a matter of government policy and …

Dr LIM: You have got nothing until year 2004-05, and I suppose that is for the construction of the emergency only, any to the ….

Mr BARTHOLOMEW: I think that the staffing costs are built in to the promises for the nurses. I think where you see the are 75 nurses, some of those are actually allocated to the birthing suite, so the costs are in another part of that budget. I am still struggling to actually pin it down, but

Mr CHAIRMAN: Could I make a point of order. I don't think the question there is relevant. Could I ask Dr Lim, why are you asking these questions in relation to what we are trying to find out. So if you could just …

Mr WOOD: A point of order. I don't think it is your prerogative to rule on its relevance when it comes to the motion put by the parliament. The parliament's motion was to enquire into and report on the accuracy of the budget published in the 2001-02 budget papers, of which these form some. With reference to both the estimated outcome for 2000-01, and the budget for 2001-02, we are interrogating this budget here, and these budgets here, because that is the reference we have been given by the parliament, not you, Mr Chairman.

Mr CHAIRMAN: I will call the committee into deliberative session, while we consider these matters, and we will consider these matters in deliberation.

Dr LIM: Before that, let me respond to Mr Wood's question [inaudible] I believe, by the end of the PAC inquiry, you will see my relevance, and I am sure … excuse my poor English, but that's what it is, that you will see the relevance …

Mr CHAIRMAN: We are going in to discuss this matter.

Mr WOOD: I could see no advantage of where that question was going.

Mr CHAIRMAN: We will deliberate in committee. We might retire to another room, close by, as a Committee, to give Mr Bartholomew and Ms Schilling a bit of a break to consider these matters.

The Committee adjourned at 12.02 pm.

The Committee reconvened at 12.25 pm.

Mr CHAIRMAN: All right. We're ready to reconvene. Sorry about the delay with our deliberations, but we have deliberated. So, Mr Lim does have some …

Mr DUNHAM: Dr Lim.

Mr CHAIRMAN: Sorry. Dr Lim - thank you for that correction – has got more questions for you, Mr Bartholomew, but he has undertaken to really – where you request the relevance to sort of really explain to you the relevance of his particular question. So without any further ado, Dr Lim.

Dr LIM: Thank you. Mr Bartholomew, you did express that you were not certain where the relevance of the question was, although you did not say that you are not prepared to answer them. Let me just read to you briefly the Terms of Reference and then, that said …

Mr BARTHOLOMEW: Okay.

Dr LIM: Okay. The Public Accounts Committee was directed first of all to inquire into and report upon the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome for 2001 – sorry. I will say again: …with respect to both the estimated outcome for 2000-01 and the budget for 2001-02 with particular reference to – and there are five points in there about data published for individual agencies, whether it differed materially or not and so on and media and public can get a copy of the reference so that you know that I am not quoting back anything at all. But it is about the 2001-02 budget with respect to both the estimated outcome for the previous year and the present year. All right?

Mr BARTHOLOMEW: Yes, I [inaudible] a clarification. I may not have all the details about the budget [inaudible] answer the questions on those.

Dr LIM: Okay. Then I explained to the Chairman, just a little while ago, that I am pursuing this line of questioning in terms of this document to establish the expenditure and management of the 2000-01 budget, that is last year's.

Mr BARTHOLOMEW: Mm.

Dr LIM: And the development of the 2001-02 budget under the CLP government. Okay?

Mr BARTHOLOMEW: Yes.

Dr LIM: Are you happy with my explanation so far? May I proceed with the questioning?

Mr BARTHOLOMEW: Sure.

Dr LIM: Okay. Thank you. I have stated my case, and that's good.

I said earlier that I have been a medical professional for 30 years or so and in fact I have worked in Oncology and Radiology and Radiotherapy and all that, too, but when I look at these papers and I see, say, 2001-02 there's nothing allocated but 2002-03 there's $2m followed by $12.5m the year after and about almost $1m the year after that. Now, staffing again - you said earlier that they were going to come from that 75. You also said that the current government is going to look at recruiting over the course of the term.

Mr BARTHOLOMEW: Well, that's my understanding – my reading of the budget papers, yes. As I said, I didn't bring them with me.

Dr LIM: Right. That's okay. Now, with the 24-hour free call service, again – and I'm not going to knock the current government and it's …

Mr BARTHOLOMEW: Oh, no.

Dr LIM: That's not my intention. That is not the intention. Now, I also would like to draw the Chairman's attention that in committee, members of parliament are in fact as if they were in the Chamber. They are under oath and so what I say should be taken as something that I have said

under oath, and anything that I say that is inaccurate, and if I don't correct it, I will be misleading the House. And I say that quite categorically.

Now, with regards to 24-hour free call service, again for the 2001-02 there is nothing allocated in the budget. It doesn't come into existence until 2003-04 where there is about $300 000 allocated to it, and for the year 2004-05 there is another $300 000. That – in the commentary estimates includes two addition staff for the AAP Unit, I assume, in Darwin because it's going to be a 24-hour free call. People from Alice Springs, people from Yuendumu can be ringing that number to access some assistance. Would that be correct?

Mr BARTHOLOMEW: I don't think we've – I think we're still exploring about how that whole process will work. We're still looking at the – exploring the best way to actually implement that initiative. But as you said, it's geared for implementation – when? What year?

Dr LIM: 2003-04.

Mr BARTHOLOMEW: Yes. I think we're in the reasonably early stages of actually sorting out how the best way to actually implement that initiative.

Dr LIM: And would you, in your opinion, suggest that two staff – two additional staff will be adequate to service such a …

Mr BARTHOLOMEW: I don't think we've had the chance – opportunity yet to verify that, let alone [inaudible].

Dr LIM: All right. But the final allocation is sort of to cater for two additional staff, obviously.

Mr BARTHOLOMEW: Well, it may be. We're talking about forward estimates here, so I understand that all those forward estimates are based upon your best understanding at the particular point in time, but obviously you start to shape those up as you get closer to that financial year.

Dr LIM: I'm just trying to find the reference to the Youth Night Patrol. I've just lost that bit of the reference, unfortunately.

Mr KIELY: You're just wasting Mr Bartholomew's time.

Dr LIM: I'm not wasting the time of the Committee.

Mr KIELY: You are.

Dr LIM: Are you proposing to shut me down?

Mr KIELY: No [inaudible].

Dr LIM: Just as the member for Sanderson had to search for his papers …

Mr BARTHOLOMEW: I don't think it's actually in the health appropriation. It might be in under lifestyle or something.

Dr LIM: So until you approach those dates when you might be implementing those programs, at the moment they are still on the books and they may or may not be jettisoned for whatever reason?

Mr BARTHOLOMEW: Well, the government, as I understand it, have given a commitment that we will implement all of its initiatives so it's my job to make that happen.

Dr LIM: And that will be a normal process of budget formulation, won't it?

Mr BARTHOLOMEW: Yes. We would go through – as I understand it, we will be going through another process, a normal process of budget formulation for the next financial year.

Dr LIM: Okay. Finally – finally. Now, in these papers, 2 – I think it was 2. Anyway, it's all right, I think I've got the answer I needed. I don't need to specifically ask about the Youth Night Patrol. In the last sittings of parliament when this was tabled - you commented that there will be a $25m annually commitment to capital works program. Now, we've heard subsequently from the minister that in fact she's provided $34m and that there is to be some extra funding to ensure the completion of the redevelopment of the Alice Springs Hospital and Royal Darwin Hospital. Now, I'm not sure where to ascertain the voracity of the figures, whether it's still $25m or if you've got that extra additional allocation, and I can't see it written down anywhere. It is in the minister's speech, but it's not written down anywhere in the documents.

Mr BARTHOLOMEW: It's in the Transport and Works appropriation.

Dr LIM: It's in the Transport and Works appropriation. And I will be able to find it here, I assume. I have not looked in – I could not find it. That's why I am asking the question.

A Member: There's no capital works program detailed.

Mr BARTHOLOMEW: Not in those papers.

Dr LIM: Not in these papers. But – so the additional funding is in somebody's budget somewhere in the government.

Ms SCHILLING: Capital works allocation belongs in the Department of Infrastructure, previously Transport and Works, and it's in their budget always, not in the individual agency budgets.

Dr LIM: So you did brief the minister about the shortfall in the funding for the redevelopment of both hospitals?

Mr BARTHOLOMEW: Managing a capital project here in respect of Royal Darwin Hospital of around $40m, I think, and that's over a period, I suppose, of two and a half, three years, that the project is managed and Transport and Works cash flow that money. Now, some contracts might come on a bit earlier than anticipated; some are a little bit more expensive than anticipated. So as you actually get into the project, because it's a period over – you're going to spend the amount of money over that period of time, you might spend marginally less in this period than you might have estimated and marginally more in that one. You're managing within a total budget. So I've always – I'm not sure that – it's an issue you could actually put to Transport and Works, but they will adjust their budgets in terms of the sort of timing on the commitment of the various elements of the project.

Dr LIM: No, actually I was referring to the letter that the minister wrote to the Leader of the Opposition advising that there was a shortfall in …

Mr BARTHOLOMEW: I haven't seen that letter and I wasn't here at the time.

Dr LIM: Right. Would somebody have produced a letter for the minister – in my experience, limited as it may be, any letter that a minister signs off, particularly to the Leader of the Opposition,

would be produced by the department, accompanied by a brief – accompanied by a brief and that then follows through that the minister will read the brief, look at it, sign off the letter which then gets posted out to the receiver, whoever that may be. Would that – am I right in describing the process?

Mr BARTHOLOMEW: Yes, normally. I think that letters are sometimes prepared directly in the minister's office and often they're prepared in the department.

Dr LIM: So there would have been a brief …

Mr BARTHOLOMEW: I don't know. I'd have to go back and check whether was a written brief and whether there was a letter. I don't think there was.

Dr LIM: Well, that confuses me even more. If the department hasn't – did not provide a brief to the minister explaining there is a shortfall of some significant – what? – something like $16m or – what was the shortfall in the …

Mr BARTHOLOMEW: I'm just not across this particular issue. I wasn't – I don't think I was around at the time that this exchange of correspondence took place …

Dr LIM: This was only in the last …

Mr BARTHOLOMEW: Yes. I wasn't in town. I was in Melbourne or somewhere else. I can find out for you.

Dr LIM: Well, could I ask you to undertake to look into that?

Mr BARTHOLOMEW: Sure.

Dr LIM: And if there is a brief, a copy of the brief could be provided to this Committee?

Mr BARTHOLOMEW: If the department provided a brief, yes.

Dr LIM: Or if not, at least a memo from you to the Committee saying that the department did not provide that. Could you do that?

Mr BARTHOLOMEW: Yes. Sure thing.

Dr LIM: I'll leave it at that for the time being, Mr Chairman.

Mr CHAIRMAN: Thank you, Dr Lim. Are there other questions from Committee members of Mr Bartholomew and Ms Schilling?

I would like to thank you both for your patience here today. I am sorry that there was a long delay, but thank you for your time.

Mr KIELY: I'd like to take this opportunity to wish you a merry Christmas, by the way.

Mr BARTHOLOMEW: Thanks.

Ms SCHILLING: Thank you.

The Committee adjourned at 12.47 pm.

DEPARTMENT OF INFRASTRUCTURE, PLANNING AND ENVIRONMENT

Appearing before the Committee on 5 December 2001

Mr Barry Chambers, Chief Executive Officer
Mr John Pinney, Executive Director Land and Planning

The Committee convened at 9.24 am.

Mr CHAIRMAN: Welcome to the Public Accounts Committee hearing. I'll read the introduction.

I call the Committee to order and open this public hearing of the Public Accounts Committee on Wednesday 5 December 2001. This Committee operates under the Standing Orders of the Northern Territory Legislative Assembly and I take this opportunity to notify people present in the public area that under the Standing Orders they are not permitted to record either the sound or vision of this public hearing. I know that the press are here and they are aware of the guidelines for recording for press purposes also.

I welcome from the Department of Infrastructure, Planning and the Environment, Mr Barry Chambers, Chief Executive Officer, and Mr John Pinney, Executive Director of Lands and Planning, who are appearing to brief the Committee on the accuracy of budget data published in 2001-02 budget papers. The Committee has ordered that evidence given before this Committee shall be sworn in evidence and I would ask the Secretary to now swear in the witnesses.

BARRY WILLIAM CHAMBERS, sworn

JOHN MAURICE PINNEY, sworn

Mr CHAIRMAN: To the witnesses, welcome. You have been issued with a copy of the Legislative Assembly Guidelines dated 20 August 1992 and the Public Accounts Committee Guidelines for Witnesses. Are there any matters of concern in relation to those guidelines that you wish to raise at this stage?

Mr CHAMBERS: No, Mr Chairman.

Mr PINNEY: No, Mr Chairman.

Mr CHAIRMAN: The Committee prefers all evidence to be given in public, but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private session, you may apply to do so. The Committee will then adjourn and give consideration to your application. For the *Hansard* record starting from my left would you please state your full name, address and the capacity in which you appear today.

Mr CHAMBERS: I am Barry Chambers, Chief Executive of the Department of Infrastructure, Planning and Environment of [address stated].

Mr PINNEY: I am John Pinney, Executive Director of the Department of Infrastructure, Planning and Environment and I appear today both in that position and because of previous responsibilities in correspondence with the Committee when I was the Secretary of the Department of Lands, Planning and Environment.

Mr CHAIRMAN: Thank you. Gentlemen, before we move on to your evidence, there was a matter that Mr Wood wanted to raise.

Mr WOOD: It was raised earlier with me through Dr Lim about messages coming around the back all the time. I think there possibly needs to be some ruling that messages perhaps from advisors is okay. Members of the public, I presume the same as in parliament couldn't do that and whether -

so it doesn't interrupt the process here - any messages should go through Mr Hanley, our Secretary, similar as you would have in the Assembly.

Mr CHAIRMAN: Certainly, I have no objection to that. So if we could continue, you were asked to supply some data in relation to the past five years in terms of the revenue, or estimated or target revenue, the estimates as they came into the estimates period and the actuals. Have you got that data for the Committee?

Mr PINNEY: Yes, I do.

Mr CHAIRMAN: If you could give them to the Secretary and he can distribute them to the Committee, please.

Mr CHAMBERS: Mr Chairman, while that's happening, perhaps I could just advise the Committee just to make it clear that following the restructure of the public service on 13 November, the Department of Lands, Planning and Environment ceased to exist and it became part of the larger amalgamation of agencies which included the Department of Transport and Works and Parks and Wildlife Commission. Within that context I became the Chief Executive and John, who was the former CEO of Lands, Planning and Environment, retains responsibility for the land and planning functions within that new amalgamated agency. The agency itself is in effect the real estate agent for the Northern Territory government and John may be able to give you a bit more information on that during the questioning.

Mr CHAIRMAN: Okay, thanks. Do you have any comment about that, Mr Pinney?

Mr PINNEY: No. Just to continue on that last point, for the government, we sell all land. The revenue for that land if it's from a government department, such as Education and getting rid of (inaudible) land, or Mines and Energy, something like that, it goes into consolidated revenue. If it's for a government business division such as the Power and Water Authority or Territory Housing, then it goes directly to their budgets. However, we will have acted as an agent in doing the selling of the land.

Mr CHAIRMAN: Part of the reason why - or a major part of the reason why - the committee wanted to meet with you today and hear evidence, was in relation to the target revenue and the actual revenue and the estimated revenue for the 2000-01 financial year. We'll come to, I guess, the exact figures about that. But I'd be particularly interested in the process by which, say, with the business plan coming into a financial year, how the department went about deciding which parcels of land it might sell, valuing that land, and monitoring the process through the year. Do you mind taking us through that process please? Either Mr Pinney or …

Mr PINNEY: Yes, there are a number of ways land is sold. Some of it is pre-identified for auction or distribution. By and large, the government doesn't have much land to sell. Rather, most of the land that is on the market in the Territory is on the private market. A lot of the land that is sold by the government is sold under the Direct Sales Scheme. That is, there is an application that meets the criteria of the government for selling that land directly, and not by public competition. That land can come up at any time. It is very hard to estimate what will come out during the course of the year for those sorts of things.

Other land that the department identifies, from time to time, would meet the strategic needs of the government, and that would generally be released by public competition. Some years there's more of that than in other years. In this past year - the year you referred to - there is not much land that has been then identified in that way. So, how the department has identified what we might be able to sell

this year, is by going through the files on which we have applications or interest in land, and trying to identify which of those might sell this year. It's a rather imprecise process.

The way that is valued is through the Australian Valuation Office, which is a division of the Australian Taxation Office, which the Northern Territory government employs as its valuation service under contract. We try and establish base rates of value through using premature valuation techniques that way.

Mr CHAIRMAN: I guess the question I'm asking is that, coming into the end of one financial year – just say if it was the 1999-2000 financial year - at the end of that year, and looking forward to the financial year, do you have a list of property that you will be selling, or you intend to sell during that coming financial year? And do you have a notional value, or a value that's been ascertained by the Valuer-General?

Mr PINNEY: Yes, we have a list of property that we expect to sell in the coming year, and yes, we do have estimates of value. We generally don't get the Valuer-General's firm valuation too close to the auctions. So, during the budget process, the estimates of value are that they're estimates rather than what the Valuer-General has finally determined. Equally, there's got to be some degree of estimation of what might come on the market during the year, so ultimately the figure that appears in Budget Paper No. 2 has been somewhat notional in its form, and reviewed during the year as events become concrete.

Dr LIM: Just to follow the Chairman's question, would it be correct to say that the department cannot identify every block that will be sold in the forthcoming year because you don't know what …

Mr PINNEY: That's right.

Dr LIM: … blocks the developers will be applying for. In fact, you might have 100 blocks identified for sale, but a developer could come along and find the hundredth-and-one block which is not within your 100 blocks, suitable for his or her purposes - therefore, would apply for that ,and that would alter your estimates and your valuations?

Mr PINNEY: That's correct. The estimates are continually altering during the year.

Mr DUNHAM: I've got two questions. The first is a general one - have you heard any media commentary on this PAC inquiry?

Mr PINNEY: Yes.

Mr DUNHAM: You have? It is a concern to some committee members that it has been reported that the media - it has been reported by the media that no further evidence is required because it's reputed some members have had their mind made up. From mine, I would like to say that your evidence is very important to us, and we think that further evidence is going to be very necessary to get to the end of some these issues. Can I ask you, did you form an opinion, as a result of that, as to the work of the committee?

Mr PINNEY: No.

Mr DUNHAM: You didn't? Okay, my second question relates to the disposal of land. Can you tell us the circumstances on which land is actually given away?

Mr PINNEY: If, by 'given', you mean without a sale price?

Mr DUNHAM: Without reference to the Valuer-General's price or less than the Valuer-General's price.

Mr PINNEY: So far as I'm concerned, it's never given away without reference to the Valuer-General's price, because I believe that, in advising government, I've got to advise at least what it is they might be contributing to – to a process, if they do give it at less than the Valuer-General's price. There are occasions - and I must say I can't think of one off the top of the my head now - where the government has contributed to a development by contributing land at a reduced rate, or even at no cost, where it's been of strategic importance, as the government saw it, to the economic development of the Northern Territory.

Mr DUNHAM: Could you tell us what the land that Danila Dilba has been gifted is worth at the Palmerston Health Precinct?

Mr PINNEY: No, I can't, off the top of my head. I can get that back to you.

Mr DUNHAM: Can you take that on notice?

Mr PINNEY: Yes.

Mr WOOD: I've got a series of questions there. I might get back to some of the issues that John raised a minute ago. I might refer back to the letter you wrote to the committee. I just need some clarification because I'm going through a learning curve, as well, here. You state here that the budget has traditionally been set at $9m on the understanding that the figure will be adjusted up or down in the budget final process. So there's two questions that I'd ask in relation to that. Why was it not set at $9m in the 2000-01 budget instead of $3.7m? And if this was normal, why was then the 2001-02 budget then shown as $9m when, if you used the previous years rules, it should have been shown at $3.3m?

Mr PINNEY: My understanding is the budget the previous year was set at $10.25m, not $3.7m. It was adjusted during the course of the year to $3.7m and, indeed, the actual sales that we made during that year were $4.35m.

Mr WOOD: I'm probably asking why it wasn't, even though you might have shown it at $10.3m. Bearing in mind that sentence I read out at the beginning, where you more or less picked this average figure of $9m, it wasn't shown as $9m in the 2000-01 budget, it was shown as $10.3m. Then it was done this year. In the 2001-02 it was shown as $9m. So I'm just asking why there seems to be an inconsistency in the application of that $9m?

Mr PINNEY: I'm sorry, it hasn't perhaps - and perhaps is the phrasing in my letter - it hasn't been $9m consistently, historically. At the moment, the estimate is $9m and our forward estimate, for our forward hypothesis for next year, is $9m. So, at this point, it shows $9m through the books. But, historically, it's varied, as you can see from the table that was handed around, from $21m downwards to, I think, the lowest figure was $9m.

Mr WOOD: I suppose the word 'traditionally' is what it was entered, but it's meant to be set at $9m?

Mr PINNEY: I think 'traditionally' should refer to notional, rather than the amount. But it's a more notional figure rather than an exactly calculated figure.

Mr CHAIRMAN: So, just – sorry.

Mr WOOD: Who would decide on the $3.7m estimate rather than, say, using the $9m? Is that a departments prerogative, or the Treasury's prerogative?

Mr PINNEY: I would have thought it was Cabinet's prerogative.

Mr CHAIRMAN: Hold on, I think there needs to be a clarification here. Are we talking about, say the 2000-01 financial year; are we talking about the estimate coming into the final part of that particular financial year, the estimate of actual sales as being $3.7m?

Mr PINNEY: Yes, that's my understanding, that –

Mr WOOD: Yes, well the estimate says $3.7m in 2001-02, budget showed $9m. I am asking who makes that; you know, for instance why wouldn't it have, why would he be stuck with the $9m if your estimates were $3.7m? Who makes those decisions, the department or …?

Mr PINNEY: Cabinet makes those decisions based on the department's advice, of what we think the market might be doing, what land we might be dealing with. I might add that during the year that changes. At the beginning of 2000-01, the budget estimate figure was $10.25m. It was the review figure where we're trying, where we were trying to tell Treasury and the government what it is we actually think we will get in cash was when it went down to $3.7m. And you recall, during that year is when the market changed in Darwin, so at the beginning of the year we had one view of the market and what we might be asked to do by the business community; by the end of the year we had a different view.

Mr WOOD: Just two more questions and I'll finish there. With land sales is there, and it's probably concerned me from my previous life sometimes; is there pressure on the department to sell land to reach a target regardless of whether the land is totally suitable for the reason it's trying to be sold? And I raise this issue, sometimes I've seen land that I felt has never been quite looked at thoroughly, but there seems to be pressure from the Land Sales, Land Management section to go out and sell this block of land as if they had a target that had to release, to get because the budget said well, you know we've got to sell land as part of our job?

Mr PINNEY: I'm conscious of some of your concerns, and particularly recently, and I'm sure we will answer them directly. But, in general, there's not pressure from the Land Management people on anybody else to sell land. The pressure, if any, comes from individual businessmen who are wanting to advance their own cause by getting the land to run their business and not all land applications are approved. There are quite a number rejected for one reason or another including unsuitability both in terms of environment and/or services, or even the proposed use being incompatible with surrounding uses or a straight zoning proposal.

Mr WOOD: And just one last question. It was raised about whether you give land away. How is, how does the department give land to the Land Corporation and is that Land Corporation land. Is the value of that land shown up somewhere?

Mr PINNEY: The department doesn't give land to the Land Corporation. The government vests land under the *Land Corporation Act* in the Land Corporation and it's an asset of the Land Corporation not of the government, and it doesn't show in our books.

Mr WOOD: What do you mean by 'vest in'?

Mr PINNEY: It's a straight putting it in the control of the Land Corporation.

Mr McADAM: So Cabinet makes those decisions, basically?

Mr PINNEY: Yes.

Mr CHAIRMAN: I haven't really heard much about the Land Corporation. Can you tell us a bit about it, Mr Pinney, please?

Mr PINNEY: The Northern Territory Land Corporation and the Conservation Land Corporation are independent, that is, independent of the Crown, land holding bodies for the Northern Territory government established by statute. There has been, as I understand it, legal decision in the High Court particularly on the Conservation Land Corporation that establishes that independence to hold land on behalf of the Northern Territory government.

Mr CHAIRMAN: So what are the main functions? I mean, what's their function to hold land or have land vested in them?

Mr PINNEY: To hold land, that's the main function.

Mr CHAIRMAN: So can you give us an idea of the variety of purposes that that land is used for?

Mr PINNEY: Ultimately, that land has been returned to government for disposal. Things like the Brewer Industrial Estate in Alice Springs is held by the Land Corporation. A number of pastoral properties have been held by the Land Corporation. Some vacant land in other areas is held by the Land Corporation.

Mr CHAIRMAN: So is the Land Corporation, just say if they had a buyer for the Brewer Industrial Estate, are they able to sell that land to the, to you know, if there is a developer that wants to develop that land?

Mr PINNEY: They are, and their revenue would be returned into consolidated revenue in the government.

Mr CHAIRMAN: In terms of the value of that land, is there a Valuer-General process involved in the valuation of the land that might be disposed of by the Land Corporation?

Mr PINNEY: The Land Corporation has an agreement with the government that it uses our department as an agent and we apply our normal processes to get valuations and such things.

Mr McADAM: So your department would have an idea in respect to information, i.e. in regards to, I would take it that some of these sales by government would be by direct application in the main?

Mr PINNEY: Yes, yes.

Mr McADAM: So you would obviously have a list of all the transaction sales?

Mr PINNEY: We have individual files on all transaction sales. Whether they are compiled in a list I haven't looked for…

Mr McADAM: I mean, are you able to provide that information to this committee?

Mr PINNEY: Yes we could, but for how long?

Mr McADAM: Well, since its inception.

Mr PINNEY: Since 1978?

Mr McADAM: Yes.

Mr PINNEY: With some research and some time I could probably –

Mr CHAIRMAN: Well who, how many transactions would we, you know, like a ball park figure, do you think we would be looking at over that period, -

Mr PINNEY: Government sales?

Mr CHAIRMAN: Hundreds, thousands, sorry?

Mr PINNEY: Government sales?

Mr CHAMBERS: I seek clarification, Mr Chairman. Is it transactions relating to the NT Land Corporation that you're specifically seeking, or land sale transactions for the Northern Territory?

Mr McADAM: I'll take advice on this, but what I am essentially seeking is all land purchased, all land sold, price purchased, price sold.

Dr LIM: Mr Chairman, may I just put a point of order here and ask again, you asked me about relevance and questions …

Mr McADAM: Well…

Dr LIM: Let me finish my argument and then you can comment, Mr Elliot.

Mr McADAM: McAdam, it is.

Dr LIM: McAdam, sorry. It doesn't appear relevant to me.

Mr McADAM: Well, it may well be.

Dr LIM: Let, and I understand that the minister has access to all that through the department anyway, and I don't see why getting that information which would require a substantial amount of research by the department to produce a list of transactions for this committee which, more than likely, we are not going to use.

Mr CHAIRMAN: I've taken Dr Lim's point. I think what we need to do is discuss this matter in a deliberative session, not right now, just clarify if we have got a question to ask you, and Dr Lim's point is taken. So at this stage, we'll discuss this matter further and –

Mr KIELY: We're talking about Land Corp as an entity, but it is not part of government. Who is Land Corp? What is it?

Mr McADAM: And can the minister provide the information?

Mr PINNEY: The Land Corporation is a separate body established by statute. Its members are appointed by the minister. Its current Chairman is Mr Don Darben, its Deputy Chairman is Mr Bill Goedegebuure. Its other two sitting members are myself and Mr Peter Blake and there is one vacancy.

Mr CHAIRMAN: Thank you for that. Just returning to the issue of your projected land sales during any one financial year, can you give me an idea of, out of your estimate, what percentage would be land sales that you actually knew about that you'd identified - you know, X parcels of land and within your department you've got a feel for how much that land is worth, and how much of it is as you said, demand driven where people approach you and say, look this block of land, I need that for my business or I'd like to make an application to buy that land?

Mr PINNEY: Most of it is demand driven. The land that we release by planning generally is large area development leases for urban subdivision, things like the new suburbs in Palmerston. We try and plan those years in advance. To determine the price for them is harder because that's very much market driven at the time. But to give you some idea of the volatility of this, just in the last month, the estimate of our sales for this year has changed by 20%. Now that's, when we go back to review the budgets, it might have gone up or down again by that amount. So it's a constantly changing scenario.

Mr CHAIRMAN: Have you got a - has the Department got a strategic plan? I mean, if it is demand driven, that might not always be the best longer term strategic goal for the Territory or the Territory public. Have you got a strategic plan that governs the sort of land or identifies the type of land that you want to sell during - or would want to sell?

Mr PINNEY: Yes, we have. In terms of residential land and industrial land subdivisions for normal development. In terms of the direct sales scheme, no, we haven't because they would be peculiar to individual businesses. The idea of providing housing for the population of Darwin or industrial land for people to have their sheds and businesses, yes, we do.

Mr CHAMBERS: I think, Mr Chairman, it's worth adding there that the - how this is largely driven by the high level planning process that is embodied in land use objectives. So the development of the Palmerston area, both in a residential and a commercial sense, now there has been a very clear strategy for many, many years. Similarly in Alice Springs. It's been debated over many years about whether the next stage of development should be in the Mt. John valley or the Larrapinta area. Now, those things were held up by native title and that's made another issue that's made this particularly difficult over a number of years to predict just when the sales might occur because I think in Alice Springs there was a demand to release land for Larapinta identified many years ago but - and we would probably at some point included some anticipation of selling that as an (inaudible) parcel of land for development. But it didn't materialise because of the advent of the native title claim. So there were many, many variables in this, and this is what John is saying that, you know, while the word 'notional' mightn't sit comfortably, it is just very difficult to predict because of these elements.

Mr CHAIRMAN: Well, I do note that in the data that you've provided us here that generally you've come pretty close to that national figure and exceeded it on a number of occasions. I guess the most glaring variation is in 1997-1998 where you had a target budget of $20m and yet reached six. Did you want to comment on that particular year? That seems anomalous.

Mr PINNEY: In that particular year, I think our estimate was $9m that we would get and Cabinet felt that we perhaps could perform better than that and suggested $20m.

Mr CHAIRMAN: And you came in at about $6.2m so you were pretty close.

Mr PINNEY: Yes.

Mr CHAIRMAN: So was Cabinet identified - I guess you can't speak about that. So - - -

Mr PINNEY: I am sure Cabinet – look, Cabinet has developers come to it with proposals that haven't come through the Department, so Cabinet in fact has more information than we do about many of the developments, particularly prospective large scale developments. You know, the big international developer would rather talk to a minister than a public servant about what it is they plan to do. So that sort of information isn't always part of our estimation process.

Mr McADAM: Were you head at the time, 1996-97?

Mr PINNEY: Mr Chambers was.

Mr CHAMBERS: '96, actually I was Secretary of the Department at that time. It was established in July 1995.

Mr McADAM: So did you have any discussions with any member of the government in respect to why the sales were - would be around about that $20m?

Mr CHAMBERS: I can't recall any specific discussion, but the point John made was correct. At that time, now, there was a lot of interest in land development around Darwin and I might just add in that regard that, you know, a lot of this is made up of sales that can range from a few thousand dollars to sites, major sites like Myilly Point which are worth, you know, $8m or $10m. So the very existence or possibility of a sale in any one year of that magnitude can completely distort any sort of best estimate we might have for the reasons John mentioned. And that is we were not always privy to meetings or development proposals that may have been within Cabinet's knowledge.

Mr CHAIRMAN: It probably leads me into a suite of questions which I believe have been sent to you which have been formulated by the Committee. It is probably appropriate to switch into these. There are four questions in all. And firstly, what are the latest estimates for receipts from land sales in 2001-2002? I note you've probably given us that on that table. Its $1.6 or nearly $1.7m. Is that correct?

Mr PINNEY: No, the $1.7 is what we've actually got cash in for to date. Our latest estimate as of yesterday is $4.8m.

Mr CHAIRMAN: Sorry. Mr Dunham, you're distracting me there a bit.

Mr DUNHAM: Sorry, Mr Chairman.

Mr CHAIRMAN: If you could just repeat that for the Committee, please, Mr Pinney.

Mr PINNEY: Our latest estimate is $4.8m.

Mr CHAIRMAN: $4.8. So you've almost reached half of your target, or over half of your target.

Mr PINNEY: No, no, no, no. We have received $1.679596. We have received that. Our estimate for the full year against the target of $9m is $4.8m.

Mr CHAIRMAN: So I guess it could be serendipity. So basically, the same factors that have occurred in other years, there could be large land sales that bring you up to target or beyond target as you've experienced in previous years.

Mr PINNEY: It could be.

Mr CHAIRMAN: Yes.

Mr CHAMBERS: Mr Chairman, the - just to give you an example. You know, the department has on sale over the counter large blocks of land on Wishart Road that are worth about $1m each, you know, for industrial land. We don't know - if someone walks in tomorrow, and they could walk in tomorrow with a $1m cheque and buy it. So, it just is quite difficult and, you know, what the department is doing is really monitoring actual known trends and trying to put a moving feast estimate, if you like, of what is the likely outcome.

Mr CHAIRMAN: Okay. The second question relates - I think you probably answered it. What are the land sales receipts to date for this financial year and that's the $1.7 that is in the table, is that correct?

Mr PINNEY: Yes.

Mr CHAIRMAN: All right.

Mr DUNHAM: Can I ask what that varies from in the mini-budget estimate?

Mr PINNEY: The mini-budget estimate, I believe, stayed at the $9m on the basis of that was going to be part of the formal budget review process rather than new mini-budget estimates. But I haven't got any better answer than that.

Mr McADAM: So this figure in this budget paper presented last week is still notional and still subject to radical change?

Mr PINNEY: Yes.

Mr CHAIRMAN: I think you've answered three unless you want to expand on your previous answer. What are the principal drivers for estimating land sales? I think - am I correct in saying that you've told the Committee that a lot of it – well, it is predominantly demand driven. Is that correct?

Mr PINNEY: The direct sales portion of it is demand driven and that's the portion that's very difficult to estimate. The part that we plan is - our planning is demand driven but we try and stay ahead of the demand, for example with residential land, so that the end result is not driving prices for house land up. So whilst demand is a big part of the forecasting, that part is not reaction to demand rather than anticipating demand, but the direct sales portion of our land sales is direct reaction to demand.

Mr CHAIRMAN: And are there any - I suppose I'll just digress before I ask the last question - are there any peculiarities in the Territory? I guess we've looked at one here today in terms of the Land Corp. I know that other states have land corps, but in terms of the way that other jurisdictions estimate land sales, is essentially the same sort of methodologies used by governments as if they're used here?

Mr PINNEY: No. The peculiarity in the Territory is that urban subdivision - that is our residential land and our industrial land around the town fringes - as the towns expand is released here by government. In other states, it's generally already land on the private market and it's rather a changing use of land from rural or rural residential into urban. A progression through the market as it were, often driven by both demand and rising price of land which in turn influences the holding costs through flexible rates and so on. In the Territory here, that cost driver isn't so evident and indeed most of the land for future development is held by the Crown, not in private ownership. So that's quite different.

Dr LIM: Perhaps that leads me into, say, Owen Springs in Alice Springs.

Mr PINNEY: Yes.

Dr LIM: When the government purchased the property. Can you explain the process through which the price of Owen Springs was - how the land was acquired in the first place and how the price paid by government was worked out?

Mr PINNEY: The land had been identified for many years for various government uses, but the government of the day had chosen not to use any form of compulsion to purchase the land, particularly as the landowner then had been dealing with government over various things like the Alice Springs gaol site, like the Brewer Industrial Estate, and she was not all that happy about giving up more parts of her property.

But when she died and her estate was dealing with the property, they put it on the market. So it became a case of, 'This is land that we have wanted for a long while and it's now been offered'. So, it wasn't a case of planning ahead and purchasing, and doing all the work necessary to lead up to a purchase, it came rather unexpectedly.

So what we did to establish the price, apart from finding out the asking price from the estate - which was considerably higher than we paid - was again, go to the Australian Evaluation Office, who gave us a range within which we could negotiate and be held to quite a reasonable price - paid a reasonable price.

Dr LIM: And have land use objectives been appropriately done on Owen Springs, as to what part of the property be used for?

Mr PINNEY: They are drafted, they haven't yet been publicly published. There's a lot of public interest in that land, ranging from pastoralists who want to take the whole of it back into the pastoral estate, through to environmental people who want take the whole of it into a national park structure when, in fact, it's far better subdivided into varying uses. The government is at the point now of saying what uses it sees as being appropriate on that land, and calling for expressions of interest for its future use.

Dr LIM: So the land use objectives are now with the government?

Mr PINNEY: Yes.

Dr LIM: Are there any indications …

Mr PINNEY: They are not land use objectives in the form of the *Planning Act*, but they are land use objectives saying that 'this part is suitable for this, and this part is suitable for …

Dr LIM: In a general sense?

Mr PINNEY: Yes.

Dr LIM: Okay. And have parcels of land on Owen Springs been identified for sale at this point?

Mr PINNEY: No, not specifically subdivided and identified for sale. Rather that, because of the wide range of expressions of interest, which range from everything from the ballooning, for example - that don't need specific land but just need landing rights - through to the fences around

Pine Gap. We're wanting to get those expressions of interest determined and then say. 'Do they fit, don't they fit?'

Dr LIM: Has the department made any arrangements to ensure that Alice Springs is not landlocked?

Mr PINNEY: We are doing our best.

Mr DUNHAM: You described at least one of the packages that would be considered when you were going to gift land to an organisation. Can you describe the factors that would be salient for a government to make a decision to give land away?

Mr PINNEY: The very first one: is it a commercial operation or is it a community proposed use, a community group? Second: if it's a commercial operation, is it a strategic operation to the benefit of the Territory as whole or the nation, indeed, as a whole? Third: does the Territory want to provide some form of equity or support to that commercial operation?

Mr DUNHAM: You don't look to capacity to pay or capacity to liquidate, for instance, other assets because they are moving from one site to another?

Mr PINNEY: That can be - that's down the line but not generally, no. Capacity to pay - if a business can't afford to pay and it's still wanting land, it probably shouldn't be in the business.

Mr DUNHAM: So if it was re-siting, for instance, as in the case of Danila Dilba, would you look to their capacity to liquid assets from the redundant side, and deploy them to the new site?

Mr PINNEY: That's a community use rather than a commercial use and, yes, we would.

Mr DUNHAM: Right. Was that a critical factor in this decision?

Mr PINNEY: It was a consideration.

Mr CHAIRMAN: Sorry. Gerry's been waiting a while.

Mr WOOD: No, it's all right. No, I told you it was my final question last time, so I'm at fault.

Just back onto the LandCorp where you vest land in a LandCorp. Should the value of the land vested in LandCorp - is it not shown in anything? Like, does it show up in the budget as …

Mr PINNEY: None. There's no cash transaction at all. It would have to show in the budget in the future under future accounting schemes, but under a cash scheme it doesn't show.

Mr WOOD: Right. Now, when they sell that land, you said the money comes back to the department?

Mr PINNEY: Yes.

Mr WOOD: That seems a funny – like, it's not given a value out but it comes in as a value.

Mr PINNEY: Well, there is provision for the operating costs of the Land Corporation in our budget, and there is provision for us to receive revenue from the Land Corporation. But that's cash accounting, not asset management.

Mr WOOD: And just two other questions. I might be site specific here, and I might explain it a little bit better.

In years gone by - you take the Humpty Doo industrial development. Now, when that was first started up the government basically developed that, it was Crown land, they subdivided it and they sold it. The next stage, or the third stage, the government put it up for contract and a private person bought it and then they developed it. Now, why was that method changed? And is one method more profitable for the government than the other?

Mr PINNEY: To take the questions in order. The method was changed as the Territory's business and economy grew, from the Territory doing all of the developments to where they were economic - not in every case - allowing private enterprise to do them and to grow their businesses in Darwin, so that they could not only service the government by turning off land, but they'd be a bigger, viable business in our economy.

Is it more profitable for the government to do it or to have private enterprise do it? It should work out the same, because they have to pay for those leases, and that's part of the profitability that they would have to have. If the government takes the risk - the full profit and risk - well, yes, that's profitable but there's a risk factor involved.

Mr WOOD: Do you see it as a down side that you're actually making land more expensive for someone to purchase because you've now created a middle person? Because Crown land, in theory, was of no value to you because you were the developers - you already it. By putting a middle person in you've now - he's bid for it, so he has to include that bidded price into costs of his sales.

Mr PINNEY: I think the government of the day - and I wasn't part of that decision - but just in the straight theoretical view of it and from what I know now, the government of the day would have had to offset that cost against the benefit of further developing the economy. Rather than looking at the narrow business of what it costs that person to buy that block of land, it's: what's the benefit to the economy of having a business operating that can do the land development, do the earthmoving, the development, the pipes and wires? That would be a trade-off that they would have considered at the time.

Mr CHAMBERS: Mr Chairman, the question there raised comment that Crown land is worth nothing. I think that needs to be considered because Crown land, while it's held by the government and perhaps was not paid for, actually has a value - quite a significant opportunity value. So I don't think we should believe that Crown land is worth nothing, and that the comparison between a development methodology is one between a nothing start point and a private developer owning the land.

But clearly the point John made was that the risk shifts to a private developer, in terms then, of the question of sales from that land, so that the government in putting the land out, getting an offer for the land, *in toto*, just as a bare block of land, you've got the money in the bank whereas the developer then has to invest the capital and take the risk of receiving the sales - as distinct from the government investing the capital through the capital works program. Over the years you may seen them. The capital works program are the ones you referred to, budgeted for to spend, you know, $0.5m to do the capital works, to enable a block of land to be released.

There is another issue here, that not all land that we actually subdivide is done that way. Because if you've got some of the small centres - if you went to somewhere like Elliott or Mataranka - the sale of a block of land there is for a price far less than what it would cost to develop. So, if the government didn't intervene, you would never have a block of land available for sale in some of the small centres. So, it might cost $50 000 or $100 000 to develop two or three blocks of land in a

Ti Tree or Mataranka, which sell for $10 000 or $12 000. So, it's not all done on a commercial basis. So, there are areas of the Territory where there are strong growth, that could now drive a decision to release the land in a competitive market, as distinct from a non-competitive market where the land is released and sold for a community benefit.

Mr CHAIRMAN: Thank you.

Mr KIELY: Mr Pinney, it's to do with the actual income derived from land sales; have you got any views 1998-99, 1999-2000 in that the saving dropped, I guess the market impacting and the decision the Cabinet decision to support the set budget target.

The vesting of land into Land Corp and then sales of land or being returned for Land Corp to the consolidated revenue, I mean is this may have occurred in these two years? I'm trying to get at, could perhaps we anticipate some return of income from land that's vested in Land Corp?

Mr PINNEY: Yes, but not significantly sufficient to change the general picture that's here at the moment; not in this market.

Mr KIELY: That is an area where we have in the past you've lost income.

Mr PINNEY: In the past there's been some significant sales from the Land Corporation but in the current market that's not going to change.

Mr KIELY: So I guess it gets back to relevance about looking at the number of sales really included.

Mr CHAIRMAN: The fourth question I had down here, you've already supplied by this table I believe so I certainly don't have any other questions. Do other committee members have questions of our witnesses?

Well, I'd like to thank you both for appearing today and thank you for your testimony.

Mr CHAMBERS: Thank you, Mr Chairman.

The Committee adjourned at 10.11 am.

DEPARTMENT OF EMPLOYMENT, EDUCATION AND TRAINING

Appearing before the Committee on 5 December 2001

Mr Peter Plummer, Chief Executive Officer
Mr Ken Simpson, General Manager Corporate Support
Mr Trevor Saunders, Director Financial Services

The Committee reconvened at 10.20 hours.

Mr CHAIRMAN: I think we're ready to resume. Apologies to the witnesses for the fact that we're running a bit behind time, but we'll make a start now. I call the Committee to order and re-open this public hearing of the Public Accounts Committee and I welcome for the Department of Employment, Education and Training Mr Peter Plummer, Chief Executive Officer, Mr Ken Simpson, General Manager, Corporate Support and Mr Trevor Saunders, Director of Financial Services who are appearing to brief this Committee on the accuracy of budget data published in the 2001-02 budget papers.

Now, the Committee has ordered that evidence given before this Committee shall be sworn evidence and I'd ask the Secretary now to swear in the witnesses.

PETER JAMES PLUMMER, sworn

KENNETH DONALD SIMPSON, sworn

TREVOR CHARLES SAUNDERS, sworn

Mr CHAIRMAN: Thank you, Mr Secretary. Now, you've been issued with a copy of the *Legislative Assembly Guidelines* dated 20 August 1992 and the *Public Accounts Committee Guidelines* for witnesses. Are there any matters of concern in relation to those guidelines that you wish to raise at this stage?

MR PLUMMER: There are not, Mr Chairman.

MR SAUNDERS: No.

MR SIMPSON: No.

Mr CHAIRMAN: The Committee prefers that all evidence is given in public. Should you at any stage wish to give you evidence or part of your evidence or answers to specific questions in private session, you may apply to do so. The Committee will then consider - will then adjourn, rather, and give consideration to your application. Now, for the *Hansard* record starting from my right, would you please state your full name, address and the capacity in which you appear today.

Mr SAUNDERS: My name is Trevor Saunders I'm the Director of Financial Services of the Department of Employment, Education and Training.

Mr PLUMMER: My name is Peter Plummer. I am the CEO of the Department of Employment, Education and Training, Smith Street.

Mr SIMPSON: My name's Ken Simpson. I'm the General Manager, Corporate Support for the Department of Employment, Education and Training.

Mr CHAIRMAN: Now, I realise that all of you are very experienced public servants, so could you give, starting from my right again just a brief CV of I guess – you know, your history with budgetary matters and I guess the CEO's aware of the relevance of the Committee to know your association with the Education department in particular, but the public service and particularly at a senior level in general. Starting with you, Mr Saunders.

Mr SAUNDERS: I've worked in the public service for over 25 years all in the finance area. I've worked in four or five government agencies, some of them big, some of them small, in the capacity as a Director of Financial Services and Finance Manager. I have an accounting degree, post-grad qualifications in management. I guess I've seen most things that have happened in a financial context in the public sector in the Territory.

Mr CHAIRMAN: So how many, say, Territory education budgets have you been involved with developing?

Mr SAUNDERS: I am a recent appointee with education. I've been in education for 18 months. I had worked in education in the early 80s (inaudible) and was involved in the budget process then. I'd say all up, about four budget cycles.

Mr CHAIRMAN: Thanks, Mr Saunders. Mr Plummer, you've got an extensive history. Do you mind …

Mr PLUMMER: Twenty-one years in the Northern Territory. I won't go back beyond that and nor do I go that far back, anyway. I'm CEO currently of Employment, Education and Training and that's been an 18 month stint to date. Prior to that I was in health for just over three years, THS as CEO. Prior to that I had 18 months with Mines and Energy as CEO and prior to that, I was Deputy Secretary of the Department of Asian Relations, Trade and Industry, and Primary Industry and Fisheries before that.

Mr CHAIRMAN: So you've been involved probably in 10 or at least 15 budgets at a fairly senior level?

Mr PLUMMER: Yes, yes.

Mr CHAIRMAN: Thanks for that. Ken?

Mr SIMPSON: I started my career in 1976. Over the last 10 to 15 years, I've held relatively senior positions in the Department of Transport and Works, Territory Health Services, DCIS and now - what was Education - and now Employment, Education and Training.

Mr CHAIRMAN: You have been involved in the development in a number of Territory budgets in different departments at a senior level?

Mr SIMPSON: I have, yes, over about the last 15 years, I suppose.

Mr CHAIRMAN: Okay, thanks for that. Now, the committee has formulated a suite of questions. It is quite a long list, in this particular case. I know that you've submitted to us some documentation, so wherever the question covers the documentation, you can let us know, or we can come to mutual agreement about that. Or, if there is anything within the documentation as we move through, or the question that you want to highlight, please feel free to do so. The first question from the committee as a whole was: what was the affect of the realignment on the agency's operations?

Mr PLUMMER: Mr Chairman, I can read what I have already given you, and you may want me to do that, because that would be the content of the response anyway.

Mr CHAIRMAN: Okay, so on the public record …

Mr PLUMMER: There will be some I will short-circuit, because they're papers …

Mr CHAIRMAN: Okay, thank you.

Mr PLUMMER: So, if that's all right with you. The realignment of 2000-01 estimated actual had no impact on the operations of the agency. Clarification was sought from Treasury about the reasons for the realignment. Advice was provided that the realignment was for budget presentation purposes, and not a budget allocation adjustment, and made the point that there was no variation to allocation. As per the advice, the realignment was to address the problem of government agencies not spending all funds that were allocated in a financial year, thereby making the reporting of estimated actuals for a financial year inaccurate.

Mr WOOD: Mr Chairman, can I just ask relevant to this question?

Mr CHAIRMAN: Yes, I think that's probably the best way, seeing there's such a long list of questions.

Mr WOOD: You say 'as per the advice'. Who actually gave the advice that the realignment was for budget presentation purposes, and not a budget allocation adjustment?

Mr PLUMMER: The advice was in a …

Mr WOOD: I know it's in the budget paper. What I suppose I'm saying, is that some person would have given you that advice, that's why?

Mr SAUNDERS: Mr Wood, I can answer that. I had daily contact with the Treasury officers, the budget contacts that we have, with Jeff Hunnam and with Jodie Kirkman, and the discussions that I had were with those officers.

Mr WOOD: All right. I suppose the question I asked, I probably intimated earlier that: can you have such a thing as an estimated actual? Is it determined - is it, really of two opposites?

Mr PLUMMER: I think you should ask Treasury …

Mr WOOD: Well, maybe I should. Okay, yes.

Mr PLUMMER: … the meaning of that. I've got some views on it, like, that when you asked me the question before, I kept thinking that the way I look at it, is if I was standing off some distance and I make an estimate, but then if I got closer I'd say, 'Well hang on, that's fine'. But I don't know.

Mr McADAM: If I could ask Mr Saunders. When you say these two Treasury officials you were talking to - you received the advice from Treasury that the $6m adjustment was for presentation purposes - did the two Treasury officials who you were liaising with, did they explain to you exactly what 'presentation purposes' meant? Did they define what 'presentation purposes' was?

Mr DUNHAM: Can I just ask a question there. Are we referring to this advice provided earlier that's got handwriting Trevor signed as urgent, and it lists some numbers as an appendix, and it's a memo from Treasury signed by K B Clarke, and it is, in effect, the variation that has been attached to it, as I understand, and the words 'presentation purposes' aren't actually on it. Is that what activated - was the original submission of 9 November 2000 that was sent to the committee, and appended to it was some budget papers of correspondence that activated this matter.

Mr CHAIRMAN: This is the audit trail that you're referring to?

Mr SAUNDERS: Yeah, the papers that Mr Dunham …

Mr WOOD: Originally had.

Mr SAUNDERS: … and I [inaudible] to. The papers that were provided on 17 May by fax and have [inaudible] presentation , the words were 'discussions that I had with Treasury officers'.

Mr DUNHAM: Right.

Mr CHAIRMAN: So just picking up on Mr Wood's question, was there any discussion of what was meant by 'a realignment of the estimate'?

Mr SAUNDERS: No, not beyond what has already been read out.

Mr CHAIRMAN: So what did you understand to be the realignment of estimate?

Mr SAUNDERS: I think if we go through the questions that will be drawn out.

Mr CHAIRMAN: But this is a question, this particular question: what was the affect of the realignment on the agency's operations? I guess we will come to that in a minute, but we're considering an important question about what this realignment actually - what the realignment of estimate actually means. I think it's important to our discussion so: what was your understanding of this particular term? Was it a term that you'd come across previously?

Mr PLUMMER: I'd like to answer that. For the whole period of the 18 months in Education, there has been an ongoing dialogue with Treasury that has been aimed at trying to understand, very clearly, the drivers of the budget, and get some clarity into the budget. Now, during that whole period, we've had some fairly robust discussions about who was right and who was wrong. And I think those were very professional discussions. At the time we arrived at this stage, we were saying to Treasury that we were getting close to getting pretty good at - and some of that will come out later - at estimating.

Treasury, in fairness to them, were still not satisfied on some of our discussions, and were seeking more proof. So, I could see from their perspective that they might expect us - and that's why I accepted it. We might not expend as much as they first thought, yet we were saying we were probably going to expend more. The thing is, the under-expenditure was in one category, and we were starting to get a feeling there'd be an expenditure need in another category. And that was as whole area of hard yards to get to that.

Mr CHAIRMAN: Okay, if I could - but in your answer to the first question, if I could just quote, it said - and I assume this is your answer, Mr Plummer: 'Advice was provided that the realignment was for budget presentation purposes and not a budget allocation adjustment'. Now, Mr Saunders is saying that he hasn't really heard about anything relating to a budget presentation purposes and yet, it's sort of in the text here. I'm just trying to get clarification on what that means.

Mr PLUMMER: No. Okay. I had, from my perspective, I had one brief discussion with Ken Clarke, the Under Treasurer, who explained to me that it was about a budget presentation purpose. And I asked the question: 'Well, I'll be concerned if I don't have those funds in the following year or this year and they - the funds - were remaining in allocation'. And I quite accepted the fact that if they were not carried over, I would have to do what I've done in Health in the past, for different reasons - have to do in Education - continue the argument to further improve the quality of our presentation to persuade Treasury.

Mr CHAIRMAN: So, if I could just clarify here - a 'realignment' for budget presentation is something in your mind that, as a result of that discussion, was quite different from a 'change' in the budget allocation?

Mr PLUMMER: Quite different. And I didn't pursue that. I was confident of my relationship with Treasury, and my capacity to go back and argue the case - whether it's then or later - if I needed to.

Mr CHAIRMAN: So …

Mr PLUMMER: … and later on, we'll evidence the fact - sorry Mr Chairman - that we did, or were successful, even after the budget was prepared. We were successful in persuading Cabinet of further changes. And I suspect, even after this mini-budget, the same will happen throughout the year.

Mr CHAIRMAN: All right, well …

Dr LIM: Let me …

Mr CHAIRMAN: Now, if I could just follow through with this one question, Dr Lim, then you can have your question after that. In your long experience as a public servant, Mr Plummer, here in the Territory had you ever come across a realignment for budget presentation before? Obviously from what you've told us, you've come across being having a reallocation and having to tighten your belt, but had you ever come across a realignment for budget presentation purposes before?

Mr PLUMMER: Not that I recall.

Mr CHAIRMAN: Thank you. Dr Lim.

Dr LIM: In reference to your previous answer to the Chairman's question about quoted sentence advise provided that the realignment was for budget presentation purposes and other budget allocation adjustment; I'm trying to understand the English of it all.

It appears to me, and correct me if I'm wrong, that at the start of a financial year you have an allocation. As you go through the year, as you expend all your monies and can provide programs, regularly Treasury officers will speak to your budget officers about how the allocation is going, how you are spending it. By the end, come close to the end of a financial year, there are some adjustments to be made. It appears that an adjustment was first requested of you of $6m. Was that so that papers can be prepared by Treasury for the Treasurer to present it to parliament as the next step budget papers? Is that what is meant? I mean the words 'budget presentation purposes' seem to cover very, very many explanations and the way you've explained it appears to me that it was just so that you could have some figures for the Treasury to prepare the budget papers for the Treasurer to present the parliament. Is that what …

Mr PLUMMER: I'm not in a position to make that judgement about where Treasury was coming from. I was in a position to know that if my budget was affected, I'd be - in real terms affected - I'd be pursuing that issue and I was satisfied that in the current state I had nothing to worry about nor would I have in the future because I would continue what had been a developing dialogue for education. I had a similar dialogue throughout my time in health and it is all about trying to get greater and greater transparency into complex budgets even though we were a small organisation.

A Member: The small organisation can beat the nation.

Dr LIM: So and, whatever money that was allocated the position continues to be very fluid and you can still negotiate back and forth. Treasury might say look you need less and you say look this

time I'll just ask for more and you can actually argue your case through your minister to get more funding?

Mr PLUMMER: Dr Lim, I've chosen to do that on particular extra-urgent issues. I don't like going to Treasury on trivial things but if you were to look at a budget over a year you would see variations and they can come about from Commonwealth discussions as well, where the Commonwealth approaches with program dollars they want to spend and they want to negotiate.

Mr SIMPSON: If I may. I think it's worth noting that the $6m that we're talking about here relates specifically to what we call carryovers and they relate to two physical areas. One is unexpended monies for the LATIS program and the other amount relates to the Commonwealth funding for a number of programs. But you need to understand we were still in conversation with Treasury about our funding needs for ongoing operational matters like paying staff and operational expenses for schools and the like and that's a separate issue outside of the $6m that appears in the document that you have in front of you.

Mr KIELY: The $6m, now, this is a figure you were advised of presentation purposes a $6m adjustment to your estimate. Did Treasury say that this $6m will come off LATIS, will come off some curriculum; did Treasury or did anyone in your department liaise with Treasury and negotiate where this $6m was to show in an item?

Mr SIMPSON: Well, the $6m relates to money that went over at that stage we knew wouldn't be able to spend against the LATIS program in 2000-01 …

Mr KIELY: Did Treasury say to you this $6m is coming off the LATIS?

Mr SIMPSON: No, no there was …

Mr KIELY: Was there any negotiations with Treasury about this $6m or was it Treasury advising you that this is for presentation purposes only and was coming off your estimate?

Mr SIMPSON: As the fax says, the $6m reduction against the estimated actuals is a decision taken by the Treasurer and we don't have any trouble with the quantum of the $6m. As I say it comprises two elements, one to do with funds we knew we wouldn't be able to expend against LATIS, and funds that we knew we wouldn't be able to spend against Commonwealth funded programs.

Mr KIELY: Was there any adjustment to any way you did business when you were advised of the $6m adjustment?

Mr SIMPSON: No.

Mr KIELY: So there was just - I'm hearing that the $6m was for presentation and I think I'm also hearing that, Oh no, we can contribute this $6m to certain programs. Is that - am I correct in what I'm saying here so far?

Mr PLUMMER: Mr Kiely, could I have another go at explaining the situation.

Mr KIELY: Yes, sure.

Mr PLUMMER: We don't have a problem with the $6m reduction.

Mr KIELY: I think that's the point; you didn't have a reduction, did you?

Mr SIMPSON: We didn't have a problem with the $6m reduction estimated actuals. Okay, when we saw the papers the information that I had at the time was that we were going to have a carryover and would be in that order. The way the carryover will work is that we would normally go to Treasury and I think it's due by the end of May and say these are the programs that we wish to carry forward, but that didn't happen last financial year. We did get advice from Treasury that that wouldn't be the process.

The $6m that- when you say did it stop us from doing anything, the answer to that is no. We obviously couldn't spend the money. We were hopeful that the LATIS program would be carried forward to this financial year. The reason for that was to do with we just couldn't get the computers in time to pay for them and so we were hopeful that it would be carried forward. That's not something that we'd discussed with Treasury officers but like I say we weren't unhappy with the $6m figure. As it turns out it's very accurate.

Mr CHAIRMAN: Okay, I've got some questions here, obviously some committee questions because they come through our advisor. So in the department's view …

Mr DUNHAM: A point of order. It actually comes from the floor.

Mr CHAIRMAN: Oh I see, well they were along the lines of questions that I'd be asking anyway, which is the estimate that went forward to parliament in the budget papers was basically an incorrect figure of the real estimates within the department of your expenditure for that year, and I think the figures showed that. I think your actual was $350m and your estimated shown in the budget papers was $345.3m.

Mr SAUNDERS: Mr Chairman, I think we need to go through the questions because we have provided more information about the differences between the estimated actuals provided by the fax that was sent in from May and reply to Treasury and the Treasurer. We are not necessarily in agreement with those figures but like our CEO says, is that we chip away at the edges with Treasury and Cabinet to get our budget result adjusted as we think it suits.

Mr CHAIRMAN: I guess the facts of the matter are, firstly, that there was $6m along the lines of the fax in terms that we've been referring to. The estimate was $345.285m and that's after $6m was taken off according to this memo which your department sent to us, the so-called realignment of estimate to allow for carryover for the 2000-01 expenditure. So the estimate that appeared in the budget was $345m when this cosmetic figure of $6m had been taken off. So basically the question I'm asking is was that $345m a true estimation of the actual expenditure that the department had calculated would be the case at the end of the 2000-01 financial year?

Mr PLUMMER: That was Treasury's estimate. Our estimate was higher and so we didn't agree. But that is not something that worried me because we were talking about something, Mr Chairman, that's in the order of $4.7m and in the size of that budget, that wasn't of concern to me. Because at that time - and this is the complexity of trying to give you a picture - at that time we were still running a very strong argument with Treasury, or discussion, debate about our need for additional recurrent funding for staff salaries and that went right through until the end of June after the budget papers were published.

And prior to the end of June, we actually got that additional money and that was probably one of the most important things for us to achieve because that was the money for our base funding and the base - as far as I can work out, the base hasn't been right in Education for years and years and years.

And I don't even want to sign off absolutely now, but we've driven, in these 18 months, the department according to formula, very strictly. We've driven budget – sorry, we've driven staff

numbers very rigorously so we were increasingly satisfied about that number. So, if I were to look at a track record of what we've done since March of 2001, this might help give a picture. We put a bid in March of $11.4m for personnel and operational funds. Cabinet at the time - Treasury actually supported the bid for about nine, I can't remember the exact figure. Cabinet allocated six to us - well, clearly I knew I had more argument to make then - and advised us that staff terminations and superannuation would be met on emerging cost. Now, that was certainly a reasonable position, too, to take because we had quite a few terminations to deal with and they were hard to predict. So, that's at one level.

Now, in May – late May - we continued that argument about that gap that hadn't been satisfied and it was in June that approval was given for $5.3m which satisfied our bid over that period of time for those funds. They are not reflected in the budget, either, at the time.

Then, there's this other $6m that we are talking about which is LATIS funds which would carryover and Commonwealth ISEF funds. And the LATIS, the amount of the LATIS funding was $2.3m and, as Trevor has already explained, we couldn't acquit that or commit it at that time because of the rate at which we were implementing the program. Although - even that could have varied in that - those last few weeks.

The other component of that is the $4m, which is now even a bit more, of Commonwealth funds. And part of the problem there was that I was still in a very strong discussion with the Commonwealth about the targets they wanted us to sign off on before they would even commit those funds. So there again, we had a problem of dealing with that issue and I mean, I'm just hoping that that kind of presents a simplified picture of the real nutty issues we were dealing with.

Dr LIM: Mr Chairman?

Mr CHAIRMAN: Yes. Well, actually Mr McAdam had a question, but I will allow yours.

Dr LIM: The answers provided by the officers to the questions that the Committee put to them really actually gives a very logical sequence of events and gives you a very tidy way of explaining many of the questions you are throwing at them because we are jumping all over the place and it makes very hard for anybody to follow. I suggest to make it easier for all of us that we actually do follow the sequence of the - - -

Mr CHAIRMAN: I intend to.

Dr LIM: And I think if we - we then can come back with supplementaries after that.

Mr CHAIRMAN: I think, certainly in terms of my annotations of this first section, it is probably the major section that has attracted my interest and before I allow Mr McAdam his question, I just make the comment that what I'm concerned about in this - and I think what this Committee has to ascertain - is whether the figures that were presented to parliament and the people of the Northern Territory - that is, the estimate of $345m - was in fact correct and the best estimate that could be delivered at the time. It seems that within the departmental knowledge at least there was disagreement that that was the best estimate, that they'd been asked to re-align the figure that they had, the best figure that they had, down by $6m to get to this figure of $345m which was presented to parliament.

And you're right, we do need to ask further questions of Treasury about the reasons for that, particularly since your original estimate of an expenditure, actual expenditure of $350m was correct. So I appreciate your candour in this regard, but I'd just - I think that's the focus of some of the questions that we're asking: whether that figure, say for education in this instance, that went forward

to parliament, and went forward in the budget papers to parliament was actually a true figure, a true estimate or whether it had been artificially wound down by $6m.

So that's the question that I think is - the Committee needs to question on, and obviously, as Dr Lim says, you've given answers as best you can. And I'll just go to Mr McAdam now to ask his question.

Mr PLUMMER: Before - before we do that, can I be assured that what we've written to you will be on the public record?

Mr CHAIRMAN: Everything will be on the public record.

Mr PLUMMER: Okay.

Mr CHAIRMAN: Mr McAdam.

Mr McADAM: Thank you, Mr Chair. I refer to the Auditor-General's report for the Northern Territory 2000-2001, and page 22 in respect to the Department of Education and I quote:

> *Costs for the year eventually totalled to $212m. By March 2001 the Department had better identified its budgetary needs for personnel costs for the year. That analysis established that the original $204m budgeted for personnel costs for 2000-2001 was insufficient. A $6m increase was approved by the government in March 2001 but the forward estimates in the government's 2001-2002 budget papers still showed $204m. The actual outlays recorded for personnel costs eventually totalled $212m.*

I guess my question is why was not the figure included as part of the forward estimates in March 2001?

A Member: In May.

Mr McADAM: Sorry. May 2001.

Mr DUNHAM: Could we have the page reference again?

Mr McADAM: 22.

Mr CHAIRMAN: In the November report, Mr Dunham. I've got a copy here somewhere you can have a lend of.

Mr McADAM: I'm sorry. I forgot to say November.

Mr SAUNDERS: Mr McAdam, I'll respond to your question, and a lot of it has to do with what our CEO has already mentioned, is that we had continuing discussions with Treasury and the way the budget process works normally is that you tend to deal with one year at a time. In regard to the forward estimates, there are some good reasons why we might actually spend a little bit less this financial year than we did last year on personnel costs if you set aside EBA increases, one of which - there was a government decision to reduce the education head office staff by pretty much 100% which was 350 people. To do that, there was some attrition and you can move people along through attrition. There was also some voluntary redundancies that were provided. Those costs are included in 2000-2001. We would have thought the costs were going to go out to about $8 - between $8-9m last year. We would think this year that they would go to - we have Treasury people (inaudible) it would go to about maybe $4m, some of which - that's not a redundancy, that's not a voluntary

redundancy, that is a normal pay that people are given when they resign and they move on. But like our CEO says, we weren't confident with the Education budget figures. We weren't exactly confident with the Education budget figures and we wanted to continue our dialogue with Treasury over this coming year, to improve the budget accuracy that we have.

Can I just make one comment, that the budget process is incremental. You start with a number at the beginning of the year and by the end of year it's usually something different, whichever agency you go to. We would say the mini-budget that's just been published, that we would need to add to that allocation figure by between $4m and $6m, with the new Commonwealth programs coming on during this year. So that's one of the reasons why it's just not an exact process, and there are differences.

This statement that's provided by the Auditor-General came about after Ken Simpson and I had five meetings, I think it was, with the Auditor-General. We helped him craft this. He had his own opinions about some things, obviously, but he also recognised that we were doing the best that we could, at that time, to get the budget to a precise position.

Mr CHAIRMAN: I think the essence of Mr McAdam's question is: Why wasn't it added in at the time that it was sort of allocated by Cabinet?

Mr SAUNDERS: That's a matter for Treasury.

Mr CHAIRMAN: So that's a matter we should be asking Treasury? Thanks for that.

Mr KIELY: To the department, generally, I get the impression that when you start looking at your estimates and at your budgets, you do tackle the budget with some rigour. Could you just briefly explain, in under three minutes, the processes that you go through to get to formulating your estimates? In particular, the estimates that went up in May, the ones that we're talking about now. What's the process whereby you, as an agency, look at what your expenditure will be, and what you expect the outcome will be?

Mr PLUMMER: Mr Kiely, when I was appointed to this department, the one thing I knew before I went in there, was that there was a major budget problem. I asked, at the time, for two people to be supporting me in that new department in this corporate area. I asked Ken and Trevor, because I knew that our only way forward was to get to understand how the budget was organised, and then to tighten up on the detail - the fine detail - in each of the areas. And that's constantly what we've been working for, and what we've been having some quite detailed discussions with Treasury about.

So, the issue was to understand where our major expenditures were first - and that's with staff - and why was there such fluctuation with such big increases with staff; how did the staffing formula for schools impact on all of this - so what was going on there. In three minutes, it's very hard to answer your question.

Mr KIELY: Oh, I'll give you four, give you five.

Mr PLUMMER: For starters, we went into some detailed discussions with the schools about formula and about recurrent spending, because that was another area we couldn't understand easily. Over the time, we've built up a picture of that. We think we've got, now, the staffing side of things pretty close to right, although there's still things to tidy up on. And it can only survive - and a good budget can only survive, if you keep a very tight hold on your staff establishment. If you let that go, if you take your eye off it, you're gone so quickly, because a department like ours takes on 100 staff - that's $5m extra dollars. So, I actually control staffing except in the schools at my level. It doesn't go below that now.

We then went into the issues of how we fund non-government schools. And there's quite a debate going on there right now about those issues, and that's a healthy debate, but it's a tough one. So in each - in other words, in each area we've tried to build up as good a picture as we could get over that time, and it's taken us that long.

Mr KIELY: So it would be safe to say that you'd have very strong confidence in the budget team that you've assembled, to be able to forecast what the expenditures would be for Education?

Mr PLUMMER: I'd still say that - I'd say that my confidence is increasing but I'd still be wary of signing-off on the dotted line of 100% accuracy - it could be 3% out. It still could be quite substantially out.

Mr KIELY: Well, given the confidence and the rigour that was undertaken to get to these estimates, I mean, in the department's view, did this realignment of $6m indicate to you that the budget documents would show a different picture to parliament compared to what you, as a department, understood to be the likely outcome? Did that give you any concern? That your team, who I've complete confidence in as far as being able to accurately forecast on past trends, and on known outcomes to be desired, where you came up with the figure of $351m - and I'll say it again, did you, in the department's view, did this realignment which had no affect on your actual expenditure patterns, did this realignment indicate to you that the budget documents would show a different picture to parliament compared to what you, as a department, understood to be the likely outcome? Did you have concern about this?

Mr PLUMMER: We didn't agree with the estimate that was in the budget paper, as we've already outlined. But you need to understand that we were still in conversation with Treasury about our final expenditure …

Mr KIELY: Your allocation - your allocation never got changed, did it?

Mr PLUMMER: That's right.

Mr KIELY: And there was never any intention - you never had the expectation, anyone here - had the expectation that your actual allocation was going to change?

Mr PLUMMER: That's right.

Mr KIELY: The $6m was put to you - and you tested it - that it was for realignment for presentation purposes only. So, really it's a bit …

Mr PLUMMER: I can answer it quickly. The $6m had to do with two specific areas of expenditure which we …

Mr KIELY: No, the $6m was never going to affect - you never had the $6m taken off you.

Mr PLUMMBER: No, that's right.

Mr KIELY: It was put to you that the $6m was for presentation purposes only.

Mr PLUMMER: That's right.

Mr KIELY: Yes. Okay.

Mr SAUNDERS: Can I say something about what you just said. As Ken has just mentioned, the $6m reduction was for $2m for LATIS and $4m for Commonwealth programs …

Mr KIELY: Mr Saunders, there was no reduction …

Mr SAUNDERS: May I finish, please?

Mr CHAIRMAN: Yes, let Mr Saunders finish, please.

Mr SAUNDERS: That's one issue, okay? In late May, we had provided a firm estimate to the former minister and the Treasurer - the former Treasurer - about what we needed for operational funding and personnel funding for the rest of the year - that was $5m. That advice went post the publication of the budget. There is a timing problem. If you had asked me the question: What was your estimate at the beginning of May? It probably wouldn't have been $350m. The $350m that we're proposing to you could vary, plus or minus $2m, quite easily.

So, in the broader context, the estimates that have been provided by Treasury is for 1% different than actuals at the end of the year. So, if the problem is a timing one, the only way you're going to get precise figures as estimated actuals, is to have your budget post 30 June, particularly in an agency the size of Education …

Mr CHAIRMAN: But, Mr Saunders, I mean, just to look at the estimate that appeared in the budget paper was $345.3.

Mr SAUNDERS: Yes.

Mr CHAIRMAN: … that had had $6m taken off it for presentation purposes or realignment, whichever term you want to put. So that puts it at approximately $351.3. The 2000-01 actuals were actually $350.5, spot on - quite a deal away from the $345 by Treasury. Wouldn't you agree with that statement?

Mr SAUNDERS: I'd agree that there's $5m difference. There are some factors which could have happened, which would have changed that figure at the drop of a hat, one of which was LATIS. There could have been $2m worth of expenditure, had we been able to get the supply of computers. If we had not paid out redundancies in that period, the figure could have changed again. We didn't know that figure until late May.

Mr CHAIRMAN: Okay. Thank you.

Mr PLUMMER: I'd just like to answer Mr Kiely's question about parliament. To be perfectly honest, I'm focused entirely on my own budget. It was Treasury's right, in my view, to present - and I recognise that we were going to have to run further arguments with them - to present as they've done and what I wanted to be sure of is that I had allocation and the right to continue the argument. And I knew I did and it was why we went back after those issues with the further bid for $5.3m which we got just towards the end of June.

Mr KIELY: So was the department concerned that this information was not published to parliament was somewhat misleading compared to what the department's obvious real picture? Or do you maintain that that was Treasury's role once again?

Mr PLUMMER: I maintain it was Treasury's role but I'm also saying to you I didn't think about it in the context you were putting the question to me and I don't think I would have been concerned at that stage.

Mr CHAIRMAN: Just on that point in parliament just reading from the *Hansard* the appropriation bill the speech by Mr Lugg, the then Minister for School Education, the debate on 31 May 2001, page 7780, he said:

As I've stated before the overall NT Education budget has been increased by $9.4m to $354.7m.

That increase of $9.4m is based on this - what I'd call a cosmetic estimate in the budget of $345.3m. Is that true? For $345.3m plus $9.4m equals what was put in the original budget papers 2001-02 of $354.8m. Is that true?

Mr PLUMMER: I'd just like to think about what you're saying at the moment.

Mr CHAIRMAN: The published budget for 2001-02 for the Department of Education that Mr Reed as the former Treasurer handed down was the total expenditure or target expenditure was $354.769m, is that correct?

Mr SAUNDERS: Sorry, I'm think about that response to the question.

Dr LIM: The first questions are fairly complex, Mr Chairman.

Mr PLUMMER: Well, there are also claims that ministers have made and I haven't - I'm not even sure we should have a comment on that. That is the first thing, and without seeing them been given some time to think about it [inaudible].

Mr CHAIRMAN: Well, all right. I'll …

Dr LIM: Perhaps this issue should be put on notice to the officers to come back with their response.

Mr DUNHAM: Maybe if I could clarify this. He's saying that you've got to have a benchmark to compare one year to another. I think what the Chairman is trying to say is the benchmark for the $9m increase relates to the budget paper printed number of $345m …

Mr PLUMMER: Absolutely.

Mr DUNHAM: …and your budget this year of $354m, ergo $9m. I think what the Chairman's trying to say is that that should have actually been $4m because you knew you were coming in at $350m. Now if that's point he wants to make we can get there pretty quick because it's simple maths but you could also make the same benchmark to say last year your original budget was $335m and next year is $354, an increase of some $20m, so it really depends which you figure you want to use and in what's a moveable feast.

In his case, he would prefer that the Treasurer was saying $4m and not $9m but he could equally have said $20m over the year.

Mr CHAIRMAN: Well, I'm interested in what was actually printed in those particular budget papers and those figures that I've just quoted are the ones. But Mr Plummer has given his answer on that one and I'd just like to …

Mr DUNHAM: I've got some questions. My question is one for all of you. Did you hear any media relating to this Public Accounts Committee hearing during the last several days?

Mr PLUMMER: Yes.

Mr DUNHAM: You did. It's of concern to some of us that it could well be construed that this committee is not forthright in its task of garnering information and that the evidence you give will be critical to us and not redundant as some people might have us believe. Do you believe that your evidence is important to this committee and will advise it on its final report?

Mr PLUMMER: I believe that.

Mr DUNHAM: Thank you. My next question is a question of sustainability. We put these questions to previous witnesses and it's to do with whose job is it to see that growth is sustainable. Do you believe in your areas that that's a task for you or should you go forcefully, parochially and hard on matters relating to education and issues relating to the sustainability of the budget are for another agency? Or do you believe global sustainability is a matter for you?

Mr PLUMMER: Global sustainability is not a matter for me. Prudent budget management is and I'll go hard for what I believe is needed. It then becomes a matter for government of the day to decide how they want to distribute the resources they've got.

Mr DUNHAM: Thank you. My next - and if I could ask two or three questions here, I would. I note your experience with Territory Health Services for very good reasons that I obviously had a work relationship with you at the time and I'd like to ask you some questions relating to your period as CEO of Territory Health Services. They particularly go to issues of the relationship with Treasury at about the time you joined and whether that your stewardship of that budget resulted in a growing or lessening confidence, and it also asks for a comment from you on whether your generic budget-type experience throughout the public service held you in good stead when you were in Territory Health Services particularly with the acute sector and the difficulties with managing hospital budgets?

Mr PLUMMER: I'll talk about the relationship with Treasury. I'm not someone who believes in an adversarial relationship with Treasury as is practised in some other jurisdictions, and may even been practised here - although I'm not interested in finding out about that. I think it's critical that you have, for want of a better word, a partnership with Treasury where they and whichever organisation I'm running have a shared understandings.

In my experience each time that's required some building and quite a lot of collaboration with them to work that through. So the short answer is over the period I was in Health I would believe the relationship with Treasury improved as I believe also our capacity in Health to start to predict with some reliability, and I mean reliability in inverted commas because hospitals, and as I mentioned big staff numbers can daunt you and get you off guard very quickly if you don't watch it all the time. Managing demand in a hospital is a huge issue in its own right. I don't know whether that answers your question well enough.

Mr DUNHAM: I guess the question is did you with your generic budget experience that you've had prior to going to Territory Health Services equip you well to understand the final outcome figures for the acute sector?

Mr PLUMMER: No. Not really. It was a very quick learning curve to get me across that. But my experience before hand equipped me well to tackle that issue, yes, what I believe is the case and that's true in education as well, yes. The fine detail is something you have to come to grips with as quickly as you can but the experience, the broad experience, if I reflect on it there are two things that I bring to every organisation I'm in and keep with a very hard focus straight away - staff and budgets. You can't afford to muck around. They're the two areas to get your mind around as quickly as possible.

Mr DUNHAM: Thank you.

Mr WOOD: Just some clarification for my own sake. Now, I'm referring to basically to question 4 about carryover expenditure.

Mr CHAIRMAN: Mr Wood, could we just, I think we can deal with two and three probably hopefully fairly rapidly and move into four - is that okay?

Mr WOOD: Okay, yes. We'll probably be discussing a mixed bag in question 4.

Mr CHAIRMAN: Well, I think Dr Lim's suggestion of just trying to work through the questions in order was a pretty good one, so I'll try.

From my book anyway, I think you've answered question 2 - did the agency take any action to manage expenditure within the 2000-01 estimate shown in the 2001-02 Budget Papers. I believe you've answered that, and correct me if I'm wrong, that you didn't consider it to be an adjustment to your budget allocation but you continued to work to what you believed was your budget allocation. Is that fair comment?

Mr PLUMMER: That's correct.

Mr CHAIRMAN: If there's no questions about that, I think if I could move on to…

Mr DUNHAM: I've got a question. Do you believe that it was, that it offended you personally that the figures portrayed you as having a budget blowout?

Mr PLUMMER: I didn't even think about it, so the answer's no.

Mr CHAIRMAN: Any other questions on number two? If we pass to number three: what was the number and dollar value of accounts received but not paid by the agency as at 30 June 2001? I believe that is pretty straight forward, but other members of the Committee might want to question about that. No, I don't believe there's any …

Mr PLUMMER: I just draw attention to the note at the bottom, Mr Chairman, that the year before was very similar.

Mr CHAIRMAN: Okay. Thanks, Mr Plummer. Now, I think this one's probably going to interest a few Committee members: what carryover expenditures for the 2000-2001 to 2001-02 year were requested and approved under Section 22 of the *Financial Management Act?* Would either of the panel of witnesses like to comment on this particular question? And your answer, which I've said, will be tabled for the public. Well, I guess I do have a question.

Mr WOOD: Can I just …

Mr CHAIRMAN: Sorry. Gerry, you had a question.

Mr WOOD: It's probably – you may be able to comment on it. Getting into it in order, you've got $5.3m Treasury advance and a $6m Cabinet approved extra funding which has got nothing to do with this $6m we're referring to. Now, normally - in a normal year, you would have asked – you would have sought a carryover request for the $6m, is that correct? And that would have been the process in years gone by, I would imagine. This year that didn't happen.

Mr PLUMMER: No.

Mr WOOD: Now, is there any reason it didn't happen?

Mr SAUNDERS: The reason it didn't happen, from our perspective, is that the Treasury sent us a fax to tell us it wasn't going to happen.

Mr WOOD: Right. Just in a normal year again, when you have a carryover, and I asked this of the Department of Police, Fire and Emergency Services, you would be fairly exact as to what you want carried over. You wouldn't be looking at a roundish figure; you would pretty well know what you want to carry over, to be carried over?

Mr SAUNDERS: Mr Wood, I would think our situation's a bit different than the Police, Fire and Emergency Services. Their carryover was linked to equipment purchases, biG equipment purchases. In regard to LATIS, yes, it is for big equipment purchases. The residual of Commonwealth programs is about salaries and operating costs and not as easy to predict.

The other thing is that this is not a finite solution. If you do get your carryover wrong, you can go back to Treasury and have it adjusted in a later year, so our estimate would be more of a general one rather than a - than a add up how many aircraft you're going to buy in the next month.

Mr WOOD: So the $6m that you would have carried over is pretty well in line with the $6m that's stated in the budget paper. There was a realignment of estimates?

Mr SAUNDERS: As I mentioned earlier, we thought that the $6m carryover figure estimated by Treasury officers was reasonable. We brought along some financial statements and we'd like to lodge them.

Mr CHAIRMAN: Certainly.

Mr SAUNDERS: They're **-** the balance of allocation for LATIS and for Commonwealth programs is $6m. The complication, of course, is that we also thought that we needed another $5m for operational and salary costs. I would have to say to you that we put this to the March Budget Cabinet, that we needed $11.4m. The decision was to give us $6m, but to fund superannuation and terminations on an emerging cost basis. If you add $6m to $5.3m, you get $11.4m so in - we thought that we were doing okay with our estimates that late in the year, but it all depended on events happening, terminations for example. We didn't know our final terminations until late May.

Mr WOOD: I suppose the difficulty I've got is that the carryover is the normal thing done towards the end of the year, and yet on this particular year, and to be honest, it was an election year, we go to - instead of a carryover, we go to what you said was a 'budget presentation purposes' adjustment.

That's the difficulty I have - is that, do you see that - I suppose I shouldn't ask you that question. But I just see, for some reason that we've been going along this path of carryovers up to this point, and all of a sudden when it comes to this particular year…. What - I find it difficult to understand why it just wouldn't be a normal carryover, and then none of this questioning would occur.

Mr PLUMMER: Mr Wood, I want to clarify something. It is the advice we got from Treasury that it was a budget presentation issue. It's not my advice.

Mr WOOD: Yes. So I won't ask you that question. That's all right.

Mr CHAIRMAN: If I could ask that question, and it's been relayed to me by our professional support there. The question is: if a reduction of $6m for LATIS and the Commonwealth was to be carried over, I guess but it wasn't, isn't the 2001-2002 budget presented to parliament too low? Wasn't it too low if it wasn't carried over?

Mr PLUMMER: I agree. The 2001-02 mini-budget includes $2m for LATIS. It does not include $4m for Commonwealth programs which, we have a fax from a Treasury which says that when the money is received we'll talk about increasing the allocation. The reason for that is, and we think it is fair, last financial year we had a significant problem with negotiating ISEP agreement and the States Grants Agreement. The negotiation was about the educational performance measures that were in the agreements which we couldn't reach, particularly in indigenous communities. Because we were negotiating and not signing the agreement, the money wasn't being received. We would prefer, as an agency, to do this in an incremental process and get the estimate sorted out in the next month or two.

Mr CHAIRMAN: So, if I could ask …

Mr DUNHAM: I'm following on that if you've got a different - so you're saying that the Treasury treatment in these budget papers for that money is similar to the one in the previous budget papers?

Mr SAUNDERS: I am. I just - I want to try and provide some advice to the Committee. We are not always aware of the adjustments that are done. For example, in the mini-budget, the budget improvement is not something that this agency has had any knowledge of until things were published. Now, we're not saying that as a negative, I'm not saying that as a negative, it's simply the reality of government budgeting, that it's incremental and it requires a lot of negotiation with Treasury.

Mr KIELY: Isn't the reality here that we're dealing with the $6m that was asked to be taken off your estimate, for presentation purposes only, which had no impact on your bottom line of operating for that year? I mean, that's what we're dealing with here. In line with that could I just ask these couple of questions:

It might come as a surprise, these figures, I don't know, but the $2m that was taken off – well, we're dealing with three core service agencies here and this is police, health and education. There seems to be a pattern emerging. Now, with the police who had $2m taken off their estimate that they put in, which they, too, went through a lot of rigour to put forward. They had $2m taken off for presentation purposes and the published estimate when matched up with the budget for that particular year, the increase to that budget on paper looked like 2.66, however taking into account what would have been expected to be the agency's figure, the increase to the police would have been 1.06%.

When we look at health, they had an $8m reduction or an $8m realignment for presentation purposes. The same as police and the same as education. The published estimated outcome in the documents was 2.51% increase, however, if the published figure provided by the agency when the estimates were sought was published, then the true figure would have been showing a .66% increase. Now we get to education, where the published estimated outcome, which is the figure derived from the realignment for presentation purposes - and I'll say that again: for the realignment for presentation purposes - was 2.75% increase. However, if the published figure had been the one you provided, your agency provided, the increase would have been .99%.

Now, in your conversations with Treasury, were you made aware of any government strategy whereby presentation purposes would bring down a figure which is roughly an equivalent of the CPI rather than what the true figure, if used on the agency's figures, would have shown?

Mr PLUMMER: No. No, we were not.

Mr KIELY: There was no government strategy?

Mr PLUMMER: No.

Mr KIELY: This didn't form part of any conversations?

Mr PLUMMER: I'm not (inaudible) able to answer any of that …

Mr KIELY: No. I'm asking whether you were made aware of any strategy.

Mr PLUMMER: No, not at all. I just make the point again: from our point of view, through all the various timelines, we knew we were going to have to continue to run discussion and argument about the funding levels we wanted. Hence the $5.3m, hence putting in a budget submission for carry-over of budget allocations, even though we were told that it wouldn't happen. We did that [inaudible] …

Mr KIELY: Certainly struck me as a lot of coincidence. Yes.

Mr CHAIRMAN: I'd like to ask a question in relation to carry-overs which is, I guess, the focus of the actual section 4. I'll address my question to Mr Plummer. You've got, I think you've said, over 20 years experience in formulating budgets and developing budgets here in the Northern Territory. How - is this extraordinary that Treasury would promise, I guess, as in that the facts that was received from Treasury that there would be a $6m carry-over into the following financial year, and yet, subsequent to that the carry-over is completely blocked? Is that an extraordinary event or has …

Mr PLUMMER: Can we have a minute?

Mr CHAIRMAN: Yes.

Members interjecting.

Mr KIELY: No, he wants you to ask the question of them, not me. I'm not chairman.

Members interjecting.

Mr CHAIRMAN: No, we need to discuss this matter of questions from the floor.

Dr LIM: The laptop comes back with all the questions written on it, and Microsoft were very easy, weren't they?

Mr CHAIRMAN: Well, we're living in the 21st century, we're allowed to have laptops. But we will discuss this issue in deliberative session.

Mr DUNHAM: I don't have a problem with it, I think the unions should be asking some questions.

Dr LIM: I'm just making an observation.

Mr DUNHAM: God knows, they pay you blokes, it said on the radio this morning. Chuck their money in.

Mr PLUMMER: Mr Chairman, there's an advice from Treasury about the carry-over that I think should be tabled.

Mr CHAIRMAN: Yes. We'd welcome that. If you'd like to give it to the Secretary here. Is it a discrete document?

Mr PLUMMER: I'd just like to read it out:

It's been usual practice for Treasury to seek a request for carryover allocation …

This is consistent with what we're telling you.

> *… from one financial year to the next. Due to time constraints close to the end of the financial year, requests need to be prepared and considered within a very short time. This is not ideal. Accordingly, it has been decided not to seek requests for carry-overs prior to 30 June. A review of budget requirements will be undertaken shortly after commencement 2001 financial year, when items that may have been included in carry-over requests can be considered.*

The point is it was not a promise. The point is that I told you earlier, I knew I have to run that argument again. And I was quite happy and confident to run the argument again.

Mr CHAIRMAN: In the following financial year.

Mr PLUMMER: Yes.

Mr CHAIRMAN: Okay. So, but we have got a scenario where you were advised by Treasury - if I can just find the place here - per fax. This - it's got the 18 May as the date on it. I'm talking about the information that you supplied with your original response to this committee, when we asked you several questions, which says: 'Realignment of estimate to allow for carry-over in the 2000-01 expenditure into the 2001-02 year'. So, I guess there was some sort of promise there that you would be able to carry-over that $6m into the following year.

Mr SIMPSON: The words might imply that, Mr Chairman, but the numbers don't. If you look just to the right of the minus $6,000,000 that's not included in the 2001-02 column.

Mr CHAIRMAN: So, obviously it's a - you mean, there's no contra adjustment in the following year?

Mr SIMPSON: I'd say there was no pre-commitment by Treasury that the money would be rolled over, and that we would have to argue the case.

Mr CHAIRMAN: But usually, a carryover - as Gerry Wood from Nelson asked - usually there is finite material things that are attached to a carryover …

Mr PLUMMER: I think, Mr Chairman, you need to pursue that with Treasury. But we took a view that we would have that opportunity, in this particular circumstance, to pursue that money anyway. I mean …

Mr SIMPSON: We were confident that the argument would be accepted too, I must add. The commitment to LATIS - we have had no indication that that wouldn't be ongoing. The fact, with Commonwealth funding is, if they don't roll it over, then it has to be returned to the Commonwealth.

Mr CHAIRMAN: Well, could I ask the question another way. In your experience of reading lines such as these over many years, has there ever been an instance where a carry-over is promised - for the want of a better word - and then there is no contra entry in the following financial year? Is this extraordinary to have that sort of a - have you seen that before?

Mr PLUMMER: I am not going to call it extraordinary. I haven't seen that before.

Mr CHAIRMAN: You haven't? No, okay. You haven't seen that in 20-odd years of experience with budgets. You've never seen this sort of entry with a notional carry-over that doesn't have a contra adjustment in the following financial year?

Mr PLUMMER: Not that I'm aware of.

Mr CHAIRMAN: Okay, thanks, Mr Plummer.

Dr LIM: Mr Plummer, having run your argument with Treasury about your funding for this current year, unfortunately, because the figures are now blurred with conversion of the Department of Education to Department of Employment, Education and Training, but it looks from my budget book here at page 40, you have a $16m increase within the budget outcome variation. Can you pull out from this figure what your education component has increased by, and whether that has taken into consideration your supposedly non-carry-overs from the year before?

Mr PLUMMER: Yes, you can - and I'm just trying to get the page number. Page 40, at the bottom there, gives you the Education component of it and reinforces the discussions that we've had with you, the responses we've had with you.

Mr SAUNDERS: Dr Lim, the Education component in the budget is the top three activities - education services, non-government education, tertiary assistance.

Dr LIM: Right. That's the total. It comes to – I haven't got a calculator with me, but it's 299, 2 plus 58, 662 plus 5124.

Mr PLUMMER: It's about $364m.

Mr DUNHAM: It's gone up $10m on the last budget, mate.

Dr LIM: It has gone up $10m.

Mr SAUNDERS: And the reasons for that are explained in the budget papers.

Dr LIM: Budgets are very fluid documents that move literally from day to day and depending on the cases the CEO puts through to government, it can change in either direction.

Mr CHAIRMAN: Are there other questions in relation to the carryover? Question 4? I'll move on to question 5 - Commonwealth Funds that were not received in 2000-01 being received and your answer is yes. I'm not sure whether committee members wish to ask questions there?

Question 6 - can you explain the LATIS project and provide data on its funding requirements? I guess we've touched on LATIS during our discussions but I'm not sure - I'll give the panel an opportunity to speak to this question first and then maybe others in the committee can ask questions.

Mr McADAM: My question would be, does that give you another picture because otherwise I think we need to take questions from them.

Mr KIELY: The pages you have attached?

Mr CHAIRMAN: No, are there questions from the committee about LATIS? I think we have touched on LATIS in our discussions and there's been a number of questions asked about LATIS.

Mr WOOD: No, I've been doing my own investigations into LATIS via the Howard Springs Primary School. So I've learnt a bit since the last session.

Mr CHAIRMAN: Okay.

Mr PLUMMER: Is it going successfully?

Mr WOOD: It is actually.

Mr CHAIRMAN: Can you supply the original budget allocation variation during the year budget estimate included in subsequent year's budget papers, and the final budget allocation plus actual expenditure for the past five years for your agency? You've given us an attachment A. Did you want to make any comment on the trends there? I'm sure there are probably some questions from committee members about this particular area. I think possibly we've explored it.

Question 8, I think we've touched on this aspect also about the additional budget allocation of 2000-01 of $5.8m approved late in the financial year. Can you provide details of this funding? So just to clarify in my mind, where you say Cabinet approved the additional $6m, that was the $6m that was a subject of some comment by the Auditor-General. Is that correct?

Mr PLUMMER: Yes.

Mr CHAIRMAN: So I think we've covered those areas and they've been questions asked about that. Are there any further questions?

Mr PLUMMER: I don't know if it's of any use because it's hand written, but I've got this scribbled map of those three issues if you want to take …

Mr CHAIRMAN: Of course we do. Thank for that.

Mr PLUMMER: It's just that I think it allows the map to be seen easily.

Mr CHAIRMAN: Are there anymore questions about section 8? I think we've certainly asked a number of questions about that. Here's number 9, I think that maybe the member for Nelson's got some comment on this. Can you provide the budget allocation and actual expenditure for non-government schools for the previous five years? There is a table there. Did any of the panel of witnesses wish to comment on that particular table?

Mr WOOD: I'm not a witness.

Mr CHAIRMAN: But you have a question?

Mr WOOD: Yes, and again it is for clarification's sake. One is in the budget statement, the same pages where the Treasury documents on outlays showed there was a realignment of an estimate for the $6m. On that same page - this is in the documents you sent us out first. You had a deferral to approve 2000-01 non-government school capital projects and you had it deferred in 2000-01 and also in 2001-02. I was going to ask why and what did those projects refer to?

Mr PLUMMER: The capital projects are proposals by - they're non-government schools for classrooms, for whole school developments and a Cabinet decision deferred approval of submissions in 2000-01 until the department had completed some work about the policy framework or review the policy framework. That policy framework is now before the current government for further consideration.

Nevertheless, and I don't have that detail here with me now, Mr Wood, there were some approvals agreed to by the previous government capital projects and also by the current government.

Mr WOOD: My other question, I'm just having a little bit of trouble understanding, under that Department of Education 2000-01 proposed budget, it's got a centre column which transfers Treasury advances. It may be a silly question, but can an advance be a reduction in your non-government education section which has got a minus figure attached to it?

Mr SAUNDERS: It's a transfer.

Mr WOOD: It's a transfer. So they actually there was money taken from there so they had reduced expenditure last year? Is that correct?

Mr DUNHAM: Well, is it reduced? I mean my figures from your submission to the committee on page – it is unpaginated but it's under question 9 that we're currently questioning, Mr Chairman, where we've got the table there it shows an increase from $46m to $55m so we're actually talking about an increase in last financial year. Is that correct?

Mr SAUNDERS: Can I just - I need to advise the committee what's in non-government education because non-government education is not just about capital assistance to non-government schools; it's also recurrent.

Mr DUNHAM: Is LATIS in it?

Mr SAUNDERS: No. It's recurrent assistance to non-government schools. It's also the collection point for all the money that the Commonwealth provides to non-government schools. So if the programs come on during the year, the budget will change, it will increase. My feeling about the NT component of the non-government education is that was probably held rather than increased or decreased.

Mr DUNHAM: Okay, so could we say then that that figure actually should be netted up by LATIS which is assistance to non-government schools?

Mr SAUNDERS: Yes certainly.

Mr DUNHAM: As additional. And could you make a general assumption as to whether that compared to other states is reasonable, line ball, generous, frugal?

Mr PLUMMER: Are you talking about the overall?

Mr DUNHAM: The overall assistance to the non-government sector over the last five years?

Mr SAUNDERS: I assume you're talking about the NT contribution?

Mr DUNHAM: Well yes, I suppose you could net the Commonwealth out because I would assume that it would be unusual across Australia but in terms of the last five years, have the contributions from government budgets compared favourably with other jurisdictions?

Mr PLUMMER: It's a very difficult question to answer but the subjective view is, I think, the non-government schools have been treated very well and have been treated well is all I will say, very well.

Mr CHAIRMAN: Do you think they'd agree with that assumption?

Mr PLUMMER: No, I'm sure they wouldn't and that's part of the issue of managing resources and it's a very difficult question to pursue.

Mr CHAIRMAN: So has there been any …

Mr SIMPSON: Each jurisdiction funds the non-government sector differently that's why it's difficult to make easy comparisons.

Mr PLUMMER: In fact we're intrigued to find out yesterday United Kingdom doesn't fund them at all and sometimes I think that's the easiest way to get out of it.

Dr LIM: Having heard just lastly but not about the United Kingdom but about the non-government schools might think that they are not funded as well as what the department thinks. I suppose the global responsibility for budget sustainability is not - when you were asked a question about that, you said, 'Well, my responsibility is to make sure that the department is well funded or adequately funded and whether it's sustainable or not is somebody else's responsibility'. Isn't that the ebb and flow of budget construction that the department has to justify with its best argument what funding the department requires and maybe Treasury says when your arguments are not good enough, you only get this much and not as much as you want, and that's where Treasury comes in to have the global responsibility for sustainability?

Mr PLUMMER: Well, I'm not sure if it's Treasury. I think Treasury puts forwards all the arguments to the government of the day and it's the government decisions as to where the priorities are.

I'd just like to come back to the non-government schools. The fact is I think there's quite a good policy framework in the Territory that does provide for good choice in a limited population [inaudible] but there's no denying the competing demands for funds. There's just no denying it and they are very difficult questions to provide answers for.

Mr CHAIRMAN: Without getting off the track too much, Mr Plummer, is that as a parent who's had children in both the government and non-government sectors, that I've been very pleased with the standard of education in both and another thing that's impressed me is the harmony that's existed between the non-government sector and the NT Education department over a long period of time. I think that's pretty unique for the Territory and I just hope that we can preserve that relationship and build on it because, given the nature of the Territory, I think it's essential that for us to move forward in the education area that that great relationship is maintained.

Mr PLUMMER: Mr Chairman, we have some proposals actually to realigned and formalised the relationships.

Mr CHAIRMAN: All right. That's great. Are there other questions in relation to the non-government sector? I'd suggest that in terms of question 10, that we have explored details of

carryover allocation, but if members of the Committee do have subsequent questions. None there. So are there any other further questions of our witnesses today by Committee members?

On behalf of the Committee I would like to thank the three of you for coming along today, and thank you for your answers. We realise we've taken a great deal of your time but we believe it's a very important enquiry that we're embarking on. So, once again, thank you very much for attending.

The Committee adjourned at 11.51 am.

DEPARTMENT OF CORPORATE AND INFORMATION SERVICES

Appearing before the Committee on 5 December 2001

Ms Sarah Butterworth, Chief Executive Officer
Mr Nick Pellissier, Director Budgets and Commercial

The Committee reconvened at 12.03 pm.

Mr CHAIRMAN: Okay, once again we're behind time but hopefully proceedings will be efficient. I call the Committee to order and reopen this public hearing of the Public Accounts Committee. I welcome from the Department of Corporate and Information Services, Ms Sarah Butterworth, Chief Executive Officer, and Mr Nick Pellissier, Director of Budgets and Commercial, who are appearing today to brief the committee on the accuracy of the budget data published in the 2001-02 budget paper. The Committee has ordered that evidence given before this committee shall be sworn evidence and I would ask the Secretary now to swear in the witnesses.

SARAH JANE BUTTERWORTH, sworn

NICHOLAS ROLFE PELLISSIER sworn

Mr CHAIRMAN: Now, you've been issued with a copy of the *Legislative Assembly Guidelines* dated 20 August 1992 and the *Public Accounts Committee Guidelines for Witnesses.* Are there any matters of concern in relation to those guidelines that you wish to raise at this stage?

Ms BUTTERWORTH: No.

Mr PELLISSIER: No.

Mr CHAIRMAN: The committee prefers that all evidence to be given in public but should you wish at any stage to give your evidence, part of your evidence or answers to specific questions in private session you may apply to do so, the committee will then adjourn and give consideration to your application.

For the *Hansard* record starting from my left could you please state your full name, address and the capacity in which you appear today.

Ms BUTTERWORTH: Sarah Jane Butterworth - my home address?

Mr CHAIRMAN: Yes.

Ms BUTTERWORTH: [address stated] and I'm here as Chief Executive Officer of the Department of Corporate and Information Services.

Mr PELLISSIER: Nickolas Rolfe Pellissier, [address stated] and I'm here as the Director of Budgets and Commercial for the Department of Corporate and Information Services.

Mr CHAIRMAN: Okay, thanks very much. Just by way of introduction to the committee, and we have done this with previous witness panels, can you starting with Ms Butterworth give your experience in the Northern Territory Public Service particularly at a senior level and with particular reference to the framing and development of budgets.

Ms BUTTERWORTH: I've been in the NTPS since pre self-government I guess. I was with the Commonwealth then and I've been in Darwin since 1976. I've been with the NTPS since self-government. I have been in a number of senior positions in various agencies. In relation to planning budgets, I was at one stage Director of Corporate Services in Transport and Works and I've

been a CEO of Work Health, Deputy Secretary in Department of Asian Relations, Trade and Industry and Power & Water Authority and Chief Minister's department and CEO of DCIS.

Mr CHAIRMAN: So could you quantify the number of budgets that you say at a very senior level that you've been involved in the development of?

Ms BUTTERWORTH: For the last 10 years I would say.

Mr CHAIRMAN: Thank you, and Nick?

Mr PELLISSIER: I've been in the public service since 1975. I've been in a budgets role since about 1981 then about 1984 I became Transport and Works senior budgets officer and have had senior budgets roles virtually since then. Transport and Works, Power and Water Authority and DCIS.

Mr CHAIRMAN: Thank you. Now I have to find this sheet of questions. There's a series of questions that we've developed as a committee. I'm not sure whether you provided …

Ms BUTTERWORTH: Written responses, no.

Mr CHAIRMAN: Other agencies have tabled their written responses.

Ms BUTTERWORTH: I'm happy to do that.

Mr CHAIRMAN: Yes that'd be good, thanks very much. I guess you've got another copy or that was it? Alright, well we'll proceed.

So the first question is, what were the outsourcing costs and receipts for desktop and local area network support services incorporated in the agency's budget?

Ms BUTTERWORTH: When were they? Perhaps if I could just give a bit of a summary of the timing of setting desktop outsourcing that would put this answer into context.

We received the approval from Cabinet on 19 June to enter into a contract with CSC Australia and the contract was signed on the 22 June and commenced on the 29 June. Until such time as we had the Cabinet approval on the 19th, we couldn't incorporate any of our estimates into the budget because it wasn't certain that the outsourcing would go ahead. A whole range of things were adjusted around about the end of June and because of the actual outsourcing which was 4.21pm on Friday 29 June some of those costs came onto the books last year and some came on this year. So, there's a bit of a mix there of what happened.

In terms of when the adjustments were actually made to our budgets, in 2000-01 there were some slightly different adjustments made in relation to receipts and costs. I'll go through receipts first.

For receipts on 21 June, $8.8m and on 29 June $1.9m; those increases to receipts; and for costs on 21 June, $8.8m; 29 June, $1m; 30 June, $1.4m. So the two totals were for receipts $10.7m and for costs $11.2m.

Mr CHAIRMAN: I guess just to edify members of the public in terms of why the committee has asked for you to come along today and sort of clarify these issues, that your 2000-01 budget target, I guess, at the beginning of the year was $44m, and correct me if I'm incorrect here, was approximately $44m, your estimated outcome, which was published in the budget papers in May, was $41m and yet your actual expenditure was $52m. So, I guess those figures caught the committee's eye and, you know, we thought it would be best if we called you along just to give explanation,

because the committee felt that there'd been almost, well, approximately 25% increase in your expenditure, in other words in the last two months of the financial year you had $11m added on to what your estimated expenditure was going to be, it went from $41m to $52m in two months and so that's basically for the edification of the members of the public that this is the matter that we're discussing now.

So, just to return to what you've told us that, you can correct me if I'm not right, but there was an unforeseen expenditure because the outsourcing, although approved by Cabinet, hadn't been settled and hadn't kicked in and you, as an agency, were expected to meet the costs of that, but there were some receipts associated with that expenditure. Is that a fair enough summation?

Ms BUTTERWORTH: Yes. When we outsourced desktop there was a sale of assets which was computers basically to the successful company and in return there were some costs which included transition fees and redundancies for staff and payout of leases. So that's why the figures changed by so much. The asset sale was $10.7m, which is why receipts increased by that amount, and the expenditure that we had that year was $11.2m, which included payout of leases, the first of the transition fee payments and redundancies.

Mr CHAIRMAN: So I guess the question, and we might just move through these questions in similar way we did with Education, although there are three major questions. The question I have is you're saying this was completely unforeseen. I mean, it just seems incredible that such a large shift in terms of outsourcing externally was unforeseen just prior to when you put in your estimates.

Ms BUTTERWORTH: No, I'm not saying it was unforeseen. I'm saying we didn't have Cabinet approval to proceed with outsourcing until 19 June. I couldn't anticipate that approval because until Cabinet actually said yes, you may sign the contract, they could have said no at any point in time.

Mr CHAIRMAN: Okay, thanks for that answer. Are there other questions on this first area that we're asking questions about? No questions.

My second question relates to the assets sold. What assets were sold and when was the sale which caused an increase in receipts late in the financial year? I think you've touched on that, but if you don't mind just going over it.

Ms BUTTERWORTH: Certainly. I've provided in the written response, a summary of the amounts that add up to the $10.7m. Essentially it was for desktop computers, lap tops, LAN servers, printers and some miscellaneous items like scanners and those sorts of things that were included in there totalling $10.7m.

For the information of the Committee, the full list of assets which included the schedule in the contract and that is the summary.

Mr CHAIRMAN: Thank you. Are there questions about the sale of the assets?

The third question is: What were the increased costs to desktop and local area network support services that were identified to be funded by increased receipts from the sale of assets?

Ms BUTTERWORTH: Essentially, as I touched on in the first question, the additional costs, one-off costs, associated with outsourcing were transition fees to the contract, $206.84m; payout of leases on IT equipment - that was for government agencies so both operational and financial leases at $5.1m, and retrenchment costs for the staff who left the government as a result of that, nearly $2.4m.

Mr CHAIRMAN: Okay. Are there any general questions from committee members of the witnesses?

Mr DUNHAM: Have you heard any media comment recently about this enquiry, the Public Accounts Committee enquiry?

Ms BUTTERWORTH: Yes.

Mr DUNHAM: You have? Can I just let you know that this committee treats your evidence very seriously and would not agree with some of the media comments that have been made about the irrelevance or otherwise of future evidence.

The second question I've got for you is about the issue of sustainability. Do you believe when you are pursuing matters within your budget that you should have a global vision of the sustainability of the budget, or do you just parochially pursue those issues within your budget area?

Ms BUTTERWORTH: I'm interested in my own agency's budget area.

Mr DUNHAM: And sustainability is irrelevant?

Ms BUTTERWORTH: Yes.

Mr DUNHAM: Thank you.

Mr KIELY: When you popped in your estimates around May time, Ms Butterworth, was there any communication from Treasury that your agency estimates would be realigned for presentation purposes?

Ms BUTTERWORTH: No.

Mr KIELY: Have you at any time in all your extensive history with NTPS been approached when formulating or in the budget process for a concept of realignment for presentation purposes?

Ms BUTTERWORTH: No.

Mr CHAIRMAN: Mr Pellissier, have you ever been approached in a similar fashion?

Mr PELLISSIER: They're usually only, you know, interpretational things where we may have been treating something as a particular sub-category of costs or something and Treasury has said no, no it's now going to be under grants or it's going to be under advances or it's going to be under …

Mr CHAIRMAN: It's a categorisation debate that you have?

Mr PELLISSIER: They may realign our numbers because they say this is the way in the government reporting framework it's now decided to treat this particular category of expenditure. But other than that I haven't seen anything.

Mr CHAIRMAN: Another question. In terms of carry-overs within an agency, has it ever been in your experience that a carry-over is flagged up by Treasury, it's recorded in the line item of the current financial year but there isn't a contra entry in the following financial year?

Mr PELLISSIER: I couldn't say with certainty that something along that line hasn't been done, but to actually flag it as a carry-over I could say it has never been done, but certainly unexpended

funds whether they're capital works or whatever may have been at some stage taken back and said well, you know, you'll just have to apply for carry-over for those.

Mr CHAIRMAN: How about you, Ms Butterworth? Have you ever had that experience?

Ms BUTTERWORTH: The technical bit about the contra I'm not sure about. Certainly, it usually remains within the budget figures and then the carry-over is approved in the budget refinement exercise which is in the next year.

Mr CHAIRMAN: So there's never been a case where departments have more or less been told that they're, you know, that they're not to be applying for carry-over that has been identified?

Ms BUTTERWORTH: Not that I am aware of.

Mr PELLISSIER: From this year we were told, like you saw the fax from Treasury, that they wouldn't be considered until early in the new year even though we may have identified …

Mr CHAIRMAN: What was the - I'll take the member's question in a minute - but what was the amount of your carry-over that you did want to carry over between 2001-02?

Mr PELLISSIER: In the case of DCIS general, $996 000.

Mr CHAIRMAN: So nearly $1m, and so did you subsequently reapply for that $1m of carryover?

Mr PELLISSIER: Yes.

Mr CHAIRMAN: So what point in time did that application occur actually once the financial year had turned over to the new financial year?

Mr PELLISSIER: I think we actually applied for it before the close of the financial year. We notified them of what the amounts would be that we would be unable to spend and that we would be - and what the reasons were that we were unable to spend it. And even though they - they actually said weren't considering them for the new year. We didn't think it was - at least, we were saying to government we had some cash that we weren't spending; if you needed that cash somewhere else, it was available. So we thought it was wisest to notify them before 30 June of what our real cash position was likely to be.

Dr LIM: So you would have received a letter or a fax from the Treasury saying that it has been usual practice for Treasury to seek requests for carryover of allocation from one budget year to the next?

Mr PELLISSIER: We received the exact same fax.

Dr LIM: The exact same fax. So all departments were contacted that way.

Mr CHAIRMAN: Had that ever occurred before, in your experience?

Mr PELLISSIER: No, I don't ever remember being told to ask that the carry forward be considered until the next year, although I do remember it not being approved until the next year.

Mr CHAIRMAN: So, how about you Ms Butterworth?

Ms BUTTERWORTH: I'm not certain of when we actually - I think normally we apply before the end of the financial year for a carryover …

Mr CHAIRMAN: I'm talking about a communication such as that. Is that the first time you've ever seen such a communication occur within a budget process that you've been involved with?

Ms BUTTERWORTH: I'm not sure that I saw it on this occasion. I think it might have just gone straight to Nick. It was just a budget administrative matter …

Mr PELLISSIER: I would have said recent practice, and I - you know, I'm not trying to think back 20 years, but recent practice is for the approval to actually come through before year end as a budget adjustment, take it off one year, put it on to the next. But I would have thought, going back a bit, that that was not common. I mean, carryovers don't go back 20 years for starters. Carryovers only go back under the - since we've had the *Financial Management Act,* so, I would have said no.

I would have thought that in the early stage of the *Financial Management Act* we would not have seen those approvals until the following year, but we would have applied before the end of the year, as it says in the Act, to apply before the end of the year.

Mr CHAIRMAN: So did you make any effort to contact the Under Treasurer? I mean, here's a million dollars of DCIS' money that, I guess, has got a big question mark over it now and you're going to have to fight for it next year. Did you make any - any effort to sort of discuss this matter with the Under Treasurer?

Mr PELLISSIER: We advised them in writing as to why there was a million dollars and what the commitments against it were and just pointed out that, you know, that we're advising them before the end of the year because of - they may have needed the funds, but we didn't do anything else, no.

Mr CHAIRMAN: So, here's a million dollars with a great bit question mark over it. Did you undertake to discuss the matter with your CEO?

Ms BUTTERWORTH: Oh, yes. We certainly discussed it, yes. There was no doubt about that. But we expected that the matter would be dealt with in the budget refinement process which happens in August of every year. So I wasn't unduly concerned about it. I felt as long as we had our justification with Treasury, that there were firm commitments for that amount, and it would just go through the process.

Mr CHAIRMAN: Thank you. Mr Wood?

Mr WOOD: Just a general question. The, you're the owners of the contract for the outsourcing of the IT, how long is that contract for? Is it fixed or is it variable?

Ms BUTTERWORTH: No, it's fixed for five years. This is the desktop contract?

Mr WOOD: Yes.

Ms BUTTERWORTH: Yes.

Mr WOOD: What, roughly, is it worth over that five years?

Ms BUTTERWORTH: About $180m over five years.

Mr DUNHAM: Would it be fair to describe your actions in alerting Treasury about the underspent million dollars, nearly a million dollars, which would have lapsed in any event, as more of a bookkeeping approach and also being very keen to make sure that you have flagged for your next year's estimates, but that you were fairly confident that it was well and truly recognised within the system?

Mr PELLISSIER: Yes. I think we recognise that what agencies are actually going to achieve is more important to Treasury as the year winds up, and so our earliest advice to them that we are going to underachieve by nearly a million dollars is important, so we advise them as soon as we can rather waiting for - you know - early next year to tell them we - of this unspent money, we've got a use for some of it, like committed. So yes, we - and we thought that the process was relatively a bookkeeping process in that we tell you what we've got. Here's the unspent money. We tell you what the commitments are against it. You assess their validity, and we get an approval or otherwise.

Mr DUNHAM: Do you think many commentators would be interested in that, or is it a matter pretty much that interests Treasury and you and not many other people?

Mr PELLISSIER: I think - I mean, I guess some people have some interest as to whether an agency is going to achieve its budget, but coming in under is not as much interest to people as coming in over it. So I wouldn't have said it was of great consequence to anyone else, and most of it - you know, if you take out those things that we were committed to, some of which we only got funding for in May, and if we - and I guess at the time we received the money, we knew we couldn't spend it all. I don't think that we were close, other than that. So I don't think there was anything there that would have concerned an outside observer.

Mr DUNHAM: And no alarm bells would have gone off in your…

Mr KIELY: This is for Mr Pellissier. On the - when you're getting together the - can you step us through the process that you'd broadly take to work up an estimate to (inaudible) you submit to Treasury in the budget cycle? Can you just walk us through that? And there's no time limit on it but, you know, there's no need to go into the…

Mr PELLISSIER: Well, it depends a bit on whether you're doing a Government Business Division or whether you're doing a general cash agency. Obviously, with a Government Business Division you're probably even more concerned with receipts because it is your source of funding than a general government agency where you'd have a far smaller proportion of receipts.

Now, obviously some areas you can predict, like personnel costs. They're relatively stable in general cash agency. An agency like ITMS going through outsourcing, that wouldn't have been true, so we could add personnel costs and generally speaking, we're looking at those all the time to control, to manage our budget within its outcomes, its approved levels. So we make sure we're allowing for national wage increase and generally Treasury are telling you what you're going to be allowed, what efficiency dividend applies.

So we're looking at how we'd – can we manage in it? And with the operational costs and those sides, we're looking at whether or not there's any significant changes. If - in our case, our DCIS general mainframe costs are our most significant single factor accounting for nearly getting on towards 40 or 50% of our operational expenses, so if there's going to be a change there, if the usage by PIPS and GAS is going up, then we've got some issues.

If we're planning a redevelopment of them or we've got - we're changing for accrual accounting, we're changing them for Y2K, whatever, changing them for GST, whatever, they're the significant issues we look at, the peripheral parts, because largely the rest of it is formula driven.

Mr KIELY: You'd apply this same sort - or have you applied this same sort of discipline in other agencies and other budgets that you've worked up, taking into account all these different factors that may impact?

Mr PELLISSIER: Processes varied over the year from- years from being at a stage where in Health, we would have produced 365 pages of budget information to the process we currently have where it is largely incremental. You get what you had last year plus so many per cent for the national wage increase or the EBA increase less an efficiency dividend, you know. This is not really a matter of debate.

Mr KIELY: But the estimate that you provide to Treasury is you best estimate possible? I mean, that's the discipline that you apply? You go to Treasury with the best available figure to you at the time. Is that accurate?

Mr PELLISSIER: Yes.

Mr KIELY: Why go to all that trouble? I mean, what's so significant about this process that we tie up great resources in agencies and, you know, we have everyone running around and gathering all this information? Why is this process so critical to the budgetary cycle?

Mr PELLISSIER: Well, in terms of Treasury's role in maintaining…

Mr KIELY: In terms of the agency applying this (inaudible) to make sure they have the best possible estimate there.

Mr PELLISSIER: For us the – the bit - at the margin is the bit that we do the best possible - I mean, as I said, the personnel cost budget is largely what the personnel cost budget is. But if you tell me GST is coming in on 1 July next year and I'm going to have to spend a lot of money to set up for GST, then I'm doing a lot of work in terms of how many staff are going to be affected, what's the impact on mainframe processing capacity, what consultants do I have to employ, what money do I have to spend, so I'm putting my work into the bit at the edge, the bit that's saying: 'Never mind the normal. Here's your budget plus 2% minus 1%. I've got a special project here. It's a big money project. It's a real issue for us and for government, here's how much we think it's costing.'

Mr KIELY: He's talking about the period between, why is it - when the estimates provided in May that they be accurate as possible for the rest of the year on estimated outcomes.

Mr PELLISSIER: From an agency point of view?

Mr KIELY: From an agency point of view. Is this to - is this to inform government via Treasury, that this is how much money we can expect to be expending over this period so that, is this what its all about?

Mr PELLISSIER: Yes, and from an agency point of view its not about anything for us if we have - I guess its something for us if we think we have a significant increase necessary but as long as we think we are going to manage within the budget, then it's not a major issue for us. It's just a reporting requirement.

Mr KIELY: And so Treasury would come to you and say, 'Okay, you've estimated $300m-odd that you've come in on budget – a nice hypothetical -this is without, a 100 - hang on you are 30 odd these days.'

Mr PELLISSIER: That's right, shrinking. Becoming very streamlined.

Mr KIELY: The - well say $40m which is probably a bit more in the realms that you deal with and when you put in the submission, Treasury come back to you and say, 'Look, we're going to adjust this by - your estimate by $2m to $38m'. Would you expect that cash to be lifted if they tell you that we're going to adjust your estimate by $30 - by $2m, would you expect that you would have to re-do your outcome figures?

Mr PELLISSIER: I'd certainly need to understand why, if it is necessary to change it and provided I am satisfied that a valid reason why, then yes I may be required to re-do my numbers. I don't know if it's a $2m budget cut it will concern the CEO …

Mr KIELY: It's all hypothetical. So - but have you managed a situation where you've, in any agency, I guess I put it to the panel, do you have any instance in any agency where you've put in the estimate and Treasury have come back and said, 'Look, you may have said that your outcomes are anticipated to be $x amount, we don't think they will be, we're going to pull back a sum'. Does that happen?

Ms BUTTERWORTH: It is happening in Capital Works on a regular basis, I seem to recall, in Transport and Works. But I can't think of an occasion in a general operational budget where this has happened.

Mr KIELY: So generally when you are told that your estimate is going to be adjusted, the figure would be published. If you submit to Treasury $40m; they say, 'No, we're adjusting this down by $2m', you'd expect to have $38m cash at the end of the day …

Mr PELLISSIER: Well, there are instances. If I go to Treasury and I say, 'GST, I know it's going to cost me a lot to implement the system changes, you know we run the government accounting system, I know it's going to result in more work for accounts processing, I think it is $5m'. They say, 'We don't have a great deal of confidence in that 'I think' figure. We would like to wait until some of the year is passed and we start to really quantify that figure. We want to know transactional volume, additional processing time, additional CPU usage, additional costs of modifying the system. We will take it on notice that there are additional costs with GST but we are not going to give you any increase right now'. So they will publish a figure that does not include some provision for that GST because we have been unable to agree on one.

Not unlike Trevor's talk on not being able to agree on Commonwealth funding. We haven't been able to agree with Treasury what the level of additional cost is and they will publish a figure that we don't believe is the true figure. We know there is some additional cost, everybody is going to be additional cost with GST but, okay, we admit we are not in a position to quantify. Certainly not in a position to quantify a long way before it has - it's sort of - let's see what it emerges to be. We don't know the level of non-compliant invoices that are going to come in from the private sector. We don't know of the amount of effort we are going to have to chase up non-compliant invoices with. So, we accept that we've got it on notice that we have a real financial cost here but we are unable to quantify and if you're not prepared to publish a figure that you don't have any confidence in then, I guess you don't publish the figure that isn't the figure we believe at the end of the day, isn't the total of what we are going to spend.

Mr KIELY: One more, calling on your prior experience and that's if you're advised by Treasury for whatever reason that there's going to be an adjustment in the millions, what level of communication goes on between agencies, between an agency that you've been with and Treasury? Is it just a matter of picking up the phone and calling to seeking clarification and that's it? Or is it a much more

hard fought battle when you're told that you immediately go into defence sort of tactic depending on your personality and battle hard for your agency?

Mr PELLESSIER: It just depends on – sorry, Sarah.

Ms BUTTERWORTH: Depends on the nature.

Mr PELLESSIER: We've had some just recently where we thought there may have been mistakes and rang up and we do that. We just ring up and say or we send an e-mail and say, 'We think there's a mistake, this doesn't follow. Can you check it out' and we'll get an e-mail back or a phone call back telling us, 'No, it's the right number and - '

Ms BUTTERWORTH: At Budget Officer level there would be that clarification and then if we had a concern – if Nick had a concern that we were not going to be able to live within the budget or we couldn't achieve the cuts that were necessary, then I would take it up to my senior level in Treasury. Initially verbally.

Mr KIELY: Where the question was put by Mr Dunham to a number of CEOs here today that they were quite territorial in their budgetary predatory way, but should you feel your patch under attack, then you would go in hard. But if of course there was no real attack going, then it would not matter what transfigures. So only - only if there is a change to the bottom line would you feel the need to go in there and fight for your patch.

Ms BUTTERWORTH: I'm accountable for achieving that bottom line so if I thought I couldn't, I would go in.

Mr KIELY: So if you're reassured that no, there is no change to your bottom line, your attitude to how you handle it all would be different?

Ms BUTTERWORTH: Yes. The bottom line is the key.

Mr KIELY: That's me for the day.

Mr DUNHAM: So for instance in the mini-budget where you have got a budget improvement target of minus $1.87m, you'd obviously realise there's not much scope for negotiating and you would just take it on the chin?

Ms BUTTERWORTH: We are actually at the stage currently where I'm going to discuss it with Treasury.

Mr DUNHAM: Okay. So that's quite a reasonable thing to do, this sort of banter that its brought?

Ms BUTTERWORTH: Yes.

Mr DUNHAM: The other question that I had for you - a very good presentation by the way, is you talked about how you sort of had all the givens, it's pretty much formularised, you pick out the ones you want to go for and you argue and you argue the toss really hard about those issues where you want growth. Would it be fair to say that it would be a rare department to put that much rigour into areas where they might think there is some underspending?

Mr PELLISSIER: I'm not sure I understand.

Mr DUNHAM: Well, we are talking about budget variations and often departments will argue very hard for a variation upwards. What I'm saying is, if you discover that you have a variation downwards, would you be so forthright with Treasury and would you put the same amount of effort into arguing with Treasury that this figure's veracity is so so important to us that we think we are going to underachieve in this area or underspend in this area or whatever by this amount of money? Would it be rare that that would happen?

Mr PELLISSIER: I don't know that we would fight and argue about it but

Mr DUNHAM: Would you divulge it, is what I am saying.

Mr PELLISSIER: Yes, I think in both my time with Transport and Works and in DCIS that we would always take a pride in divulging it.

Mr DUNHAM: Right, the sort of comparison I guess with previous witnesses where they thought they might underexpend in personnel they were worried for instance that Treasury were even in the room when they were talking to us about it, it's one of those things where Treasury might quite often yield to your argument on growth but be very, very dismissive of your capacity to find within. Oh sorry, the curious, I suppose about your capacity to find some of those growth costs within?

Ms BUTTERWORTH: We would always attempt to find a budget within before we approached Treasury.

Mr DUNHAM: For growth.

Ms BUTTERWORTH: Yes.

Mr PELLISSIER: I think Transport and Works, certainly all the time I was there, and DCIS has quite a high level of credibility with Treasury and I think you get that if you have savings, telling them early, not withholding savings.

Mr DUNHAM: So its patchy, from department to department.

Mr PELLISSIER: Yes.

Mr DUNHAM: Some have good levels of credibility, some don't?

Mr PELLISSIER: You'd have to ask Treasury about that. It's just those two …

Mr DUNHAM: Just sort of finally get the picture about if there's any great relationship whether it relates to under expenditure as well.

Mr PELLISSIER: If you do the right thing by them you might hope that they'll do the right thing by you.

Mr CHAIRMAN: Are there further questions by the committee? Mr McAdam.

Mr McADAM: Yes. It's in response to a previous questions asked by Gerry and I think you indicated that there would be a saving of about - sorry the cost of the outsourcing contract for the desktop component would be $180m over five years. Are you in a position to advise as to what that saving would be to government for that period at that point in time?

Ms BUTTERWORTH: We're not anticipating there will be a saving to government.

Mr McADAM: There wouldn't be a saving?

Ms BUTTERWORTH: In outsourcing, no. It was never - the outsourcing wasn't embarked upon with the purpose of saving money. It was to generate additional work in the private sector and grow the IT industry and it was always marketed on that basis.

Mr McADAM: It's done that?

Ms BUTTERWORTH: Yes.

Mr CHAIRMAN: What sort of evaluation tools are you using to find whether those outcomes have been reached? Obviously it's an ongoing program over a number of years but can you tell us about some of the measures you're using to ascertain that?

Ms BUTTERWORTH: The growth in the private sector?

Mr CHAIRMAN: Yes.

Ms BUTTERWORTH: It's difficult, it's very difficult because there isn't a baseline to work from because there was very little data out there as to how many companies there were or what sort of turnover. We had obviously an idea about how much there was in government and we did an analysis of the amount that was going to how many companies within the Northern Territory but only from government. We're not in a position to see what was going from the private sector or Commonwealth.

Mr CHAIRMAN: So really …

Ms BUTTERWORTH: So we can see how the expenditure patterns have changed and the size of the companies.

Mr CHAIRMAN: So are you in a position to look at the number of people and Territorians who are employed by these outsourcing companies?

Mr McADAM: Say, from that point in time up in say five years time?

Ms BUTTERWORTH: From the ones who were involved in the contract I can, but not for the others, no.

Mr WOOD: Just leading on from that being a new parliamentarian that sort of came in when these changes were occurring there were quite a few hiccups I think because of the changeover, will there be any assessment of the efficiency of outsourcing versus the efficiency of what it was previously, to see whether there's - I mean, I don't think just the private side of it, the gains for private industry should be looked on, on their own and whether the IT say for Parliament House is any more efficient than it was previously? Would that be an area you would assess?

Ms BUTTERWORTH: I'd love to be able to but it is a very difficult thing to assess. Before we outsourced, a lot of those services were done within agencies; it wasn't all centralised. So one of the difficult things that we had to do before we actually signed a contract was try to identify what were the service levels that were being achieved in agencies so that when we introduced the contract we could make that comparison.

Now, in some agencies that just proved to be impossible because they had people on-site who they just went to grab the on site support officer, he came and fixed something. There was never a record of what service levels were being achieved. So that side of it is extremely difficult.

Mr WOOD: Was there any record of how many people lost their jobs because of this change and how many had to gain jobs in the private sector?

Ms BUTTERWORTH: In terms of who worked for government previously and yes, there would be a kept record of that. There were only - I think it's about 10 people didn't take up jobs with the outsourcer for the desktop.

Mr CHAIRMAN: So in terms of the - I guess we started this particular interview with the Cabinet making a decision about outsourcing which, correct me if I'm wrong, was in June, must have been June 2001, is that correct?

Ms BUTTERWORTH: That's right.

Mr CHAIRMAN: How long had that submission been before Cabinet before that decision was made? Was it a submission that went up a year before or …?

Ms BUTTERWORTH: Well, if I could start at the beginning of the process it was quite a lengthy process. It went to public tender and public tenders closed in July 2000. From July 2000 through until when we received the final approval on 19 June there would have been five or six Cabinet Submissions along the way during the process. The project manager and I made presentations to Cabinet. So all the way through there was a short listing process, there was a best and final offer process, there were a number of stages when we went back to Cabinet and in March, 13 March, there was the selection of CSC as the preferred tenderer. But at that stage, we still had to go through a number of negotiations before Cabinet would sign off and say, yes, you may proceed. So it was a progressive process; it wasn't just out of the blue by any means.

Mr CHAIRMAN: Thank you. Are there further questions of the witnesses? Well, on behalf of the Committee, I'd like to thank you both for coming along today and thank you very much for your evidence.

Thanks to the members of the public and the media for coming along here today. We'll be reconvening here tomorrow.

The Committee adjourned at 12.46 pm.

110

FORMER MINISTER FOR HEALTH, FAMILY AND CHILDREN'S SERVICES

Appearing before the Committee on 6 December 2001

Mr Steve Dunham, MLA

The Committee convened at 9.04 am.

Mr CHAIRMAN: Well, it being 9 am I propose to start. I call the committee to order and to open this public hearing of the Public Accounts Committee on Thursday 6 December 2001. This committee operates under the Standing Orders of the Northern Territory Legislative Assembly.

I take this opportunity to notify people present in the public area that under Standing Orders they are not permitted to record either sound or vision of these public hearings. We do have the media here today and they are aware of their obligations under our guideline for electronic recording of proceedings here today.

So today I welcome Mr Stephen Dunham, MLA, who is appearing to brief the committee on the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome for 2000-01 and the budget for 2001-02.

The committee has ordered that evidence given before this committee shall be sworn evidence, and I would ask the Secretary to now swear in the witness.

STEPHEN DUNHAM, sworn

Mr CHAIRMAN: Now, Mr Dunham, you've been issued with a copy of the *Legislative Assembly Guidelines* dated 20 August 1992 and the *Public Accounts Committee Guidelines for Witnesses*. Are there any matter of concern in relation to those guidelines that you wish to raise at this stage?

Mr DUNHAM: One comment, Mr Chairman, and two questions. First: can I ascertain the veracity of the letter that was sent to me?

Mr CHAIRMAN: The veracity of the letter? Would you like to table that letter now?

Mr DUNHAM: It's a copy of a letter from the PAC. It's within your records, Mr Chairman. You have a copy.

Mr CHAIRMAN: I'll have to, I mean it will take me a while to find that particular bit of correspondence.

Mr DUNHAM: I'm merely asking that you're asking me if I'm clear on and I'm saying yes I am so long as the letter you've sent me is factual.

Mr CHAIRMAN: Have you got some concerns about …

Mr DUNHAM: No, I'm merely enquiring, Mr Chairman, whether my invitation to an inquiry on the accuracy of the budget data published in the 2001-02 budget papers is indeed why I'm here.

Mr CHAIRMAN: Well, I read out in the earlier introduction that that's why we're here …

Mr DUNHAM: Thank you, Mr Chairman, that satisfies me.

Mr CHAIRMAN: 'I welcome Mr Steve Dunham, MLA, who is appearing to brief the committee on the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome for 2000 -01 and the budget for 2001 02'.

Mr DUNHAM: Thank you, Mr Chairman, that clarifies that.

The second point I would ask, Mr Chairman, is there is some media commentary this morning about privileges which is a separate committee to this, and I would ask for your opinion on that, whether it's a matter just for me as a member or whether it's a matter for everybody that appears before this committee?

Mr CHAIRMAN: Mr Dunham, I'm unaware of any media comment that's been made today. I guess what we can do is request the transcripts of that media and move into deliberative session.

Mr DUNHAM: No, I don't think it needs deliberation, it's just I'm just commenting that it's strange that we've had several witnesses appear before us and on the eve of my appearance not only is it mentioned in the media, but the words 'jail', 'fine' and 'privileges' are used also. Now that applies, I would have thought, to all witnesses, Mr Chairman. And I think it's tantamount to individualising one witness and may well be a matter that the media have chosen to do, but I'm merely saying that in the case of this particular witness there appears to be media commentary that's different to that which accompanied others.

Mr CHAIRMAN: Alright, we'll note that concern, Mr Dunham, and I have to repeat to you that I'm unaware of any media comment today.

Mr DUNHAM: And my third comment: It's my intention to present my evidence in form of a submission, an oral submission. And also for the benefit of members, I shan't be talking about matters relating to Cabinet, which is a longstanding Westminster tradition and convention, and neither will I be using this forum to divulge individual conversations I had with my employees, colleagues or Cabinet members.

Mr CHAIRMAN: Well, I'd like to go into - that's your wish and it's recorded. I think that before we begin to question Mr Dunham, I'd like to move into deliberative phase and I'd invite the Clerk along. I'd like, if we've got an actual record of what Mr Dunham has, the parameters that are being set out, I think that's what we should consider in deliberative session about the parameters of our questioning. So …

Mr DUNHAM: I'm prepared to give evidence on a question by question basis …

Mr WOOD: Yes, I think that is probably a better way and then if we go into a point of disagreement at that stage, let's see what happens at that point. If we run into a picket Mr Dunham will not reply to a question that we put then I think if you'd like clarification over a deliberative stage. I think that's appropriate.

Mr CHAIRMAN: All right, I'll take the advice of the member for Nelson. You had one more thing that you wished to add Mr Dunham?

Mr DUNHAM: They were the three, Mr Chairman.

Mr CHAIRMAN: Now in terms of your submission, I take it that it's a written submission or are you going to deliver it orally.

Mr DUNHAM: It's an oral submission.

Mr CHAIRMAN: And then after that you'll be…

Mr DUNHAM: Prepared to answer questions.

Mr CHAIRMAN: Sure. Go right ahead.

Mr DUNHAM: Okay. My submission really sets the scene I guess, for not just the circumstances of the memo of Paul Bartholomew which was tabled in the parliament and has been read in the parliament now some several times, I think, it's the most quoted document that's ever hit the Northern Territory parliament, Mr Chairman, but will also talk about the broad environment that budgets find themselves in and particularly health budgets. I think it's necessary also to commence with a description of my own experience in this area. Certainly, I've been associated with budgets since self-government in the Northern Territory and at the time of self-government I was a senior clerk at the Registrar-General's office and therefore had a fair bit to do with finances and budgets even preceding self-government.

I have been the Finance Officer at the Department of Community Development which ceased to exist and has been re-incarnated with the last mini-budget. I have been a Regional Director in Katherine, Tennant Creek and Alice Springs. I've been the Director of Aboriginal Field Services and responsible for some millions of dollars in Northern Territory budget monies. Specifically to health, I was a member of the Katherine Hospital Management Board and we took it upon ourselves to be knowledgeable about budget matters particularly in relation to that hospital. I have been on the personal staff of five ministers including three health ministers and the Treasurer. I have been the Chairman of this Public Accounts Committee at a previous time and as health minister I've brought down three health budgets.

So, I think it allows me to speak with some authority on the matters I'm about to talk about. Health Budgets: I worked for ministers Manzie, Reed and Burke as Health, when they were carrying this portfolio and all budgets and matters relating to budgets are definitely a high ranking issue with…

Mr CHAIRMAN: There's just a bit of distraction there. Sorry, Mr Dunham.

Mr DUNHAM: No problem. And it should be stated that budgets are a matter of very serious concern. They are the most - probably the most important of Cabinet meetings a minister can attend. They are the capacity to provide services over the forthcoming year and they are treated with great seriousness. There has been a big change over the last several years in Health budgeting and that's been driven by problems with Medicare, also Commonwealth/state funding arrangements, a fall in private health insurance coverage and also cost drivers that are not able to be influenced by Health Department actions. There is a very eloquent submission provided by an ancestor of this committee, the Public Accounts Committee that is very worth reading about some of those influence factors.

There's also been a concerted move to prevent rather than to treat with the variety of interventions and there is also a higher community expectations including the community expectation that health is free. That is that people who access it are accessing a free service and see it as not having great cost ramifications. It has been a principle not just here in the Territory but elsewhere that "if you can't measure it you can't manage it" and that certainly applies to health and over the last several years there's been the development of a variety of management devices or measurement devices, sorry.

In the other states it was used to re-configure their systems and it was sometimes used in a very brutal economic fashion to cut costs, to ration services, to re-engineer their services, and to move to purchaser provider models. That is where the government would decide on the cost arbitrarily and informed by benchmark figures and it would actually fund services on the basis of that cost for a particular intervention. There's been shifts to the community sector and that's been noticeable here and it is welcomed and there's also been a game being played of shifts to the Commonwealth which is an old state/Commonwealth game from way back. There have been many resources re-engineered in the larger states where they've got surplus resources. In some places they've tried to maximise the use of those resources to shift to the private sector and to use the best, most efficient resources within those sectors to maximum efficiency.

In the bad old days, there was not much ability to translate between the medical sector "what price a human life", I'm the doctor, I'll say when this patient is discharged, you know it's my business sort of stuff; and the economic and managerial sectors. So, we had a vast chasm between those two groups. Doctors told managers that their trade was too esoteric to be able to measure and it couldn't be done and anybody who attempted to do so was a bean counter. These are very expensive beans, Mr Chairman. We talked about an additional $34m this financial year.

So with the Northern Territory Health budget approaching half a billion dollars, this has become a more and more urgent effort to measure and manage resources. Treasury, the bean counters, persisted with developing measures, tools and benchmarks, but in the first place they continued to respond in the traditional Treasury way and that was arbitrary cuts, arbitrary targets and indicative funding levels. They usually under-funded the budget and then put the onus on Health to argue the need and basis for additional funding. It was a traditional method where health services had to argue vigorously at the margin and we heard that in evidence yesterday from a couple of witnesses to this committee that that is indeed where they were very skilled, that is to argue the ups.

There are two comments on this process. The first point is that it forced operational areas to use economic Treasury speak to get their point across. So, it forced acute sectors, scientific and professional sectors to convince Treasury in their own lexicon. The second point is that the system assumed that costs would always rise and was not accurate in determining under runs. So it was not a system that was geared to finding hollow logs, if you like.

About three things happened at this time which revolutionised health budgets. One, the states took on the Commonwealth big time regarding dollars in the Australian Health Care Agreement negotiations commonly referred to as Medicare. For the states to argue with one voice, the language and calibration needed to be the same, so the states colluded. They colluded in exchange of data on their benchmarks and they were able to provide a very strong voice to the Commonwealth in terms of the additional monies that were required. The second thing, is most states, but I will point out that the NT is the leader, moved to preventative public health and community based paradigm. So they moved to implement what had hitherto been mostly jargon and that was to try to prevent rather than treat.

It was fairly easy here in the Territory because we had a Department of Health and Community Services and we were able to have a great input on the community sector side and the acute sector side. I'm aware that interstate where they are often carried by two different ministers, there is a substantial amount of duck shoving between those two sectors so that costs can be shifted by saying, 'Right, this is an early discharge and this person should be cared for in the community'; inappropriate admissions; people who shouldn't be in the acute sector but are not being cared for in the community sector, etc.

So work commenced in earnest on measuring the nexus between preventative interventions and the impact on the load of treatment. It is a very difficult science. But what we attempted to do and are still attempting to do, I can recall as Health minister, many people coming and talking about how I might save funds. So for instance, if there were undernourished kids that were brought into Royal Darwin Hospital and there were 10 of them, it cost the budget $100 000, the argument would often be put persuasively, that an intervention to put a nutritionist or a nutrition program for $50 000 out there would save me $50 000. While that theory has a place in argument, unfortunately it has no great reality in economics and certainly people like Treasury like to see that saving in dollar numbers not just in rhetorical argument.

The third thing that happened was that the Commonwealth made a quantum increase in effort. Most states, and the NT is an exception again, used that to reduce their effort, so they used it to change relativities. What happened was that the states found that the Commonwealth was the minor funder and they were the major funder of their acute sector, and when the Commonwealth put additional monies in, they withdrew their effort to change the relativities and left the net values at about the same.

Here in the Territory, a major investment was made at about that time into preventative, public and primary health measures and into information technology. They were substantial investments and they appear in the budget papers over the several years I'm talking about. Several years ago, the government and Treasury, it's fair to say, were dissatisfied with Territory Health Services management strategy, budget management strategy, and they looked at ways where they could have more confidence in the numbers that were being presented and more confidence in forcing the community sector savings.

At that time, it was a conscious decision to appoint Peter Plummer and Michael Martin, a Treasury officer, to Territory Health Services. Indeed, Michael Martin came straight from Treasury and was very, very knowledgeable about how Treasury did business and how they went about with their expectations for large operational areas of expenditure. Peter Plummer, as we've heard in evidence, was a generic manager who had the confidence of the government to the extent that he had been in several very dissimilar portfolio areas and was seen as a good generic leader, manager and was therefore put in on that basis. This phase saw restored Treasury confidence, it saw much better data analysis, much better budget interrogation, much more projected program effectiveness and value for money, and mutual respect between the two departments of Treasury and Territory Health Services.

We moved to measure, to implement measurable health gains and we did this by virtue of a unit which is within the department. The responsibility rests in this unit for additions to the budget and expansions to the budget to be able to be argued in a sense that has a health outcome, ie if you give that money, what benefit does it add to the health of Territorians. This is, I think, seen as a good move, it certainly would be by this committee and it certainly is by the Auditor-General who continues to put performance indicators as an issue of concern in his audits. So, we have an era of high levels of confidence.

Territory Health Services recently has been under the stewardship of four CEO's in less that twelve months, and if there is anything I will admit to as a minister that I should have done better and it was probably that. I believe that it had an impact on the circumstances that Territory Health Services finds itself now in, and I'm quite happy to say on the permanent record that I had great confidence in Peter Plummer and that it was my hope that he could continue to implement some of those things that were there and to continue to have the good relationship and rapport we had with Treasury.

There was a palpable falling of Treasury confidence at this time. I suspect that is because Paul Bartholomew was an untested product, and while he is able to demonstrate great generic knowledge of budgets, he has only been involved in one Health budget, and this is an area where Treasury has immense concerns; in this year alone, in the mini-budget, we've seen an increase of $16m, so it is an area that requires an expertise above and beyond that which you will get the public sector.

There was significant criticism of our budget presentation and it was - I shan't be going to what we discuss in Cabinet or what I discussed in budget negotiations with the Treasurer, the Under-Treasurer, budget officers or others - but I can say that there was definitely criticism of our budget and how we were presenting it. There was a feeling we were not being fair dinkum on cost containment, that is telling Treasury the ups and doing it very well and very eloquently and in a way that was very persuasive about our need for additional resources, but not disclosing the downs.

Again, we heard evidence yesterday that this is fairly common across departments, and you can understand it given their self-confessed parochial nature and their raw ambition to harness as much resources as they could, so obviously they are going to be reluctant to disclose their downs. In fact, you would have noted that in the Education evidence that they were disquiet about the fact of talking about some potential savings with Treasury officers even in the room. This is not uncommon, but it does go to a point that I will be making later.

The budget last year was heading for an anticipated year end expenditure, I'm sorry, yes, last year. The budget last year, 2000-01 was heading for an anticipated end of year expenditure of $462m, a $30m overrun. That has been presented in evidence and it also features in *Hansard*. So, we had a situation where at the middle of the year on a trend extrapolation we were looking at a $30m overrun. Treasury drew an arbitrary line in the sand which was met with some budget containment measures and those measures were fairly successful, I've got to tell you. However, it should be noted that Treasury were not impressed with the self-congratulations which accompanied the meeting of this target and was of the view that budget containment measures did not impact on core services, were not all that hard to achieve and did not identify hollow logs. So there was still significant suspicion within Treasury, and I would argue rightly so in some circumstances, that the department could have done more.

Enter the March budget, so I'm speaking sequentially here now. I won't discuss detail of Cabinet budget because it is a longstanding Westminster tradition that I do not wish to breach, but I can tell you about some of the themes. There had been a major investment in preventable strategies that needed to yield results. Living with Alcohol is over ten years old, Strong Women, Strong Babies, Strong Culture and immunisation programs and educative programs, the tobacco action strategy, the use of ace inhibitors for people who had or were progressing to end stage renal failure, some of these strategies have come at a fairly high cost and that investment had been made and there was a reasonable expectation from Treasury that the trend lines in reducing the burden of ill health should be able to be seen to make economic sense.

Interestingly, there were also some reductions in the second quarter of hospital activity data, quite a rare event I can tell you. So, and I'm relying on memory here, but the documents I'm sure will be available if the Public Accounts Committee asks for them, but it is my recollection that slowing of hospital activity was something like 2¼% negative, so we were in a stage where although we had always assumed growth in some of these sectors, we were now starting to see what should have been a source of great joy for us. We should have been able to see that all those preventative programs were starting to yield a result in terms of lessening the acute burden.

The funding submission estimated, and again I'm relying on memory, that we would have grown something like 5% and my memory is that it is 4.8%, but I would stand to be corrected if those figures are wrong, but they were certainly growths and they were certainly in the order of about 4.8% to 5%. So the funding submission had estimated that we would grow at 5% and we were actually decreasing our hospital activities by minus 2.25% and a staggering minus 5% at Royal Darwin. Royal Darwin was down by minus 5%, a very, a very strange event I've got to say.

Now, if you look at the source, this had been long a source of aggravation between the two departments and had consumed a massive amount of Michael Martin's time when he was in the department, to try and estimate what our need was for hospitals and to try and estimate a formula that was acceptable to Treasury and could be signed off on the basis of a base that everybody forgot and then we could argue the parameters of the formula as it drove it up and down. But it featured in our budget as something like plus 7% so the additional monies that we'd written into our budget was something like plus 7% and we'd come across a circumstance where there'd been a drop, in March.

Obviously, I put the case, and I put it strongly that the figure may not be sustainable. I put it that it only represented one quarter. I put the case that it needed further analysis and maybe it was aberrant, maybe there were circumstances with how we did our estimated, weighted estimated inlier system and other factors that are used that had an inbuilt error. So that was my argument.

Treasury countered that the money was available if we needed it, but they were aware we were buying beds at Royal Darwin when we had capacity at - sorry, buying beds at Darwin Private when we had capacity at Royal Darwin, they did not believe this to be an appropriate management device and they believed we were not coming clean on our underruns or actively seeking to harvest the savings which were available to us to deploy into other areas. So there was, again, the innate suspicion had grown even bigger than that.

Now, if you look at these numbers, at the end of the year there's a substantial fudge factor in this one case alone - I'm only talking hospital data here, I'm not talking about the community sector or anywhere else - and that is a plus or minus $7m, that is a variation of $14m. It does seem that the pursuit we're having for the $8m is an extraordinarily large amount of money but that data, when extrapolated, would show you that we had the potential for a variation of $14m. And, remember, earlier we believed that we were heading for 462 out of a $432m budget.

So, initially, we had a plus 30, there's now the potential for a variation of $14m that could have yielded, possibly, $7m. In any event, Treasury needed convincing that our hospital funding for 2002, this year, was right. They needed significant convincing that the factors impacting on the enormous expenditure we put into hospitals has their confidence that – in the veracity of it. And they had good reason to think that. The initiatives we put up as new initiatives included the hospital in the home, the transitional care project, home dialysis, the self-care unit, palliative care measures, satellite dialysis at the Tiwi Islands and Katherine, the Preventable Chronic Diseases Strategy, the Tiwi and Katherine independent health services. We had additional specialists which should have impacted on our cross-border charges so that we had specialists in Royal Darwin that hitherto we hadn't had, and we had hoped that in having our local specialists here, we wouldn't have to put people on planes.

So Treasury were looking to interrogate and to drill down into that data and show that that investment had been a worthy investment and that it had halted what was a significant and unsustainable growth area.

We put money into cardiac catherisation, into organ donation, ACE inhibitors and all of these things should have had an impact on hospital activity. It could be - it could be argued that it slowed the rate

rather than turn it into a negative In any event, Treasury were arguing that a science needed to be developed to show that these community interventions were going to sustain a tangible lessening of the need for acute services - not an unreasonable expectation, and one that is virtually tattooed on the eyelids of every health worker because it is something that we would see as good news.

I turn now to the particular incident which is the memo to Paul Bartholomew out of town and his call to me. And it's true, in the memo he says I was alarmed. I was disappointed and I was shocked, I've got to tell you, because $8m to achieve over 12 months is okay. In fact, we have been able to show with a variety of budget containment devices we had reduced something like $30m over six months. So, $8m at the front of the year is not a big problem. $8m in six weeks is a major problem.

So I was concerned that we were going to embark on a very frugal regime. In fact, a memo was put out to that extent and it said that all delegations were withdrawn. I believe that it was withdrawn - that memo was withdrawn the next day and I believe that had we initiated that, we would have easy made the $8m and more, but it was a very clumsy device to yield those dollars and it was an administrative device that affected all when Treasury were asking for a much more scientific intervention. They were asking the Territory Health Services people that were knowledgeable about this, that knew when contracts were ending, that knew the capacity of local specialists versus interstate specialists. Things that Treasury couldn't be expected to know, they expected the department to get to work on those issues.

So, obviously, I took some consolation that the cash was available if needed. So it was put in as a safety net and, I believe, that Treasury's message was very, very clear. I believe that the money was - if the money was required to meet additional expenditure, it would be available to the maximum of $8m and I knew that Cabinet had approved expenditure to that level.

Treasury's message, though, was very clear and it should be stated here, they were saying to us that our target should have been lower, that we should not have taken satisfaction on the fact that an arbitrary target had been set and that we hit it on the bull's eye. That was not the message Treasury was giving to Territory Health Services and, obviously, this has got to come in evidence from Treasury, but it is my belief, that's certainly how I read the message, and perhaps it was sent in a different way, but that's how I read it.

So Treasury are concerned about issues of sustainability. They sent the message to make it clear to Territory Health and others that our base line for this year would be much lower, and having already incorporated the additional costs, and that Health had blown the budget. Now, we heard in evidence that this was a significant motivating factor for budget officers and others in Territory Health Services that they believed their pride was on the line if it was construed in any way, shape or form they had blown their budget. I believe that was one of the messages going through, is that the target arbitrarily set had been met but it could have been arbitrarily set at $8m less.

We also heard in evidence yesterday that it is a test of confidence informally applied by Treasury to upseat departments to voluntarily admit to their underruns and to offer that money back to Treasury.

So we had a budget that started out at 332, could have gone - sorry 432m, could have gone to 462m, was arbitrarily set in the 440s and again arbitrarily set at 'perhaps you could achieve an even better result'.

I think that this indicated that Treasury had reverted to the old system, that they had had a global understated budget with the number, and Territory Health Services had to provide the data later.

That is, going back to the old system, the onus of proof would have been on Territory Health Services to describe the cost escalations to Treasury's satisfaction. More importantly, they would have to use their own internal device of the Health Gains Unit which wasn't previously available. So they would have had to go to Treasury and say: 'We need this money not only because we need beds or more patients or people are sicker or we're sending more people south, but also we can substantially inform Treasury on the gains that have come to the citizens of the Territory.'

The Auditor-General, too, I think, would have applauded this with his continuing call for performance indicators.

Worst of all and, again, this is me surmising, and it would have to be confirmed by others, I suspected that Treasury was exhibiting a lack of confidence in the new CEO, Paul Bartholomew and Territory Health Services budget officers. I can only surmise that. But, certainly, from where I sat there was a vast difference from the easy rapport we had had a mere two years earlier to the seeming suspicion and concern about us not coming clean that was evident later. It should be remembered that it's not only a Treasury prerogative to ascertain what the end of the year's figures should be, but also to report on actual. So it's up to Treasury to say: 'We think this is pretty much where your target should be.'

We've already heard in evidence that Territory Health Services was only motivated by one factor, and that is meeting an arbitrary, Treasury-imposed Cabinet endorsed figure. The figure was met, arguably, with a minimum of fuss and it's a salient question to ask: Is there capacity to do more with your substantial resources? Therefore, Treasury had washed that money out of the budget - sorry, the budget previous to that, and the money had to be re-argued, re-endorsed by Cabinet at a later time which is, I would suggest, a common budget practice.

Process. I think it is import also in this Public Accounts Committee hearing to put on the record some of the issues of process. I must admit, strongly, that I'm very disappointed with the process.

First, we have a finding of guilt as part of a censure motion in the parliament, and then we have a referral to the Public Accounts Committee to find the evidence. I think that is a bit wrong way focussed.

The language used in the parliamentary debates indicates that the members of government have judged this issue. In fact, the language used in parliamentary debates over the last week, I would have believed that in previous parliaments would have been judged as unparliamentary and they have seen to be able to be used on the basis that some of the things that we're investigating as matters of allegation are indeed matters of fact.

That is disturbing enough without having the Chairman of the Public Accounts Committee leading the charge. This member cannot claim ignorance. He has been cautioned informally by a fellow member. He has been admonished by the Leader of the Opposition and the Speaker. He is cognizant of the process after making a suggestion I should remove myself from this hearing; and he has been briefed by officers of the parliament. I would point out also that during last week's evidence he had two Labor ex-PAC members in the audience, ex-member Ede and ex-member Bailey and he could have gone to them if he was dissatisfied with the advice he was getting from the officers of the parliament who should advise him.

The objective here is a quest for the truth and both sides of the story. But not only have we seen an aborted attempt by the Chairman to remove me, and I'm confident I can demonstrate my impartiality, but I would also pose that question to my PAC confreres. I also do not like the new

innovation of using public servants as a human shield while the government pings off shots at us. We know, and it is coming out in evidence, that Chief Executive Officer Paul Bartholomew's memo was not drafted for the purpose for which it was used, that is, political purposes.

What choice did he have with the Chief Minister holding a gun to his head, other than to divulge what would have been, and he said it in evidence, a confidential discussion between himself and his minister. I believe the Deputy Under-Treasurer's media comments last week on a contentious piece of legislation prior to it being debated is something I have not seen the like of before or after, and I would suspect that it was done under duress. It is not common Treasury practice, notoriously backroom people, to be commenting on a piece of legislation that had yet to be debated in parliament and which in any event, was arguably contentious. The Under-Treasurer is being quoted as saying the 2001-02 budget was unsustainable and then being required to sign off on one which is demonstrating less sustainable, particularly in terms of the Territory Health Services expenditure patterns. We are seeing public servants being asked to breach the conventions of the Westminster system and rat on their old bosses. We also have a bizarre notion where the figures in this budget - now these are the budget papers for the years 2001-02 - these are the ones presented by the previous CLP government, and these are the debates that ensued. We now have these few papers, the budget papers only total four, the background documents include Professor Percy Allan's report, the Access Economics report and there are the debates, so we can see there is a stark comparison between the two methodologies, and what the Treasurer would have us believe is that these figures are at arms' length from politicians; these figures belong to the Treasurer. Well that is a patent nonsense and can be demonstrated to be untrue, but what it does is it puts the Treasurer in the gun not the politicians who draft that document.

The other thing we're seeing where politicians are now using public servants, as I've said, as human shields.

A committee member: The Treasurer or the Treasury?

Mr DUNHAM: The Treasury - is in the issue of staff cuts. We know the government is implementing a campaign of so-called efficiency which will include staff reductions. We have yet to see what those numbers are. Mr Hathaway from the union has suggested it could be anything like 1400 public servants and we are yet to hear any figure from government that would demonstrate that they have an actuarial figure in their head. What has been said is that this is a matter for CEOs. Again, they're being pushed out into the firing line so the politicians, hopefully, can escape unscathed and Chief Executive Officers have been blamed.

We have to define the sin. The sin supposedly here is that Treasury had a prerogative and used it and cash was within Cabinet approval levels. It is being mooted by some that there is a further sin that in my presentation to budget, I used an end of the year financial figure which appears in these documents and it could be alleged by some that I knew that that figure was very difficult to achieve; that may well be the case. I would argue that if that if that is the case that is put, it can be rebutted; and I would argue also that a similar circumstance exists in these papers because we know in interrogation of these few documents compared to the previous many, we have found four $50m black holes. Four areas of estimating valued at $50m in these papers.

We know, for instance, that the NT Fleet in these paper is valued at $59m and it was a policy decision of the government not to sell it, it belongs to them in their papers. We know for instance that the calamity with the HIH Insurance has not been costed into these documents and we know that the minister for industries, Mr Henderson, has said that it will cost $50m and it will be a broad

based tax; it's not in here. We know that Percy Allan talked about saving $55m from consultants and a mere $5m has been put in here, or $5.5m, over the next four years, that's another $50m hole.

We know that the Power and Water Authority has been told to hold domestic tariffs at the same level, and yet there is no community service obligation that is flowing to Power and Water Authority. So there's four, four facts, where we can show that these budget papers are in error by $50m each. Now on top of that, if you interrogate the matters that come into my shadow responsibility areas which is health, there are a number of figures in there that just do not stand scrutiny. It is not, I would submit, possible to build significant buildings like the radiation oncology building, a hospice and a birthing centre, and not having recurrent funding; it just doesn't happen. One is capital once off and one's got to happen forever.

So those figures are missing in this document, so if we want to interrogate the budget document, and remember they are all of these, as in the letter that was sent to me, I think this committee has got a lot of work to do. I would suggest, therefore, that Health Minister Aagaard be brought to this committee and be asked salient questions about the budget in accordance with our terms of reference for an inquiry into the accuracy of these 2001-02 budget papers, because I think she's going to have great difficulties substantiating some of those factors.

The very first question I would put to her is, the allegation that these are papers drawn up from Treasury, the allegation that departments would use their best number, which is certainly what has been presented as evidence about the end of last financial year and we know that when Chief Executive Officer Bartholomew went to speak to the new minister, he informed her that he may need an additional $20m. I can fully see that, and I can fully see that that was probably the number I was going to have to argue.

The question we have for the Health Minister when she sits here is why did she give them $34m, because if these are the best estimates of the department that, the figures that were provided, we've had in evidence an additional $20m worth of subventions were required, why then is there $34m? That is a $14m discrepancy and it makes the $8m we're looking at pale into insignificance. The query then is, if those other matters that are included in there are matters that come from politics, it puts a lie to this entire myth that these are budget papers prepared at arms length from government. So I would seek this committee to venture down some of those pathways and I would seek to have this committee look to the entire budget documents that are provided to us this year.

Unfortunately, these budget documents only survived into the first couple of months of the current government's term, but these ones will see us through to the end of the year. So in terms of the more salient documents, I would suggest that these would inform the committee better than any other. I would ask therefore, that the committee venture, fearsomely, fearlessly into that area. Thank you.

Mr CHAIRMAN: Thank you Mr Dunham. You've raised quite a number of issues there. There was one issue that I'd like to just take up with you now and that's in terms of - and I'm not sure if you're able to get the *Hansard* read out at this stage, but in terms of the letter that I sent you requesting that you consider your position on this Committee. Have you got any objection to that being tabled publicly?

Mr DUNHAM: None at all.

Mr CHAIRMAN: And being made available to the media?

Mr DUNHAM: None at all.

Mr CHAIRMAN: Good. We'll do that so, without getting into a very complicated - not very complicated rebuttal…

Mr DUNHAM: I have it here if you don't have them.

Mr CHAIRMAN: Oh, I've got a copy here along with everything else. So…

Mr DUNHAM: I wonder**,** Mr Chairman, could you table my response as well?

Mr CHAIRMAN: Of course.

Mr DUNHAM: Thank you.

Mr CHAIRMAN: And in fact all documents - I should let the public and media know that all documents tabled before this Committee will be available to the public and at this stage we are working through the *Hansard* proceedings of these proceedings and once they've been ticked off they will be available to the public and the press.

Dr LIM: With due respect, Mr Chairman, you're talking about all papers tabled to the PAC or you're talking about…

Mr CHAIRMAN: In public submissions.

Dr LIM: Yes, okay, I'll accept the distinction made because we had quite a few deliberative meetings.

TABLED: Chairman's Letter dated 31/10/01 to Mr Dunham re his position on the Public Accounts Committee

TABLED: Mr Dunham's Response to Chairman dated 16/11/01

Mr CHAIRMAN: Yes, thanks, Mr Dr Lim, that's true. So it's all documents that have been tabled here in public session. So I guess there's quite a number of issues that you've raised there and I'm sure the many members will come back to those and actually you've - some of the line of questioning that I had in terms of your own history and experience with budgets, you've already outlined, Mr Dunham, so I won't go - ask you again to give us your own history and you've given that quite extensively. But can you tell us your understanding of the budget cycle? That is, the importance and function of the May budget estimates and also the Treasurer's Financial Reports.

Mr DUNHAM: Most – well, you can look at it from three, four different ways, I guess. In terms of the budget cycle there is a period of respite in the new financial year because you have all of your monies appropriated. Things that are urgent at the end of the financial year and take some time to interrogate could well be transferred into this year because it is very difficult - given the urgency of lapsing appropriations and the need to get money paid to people who are due it, it's very difficult as you approach the end of the financial year to do some of those things. And I guess that's going to some of the issues we are talking about here. That's why it was deferred into the next year.

In the new year, even though the monies are provided, work still goes on to argue some of those factors that Treasury discounted and it goes on for the next two years. In fact, the budget flows out for about five years but work commences in earnest in managing the budget that you've inherited for that year, arguing with Treasury about some issues relating to problems that that budget may have with overruns and underruns and to start to firm up your figures for early in the next year - next calendar year for March Budget Cabinet.

So in that period, you're actually looking at two lots of figures in your head. You're looking at the figures you've inherited and that you are - you are charged with spending and you are looking at presenting a case to Treasury for the next year. Now, these two exercises are linked because in your actual expenditure you're able to mount a very good argument to Treasury in real time, contemporary time, about anticipated expenditures for the following year.

The March Budget Cabinet is the main one. Sometimes these overlap where we have not only a Budget Cabinet for the next year, but we may be talking about some budget requirement issues for the current year. Sometimes issues will come…

Mr CHAIRMAN: That's in March?

Mr DUNHAM: Yes. Sometimes Cabinet will consider issues outside of the budget in the normal Cabinet process and there could be an enormous number of reasons for that but generally it's – it could be a calamity that's occurred of the type of the East Timor business or the - whatever. Or it could be an offer from the Commonwealth for some additional funds. It could be signing up to a national program that requires us to make a contribution. It could be any number of issues. In those circumstances, it is sometimes a Treasury style to not give the entire amount, as Education evidenced yesterday when they said they had Cabinet approval up to 11 - I can't remember the exact figures but I can find them in the transcripts - and they were given a number that was less than that and told come back on an as-needs basis.

So some of those things require refinement and they go to Cabinet endorsement as to the actual level, but not necessarily to the cash because the cash required may vary. There are some very erratic features in the budget that are very, very difficult to ascertain. We saw that with land sales. Legal expenses, too, are not something that trend carefully because it depends on the quantum, the timing and a number of other issues. So, it is constantly monitored during this process. Towards year end, we make decisions about whether we need to move money perhaps within agencies . That is obviously a very [inaudible] with most ministers wanting to retain as much as they can within their own portfolio areas, and it is a very unenviable task that Treasury have because not only are they faced with issues of sustainability and implementing the broad government policies - the government of the day's policies, but they are also faced with cash flow. So that while a department may say we need all this money to buy computers, they may not need it that year.

So, they are not just our policy advisors in a broad economic sense; they are not just the people that interrogate the economics that underlie the things have come forward to Cabinet, but they are our bookkeepers. And in keeping the books they look to the needs and the call on the budget in terms of cash and other means as it comes along. So, I wouldn't rate any of those things as necessarily higher than the other except for the major Cabinet meeting which takes place to inform you of your budget next year.

Mr CHAIRMAN: And that's in May?

Mr DUNHAM: March.

Mr CHAIRMAN: March, okay.

Mr DUNHAM: So there is - there are Cabinet meetings weekly and there is nothing to stop any minister at any time alerting his colleagues to matters relating to budgets. Again, I wouldn't divulge what happens in the Cabinet room, but I can say that I had a Chief Minister, a Deputy Chief Minister and a Treasurer and a colleague in Daryl Manzie, all of whom were health ministers. So, this is a double edged sword. Not only do they - are they understanding of the issues impacting on the health budget, but they were also around when we made major commitments with some of these preventative programs to start to yield. So it's a very healthy tension that's in there with people who are able to discuss budgets in a way that is informed and knowledgeable.

Mr CHAIRMAN: Just in - I mean, I did ask - there were two elements to that question which originally was what's your understanding of the budget cycle, I specifically asked about the May budget estimates and the Treasurer's Financial Report.

Mr DUNHAM: The Treasurer's Financial Report is, I would see, more the bookkeeping side of Treasury to advise on how the budget is travelling. It is a report that unfortunately, for a whole lot of reasons not a lot of note is taken of within departments. They tend to go to their own ledgers. For a lot of reasons, the Treasurer's quarterly reports are late. They are not contemporary as they should be. They are tabled in parliament and most departments would use a monitoring device which is must more contemporaneous than that. In…

Mr CHAIRMAN: If Committee members will just bear with me, I've probably got a number of - just a couple of other general type questions, and Mr Dunham has sort of touched on them in his written or oral submissions. So you'll be also submitting that written - as a written submission or just reading to the *Hansard*?

Mr DUNHAM: No.

Mr CHAIRMAN: Okay. You've have answered this question to some extent. I mean, how hands-on were you with the THS budget right from the outset? Just say with the 2000-2001 financial year your original allocation was 432 with approximately $4m of carry over. From then on in, I guess you were aware of that - that would be a number that I guess would - those numbers would be seared in your brain so you'd be very …

Mr DUNHAM: Yes and no, I was confident that the trends that had existed in previous years, and remember that the budget that I inherited had five years of a history of $26m increases, so that even though I inherited the budget of $432m with a $3.3m carry-over, I was confident that during the year I would be able to revisit those numbers and that I would be able to argue, as I said, the longstanding one about hospital activity would have been one that we would have definitely had, hopefully, a sign-off from Treasury and ourselves and that would have been one of those issues that could have been put to bed in the subsequent year.

Mr CHAIRMAN: What I mean is a bit like going out bush somewhere where there's probably no credit cards or anything like that, no banks, you know you've got, you know, $400 in your pocket and that's what you start your journey with for the year. Would it be fair enough to say that those figures, you know, you would be aware at the beginning of the year, the journey of the financial year, that that was your starting point, $432 …

Mr DUNHAM: Yes, but I suppose using your analogy I'd know that on the way I'm going to stop at five places where I've got relations and if it's necessary to top that up, I'm sure I could mount a good argument. With your analogy I would say that yeah, that was my starting point but I would be very surprised if it was my ending point.

Mr CHAIRMAN: Yes, I understand that, but I'm just trying to establish that, you know, you were very aware that that was your starting point, $432m with approximately $4m of carry-over, 3 point …

Okay, so with that, you know, can you tell us now you've got your starting point of the year in terms of your budget, you know what your allocation is and your carry-over. Alright, so you're getting, or the department has needs during the year and you approach Cabinet. Is that correct, at various points in the year for increases in the allocation?

Mr DUNHAM: Yes, and we're sometimes successful and sometimes not as successful as we would want it to be.

Mr CHAIRMAN: So, for instance, you might ask for $11m and Cabinet might say no, no, we recognise a need, it's not $11m, it might be $6m at that point for that particular ask that you've got on them?

Mr DUNHAM: Yes.

Mr CHAIRMAN: And then you might move along during the year and there might be an EBA or there might be some other unforeseen event and suddenly you need some more money.

Mr DUNHAM: Or sometimes even if they are foreseen they're not funded until after the event, as we saw yesterday with the evidence provided by the information technology people, that even though it was reasonably foreseen the government would enter that contract, the department was careful not assume that. And sometimes that can happen, for instance with EBAs, so that they're not cashed until after the event because sign-off …

Mr CHAIRMAN: But all the way along, I mean, you say you're in Cabinet, you had to argue very strongly, you had a number of colleagues who were health ministers and who knew the portfolio and you had to argue very strongly and sometimes you were able to, you know, you won the argument to some extent and you got a little bit more parcel of money and then, obviously, you'd be, as a health minister, you'd be wrapping that up in your brain in terms of what the moving of the allocation was.

Mr DUNHAM: Well, it depends what you mean by win. As a member of government one of the wins would be to ensure that we were competent financial managers and we ensured sustainability. So a big win for me that had caused problems to the global budget may not have been seen by other members as a great win. So it's really important when you say, you know, you've got this $11m that we also had at the back of our minds the overall budget position and the sustainability of the budget for the Northern Territory.

Mr CHAIRMAN: I'll refer here specifically to the CEO just to give - I know I'm going into a little bit of detail here but I think it's important - the memo to you by the Chief Executive Officer of Territory Health, Mr Bartholomew, that was written, I think, on 08/06/01. You're in receipt of that particular memo that was distributed to the committee yesterday, the PAC? I beg your pardon?

Mr DUNHAM: I don't think I've got that one.

Mr CHAIRMAN: That's the one there with the table on it.

Mr DUNHAM: Sorry. [inaudible] Yes. I've got that.

Mr CHAIRMAN: I take your point. It's from Joanne Schilling. Basically, in that memo the Finance Officer talks about the $432m published in the 2000-01 budget paper. Talks about $3.3m carried over.

Mr DUNHAM: Yes.

Mr CHAIRMAN: Then talks about a further $4.8m approved September 2000 budget refinement, so on and so forth.

Mr DUNHAM: Yes.

Mr CHAIRMAN: I'm not asking about the specifics or the content of each one of those additions to your allocation. What I'm asking, Mr Dunham, is that as the health minister you would be aware as those processes, well I've got another $4.8m here that makes it X and so on. You would be aware, you would be acutely aware of the changes in the allocation through the Cabinet process?

Mr DUNHAM: I would be aware of the state of the budget.

Mr CHAIRMAN: Yes, okay. And that's it. Getting back to the question …

Mr DUNHAM: I will make another point, that is that it largely is exception reporting. I mean it's very unusual for a minister to have day-to-day information on the budget or even … So, generally it's an exception basis where you're informed of significant issues impacting on the budget and calamities and other circumstances. So it's not a monitoring vigilance, it's more a vigilance about problems within the budget.

Mr CHAIRMAN: But you would be aware of a major amount like $4.8m that was allocated, given to the allocation during the year? And in terms of your hands-on, were you in direct contact with Mr Bartholomew or your CEO in terms of expenditure and how the department was tracking in terms of expenditure, what the needs were? Or did it also include the finance …

Mr DUNHAM: Well, needs is one thing, I mean, you can say that what the needs were was $462m, but that is arguable and, in fact, it was argued that that wasn't the need, that that was, in fact, a blow-out. So I suppose I've got to tell you that the issue occupying my mind was containment, because with a mid-year figure heading towards a $30m over-run it was going to be very difficult to sustain an argument to Treasury. Particularly when we heard in March that there was some areas that were not as in a growth [inaudible].

Mr CHAIRMAN: So, in essence, you'd describe yourself as very hands-on with the budget, the THS budget?

Mr DUNHAM: No, I wouldn't. The people who are hands-on with the budget, and there are dozens of them, get printouts and use this thing everyday, that to me is very hands-on. I would see that in the Westminster tradition the CEO had the capacity to manage his human resources, his financial property, equipment, intellectual and other resources; that he had a duty to report to me on matters where he believed there were difficulties there that had to be escalated into the government arena, but the reason he's called the accountable officer is because he's the accountable officer.

Mr CHAIRMAN: If I could rephrase that then: That you would be, you would class yourself throughout a financial year as being very well informed, I guess, in a macro sense, not the micro, how many pencils have been …

Mr DUNHAM: I guess, I'm not being semantic or anything, but I would not use, I would not have described myself as hands-on. And if you say that I was very well informed about the budget, I wouldn't say that either, because compared to someone like Joanne Schilling who eats, lives and breathes the stuff, my devices for informing me on the budget were much less frequent, certainly not contemporaneous and certainly are related to issues of sort of tell me if there's a problem or an aberration.

Mr CHAIRMAN: But you had to go to Cabinet to sort of argue for those increases in allocation. So, as you say, you had, you know, there were other people who'd had that portfolio within Cabinet, so you'd have to have more than a fair working knowledge to argue your case?

Mr DUNHAM: That's right. Unfortunately, the system as described yesterday, the argument is generally about new and expanded, the new things you want to do and why you need to grow. There is a counter argument that is not as productive in budget papers of where can you shrink it, where can you become more efficient, where do you have redundant resources that you can deploy. So, the budget process at the moment is not very interrogative of those things and often that is left to Treasury. As I said in my oral statement, often Treasury use crude instruments and devices to extract that money and some of those instruments are a deliberate under-cashing of an agency.

Mr CHAIRMAN: Okay. I'll just finish on this line of questioning in they're quite, I think they're are quite simple questions, I think they don't, I think they're fairly straightforward.

The first one is: Do you believe that parliament is entitled to trust budget estimates? As set out in the budget documents?

Mr DUNHAM: Yes, I do.

Mr CHAIRMAN: Okay. Do you believe that parliament is entitled to believe that ministers are truthful in delivering budget estimates to parliament?

Mr DUNHAM: Yes, I do.

Mr CHAIRMAN: Do you believe that budget documents presented to parliament should be truthful in all respects?

Mr DUNHAM: Well, we have difficulty there because I've already given in oral evidence, evidence that we have documents on the parliament table now that I believe to be very deficient in this area. I'm not sure whether it's in the capacity of this committee to fully interrogate these documents which are the budget that informs us for this year. In the event that your question leads to pursuing each of those things that we believe to have been anomalous, I can provide you a list, Mr Chairman.

Mr CHAIRMAN: Just to finish now, and I thank the committee members for bearing with me, everyone in the room knows that 2001 was an election year. The budget estimates came out in May; the Treasurer's report comes out much later. It came out, well irrespective of which party would have won, it comes out after the election. Do you believe that, particularly in an election year, that in terms of the estimates and the budget papers, it's particularly onerous, it's particularly important, that

the estimates be accurate and the budget figures be accurate because it's the only opportunity or the major opportunity for the public to scrutinise expenditure by government and what government proposes in terms of increases in the expenditure in particular areas?

Mr DUNHAM: I can see what you're trying to say, that these figures were aberrant this year and in previous years they've been spot on. I would argue to you that budgets fluctuate immensely. I would also argue to you that if you're trying to say that there was a, that that's the budget papers for the Northern Territory, that somebody, an enlightened commentator, was going to go to that number and say, here we go, the budget for Territory Health Services is $330m, $335m estimated outcome and at the end of the year they came in at $447m.

Now, if that's seen as terribly, terribly sinful and condemning of a government, you only have to go up the page and see that the budget for Treasury was $90 000, they estimated they were going to spend $275, three times the amount, and they came in at $131, so to argue that a commentator would be swayed politically by the variations in those numbers when there are other much bigger swings, and in both ways. I mean there are swings that have an overrun and swings that have an underrun. I think that if, if we were appealing to that sort of voter, it would be a very, very rare voter, and there would not be many of them.

Mr CHAIRMAN: But you would agree that health is a very sensitive portfolio with the public; it's a very important portfolio in terms of, well, in terms of the voting public?

Mr DUNHAM: Oh, yes, I mean I went to an election with a barrage of lies about health. There were lies that the CLP had cut health for instance, and I can table for your information, I'm not saying you included it in your election paraphernalia, but certainly some of your colleagues did. I can table for you a chart over the last five years that shows increases that average $26m, and yet I'm sure we can find a document trail to show that the ALP put out the myth that health had been cut. Now, that's politics and while it is untrue, and while it is unfair to be used in that way in a campaign. I accept that as a politician that that's what's going to happen from time to time.

So the veracity of documents is one thing and an enlightened interrogator going to very, what is seen as obscure documents, in fact I doubt if there is anybody in the room that holds that bit of paper even though it is a public piece of paper, but if you are trying to say to me that some how it formed a voting intent, I would say to you that if we were that good at it, we should have been able to go to the voters and say you've been told distortions by people who would tell you that health has been cut. Now, one has limited success with …..

Mr CHAIRMAN: Well, Mr Dunham, I suppose I said that was going to be the last question, but you mentioned before a much publicised document, not an obscure document, that was sent by Paul Bartholomew and I'll just quote for the record –

Mr DUNHAM: No, it's - the document I was talking about is this one.

Mr CHAIRMAN: On this particular issue, he says in summary, 'There was an artificial reduction of $8m in the THS 2000-01 budget in order that the 2001-02 budget could be presented falsely as a $2.5m increase', this is all in an election year. 'In reality', Mr Bartholomew said 'the 2001-02 budget represents a reduction in the final 2000-01 approved budget'.

Mr DUNHAM: That's simple. The previous year the - were where we - the actual for the previous year, not an election year, of $433m and the budget for the next year was $432, a reduction of $1m. If you were so foolish as to believe that that money we got that year would not incrementally

rise over the year, as it has done every year, so to put $432m starting figure I had for the 2000-01 budget, was a $1m down.

Not an election year, but the same system can apply where we say this is a terrible thing that is [inaudible]. Now we ended the year some $15m up on that, so I think political arguments about budgets are a pretty esoteric thing and I think it generally comes down to an emotive rather than economic argument, and I think the emotive arguments used in various campaigns are not reliant on fact. So, if its being portrayed that somehow I did this as a sneaky trick, it is my opinion that if you want to really benchmark you should compare the budget you get at the start of the year and the budget you get at the next year, because if you want to compare the innards of the years, you're always going to have difficulties, so you should pick your benchmark. Now if the benchmark you wish to pick is the start of the year budget or the end of year actuals, I can show a trend rate that shows that's always increased. There will be times when, for a variety of reasons, those numbers go up and down. I don't have a problem with that.

Mr CHAIRMAN: All right, I thank the committee for bearing with me and I throw it open the questions of Mr Dunham.

Mr KIELY: Mr Dunham, I just seek a little bit of clarification from you. It could be that I've just got the wrong information, I just hope that you can clear it up for me. You advised earlier on in your oral submission that you were, I think you said the words, you were alarmed that you should be asked to be seeking an $8m reduction late in the year, in the May. That $8m would have been easy to find, I'm paraphrasing you, that $8m might have been easy to find over the course of the year, but to be advised right at the end, $8m was an alarming proposition to you. Then a memo went out from Health about cutbacks…

Mr DUNHAM: Withdrawal of delegations.

Mr KIELY: Withdrawal of delegations. And however, this letter was withdrawn in, and you felt that if that letter had stayed out then perhaps it would have gone some way to …..

Mr DUNHAM: I wouldn't have advocated that course of action, and I think for the letter to stay out, as I said it was a fairly clumsy response to what some people might argue is an arbitrary decision by Treasury. What, I guess, the point is could it have been met? I suggest it could have, but I think the device of using the withdrawal of all delegations, and remember this means people can't pay petty cash, the nurses at Ti Tree can't go and buy some stamps, that you can't put people on higher duties. I would have thought that that would have been a particularly damaging and clumsy way to manage a budget, when what Treasury were actually asking for is an enlightened scientific way of, and remember the $8m was the safety net. I think it would have been a good demonstration to Treasury to show we'd found $2m, and given that they'd found $30m the previous six months, that's not a bad trend line to aim for.

Mr KIELY: Yes. I mean, where I'm a little bit at sea, however, is that on 13 March there was a memo went out from the CEO saying that staff, all discretionary staffing expenditures to be deferred, not approved, recruitment, overtime penalties, higher duties, short term back filling and use of agency employment, existing delegations are withdrawn. All staffing expenditure must be approved by THS division heads. It also says that interstate travel approval remains with the CEO. In regard to discretionary travel, existing delegations are withdrawn. General operational expenditure - all general purchases of a discretionary nature are to be avoided. This was on 13 March. Was there another one or was it that there was two, was there? Would it be, well we can get the…

Mr DUNHAM: Don't ask me.

Mr KIELY: No.

Mr DUNHAM: I'm relying entirely on memory, I have no advisors and I've no capacity to get this…

Mr KIELY: No, there was this one and this one was already in effect and then now you're saying that another one went out. Another one, but wouldn't that be doing the same thing as this one? I mean, or are we talking about this one. Do you understand there to be two?

A committee member : Which one are we talking about, Stephen?

Mr DUNHAM : There were two.

Mr KIELY: There were two, were there?

Mr CHAIRMAN: Well, I think we need to request that from -

Mr DUNHAM: Well that one hasn't been tabled yet either, has it?

Mr KIELY: No, this is out of *Hansard*. This is Mr Henderson's response to Mr Dunham's budget reply. I haven't got the exact - I could table this.

Mr DUNHAM: Well I think you should probably call for the documents, you've got the capacity to do it.

Mr KIELY: I seek clarification on that one.

Mr CHAIRMAN: Are there other questions?

Mr KIELY: I've just a few questions if I may, Mr Dunham.

Mr DUNHAM: Can I just come back to - that, I mean it sort of didn't come to a question, so I couldn't answer it but, the issue I guess here is that if you go through all those cut backs and remember we were trying to get from $462m to $430m, those cut backs were significant in achieving something like $20m of them and if you look at how the impact on small business and all the rest of it you can understand some [inaudible] in Treasury being a bit jaded and saying perhaps there's more you haven't told us.

Mr KIELY: Yes, I just wasn't too sure - you recollection of events was a time ago and your dates might have been a bit [inaudible]. There was two letters and one …

Mr DUNHAM: One was withdrawn the next day and it was also commented on by the new Opposition's spokesman.

Mr CHAIRMAN: I'm sorry, Mr McAdam. Just one point of clarification before we pass over to Mr McAdam, the $462m that you are alluding to and that was spoken about in evidence the other day, was that an actual allocation at any stage by Cabinet?

Mr DUNHAM: No. The number we are talking about here is a target for the end of the year. Now in some circumstances there might be a target that's accompanied by cash, in some it may be an unsustainable trend line that Treasury are just valiantly hoping can be pulled in. In some it requires us to go back at the last minute and say, I need the cash.

Mr CHAIRMAN: I mean, just in terms of evidence from what the various departments have said that they've all been very keen to make it known that they are working to an allocation that's been given to them by Cabinet. So $462m was never an allocation?

Mr DUNHAM: No.

Mr CHAIRMAN: That's what I wan to clarify. Sorry, Mr McAdam.

Mr McADAM: Yes thanks, Mr Chairman. Stephen, in your earlier evidence you indicated that you'd served three previous ministers and that you - sorry as an adviser to three previous ministers -

Mr DUNHAM: Health ministers.

Mr McADAM: That's right, yes, and also that you'd served in different capacities i.e the Katherine Hospital, was that the case?

Mr DUNHAM: That's right. The Katherine Hospital Management Board.

Mr McADAM: And numerous other areas in the health field.

Mr DUNHAM: Correct.

Mr McADAM: So, it would be fair to say that you're reasonably well credentialled in respect of dealing with health related matters?

Mr DUNHAM: No, I wouldn't say that. That's never been my -

Mr McADAM: Well, certainly, probably in excess of the previous three ministers?

Mr DUNHAM: No, I wouldn't say that either. I believe and it is also a health paradigm that I believe in working in teams. I don't believe anybody has - is the repository of all knowledge. I believe that you've got to gather a team around where you can cope with those things that are not within your knowledge repertoire and I would never, ever describe myself as very knowledgeable in budgets or make a comparison with my predecessors because each of us brought different skills to the job and the issue is whether if there's things you don't need, you are able to access some advice that would inform you.

Mr McADAM: But in respect to Territory Health Services, you would have to admit that you have a fair understanding and a fair background in respect to its operations because of your previous involvement?

Mr DUNHAM: I thank you for your accolade but I would never go that far. I believe that I have some understanding but it is an immensely complex area and I would never assume - ever presume that I could describe my experience in that area as superior or vast or anything like that. I would never use words like that to describe it.

Mr McADAM: Okay. One other question is, in respect of the Chief Executive Officers, what sort of value - what sort of quality would you be looking for in the person holding that position.

Mr DUNHAM: I think we've got a good Chief Executive Officer in Paul Bartholomew. I think the ones that preceded him were good and again you are never going to pick somebody for the top position who has all the skills you need. I pay particular credit to Peter Plummer. I think he did an immense job of - in this particular area, budgets. An immense job of getting some budgets that were hitherto very hard to understand, interrogate and manage into some semblance of order. A greater semblance of order. And I don't believe he did that because he had a great knowledge of health, health systems or health dynamics. In fact, his qualifications are not in that area. I believe he did it because he is a superior leader and his capacity to lead and motivate other staff who have that knowledge, skill and repertoire, I think marks him as somebody who I think will be - will be grateful for the time he spent there.

Mr McADAM: Could you just briefly describe some of the personal attributes?

Mr DUNHAM: Of whom?

Mr McADAM: Of Mr Bartholomew.

Mr DUNHAM: I believe he is a very forthright person and I think that's possibly how he got into a bit of trouble this time. I believe that he is very frank in his advice to ministers and certainly he was to me and he was – if you read that memo. He spoke in very frank terms. I think, that, in different circumstances, is a good attribute. I think to speak frankly with your minister is a very good thing. For it to be used in a political environment, I would suggest, is a different thing and I would be surprised if Mr Bartholomew's memo is the same vernacular as in the one that's been tabled in parliament, because I think what's happened with the politicisation of this issue, is they've corrupted that relationship between the CEO and his minister. I think he will be very, very careful in how he responds to the minister because he is not sure how she might use it to score some cheap political points. So, I think that frankness is a plus and in this case I think it has caused him some distress and harm.

I think his knowledge of the operational areas of community sector are very, very good, particularly the disability sector. As with anybody that hasn't had anything to do with budgeting in the acute sector, I think he has for some - he has some - some things to learn. But that's not - that's not a criticism that he can't learn. All I'm saying is that it takes a long time to get up to speed on matters relating to hospital budgets.

Mr McADAM: I think it was you who used the word, the 'politicisation' of the memorandum. Quite apart from that, would you agree that Mr Bartholomew is a man of honesty and integrity?

Mr DUNHAM: I believe that he is a man of honesty and integrity. I believe that he may honestly have believed that he could convey those words to his minister in the belief that he was putting a very specific health parochial spin on it and if he was of the belief that it would have been used in the way that it was used, I'm sure Mr Bartholomew would have either not written the memo at that time, or alternatively, he would have been a bit more circumspect in how he communicated with his minister. So it doesn't go to honesty -

Mr KIELY: Mr Dunham, you are assessment there of Mr Bartholomew would suggest to me that you had a very good understanding of the person. Is that…

Mr DUNHAM: I know him and I would call him a friend.

Mr CHAIRMAN: So how long have you known him.

Mr DUNHAM: I've known Paul Bartholomew for a long time. I've got to tell you that I haven't made contact with him since the memo or I made contact with him shortly after the new government had assumed power because I knew that I wouldn't be offending the principles of the system for me to be making direct contact for him - to him. I thought it could have put him in a compromising position particularly considering that most of the CEOs believed their jobs were in jeopardy and that's certainly come to pass. We have - so I had a situation were I had a personal friend and working acquaintance who I chose not to speak to because of this very inquiry. So that he could stand up here and give full sworn evidence that I had not influenced him or sought to change his evidence or pressure him in any way.

So I would have called Paul Bartholomew a work colleague of some many years standing. A person who I would count as a friend. I know his wife and his children and I don't resile from that. He still remains my friend. The fact that he was wrong footed with a piece of frank advice he sent to a minister, I think is something he would probably regret.

Mr CHAIRMAN: And I think I mentioned this before, all the things that you have said here today you did say when you, because I was present at the function where you announced this appointment as CEO for Health, I think that was June 2001, I think that's correct, isn't it?

Mr DUNHAM: I'm not sure, but I'm happy to endorse that, that the things I said there were true and it doesn't detract from the things I've said here today because I've tried to be frank. There is definitely a, in my opinion and it can be tested with others, an erosion of confidence between Health, and he's the CEO of it, and Treasury, insofar as the mutual divulging of information and respect about the veracity of figures. I believe that. That is my opinion. I believe that …

Mr CHAIRMAN: I see, because you actually said that in your oral statement and I thought …

Mr DUNHAM: What I'm saying is …

Mr CHAIRMAN: ... so you don't have documentation that …

Mr DUNHAM: … these are the actions Treasury took and, for me, I believe their message was clear. For me the messages were these.

Mr CHAIRMAN: So, that was …

Mr DUNHAM: ... so it's my interpretation of - there was an action taken by Treasury and, as you know from the evidence, it caught me by surprise in that I did express alarm and I'll fully 'fess up to that. But as I also said in my evidence, that quickly turned to a lessening concern about the immediacy of the action and it was evident to me that the actions were anticipated for the next year and there were anticipated in terms of talking about some of those things that took a longer time to negotiate, like hospital activities.

Mr CHAIRMAN: So, I guess you heard evidence, as a committee member, at a previous session from Health, from Peter Plummer, who you've been very glowing about in terms of being a manager. Now we, as a committee, we heard evidence of this realignment in Education of $6m for presentational purposes, we heard evidence from Mr Bartholomew of the same thing going on from

Treasury. Are you suggesting that Treasury had also lost confidence in Mr Plummer in a similar fashion, because he was dealing, he was being dealt with, his department was being dealt, with in a similar fashion to Mr Bartholomew's.

Mr DUNHAM: Yeah, I know, they were both very different and they were different in that the case of Mr Plummer they could be particularised, the millions they were looking for could be particularised to certain items. In the case of Territory Health Services, they were generic, and so if you go to the $8m and you look at the audit statement, you won't find a figure of $8m because it's been disbursed across several program areas.

Mr CHAIRMAN: The audit trails for both agencies are very similar in terms of talking about the, or what Mr Bartholomew termed as a false reduction, basically, for presentational purposes. So it seems as though that if you're saying, you haven't told the committee that anyone from Treasury has actually told you that they'd lost confidence or written to you that they'd lost confidence …

Mr DUNHAM: No, I'm not saying that at all …

Mr CHAIRMAN: You were deducing that they'd lost confidence purely on the basis of this reduction by $8m in …

Mr DUNHAM: No. I'm making that assumption on my discussions, feeling, comments that were taking place over a period of some six months.

Now when you say it seems fairly similar, there's the Treasury circular about carry-over, and I'd suggest that it went to every agency, so if there's a similar form of words or whatever …

Mr CHAIRMAN: I'm actually talking about the audit trail and Mr Bartholomew appended the audit trail …

Mr DUNHAM: Yes.

Mr CHAIRMAN: … to the back of his memo that was sent to Minister Aagaard, which shows the $8m reduction for presentational purposes …

Mr DUNHAM: [inaudible]

Mr CHAIRMAN: … yes, and I'm also talking about the attachment, the audit trail that was attached to what Mr Plummer gave us as a committee in terms of the audit trail for Education which said a $6m reduction for similar reasons. So do you think …

Mr DUNHAM: I think Mr Plummer's evidence actually supports what I'm saying, and I'm happy to find it. Mr Plummer was saying that he knew he had some work to do to convince Treasury in the next financial year and he still …

Mr CHAIRMAN: In relation to his carryover?

Mr DUNHAM: In relation to his budget, his whole budget, and he was still not convinced that the moneys in here would see him through. So he's going to make seven, or several visits back to Treasury to negotiate this issue. I don't think that necessarily an issue of confidence. The issue of confidence is whether Treasury will believe your argument or not. As I said, that's a matter for them. I'm merely setting the scenario for you and the scenario, I think, entirely fits for what Mr Plummer

gave in his evidence and that is that he believes he had another shot at it the next year; he was sure in his own mind he could quantify the circumstances of the carry-over, as was DCIS. But in the case of Territory Health Services, they were saying that was the target, the target is carved in stone and we met it, all bets are off, that's all we have to do.

Mr McADAM: Just coming back to Mr Bartholomew, and leaving aside the political overtones, you would have to agree that he'd been a very, very honest, forthright and competent manager?

Mr DUNHAM: I find that question quite similar to the last one, actually. I mean, if you're asking me for an endorsement of my friendship with Paul Bartholomew, I'll give it …

Mr McADAM: I'm talking about him as a manager …

Mr DUNHAM: … if you're asking me for …

Mr McADAM: … not as a friend.

Mr DUNHAM: … his endorsement as a generic manager I will give it …

Mr McADAM: [inaudible]

Mr DUNHAM: … if you're asking me for his stewardship of Territory Health Services …

Mr McADAM: As a manager.

Mr DUNHAM: He's more than a manager, he's the Chief Executive Officer and he's the Accountable Officer, so he is a leader as well as a manager, he is a motivator, he's the main man in the department …

Mr McADAM: So he would be forthright, honest and very competent, and a leader?

Mr DUNHAM: Well, you have to learn some of those things. You can't drop into a department and all of a sudden know all of that stuff. What I'm saying is the deficiencies in his repertoire of skills is that he's come out of the period where we've had four CEOs, he's got to grapple with issues that haven't come across his field of experience hitherto and he's got a very steep learning curve. He also has a brand new minister.

So when you look at issues going to the difficulties in the department, you can't really sheet them home only to Paul Bartholomew. But if you're saying to me is he able to grapple with them and cope with them and would he do so in a forthright and honest manner, I believe he will. That doesn't change my evidence that I believe in that in the period we are talking about there was a feeling that the under-runs that were potentially available in Health and the yield that came from our investment -this should be a good news story - the yield that came from our investment is something that Treasury wanted to get a payout on. They're saying we've given you all this stuff on the basis that you will stem the flow, he could do it. A reasonable question, one the Auditor-General asks.

Mr WOOD: I've got some questions, they may not all be related or in running order, but I'll go through them.

First of all I'd like to comment on your comment that it's a sad indictment that politics gets in the way of the truth. That's perhaps why the general public hasn't got much faith in us, and perhaps and

I hope today that I hope with this parliamentary inquiry that politics doesn't get in the way of truth, so I just put that as a preface.

My second comment is related to, and this is where I differ with you as regards to the Standing Orders which were, sorry, the motion that was put forward in parliament which set up this Public Accounts Committee. It was stated on 25 October that the Public Accounts Committee inquire into and report upon the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome for 2000-01 and the budget for the 2001-02 with particular reference, etcetera, etcetera.

Now just reading from the *Hansard* what went with that also, and the Chief Minister was putting forward this motion: 'The reason for the referral is self-evident in the speeches we have heard from the government this afternoon in the previous motion', which would have been a censure motion, 'the government has substantiated pieces of evidence and even though they weren't addressed in the opposition's response to the censure …

Mr DUNHAM: Substantial or substantiated?

Mr WOOD: No, what I've got here says substantiated, so maybe …

A committee member: There's a judgement.

Mr WOOD: Yes. '… they are substantiated pieces of evidence and come directly from Treasury, the audit trail comes directly from Treasury and the evidence was that the 2001-02 budget papers were seriously compromised'.

My comments there are that: (1) Again, this motion was put forward before the mini-budget, that there was a statement here which directly implied that we were looking at the existing 2001-02 budget papers. So, as I said before, I feel that although we can, that the use of the mini-budget could be used, I don't think it's only in relationship to whether it directly affects what we're trying to look at today. I just put that on - and I know that you don't necessarily agree with me and perhaps in hindsight what we, what we've, that the heading here perhaps could have been more, written a bit better but as it is I don't agree with you on that matter.

Mr DUNHAM: Can I comment on that?

Mr WOOD: Yes.

Mr DUNHAM: The issue we had before us when you say it doesn't cover the issue we have before us, well the issue that we have before us is the inquiry into the accuracy of the budget data published in the 2001-02 budget papers. I draw the attention of members in the gallery and the media and others to this book here, which is the mini-budget. It's library classification, its format, its style, in similar style to previous budget papers would lead me to believe that this is a budget paper.

The number 01 and 02 on the front would lead me to believe that it's a budget paper for 01-02 and therefore it's in total accord. I know that there some people who believe that this is a chronological thing in that these budget papers were presented and are substantial, as was the debate, that there was a censure motion and referral in the minute and then subsequently these little tiny papers parading as budget papers were presented, therefore they're not included in that.

I've got two arguments against that. The first is that this is a seamless activity, from year to year. These papers then form those papers. I would also use the words of the Chief Minister from debates where on two occasions she said that the reason we were not going to go to debates of that nature, and we only had the flimsy ones, was that in reality we were dealing with our budget papers, ie these, and I seek leave to incorporate into the written record Debates of Thursday, 29 November, page 23 of the unrevised *Hansard*.

Don't get so obsessed about the numbers…

This is the number of public servants by the way which doesn't appear in these papers but does appear in those papers. Anyway:

Don't get so obsessed about the numbers; they'll be back they just aren't there at this time. This is an amendment to a budget.

So what she said, and she said on two occasions, is that these budget papers merely amend those, so I would say that they do inform us and if the sequence of questions that was read by the Chairman about, you know, are you confident there are no errors in budget papers and this is a terrible sin perpetrated on the people of the Northern Territory through the parliament …

Mr CHAIRMAN: No, no we have point of clarification, Mr Dunham, I did not say that. I asked some open ended questions, and if you want me I'll repeat them.

Mr KIELY: Well I think that would [inaudible], Mr Chairman.

Mr CHAIRMAN: Okay, I will repeat them.

Members interjecting.

Mr CHAIRMAN: I will - I will read them. My first question was, do you believe that parliament is entitled to trust the budget estimates? Second question, do you believe that parliament is entitled to believe that ministers are truthful in delivering budget estimates to parliament; and do you believe that budget documents presented to parliament should be truthful in all respects?

Mr DUNHAM: That's the question: do you believe that those documents, and this is one, should be truthful in all respects. Now, I've been able to demonstrate here that there are four errors totalling $50m in these documents, so compared to a, compared to a $107m reputed black hole, I would suggest that we look to these documents. Are there a significant number of other areas where there has been definite underfunding, and possibly even distortions of the fact. I would go for instance to Budget Paper No 4.

Budget Paper No 4 informs us of the Northern Territory economy. Now in that, it talks about the economic outlook and I quote, it's at page 1, Budget Paper No 4 of the mini-budget 2000-01:

After two years of weak onshore growth, economic activity is expected to show some signs of pick up in the remainder of 2001-02. Territory GST is forecast to grow by 5% in 2001and2002.

Now, I haven't found any commentators who believe that, none. I was listening to the Treasurer of the nation last night who said that while Australia should take some pride in being at the forefront of economic growth in this nation, in the world, sorry, that next year brings some hard times, and I

would suggest that if that figure has been put in that paper of a 5% growth, I would like to speak to this very bullish, optimistic commentator who has advised Treasury on that number.

Mr WOOD: All right, just getting back, I mean we could argue about this particular [inaudible]. That's the point I make is that I would presume the Parliamentary Accounts Committee, if it wishes and wants to look at that budget and go through it and look at the honesty or otherwise of that, it can. But I look at this in the light of the particular censure motion that was put in parliament at that particular time, so I've tended to look at my questioning and my involvement in this as relative to that.

That may have some relevance to this, but I think if we were to look at the overall strategy of that budget, which I think is possibly a good thing for this group to do, I think that should be at a later time. Look, I'll continue my questions if Mr Dunham …

Dr LIM: When we were speaking with Mr Bartholomew earlier this week, I did say that I was going to try and demonstrate the reasoning of why I was using the mini-budget questions to try and set up a link. It appears to me from all of the questions that we've been asking so far, the issue is about, is a good CEO advising a minister who's turned around and slapped parliament. That's what seems to be the thrust of the questions so far. I used the questions the other day to demonstrate that the development of budget is not an easy process.

It is very fluid and there's a lot of forecasting involved in it. If we are saying that the former Health Minister did mislead parliament because of this $8m that you are trying to establish as the figure in question, then I think that the discussion of the mini-budget becomes very relevant. I demonstrated the other day that in health region alone that the costs that have been written in budget papers are not complete. Now, I think we'd need to hear from Mr Dunham again because earlier he alluded to the four separate $50m deficits that are there in the budget papers.

Now, that's a very significant link. Here you're talking about $8m in the one set of budget papers, there is a $200m deficit in a separate set of budget papers all for the year 2001-02, and I think we need to follow through on that as well.

Mr CHAIRMAN: Yes, before you go on, Mr Wood, if I could just read, I mean there's been much made of our terms of reference, but partly or a major focus of it is that we're to 'report upon the accuracy of budget data in the 2001-02 budget papers with respect to both the estimated outcome for 2000-01 and to the budget for 2001-02'. Now, we can engage a long debate about what is the 2001-02 budget, but we do have a task before us to inquire about the estimated outcomes for the 2000-01 budget and I think that's what Gerry's alluding to here and I think we should pursue that and we have discussed this previously. I'm certainly not going to disallow relevant questions in relation to the 2001-02 mini-budget, but a major, probably almost the major part of our work, I think at this stage, is to try and get a, get some answers about the estimated outcomes for the 2000-01 year, and with that I'd ask Mr Wood to continue.

Mr DUNHAM: Well, I haven't commented. Mr Wood is of the belief that because this was proceeded by a censure motion it was specific to health and the memo signed by Paul Bartholomew, that that really informs us how we should undertake this inquiry. I dispute that on two counts. The first is that if that was case we should have been given specific terms of reference along the lines of the censure motion and we could have called the recipient of the memo, Minister Aagaard, the sender of the memo, Mr Bartholomew who we have, the Under-Treasurer, Mr Clarke, Mr Dunham who is mentioned in it, both of whom are mentioned in it and we can call the Chief Minister, because we

know from evidence that she prevailed upon him to table it, so we could have called those five people and the whole thing would have been finished.

The second point I would make is that if we are to be saying that the censure motion is the informing document, it was a very specific political action. The action that's before the Public Accounts Committee now is an impartial information garnering exercise that goes into this financial year and I dispute anybody to tell me that that is not the 2001-02 budget paper. So I think that parliament has tasked this committee with a very important job and it should get on with it without trying to be a sniper for certain people but more a generic garnerer of information.

Mr CHAIRMAN: So Mr Dunham, before we continue, I've made it clear that a major focus of our investigation are the estimates for the 2000-01 budget …

Mr DUNHAM: That's entirely appropriate.

Mr CHAIRMAN: And I'd hope that in terms of answering Mr Wood's question or any questions on this matter that you will try and, wherever possible, focus in on that and wherever relevant, I guess, bring in the other budget papers. So…

Mr DUNHAM: I shall aim for achieving relevance.

Mr CHAIRMAN: Thank you.

Mr WOOD: Thanks, Mr Chairman. I just should make the comment – and Dr Lim mentioned about were we trying to say that a particular minister has done something wrong, I am not of that opinion at all. I mean, the censure motion, although it was specific, I think it – in A, 1(a), whether the data published for individual agencies differed materially from that understood by agencies can properly reflect the best estimates available for each agency at the time, broadened it in the scope of what that started. I'm not saying it was meant to look at that specifically. So that's why we've looked at the other departments as well.

But in the context of whether other budget figures could have been also implicated in what came out of the memo from the health department. That's the way I look at it. I just see my job as just basically asking – and in the end I'm going to have to work out whether …

Mr DUNHAM: Thank you, Mr Wood.

Mr WOOD: …things are truthful or not.

Mr DUNHAM: I like the fact that you put that on the record.

Mr WOOD: So I'll just ask some questions. One is about the memo, and I think you've answered most of the questions that are in it, but just – as a memo – do you believe that this memo is totally wrong, completely right or partly wrong and partly right? In other words, if it is the latter, could you explain where you think that it is partly wrong or partly right?

Mr DUNHAM: Well, for starters, it's abridged. We know it wasn't drafted for the purpose intended because it's actually got portions blacked out. And if we are to assume that the Chief Executive Officer drafted this memo for the purpose for which it was put, that is a Censure Debate, as I said, it's probably the most quoted memo ever in the Northern Territory parliament, and it's certainly one of the foundation documents for this inquiry. I doubt you'd need to abridge it. I would also be

very surprised if any Chief Executive Officer would – knowing that it would be put to a certain use – would draft a memo in this language. It is – I would dispute entirely some of the words in it and I take some comfort from the fact that Mr Bartholomew himself said in evidence that he did not want to be held to the words.

Mr WOOD: The…

Mr CHAIRMAN: I think just as clarification there, and I think we'll probably need to look through the transcript, I think what Mr Bartholomew was pointing to when he made that statement in evidence was his conversation with Mr Clarke as an exact form of words, but…

Mr DUNHAM: Have you got the transcripts there?

Mr KIELY: What exactly are we looking for, again?

Mr CHAIRMAN: We're looking for the form of words and what it referred to.

Mr KIELY: Is this in relation to…

Mr CHAIRMAN: Well, Mr Dunham was – Mr Dunham, it appeared to me, was implying that Mr Bartholomew was saying he wouldn't be held to the whole form of words contained within his memo to Minister Aagaard. My understanding and recollection of the evidence that Mr Bartholomew gave, that he was referring – he was being questioned about the specific words used between he and Mr Clarke in the telephone conversation and he said…

Mr DUNHAM: You're right. You're right, Mr Chairman.

Mr CHAIRMAN: Okay, thank you, Mr Dunham. Because that is an important aspect because I wouldn't like to see Mr Bartholomew's – that it was attributed that he wasn't going to get behind the entirety of his memo and I'd also ask you – you've said that it's been edited or truncated. How many words have actually been – his memo have been truncated?

Mr DUNHAM: I'd say you'd know the answer to that and I don't know why you're asking me a redundant question. Do you know the answer?

Mr CHAIRMAN: Well, I think there's two, isn't there?

Mr DUNHAM: Well, there you go.

Mr CHAIRMAN: And it happens to be someone's name.

Mr DUNHAM: Well, why would he put that in a memo that was going to be used in parliament when the Chief Minister said that she was going delete it?

Mr KIELY: You had a chance to ask him that while you were sitting as a Committee member, Mr Dunham.

Mr DUNHAM: I chose not to.

Mr KIELY: Well, that's a redundant question, then, isn't it?

Mr DUNHAM: I'm not posing a question; I'm giving an answer.

Mr KIELY: I'm sorry. I was wondering who was a witness and who was Committee. That's all.

Mr DUNHAM: Don't be confused.

Mr CHAIRMAN: Can we continue? Mr Wood.

Mr WOOD: I also asked Paul Bartholomew about the word – where he'd said the 2001-02 budget figure could be presented falsely as a 2.5% increase. Do you think that was a fair comment by him? That it was false? In other words, it implied that someone had deliberately manipulated the figure?

Mr DUNHAM: No. I believe – I believe that the word is entirely – used entirely incorrectly. It's not a false figure.

Mr WOOD: Now, if I then follow on to the audit trail on the section of outlays from the Treasury, where the money goes back into the 2000-01 budget review, it states: 'This was a reinstatement of $8m for realignment of current year budget to ensure an increase in estimates for the 2001-02 budget year of 2.5% growth.' Isn't that saying – isn't that in itself saying that this has been changed purely to look like an increase in the estimates? This is from Treasury.

Mr DUNHAM: I think – I think the figures we're talking about here are broad figures. The – obviously, as they reach the end of the financial year, they realise the money's had to be spent. But I don't think that that in any way satisfied Treasury that the matter ended there. I think – I am of the belief that Treasury would have, very soon after that, gone to seek advice as to whether 2.5 was necessary. In the end, the argument must have been persuasive because they actually got much more than that, as we know. They got 134m – sorry, an extra 34m.

Mr WOOD: Well, Mr Bartholomew relates the 2.5% increase, I think, to an equivalent increase in the CPI. Why would the Treasury have put that same figure in their statement, 2.5?

Mr DUNHAM: I don't know. I don't know.

Mr WOOD: Just a couple of other questions, Mr Chairman. Relating to – and it's a point of clarification again, Mr Dunham. Under the debate of Thursday 31 May 2001, page 7789 of Hansard, where you gave your budget debate. Have you got a chance to…

Mr DUNHAM: Yes.

Mr WOOD: You made the statement:

As shown in the budget papers this time last year, a total of 432m was allocated to Northern Territory Health Services in the 2000-01 budget. During the year, this amount was increased by a further $3.9m predominantly relating to funding carried forward from the previous financial year and to specific purpose and externally funded items. In 2001-02 $447m has been allocated…

Now, with this ministerial statement here, it talks about $3.3m carried forward which…

Mr DUNHAM: Which statement is that?

Mr WOOD: The ministerial that you quoted before.

Mr DUNHAM: Yes.

Mr WOOD: It has $3.3m carried forward which I think you were referring to, but then it has somewhere in the vicinity of nearly $8m of approved budget increases which occurred all before your statement on 31 May. Why would not have those been mentioned in the budget at that stage to say that you'd – you know, there had also – there had not only been $3.9m, there had also been an extra…

Mr DUNHAM: Because the figure we were working to had been amended by the audit trail that you've tabled.

Mr WOOD: So you're saying that those approved budget…

Mr DUNHAM: I'm saying…

Mr WOOD: …[inaudible] match with the $8m…

Mr DUNHAM: [inaudible] published – published budget figures is what I was working to. Now, we can argue that there were some ons and certainly, they had Cabinet endorsement. And we can also argue that there were some offs and, although they don't appear in this budget allocation because that is merely a bookkeeping record, we are well and truly aware that 462 could well have been the final year figure…

Mr CHAIRMAN: True, but that was never an allocation, was it, Mr Dunham?

Mr DUNHAM: But it is a contra. It is a contra. So you've got to argue – you've got to go and argue in the context of the budget papers that were provided. They provide the factual basis for how we talk – how we discuss the budget, and while it is true we can go back to documents that demonstrate that Cabinet had made some approvals for additional funding if required and, in the event, it was, but there was still some discussion here about what the end of year figure should be.

Mr WOOD: So the figure…

Mr DUNHAM: And there was certainly a lot of dissent about whether it should be 462.

Mr WOOD: Well, the figure was – if we add all that extra money in, was 443.9m. Now, according to this document then there was just a realignment, an estimate, and I gather that realignment of estimate of $8m was not shown in the next year's budget?

Mr DUNHAM: To my recollection, no.

Mr WOOD: But the statement here was that we would go with the lower figure, the $435.9m to be published in the 2001-02 budget paper. Would it be seen in that really was misleading and I'm not getting into the argument of whether that would be - have some political ramifications but just purely from the honesty of presenting the documents, is that really not an honest mis-statement to make that there is $435.9m?

Mr DUNHAM: The statement had to accord with the budget papers thus and the number in there accords with the number that was printed in those budget papers. At the end of the year there was some significant variations to budget and it was noted even that far out that those variations we were going to inform on the end of the year actuals. Now it is put by some that we should've been aiming

for the $443m. The department's aiming for it; you should have been aiming for it and I would also put that there was a contrary point of view that said that perhaps it should be lower and perhaps its somewhere between $443m and $435.9m. So the contrary point of view doesn't form part of this budget trail but I can tell you that there would have been no one in the department who would have been of the belief that we could take great comfort in our budget - and take great comfort that additional monies would always flow because it would have appeared to me from my reading of the budget and from my reading of these actions that took place that there would be a significant round of consultations, if I can call them that, with Treasury immediately following the financial year to determine the veracity of our numbers and the formula that would advise them.

Mr WOOD: Could I - when you got this particular document, I wonder if that sent any alarm bells to do with this Treasury advice to chop off $8m, but at the same time you knew…

Mr DUNHAM: I knew that.

Mr WOOD: That you were going to keep the $8m.

Mr DUNHAM: Yes.

Mr CHAIRMAN: Well the question is …

Mr DUNHAM: I already knew that.

Mr WOOD: You knew that?

Mr DUNHAM: Well, yes. The money was provided as a safety net and it was all used and so at the end of the year we knew we had come in on that target and we knew that the monies that were provided by Treasury in the event that we needed it were needed and required. What we also knew was that if we believed that $8m was going to be embedded in our base line for the next year we were sadly mistaken. We would've had to re-argue that case all over again.

Mr WOOD: And can I ask you a fairly pertinent question then: did you have any political influence on this $8m being removed or do you believe any other person for political reasons was involved in this realignment for political purposes?

Mr DUNHAM: The evidence taken thus far will show you that it took me by complete surprise and I am quite happy to confirm that but when I heard that I wasn't aware of it - so, I had no part in its construction though I can understand it - I can understand its purpose but no part in its construction and I refute entirely that did have some involvement on a political basis.

Mr WOOD: Can you see it strange that what you might call the three most popular portfolios in an election - law and order, health, education - all seem to have, I think there was figures quoted yesterday this 2.5% realignment of their budget estimates. Do you think that was just coincidental or do you think that there - could one see into that, that there may have been a political purpose because if you want for instance, tell the people that you're spending more money than the last year, they are the particular portfolios that people like to hear. They are the ones that usually put out as the ones government is working harder for?

Dr LIM: [inaudible].

Mr DUNHAM: I'll take the question.

Mr WOOD: I think – look …

Mr DUNHAM: If you want a comment, obviously I refute entirely the allegations and somehow we picked out a couple of portfolios that are known and loved by the punters and fabricated some figures there. If you look at again this tabulation which all the members have got, you'll see the variations are enormous. There's $172m under runs, $460m under runs, $143m under run on some departments. The figures I think fluctuate so radically that it would be very difficult to get an articulated argument from a document such as this. If you are saying that it was entirely fabricated so that we could have an argument that compared like with like, we would have been comparing the figures from the previous year's allocation to this year's allocation, so, if you understand what I'm saying. The regional [inaudible] was the original vote and what has happened over the last five years is that has changed by an average of $26m every year. So if the benchmark that's been drawn is that week and then that week, I would put to you that that is exactly what happened a year before when there was a $1m less than actuals in the appropriation. So I don't think that this is so totally without precedence or it stands out so much that that argument can be mounted or sustained.

Mr WOOD: Thank you, Mr Dunham.

Mr KIELY: Mr Dunham, were you advised by your CEO that the estimates figures were not factual.

Mr DUNHAM: No, I was advised the estimate figures - I was advised by Treasury are a fact by virtue of the fact that they were advised by Treasury. We may wish to have more. We may seek to have more; we may argue to have more. At the end of the day, Treasury will advise what that number is and by virtue of that it is a fact.

Mr KIELY: I'd refer you to the memo from the CEO advising you of the $8m…

Mr CHAIRMAN: That's from Ms Schilling …

Mr KIELY: No, no, the first one.

Mr CHAIRMAN: Mr Bartholomew's?

Mr KIELY: Mr Bartholomew's memo.

Mr DUNHAM: Yes, I have that. You don't have it?

Mr KIELY: No, I don't have it. I have it now. All right. I was talking about Ms Schilling's …

Mr DUNHAM: I have that one, too.

Mr KIELY: Good. Okay, so you maintain however that you were not advised by your CEO that the estimates figures were not factual. Is that correct? That's your position?

Mr DUNHAM: You were saying to me did he used to the words - true or false.

Mr KIELY: Well, I've changed the question to - are you advising me, are you telling the committee that you were not advised by your CEO that the estimates figures were not factual.

Mr DUNHAM: Am I saying that I was advised the estimate figures were not factual?

Mr KIELY: I asked you …

Mr DUNHAM: That depends. At the time - at the time of the 17th that this memo, I was told the budget had been varied by $8m. As I said to you, I was worried that that was actually a variation to warrant - I am not sure of the exact wording is, Jane, you could probably help.

Ms LARGE: Allocation.

Mr DUNHAM: Allocation. And I was told that no, the monies were still available to us to call on if need be. Now they are facts. If at the end of the year, this document came in informing me that the monies would be required these are matters of fact.

Mr CHAIRMAN: You mentioned a date - the 17th, what particular …

Mr DUNHAM: The 9th sorry.

Mr CHAIRMAN: So the 9th May, so basically Mr Bartholomew rang you on 9th May, following his conversation which he says in his memo - following his conversation with Mr Clarke; do you recall what he said to you during that conversation?

Mr DUNHAM: I can't exactly, and if I did I wouldn't be divulging it in this place.

Mr CHAIRMAN: It is pretty crucial .

Mr DUNHAM: I can give you the theme of it. He would have told me - he would have told me that the budget had been varied by a factor of $8m. I would have expressed alarm that it was - whether it was allocation in my own Territory jargon warrant, in other words, have we lost $8m worth of cash. No, we've lost it as a target for the end of the year but it is available to us if we need it.

Mr CHAIRMAN: He felt it was an artificial reduction; did he use those words to you?

Mr DUNHAM: But these are departments - departments believe their target is the truth and ultimate figure and often that is in dispute by Treasury. Here you are saying here's the department - if there is a debate about a figure and the department says it should be X and Treasury says it should be Y, I can guarantee it, it will be Y. And if you are saying that Y is wrong because the department disagreed with it, that happens daily and in every department they disagree with Treasury's analysis of the figure. So the fact that there's a dispute is not relevant and if you want to say my figure is right and this figure is false, you know, it's not [inaudible] because Treasury has advised the figure and it is factual.

Mr CHAIRMAN: Okay. In Mr Bartholomew's memo, he does use very strong terms.

Mr KIELY: He does, yes.

Mr CHAIRMAN: He uses words like 'artificial reduction', 'presented falsely', 'I rang Minister Dunham', 'I expressed my alarm at this proposed deception', 'I advised him that in my view, the arrangement would undoubtedly be discovered in due course…' - and I guess, maybe that's why we're sitting here today – '…by the Auditor-General and would reflect poorly on Territory Health and the Minister', 'In addition, I expressed concern that as a consequence of these artificial adjustments…' – the words he used – '…THS would be seen to be exceeding its approved budget

by $8m when this was demonstrably not the case'. So here's some work. He's rung you. He said he expressed his alarm. Did he?

Mr DUNHAM: Yes.

Mr CHAIRMAN: He did. Okay. Did he use the word 'deception'?

Mr DUNHAM: No. What we have is somebody who is saying to you that we have a target and if I don't meet that target, it's going to reflect badly on me. That's what he was saying.

Mr CHAIRMAN: All right.

Mr DUNHAM: Now, if Treasury were in any way sensitive about an issue such as that, if Treasury were so sensitive about the fact that those figures varied, and couldn't be convinced on the underlying reasons, I'm sure they would have been highly embarrassed that their budget figure differed so radically from their actual. These are – these are arbitrary figures and at the end of it, the factual figure is that which Treasury advises.

Mr CHAIRMAN: So in – I'll say again. He said: 'I rang Minister Dunham and expressed my alarm at this proposed deception.' So in no – he expressed alarm. You agree with that. But in no form of words at all did he talk about false figures or proposed deception or…

Mr DUNHAM: Well, I suppose I should go to why I don't really want to talk about discussions between CEOs and ministers. Treasury was the enemy, he's described in very frank terms, often with vernacular that could not be used in this hearing, and that is the way of it, Mr Chairman. Treasury are seen often as the enemy, they're called 'The Evil Empire'. This is how it works. They are not often on very good terms. So if – if he used vernacular to describe Treasury in a terribly unflattering way and, I will admit that behind closed doors and in meetings that sometimes happens. But it does not necessarily go the core of whether Treasury's figure is right or wrong or they're dishonest or not honest. It is the vernacular that's used to describe the fact that they are the enemy and we are goodies. And the goodies' job is to fight for as much money as they can, and Treasury's job is to suppress the budget as much as they can.

Mr CHAIRMAN: So in other words Mr Bartholomew may well have used the words 'deception' or 'false figures', in his opinion, he was telling you that this is Treasury doing this. This is wrong. It's false?

Mr DUNHAM: I shan't comment on it because, as I said, the vernacular that's used to describe Treasury is often one that is the – that describes almost combatants in terms of these negotiations. It is often very unflattering, but in no way should it be construed by anybody that Treasury are right or wrong or the department's right or wrong or that there are some wrong or ulterior motives associated with Treasury.

Mr CHAIRMAN: But it…

Mr DUNHAM: It is how budgets work, that that is a very highly tensioned environment.

Mr CHAIRMAN: In all of this he goes on to say that the arrangement would undoubtedly be discovered in due course by the Auditor-General and would reflect poorly on Territory Health and the minister. So what he's trying to say there - I think that he was trying to protective of you by telling you that this – that this deception, this proposed deception would be discovered by the Auditor-

General and would reflect on you as a minister. Did he – did he talk about that? Was that part of the conversation?

Mr DUNHAM: Well, I'm nonplussed about that. But if you're saying that he was going out of his way to protect my integrity, honour and good name, I would suggest that that same very memo has reflected on the same. So if you're trying to construe from those words that he was going out of his way to protect me from the system, that memo I would say is not [inaudible] indication of that being an ethic…

Mr CHAIRMAN: But did he – was that part of his conversation to you about…

Mr DUNHAM: Look, I can't recall the exact words of it.

Mr CHAIRMAN: Yes.

Mr DUNHAM: But what I'm saying is we had many, many, many conversations about matters relating to budget, matters relating to the relationship between Treasury and the department and in most cases, we believe that Treasury are being unthinking, uncaring, brutal and arbitrary in some of their decisions and sometimes the language reflects that level of frustration. Treasury are charged, however, and we had it in evidence yesterday, with a job that nobody else wants, and that's the job of ensuring sustainability which none of the departments who gave evidence yesterday believe is their business. So it is their job to muster that effort to make sure that budgets accurately reflect the best value for the Territory taxpayers.

Mr CHAIRMAN: If I could just follow that up with the – when all the dust had settled, I suppose, figuratively speaking – and I'm referring now to the memo written by Ms Schilling, and I'd seek the Committee's permission to table this document so it can be available publicly.

TABLED: Schilling Ministerial to Mr Dunham dated 06/06/01 re Final Budget Allocation for Territory Health Services

Mr CHAIRMAN: When all the dust had settled, it's 8 June. Once again, it says: 'It's anticipated that questions will be raised by the Auditor-General during follow-up agency compliance audits regarding the budget process. It may be necessary to request assistance from Treasury in order to provide an appropriate response…' and it goes on: 'Questions may also be raised by the Opposition…' well, I suppose an election turned that around '…regarding the level of adequate funding appropriated during the year'. So, once again, you were being warned and – about, I guess, the propriety of this whole business.

Mr DUNHAM: No, I'm not.

Mr CHAIRMAN: And that might be why you're here today.

Mr DUNHAM: No, it's not being warned about the propriety of it. It's – they're statements of fact. It is anticipated that questions be raised by the Auditor-General during the follow up budget – well, that happened. I mean, why – why are we concerned about that?

Mr CHAIRMAN: Regarding the budget process.

Mr DUNHAM: The – that's right. I mean, one of the things that we've found that's anomalous is the issue of rollover, that every department was told that this would be a matter to be addressed next year. Now, I would think that the Auditor-General may well look at that. He may – it may be necessary to acquire assistance from Treasury in order to provide – yep. [inaudible] I think the partnership between Treasury – that's something that we should build on.

Mr CHAIRMAN: But this memo in no way addresses carryover. It's talking about – and it's talking about the 435 or approximately $436m to be published in the 2001-02 Budget Paper No 2. That's the subject of this particular memo, or a major part of it, and this is the issue – major issues arising. So, once again, in June you were advised that, you know, that this was a questionable practice. It would be – attract the attention of the Auditor-General, as did Mr Bartholomew alleges, that he did exactly the same in his original conversation with you on 9 May.

Mr DUNHAM: Yes. Well, it attracted the attention of the Auditor-General and was raised by the Opposition. That – it doesn't take Einstein to work that out. The Opposition had raised matters relating to tracking our budget on a number of occasions.

Mr CHAIRMAN: All right.

Mr DUNHAM: I mean, basically it's saying to me: 'Here's the figures for you. The matter may attract the attention of the Auditor-General,' which it did, 'the Opposition may well be curious,' which they were and at the end of it, there's a very transparent audit trail to show what happened.

Mr CHAIRMAN: And you ploughed on and gave that estimate of $436m in your May budget speech.

Mr DUNHAM: This is after that.

Mr CHAIRMAN: Yes, I'll come to that. But I'll give it to Mr Kiely.

Mr KIELY: Thank you, Mr Chairman. Mr Dunham, I'll just get back to that question I was asking you. Once again, a simple yes or no will do. Were you, at any time, advised by your CEO, Mr Bartholomew, that the estimates figures were not factual?

Mr DUNHAM: If he advised me of that, I would dispute it with him.

Mr KIELY: Were you advised or not? Yes or no. It's a straight question.

Mr DUNHAM: Okay. I cannot recall him using the word 'factual'.

Mr CHAIRMAN: Did he use any other word that might be questioning the accuracy of those figures?

Mr DUNHAM: He would have disputed Treasury's analysis of the end financial year figure. And that's something that was said in evidence [inaudible].

Mr KIELY: [inaudible]

Mr DUNHAM: Now, he may have used a variety of words. Some words, as I said, are not able to be used here. That doesn't take away from the fact that the figures that are used by Treasury are their prerogative and they become fact by merely them using them.

Mr KIELY: Does the Committee assume, then, that it is a 'yes'?

Mr DUNHAM: No.

Mr KIELY: Can you direct – it's a 'no'?

Mr DUNHAM: No, no, no.

Mr KIELY: Can you direct the Committee…

Mr DUNHAM: You said – you said did he say to me that the estimates were not factual and I said no, I don't recall him using the word 'factual'.

Mr McADAM: You said he may not have used that word. If he didn't use that word, what word did he use?

Mr DUNHAM: Well, I can't recall words he used to describe the budget, but we discussed it on a number of occasions.

Mr McADAM: But you said you just had it.

Mr DUNHAM: Hmm?

Mr McADAM: You just indicated that you did recall because you couldn't describe them in this room.

Mr DUNHAM: You are now paraphrasing and we can go back to *Hansard* to check this. What I'm saying is we had many, many discussions and there are many new words used and most of the words used are this style of vernacular or even worse than this style of vernacular where we are right and Treasury is wrong, so that's the style of vernacular that's used. Now, in the case that's being mentioned here, I've been asked can I recall Mr Bartholomew telling me these numbers were not factual? No, I can't recall the word factual being used, but in any event, if he'd have used that, he would have been wrong. He may have said they're wrong, they're being ignorant, they're stubborn and all the rest of it, but the fact that number was in there meant that it was factual by virtue of that.

Mr CHAIRMAN: Did he raise the issue, and he points to it in his memo, he talks about an artificial reduction; did he use that form of words to you as he alleges?

Mr DUNHAM: Yes, yes.

Mr CHAIRMAN: He did …

Mr DUNHAM: As I said to him, that's why I gave you that oral statement. What I'm saying is this is an arbitrary, blind Treasury target. It is $8m, it's nice and round, you may get it, you may not. It is not based on empirical formularised data. It is based on there's $8m, see how you go with trying to meet that, and if you can't it's still there, so if he would have said artificial, arbitrary, bloody minded, they may well be things that describe it, sorry names to describe it.

Mr CHAIRMAN: So, just before I hand over to Gerry, I mean Treasury are actually describing it in their audit trail, 'a realignment of current year budget to ensure an increase in estimates for the 2001-02 budget year of 2.5% gross', bluey number 40. 'This adjustment is for presentation purposes

only'. Isn't that what Mr Bartholomew was concerned about, that very issue of presentation purposes only and it being artificial?

Mr DUNHAM: That's a question you've got to ask Treasury.

Mr CHAIRMAN: But did he raise the issue of the Treasury terminology of presentation purposes only with you?

Mr DUNHAM: He raised with me the arbitrarily, arbitrary nature of it, so he raised with me that fact that this is just a blind $8m cut. It doesn't equate to anything, it doesn't, it's just a figure that is used by Treasury as a blunt device, an instrument. Now, whether you agree with the Treasury figure or not, they had obviously somehow computed it, their advice to them is Treasury advice, not my advice, and I suggest that you ask those questions of them.

Mr CHAIRMAN: But did - I'm sorry, Gerry - just one more question. Did he express concern to you that they were working towards an allocation of $444m, and they gave that in evidence very clearly here the other day, that they were working towards this and that they would be able to meet that target of $444m. Did he mention the figure of $444m to you?

Mr DUNHAM: Yes.

Mr CHAIRMAN: He did mention that figure of $444m to you?

Mr DUNHAM: He believed it would come to their original target.

Mr CHAIRMAN: And that they would be working to that and that this presentation purposes was an artificial expression of the estimate?

Mr DUNHAM: I don't think they believed it was an artifice in the sense that they had a definite message from Treasury to try and rein in expenditure, so even though they came very close to the other figure…

Mr CHAIRMAN: On $444m you could say –

Mr DUNHAM: You could argue that's also an estimate.

Mr CHAIRMAN: But that had been allocated through Cabinet had it not, through the year?

Mr DUNHAM: It had, but Cabinet hadn't been aware of the potential for them find within, substantial monies within and that doesn't appear in the bookkeeping, but it certainly would be in the forefront of Treasury's mind.

Mr CHAIRMAN: So just to recap and correct me if I'm wrong, Mr Dunham, that you were aware that $444m was the likely expenditure that the department was working towards? That was their allocation, that was what they were working towards and you were also aware of Mr Bartholomew's concern, to paraphrase his memo, about this artificial reduction of $6m by Treasury?

Mr DUNHAM: $8m.

Mr CHAIRMAN: $8m sorry, thank you for that correction. So you were aware of both those things?

Mr DUNHAM: I'm aware that we were able to have the safety net to go to move to the $443m, that our allocation was some $8m under that. I'm aware that it caused some dispute and angst within Territory Health Services and, what was the second part?

Mr CHAIRMAN: Well, the two parts were that the department was working towards its allocation through Cabinet of $444m, that Mr …

Mr DUNHAM: The department should have been working towards achieving the best result for the year possible.

Mr CHAIRMAN: I'm telling you, I'm repeating the evidence I guess that was given by Schilling and Bartholomew here the other day that they were working towards that allocation of $444m as their expenditure target to keep their expenditure within that. Did he make you aware of that's what they were doing?

Mr DUNHAM: Yes, he was confident that he could, that he could meet the original target figure. He was not confident that without some dramatic reductions, he could achieve Treasury's ask of $8m, but he was aware that those monies were available to him in the event that he had to call on them, and he and I were both aware the next financial year we should not make assumptions about that being imbedded in our base.

Mr CHAIRMAN: He also expressed his concerns, concern to you over what he felt was an artificial reduction in that allocation or working towards an allocation of $8m less which was $436m approximately.

Mr DUNHAM: He believed that having argued the case for additions, that should be carved in stone and as I said, Treasury would have you believe that if he was able to bring down an end of year expected of $463m, so if he was able to achieve $20m worth of reduction in anticipated, the $8m should have been a reasonable target.

Mr CHAIRMAN: Okay. Sorry, Gerry.

Mr WOOD: That's all right. Just a couple of questions on the same line. The Health people gave us those documents to answer the questions with, the written answers to the questions that we'd sent them. It has that lovely red poppy on it, but anyway, the question you will get as I go along. In all those columns, from 1995 to 2001-02 there was never this $8m realignment of estimates. In most years you can see a carryover, you argued because they talk about a realignment of estimates …

Mr DUNHAM: What page are you, Gerry?

Mr WOOD: On page, no it hasn't got page numbers, number 4. I'm probably asking, do you think it's strange that in all the years, this is the only year you've got this take-all realignment of estimates throughout the carryover, and if it was a carryover then it's peculiar that only, the only money cited is $797 000.

Mr DUNHAM: I think that's a reasonable question for Treasury too in that you can see in those papers that a big instrumentality like Territory Health Services, as I said approaching half a billion is going to have some bills at the year that are committed but that are not paid for because there's no demonstrated need. So I would think that the lack of a carryover this year is a curiosity for this particular year, and I think that's a question that can be put to Treasury. As far as how evidence

that's come here, the memo from Jennifer Prince, and I think that we should be asking them how they intended to run that seamless budget process across years without a carryover. I think that is reasonable question, but I don't know the answer to it.

Mr WOOD: The second question is, you might say we should ask Treasury, but one thing that has worried me is that there's two sort of statements in both, I think Education, Health and Police Fire and Emergency, does this changeover between, realignment of estimates to allow for carryover and in some cases its permanent and then there is other cases where it's quoted as for presentation purposes only.

A member interjecting.

Mr WOOD: Well, I am reading - take your ministerial which is from Joanne Schilling, the assessment of the $8m there is a realignment of estimates to allow for carryover. Then you get to the audit trail of the Treasury, and then of course it the words the adjustment is for presentation purposes only. No mention of carryover. What, and you might say this is a Treasury, I should be asking Treasury, but I think it does come to the core of some of the questions and one of the reasons we're here. How do you see the word 'presentation' in this context.

Mr DUNHAM: I'm not the author of the word and I don't know why they would use such a word, but I guess if you want me to speculate, I can speculate.

Mr WOOD: Well, I think as your [inaudible] both sides of the table there, I would like you to.

Mr DUNHAM: Okay. My speculation is they are presenting that budget which is what the Health believed so that it looked like an overrun that and it was for them to sustain the argument that we should not be embedding those $8m in our expected base for next year. So the presentation for next year, the critical year, would have been such that those $8m had to be argued again into our base; that's what I'm speculating on now.

MR WOOD: Thank you, Mr Chairman.

Mr CHAIRMAN: Just returning to the allocations that people were working to, and you've sort of made it clear or you alleged that Mr Bartholomew should have been working towards the Treasury estimate of 435-436 …

Mr DUNHAM: I said he should be working to the best figure he could have produced.

Mr CHAIRMAN: Yes, but you've said …

Mr DUNHAM: With the comfort that Treasury could have funded to the level of 443.

Mr CHAIRMAN: But, if I recall correctly, and I guess the transcript will bear this out, that you said that there would have been an expectation by Treasury for the Health department to be working to the estimate of 436.

Mr DUNHAM: Well, I think what Treasury would have been saying is: 'We don't know what the number is. We haven't put any science here other than this is an arbitrary budget instrument to advise you that we think you should come in under budget, and we think it should be, it could possibly be $8m. I mean, given your trend line of reducing from 462 right down to here, we think this

is achievable. It's probably a bit more than achievable, and we also think that you should be looking to your hospital activity data where you may have a fudge factor of some $14m of dollars.'

So I think the message from Treasury was let's see how we go, let's see what happens at the end of the year. But whatever happens, next year we want to revisit this with a lot less of the constraints in times with getting to the close of the end of financial …

Mr CHAIRMAN: And if they - if they threw them a figure of 436, wouldn't there be an expectation by Treasury they would be working towards that 436? At least on a sort of an …

Mr DUNHAM: Well, it would depend …

Mr CHAIRMAN: … official formula …

Mr DUNHAM: It would depend on the conversations that have been recorded here and in other memos that that is the figure and we think it is achievable, but in the event that it's not, we will put a safety net in place so that if you do get in at a figure that you think it is, you won't be out of cash.

Mr CHAIRMAN: It's just, I guess, in relation to that in response to - I'm referring here to page 48 of the transcript of evidence given by Bartholomew and Schilling on 30 November, Dr Lim asked a question and he said: 'Were you working to the 444 or where you working to the 435?'. And in response, Mr Bartholomew said: 'We were always working to the $444m and that was the agreement we had with Treasury.'

Mr DUNHAM: What page?

Mr CHAIRMAN: That's on page 48 of the transcript, or my copy of the transcript of the evidence that was given.

Mr DUNHAM: [inaudible] pagination.

MR KIELY: Each printer prints it out differently.

Mr CHAIRMAN: I'm sorry about that.

Mr DUNHAM: But, I mean, [inaudible] comment on that.

Mr CHAIRMAN: It's there. So, I mean, there seems - you seem to be saying that they should have been working to at least a Treasury figure, and they seem to be saying well there's a - they had an arrangement with Treasury.

Mr DUNHAM: Okay. I think Treasury's message was quite blunt, and that is: we want you to achieve the best outcome you can and that target is available to you. Now if they just zeroed in on that target, as you heard from other evidence, and didn't offer - were unable to offer back savings, I think it would have gone to the credibility of the department in its negotiations with Treasury next year when the $8m would have not only been on the table for negotiation again, but there would have been ample time to run the case that was put by the department, ample time to analyse it with Treasury officers.

Mr CHAIRMAN: So, other questions?

Mr KIELY: Yes, I've got a couple. Mr Dunham, did anyone else ever bring to your attention that the estimate figures were incorrect?

Mr DUNHAM: Well, I mean, what's your analysis of correct? Are you saying …

Mr KIELY: I am saying that the figures …

Mr DUNHAM: ... that the figures produced at the start of the year were incorrect?

Mr KIELY: I am saying that the figures produced by your own agency of the sum of…

Mr CHAIRMAN: 430 – no, 444.

Mr KIELY: 444 and then they were - had the artificial reduction put in there for presentation purposes of $8m making those estimate figures that have gone up were incorrect. Now, I'm asking you did anyone else ever bring to your attention that the estimate figures were incorrect? We had the case of the CEO bringing it to your attention.

Mr DUNHAM: Correctness assumes that the figure …

Mr KIELY: Is this another factual thing we're going through? Do we…

Mr DUNHAM: Correctness assumes that the figure you're using is the one that you need to do all of the business that you have to do and it is all government endorsed business, and that that business which you don't have to do, which has become redundant or has lessened, has been factored out. So correctness is a value judgment by some people.

Now, if you're saying that people came to me and said: 'The end of the financial year figure is incorrect,' I would say that there was some commentary about that, and it was from both departmental officers and Treasury officers because on both sides, they had a different view of what the end of the financial figure should be. Now, the correctness or otherwise of it is really a matter, as I said, for judgment, for debate and which could have taken place over some months in the next year. If you want to go to the formal definition of the world 'correct', you have to go to the papers which are published and which are Treasury figures.

Mr KIELY: Is that a yes or a no?

Mr DUNHAM: I was explaining your difficulty you have with using a judgment word like 'correct' when you want to use it to describe two different opinions on the same number.

Mr KIELY: The difficulty I seem to be experiencing is probably just me as understanding whether I get a yes or a no out of you, Mr Dunham.

Dr LIM: Mr Chairman, a point of order here.

Mr CHAIRMAN: Yes.

Dr LIM: You are the one who raised the issue about badgering witnesses time and time again, and I keep hearing members on this side of the table badgering witnesses. I think that's not appropriate. I …

Mr KIELY: A point of order, Mr Chairman. I don't believe I was badgering any witnesses and I am on this side of the table.

Dr LIM: We are all on this side of the table.

Mr DUNHAM: Well, speaking to the point of order, I'm badger-proof, Dr Lim, so I think he should go for it myself.

Mr KIELY: Mr Dunham, did you relay the concerns of your CEO - where you had that conversation where he flagged with you his concerns and you said you were alarmed - did you relay the concerns of your CEO to the Treasurer?

Mr DUNHAM: I talked about my end of year figure with a variety of other parties, and including in Cabinet, on many occasions because it was an arbitrary figure and I was keen to make sure that I positioned the department in not only the best figure for next year, but in a way that had the confidence of Treasury in the figures that we ended up with.

Mr CHAIRMAN: I'll ask a couple of questions here and I'll go back to the memo that was written to you by Ms Schilling on the - I think it was received by your office on the 7th of the 6th. So, once again we've got the figure of $432m published in the 2000-01 Budget Paper No. 2, and the figure of 3.3 carried over from 1999-2000. So one would assume that that 3.3 is designated for expenditure that's carried over from the previous financial year. Is that correct?

Mr DUNHAM: I'd say that all of those figures there are designated for expenditure if required.

Mr CHAIRMAN: Okay.

Mr DUNHAM: That's, if that's …

Mr CHAIRMAN: And you've talked about the rigour of the argument within Cabinet because there was a number of other Cabinet members who have been previous health ministers.

Mr DUNHAM: It shouldn't be construed that they were negative to the budget. In many cases that was an advantage to me.

Mr CHAIRMAN: No, that's right. But you had to argue strongly. There's a figure here of 4.8 for a budget refinement. Do you want to tell us what that 4.8 was for in terms of a budget refinement?

Mr DUNHAM: No, not really.

Mr CHAIRMAN: You don't?

Mr DUNHAM: No.

Mr CHAIRMAN: Because it's …

Mr DUNHAM: Well, because I'd have to call for documents that I don't have with me. I'd have to make contact with the department to get those documents. In any event, it went to Cabinet, so the documents that went to Cabinet and the ones that came out would have come out as a Cabinet approved piece of paper. The detail is readily available from Treasury and, quite frankly, it's easier for you to get it than me.

Mr CHAIRMAN: Okay, but the point I want to make here is that you're arguing in Cabinet for $4.8m …

Mr DUNHAM: I was probably arguing for more than that.

Mr CHAIRMAN: Probably arguing for more than that, and part of the questions that - within an argument or debate that would occur would be where are you tracking your expenditure? Do you really need this? Surely, there's an examination. I'm not asking for specifics here, Mr Dunham, but all I'm asking is in terms of the debate, there would have to be some questions asking about, well, where's your expenditure now? Do you really need this money?

Mr DUNHAM: I would expect Treasury to be very informed about that issue, yes.

Mr CHAIRMAN: Yes, and it was given to you? The $4.8m was allocated to you, let's say.

Mr DUNHAM: Well, sometimes it's allocated in the way it was described by Mr Plummer yesterday, and that is: 'We approve you entering into these program areas. We are aware that you can spend up to $4.8m, but we're not going to give you all the cash now'. For instance, say, it had to do with payouts or superannuation, 'Until there is a demonstrated need to Treasury, then we'll pay you on that basis'. So, often those amounts are notional, in the sense that you don't achieve the full amount of cash.

Mr CHAIRMAN: Well, then, on a business plan, you've got your $432m, plus approximately $3.5m …

Mr DUNHAM: Yes, yes.

Mr CHAIRMAN: There'd be a year to date target expenditure for programs and different areas of the Health Department. There'd be a variance. As managers, they'd be looking to see: 'Well, this is tracking along okay, but we do – this contingency has come along – we do need an extra $4.8m or an extra $1.9m or an extra $1.6m for these things that have come up that we have to meet these liabilities' or …

Mr DUNHAM: That's correct.

Mr CHAIRMAN: So, isn't it sort of ludicrous of you to – no, that's a loaded word and I'll withdraw that, and I apologise for that. But, I'm just puzzled – would be a better word – to see that you've come along to parliament in the May appropriation debate and just used the bald figure – and I suppose it might be the pot calling the kettle black and something like that – of your $432m that you've started off the year with, plus your $3.5m approximately, without including any of these extra figures, which you knew, some of which would have been expended. Because those items that you requested allocation from Cabinet, at least some of that money would have started to be expended.

Mr DUNHAM: We could have expended on that program area, but we may not have needed the cash.

Mr CHAIRMAN: So you needed, basically, from the beginning of the 2000-01 financial year, until you delivered your speech as part of the debate, the budget debate in May 2001 – you hadn't used any of that - as the member for Nelson said - approximately $8m extra that you had been allocated by Cabinet - not one cent? Is that what you're telling us?

Mr DUNHAM: No.

Mr CHAIRMAN: So you hadn't used any of it?

Mr DUNHAM: No, I'm not telling you that.

Mr CHAIRMAN: So you had used some of it?

Mr DUNHAM: What I'm saying to you is that, Cabinet gave me authority to spend to certain levels on those new programs that are incorporated in those numbers. Correct? We're all together so far? What they have said is that, 'We'll track your budget, and globally, we think you may need $8m less'. Now, when that money was allocated – and you'll see it in the Auditor-General's statement – it was allocated across a number of working codes. It was allocated over several working codes. So, I suppose, when we're talking about those additions there, they don't adequately described the situation where there could have been some significant underruns in budget – or some significant containment devices. The containment devices were already on foot and have taken us down from $462m, down to $444m. We knew also, that Treasury was of the opinion that there may be some capacity to harvest savings out of our acute sector.

Mr CHAIRMAN: So, you know, the $462m wasn't an allocation? The $444m, approximately, was? And the question I'm asking is: are you saying that none of that substantial amount of money – which totals approximately $8m, that you'd gone to Cabinet and argued hard for, saying that you needed to expend it within that financial year – none of it was expended, and that they basically, the estimate that you gave to parliament as part of your budget speech in May 2001, was the $432m, plus the $4m - $436m. It's probably reiterating the question that the member for Nelson asked: why weren't any of those figures there included? And were you …

Mr DUNHAM: Because the figure that was used is the figure that is in Budget Paper No 2.

Mr CHAIRMAN: So, are you telling – I think you answered it in the negative in terms of expenditure. Can you say, tell the committee very clearly, whether any of that $8m that you had gone to Cabinet to secure an allocation – increased allocation – had been spent?

Mr DUNHAM: Yes, portions of it would have been spent.

Mr CHAIRMAN: So, you are aware of that, and yet you went along to the – and you'd been advised by your CEO about his concerns – you went along to parliament and you gave a figure which you knew to be incorrect.

Mr DUNHAM: I gave the figure in Budget Paper No 2.

Mr CHAIRMAN: But you knew it to be incorrect, because you knew there'd been expenditure on top of the $432m, plus the $3.5m.

Mr DUNHAM: What hadn't calibrated into the budget papers, is the capacity for underexpenditure. That have not been calibrated in. It was arbitrarily assessed as $8m that could be deployed to those areas, and the $8m deployed toward those areas may have obviated the necessity for Treasury to provide additional borrowing/allocation. So what Treasury is saying is: 'Go ahead and start in those activities, because you have Cabinet approval. And, in fact, we believe that when you get to the end of the year, you may be able to do all of those things if your budget management and

husbandry is such that you can yield that money from unexpended areas, and do these new things Cabinet is asking you'.

Now, that was a reasonable call of Treasury, on the basis of the trend line of the reductions in expenditure rate and their assumption that there may be some other areas where underexpenditure could have been achieved.

Mr CHAIRMAN: Before I pass to Gerry, isn't this a memo from Ms Schilling, essentially telling you - and I think I'm reading it correctly, I think it's 8th of the 6th 01, so that's 8 June 2001 …

Mr DUNHAM: I have difficulty with that, because I received it on the 7th, so maybe that could be …

Mr CHAIRMAN: Well, someone's annotated it. Anyway, 7 June …

Mr DUNHAM: Whatever.

Mr CHAIRMAN: Okay, a day or so here or there. Yes, well, 7th is the correct figure. Doesn't this then tell you that the correct estimate was actually $444m?

Mr DUNHAM: What this tells me is that, at the end of the year, the final budget allocation required the safety net of $8m to be used. That's what that tells me.

Mr CHAIRMAN: Well, it said: '… a realignment of estimates to allow for carry-over for the 2000-01 expenditure into 2001-02'. Well, we've already heard that hasn't occurred. But, and we've also heard from Mr Bartholomew that this was an artificial reduction. Didn't you have a duty to – because you've now become aware because of this memo, that the – and on the basis of the advice you've had from your CEO – that that figure of $446m, approximately, was incorrect? That the department's estimate all the way along is that they'd been trying to tell you, was correct - the $444m? Didn't you have a duty to tell the parliament that it was an incorrect figure?

Mr DUNHAM: Well, again, you're going to the fact that because the department spent that, it was the correct amount. And I'm telling you that there are some people who would hold that amount in dispute, even today. So, when you say that is the correct amount because that was our target, there are other people who would say: 'Well, we think it may well have been an arbitrary target, and we think you may have arbitrarily – it would put an arbitrary cost saving of $8m. We think you could have even achieved that'. So, correctness or otherwise, is not verified by merely the fact that you hit it. If the department had argued in the middle of the year that the correct target was $462m and hit that, it would not have been the correct number. The fact that they hit it, the fact that they estimated for it, and the fact that they knew that's where their expenditure lines were going, is not a salient point. The salient point is, whether that figure that you achieved is your best endeavours for the management of those significant moneys that were given to you by the taxpayer.

Mr CHAIRMAN: Well, I put it to you that both Mr Bartholomew and Ms Schilling said that, that they always maintained that $444m was their allocation, that's what they were working towards. Mr Bartholomew, in his evidence, also says that there was an agreement with Treasury that that was the case, and he also raised the issue of this artificial reduction of $8m. Now, it seems as though – and we must ask Treasury this – but on the basis of Mr Bartholomew's evidence, it seems he knew, Ms Schilling knew. I guess, you're trying to raise a question mark whether you knew. But that was the figure they were always working towards …

Mr DUNHAM: I knew that number. Where I was arguing with you, is when you used the descriptive words 'correct number'. Now, the correct number is the difficult science that we're trying to talk about here. The difficult science we're trying to talk about is: what should be the amount required for Territory Health Services to discharge its duties? And we've also heard in evidence that they notoriously estimate up and Treasury notoriously estimate down. And somewhere in the middle we've got to come to a judgment figure. That judgment figure may well have been arbitrary and it may have had a connotation that was incorrect because another number was achieved. Treasury – and I'll leave it for them to argue – may well mount a substantial argument that it could easily have been achieved and that those contras are not adequately described in Joanne Schilling's memo.

Mr CHAIRMAN: Well, I put it to you, Mr Dunham, that you were aware that $444m was the correct estimate that the department – both the department and Treasury were working towards and you stood up in parliament and you, in your speech, you gave the estimate of $436m after you had been warned by your CEO…

Mr DUNHAM: [inaudible] budget paper number…

Mr CHAIRMAN: …that that was not correct.

Mr DUNHAM: In accordance with Budget Paper No 2.

Mr CHAIRMAN: Well, it may be in accordance with that, but it wasn't in accordance with the…

Mr DUNHAM: That is the correct number.

Mr CHAIRMAN: No…

Mr DUNHAM: That is the correct number, if you want to use the word 'correct'.

Mr CHAIRMAN: Let me say that it wasn't in accordance with the advice that you'd been given by your own CEO.

Mr DUNHAM: Is that the correct number? What is your – what is your definition of the correct number?

Mr KIELY: I don't think we have to get into definitions here.

Mr DUNHAM: Well, it's a word that's being used. It's a label that's being applied to a number to say this number is correct ergo those numbers are wrong. And I would suggest to you that if you were going to use numbers, that you should use the numbers published in Budget Paper No 2 which accords entirely with…

Mr CHAIRMAN: Well, in your position I wouldn't have, Mr Dunham.

Mr KIELY: Mr Dunham, why, when given the opportunity to correct the misleading, false information in those particular documents, why…

Mr DUNHAM: You mean these ones? The misleading, false information in these documents?

Mr KIELY: That's cute, Mr Dunham, but that's not the one I mean.

Mr DUNHAM: Oh, okay.

Mr KIELY: When you were advised by Ms Schilling of the correct estimate, that was a time that the House was sitting, the House was in session then?

Mr DUNHAM: I can't recall.

Mr CHAIRMAN: It was.

Mr KIELY: It was. So you would have had ample opportunity to go down there and at some suitable time in proceedings, you would have been able to advise the House that: 'Look, I've come into information now and I wish to bring to the House's attention that figures that have previously been published are incorrect and here, in fact, is the correct estimate because I am aware of this; this is the knowledge that has been brought to my attention by my CEO.' Wouldn't have that been the correct thing to do instead of – instead of leaving these misleading, these misleading and false figures out there? I mean, isn't that the role of all parliamentarians, to be truthful and honest?

Mr DUNHAM: Yes, it is, but I can tell you that the final end of year expenditure figure is not known prior to the end of the year. This shouldn't surprise you.

Mr KIELY: What surprises me, Mr Dunham, is that you didn't avail yourself of the opportunity while the House was sitting when you came into the possession of more accurate information, that you didn't make the House – that you didn't make your fellow parliamentarians and that you did not make your fellow Territorians aware of the true figure. That's what…

Mr DUNHAM: Well, I'm not sure whether the House was sitting or not.

Mr CHAIRMAN: It was.

Mr KIELY: The House was sitting.

Mr DUNHAM: The House was sitting when what?

Mr CHAIRMAN: On the 7th, when you received this on 7 June.

Mr DUNHAM: My office received it. My signature is affixed on the 30th, so I can't confirm…

Mr CHAIRMAN: 30 July. So this is a very important communication. It was sitting around in your office for two months before you signed off on it?

Mr DUNHAM: Could well have been. It's dated when I signed it.

Mr WOOD: Just a question – I hope I've got the right understanding, but the $8m you're saying, based also on what the Treasury felt that the – you might say that there were – the Health department had some savings you could…

Mr DUNHAM: I'm surmising.

Mr WOOD: Right.

Mr DUNHAM: I don't want to be seen to be speaking for Treasury. What I'm saying is my analysis of these actions - and I'm surmising in the same way as other people are doing, and I may well be wrong. I am surmising that Treasury were dissatisfied with the end year number.

Mr WOOD: Wouldn't they have some correspondence saying this is the reasons why we're doing it – to the Health department?

Mr DUNHAM: I'm not sure of what the conversations between budget officers were.

Mr WOOD: That to me is important.

Mr DUNHAM: I think it should form part of that question [inaudible].

Mr WOOD: And the other thing – and again, you might say that this Treasury. But I suppose the thing I find hard with this audit trail is that – and I'd be asking why is this in and out figure at all necessary? Because it's not like a carryover; it's just in the one column. The column starts off 2001 Budget Review and I think on the other page it says 2001 – sorry, 2000-01 Budget Review. On the other side, it says 2000-02 Budget Review and it just goes straight down the column, there's all these totals and the one total down the bottom says without the $8m it's 435.9m and when you go straight over the page in the same column where it says Outlays, the $8m comes back on and the total is 447 566.

Mr DUNHAM: What's the question?

Mr WOOD: The question is: why have it at all? Why actually mention it? Why not just do a telephone call and say: 'You have the $8m…

Mr DUNHAM: Why not carry it over?

Mr WOOD: But does it…

Mr DUNHAM: I mean, these are questions I don't know the answers to.

Mr WOOD: All right. That's fair enough.

Mr DUNHAM: If what – if the [inaudible] trying to do is, you know, we're pretending that the money's not spent there and then it will be carried over next year for political purposes, that could have been done by bookkeeping conventions also. I don't know. You could have had the estimated underexpenditure in this year and an estimated additional requirement in the next year by a bookkeeping convention. It would have still demonstrated the growth that was in there. I don't know why it was done that way. I have no idea.

Mr WOOD: I suppose I'm looking at what was – what's the normal process, and how come this normal process changed?

Mr DUNHAM: Don't know. I'm not the author of the Blueys, the wording there or even, I don't action the bookkeeping of it.

Mr CHAIRMAN: So Mr Dunham, you've mentioned possible savings of $7m because of a reduction in hospitalisation rates. Can you point to a particular documentation or briefing that you had that…

Mr DUNHAM: I'm going – I will not say that there was the possibility of $7m. I'm saying that there was a factor in there of +$7m on the anticipated – the significant growth in that area. Nearly 5%. Now, to harvest those savings is difficult because it means if you have doctors on contract or whatever, it's not a matter of quickly turning them off and on. So I don't believe you'd be able to harvest the entire amount, but from a pure economic point of view, there are two things that are evident: one, growth turned into negative which means that the money that you thought you needed to grow could possibly be argued as savings. So that's that.

The documentation I do not have, but I'd be very surprised if the department can't provide you with the figures on WIES, the [inaudible]. You know all about it. And I'd be surprised if they can't provide you with the data that came out of the last – the second quarter of last financial which was definitely available to us at Budget Cabinet in March and definitely known to Treasury.

Mr CHAIRMAN: So, did you – did you have a conversation with anyone in Treasury saying to them that you thought there could be the possibility of a $7m saving?

Mr DUNHAM: It was my practice not to divulge the potential for savings within the department also, and maybe that is a parochial viewpoint that accords with those that have given evidence before, but it was – it was not something I clamoured from the rooftops when I believed that we had the capacity for some savings. But I will say, from a public health and a health minister point of view, I would have loved to have been able to demonstrate the nexus between our community interventions and the lessening of call on acute sector because I think to do that tangibly would have been probably the first time it's happened other than on a case by case basis in any jurisdiction.

So one part of me was hoping and crossing my fingers that it was true, and the other part of me was of the opinion they could have been aberrant and I would have hated to have signed off any numbers because they would have turned around to bite me. But that might not necessarily have been the disposition of Treasury.

Mr CHAIRMAN: So did you discuss the possibility of a $7m saving within the Health department in this area?

Mr DUNHAM: Within the Health department, everybody was aware that we were trying to contain our expenditure as much as possible, that we were going to those areas that had impact on the public and you would have included in those areas where, for instance, there were – there was a lessening of call on our services.

Mr KIELY: In this last Reed budget, was it the practice of other ministers to present false estimates for realignment purposes and – or for presentation purposes, or were you the only one?

Mr DUNHAM: I'll treat that question with the disdain it deserves.

Mr KIELY: Were there other ministers who provided false estimates, Mr Dunham?

Mr DUNHAM: Mr Kiely, if you are making an assumption that in that budget there were numbers that were manipulated for political purposes and that I did it, which is a theme that is running through here, I suggest that you desist from that, and if you are so offended by the practice of numbers being put into paper that may vary and may vary in the full knowledge now that those numbers are not going to come in, I would suggest you look to you your own budget papers, Mr Kiely, and I suggest you look to those four $50m black holes at least, that are in there and stop being so precious.

Mr CHAIRMAN: Well, I think the question is reasonable in a way, Mr Dunham …

Mr DUNHAM: No, it's an offensive question.

Mr CHAIRMAN: Well, because we've heard evidence here across three major departments, as the member for Nelson's pointed out. Police, Fire and Emergency Services, Education, and Health where there's been this cosmetic reduction, an artificial reduction in the estimates of $2m, $6m and $8m, so it seems like there has been a systematic call on these departments to wind back their estimates for presentation purposes to go forward in the budget.

Mr DUNHAM: Well, I think you've got to go back and read the evidence, Mr Chairman, with due respect. In the case of the Police it was a $2m core that they thought that they might underexpend, they only underexpended by $1.7m. I would have thought that was pretty accurate. In the case of Education, we heard that there were $6m and that was pretty close to the mark. I think that the only one that is different probably is this Territory Health Services one. So wrap those three together I think is a little bit misconstruing the evidence. But if you want to look specifically at this and if you go through my evidence you'll see that I believe and a lot of these under pressures for Treasury, I believe that Treasury had every reason to do what it did. I believe that I had adequate opportunity to argue it into the next year, as in fact was the case.

Mr CHAIRMAN: So in your own heart you went forward, you delivered your budget speech, you gave the estimate of $436m and you were entirely satisfied in your own conscience that that was a true figure?

Mr DUNHAM: The true figure?

Mr CHAIRMAN: Yes.

Mr DUNHAM: Yes, it came from Budget Paper No 2. Correct is what is published, correct is not a judgment that comes from your heart or your attitude.

Mr CHAIRMAN: Well I think there's, I won't get into that.

Mr KIELY: We'll leave others to deliberate on the interpretation of correct …

Mr CHAIRMAN: Or truthful.

Mr KIELY: Factual.

Dr LIM: It's a - it puzzles me that we are here to collect information; we are here to seek information from witnesses, from across the public service and other members and here we are having members on this side of the table again, that being members of the committee accusing witnesses. It think that's not yet the time. We are collecting information, and I think members should refrain from being accusatory.

Mr CHAIRMAN: Well, I disagree with you Dr Lim. These are very serious issues, we're asking questions and people who read the *Hansard* will see the nature of those questions.

Dr LIM: Well, we should be asking questions, not accusing witnesses.

Mr CHAIRMAN: Well, I don't believe we are. We are asking questions and trying to divine answers here.

Dr LIM: Read the transcripts of this hearing this morning.

Mr KIELY: I'm sure we will, thank you, Dr Lim.

Mr CHAIRMAN: Mr Kiely?

Mr KIELY: Nothing comes to mind at the moment, Dr Burns.

Mr DUNHAM: That would be typical.

Mr KIELY: Thank you, Mr Dunham, I knew I could rely on you for a bite.

Mr CHAIRMAN: All right, I've got some questions here. Well …

Dr LIM: It's been three hours. Do your think you should call a break?

Mr CHAIRMAN: Do you want a break?

Dr LIM: I think we should call a break, it's been three hours.

Mr CHAIRMAN: Yes, all right, fair enough. Well, I think …

Mr WOOD: Do you have many more questions, Mr Chairman?

Mr CHAIRMAN: I do. I've got a number of questions. Have you got commitments?

Mr WOOD: No, I was trying to get to a freedom of information seminar, but that's okay this is more important at the moment, I can, from my point of view there's no problems. I didn't know whether you only had a few questions left, that's simply, I'm quite happy to go all day.

Mr DUNHAM: Can I have an estimate of about how long it would take?

Mr CHAIRMAN: You can. I refrain from answering that.

Mr DUNHAM: I don't mind how, I'll put it this way, I don't mind if you go another three hours. The point I'm making is that I have some things to organise too, but I'm happy to defer them if your questions are so substantial that it will take us late into the afternoon.

Mr CHAIRMAN: I don't anticipate they'll go late in the afternoon. I'm thinking of your comfort, Mr Dunham …

Mr DUNHAM: Thank you, Mr Chairman, I'm glad that's at the …..

Mr CHAIRMAN: Well, it is and I mean if you want, I mean I thought it might be good to have a break and for us to walk around and maybe even get some fresh air. What about half an hour and we reconvene? Is that …

Mr DUNHAM: I didn't want to know the estimate of the length of the break. I want to know the estimate of the length of the further questioning.

Mr CHAIRMAN: You want the correct estimate or the factual estimate?

Mr DUNHAM: No, the – My suggestion I guess is that if you only have half an hour or so, let's have a five minute break and come back and finish it. If it's much longer than that …

Mr CHAIRMAN: I'd like a cup of tea, how is that, and maybe you'd like a cup of tea and a walk around as well. The committee will recess for approximately 30 minutes.

The Committee adjourned at 12.06 pm.

The Committee reconvened at 12.35 pm.

Mr CHAIRMAN: In his memo, Mr Bartholomew talks about - or in his evidence - he talks about subsequent meetings with you on the issues that he raised in the memo to Minister Aagaard. Do you recall any of those meetings at all, Mr Dunham?

Mr DUNHAM: We met on a frequent basis. We discussed probably 30 issues at a time. This would have been among them and those discussions were unminuted, frank and contemporary.

Mr CHAIRMAN: But it would have been a fairly high priority in Mr Bartholomew's mind?

Mr DUNHAM: Well, depends how you look at it. Some of the times it's not actually a pursuit of money. It is the pursuit of what money can do. So you're not just meeting saying I need this money. You're saying I'd like to implement this program or that program, or we're suffering a bit of stress here. So you'd talk about where the money is deployed rather than bald cash you got - in like we are doing here in a sort of a budget sense. So the discussions would not have been about I need $2.73m or whatever, they would have been about some of the stress factors in areas within the department. I seem to recall last year we have the rotavirus. That was a particularly troublesome thing not just for the health and social reasons but also for economic.

We would have discussed in broad terms some of the actions that were being put in place anticipating maybe approval. Some of the things we would have had to do we would not had the chance to for instance put a Cabinet submission together and we would have just made a decision. It is so important for the staff we [inaudible] if we had to but we are confident that we will get a good hearing in Cabinet. So some things in a sector like this are so important that there is a judgement call made whether you do in anticipation and take the risks.

Mr CHAIRMAN: He would have been hammering away about his allocation and spending power. He felt that the final expenditure of his department would be coming in around $444m which was their allocation. That he'd be …

Mr DUNHAM: That wasn't the sort of jargon we spoke about actually. We would have talked about being within or without budget. There were a couple of Commonwealth payments, some millions that dropped towards the end of the year and that would have helped our bottom line but we wouldn't have talked about 'Phew! we've got these dollars and it's going to improve our bottom line'. We would have talked about sign-off getting the money and the activities that ensued. So, we

weren't fixated just with the accumulation of cash. We were more fixated with how we would deploy the cash and the discussions were more of that ilk than - than how much had been presented into - how much you could look up on GAS system.

Mr CHAIRMAN: He says in his memo, again that you expressed serious alarm at the information that you'd conveyed to him and you wished to be kept informed of all developments.

Mr DUNHAM: Yes.

Mr CHAIRMAN: And you'll have to correct me here if I'm wrong, but I got the impression that yes, that was the case in the original conversation but when you learnt that this was a Treasury - that the target of Treasury had set, this $8m less, basically that it was Treasury trying to rein in spending that your alarm evaporated or eased. Would that be a fair comment?

Mr DUNHAM: It eased only on the basis of timing. I knew that if we had to find $8m worth of cash within that amount of time it would have had a serious impact on core programs. So, I knew that we had until the next financial year to argue the case but instrumental, that the pivotal point of that argument, would be how we husbanded those dollars towards the end of the year. So, it goes to their competence rather than their levels of cash to show that we not only brought the budget in on an arbitrary target, but we were able to demonstrate that we had good control of some of things that Treasury might have believed were a little bit out of control and that that would have gone to being a very persuasive argument in the next year when we had much more time because we'd have just had that allocations.

Mr CHAIRMAN: So at any stage did you ever ask Mr Bartholomew how are we going with that $8m, are we going to reach that target?

Mr DUNHAM: Well, we did have a discussion when that second memo was sent out, the one that was withdrawn. Because, as I said, that would have been an immensely difficult thing to implement, to withdraw all delegations. I mean, in the early memo of Paul Bartholomew's he talks about staffing and delegation withdrawn, travel and delegations withdrawn and, I think, interstate travel or something. So he mentioned a number of initiatives and the withdrawal of delegations.

The other memo talked about a withdrawal of delegations and while it would have achieved a better budget outcome, it was just an impossible way to do it. So, I don't think anybody was arguing that the target was that or the target was minus $8m; the target was best endeavours and to use the scientific and calculated devices in the department that Treasury didn't ever know about, all they wanted us to do was go and hunt and gather for the savings, harvest them and deploy them or bring them to heel back to Treasury because the $8m was there and if we'd gone to the end of the year and said, look, we only needed $5m, I think we'd have had, well, we might have needed $9m. But those were all arguments for right on the eve of the close of the books and they would have, the bargainers would have strongly manifested themselves early in the next year.

Dr LIM: You just bring me, leads me into my question. I was quoted by the member for Sanderson earlier about my exchange with Mr Bartholomew, or was it [inaudible] through that time that he took the Chair …

Mr CHAIRMAN: I think it might have been me …

Dr LIM: Yes, he said that and I quote "Dr Lim: 'If that had been the case, were you working to the $444m, or where you working to the $435m?' And Mr Bartholomew replied: 'We were always working to $444m and that was the agreement we had with Treasury', and I said: 'You did not bring

in any measures to try and contain it, sort of try and get rid of $444m if you possibly could, Mr Bartholomew'. 'No, absolutely not because we had approval, the agreement with Treasury, we had an approved allocation that was $444m' etc, etc.

From what Mr Dunham just said and your questions it appears that some measures were brought in such as the memo saying no more delegations, so did the department bring in any measures to control or did the department did not bring any measures to control …

Mr DUNHAM: Well, he's right and he's wrong, actually, because even though there was a memo it was withdrawn the next day, so technically …

Dr LIM: So they did try?

Mr DUNHAM: … technically what he's saying there is that they didn't bring in further measures other than his original memo. I think he's being honest in his answer there. But the department definitely did take a reaction to try and further control expenditure, there's no doubt about that.

Dr LIM: So I put to you then as a consequence of that memo and, also perhaps as a trigger for the memo, members within the department were conscious of the fact that there was this withdrawal of funding and so they had to do something about containing costs?

Mr DUNHAM: I would be very surprised if anybody in budgets takes a cavalier attitude to the amount of dollar and believes that we can rest easy. I think, I personally believe there's an ethic right through budget officers that innately they're looking to better their budget position and that's sometimes by reductions in other areas where it's not necessary. So, I like to believe that in their disposition and training, budgets officers do that. I don't believe that it follows necessarily that they divulge that to Treasury. So I think it's quite a strong ethic in not just Health, in budgets areas where people are looking to the stewardship of this money, they have a variety of alarm bells that can go off, one of the most obvious ones is pro rata, and that's not a very good measure, but there are things that where you say, well, we're half way through and we've spent half, so, you know, maybe we're on target.

But there are a number of other devices that budgets officers use to inform them as to where some troublesome areas are, and also where they might harvest some potential resources.

Mr CHAIRMAN: Well, I would just like to follow through from this. We've discussed before the importance of what the information that budget estimates give, and would you agree that a budget estimate, just say if the budget estimate, well it was, $436-odd million for Heath, that finally is expenditure was $447m, we also discussed the Treasurer's Financial Report which come out in September, I mean, for any manager or even a minister over a department, wouldn't your aim to be always to ensure that a department brings its expenditure in line with the estimate? Wouldn't you always be interested in that?

Mr DUNHAM: Well, you could focus just on that but it would be pretty foolish because there are other gains, so you might win the battle and lose the war. You might come in on budget beautifully and when you next front up with your cap out for money they might believe that some of the trends which would then have been historical, would have been able to be managed, would have been totally understood and analysed, showed that there were factors there that should have been better managed.

So I believe you've got to be careful of just using that as a target and ignoring all else, knowing full well the next year you're going to have to go back to Treasury again and …

A member interjecting.

Mr DUNHAM: Well, the system is going to run again, and if it is demonstrated that there had been low areas of activity in a particular area and those savings were not deployed for an area that the department's been going to Treasury and saying: 'This is such a high priority that we must get this or we'll have all sorts of calamities', and you didn't fund it from your capacity within, that's going to go to your credibility with Treasury.

So I would suggest to you that to be totally focused on an end of year figure and not at all be worried about what's going to happen next year, is a bit shortsighted.

Mr CHAIRMAN: Weren't you concerned as a minister, you'd gone into Cabinet, your original allocation with the carry-over was $436m, you'd argued that up to $444m, strenuously and rigorously and going in their to bat in terms of your allocation, suddenly Treasury comes in, winds it back artificially according to your CEO, back to, sorry, $436m and yet your department was always working towards their allocation of $444m. I mean, where's the rationale in that?

Mr DUNHAM: Well, in terms of timing and in terms of the arbitrariness of it, or what? In terms …

Mr CHAIRMAN: Well …

Mr DUNHAM: The timing is troublesome …

Mr CHAIRMAN: You'd argued hard, what I'm trying to say is, you'd argued hard for $444m. Your CEO informs you that Treasury has said: 'Okay, that's it' and, according to your CEO, he's saying this is an artificial reduction of $8m to bring it back to $436m. You'd argued so hard, all that good work just sort of cut, thrown out the window by one arbitrary and, as your CEO asserts, artificial stroke.

Didn't you go and argue somewhere with Treasury that every cent of that $446m was absolutely necessary, as you had done in Cabinet?

Mr DUNHAM: It's true that I had discussions with other people, including Cabinet members, the Treasurer and even informal discussions and more formal discussions with officers from Treasury. I'm not prepared to divulge those, but it is not something that was just accepted. It was something that was seen as an emerging picture and it was something where I had to make sure that I had a very strong eye on the emerging year as well, not just the close of year.

Mr CHAIRMAN: So did you discuss with any Treasury officials at all in all of this, because at the bottom of this what was upsetting your CEO was this issue of 'for presentational purposes only'? Did you try and elicit what that meant?

Mr DUNHAM: Well, the words 'presentational purposes only' weren't foremost in my mind, I've got to tell you. They are now because the memo has been quoted in public but maybe it was - that's the words that were said to me. I think even if that was the label that was used, I wouldn't have taken great umbrage at the label or thought it was a misnomer or something. I mean the fact is that we've got to present a budget in presentation form and to present something - I know it is now being

construed that the word presentation means misrepresent. That's not how I would have read it. I would have read, this is the number that we have been presented and I wouldn't have been too fazed by that because it was the number that was presented. So the number that was presented for presentation purposes was indeed presented. So I know it sounds like semantics, but I wouldn't have gone into a tail spin over the use of the word presentation. In hindsight I can understand how people are saying, 'I am a budgets officer, I've never heard of the word before. You know it's a word that is not congruent with previous Treasury actions', all that stuff but if someone had said to me the budget is going to be presented and your number for presentation purposes is this, the word or label presentation wouldn't have given me a, you know wouldn't have kept me awake at night or anything.

Mr KIELY: So following on from that you may have well slept a lot better than if instead an $8m artificial reduction we have a look at for presentation purposes a figure of $16m taken off there which, in the environment and the climate from what I hear didn't seem to raise any eyebrows. The agency would have kept on working to its allocation - what would be the effect then - I'll tell you what the effect would be, if it was $16m and amiably you'd probably be looking at a - when the new budget comes out, the gap then instead of a reported increase of 2.5% when indeed it was only around the 1%, the reported difference in budget allocation of 2.5% would have been in the realms of 5% or 6% wouldn't it. I mean it would have looked even better. That would have been a far better presentation. Would have that bothered you?

Mr DUNHAM: Well, I don't accept the preface to your question because you've got words in there that I don't want to construe that I accept. But, if you're saying to me that this is a fairly arbitrary process, I'd say, yeah, you've got to interrogate every number. I mean the promise in here that there'd be an additional 10 nurses this year, 10 nurses this year, is a good promise and it is welcomed by the people that are sitting out there that need those services. But when you realise that there are 100 nursing positions unfilled, Treasury could well say, like you've just posed, can't make it 80, make it 30. Cause you know you're not going to need the cash. So you can have a program that says we will have 30 extra positions this year. You can have an organisational chart where you write it all up and give them numbers whatever you want to do, you can order the uniforms for them, you can do all those things but Treasury know, in their heart of hearts, you ain't gonna need not $1 because you got a 100 positions already, you haven't filled.

So if you want to talk about the arbitrariness of numbers and how it turns to cash, there is an arbitrariness about this. But if you're saying that we would have manufactured a 10% increase by virtue of how you've just described it, I would have thought that that would have been not something that would have entered anybody's head in the way you've described it.

Mr KIELY: No, it was really all about outlays. It just seems to me that the last budget found itself a very effective way of showing a net increase to the population by this presentation purposes and sorry …

Mr DUNHAM: Net increase to the population for budget?

Mr KIELY: For the population to the budget - that we've found a way of showing to the population, we are actually increasing - well we are not actually, for presentation purposes that any figure could be breached and a gap of an increase to be shown which could only based on presentation purposes. Let me just move this on a little bit because what I am …

Mr DUNHAM: Was that a - there was no question there?

Mr KIELY: No, no, it was just - what this instrument could be used for and how it was used in three agencies only.

Mr CHAIRMAN: Well I think you should allow Mr Dunham …

Mr DUNHAM: I think you should propose that - you can propose that, [inaudible] assume not posing to the [inaudible] accepted.

Mr KIELY: All right - no.

Mr DUNHAM: I'm happy to hear your …..

Mr KIELY: Thank you. Now, Mr Dunham, what I am not too sure about which I would seek clarification from you, is that in Police there was a $2m presentation purposes adjustment of their advised estimated outlays. In Education there was a $6m presentation purposes to change the estimated outlays and in Territory Health Services, $8m. We've heard each of the CEOs and the budget people all give evidence that no, they were not concerned about this presentation purposes adjustment because they were well aware that there was not going to by any changes to the actual funding. They were well aware of that. But I hear at different times through the course of this evidence today, talk of what appears to be a misunderstanding that there was this $8m coming out of Health represented an actual target when in fact - hang on - from the CEOs of all these other agencies, we get the clear message that there was never, ever an understanding - as a matter of fact it was a contra understanding - that there was never an understanding of any actual transaction take place and it was for presentation purposes only. Are you - are you still under the impression that this $8m adjustment was actually having an effect on your budget.

Mr DUNHAM: I guess we are covering some of the old ground here and I'm happy to do it and I'm happy to …

Mr KIELY: All I'm asking you, Mr Dunham, is do you …

Mr DUNHAM: I think the three are different. In the case of the Police their rollover was for physical items, they weren't so much recurrent rollovers and they had a very potent argument to take to Treasury why those items had landed and cleared Customs or whatever it was, hadn't been presented with the invoices. They can probably give the serial numbers of the vests that were being bought or whatever. So they had an argument to Treasury to say that $2m estimated under-run, not bad, it was $1.7m and we'd like that reinstated in our budget next year and here's the items. They could list it. So they were very cogent about what that translation between the two years were. Similarly with Education, even though theirs was largely recurrent, they could mount a very persuasive argument next year. I don't think that's the case with Territory Health Services.

Mr CHAIRMAN: You were always convinced that their expenditure was going to be a hell of a lot more than $436m; that's what you're telling us now.

Mr DUNHAM: No. What I'm saying to you is that the expectation that will be reinstated in the budget and accepted for on-going purposes thereafter, I think was a very high expectation for both - well the Police weren't [inaudible].

Mr CHAIRMAN: You're talking about the carry overs**.**

Mr DUNHAM: Yes, and the case of Education, I think they had established in their own head that they believed they could mount a good case for next year. I do not believe that that was the circumstance with Territory Health.

Mr CHAIRMAN: With Territory Health, Mr Dunham, it was - my understanding is it was actually reinstated in June, is that correct? We are not even … Yes. So, that just about – were you aware that was going to happen?

Mr DUNHAM: Well, I was aware it was available as a safety net and the safety net would have been applied when the funds were required. I assumed the funds were required in June which is why they were reinstated in June and it approximated pretty much what the safety net was. That's my understanding of the documents presented.

Mr CHAIRMAN: Well, it appears to me we've been through the rigours of the Cabinet argument of securing allocations out of the Cabinet to Territory Health totalling some $8m that you've struggled hard to secure …

Mr DUNHAM: Well, I wouldn't say I struggled. I put my best efforts.

Mr CHAIRMAN: Well, okay, you put your best efforts. I am glad you corrected me there. You argued forcibly and reasonably successfully to get that allocation. And then, suddenly, once again, there's this artificial reduction, as termed by your CEO, of $8m, for presentational purposes, and you seem to just sort of roll over on it. I mean, I could understand if they said, $8m in savings, or expected savings through decreased hospitalisations at Royal Darwin Hospital, or a saving of $8m through X, Y or Z. But something as ephemeral or abstract as presentational purposes, after you have been through all of this process over a year, suddenly you just sort of sit back and say, oh that's okay, and that's what you did.

Mr DUNHAM: No, I was frustrated by it.

Mr CHAIRMAN: You were?

Mr DUNHAM: Because, as I said to you in my oral presentation, I believed it was an indicator that Treasury was reverting to its old style of budget interrogation, where it had a bland figure, and left the onus of proof on Territory Health to go back and demonstrate, case by case, why it needed it. And I think the reason they didn't put a reduction in the hospital is because they were leaving Territory Health Services to fill in those gaps. They weren't saying to him, we understand how many doctors are coming up on contract, or what the levels of acuity are, or whether you can have an earlier discharge rate in paediatric ward. They weren't saying it. They were saying that 'you should be looking at these factors, and if they are factors that yield some money, use that for your high priority areas, rather than come to us and say, "Gimme more money, and this is all barleys, this has all been kept in the tin". Because, that is a reasonable proposition for Treasury to put forward. It is entirely reasonable for them to put that …

Mr CHAIRMAN: But is it a reasonable proposition for Treasury to put forward to you, to go forward and stand up in parliament and say: 'This is the estimate of $436m', accepting what Treasury says is the true or factual figure, when you knew - when you had been informed by your CEO - that is was actually $444m?

Mr DUNHAM: But I could well have been if I'd have gone into parliament three months before and told them it was $462m.

Mr CHAIRMAN: $462m was never an allocation.

Mr DUNHAM: But it was in the Treasurer's Annual Financial Report.

Mr CHAIRMAN: But $444m was an allocation, wasn't it, Mr Dunham?

Mr DUNHAM: It was the levels which we could expend, and it was an understanding – if I am to read the documents between Treasury and my department right – it was an understanding that, if called on, it would be made available.

Mr CHAIRMAN: And that was the figure, also, that you knew that your department and your CEO was working to, in terms of expenditure?

Mr DUNHAM: I knew he took comfort from the fact that he could expend to that level.

Mr CHAIRMAN: Well, I'd have to go through the transcript again, but I believe it's pretty plain that he said he was – and I think Dr Lim just quoted before – did you want to quote again?

Dr LIM: Well, I think I made the point. Mr Dunham said his CEO took comfort in knowing that figure. Because, in my mind right now, the department, while knowing that that was a figure they could work to, also tried to bring about measures to contain costs. And one of the examples was that memo that was sent around, where all delegations were removed. Now, I understand that the memo was then withdrawn then next day. Who did that and why was it done?

Mr DUNHAM: Well, a memo of that ilk can only go out from a CEO or the Acting CEO …

Dr LIM: Yes.

Mr DUNHAM: … and it would have been withdrawn the same way. It indicates a couple of things. It indicates the department was still serious about it to the extent that they saw that there were further efforts required. But it also, in a way, vindicates what Treasury were trying to say. I mean, they could have done the same thing: 'Don't spend any money'. That's a pretty dumb and brutal way to control a budget. And as I said, I think it is a pretty clumsy way of doing it. What they're after is the intellect and knowledge in the department being deployed to finding, hunting down, harvesting the savings. And they would have expected that this would have been – given that there was a powerful argument for additional expenditure - this would have been a necessity before the department came to them and said: 'We need additional money because of these activities, and we can demonstrate, absolutely, to you that we have harvested every little speck savings that we can get'. And I think it's that portion where there was some lack of confidence from Treasury, in the department's efforts.

Mr CHAIRMAN: Gerry.

Mr WOOD: I think I can understand that, and I've been reading some of *Hansard* in relation to some of your answers to questions. But I must admit, I do find it hard to know why they would take this $8m off. At the same time they're sort of saying: 'Well, you've really got it'. It leaves me with the understanding that you would know that, so when you went to parliament, you would know that they'd actually told you either informally: 'Look, you will be able to spend up to that amount anyway'.

Mr DUNHAM: Well, I guess it's the same question we could put to Sarah Butterworth, that she would have known, even though her budget didn't factor in the amount required for the contract. She would have known that, if Cabinet approved it, and she needed the cash – though not all – that would have been made available to her. So she took comfort from the knowledge that there was an informal agreement with Treasury that, even if this was signed in this financial year – and she wouldn't need all of the cash, obviously – they would look at the call on that decision and they would provide that amount of cash.

Similarly, the Chief Executive Officer Plummer said he had an $11m approval, but he didn't get all of that money because he had an informal agreement with Treasury that they would revisit that, as the money was required to be called on. So, it's not an unusual thing for Treasury to say to them: 'You have approval to that level of expenditures. We will look at all these other factors that are going on, and see whether, at the end of the year, you need it'.

Mr WOOD: I suppose, yes. And technically, I can see why you'd stand up and say: 'Well, $436 000 is the figure. But at the same time, would you have had knowledge that the Treasury has had this informal agreement with my CEO that: 'Look, if they need the $8m, they've got it'. In other words, are you going up and saying – technically, you are right, but I know, on the other hand, it was an informal arrangement, 'I have got the money'. Shouldn't that have been, like, qualification in parliament. Like, you know, the asterisk, saying …

Mr DUNHAM: Oh, I suppose, with the benefit of what we are arguing now, maybe you could put some sort of caveat on there, that you believe that the figure needed further revision, and that the department had taken great efforts to try and meet it, but you find it difficult, or something like that. You can put those sorts of words in. What I'm saying to you, is the numbers I used were the numbers that were published in there.

Mr CHAIRMAN: So, it seems to me, Mr Dunham, that in a way, the evidence is pointing to the fact that you knew the final expenditure for – or were aware of a lot of pointers for the final expenditure – for that particular financial year, being in the order of $444m. Your CEO had told you on repeated times, and you said that they were always working towards that expenditure. You talked about an artificial reduction of $8m, and yet you went into parliament and quoted the figure - as you were just alluding to then - that the correct figure, or the Treasury figure, the figure that was in those documents of $436m. And it appears to me that you, in doing that, you were a captive of either Treasury or the Treasurer. Would you like to comment on that statement?

Mr DUNHAM: No, because I think it's emotional.

Mr CHAIRMAN: But, it's not emotional.

Mr DUNHAM: I wasn't a captive of the Treasurer or Treasury. But, there is no doubt, when Treasury produced documents - they are the author, this is their pen - that they had the whip hand. Now, whether that puts me in a subservient position, a captive position, or whatever else you want to say, I would say to you that these are Treasury papers, and they are drafted by Treasury. Now, you have exactly the same problem. I could pose this to you: are you a captive of this document? Have you been captured by the words in this document, wherein it's being demonstrated there are some massive errors? Are you a captive?

Mr CHAIRMAN: Well, I dispute that. That's your assertions …

Mr DUNHAM: Well, there you go. So you give the same answer. No?

Mr CHAIRMAN: Yes.

Mr KIELY: It just seems to lack a little bit of credibility here, Mr Dunham, and …

Mr DUNHAM: Well, I'm not sure you should preface your question with that.

Mr KIELY: No, no, no, no, no. I'm quite comfortable with the way I preface my questions, thanks anyway. What I'd ask your view on, is that we have here, being told that there's an $8m presentation purposes coming out of the outlay, of the estimated outlays. Now, we have this money that you've gone into budget and into Cabinet and fought hard for, been successful at. You were aware of what were the budget that your CEO was working to. Your CEO has come to you and said: 'Look, Treasury have informed me that they're taking $8m … Well, they're not taking $8m. 'Treasury have informed me that they're altering the estimated outlay that we've submitted to them, and readjusting that figure and presenting it in the budget papers, $8m below what we estimate it to be'. And your CEO has informed you that he's – after conversations with the Under Treasurer – he's been informed: 'Look, don't worry about that, it's for presentation purposes only. You can keep on going to the budget that you've always had'. That there is indeed, no $8m coming off. And then this …

Mr DUNHAM: Are you paraphrasing what Peter …

Mr KIELY: Yes, yes, but that's – I mean, if you find anything glaringly wrong in that, please …

Mr DUNHAM: [inaudible] in Treasury. You're talking about one …

Mr KIELY: No, my – what action did you do to rectify that situation?

Mr DUNHAM: Well, are you talking about the situation at the end of the financial figure …

Mr KIELY: I'm talking about the situation …

Mr DUNHAM: … or are you talking about the situation about next year's budget …

Mr KIELY: I'm talking …

Mr DUNHAM: … are you talking about my ongoing discussions …

Mr KIELY: I'm talking about the situation whereby your CEO has been informed that there will be an artificial reduction in the outlays that he provided, after painstaking work throughout the agency of gathering the information to provide as much of the correct information as he possibly could, after painstakingly getting it together, and then he's been informed: 'Look, this is an artificial figure. We are presenting a figure $8m below what you've advised us, for presentation purposes', and this alarmed your CEO. Your CEO today, it alarmed him and he came to you and he said: 'This is happening. I have authority to keep on working to what my allocation is'. What action did you do after that in regard to addressing his alarm?

Mr DUNHAM: Well, I suppose I could go back to my oral evidence where I did cover this, and I know it's been some time since I gave that oral evidence and I can re-read it if you like, but…

Mr CHAIRMAN: Certainly, Mr Dunham.

Mr DUNHAM: Would you like to do that?

Mr CHAIRMAN: Yes.

Mr DUNHAM: The particular incident. Now, this may vary from the previous transcripts in that I'm reading from notes, but it is essentially what I've already provided to the Committee and is in the nature of a repetitive answer to a repetitive question.

The particular incident. Yes, I was disappointed and initially shocked because $8m over 12 months is not such a problem, but $8m over a month and a half is very, very difficult to achieve. I did take consolation from the fact that cash was available if needed, but I believe that Treasury's message was very clear. What Treasury, I believe, was saying and I'm - this is a picture I'm painting that may be verified, it may be disputed, it may be discounted by Treasury and we will find out when they give their evidence - but this is, in my mind, the message that's coming from Treasury: obviously the money is required to meet expenditure commitments, and obviously, Cabinet have approved final year expenditure to those levels. But, I believe that Treasury was concerned about the sustainability of growth and they were concerned about the overall sustainability of the budget, an issue that each chief executive officer that we have talked to has said is not with their ambit of concern. So, Treasury had a different focus on some of these numbers than some of the CEOs, and I believe that Treasury was making it clear to Territory Health Services and others, that the base line for 2001-02 had already incorporated the additional costs. That is, that Health had blown their budget and they would have argue the $8m in the next year.

The - I also believe there had been a reversion to the old system of global understated budget number where Territory Health Services provide the detail later. That is, the onus of proof would be on Territory Health Services to describe the cost escalators to Treasury's satisfaction. More importantly, they would have to use their own internal devices and the - particularly the device of the Health Gains Unit to describe those measures tangibly bettered the health status of Territorians. The Auditor-General, too, with his continuing call for performance indicators would have provided the basis for independent audit.

Worst of all, I suspected that Treasury was exhibiting a lack of confidence in the new CEO, Paul Bartholomew and Territory Health Services budget officers. It may be disputed. Let's hear the evidence. It should be remembered that not only was it Treasury's prerogative to ascertain what the end of year figures should be, they also had to report the actuals. We've already heard evidence that Territory Health Services was only motivated by one factor and that is meeting an arbitrary, Treasury-imposed Cabinet endorsed figure. It could be argued the figure was met with a minimum of fuss and it is a salient question to ask: is there capacity to do more with your substantial resources? Therefore, Treasury had washed the money out of the budget, to be re-argued and re-endorsed by Cabinet at a later time, a common budget practice.

Mr KIELY: Thank you, Mr Dunham. Were you told by Mr Bartholomew at the time of the conversation that there would be no real reduction?

Mr DUNHAM: I was told by Mr Bartholomew that in the event he couldn't meet the target that Treasury would readdress the funds as a safety net.

Mr CHAIRMAN: Well, I know we've got different pages of these transcripts, but reading from page 54 of the transcript that I've got, and in response to a question I asked Mr Bartholomew whether the Member for Drysdale, the then Health, Minister for Health would be aware that the budget estimate of $436m tabled in the May budget papers and alluded to in his Appropriation speech on May 31 was incorrect. Mr Bartholomew said: 'I think the Minister was aware that our approved

allocation was unaffected by the adjustment of the $8m,' which, once again, goes to attest Mr Bartholomew's…

Dr LIM: It is page 18 of what you've got there. The bottom half of the page.

Mr DUNHAM: The question to Ms Schilling, is that right? Oh, here we are, down the bottom, yep. Right. What's the question?

Mr CHAIRMAN: Well, it's certainly attesting to the fact that he's alleging, Mr Bartholomew is alleging that once again, that you knew that the final expenditure would be completely unaffected by the $8m, and to put it in his words, 'artificial', and that the expenditure would be what - towards what the department was working towards which was $444m. Do you refute his claim?

Mr DUNHAM: He is - he is saying here that he believed that he would be working to the 444 towards the end of the year, is that right?

Mr CHAIRMAN: I asked the question.

Mr DUNHAM: He's saying exactly what you said.

Mr CHAIRMAN: Yeas. I asked him whether he'd be aware that the budget estimate of $436m total in the budget papers and alluded to in his Appropriation speech was incorrect.

Mr DUNHAM: Well, I dispute that.

Mr CHAIRMAN: You dispute it.

Mr DUNHAM: The correctness of the figure is the figure that's published in there.

Mr CHAIRMAN: Okay.

Mr KIELY: Just so it's clear in my mind, you dispute Mr Bartholomew's…

Mr DUNHAM: Mr Bartholomew is saying that he believed the figure in the budget paper was incorrect because he was aiming for a different arbitrary target. I am saying to you that here in the budget paper, by virtue of the fact that it's printed, is correct.

Mr KIELY: But the question all stems back to at the time. We're not talking about the budget paper here. We're talking about the time that he came to you concerned about his communications with Treasury. Were you then advised by him that there was to be no actual change, that this is all, this is all smoke and mirrors, this is all on paper, it's not even a paper transaction. What we're asking you, Mr Dunham, is at the time that Mr Bartholomew came to you, I mean, did he make you aware…

Mr DUNHAM: What's the day we're talking about? On 31 May, was I aware that we were…

Mr KIELY: Were you aware that there was going to be no change whatsoever to the allocation of the agency, that there was no expectation whatsoever that the agency had to change anything?

Mr DUNHAM: No. I believed there was an expectation that the department would use its best endeavors to bring in the most appropriate – read: low - figure possible on that budget without

impacting on core services, and I believed that in the event that it was difficult for the department to achieve that, there would be an $8m saving in it.

Mr KIELY: Did Mr Bartholomew tell you that he didn't have - that there would be no allocation taken out of the agency? That the $8m was for presentation purposes only?

Mr DUNHAM: That was the question I asked him when we - when he made the call. I said: 'Is this going to be a cut in warrant,' what's the word again? Allocation. 'Is this to be a cut in allocation?' and he said: 'No, it's an end of year target and the cut in allocation is available to us if we need it,' and, as I said to you in the second time I read out that evidence, that gave me some comfort in knowing that we didn't have an immediate problem on our hands, but we had a massive problem for the next year.

Mr KIELY: [inaudible] it was a target; Mr Bartholomew told you it was a target.

Mr DUNHAM: The end year is always a target. It's something that can…

Mr KIELY: But a target.

Mr DUNHAM: …be - can only estimated, That's why they call it a target.

Mr KIELY: He used those terms, that it was a target to be met? Treasury had given him an understanding that this is a target to meet, is that correct?

Mr DUNHAM: Well, I would assume that's what Treasury…

Mr KIELY: Is that what he said to you?

Mr DUNHAM: …are saying is that…

Mr KIELY: Did Mr Bartholomew ask you that?

Mr DUNHAM: Did he ask me that?

Mr KIELY: Did he state that to you?

Mr DUNHAM: What I'm telling you is that Treasury was saying that: 'We believe that there is a number somewhere between your original allocation, $444m, and $8m less than that, that we think you can achieve. Now, we're unaware of what that target is, so we'll give you an arbitrary $8m'. And I'll cover this in my evidence, too.

So the target was a brutal, round device - round-end device - which was put there for the purposes of an end of year target, and it was understood by all parties that it may well be difficult to achieve, and the funds could be drawn down.

Now, in the event that it was achieved or, in the event that some of it was achieved, I think, as it was described in evidence by DCIS, that it would have gone some way to restoring some of the confidence with Treasury.

Mr CHAIRMAN: So, Mr Dunham, you've used the word 'brutal, round device' …

Mr DUNHAM: Yes.

Mr CHAIRMAN: … and you've talked about Mr Bartholomew saying 'a target' but, I put it to you, in his memo he says: 'I rang Minister Dunham and expressed my alarm' - not at this target, but he expressed his alarm at this proposed deception.

Mr DUNHAM: Well, I'm aware of the words that have been put into Mr Bartholomew's memo.

Mr CHAIRMAN: So you're saying he's lying when he says that?

Mr DUNHAM: No, I'm saying he would have chosen much different words if he knew that it was going to be …

Mr CHAIRMAN: But there's a world of difference from …

Mr DUNHAM: I'll finish saying what I was saying.

Mr CHAIRMAN: I'm sorry.

Mr DUNHAM: I'm saying he would have chosen much different words if he knew that his - that piece of paper was to be bandied around the parliament, quoted in the parliament, direct, on several occasions, and used to quiz not only me, but others. And I would suggest that he wouldn't have used a word like that …

Mr CHAIRMAN: But there's a word …

Mr DUNHAM: … whether it's a …

Mr CHAIRMAN: These are words …

Mr DUNHAM: … because I know - I know he's the author of those words. What I'm saying is, I would dispute the use of those words. I'm sure, with hindsight, he would.

Mr CHAIRMAN: So I'd really put it to you that there's a world of difference between the words 'target' and 'proposed deception'.

Mr DUNHAM: Yes, and that's why I say I think he would use different words.

Mr CHAIRMAN: So, I mean, I see no relationship. We've heard evidence from you earlier today that you thought that Mr Bartholomew was an honest man.

Mr DUNHAM: I do. I think he is an honest man.

Mr CHAIRMAN: So he's changed 'target' to 'proposed deception' …

Mr DUNHAM: These are not irreconcilable concepts, Mr Chairman. I mean, it is possible - quite possible - for Mr Bartholomew to be an honest man and me to believe he is so. It is quite possible that he wrote those words in a memo to his minister, who he thought would keep it to, within the two of them. And it is quite possible that the case that I'm putting to you will be verified, not only by Treasury, but if he had his drothers, he'd drothered not have written that memo. That is all reconcilable, Mr Speaker. Mr Chairman, sorry.

Mr CHAIRMAN: So, I'll need to think about how a target becomes a proposed deception.

Mr DUNHAM: Have a think.

Mr CHAIRMAN: Mr Keily, have you got more questions?

Mr KIELY: I, too, am struggling with - my whole idea of definitions have gone out the window today. Yes, and I guess it's getting near the end. We now hear that you're in direct conflict with a lot of the things that Mr Bartholomew has told us. Or, certainly, your view of them are different to what Mr Bartholomew's certainly led me to believe in the course of his evidence.

So over the course of your evidence, you've provided a contrary view of a number of events and facts portrayed by Mr Bartholomew. How can you objectively deliberate over such a situation in your role as a committee member? Will you exclude yourself from committee deliberations over these matters?

Mr DUNHAM: I depends what it is that you think the committee is doing. If we're gathering evidence, I think it's quite possible we'll get a whole bunch of evidence, some of which is in conflict with other bits of it. I think that's entirely possible for something that happens within a PAC.

If you're saying that in this committee, my presence there has the capacity to sway the other four of you to a way of thinking that is 'pro' my case and 'anti' other people's cases, I put to you that I don't believe that to be the case. So, if you're saying my presence in the PAC is such that I could give additional weight to evidence that you might otherwise have believed, that you might otherwise have dismissed and not given so much weight to you, I would suggest to you that I don't have that much capacity in the PAC, strangely.

The other suggestion you're making there is that the report, when we deliberate on it, has to have a sense of unanimity. I would be very surprised, given how the origins and genesis of this particular hearing, and I would be very surprised given the rhetoric that is now on the permanent, public record in *Hansard*, and I would be very surprised given, particularly some of the questions you've asked, Mr Kiely, that there will be a unanimous report on this particular thing.

And I think, therefore, it's necessary for this committee to first garner the evidence in an impartial and unbiased fashion. I think it's necessary, therefore, to assemble the evidence. And it could well be that there are areas of great agreement and areas of great disagreement.

Now in the case of the matters you've brought there before us, it could well be that the committee has a different point of view to mine, or Mr McAdam's or, indeed, Dr Lim's. In which case, all of us have the capacity to dissent from the common view of the committee. So, there is a machinery for it, and I'm sure the machinery may well be employed.

Mr CHAIRMAN: So, Mr Dunham, it's obvious you're here today as a witness …

Mr DUNHAM: Good thinking. Spot on!

Mr CHAIRMAN: Mr Dunham, you're here today as a witness, and I'd ask you to take that very seriously. How do you intend to deal with the conflict - potential conflict - that as a PAC member and a witness, in considering matters pertaining to your own evidence?

Mr DUNHAM: I guess they'll be matters for judgement, Mr Chairman. But there are a few issues that attend on it. In the first place, we won't be deliberating to the extent that it will be a final action. We will be deliberating to the extent that we make recommendations to the parliament. It is in there, that 25 people will bring their collective thoughts and wisdom to this matter. And I don't believe I've got the capacity to: (1) taint the report, or (2) taint the parliament's processes to the extent that my inclusion, or exclusion, would make a great difference.

I guess the second point I would make is that you, yourself, Mr Chairman, it could be argued, have brought some issues to this that are arguably not in the best interests of the PAC. And I think they are probably matters that we've got to pursue as we go through our deliberative sessions.

Mr CHAIRMAN: Thank you. Are there other questions?

Mr KIELY: None from me.

Dr LIM: I would like to pursue the issue of the process of developing a budget. We've explored now, how we came about to have the 2001-02 as set down in the green documents there. This morning, you alluded to fact that there might be at least four that you could quickly identify, of $50m deficiencies, let's call it - if I can use that word rather than 'black hole'. Would you like to elaborate on that for me?

Mr DUNHAM: I think that one of the problems we have, probably as a parliament, certainly as a PAC - and I'll again demonstrate - is that the processes that enabled the first budgets be assembled, stacked that high, and the processes that established this particular budget, stacked this high. So, it's fairly evident to anybody that there has been a much less capacity to interrogate this document - these sets of documents.

There are some would believe they're so divorced, so separate from each other that they don't articulate, though that has certainly been dismissed by the Chief Minister and Treasurer, Clare Martin, who believes that this document is merely a subsidiary of that one. So, it is my belief that they are a seamless document that talk to each other.

The difficulty we have, really, is to replicate that level of budget interrogation - and I would point out, Dr Lim, that in the *Parliamentary Record* there was substantial discussion, in committee, about this very matter - this very matter of what might be the end of year financial. That is not available to us with the current mini-budget. But, in the last session of parliament, we were able to have some quick, preliminary investigation of that budget and it is my belief that there are some substantial failings in these documents that are presented, and portrayed to the people as being factual and frank, and, in stark contrast to this one, are being covered by a new act, the *Fiscal Integrity and Transparency Act*.

So, not only do we have these documents paraded as documents that would be so lucid, clear and correct as to give great comfort to those people who read them, but we have an act of parliament that purports to require that. The issue for us, really, is where there are some major deficiencies, and I turn to them one by one.

It is in Budget Paper No 2, and I go to page 73 where the statement of financial position is enumerated for the Northern Territory Fleet and there is a number there in the mini budget of the net assets of this particular government instrumentality of being $59m. It has been described in various of the budget papers that it would be difficult to yield this money because of taxation and other arrangements, but we know that it is a critical and fundamental part of the analysis done by Professor

Percy Allan, so it comes from these documents and these documents, so here we have a common link.

It is my belief that this is a policy decision that's been made by this government and while they are perfectly at liberty to make a policy decision of this type, they shouldn't parade it as a deficiency of the previous administration and their budget husbandry. So I believe that it is an issue that should be investigated and it can be quickly put to rest because I believe that in a short period of, say, 6 months, it would be possible to see whether the NT Fleet could yield $59m or even the $50m that was budgeted in those papers. That could be done by an expressions of interest process which would still allow the government of the day the option of not proceeding with it or making decisions as to whether there was taxation or other ramifications that were unforeseen or unwarranted.

I believe that $59m hole which goes well to Percy Allan's report is embedded in that document, and that document should be investigated as a matter of some concern by the current government. I am disappointed that they've chosen to introduce a new tax and that tax will yield $24m over four years. This one action will yield $50m in the next six months potentially. So the new tax which is a broken promise, of course, as you'd be aware, Dr Lim, is one of those things where I think they could have used other methodologies that would have shown a greater capacity to understand budgets.

The second black hole of $50m is the HIH. The collapse of HIH has massive ramifications for us. This government put $3m into these budget estimates and these estimates put a further $6m, so there's $9m across these two documents. The estimates that I saw, and I'm again relying on memory because we don't have as much access to documents as the government has, but it's my estimation that the $9m will not see us through this financial year, so that we believe that the monies that were appropriated in this document, for that one purpose, the HIH collapse, are insufficient.

A further concern is the fact that it's been suggested by the Minister for Industries and Development that some $50m will be required and he has said on the public record in the *NT News* that this $50m would be garnered by way of a broad community tax levy. Territorians I'm sure would be concerned that the hit on them for $90 a car to raise $24m is unspoken of in here by being double that to raise $50m for HIH, and we think that silence is something which should be brought to the public scrutiny and the public gaze.

Another factor is that Percy Allan analysed consultancies and it was also done in a document that was paraded as having being fully endorsed and costed which was Labor's financial statement, where they claimed they could yield an enormous amount of money from foregoing consultancies; some $55m they were going to achieve there. In these budget papers it now presents as $5m. My quick mental arithmetic would have us believe that that is a $50m shortfall from the Access Economics endorsed plan through to the budget papers and I think that is a significant amount of money to find in addition to the other two 50s. The other amount of money was discussed in the parliament at the last sittings and …

Mr CHAIRMAN: Mr Dunham, is this a speech or an answer to a question?

Mr DUNHAM: No, an answer to a question. It goes to, it goes to the issue of what the Power and Water Authority will become which is a corporation. It will be called the Power and Water Corporation which has the unfortunate acronym of PAWC, and we would hope this doesn't become a pork barrel because there is the potential for the Power and Water Corporation to be used a political bacon, and Professor Allan does admonish the government and alert them to the fact that politics shouldn't intrude on the Power and Water Authority. However, this report is saying don't intrude politically and this one's saying let's hold domestic power tariffs down are in total conflict because the

monies that are there are calculated as zero, and as Treasury officers would know foregone revenue is pretty much the same as cash, so not to collect revenue has a cost to it.

We can't find the community, the CSOs that goes to the obligation that would go from government to pay the instrumentality to provide for the suppression of power prices. Indeed, the Treasurer is obliged under legislation she introduced last week to take every step she can to maximise the yield and return on that instrumentality. So the Treasurer is charged with returning maximum benefit from the instrumentality and at the same time she is saying that we're not going to raise power charges. We believe that's understated and could be some millions of dollars.

So there are the four big ones; there are many other little ones that I'm sure I could talk to about if …

Mr CHAIRMAN: Is that as a witness or a committee member?

Mr DUNHAM: I could do it as both because it's within the terms of reference, but suffice to say, there are at least four $50m holes in the budget papers presented to the last parliament.

Dr LIM: Well, if I can lead on to the next question then. In terms of the HIH funding, and you were talking about $3m provided by the budget for 2001-02 and a further $6m provided by the mini-budget, and you suggest that it's not going to be sufficient for just this year. Is the Treasurer or the minister currently misleading the parliament because it's not, because he or she has understated the amount?

Mr DUNHAM: Well it could well be that it falls into the category that's being quizzed in here. Dr Lim, it could well be that the minister is knowingly presenting the figure as a $6m requirement this year when indeed it's more. We would like to see some of those numbers and we would like to believe that it's the best estimates of the day …

Mr KIELY: A point of order. When you say 'we', Mr Dunham, are you - I'm having trouble now whether you as a witness - when you say 'we', is there more than one of you there? What we are …

Mr DUNHAM: We are those people who wish to interrogate this document Mr Kiely, and …

Mr KIELY: Then you're talking as a committee member.

Mr DUNHAM: No, no I'm talking as a [inaudible]. There are people who are writing letters to the paper talking about the tax.

Mr KIELY: Mr Dunham, you're not as a committee member, so when you're saying we you're not talking as the PAC.

Mr DUNHAM: No, I'm not. I'm sworn as a witness, and I'm using 'we' to describe a growing band of people who want to get beyond the façade of this document and interrogate the numbers. Now, I'm quite happy to associate myself …

Mr CHAIRMAN: Mr Dunham, I believe this is starting to get into the realm, as I said, of a speech, of a statement and a political statement …

Dr LIM: You put the question that I asked …

Mr CHAIRMAN: Yes, but I think we are coming to a point of relevance, Dr Lim, but continue please.

Dr LIM: The relevance was about how you go about developing a budget and then your budget papers and how they are presented in the parliament.

Mr CHAIRMAN: But we asked those questions right at the beginning of these hearings …

Dr LIM: Yes, and I'm continuing to do so.

Mr CHAIRMAN: Thank you.

Dr LIM: It goes to the PAWA CSO, again what I'm hearing is that the mini-budget is deficient in articulating where the CSO is coming from. Is that again an issue of not providing the information such as the members from government could say that you have not presented adequate information about the $8m for Health; the CSO has not been articulated and provided for as a deficiency or a misleading of parliament?

Mr DUNHAM: Well, they are probably. HIH I think is a deliberate understatement of what is a known call on government. In the case of the CSO, it could well be ignorance, I'm not sure. But there could be ignorance about how these instrumentalities run, there could be people ignorantly assuming that if you don't pick up money it doesn't cost you anything. So they could be two different categories. We'll have to see if that pans out.

Dr LIM: Thank you.

Mr CHAIRMAN: Is that it, Dr Lim? Thank you. Are there any questions of committee members. Well, on behalf of the committee I'd like to thank witness Dunham for coming along here today and I declare this meeting adjourned. Thank you.

The Committee adjourned at 1.39 pm.

FORMER MINISTER FOR SCHOOL EDUCATION

Appearing before the Committee on 4 February 2002

Mr Chris Lugg

The Committee convened at 9.11 am.

Mr CHAIRMAN: I call the Committee to order and open this public hearing of the Public Accounts Committee on Monday 4 February 2002.

Now, this Committee operates under the Standing Orders of the Northern Territory Legislative Assembly and I take the opportunity to notify people present in the public area that under Standing Orders, they're not permitted to record either sound or vision of these public hearings. This requirement does not affect members of the media and they have been given permission to record under certain conditions that are pertinent to our Standing Orders.

This morning, I welcome Mr Chris Lugg who is appearing to brief the Committee on the accuracy of budget data published in the 2001-02 Budget Papers with respect to both the estimated outcome for 2000-01 and the budget for 2001-02. Now, Mr Lugg the Committee has ordered that evidence given before this Committee shall be sworn evidence and I would now ask the Secretary to swear in the witness.

CHRISTOPHER DENNIS LUGG, sworn

Mr CHAIRMAN: So, Mr Lugg, you've been issued with a copy of the *Legislative Assembly Guidelines* dated the 20 August 1992 and the *Public Accounts Committee Guidelines for Witnesses*. Are there any matters of concern in relation to these guidelines that you wish to raise at this stage?

Mr LUGG: No.

Mr CHAIRMAN: The Committee prefers all evidence to be given in public, but should you at any stage wish to give your evidence or part of your evidence or answers to specific questions in private session, you may apply to do so. The Committee will then adjourn and give consideration to your application. Now, for the *Hansard* record could you please state your full name, address and the capacity in which you appear today?

Mr LUGG: Chris Lugg, Howard Springs, ex-MLA, Minister for Education.

Mr CHAIRMAN: Okay, thanks Mr Lugg. Before we move into the hearing proper, just to establish that you have been issued by the Committee with some paperwork or some documentation relating to the transcript of evidence given by Mr Plummer and Mr Simpson and Mr Saunders in relation to the Public Accounts Committee hearings and also issued with documentation that the Committee also has before it in terms of some of the correspondence between the Education department and yourself about these matters, about the 2000-01 budget and the budget estimates.

Mr LUGG: Yes.

Mr CHAIRMAN: Okay. So, I guess just the first question about your own history, your own work history, political history and, you know, including your record as a fairly successful businessman in the Darwin area. Do you mind just taking us through that?

Mr LUGG: I entered politics at the '97 election as a backbencher. I sought to become minister and I was successful. I was given the interesting combination first up of Correctional Services, Sport

and Rec and Arts and Museums. Some people thought that was an odd combination, but it was an interesting and challenging one. But the real meat in the sandwich came when I was given Education. Education is one of those sensitive portfolios that can make or break governments. It's of critical interest to everyone in the community. It's a difficult job, but I sought it, I won it and I expected to have it for a long time. I was proud of my time as Education minister and I'm happy to list my achievements there.

Well, for instance when I got Education, it really was in a bit of a mess. There was no, I guess, real rigour attached to parts of it in that they didn't know what their base line budget should be. The interesting thing about Education is that it's driven by student numbers. There is very little discretion in Education. For instance, the CLP government had a policy of defining the number of teachers by student/teacher ratios. For instance in primary schools it was 21:1, in junior high schools about 17:1 and senior high school about 14:1. They are the most favourable in the country and that was the policy of the government. So for every 21 students in primary school, you get one teacher and it continued like that. So the budget is driven by student numbers.

We must first have control of the student numbers and then control of all your resources in order to focus the resources at the coal face; that is in the schools. Now, in Education when I came there, there were way too many people. There was something like 300 over establishment in the head office. Now, this is a practice that had come along when teachers moved into the head office to become Education Advisors. Often they weren't well utilised and people would just join in on the end in the schools. But, as I said before, there is very little discretion in the Education budget in that personnel costs take up the large bulk of it. The next big slug in the budget are student grants and these are on a per capita basis and it's all formula driven. So in order to maximise the benefit for the community you must get control of that budget, know what your costs are - and after a lifetime in business, and some of that running fairly large corporations, you must know what the inputs are in order to maximise the outputs.

So it was a task I set myself to fully get across wherever the budget was, and to do that I put a team in place which consisted of Messrs Plummer, Simpson and Saunders. And they were given very specific instructions: get control of this; I want to know what the costs are; I want to know where the holes are; and we will refocus our effort into the schools. In that time I redirected many millions of dollars into the schools, into the productive effort [inaudible] to address teachers and particularly the principals. In fact, I initiated a series of moves where I called all the principals together for a forum, and I ended up doing this twice a year. This was to discuss policy issues with them, to discuss problems they have, but mainly to focus the team and getting it going in the right direction under the government policy of the day. But this was fairly new. But there was some difficult decisions there. For instance, we had to know the student numbers in order to allocate out the per capita grants, for instance, and a lot of these were done on estimated enrolments, and estimates became fact and they grew. Estimates were re-estimated and in some cases we just didn't have a true picture. So I changed the assessment system slightly for that - in fact, increased the budget - but I always had the view that if everyone takes their turn, everyone gets a fair go. There are limited resources. You'll never have enough money to do everything you want to do. So if you divide it up fairly, then everyone gets a fair go.

So, my CEO, Peter Plummer, and his two chief financial trouble shooters were on a fairly tight reign as to want needed to be achieved - and they did a fantastic job in there, I might add, a fantastic job. They worked closely with Treasury. We really had to find out what the base line budget should have been, and in my 18 months as Education minister, that base line budget went up by over 10 per cent. We were getting somewhere near the real cost of education. We, I took the view that we had a duty to all the kids in the Territory to give them the best education. In fact I used to say to my

principals "we're in the service business, we are here, that's us; we are here to provide the best education for Territory kids in line with what the parents want". I went on to say that "the only people that did that were the teachers in class rooms. That mean all the rest of us in the education system were there to help."

So I saw my job as getting the obstacles out of the way, providing the maximum I could in terms of resources to the teachers who delivered, so that was the thrust of the way of I ran Education. We were getting somewhere close to getting a very tight ship towards the end. The LATIS program was a world beater. There was no other jurisdiction in the world that was going to put information technology in the class rooms in the way were doing, so we got that through Cabinet; I'm very proud of having done that, and it was much more that kid computer ratios. It was about integrating technology in to the whole curriculum to enable kids to learn and to get a quality education. That was always the outcome, quality education.

In fact, we were getting through the teachers and I believe I had the support of most of the principals and quite a few of the teachers and I said publicly a number of times that the thing I wanted to do with out teachers is to elevate them and put them back on their pedestal of community respect so that they felt valued and in turn did better. Happy troops always give you a better result.

Mr CHAIRMAN: Thanks, Mr Lugg. Did you have a submission or a presentation that you want to give the - or a statement that you wanted to give the Committee specifically in relation to the matters that we're investigating here?

Mr LUGG: No, I think Mr Plummer answered most of them.

Mr CHAIRMAN: Okay, then, I'll throw the questions open.

Mr WOOD: Thank you, Chairman. Mr Lugg, I quote here from the following letter that Mr Plummer wrote to the Chairman of the PAC. One was on the 9 November 2001 where to a question that was asked is "whether the data published for individual agencies differs materially from that understood by agencies to properly reflect the best estimates available to each agency at the time" was the question. He said "the advice provided incorporated a material adjustment. The adjustment included a reduction of $6m to estimated outlays of 2000-2001 on the basis that this would be carried over to 2001-2002. No contra-adjustment was to the 2001-2002 budget." Further down, the question was "whether the agency undertook to advise their respective Ministers prior to the budget being delivered, that these difference existed" and he said that "the previous Minister for School Education was informed of the advice provided by the Northern Territory Treasury and the impact this would have on the budget."

The second document is a letter from Mr Plummer on 4 December, again ….. some questions from the PAC; what was the effect of the realignment on the agency's operations? "The realignment of the 2000-2001 estimated actuals had no impact on the agency." Clarification was sought from NT Treasury about the reasons for the realignment. Advice was provided that the realignment was for budget presentation purposes and not a budget allocation adjustment. As per the advice, the realignment was to address the problem of Government agencies not spending all funds that were allocated in the financial year, thereby making the reporting of estimated actuals for a financial year inaccurate."

Just one last quote from there "No action was taken to manage the budget as per the estimated actuals shown in the budget paper." If you, Mr Lugg, were made aware of it, why didn't you take any action?

Mr LUGG: What action did I need to take? If you look at a budget, it is a moving thing. Things change almost on a daily basis. The way budgets work in Government is each Minister fights within Budget Government to get what they believe is a fair share of resources to deliver the programs. You have to work constantly with Treasury on that, get allocated a sum to operate, but in a big department like Education where there are over three and a half thousand people, teachers coming and going all the time and programs coming on an off all the time.

An instance is with the Commonwealth, Commonwealth programs. We were getting close to an ISIP agreement signed with them, but they insisted on some targets within that program that we felt were totally unrealistic so we refused to sign it. In that case, the Territory Government took over funding those programs pending monies being forwarded from the Commonwealth. That's just one example of the way it all fits, but you have to manage the overall and particularly you have to manage, as in a business, manage your cash in the day-to-day operations.

Mr WOOD: I accept that, the problem is in this particular dollar figure $6m was just arbitrarily taken out of the budget for presentation purposes. There was no contra-adjustment, it was just removed and what it did was it actually reduced the figure for the estimates for the year, so when you gave your budget speech, why did you say, for instance, that the budget had been increased by $9.4m when you knew the figure was based on the difference between the 2001-02 budget and the 2000-01 estimates in the 2001-02 budget and that estimate being changed by a figure of $6m which was to be removed for presentation purposes only, it wasn't based on, as you say, the budget varies and you've got to carryover.

The $6m which gave you the $9.4m increase, which the Treasurer himself said, and you yourself said "This is a very sensitive and critical area", which was to say the least, dubious. It might have been technically right according to the Treasury, but it was based on this presentation purposes only adjustment which, if we go back and - I don't know whether you've seen it - the Under Treasurer states that: "Basically the reason for this was to provide a 2.5per cent increase for them to give that appearance in the next year's budget."

Mr LUGG: The Treasurer and the Treasury run the budget. Now they present to Parliament the way they best see fit. You should understand in Government there is no pigeon hole with Education written on it with $6m or $350m parked there ready for use. It's a floating feast; as cash comes in, cash goes out. It is allocated by Treasurer's advances. Now those things move according to need. Peter Plummer had a particularly good relationship with Treasury and Ken Clarke and we also knew that we needed some more money, for instance to cover redundancies and that was always available. Now, if you pick on a particular point in time, then you've got to qualify it as that particular point in time. Why the Treasurer chose to present it in that way is simply presentation at agency [inaudible] time of a particular event.

Mr WOOD: But that presentation was not normally done. This $6m has been put forward by the Treasurer or the Under-Treasurer for presentation purposes only, and what it does, it makes the budget for Education look like it's gone up by $9.4m because that …

Mr LUGG: The Education budget went up and down. Now, the Treasurer can choose to present that any way he likes. I guess the person who's probably got the most educated view on that would be Peter Plummer himself, a man who is highly respected, highly experienced, used to running difficult and complex organisations such as Health. He wasn't in the least worried by it because it didn't affect the operations of the department.

Mr WOOD: Probably what I'm getting at is when you stood up on Parliament and you basically supported a budget that had been - that the Government was putting forward to the people, I'm sure you would have known that the estimates that you were basing your $9.4m increase, that you were telling the people that we have a $9.4m increase in our budget this year, was based on a figure which might have been legally, under the Treasury's rules, legally correct but for the public was actually not quite the truth. I'm not saying it was a dishonest thing, but from a - if I was a member of the public I would not know that there was an adjustment there $6m.

Mr LUGG: There are adjustments there all the time. If you go back, say a couple of years, when the budget was hovering around the $300m mark, I was happy, and there are adjustments up and down both ways and LATIS was one. Now if you - that's just normal Treasury practice. Now, technically it's correct, it's within the Act, it's probably - these are fairly complex issues to understand, but I didn't see any problem.

Mr WOOD: The carryovers would normally be shown in the next year. This $6m wasn't. This $6m stands out.

Mr DUNHAM: Can I make a point, Mr Chairman? That question has actually been answered by the Under Treasurer whose paper is now available to us and hasn't been available to this witness. That question has been answered, and if you would like to give him the opportunity to read the Under Treasurer's paper I am sure he would give you an answer that is as fulsome as Mr Clarke's.

Mr CHAIRMAN: Well, I guess Mr Lugg has been sent appropriate documentation from this Committee and your point is taken, but I'll allow Gerry to continue with his question, please.

Mr WOOD: But regardless of what was in that document from Ken Clarke, there are still things here which, in Peter Plummer's advice, basically say was for budget presentation purposes, not the normal carryover and the adjustment …

Mr LUGG: What do you understand by the term 'presentation'?

Mr WOOD: Well, that's a question this group here is …

Mr LUGG: You are trying to imply there's something sinister in there [inaudible] there's not.

Mr WOOD: No. Well, we don't know and that's why …

Mr LUGG: We do know.

Mr WOOD: No, we don't.

Mr LUGG: Of course you do.

Mr WOOD: No, I don't.

Mr McADAM: That's the role of this committee.

Mr WOOD: No, we don't know and Ken Clarke, the Under Treasurer …

Mr LUGG: I know what the role of the Committee is. I am an ex-PAC Chairman myself.

Mr WOOD: Well, Ken Clarke is the Under Treasurer and he's coming to us later and he'll put an explanation. He has given us an explanation.

Mr LUGG: Perhaps you should address that question to him in more detail.

Mr WOOD: True, but all I was saying is this was unusual. It's not …

Mr LUGG: Well, I think you can take the advice of Mr Plummer there. He didn't find it a problem, and that's one of our most experienced CEOs.

Mr CHAIRMAN: I think we have to, having gone through the evidence very carefully of what Mr Plummer said, he said that it was unusual; it had not happened before in his experience. So I think we need to have that on the record, that it was an unusual event and I'll let Gerry continue with his questioning.

Mr WOOD: That's where my questions finish, there.

Mr KIELY: Mr Lugg, I'm Len Kiely, the Member for Sanderson. Mr Lugg, you were a minister for some four years in various portfolios

Mr LUGG: No.

Mr KIELY: Eighteen months in Education. In that time you …

Mr LUGG: No.

Mr KIELY: Sorry?

Mr LUGG: I was a minister for two years.

Mr KIELY: Two years, okay. In that time you were exposed to budgets. How would you regard your knowledge of the budget cycle?

Mr LUGG: I was learning all the time when I was in there and I frequently sought advice from those who knew more about it than I did.

Mr KIELY: So you were aware of the April Budget Cabinet and what its role was?

Mr LUGG: In general terms, of course.

Mr CHAIRMAN: Would you like to tell us a bit more about what you saw the role of the April Budget Cabinet as being?

Mr LUGG: Budget Cabinets are a time when Cabinet gets together and divides up what is to be the likely total. Now, that's generally decided in monetary terms. Each minister puts as strong case as they can for what they consider an adequate share of the resources and then they go off and administer that. The overall management of the budget is done by the Treasurer and Treasury.

Mr CHAIRMAN: But isn't that period of time also a time not only when you look at forward estimates and expenditure, but also the Cabinet signs off on estimated actuals for the current financial

year? In other words, in 2001 you would have not only signed off on the forward estimates for expenditure in Education for 2001-02, but also signed off on your estimated actuals for 2000-01.

Mr LUGG: Exactly. Your point of using estimates there is the key word. They are their estimates. You work on the best information you've got. If you get within one or two per cent, as Mr Plummer has said, you're doing pretty well. But there are contingencies above and contingencies below. But once you get to that, you operate with what budget you've got.

Mr KIELY: Okay. So you are aware, then, of the main budget estimates are part of the cycle. What about the Treasurer's Financial Report? Do you know what role that plays in the budget cycle? Would you like to inform the Committee?

Mr LUGG: Again, it's a series of estimates and a bit of a check on how you're going.

Mr McADAM: Chris, I would like to ask you a question. Obviously you were the Minister for Education for about 18 months. How would you describe your practices in respect to the Education budget? Were you a hands on person or were you basically reliant upon advice? Obviously you were, but would you like to describe …

Mr LUGG: It's a combination of all of that. I took responsibility for Education which meant the budget, which meant the results, and I got help wherever I could from people I thought qualified to give it to me. The team I put into run the budget in Education I thought did an excellent job in other areas such as policy. The biggest problem with Education, the biggest challenge I faced, was getting Aboriginal kids into the classroom. One of the ways we saw to get some new ideas on that was to engage Bob Collins, a man you might think would be on the opposite side of the fence. But we engaged him to go in warts and all and have a look at the real situation because, I can tell you as an engineer of over 25 years standing, if you want to solve a problem, first of all you have got to define it.

So we engaged Bob Collins to have a good at Aboriginal education, and he came up with some pretty interesting recommendations. But the key thing he came up with, that encapsulates most of the [inaudible], if you are going to give Aboriginal kids a future and some choices in life, you've got to get them into classroom. The rest of the system is in place. The schools are there, the teachers are there, the programs are there, but it's a waste of time if the kids aren't there.

Now, most of those things have been tried. I spoke to the most experienced teachers I could find, both in the private sector and in the public sector, and there are all sorts of ideas floating around, and I encouraged all my principals to go with what would work. I remember saying to one in Central Australia, I said: 'If you can get your kids into the classroom between the hours of, say, 3pm and 8pm, you've got my permission to run your school that way. If it makes a difference if you get those kids in there'. Because if you don't get them in there - if we don't get them in there, those kids don't have too many choices in life.

Mr CHAIRMAN: Mr Lugg, I would like to ask you, I guess, a series of questions that go to the heart of this inquiry and it is about the budget estimates, particularly the estimates of expenditure so there is a sort of a series of questions in here, and I hope that the other members of the Committee would bear with me as I run through them.

It is about the relevance and importance of the Budget Estimate Papers which are delivered in May, which Gerry already referred to in terms of your appropriation speech. I guess the first question

is: do you believe that the parliament and the people are entitled to trust budget estimates that are delivered as part of the Appropriation process?

Mr LUGG: That's a rather strange question. I mean, it goes without saying.

Mr CHAIRMAN: Okay, thanks for that. And just your own view about the importance of the accuracy of budget …

Mr LUGG: I should add, though, that they should recognise that they are estimates.

Mr CHAIRMAN: Yes, true.

Mr LUGG: 'Estimates' being the key word.

Mr CHAIRMAN: Well, we will work through some of these issues. The importance of the accuracy of this budget information to parliament. What's your view on that, the importance of the accuracy – we know that they are estimates – but they also form the foundation for …

Mr LUGG: Estimates are based on the best information you are giving at a particular snapshot in time. Now, it is a moving feast. That's one thing you will learn as you go through this inquiry. Budgets move; they are a fairly dynamic thing. You work on the best estimates you've got, your allocations of cash and changing priorities. For instance, in Education we had a school burn down out in west Arnhemland, $1.5m price tag to rebuild it. A decision you take there is fix it. We will reallocate our programs, we will shuffle the cash within our budget to cover it, and if we can't, we go to the Treasurer, because we had a pretty good working relationship with him, and said: 'Look, we have had this contingency, a school's burnt down. You can't not fix it.' The only decision to make is how you provide those facilities for those kids.

Mr CHAIRMAN: But, I mean, coming in to the Appropriation cycle within parliament, and particularly in an election year, it is important for the public - would you agree it is important for the public to know what the government's intentions were in terms of what the government put forward as being an increase in spending in Education or any other portfolio, police or health, in terms of their judgment of which way that particular government was going to go over the next 12 months? Leaving aside, you know, I guess, the sort of accounting issues, there is a political issue in there as well, isn't there?

Mr LUGG: Well the main political issue, if you look back over the 18 months, is Education spending continually went up. In fact, in the 18 months of my stewardship, it went up over 10 per cent, an increase that was almost without precedent. And if you further consider that I took some $30m-odd I believe - and I'm a bit hazy on these figures, so bear with me - out of the indirect areas and put them into the schools, then the effect at the sharp end was even more pronounced, but it was really getting the house in order as to what a proper baseline budget should have been.

Mr CHAIRMAN: That's right. But at the bottom of it, these figures provide the public and parliament with some cornerstones, if you like, or some points of reference to make decisions about which way a government or an opposition is going to go, say, with Education spending.

Mr LUGG: You're on the wrong track if you think you can pick on an estimate in isolation and say: "This is the Rock of Gibraltar." It is not. If you look in the context of where Education is going, and this is an estimate, and it was consistent with the general track of the Education budget, then it's entirely consistent. Now, as Peter Plummer, a man who I've already said I have enormous respect

for, he said: "If I get within 1 per cent or 2 per cent of my budget, I'm pretty happy that it's as accurate as you're really going to get at any particular time."

Mr CHAIRMAN: Okay, well, let's get into the nitty gritty of it. You received documentation from your department on 2 May from the CEO, and the title of this - you would have received it in what was sent out to you from the Public …

Mr LUGG: If you think I've read all that stuff and memorised it, I did not.

Mr CHAIRMAN: No, but this is an important document because it's titled:
To the Minister
From the Chief Executive Officer
Re 2000-2001 Estimated Actuals, 2001-2002 Budget, and 2002-3003 Forward Estimates

So, in other words, this was a crucial document sent to you in May, setting out the department's estimates for expenditure for the 2000-01 financial year …

Mr LUGG: I think you're putting too much weight on it …

Mr CHAIRMAN: No, no. Let me finish, please, Mr Lugg. Setting out the estimates of expenditure for the 2000-01 financial year, setting out what was proposed to be spent in the 2001-02 financial year, an election year, in terms of your expenditure on Education, and we'll leave the forward estimates for 2002-03, but this was an important document that you signed off on.

Mr LUGG: Every document I signed as the Minister is an important document. It's part of the public record and is entitled to be taken seriously, but if you put it in context with every other file I did, it was part of the department's - most of the departments have a wish-list of programs, of things they want to do, and they put that together as an estimate.

Mr CHAIRMAN: But this is finalisation of what was going to go forward in the May appropriation in terms of your estimates of expenditure for the financial year you were in, which was 2001, and your plan for expenditure in the 2001-02 year. And, basically, what it sets out there is that the estimate of expenditure is approximately $351m, and the proposed expenditure for that year somewhere around $354m.

Mr LUGG: Mm.

Mr CHAIRMAN: I just sort of remind you, just to keep - and other people in the public gallery here who may be interested in this - the final expenditure for that department was actually very close to $351m. So in other words, the department came to you with the documentation, crucial Cabinet sort of documentation and documentation in terms of parliament, telling you that the estimate was going to be, of expenditure, was 351 for the 2001 year, and also telling you, and sort of informing you, that the proposed expenditure for the next financial year, an election year, was $354m.

Mr LUGG: So the difference is $3m in 350. It's less than 1 per cent. Now, in terms of budget terms, I'd say that was pretty accurate.

Mr CHAIRMAN: Yes. Now, very good. So you signed off on this document on, according to the records here, 10 May. So we've established that, you know, it was clear that their estimated expenditure was 351, and it clearly shows that your projected expenditure for the 2001-02 year was $354m. Are we sort of in agreement so far, Mr …

Mr LUGG: I'll take your word for it.

Mr CHAIRMAN: Okay …

Mr DUNHAM: Can I just make a point?

Mr CHAIRMAN: Yes.

Mr DUNHAM: These are very difficult figures to follow because we're comparing between years. The point he's trying to make is that at the end of one year, you'd spend a certain amount; at the early part of next year, you had another amount which was about 3m above it. Is that correct? The Chairman is trying to make the obscure point that that was 1 per cent hen earlier in budget discussions, we've talked about it being 2.5 per cent. The point …

Mr CHAIRMAN: No, Mr Dunham. If I could just interrupt you there, you are misconstruing - - -

Mr DUNHAM: Well, you make your point and then we'll see if I can …

Mr CHAIRMAN: You're misconstruing what I'm saying. I'm just trying to establish what Mr Lugg signed off on as part of the budget estimates process.

Mr DUNHAM: Okay, well, give that to him. Put it in front of him.

Mr CHAIRMAN: Okay. Well, he should have had this documentation, anyway.

Mr DUNHAM: He hasn't got a paper in front of him, as you can well see.

Mr CHAIRMAN: He was sent all these …

Mr McADAM: He had access to them.

Mr CHAIRMAN: He was sent all these papers; he's chosen not to bring them with him. I don't mind if you …

Mr LUGG: Can I just make the point - is that I have a business to run, I have a number of businesses to run. I don't stay up at night reading what I did six or eight months ago, especially to find what is essentially a political witch hunt here. And I'm satisfied that …

Mr CHAIRMAN: No, it's not a witch hunt. We're just trying to get to the bottom of it.

Mr LUGG: Don't interrupt, if you wouldn't mind. I gave you a chance. It is a political witch hunt, and the evidence you've had from Messrs Plummer, Saunders and Simpson, who were across these figures at the time and are still across them today, will give you your fairest estimate of what's going on. Now, I stopped thinking about this stuff about six months ago, in detail, and despite the wealth of paperwork I've had - I've glanced through it, but I certainly haven't gone through it word by word and memorised it, and if you want me to regurgitate it, I'm sorry, I can't, but I don't think it's relevant, anyway, for me to have to do that and repeat what Plummer and Co have said.

Mr CHAIRMAN: I take what you've said, Mr Lugg - I mean, some of this stuff is very detailed - but I was just trying to step through the documentation that we have available and just get agreement that basically …

Mr LUGG: Well, I think Plummer and Co have answered it pretty well.

Mr CHAIRMAN: Yes, well, I'm coming to that.

Mr LUGG: You're really rehashing, from my skimming through their transcripts, of what they've already said. I really don't have much to add, and I certainly don't rebut everything they said. I mean, I always regarded those three particular gentlemen as being far more highly skilled in this area myself. Theirs wasn't the only advice I took, but such was my respect for Mr Plummer in particular, I was happy to be guided by him. And at the same time I was aware of his relationship with Treasury in that he adopted a cooperative relationship in order to get the best result. Now, you might be unaware that within government sometimes there are some particular people, CEOs even, who regard Treasury as an adversary, and it's a constant battle to fight with them, to put arguments forward in order to get the money out of them.

Now, Treasurers generally have a role to play and they do play that very well, so they make you justify beyond any doubt at all any increase in funds you've got, and at the same time if you don't use the funds you already have, then they make you justify why you should carry it over or not.

Mr CHAIRMAN: Gerry.

Mr WOOD: Could I ask, therefore, Mr Lugg, did they justify what they wanted to take this $6m from you? Did they give you a full enough …

Mr LUGG: That came as a surprise to me. You'll have to ask the Treasurer about that.

Mr WOOD: Did you ask them yourself and say: "Why are you doing this? It's not the normal way …

Mr LUGG: I talked to my CEO and, through him, to Treasury and the Treasurer themselves – we had weekly Cabinet meetings. I was concerned mainly with the general thrust of where the budget was going, and I was aware of glitches and, I guess, variations creeping in on almost a daily basis of where it was [inaudible].

Mr WOOD: I know it's - you might say it's a relatively small amount compared to the whole budget, but when you get up and say there's a $9.4m increase in the budget for the year, but if you took the $6m out of that, of course, it only appears to be a $3.4m in the light of - we all make political statements. We try to make our departments look good, and I'm not saying you didn't run your department well, but there is a …

Mr LUGG: What's your point?

Mr WOOD: Well, the perception is that there was quite a large increase in the Education budget from one year to the next, and in actual fact $6m of that appears to have come by changing the estimates for presentation purposes only, not a figure based on an economic formula, just based on …

Mr LUGG: Well, there is no formula. I mean, that's a prerogative of the Treasurer.

Mr WOOD: When I say economic formula, you say: 'The school got burnt down', you know that's an economic formula - you need $1.5m to build it. You know if there is some Commonwealth funds that need to carry over that - what I'm saying is you've got an answer to why your doing things. In the case of the $6m, we haven't got an answer.

Mr LUGG: Well, you'd better ask the Treasurer.

Mr KIELY: Mr Lugg you seem to put a lot of store in this team which is Simpson, Plummer and Saunders. When you said that when you came to Education there was no baseline, that there was no rigour in their – I take it you mean their budgetary processes - this was under the former CEO prior to Mr Plummer taking over? Was that - you've worked with two CEOs in Education haven't you?

Mr LUGG: Um.

Mr KIELY: How did you become aware that the situation of the budget under the previous CEO was less than to be desired?

Mr LUGG: Well, when you come into a new portfolio you endeavour to get across it as quickly as you can, so you have a talk to the CEO, you ask them what the budgets are. I mean, running any organisation, the key to it is its budget and whether it lives within its budget.

Mr KIELY: There is a review done, isn't there?

Mr LUGG: Now, Education had a history of running, having to get Treasury advances to cover baseline funding needs such as staff.

Mr KIELY: Did you do - was there a review conducted of Education budget performance at all?

Mr LUGG: That's normal management practice just to keep a tight reign, you don't need a review …

Mr KIELY: So what …

Mr LUGG: … it's what any imprudent manager does, I would have thought.

Mr KIELY: So there was no review undertaken? Mr Saunders never undertook a review of Education's budgetary processes?

Mr LUGG: Well, it depends what you mean by review - if you set up a committee to go through it. I mean, in normal course of events you try and get to the bottom of where the expenditure goes and the money comes in. Trevor Saunders …

Mr KIELY: Yes, but could you just tell …

Mr LUGG: … was working for some time on his own in trying to get across it …

Mr KIELY: Where was Trevor Saunders working at this time? Was he working for Education?

Mr LUGG: I'm not sure whether he was part of Treasury or Education. I think he got transferred across to Education.

Mr KIELY: Treasury or the Treasurer's Office?

Mr LUGG: I'm not sure.

Mr KIELY: I think Mr Saunders was actually on the ministerial staff at the Treasurer's …

Mr LUGG: He wasn't on my ministerial staff.

Mr KIELY: No, of the Treasurer.

Mr LUGG: Yes, at the Treasury.

Mr KIELY: When this review was conducted. I mean, we can check that up now. Mr Saunders …

Mr DUNHAM: I think this line of questioning is entirely irrelevant in terms of reference, but we're quite happy to take it because we think the terms of reference should be broaden in any event. And I'm glad that members are seeking to have excursions far and beyond those which have been provided by the parliament.

Mr KIELY: Thank you, Mr Dunham, but there is relevance to the line of the questioning and, you know, if you wouldn't mind interrupting me, I promise not to interrupt you when you ask questions.

So, Mr Saunders, you don't know where he was working at that time exactly? Whether it was for the Treasurer or Treasury …

Mr LUGG: He was working to try and delve into the Education budget. He was working either with Education and with Treasury - I mean, the two areas sort of overlap, I would have thought.

Mr KIELY: But he was a contract officer on the Treasurer's staff?

Mr LUGG: I don't know his personal conditions.

Mr KIELY: Mr Plummer advised the committee that when he came on he assembled a team to get in and fix up the budget. He was very proud of that team. You're reiterating Mr Plummer's position about the strength of that team. Were they all - I mean, where did they come from? I mean, what was the process by Mr Plummer bringing these people into Education?

Mr LUGG: You'd have to ask Mr Plummer.

Mr CHAIRMAN: If I could just, sort of carry on …

Mr LUGG: I didn't recruit staff.

Mr CHAIRMAN: … that sort of questioning in a way. You've said that this team has been assembled and obviously, you've had a lot of trust and confidence in the team of Peter Plummer and Mr Simpson and Mr Saunders.

Mr LUGG: Um.

Mr CHAIRMAN: They sent up to you, in May, this estimate of expenditure for the department of $351m.

Mr LUGG: Um.

Mr CHAIRMAN: Mr Plummer's come back to you quite soon after that and said – well, we'd like to hear a bit more about the conversation - but he's informed them the committee that he told you that there was $6m being reduced from the estimates of expenditure for that year. I mean, given your confidence in the team, were you alarmed that this $6m had been taken off?

Mr LUGG: No.

Mr CHAIRMAN: So you thought that the Treasury or Treasurer estimate of approximately $345m …

Mr LUGG: I knew at any time, if I had a valid reason for extra funds - for instance, redundancies - the door was open there, or for any other contingency. I mean, we didn't operate in isolation. If there were alarm bells ringing in Peter Plummer's mind, he would have let me know, and there weren't. Now, I knew he had a very good working relationship with Mr Clarke, Ms Prince and others in Treasury, and that was backed up by Messers Saunders and Simpson.

Mr CHAIRMAN: So were you aware that this change was to the estimates of expenditure and not the allocation? And Mr Plummer has already told this inquiry in his evidence that his department would always spend to their full allocation. Did he inform you of that - that it wasn't an alteration …

Mr LUGG: It's not all spent on one day though. That's the difference. Your expenditure …

Mr CHAIRMAN: But I'm not talking about – but, the difference between the change - what I'm trying to get at here, Mr Lugg, is the difference between the change in estimates and the change in allocation. They're two different things.

Mr LUGG: Well, of course.

Mr CHAIRMAN: Yes, but what I'm trying to ask you is: were you informed that there was no change to the allocation and to the department which was $351m …

Mr LUGG: Well, you start with your best estimates. You start with your best estimates and you work on them as best you can allow. But circumstances arise and you work a way around them. If you don't have the cash …

Mr CHAIRMAN: Well, Mr Dunham's told us in evidence so I guess …

Mr LUGG: Hang on a minute. If you don't have the cash to operate, then you go to the Treasury.

Mr CHAIRMAN: But the departments have told us, three departments included who, the focus of this inquiry, which is Police, Education and Health. The finance teams in all of those three departments have told us that they were still working to their allocation, not the reduced estimate. That's been consistent evidence. But, did Mr Plummer make you aware that he was still spending, and the department was still spending to their full allocation?

Mr LUGG: We expected moneys to be coming from the Commonwealth. We knew we would be spending money in the LATIS program that was unexpended. Now, I think it's entirely reasonable that those be taken out and returned when needed. I mean, government operates on cash the same as any other business does. You can't spend cash you haven't got, whether it's accrued or otherwise. Now that's - to me that was, I thought, fairly normal practice.

Mr CHAIRMAN: But in hindsight, I mean …

Mr LUGG: I haven't changed my mind.

Mr CHAIRMAN: … the departmental estimate of $351m was accurate because that's what the department actually, in the end, ended up spending. It was $6m more than the reduced estimate that was imposed on it. Would you concede that?

Mr LUGG: I'm not sure what the question is.

Mr CHAIRMAN: The department came to you in their documentation with an estimate of $351m for their expenditure for the year. In the Treasurer's Annual Financial Report it's documented there, later in the year, that the expenditure was very close to $351m, not the $345m that was the reduced estimate - that the estimate was wound back to for presentational purposes. What I'm saying to you, looking at that, it appears that the departmental estimate was accurate.

Mr LUGG: That would appear so.

Mr CHAIRMAN: Yes, thank you.

Mr WOOD: Mr Chair. You said that your advisors didn't sound any alarm bells about the $6m, basically. In other words, they weren't particularly worried about it. But, couldn't that be based on the fact that they were also told it was there, and they were told that, on the basis, it would be carried over? And that's the reason it wasn't of any concern for them, from a purely technical point of view …

Mr LUGG: Presumably.

Mr WOOD: But the real question – because, whether the estimates turned up at $345m wasn't of their concern, because they knew that it would be actually $351m. But the people who should have really been saying: 'This wasn't $345m', was really the politicians. Because they knew, it was their responsibility to put these figures in the budget, to agree to those figures.

Mr LUGG: The Treasury and the Under Treasurer look after the budget and they present - the Treasurer presents it the way he sees best at the time.

Mr WOOD: True, but knowing that there was $6m taken off, never got a mention in any budget speech.

Mr LUGG: Well, that adjustment came as a surprise to me. As to why the Treasurer chose to present it that way, you'd better ask them. I think I've already [inaudible].

Mr WOOD: Yes, true. Okay, well, we will ask the Treasurer.

Mr KIELY: Mr Lugg, I'd like to read to you from *Hansard* your appropriation speech on Thursday 31 May 2001, Parliamentary Record 28, page 7780. And these are your words, Mr Lugg:

As I have stated before, the overall NT Education budget has been increased by $9.4m to $354.7m.

I put it to you, Mr Lugg, that you knew that the correct estimate of spending was $351m and that the increase was only $3m. I also put it to you that you were part of government keeping two sets of books in an election year.

Mr LUGG: What rubbish!

Mr KIELY: One book for the public showing a 2.5per cent increase in Education spending in an election year, the other showing the real situation of less than 1per cent increase.

Mr LUGG: What rubbish!

Mr KIELY: You don't believe that's a fair estimate of what actually went on, a fair assessment?

Mr LUGG: No. Your interpretation of what you think went on is rubbish.

Mr KIELY: My interpretation is based on the figures presented before the Committee.

Mr DUNHAM: No, it is not. There are no figures presented to this Committee that there were two sets of books. That's an allegation you are making that he's refuted.

I have a question for you, Mr Lugg. I mean, we are looking for comparability here and the comparability that some of my colleagues are looking for is that week ending one year and commencing the next year. Can I ask you in your time as Education Minister and immediately proceeding, did you believe the allocation given you by the start of the year would be the figure you would end the year with?

Mr LUGG: Well, in my limited experience in 18 months I didn't believe it would be the same …

Mr DUNHAM: Up or down?

Mr LUGG: … I took it as an estimate. I always hoped it would go up, depending on the priorities, but it was an estimate.

Mr DUNHAM: And the basis for it going up would have been ongoing negotiations during the course of that next year?

Mr LUGG: Well, we already had words with the Treasurer. We expected some voluntary redundancies in Education and we were given assurances at the time they were being funded on an emerging basis. So one would believe, as those were funded they would come through the Education budget, extra funds would be made available to cover it. [inaudible] core program.

Mr DUNHAM: So if you were looking to compare years, an adequate comparison might be at the start of the one year and the start of the next, or the end of one year and the end of the next, but to compare with the final weeks of one year and the early weeks of next year might be problematic in

that, given your experience, it was likely in the course of the next 12 months that there would be substantial negotiations affecting that figure?

Mr LUGG: There would be a great many situations arise which could affect that figure.

Mr DUNHAM: So the comparisons you try and made here is specious to some degree …

Mr LUGG: Well no. I don't think its specious, I think it's naïve.

Mr CHAIRMAN: Thanks, Mr Lugg. Just getting back to the discussions that you had with Mr Plummer when he informed you about the $6m reduction in the estimates, can you just tell us a bit more about that discussion and what might have been said?

Mr LUGG: I spoke to Peter Plummer on almost a daily basis, often about budgets because that was probably the biggest concern we had - to get that right. In fact I don't recall a particular conversation on that date.

Mr CHAIRMAN: Were you alarmed? Mr Dunham was alarmed when his CEO told him that there was $8m being reduced from the estimate of his department.

Mr LUGG: Peter Plummer wasn't alarmed and I don't believe any of the other CEOs were alarmed. I mean the Treasurer presents the budget to parliament as he sees fit. Now if Peter Plummer rings me at home in the middle of the night on my mobile phone and says, 'We're in deep shit', then I would believe we are in deep shit. But he didn't, and he wasn't alarmed. We were more concerned with getting the Education budget in shape generally rather than working on one estimate which is just a point in time. It's a moving feast.

But general consensus of the way budget estimates go, we were more concerned probably at that time that in fact funds would flow from the Commonwealth.

Mr CHAIRMAN: So did he tell you why he wasn't concerned about the $6m reduction in estimates?

Mr LUGG: Well, Peter Plummer never came up to me and said on a regular basis, 'I'm not concerned about this and I'm not concerned about that', and there was no reason …

Mr CHAIRMAN: But he reported to you that there had been a $6m reduction in the estimates?

Mr LUGG: Peter Plummer reported lots of things to me over the budget and I took his word for it that it was an estimate. I knew he had a close working relationship with Treasury. I knew there were some big sums coming up. I knew that Commonwealth funds hadn't flowed yet because we hadn't signed the agreement. I knew we had surplus funds from LATIS in there, and when you juggle all those together and come out with the differences, you work on estimates. But the time if you ever get concerned with what's going on in budget, is where you don't have money, for instance, to pay your staff, of where you don't have money to send to the School Councils to carry out their programs; the dollar for dollar. Now all of those were intact.

The other time where you get worried is where you don't have the funds to fund the students in the private schools. Of the $57m that was allocated out of that budget to the private sector, one of the most generous schemes in the country I might add, and that was a policy choice with the CLP to give parents a choice of where they might send their kids to school.

Now, I also made the resources of my department freely available to the private sector - Student Services to name one. We had a good working relationship, I guess largely because we didn't have any socially elite private schools here which may give cause in some sectors to an argument about state aid for private schools. We didn't have that problem, we worked harmoniously together. Especially the people in the private sector who came here from interstate, they were just amazed at the facilities the private sectors got here. They were used to having nothing elsewhere. But as I said before, I took a responsibility for all Territory kids to try to deliver the best education services, and the private sector play an important part in that. Now they had something like 27per cent of the enrolments, a sizeable chunk. In the bush for instance, Catholic Education were educating a lot of the Aboriginal kids, and they were doing a great job. I was happy to support them.

Mr CHAIRMAN: Just coming back to the budget estimates, who do you think can take responsibility for the budget estimates, the government or the Treasury?

Mr LUGG: Budget estimates are, as I said, are estimates. They are done with the best information available at the time. Treasury generally work up the Treasury estimates.

Mr CHAIRMAN: But you have said there was a reduction of $6m for presentational purposes to the Education budget and you seem to be saying that that's the prerogative of Treasury, so …

Mr LUGG: Treasurer.

Mr CHAIRMAN: So it's the Treasurer that's got the prerogative of that reduction in estimates?

Mr LUGG: Well, I would have thought so.

Mr CHAIRMAN: Okay, thanks for that. What do you understand to be the legal budget?

Mr LUGG: Legal budget?

Mr CHAIRMAN: A legal budget.

Mr LUGG: What is a legal budget?

Mr CHAIRMAN: Well, that's the question I'm asking. It is something that's sort of come up in submissions.

Mr LUGG: I haven't heard the term..

Mr CHAIRMAN: Have never heard the term?

Mr LUGG: No. Perhaps you could tell me.

Mr CHAIRMAN: Well, it's just something I'm interested - it caught my attention as part of the submission.

Mr LUGG: I think since it's caught your attention, you have asked me, I would be interested to know what you think that means.

Mr CHAIRMAN: Well, I'm inquiring into what means, what it's use is, and will be inquiring about that with our next witness. So I just …

Mr LUGG: You asked me a question. I don't understand it, can you clarify it?

Dr LIM: Mr Chairman, I support the witness in this instance. I mean, you are throwing questions at the witness, asking the witness to interpret things out of thin air. I think that's inappropriate questioning. It's a form of badgering and I suggest you lead on to questions appropriate to the witness but not asking him to interpret things for you.

Mr CHAIRMAN: Thank you for that advice, Mr Lim.

Mr DUNHAM: Dr Lim, mate.

Mr CHAIRMAN: Thank you, Mr Dunham. Did we get that title right, Mr Dunham?

Mr KIELY: Well, Mr Lugg, were you aware that the $6m that was taken out of the estimated expenditure for the Education Department in May was to be reinstated in June? Were you aware of that?

Mr LUGG: The fact that it was taken out came as a surprise to me, but as I assumed after talking to Peter Plummer about it, he wasn't worried about it. The fact that he's given evidence to this Committee that it wasn't affecting his operation of the department.

Mr KIELY: So were you aware that it was going to occur? That the reinstatement was to occur?

Mr LUGG: Yes.

Mr KIELY: If you thought that $345m was sufficient, why then did you ask Cabinet for a further $5.3m in June 2001?

Mr LUGG: Could you tell me a bit more about that?

Mr KIELY: There was a submission in Cabinet requesting it …

Mr LUGG: For what purpose, do you know? I think it may have been - was that redundancies?

Mr KIELY: I would have to look into the actual paper which I think Mr Wood is going to do now, is he? No, we'll get it off Ms Large. Does Jane have it?

Mr WOOD: The Treasurer's advance.

A member: The Treasurer's advance at 5 points …

A member: That's not the purpose …

Dr LIM: Let them ask the question.

Mr DUNHAM: Let them ask the question.

Mr LUGG: Can you just remind me what I asked for that for?

Mr CHAIRMAN: Well, we're just waiting for Ms Large.

Ms LARGE: It was for redundancies, operational costs and grants.

Mr KIELY: So if you thought that the $345m was sufficient which you …

Mr LUGG: Well, redundancies would be met on an as needs basis if I recall correctly.

Mr KIELY: Well, it's a very small window that we're looking at here. You were advised of expected expenditure, the estimated expenditure for a six week period was going to be in around the $351m. You have advised parliament and the people that $345m was the sum and …

Mr LUGG: [inaudible]

Mr KIELY: … in May and then you've gone back and asked for another $5.3m.

Mr CHAIRMAN: In June.

Dr LIM: I mean, you've just been told by our consultant why that money was required. I mean, the questions that members have been putting to the witness does reflect - do reflect the inexperience of members and that you don't understand the budget purpose and budget process.

Mr McADAM: Well, with respect, Dr Lim, they are legitimate questions which the public is entitled to know.

Mr DUNHAM: We are not questioning the legitimacy, we're questioning …

Dr LIM: The question has been answered quite adequately by our consultant and you're chasing rainbows in this instance. The ex-minister has told you he was not across the detail of the information. Our consultant has provided this information and you continue to pursue it in a very, very mischievous way.

Mr McADAM: In a very what?

Dr LIM: Mischievous way.

Mr KIELY: Mr Lim, everyone's allowed their own interpretation.

Mr DUNHAM: His name's doctor, mate. You keep doing that and I believe that you're doing it on purpose.

Mr KIELY: Well, this - okay, Mr Dunham. You are allowed to have your views.

Mr DUNHAM: It is a simple thing to remember someone's name, mate.

Mr WOOD: If we're talking on names, Mr Chairman, we've got Mr Burns - Dr Burns down here as Mr Kiely and Mr Kiely as Dr Burns, so I think we ought to fix that up.

Dr LIM: They have an identity crisis, haven't they?

Mr CHAIRMAN: Anyway, Mr Lugg's time is valuable. He is in business and we don't want to keep him here for longer …

Mr LUGG: Exactly.

Mr CHAIRMAN: … that's a fairly important thing, so if we could sort of move on with the questioning. I think Mr Lugg has given his answer to that particular question, so continue, Mr Kiely.

Mr KIELY: Mr Lugg, did you raise concerns to the Treasurer that the expenditure estimates figures were not what you had signed off on in May?

Mr LUGG: Those estimates were a moving feast. I continuously had discussions with the Treasurer about the need for money in the education sector. It's not as much as I would have liked, and I've already said to you, you never seem to get enough for everything you'd like to do. I mean, that was just part of the normal part and parcel of being minister.

Mr KIELY: Yes, but I'm not asking about you seeking more money. The question was: did you raise any concern to the Treasurer that the expenditure estimates figures were not what you had signed off on?

Mr LUGG: I don't recall getting too worked about it.

Mr KIELY: Mr Dunham has given evidence that he discussed his concerns about the reduction in budget estimates with Cabinet colleagues. Did he discuss them with you?

Mr LUGG: I don't recall.

Mr CHAIRMAN: So, are there other questions of Mr Lugg? Well, I'll continue. I've got a couple. Were you aware that at the time that the estimates for police and health had been similarly wound back as Education's had been?

Mr LUGG: I focused mainly on Education. I was aware of what was going on in health but, as I said, it's the Treasurer's prerogative to present estimates the way he thinks fit.

Mr CHAIRMAN: So you completely refute the suggestion that your government at the time of that estimate process was actually keeping two sets of books?

Mr LUGG: Oh, what a load of rubbish! That – now, that comment reflects your inexperience, your naivety and completely lack of understanding of how government works and how budgets work. I mean, if you look at the mini-budget that was handed, I mean, there's so many holes in that it's just unbelievable. If you wonder why I think this is a political witch hunt, that's part of it. Do you have another question?

Mr CHAIRMAN: Let's continue. Just in terms of the Auditor-General's November report, I'd like to ask you a question, and I will refer to the November report. On page 22, in respect of the Department of Education, I quote:

> By March 2001, the department had better identified its budgetary needs for personnel costs for the year. That analysis established that the original $204m budgeted for personnel costs for 2000-01 was insufficient. A $6m increase was approved by government in March 2001, but the forward estimates in the government's 2001-02 budget papers still showed $204m. The actual outlays recorded for the personnel costs for the year eventually totalled to $212m.

So I will just reiterate the question that was asked by the Auditor-General: why wasn't the increase of $6m for personnel costs in the Education Department budget approved by the CLP government in March 2001 included in the 2001-02 forward estimates as part of your budget for your department?

Mr LUGG: I seem to recall that increase at the Budget Cabinet was part of the base line budget for the whole department. As to where a particular allocation went, I'm a bit hazy on this but it depended on the emerging needs at that particular time. The thing with, I guess, personnel costs - and they probably included redundancies - is when the - on an accrual basis - is when they become due.

Mr CHAIRMAN: One of the things that is of concern is the lack of growth in base funding and the fact that departments were sort of …

Mr LUGG: Lack of growth in base funding?

Mr CHAIRMAN: Yes, well this is what this is pointing to by the Auditor-General.

Mr LUGG: No, you've put the question …

Mr CHAIRMAN: It was identified, it was signed off on and in the final analysis it wasn't included in your forward estimates.

Mr LUGG: The most relevant section of the Auditor-General's report there is that the department was continuing to refine its needs to more accurately reflect its costs and where they were allocated.

Mr CHAIRMAN: There is some documentation - amongst the documentation from your department, it appears to suggest that you weren't fully informed of the underspend in Education through LATIS and Commonwealth programs. Do you feel that your …

Mr LUGG: What do you mean 'underspending'?

Mr CHAIRMAN: So you feel that you were fully informed of those underspends?

Mr LUGG: Hang on, hang on, hang on. What do you mean 'underspending'? One of the reasons the funds in LATIS weren't fully expended was to buy computers and the manufacturers couldn't deliver them at the particular time. Now, in terms of Commonwealth programs, it was actually overspent because the Commonwealth funds didn't come through, particularly because of the ISIP(?) program.

Mr CHAIRMAN: So you - in other words, you were aware of the - of this underspend and the reasons for it? You were kept fully informed about it?

Mr LUGG: I believe so.

Mr CHAIRMAN: I mean, part of the documentation also, the Committee notes, is that there appears to be no monthly and quarterly financial situation reports from your department.

Mr LUGG: What, to me personally?

Mr CHAIRMAN: Yes.

Mr LUGG: Well, the CEO runs the department. I set the policy [inaudible] and put the team in place to carry it out. I don't go through, as I do in my business, I don't go through a daily P and L statement of sales, costs, whatever. I mean, I had enough to do without doing their jobs as well and I had full confidence in them. They did an excellent job.

Mr CHAIRMAN: So you didn't - you weren't supplied with any quarterly financial statements from your department?

Mr LUGG: I talked with people in the department on a daily basis about how it was going and they would refer problems to me as they arose.

Mr CHAIRMAN: So would you do the same with your own business?

Mr LUGG: What's that?

Mr CHAIRMAN: Not peruse quarterly financial statements.

Mr LUGG: Obviously, you go through the financial statements as it goes.

Mr CHAIRMAN: Okay, thanks, Mr Lugg. Are there other questions from Committee members?

Mr DUNHAM: I've got one.

Mr CHAIRMAN: Mr Dunham.

Mr DUNHAM: Mr Lugg, have you heard any media reports concerning this Committee and its current terms of reference?

Mr LUGG: I was rather disturbed to hear the Chairman say that we have already decided on the outcome or words to that effect and we're just looking for evidence to support our position.

Mr DUNHAM: Can I assure you on behalf of at least some of the members, that we treat this as a very serious Committee.

Mr LUGG: Well, I would hope you would.

Mr DUNHAM: You, as a previous Chairman of the Committee, I'm sure, would be aware that this is an information garnering exercise and that we have as yet not made any decisions about the matters before us.

Mr LUGG: Well, that's difficult to believe, that you haven't made any decisions before - the questions from the Chairman and this gentleman here, he's obviously made up his mind. I mean, the allegation about two sets of books is just a nonsense, but I guess that's what you'd expect from a person who goes to Wulagi Pre-School and tries to …

Mr CHAIRMAN: Look, Mr Lugg, we're not going to engage in this sort of muckraking.

Mr LUGG: Excuse me, excuse me. I'm still talking.

Mr DUNHAM: Please let him …

Mr CHAIRMAN: No, no, no, no, because …

Mr KIELY: You can, Mr Lugg, but please engage in constructive …

Mr DUNHAM: Are you going to gag the witness?

Mr CHAIRMAN: I'm not gagging the witness, but I just don't think it's very helpful to get into this personal sort of bickering …

Mr LUGG: Well, let me just remind this gentleman that …

Mr CHAIRMAN: And for members of the public and the media who are here today, all the documentation and letters and correspondence that have gone between myself and Mr Lugg and the Committee will be tabled, and the submissions will be tabled and available. And I think you will find that Mr Lugg wrote to me raising concerns, that he said that it had been brought to his attention about the objectivity of this Committee. I wrote back to him telling him - putting the situation in its proper context. So, that's all on the record …

Mr LUGG: I didn't accept your explanation …

Mr CHAIRMAN: … and that record will be tabled.

Mr LUGG: … because it was inconsistent with what the media had reported you as saying. And you didn't actually address that, anyway.

Mr CHAIRMAN: You said that someone had brought that to your attention, in your letter to me.

Mr LUGG: It came across the news as well.

Mr CHAIRMAN: So who brought it your attention, Mr Lugg?

Mr LUGG: Is that relevant?

Mr CHAIRMAN: Yes.

Mr LUGG: A number of people brought it to my attention.

Mr CHAIRMAN: Were there any members of this Committee who brought it to your attention?

Mr LUGG: Yes, they reminded me in addition.

Mr CHAIRMAN: Okay.

Mr LUGG: But anyway, like I said, I was proud of my time as Education Minister. I achieved a lot, I brought the baseline budget up, and I believe we achieved a lot. The LATIS program for instance, as I've said, was world beating. And, in fact, I will stake my stewardship of the Education Department against the present incumbent in another 4 years' time, and we'll just see how it goes.

Now, I'm disappointed that you've chosen to run this inquiry the way you have, and to talk to the media the way you have. As an ex-PAC Chairman myself, I think you've trivialised it. It's quite evident from skimming through …

Mr CHAIRMAN: You've made your point, Mr Lugg, and we're not going to continue …

Mr LUGG: Let me finish.

Mr CHAIRMAN: We're not going to continue with these sorts of attacks. You know, I just rule it out of order because you're engaging in a personal attack. Now, if you want to talk about your stewardship of Education and the job that you've done, but you come here with an agenda to try and side-rail this inquiry - we've inquired into the facts …

Mr LUGG: No, hang on, hang on.

Mr CHAIRMAN: … and I'm quite satisfied about that.

Mr LUGG: I haven't come here with any agenda whatsoever. I've been subject to people with an agenda, trying to get me to say things were out of order. Now, of all the CEOs …

Mr CHAIRMAN: Well, I asked you at the beginning of this inquiry …

Mr LUGG: Hang on, hang on.

Mr CHAIRMAN: … no, no, if you had a statement to make to this inquiry. Now, if you've got a statement to make now, go ahead, and then the proceedings will be finished.

Mr LUGG: Well, I've been trying to talk a couple of times, and you've just cut me off. I mean, are you trying to say now that you're only interested in hearing from me the parts you want to hear, or are you interested in hearing the whole story? Now, I swore an oath that I'd talk the whole truth. If you just want to look at selected parts that suit your argument, that suit the instructions you've been given to try and dig something up, and support the allegations made in parliament - I mean, it's just a nonsense. It really trivialises the whole committee system, sadly, and particularly your own role in the beginning, and the role of Mr Kiely here who seems to know no other way of talking to people other than badgering them. I mean, that comes through the transcripts. You did the same to other witnesses who've gone before me. So, this report …

Mr KIELY: What's your point, Mr Dunham?

Mr DUNHAM: Lugg. I'm Dunham.

Mr KIELY: Mr Lugg? It's like déjà vu, that's all.

Mr LUGG: Would you mind letting me finish? I gave you the courtesy of letting you finish before.

Mr KIELY: Well yes, but I'm not going to sit here to have my personal integrity attacked by you, Mr Lugg.

Dr LIM: You attacked everybody else.

Mr CHAIRMAN: You've been given ample opportunity and I think I'll call these proceedings to an end.

Mr LUGG: Someone should explain to you you're now a member of parliament, and you should conduct yourself with honour and dignity as befits the position …

Mr CHAIRMAN: That's it, that's the end. I'm [inaudible] this, because, Mr Lugg, you're just indulging in personal attacks and vendettas here, and we're not here to do that. So that's it, and thank you for your appearance today, Mr Lugg, and all the best in your business.

The Committee adjourned at 10.24 am.

NORTHERN TERRITORY TREASURY

Appearing before the Committee on 4 February 2002

Ms Jennifer Prince, Acting Under Treasurer
Ms Jodie Kirkman, Director Output Performance Management
and
Mr Ken Clarke, Former Under Treasurer

The Committee resumed at 10.38 am.

Mr CHAIRMAN: I call the Committee to order and open this public hearing of the Public Accounts Committee on Monday, 4 February 2002.

This Committee operates under the Standing Orders of the Northern Territory Legislative Assembly and I take this opportunity to notify people present in the public area that under the Standing Orders they are not permitted to record either the sound or vision of these public hearings and this requirement does not affect members of the media who have been given permission to record under special conditions.

Today I welcome Mr Ken Clarke, former Under Treasurer from Treasury; Ms Jennifer Prince, Acting Under Treasurer, and Ms Jodie Kirkman who is the Director of Output Performance Management, who are appearing to brief this Committee on the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome of the 2000-01 and the budget for 2001-02.

The Committee has ordered that evidence given before the Committee shall be sworn evidence and I would ask the Secretary to now swear in the witnesses please.

JODIE ELIZABETH KIRKMAN, sworn

KENNETH BRUCE CLARKE, sworn

JENNIFER GAIL PRINCE, sworn

Mr CHAIRMAN: Witnesses, you have been issued with a copy of the *Legislative Assembly Guidelines* dated 20 August 1992 and the *Public Accounts Committee Guidelines for Witnesses*. Are there any matters of concern in relation to those guidelines that you wish to raise at this stage?

Mr CLARKE: No.

Mr CHAIRMAN: Thank you. The Committee prefers that all evidence be given in public, but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in private session, you may apply to do so. The Committee will then adjourn and give consideration to your application.

For the *Hansard* record, starting from my left would you please state your full name, address and the capacity in which you appear today.

Ms PRINCE: My name is Jennifer Joy Prince. I'm the Acting Under Treasurer.

Mr CLARKE: Kenneth Bruce Clarke, I'm the former Under Treasurer.

Ms KIRKMAN: Jodie Elizabeth Kirkman the Director of Output Performance Management.

Mr CHAIRMAN: Thank you, Mr Clarke, for your written submission to this particular hearing and that's amongst the documents that will be tabled and that the Secretary has copies for distribution for those interested parties. I thank you for your candour and directness in your written submission, Mr Clarke. It's greatly appreciated. The way I thought we might approach this is to try and work through the sections that you've identified within your written submission. I've certainly got quite a lot of questions and there's no wish to cause any discomfort to the witnesses, so it's proposed that we probably go to 12.30 and have an hour for lunch, 12.30-1.30, and continue on from there.

If at any time that you feel that you need a break, please don't hesitate to let me know because it could turn out to be a long day.

If I could just sort of start off with your written submission. In that you detail a conversation that you had with the Treasurer, Mr Reed. It occurred at the height of the budget finalisation process. And basically, just paraphrasing what Mr Reed has or what you have written there - in your written submission, you said that in May 2001 Mr Reed as Treasurer became concerned about the lack of growth in the 2001-02 budget numbers for Health, Education and Police. Is that correct?

Mr CLARKE: Lack of growth. He was concerned about the comparison between one year and next. Yes, I guess that's correct.

Mr CHAIRMAN: Yes. And then subsequent to that meeting, and at Mr Reed's direction, ultimately at his direction, the estimated expenditures for the 2000-01 year for Health, Education and Police that were originally sort of circulated in May or March were reduced so that that growth could be apparent.

Mr CLARKE: So that growth could be apparent. I suppose that's technically correct, yes.

Mr CHAIRMAN: So I guess at the bottom of it my question is: without Mr Reed's intervention, would those budget estimate figures gone forward into the budget papers unchanged?

Mr CLARKE: Yes, they would have.

Mr CHAIRMAN: Okay. Thanks, Mr Clarke. I've got a couple of questions following on from this about …

Dr LIM: Can I just follow on the question you just asked: would a Treasurer always intervene on Treasury's figures on any budget in the sense that he gives directions to Treasury?

Mr CLARKE: Oh no, no. I mean, this was a particular concern for him and this is what he said to me, it was a particular concern. I interpreted it as being because it was an election year, although he didn't actually say that and we'd had the same issue in it for a number of years that comparing the estimated actuals with the next years' budget that there was a reduction in expenditure, and it was because the numbers weren't comparable. So he was saying: 'Well, okay' - he obviously had a reason why he wanted to get the numbers to show growth. I interpreted it as being to get the numbers to be – to get them more comparable and he was asking for advice and said was there a means by which that could be done?

Mr DUNHAM: Would that comparability also mean more accurate?

Mr CLARKE: More accurate. Look …

Mr DUNHAM: If you're comparing, would it give a greater accuracy of the comparability between years?

Mr CLARKE: I mean the accuracy in this context here - it is a difficult question because there isn't one right answer for what the figures should be. And what the Treasurer, I think, was saying to me was he wanted a reason for the numbers to show, as you say, sort of growth. And now, whether it was more accurate - we know that from a whole of government level, it is more – it would be more accurate to have an adjustment done to those figures for 2000-01, to lower them so that there would be greater growth. We know that every year, the overall budget is a lot lower than what the estimated actuals show. So from that point of view, you see, it would be a more accurate figure to have a lower number. The difficulty is working out what is an appropriate means by which you do that. And, now, as far as I'm concerned the decision to look at the Health, Education and Police – you know, as I tried to say in here, there was a logic for what the - and I presented to the Treasurer a logic for him to - to give him a reason, if you like, to reduce the figures for 2000-01.

Now, I wasn't saying that was the best thing or the right thing; that wasn't the question that was asked of me. What was asked of me was could he do something about the comparison of numbers which, certainly from a whole of government level, showed a reduction and the ones that he particularly mentioned to me are Health, Education and Police. I can't remember what the numbers were, whether they actually showed a small increase or a not much reduction, and he knew and I knew that those numbers weren't comparable.

Mr CHAIRMAN: Mr Wood.

Mr WOOD: Just on that point, Mr Clarke, wouldn't it maybe for - some people call us the naïve members of this Committee - but from the general public's point of view of trying to look at what's being compared with - comparing apples with apples, and not purely from an economic point of view or budgetary point of view, wouldn't it be easier for the health minister or the education minister to say in this particular year we started off with X amount of dollars and the next year's budget will be this and that includes all the extra money we have added on during the year? So it's clear to people that although you started off with $100, you actually had Treasurer's advance of $20 this month and something else this month and something else that month. If the public knew although you started off with $100, by the end of the year you'd actually had it might by $180 and you're going to add another $160 on this year for the new budget, surely that would be a nice, simple way of saying: 'Yes, we have increased the budget from this amount to this amount' so the government has put more money in there? This method that's shown here seems to be just something arbitrary, one that is not based on what I mentioned before, something like a budgetary formula or an economic formula, but a 2.5per cent amount which you could argue was a CPI amount, but then you could argue it was just a figure.

So, do you think from a point of view of government, they'd be far better off to look at working one year against the next as to show the growth? And I think the health minister, when you made your speech in parliament, you actually compared the start of the budget from one year to what you were putting forward in the next year.

Mr CLARKE: Mr Wood, look, to me, the fundamental thing with budgeting is that the understanding of the numbers should be the sort of - like the starting point for debate. The framework that we were operating within at the time was one where understanding what was in the numbers was almost the budget debate and, you know – and so I think I'm agreeing with you that it

would have been better to have had a situation where all the numbers - how those numbers were built up and derived was explained and, you know, that everyone understood before the budget debate started. That wasn't the framework we were operating in then.

Mr CHAIRMAN: So, Mr Clarke, am I understanding correctly in terms of presentational purposes that - we've heard evidence from the CEOs and their financial teams from three departments and other departments - that this was a unique thing that they really hadn't come across before, that this was the first time it had happened?

Mr CLARKE: That's correct.

Mr CHAIRMAN: Why hadn't it happened before?

Mr CLARKE: Well, this particular change – ie, the change to the three functional areas hadn't occurred before; there'd been other changes like we changed Treasurer's advance before which affected the total, but I think – well, it arose because the Treasurer said he was concerned and he sought advice from me as to what could he do about it.

Mr CHAIRMAN: So you say in your written submission that and I'll quote here:

I interpreted his inquiry…

which is the one you've just mentioned, that is Mr Reed's inquiry…

…to mean that he was seeking to identify the defendable means demonstrating that there was growth.

Mr CLARKE: Yes.

Mr CHAIRMAN:

He was not saying I want to artificially adjust the numbers.

Mr CLARKE: Yes.

Mr CHAIRMAN: So basically, from what I understand of what you're saying here, the reduction in the estimates of expenditure for the 2000-01 year didn't have an accounting rationale as its imperative or its impelling it, it was a political rationale in an election year?

Mr CLARKE: A political rationale. There's no question that in my mind that that's what - he is being driven by that. I gave him, if you like, an accounting rationale but it was the political rationale that, no question, that that started the process.

Mr CHAIRMAN: And when you say 'defendable', when you meant 'defendable', defendable to whom?

Mr CLARKE: I saw it as advantages to the public. I mean, what I was envisaging was the Auditor-General rather, in this process, whether there could well be questions about that. But he was concerned about that, but I don't recall him actually saying that. So he wanted to have a process

whereby, if in the 'worst scenario', he could stand up in the parliament and say: 'Well, this is what I did, and this is why I did it, and this is why it was okay to do it'.

Dr LIM: Could I use an analogy? An average taxpayer, in private business, earns big money from business. He goes to his accountant and determines the best way to reduce income tax within the law. Is this a similar analogy?

Mr CLARKE: Yes. A similar analogy.

Dr LIM: And it's every citizen's right to reduce the tax payable, through any means possible, with an appropriate financial adviser?

Mr CLARKE: That's right.

Mr CHAIRMAN: So, in your written submission you also report that you told the Treasurer that the size of the carryovers for these three departments - that's Health, Education and Police - would be approximately 2.5per cent for the approximate rate of inflation. That's what - I think it is just about the last paragraph on the first page. Is that correct?

Mr CLARKE: Well, what I was actually referring to was the overall total - that the total carryovers were of the order of about 2.5per cent. However, I mean, this was really off-the-cuff response to …

Mr CHAIRMAN: Not for these individual three departments?

Mr CLARKE: No, I didn't. But I actually thought the carryovers, certainly for Health, was quite a lot larger than that, I would say. And …

Mr CHAIRMAN: Well, we will come to that.

Mr CLARKE: Okay. But, at the time, all I said to him was that our carryovers had been in the order of about $50m-odd a year, and that's always around about, particularly with our net appropriation, net budget - that's around about 2.5per cent.

Mr CHAIRMAN: Okay. So, in the proceeding conversation, did the Treasurer ever suggest that it be desirable that the apparent increase in expenditure was at least equal to 2.5per cent or the rate of inflation?

Mr CLARKE: No, I don't think so. That's one of the reasons why I wrote that in the way I did. I mean, it evolved, that was my interpretation that evolved. I think he liked the advice, don't get me wrong. I mean, I think he thought well, this is the advice that he sort of – I could see that he liked the advice that he was receiving. But he didn't come to me and say: 'I want a 2.5per cent increase'. To me it was a logical discussion: I've got a problem, what can I do about it? Well, you could do this or you could to that. How big is it? Well, overall across the board its about 2.5per cent. Pretty quickly, quite frankly, he said: 'Well, okay, that's what I want to do with Health, Education and Police'.

Mr CHAIRMAN: So, just turning to page 2 of your written submission which - copies are available - you say in the third paragraph down: 'The essential point is that there was not, at least in my presence, a predetermined view or decision that there had to be a 2.5per cent increase …' - and here's the important part of the paragraph - '… though the Treasurer made it perfectly clear by the

end of the discussion that 2.5per cent increase from the 2000-01 to 2001-02 for Health, Education and Police was what he wanted'.

Mr CLARKE: Yes, that's correct.

Mr CHAIRMAN: So, did you interpret this as a clear direction from the Treasurer at the end of the discussion, that that was what was to happen?

Mr CLARKE: Yes, I did.

Mr CHAIRMAN: Okay. In turn, what did you recommend to the Treasurer in relation to the reduction on these estimated expenditures?

Mr CLARKE: Well, quite frankly, I didn't really recommend anything. To me it was a - he was exercising his judgment as a politician, as a Treasurer. I knew there was an election coming up and, to me, it really was his decision to take. I can give him advice as a public servant as to what I thought he could do and could not do, and the idea of a reduction was in the realms of something that I believed that he could do. And that's the advice I gave him.

Mr CHAIRMAN: Okay, just one last question before I throw it open to the committee, and I would like to continue trying to work through, probably, Mr Clarke's point No 1 in his submission. But, my last question for the time being at least is, according to the documentation we have been supplied, the Treasurer approved the realignments or the reductions to the expenditures in May 2001. Now, did you at any time relay the concerns to the Treasurer expressed by Mr Bartholomew and then, I guess, that you hadn't yourself - we will come to Health in a minute - the target for health may not be achievable?

Mr CLARKE: I can't recall. I cannot recall, to be quite honest. I don't think so, because by the time …

Mr CHAIRMAN: You are saying in your written submission here you say: 'This could cast some doubt on the reasonableness of the 2000-01 estimated actual for Health'. So, obviously, you had a concern. Mr Bartholomew had a concern …

Mr CLARKE: But I hadn't spoken to him at that point, you see.

Mr CHAIRMAN: Oh, I see.

Mr CLARKE: I didn't really talk to Paul until after, I was confident this was going to happen. I told Jodie here to action the change. Now, at that point I rang the agencies and said: 'Look, this is what's going to happen'.

Mr CHAIRMAN: So, subsequently, I guess, when it had occurred, when you informed Mr Bartholomew of the $8m reduction in the estimate and, he, in his memo, says that he expressed some concerns - although I think we need to go through that yet …

Mr CLARKE: Yes, sure.

Mr CHAIRMAN: ... and you had some concerns. Did you relay both of those concerns, at any point, to the Treasurer, Mr Reed?

Mr CLARKE: I don't recall this. Its quite possible that I did later on, you know, you're getting closer to the Budget, because the Treasurer and I spoke quite a lot. But, I really do not recall actually relaying anything to the Treasurer about Paul Bartholomew's concerns.

Mr CHAIRMAN: Okay, well, I will hand it over to the committee for questions now. Mr Wood.

Mr WOOD: I've got quite a few questions, Mr Chairman. I will try and follow them through in some logical order. It is also partly to understand the process.

You've answered a couple of questions already. If you say in your letter that a reduction in the 2000-01 estimated actuals had logic as the figure for an increase - that's the 2.5per cent …

Mr CLARKE: Oh, yes.

Mr WOOD: … if there was logic in a reduction in the 2001 estimated, surely that would be calculated on an actual estimated figure, not a predetermined percentage change? In other words, wouldn't you be looking at - again I get back to the idea of some sort of formula, that you would say: 'Look, Health Department, we can cut back this much based on knowledge rather than percentage'. But you …

Mr CLARKE: Oh, you mean of things that we actually know that they're not going to spend?

Mr WOOD: You have used this figure 2.5per cent across three …

Mr CLARKE: Yes, that's right.

Mr WOOD: … and they all had varying budget sizes.

Mr CLARKE: Yes, sure.

Mr WOOD: Surely each one should have been looked at as to the reality of what could have been taken out, not just a bland 2.5per cent.

Mr CLARKE: No, no. I think that the logic was that we didn't know what the expenditure item would be that the different agencies would not spend the money on. All I knew, from experience, is they would have significant under expenditure because they always do.

Mr WOOD: Why would it then come out as it has, as a presentation item, rather than a 'Well, we know that you're going to have this money left over, and we'll put it into the normal process of carryover;. Why wasn't it sort of like: 'Well, you are going to have $100m that is going to be carried over to next year'. Why go down and say - I'll take the case of the $8m for the Health Department – why wouldn't you just say: 'Well, we've worked out the term that you'll have, on past record, $8m left over. We'll allow you to carry that over, that will still reduce the estimates, and you will still get it back next year'. But this way, it was sort of like $8m for presentation purposes. We told them: 'You're still going to get it, you can still spend if before the end of the year'.

Mr CLARKE: Yes, I see. What you are saying is, why didn't we actually adjust the allocation, the $8m …

Mr WOOD: On the normal.

Mr CLARKE: And that would have been another option, quite frankly. But, for sure, if you'd gone down that path the agencies would have been excited. The whole idea of this adjustment was, the agencies didn't have to do anything, just a natural course of events where they would have flowed, they would have spent what they normally spend, but low and behold, at the end of the year they don't spend what their full allocation is, because that's been the experience ever since we've had budgets before the end of the financial year.

Mr WOOD: Isn't that sort of like one hand says something and the other hand says something else and they just negate themselves, because on one hand just said: 'We are taking $8m away', and you said out here that you'll still have it. And it appeared in the actual estimates that, of course, you had taken it away but everyone in the department knows that it wasn't really taken away, it is still there to spend.

Mr CLARKE: Yes, and that's because, to me, it was that the idea anyway was that the carryovers would just occur naturally. That there would be no action that was required on the part of the department. It would be, for whatever reason, there would be expenditures that they didn't incur. You didn't know what they were going to do at that point in time, but experience had shown that there were always things that didn't incur the expenditure. So you just - it would be not a predetermined item that you could point to and say – although some things were, because adjustments were done at the March budget and the April budget Cabinets where carryovers were identified beforehand. The problem tended to be in the last month.

Dr LIM: If I could follow on the same question of Mr Wood's. There seems to be - somebody's implied that there might be some sinister reasoning behind all this process but what you come across as saying is that there are several methods for dealing with the same problem and you've chosen a particular direction. You could have easily taken up Mr Woods suggestion of doing it his way but, at the end of the day, it's simple and process flows through normally or naturally.

Mr CLARKE: Well I think the reality is that this was the method that the Treasurer was quite happy to - it solved his 'political problem'. But it's true it was a method that had a rationale. I'm not saying it was the right method; I didn't know what the right method - I still don't know what the right method is - but it was a method which I thought that the Treasurer could defend his actions.

Mr WOOD: There was some mention between conflict between Treasury and other departments; I think all 'evil empires' were mentioned somewhere along the line …

A member: That's the departments?

Mr WOOD: Is it possible that - you know - is there some of that tension - he basically just sort of took $8m away because you're the Treasury and said, you know, 'Stuff you, you're the health department; we're going to take it away'? Was there any sort of big brother attitude?

Mr CLARKE: No, no well certainly not from my perspective and I think the Treasurer understood that while the allocation wasn't affected that what it was going to reflect was just what the estimated actual outcome, what was actually going to happen. So I don't think it was a big brother sort of whack. The Treasurer certainly was of the view generally that if you set a lower target that that would influence their behaviour. But I'm pretty sure in this case that he understood that the

allocation wasn't affected so behaviour wouldn't change but that this would just still be the natural outcome. That they would still under-expend not for any planned reason but for unplanned reasons.

Mr WOOD: One of the question is if all the other budgets were brought down in May …

Mr CLARKE: [inaudible] or Territory?

Mr WOOD: Territory - why was there limited time this year? Because you used that argument well one of the arguments we had to do this because there was limited time but every other year it would be okay. What was the problem this year?

Mr CLARKE: The budget was much later. We normally have the budget in by the first week of May or thereabouts; certainly before the end of the second week anyway. Whereas this one was the 29th or something.

Mr WOOD: And is that number of weeks critical?

Mr CLARKE: Well it is at that time because everyone is flat chat. I mean there were two reasons why we said that. One was because of the lack of time; there's no question that was a material issue. The other was that we realised that having the carryover process we had in place before the end of the financial year and then having another bite of the cherry when we did the budget refinement process we were doubling up. That was a heck of a lot of work for Jodie's crew. It would be a faster and more efficient process to do it at the one time.

Mr WOOD: Now a take the question with [inaudible] but is there a possibility the whole thing is really about just making the budget look good in an election year and then making up the excuses later? For instance, we needed to have a reduction in 2000-01 estimate actuals - well they have to have logic. Or that the Treasury didn't trust the departments figures - I think it's mentioned somewhere else that - or presentation meant only this not that or there wasn't time for normal procedures like we just mentioned because of limited time between the budget and the 30th? In other words is the reasons for this happening occurred after it actually was put into place or where there reasons up front?

Mr CLARKE: No. Definitely. There's no question. I've got to accurately reflect the circumstances in this document here and basically what I've said here is exactly the sort of flow of events that occurred.

Mr CHAIRMAN: We certainly appreciate your honesty and candour, Mr Clarke, in your submission.

Mr WOOD: In Mr Dunham's statement to the PAC he mentioned that 'Treasury needed convincing our hospital funding for 2002 this year was right'. He also goes on to talk about Treasury's message though 'was very clear and it should be stated here they were saying to us that our target should have been lower and we should have not taken satisfaction of the fact that an arbitrary target had been set and that we hit the bull's eye'. He goes on about that the Treasury are concerned about the issues of sustainability and it goes on quite a bit about that. I think there was talk at that time that the health department was spending too much money and they had to have some cut backs but that was basically because they were overspending. That's the, I suppose, the ex-health minister's reason why he believes …

Mr DUNHAM: I didn't talk about necessity for cut backs. I …

Members interjecting.

Mr WOOD: I think the explanation - I'm not accusing the ex-minister. I'm just sort of presuming that that's what his argument was.

Mr DUNHAM: Well, I can clarify it, couldn't I? Would you like me to clarify that? I wasn't saying that we were looking for cut backs and the other word you used was …

Mr CHAIRMAN: Well, I've got a problem with this because Mr Dunham is as a committee member is commenting on his evidence as a witness and this was always going to be the conundrum for this committee having someone who's a witness, who's intimately involved also as a committee member. So I'd like to just go into deliberative session for a little while just to discuss this matter.

Members interjecting.

Mr DUNHAM: I can read the transcript.

Dr LIM: Mr Chairman, Mr Wood has paraphrased Mr Dunham. I think he should read the transcript and it wouldn't be a problem.

Mr WOOD: I'm happy to read the whole thing.

Mr DUNHAM: Well, you haven't got a quorum if you go ahead.

Dr LIM: I think it's silly. If you read the whole transcript you won't have a problem.

Mr WOOD: Well, let's sort the problem out right now and just be done with it.

The Committee adjourned at 11.06 am.

The Committee resumed at 11.14 am.

Mr CHAIRMAN: Are we set? Over to Mr Wood.

Mr WOOD: I'll start my question - the question is long because I'm trying to compare two, I suppose, reasonings and seeing which one you agree with. Mr Dunham in his statement and *Hansard* on page 6 of 5 December made one statement: 'The Treasury needed convincing that our hospital funding for 2002 [inaudible] was right' and he went on, on page 7, to say the following:

> *Treasury's message, though, was very clear and it should be stated here, they were saying to us that our target should have been lower, that we should not have taken satisfaction on the fact that an arbitrary target had been set and that we hit it on the bulls eye. That was not the message Treasury was giving to Territory Health Services and, obviously, this has got to come in evidence from Treasury, but it is my belief, and certainly how I read the message. Perhaps it was sent in a different way, but that's how I read it.*

So Treasury are concerned about issues of sustainability. They sent the message to make it clear to Territory Health and others that our base line for the year would be much lower having already incorporated the additional costs and that health had blown the budget. Now, we heard in evidence that this was a significant motivating factor for budget officers and others in the Territory Health Services that they believed their pride was on the line if it was construed in any way, shape or form that they had blown their budget. I believe that that was one of the messages going through, is that that the target arbitrarily set had been met but it could have been arbitrarily set at $8m less.

We also heard in evidence yesterday that it is a test of confidence informally applied by Treasury to upseat departments to involuntarily admit to their underruns and to offer that money back to Treasury.

I'll just miss the next line there.

I think that this indicated that Treasury had reverted to the old system, that they had a global understated budget with the number, and Territory Health Service had to provide the data later. That is, going back to the old system, the onus of proof was to be on Territory Health Services to describe the cost escalation to Treasury's satisfaction. More importantly, they would have to use their own internal device of the Health Gains Unit which wasn't previously available. So they would have to go to Treasury and say: 'We need this money not only because we need beds or more patients or people are sicker or we're sending more people south, but also we can substantially inform Treasury on the gains that have come to the citizens of the Territory.

What I was trying to get at that was that I get the feeling that the previous health minister was saying that these cuts that have occurred, occurred again through a budgetary formula, that the Health department would sit down and work out we can cut things based on a certain prescription; we don't need this, we don't need that, we can cut back here, we can cut back there. That's what I feel the ex-Health minister is saying, but you're saying no, when it came to this $8m, it's based on a 2.5per cent argument.

Mr CLARKE: That's right. Nothing to do with the – certainly, from my perspective, nothing to do with giving a signal or a target to the health department. The $8m was just an amount that would, of its own natural accord, flop out of the system as being money that the health department didn't spend. So definitely not a target which I think is what Mr Dunham was - seemed to be saying here.

Mr WOOD: Shouldn't that, from the public's point of view, that $8m that just flopped out of the system as against other things that would have been changed, shouldn't that, somehow, the public have known that it had flopped out of the system? Should there be a mechanism - and there doesn't appear to be a mechanism - to tell the public that?

Mr CLARKE: I agree with that.

Mr WOOD: Now, why didn't the Treasurer look at other departments besides those three?

Mr CLARKE: I'm not sure. I think you would have to ask him, quite frankly. I mean, they are obviously the ones that politically to him were important. He didn't - he said these were the three that were important to him. Now Jodie and I, we had a little chat when I went back to the office about, you know, should we, you know, recommend that we do some sort of adjustment, a similar sort of type adjustment to all the others. And quite frankly we concluded that gee whiz, well, he was only worried about those three and it was a fair bit of bloody work to go through and do something with all the others. Plus we had already done the Treasurer's advance adjustment.

Mr WOOD: I notice he, in the budget speech, the minister specifically recognised those three departments as having an increase in their budgets. Do you know if Cabinet was informed of what the Treasurer was trying to do? That is, make changes to that.

Mr CLARKE: I don't know.

Mr WOOD: Do you attend Cabinet meetings?

Mr CLARKE: Yes, I used to and – yes, I used to attend virtually all Cabinet meetings.

Mr WOOD: Without sort of breaking Cabinet confidentiality, I gather from some of the evidence we - could I ask you whether the budget was discussed with this particular increase or decrease in mind?

Mr CLARKE: The only reason I'm hesitating is - what should I ask on Cabinet - here, I'm being - I think I'm being advised here that on Cabinet matters I should decline to - - -

Mr WOOD: I realise that. I've got a great document here which talks about what you can and can't say from the Police Commissioner. But, at the moment, I haven't had the time to go through and say dispute that. But there are some arguments where some things can be said and some things can't be. Did the budget endorse the change for the three departments, or is it just purely the Treasurer?

Mr CLARKE: Did the budget?

Mr WOOD: Sorry. Did Cabinet - I beg your pardon.

Mr CLARKE: No, no, the - well, indirectly. The Treasurer has got a discretion to finalise aspects of the budget from the April budget Cabinet to the final tabling of the budget documents.

Mr WOOD: Would the Cabinet have known that there were changes for presentation purposes only?

Mr CLARKE: I don't know. [inaudible] not.

Mr WOOD: Had you told Paul Bartholomew, with the Health Department, that the money would still be available? He used …

Mr CLARKE: Yes. I basically - as I said there, I basically went through the same explanation for all of them, in that it didn't affect the allocation, it was there to affect the carryover, we expected it to happen. And so, you know, it didn't require them to change their behaviour. And that's why they were all pretty relaxed. Now, Paul Bartholomew was not quite as relaxed as some, as the others.

Mr WOOD: I gather that, yes, the [inaudible] agreement. And probably getting back to a fundamental thing again is, why couldn't it have been shown as a carryover? Why couldn't he just pluck that figure out and said: 'Look, we're just taking a guess. This is how much you won't have'. Just gone through the normal process?

Mr CLARKE: When you say shown as a carryover, what do you mean? You mean, within the budget documents?

Mr WOOD: Like they normally do when a department says: 'Look, I've got this money extra, we haven't spent this, we haven't spent that'. Because, basically, you were telling them they were still going to have it anyway.

Mr CLARKE: Sure, okay, let's go back to the point that Dr Lim was making. I mean, I think what you're saying is another approach. I mean, it's a possible approach. But, I mean, all this was done - it was pretty late in the piece for a decision to be taken about these things. And what it was to reflect, anyway was, you know, just the expected actual - what was going to happen. It didn't require a change to the allocations I suppose. But look, I hear what you say. I mean, it's a - and I think, from my point of view, that probably would be a better thing, to have the allocation. Rather than having an estimated actual, have it as actual allocation because then it is a very defined, precise amount.

Mr WOOD: Because it is difficult from my point of view, you know, you'd become instantly suspicious - it's an election year, and we're doing something that we don't normally do. And, all of a sudden on three very important budgets that the people always want to see a bit of growth in, because that's what you hit them with around an election time …

Mr CLARKE: Yes.

Mr WOOD: So, to some extent, that's what is creating suspicion.

Mr CLARKE: Yes.

Mr WOOD: When Mr Dunham was, I think, being questioned about the budget, there was some discussion about the formal definition of the word 'correct'. I suppose what I'm getting at is that when the figures were given in the budget for the estimated actuals, although they were legally accurate - that is, I think with Health they were a particular figure - in actual fact, they were $6m down on probably what they should have been. You put $6m out there …

Mr CLARKE: Well, I think there's not much to do with - what they should have, what the estimate was to reflect what they thought the actual outcome would be …

Mr WOOD: I suppose I'm trying to - to me, there's two things here. There's a legal correctness - that is, from a Treasury point of view, that figure is right. But, you might say from the public's perspective, or merely a moral perspective - a little bit like the spirit of the game whether we should invoke the penalty, the extra point in the cricket. You know, you can invoke it, but is it good? You're producing a set of figures which, legally, are correct - and your argument that, you know, we had a formula, 2.5per cent, and that's how we got that figure. But from the public's perspective, they haven't been told that that's happened. They haven't been told that not only was there $6m or $8m taken from the budget, it would also be there. Even though the figures says it's down by $6m, the department still had it. So, from a public perspective, it doesn't appear to be, you might say, merely morally correct.

Dr LIM: Before the ex-Under Treasurer answers the question, Gerry, may I put this to you: you are now bringing morality into this debate.

Members interjecting.

Dr LIM: Hang on a minute. You are using …

Mr CHAIRMAN: You can make a statement, Dr Lim, I'll let …

Dr LIM: Hang on, let me finish what - no, I have a point to make here …

Mr CHAIRMAN: No, no, no. Gerry, if you could go on with your question.

Dr LIM: … when you say that the public's perception …

Mr WOOD: All right.

Dr LIM: ... whose judgement is that public's perception? There are 25 members of the community who are members of parliament. Who makes the public judgment? I mean …

A member: For someone who didn't have morals …

Dr LIM: ... you are interpreting a public assessment, and that public is a very nebulous thing, when you are talking about …

Mr WOOD: Well, look, that's our job. We are a Public Accounts Committee, and that's what I'm trying to assess. Because there is a certain morality, because one of the things we're asking is: the figures, are they truthful? And the word 'truthful', in itself, requires some basis, some argument about the morality of the …

Dr LIM: Are you sure that the figures are correct?

Mr WOOD: Yes, I'm saying they are legally correct but, from the point of view of the public's perception, were they being told a truthful figure - not a legally correct figure, but a truthful figure? And that's what I'm …

Mr CLARKE: The answer to that, I think, Mr Wood, would be yes. There was a justification for those numbers because of the history of the carryovers. That's why, to me, it was defendable, what the Treasurer - the number he chose. I would have been much happier if he had explained it all, that's for sure.

Mr WOOD: It reminds me of a certain case of a certain ex-Chief Minister who had, I think, a legal entitlement to travel allowance, but I think he said he probably wasn't morally entitled for it - same thing. The rules were there and, technically, he was probably entitled to them, but I think …

Mr CLARKE: No, I think this is a bit stronger than that, because the history of the carryovers - they were, you know, for a total budget they were $50m-odd, $50m, $60m a year. Now, that's about 2.5per cent. So that you know, when comparing 2000-01, to 2001-02, that there's going to be - that these figures, they're shown like that; when the actual outcome comes, it's going to be like that. And you know, so there was a logic in doing some of it, you know.

Mr WOOD: Yes, I'm not disputing that. And I get back to what I said, is I think that from the public's perspective, if they'd been told why that had been done, then I think everyone would have seen upfront what was happening.

Mr CLARKE: Yes, I agree 100 per cent.

Mr WOOD: Mr Chairman, just checking here. For the time being, I'll leave that, Mr Chairman,, and I'll come back to it. I've got some further questions.

Mr CHAIRMAN: Okay. Mr Kiely.

Mr KIELY: I don't claim to be a wizard on budgets, Mr Clarke, and I'll thank you for your assistance in walking through this process. My question revolves around rules and regulations and all this sort of thing. The adjustments were made to the estimated actuals; agencies did not have to actually change any of the expenditure patterns because that was never under threat. If the option was taken that, instead of adjusting the estimated actuals so that they were comparable, and that you were then able to show an increase - if you were to say: 'Okay, we will do this by taking the money out of the - we will actually invoke rigour into the expenditure package and we will withdraw this funding', then agencies are bound legally that they cannot spend, is that right?

Mr CLARKE: That's right.

Mr KIELY: So, if the process of saying: 'Okay, we deem you to be overspending, but we need this money back into our central allocations', then it would have been a very, very different kettle of fish for the agency – well, for Health, for Education, not necessarily Police?

Mr CLARKE: Do you intend to look at the actual outcome?

Mr KIELY: Yes.

Mr CLARKE: Yes, for sure.

Mr KIELY: They could not have operated in those last six weeks?

Mr CLARKE: Absolutely, yes. The actual outcome was quite different to what was estimated at the time.

Mr KIELY: So, therefore, the ministers would have been able to stand up in parliament and say: 'We have withdrawn, our expenditure of $300m - I haven't got the correct figure in front of me, but whatever it was. They would have then been able to stand up there and say: 'Okay, this is what we were allocated …

Mr CLARKE: Yes.

Mr KIELY: … for this year, and this next year we've got a 2.5per cent increase', and then that would have been an accurate statement? Because their expenditure patterns could not have breached the walls. In all, they were given so much money, they could only have …

Mr CLARKE: Yes, that's just putting that - in order to change that event, in reality what would have happened is they would have gone back to the Treasurer and got an increase in their allocation, you know, because …

Mr KIELY: As Education did, didn't they, or …

Mr CLARKE: They did. But in the scenario that you're painting, if the $8m had been a reduction in the allocation, then Health, you know, mid-June or late June, they would have said: 'Look, you know, ring the bells, we cannot live within that.

Mr KIELY: By law they cannot commit to any expenditure?

Mr CLARKE: Well, that's technically correct. I mean, what actually happens is that we make sure that they never get over it, and we actually give them the money …

Mr KIELY: I mean it …

Mr CLARKE: But with a bit of punishment, mind you.

Mr KIELY: It's against the law?

Mr CLARKE: Yes, that's right. That's right, yes.

Mr KIELY: Okay. So by showing the message to the people that went out as I understand it the message that went out then was a 'we will reduce your reported actual estimates that you've provided to us …

Mr CLARKE: Yes.

Mr KIELY: … and you can safely understand that we're not touching any of the legally allocated money to you and that your expenditure can keep on going and that if you don't spend any more than that then that's fine'?

Mr CLARKE: Yes, we are basically saying you don't have to go an take any action. That's what we were saying to them because if we had reduced the allocation then the health minister and education minister they would have got all excited even though the Treasurer may well have said, 'Hang on, that's what's going happen anyway'.

Mr KIELY: So to use a colloquialism the dripping tap wasn't turned off; it just kept on going into the bucket?

Mr CLARKE: Well, it wasn't like that. The notion behind it was that without any behaviour change there would be carryovers. That was the basis for doing what was done.

Mr KIELY: A bit of a punt?

Mr CLARKE: Well, more than a bit of a punt because the past experience had shown that there was quite a substantial carry overs. $50m to $60m a year was in fact what the under expenditure was and most of that occurring in that last sort of six weeks of the year.

Mr KIELY: But that didn't occur in Health, did it?

Mr CLARKE: No, no it did not and last year was a pretty unusual year.

Mr KIELY: It didn't occur in Education either?

Mr CLARKE: I think Education - they spent about the - Police was the only one where in fact the actual outcome was what the Treasurer was planning for.

Mr KIELY: Chief Executive Officers from Police and Education told the inquiry they were informed of the transfers [inaudible] carry over in 2001-02. Can you confirm this?

Mr CLARKE: Yes that's right. All CEOs were [inaudible].

Mr KIELY: There was no contra entry; the carryover was subsequently withdrawn despite those earlier statements and the audit trail they would be carried over. Can you confirm that? There were no contra entries?

Mr CLARKE: No contra - you mean we didn't actually carry it over? No, we didn't do a Section 22 but there is another budget refinement process where they can carry over a [inaudible] of work.

Mr CHAIRMAN: But in the audit trial you have the $6m taken off say for Education …

Mr CLARKE: Yes.

Mr CHAIRMAN: But you didn't have the plus $6m in the 2001-02 forward estimates?

Mr CLARKE: Yes, well that goes I think later on we say the whole idea of the adjustment was to get the numbers comparable I think had made the changes and they'd be back to being not comparable again and then the change wouldn't have been 2.5per cent, it would have been 5per cent by the by.

Mr KIELY: Mr Clarke, was the lack of a contra entry in the audit trial a signed that the decision had already been reached that there would be a withdrawal to carry over in June? So because it wasn't there, I mean was there already a decision saying, okay?

Mr CLARKE: No, no there was absolutely no [inaudible]

Mr KIELY: Okay. Was the issue of no carryover discussed during the meetings with the Treasurer in May 2001.

Mr CLARKE: No carryover. Look, I'm sure we discussed the process, the different process - look I don't know if you recollect Jennifer? I can't really recall.

Mr KIELY: Okay. So the $8m from Health, the $6m from Education and $2m from Police that had actually carried over in the real budget of 2001-02 would that have shown a deficit of approximately $30m rather than the $12m reported?

Mr CLARKE: Yes, it would have added to the deficit for sure.

Mr KIELY: Is that the underlining motivation as to why there was no contra entry and carry overs by …

Mr CLARKE: No, no. I can honestly say that issue was not discussed. The only issue was it was a legitimate means for reducing expenditure and to me there was, there was a rationale. If you hadn't done the transfer you would have removed that comparability.

Mr CHAIRMAN: So the issue was never discussed with Treasurer Reed about what would be the effect of actually carrying over the carry overs that were flagged up with the departments on the deficit of the 2001-02 year?

Mr CLARKE: Yes, look I do not recall any discussions because there was never a thought - in fact, the Treasurer, he was getting back to the vein we talked about before. He was adamant that he didn't want anything to happen for the next year. He didn't want to show a part of the 2.5 as being due to a [inaudible] being achieved by a rise in expenditure in 2001-02. This was partly putting a cap on the budget …

Mr CHAIRMAN: His direction of not increasing the forward estimate of expenditure for 2001-02, I guess you carried that forward and sort of worked out that if you did carry over those figures in particularly for Health, Education and Police, it would actually add to the bottom line and that's why you didn't do it.

Mr CLARKE: No, no. At no stage did I actually consider the adjustment for 2001-02.

Mr CHAIRMAN: Okay, thank you Mr Clarke. Other questions?

Mr McADAM: Yes, I have one Mr Chairman. Mr Clarke, Mr Dunham has said in evidence and I'll quote from that in a second, that he's had discussions with a number of people including Mr Reed and also formal discussions with Treasury officials in relation to his concerns about having to find the extra $8m of savings in the last six weeks of that financial year. I quote from Mr Dunham:

> It is true that I had discussions with other people including Cabinet members, the Treasurer and even informal discussions and more formal discussions with officers from Treasury.

Do you have any formal minutes of those meetings at all?

Mr CLARKE: No.

Mr McADAM: Are you in a position to relate to the committee the contents of those meetings with Mr Dunham?

Mr CLARKE: Yes, well it actually happened in the building outside the Chamber area, in fact the advisors area. It wasn't a very long meeting and the only thing I do recall Mr Dunham being somewhat apprehensive and I think all I did was explain the rationale of the carry overs and that it did not have an impact on the allocation so …

Mr CHAIRMAN: So you wouldn't describe it as a formal meeting?

Mr CLARKE: No, definitely not, no. It was just literally a stand up just outside the advisors area.

Mr CHAIRMAN: Are you aware of any formal meeting between Mr Dunham and Treasury officers? I guess you'd be there?

Mr CLARKE: Yes, I was going to say I'm not aware of any.

Mr McADAM: Did you discuss this meeting with the then Treasurer, Mr Reed, as well?

Mr CLARKE: No, not that I recall anyway. I mean the - no because all it was, was bring Mr Dunham up to speed with what the logic and direction was.

Mr McADAM: And did Mr Reed, did he discuss any of the approaches that Mr Dunham may have made?

Mr CLARKE: I don't recall so. I don't - no I don't recall any. It's possible but I don't recall any.

Mr KIELY: Mr Clarke, in your informal meeting with Mr Dunham out the back here, did he raise the issue of finding savings for six weeks, finding $8m worth of savings? Was that the context of that meeting?

Mr CLARKE: I don't recall that. To me, what I said to him I think was there were two things. One was that allocation was not affected and now certainly that might tie into that because the allocation not affected he doesn't have to make the composite savings. The savings will automatically flow. That was the essence of the advice I gave him.

Mr KIELY: So he was probably reassured that he didn't have to.

Mr CLARKE: Didn't have to change behaviour which is what I think – Look, I really don't recall him being - I remember him being concerned but I can't remember him being concerned about what.

Mr KIELY: Yes, $8m and an informal meeting out the back.

Mr CHAIRMAN: I've got some questions. We have heard evidence from some ex-ministers and CEOs that ultimately Treasury decides or decided what was to be the correct figure presented to parliament and the people. I mean is this correct?

Mr CLARKE: I think that would be a bit bold. I mean there'd be some things where we would have almost the final say but the final say is actually the Treasurer. I mean we give everything to be signed off by the Treasurer. There's some numbers that quite frankly he's not in a position to know what the number should be but we always go through a process of making sure Cabinet is as informed as they can be.

Mr CHAIRMAN: So yes so I won't pursue that but you've answered that pretty plainly. Apart from Treasury how much responsibility do you believe ex-Treasurers, ex-ministers and CEOs should take for their budget speeches and budget documents, particularly estimates delivered in May 2001?

Mr CLARKE: How much responsibility should they take?

Mr CHAIRMAN: I mean if they're telling us well this number is correct …

Mr CLARKE: I've got you, yes.

Mr CHAIRMAN: If I could quote from Mr Dunham, he sort of said: "I asked him what the true figure was," just quoting from his evidence. "He said: 'Yes, it came from Budget Paper No.2. Correct is what is published'." So that question goes to the heart of that. How much responsibility, when a minister gets to their feet, should they take for the figures that they - the estimates that they deliver to parliament in their budget appropriate speech?

Mr CLARKE: Well, I mean, it's a bit hard, but I would have thought they would take full responsibility. You know, it is true, though, that the Treasurer does have - did have - I don't know whether she still does – but, you know, did have quite a lot of, in inverted commas, power, I suppose you might - a lot of say in how the numbers are built up and – but at the end of the day when they are a government and ministerial accountability and all that sort of stuff, we expect them to be accountable, I guess.

Mr CHAIRMAN: Thanks for that. We have already talked about sensitivity surrounding the growth figures or the lack of growth that was evident in the original figures, and you are saying [inaudible] sensitivity, in your written submission, greater sensitivity to Treasurer Reed than in previous years. You also mention that in your conversation with Paul Bartholomew on the issue that in an election year there's more or less a mutual acknowledgement; in election years there is greater sensitivity about these sorts of issues. I put it to you Mr Clarke that because 2001 was an election year, it gives even more importance for the Northern Territory public and the parliament to have confidence in the budget figures presented to it. Do you agree with that?

Dr LIM: Before Mr Clarke answers the question, I draw you attention, Mr Chairman, to what I highlighted to you in closed session of the meeting, that if you want to paraphrase somebody with a particular slant then I will object. You should read what Mr Clarke said. He had not said anything about Mr Reed having extra sensitivity anywhere. Quote him properly; don't paraphrase with your own slants.

Mr CHAIRMAN: Well, just to quote from Mr Clarke's written submission which I'll say again is available to the public and members of the media, he said:

While the situation…

in the first paragraph under Section 1, he says:

While it's a situation that had occurred in the past predominantly due to one-off expenditure and carryover effects, the comparison was of greater sensitivity to him than in previous years.

So once again in relation to the conversation with Mr Bartholomew, I will quote the whole paragraph:

I rang Paul Bartholomew to remind him of the logic…

that is of the reductions to expenditure –

…and to ensure the budget confidentiality was maintained. We were both somewhat uneasy with the situation. I was far less concerned than Paul because at that stage I expected there to be significant underexpenditure by Health, particularly in Commonwealth programming. There was an

acknowledgement that in an election year there is greater sensitivity about these types of issues and the government of the day has the final say.

A member: That's not attributed to Mr Reed.

Dr LIM: Yes, Mr Clarke's …

Mr CHAIRMAN: Well, I mentioned Mr Reed at the beginning and then I followed that with a mention to the conversation between Mr Clarke and Mr Bartholomew, but if I can proceed, you've acknowledged here today, and in your written submission confirmed I guess by the CEOs of the three departments in question, that the Cabinet-approved allocations for these departments were not changed despite the change in the published estimates for expenditures. Is that correct?

Mr CLARKE: That's right.

Mr CHAIRMAN: And these departments have also stated in evidence that they were always spending to their full allocations.

Mr CLARKE: Well, I think that's not right. Always - if you mean in past years, that wasn't right.

Mr CHAIRMAN: Well I'd have to comb through - I think I do have a table here of the evidence given by Police, Fire and Emergency Services in which - I'm relying on memory here, but I can - after lunch, I guess, I can lay it on the table where Acting Commander Smith says that we were always spending to our full allocation. That question was asked of him specifically. Certainly, Mr Bartholomew said that he was spending – that his department were always spending their full allocation, and Mr Plummer also acknowledged that his department - in evidence, that his department were spending to their full allocation.

Mr CLARKE: But not - it's a question of whether you're talking about in the 2000-01 or in previous years. In previous years, they have not. They've spent within the ceiling for sure, but they've always underspent and that's what this was all about - was saying 'Well, okay, we're expecting a similar thing to happen this year'.

Mr CHAIRMAN: Yes. Thanks for that, Mr Clarke. I'll be more specific, but in the evidence they gave in speaking about the 2000-01 allocation that each one of those three departments have given in evidence that they were always spending to that allocation.

Mr CLARKE: They always say that.

Dr LIM: May I follow on from that same line of questioning, then? Would you say that – well, from evidence heard from all the CEOs, they were more concerned about their parochial needs of their own departments and therefore, if possible, would expend to their allocation.

Mr KIELY: Are you paraphrasing?

Mr CHAIRMAN: No, no. Let Mr Lim – Dr Lim, sorry, finish.

Dr LIM: They would spend to the limit of the allocation. However, what you are saying is that in past years the practice has been they have never been able to achieve full expenditure of allocation.

Mr CLARKE: Exactly.

Dr LIM: And accordingly, as the Treasury with the global oversight of the budget, you were able to provide them with global guidance as to how to reduce in terms of the overall budget rather than the specific items of expenditure.

Mr CLARKE: Well, I think you are going a little bit too far. What I did was say to the Treasurer: 'In the past, in the past years, agencies like Health, Education and Police, but lots of other agencies as well, underspent their allocation by quite substantial amounts'. I said the rough estimate was about 2.5per cent and he said: 'Okay, well I'm going to apply that same rationale for 2000-01'.

Mr CHAIRMAN: Just to take up my line of questioning, consistently the CEOs and the finance officers of these departments said, and particularly in Mr Bartholomew's case, said that they had an understanding, an arrangement with Treasury that they could still spend to their full allocation.

Mr CLARKE: An understanding – I mean, for sure. Everyone was told that their allocation was unaffected, and everyone was told that what - the reduction was to allow for the carryovers which we expected to occur naturally, not being something that was forced.

Mr CHAIRMAN: So just to look at, I guess, the final outcomes for the year, Territory Health spend to their full allocation.

Mr CLARKE: That's right.

Mr CHAIRMAN: The Northern Territory Department of Education spent more or less to their allocation which was 351 - it was just a little bit below 351.

Mr CLARKE: Yes.

Mr CHAIRMAN: And in both cases, they spent to what their original expenditure targets were that they submitted to April Budget Cabinet. Yet we have the scenario where government ministers have come - stood up in the budget appropriation speech and talked about these reduced estimates. Now, I put it to you that - to me, anyway - this strongly suggests that the former government was working to two sets of books. If I could just clarify it, one being the estimates being presented to parliament and public in an election year and the other being the figures - the sort of behind closed doors and understandings - that these departments were actually working towards some $2, $6 and $8m more than the printed estimates. Two sets of books. The other book mightn't have necessarily sort of been written publicly, but that's what was happening.

Mr CLARKE: There were two numbers, no question about that.

Mr CHAIRMAN: Two numbers.

Mr CLARKE: You know, there was the estimated actual and there was the allocation. Quite frankly, there was substantial differences between the two. You know, I mean, a little bit later on we get the Treasury adjustment of $140m-odd worth of adjustment. Treasurers Advances under 20 - - -

Mr CHAIRMAN: We will come to that one.

Mr CLARKE: All I am saying is there is a big difference between the estimated actual and the allocation. But the Treasurer's objective was to get the numbers comparable. And so, you know, we've done that before …

Mr CHAIRMAN: Comparable for growth.

Mr CLARKE: Comparable between years, and that was his objective and I have him a logic for doing that and whether it was the right thing or not, but I mean the actual events showed that it wasn't the right number, but at the time that was a reasonable basis for - I gave him a reasonable basis for having a number included in the [inaudible] actuals.

Mr CHAIRMAN: Well, if I could just refer to your Under Treasurer's Minute of 17 May 2001. It's to the Treasurer, and it says: 'Quarterly Financial Report March 2001'. In your background at the beginning - I will wait until …

Mr CLARKE: This is the quarterly report, is it?

Mr CHAIRMAN: Yes. Attachment A.

Mr CLARKE: I've got it.

Mr CHAIRMAN: Under *Background*, you talk about the attached March Treasurer's Quarterly Financial Report is ready for publication on 18 May. Then in the second paragraph you talk about the budget figures in the report represent the legal, in inverted commas, budget, that is published budget plus variations tabled in the Legislative Assembly. And then you go on to say once again the legal budget is the same as the December quarterly and then you go on to say:

In summary, compared with the legal - once again in inverted commas - and it just drew my attention to it. Can you just tell us what you meant by the legal budget?

Mr CLARKE: That's the allocation.

Mr CHAIRMAN: The allocation?

Ms PRINCE: The legal budget is the budget that has been formally approved by the parliament at any point in time. Because of parliamentary cycles and Cabinet cycles, you could have a situation where Cabinet has approved variations to allocations, but the parliament hasn't yet approved thEM. So, there could be a point in time where there's variations between what Cabinet has approved and what the legal budget is. That's why we always refer to what Cabinet has approved and what the legal budget is. It's a time …

Mr CHAIRMAN: So, the legal one shows the actual allocation plus variations?

Ms PRINCE: That have been approved by the parliament.

Mr CHAIRMAN: These other figures – so that was quite separate to what was about to be presented to parliament in terms of the estimates? These are the two figures that you were talking about before?

Mr CLARKE: Yes, that's right.

Mr CHAIRMAN: Well, with all respect, Mr Clarke, you might call them two figures, but I'll call them two books. So …

Mr CLARKE: Two books suggest that you're sort of managing to two books. I think that's my only point, that it's not - you're not managing to two books. I mean, the estimated actual is the estimate of what you think the actual result will be. The allocation is the statutory amount of money that the agencies can spend to.

Mr CHAIRMAN: But, in two of the three cases with the major agencies - that's Health and Education - they did actually spend to their allocation, as they said they were always going to be doing.

Mr CLARKE: Yes, but for the first year ever.

A member: Ever, ever!

Mr DUNHAM: I have a question.

Mr CHAIRMAN: Yes, Mr Dunham?

Mr DUNHAM: The direction you gave to the CEOs you said, should have been done in such a way that it didn't necessitate behaviour change in their expenditure pattern …

Mr CLARKE: The direction? This advice, yes …

MR DUNHAM: This is the business about money still being available.

Mr CLARKE: Yes, yes.

Mr DUNHAM: Are you aware that a memo was sent out to Territory Health Services withdrawing delegations?

Mr CLARKE: I heard about that, which was a bit of a surprise.

Mr DUNHAM: Do you believe …

Mr CLARKE: Of course that's …

Ms PRINCE: [inaudible]

Mr CLARKE: I think - yes, Jody just reminded me. That was some weeks later after the budget was actually brought down.

Mr KIELY: Could I – Mr Dunham, could you please - we've got that memo, and I think it's important that we have a look at it because the memo deals with one branch. It doesn't deal with the whole of departments. I think we should have a look at that memo in context. Now, the first memo that you referred to in your evidence - well, you weren't too sure whether there was one or two memos in the morning, but in the afternoon you clarified that. I noticed that in your transcript. The

memo that you referred to now - and we can drag it out - actually refers to just what was happening within one particular - Joanne Schilling's own division. I believe.

Let's have a look at that, but I think we should get our memos in the context in which they were issued, and the context in which they were withdrawn. I think the other reasons for what was withdrawn, I think these things should also be tabled. Now, we spoke before about proper attribution and getting it right. I'm with you 100per cent on this Mr Dunham, so if you'd like to get that.

Mr CHAIRMAN: So once again, those documents are part of the tabled documents that are available?

Mr DUNHAM: I'm making a point that where you …

Mr KIELY: So long as your point's factual.

Mr DUNHAM: The point will be factual.

Mr CHAIRMAN: Just let Mr Dunham …

Mr DUNHAM: I am making the point that were you aware that in the latter part of the year there was some behaviour change within Territory Health Service to try and manage their budget?

Mr CLARKE: Not until, you know, not long ago actually, when I was preparing for this.

Mr DUNHAM: The second question I've got is that when you talk about the Treasurer's actions being defensible you, with your qualifications, believe that the matters, the processes he took were entirely defensible in law and accounting practice, and could not be described in words line 'fraud' - hang on, I'll get some more for you. So you wouldn't use words like 'cooking the books', 'deceit', 'fraud' or words of that nature?

Mr CLARKE: No, I would not.

Mr DUNHAM: Thank you.

Mr CHAIRMAN: If – sorry, Gerry.

Mr WOOD: Look, could I just ask you a couple more questions, Mr Clarke? One relates to a memo which started this all, which was the one from Paul Bartholomew that was quoted in parliament. In that, he said that: 'In summary, there was an artificial reduction of $8m in Territory Health Services 2000-01 budget, in order that the 2001-02 could be presented falsely as a 2.5per cent increase'. I think it would be right that we least ask for your opinion on that statement.

Mr CLARKE: I think I have actually answered that question there, but - yes, I thought that that wasn't a balanced view of the position. I've got to say I was a bit disappointed in it, because it didn't refer to carryovers, despite the fact that I think I had at least two discussions with Paul. We sent him a letter on 17 May explaining the logic for it, we had a discussion subsequently with the Health staff, so I really was - that description there, I think, is just sort of, what's the word? Well, it's not a balanced advice.

Mr WOOD: Could I - would it have anything to do with the evil empire theory? In other words, there was this reaction of, 'you were the enemy and look what you've done to me'.

Mr CLARKE: I think there's probably an element of that. I don't know about from Paul's perspective, because I don't really know how much Paul was really sort of normally - I know usually he was involved in the process but – I mean, it's an opinion I'm giving but - and I should really probably not do that. But I thought it was being an opportunity to have a bit of a shot at us, I've got to say.

Mr WOOD: Just one other question - I need to get an explanation. I think you've mentioned that in No 9, and you stated: 'The term "for presentational purposes" is a commonsense interpretation of the phrase - that is, how the information is presented. The objective for any presentation is to provide information in a meaningful and useful way so that users of the figures can quickly grasp an understanding of the numbers'. The first question would be: who would you say would be the users of this?

Mr CLARKE: Everybody.

Mr WOOD: Everybody. Then the term 'presentational': did that come from you or is it a budgetary term?

Mr CLARKE: No, I think it's from me. It's the sort of phrase - a word I use quite a bit.

Mr KIELY: Well, there's a question I was going to ask you …

Mr WOOD: Sorry, could I just finish, Len?

Mr KIELY: Sorry …

Mr WOOD: That's all right. It wouldn't have been put there as a signpost for us to, sort of, have a look at it as being unusual, this particular amount of money?

Mr CLARKE: No, no definitely not. Well, not from my use of it, anyway. I think I was the one who was the architect of the word presentation - for presentational purposes.

Mr WOOD: Again, it was a factor that came up in this whole debate, in the censure debate, so I'm trying to find out the reasoning for the use of the word, you know, and did it have any legal standing in budgetary terms, and what was your motive for sort of putting it there?

Mr CLARKE: Yes, and I think it really was to say that 'presentational purposes' is different to the allocation. I mean, it's still – literally, as it said here, 'is to make the numbers more comparable' that's all. Because we do a number of presentational changes as we have discussed in here, you know, over the years, to get the numbers comparable. I mean, I put this in that same sort of category. I want to be able to say to my staff that this was something that they, you know, when you talk about morals, you know, that they shouldn't feel as though that they are doing something dreadfully wrong, you know.

Mr WOOD: And that's important.

Mr CLARKE: Yes. And so, you know that's …

Dr LIM: Could I ask you, Mr Clarke, the words 'presentational purposes' has been thrown about a fair bit, with an implication - you know, with an implied sense that it's something devious, it's for presentation purposes only. When I read it, and many of the memos that were sent out, the word 'presented' was also used many times. And the way I get that, you presented something and it's for presentational purposes. It's no other meaning than that, rather than say: 'This is for public display and this is something that we want to keep for ourselves'. And that's what I'm trying to do - so can you perhaps explain to us what you meant by the words 'presentational purposes' and the word 'presented' that were used in your many memos?

Mr CLARKE: Well I mean, I think I've set it out here probably as well as I could. I mean, the idea of 'presentation purposes' was simply so that you can compare two numbers. There wasn't any devious intent behind it. I mean, I was amazed, really, at the amount of attention that the phrase 'presentation purposes' has gathered.

Dr LIM: I have information that help prove that jurisdictions actually do use the words 'presentational purposes' as well. Are you aware of that? If you are – and I see Ms Prince nodding her head there - do know which jurisdictions use the same words to explain that this is for presentation?

Mr CLARKE: Look, I can't recall. It's the sort of phrase that you know, we would use, because we - at the Treasury meetings we often talk about the way numbers are presented, and you know, there's lots of different formats, the uniform presentation framework, and I think - I'm pretty sure I do recall the phrase, 'presentation purposes' [inaudible].

Ms PRINCE: Dr Lim, it comes up very regularly through all budget papers. Just recently I was reading the Victorian budget papers. They changed their budget scope by including a few more agencies to align with the ABS purposes. What they've then done is back-cast the numbers so that if you're comparing one year to the next, you don't have this problem with different scopes of budget agencies. So that's how it's generally used, and that is one sort of presentational change. We've done it over many years to cope with organisational restructures, restructures within departments, so that when you're comparing your budget papers which are forward looking, the previous year is on the same basis as the coming year.

Dr LIM: So the committee can take comfort in believing that the words 'presentation purposes' have no meaning other than on face value; that it was to be presented to members of parliament, the budget, and to the community in the Northern Territory.

Mr CLARKE: That's correct.

Mr CHAIRMAN: So just before I throw to Gerry, just some questions about this. You mentioned other jurisdictions and presentational purposes and back-casting, and I think I understand back-casting as being a process where as you say, if there have been amalgamations of departments that really between years you're going to really compare apples with apples - isn't that just a little bit different to what we're talking about here in terms of we're not back-casting. We are actually reducing the estimates, and also in these other jurisdictions in terms of their presentation, wouldn't there be some sort of explanation of the back-casting techniques within a glossary or an appendix to talk about the methodology that was used to actually back-cast and which departments were involved? Wouldn't there be a footnote or an appendix to tell the readers of those documents about that?

Ms PRINCE: That's usually the case.

Mr CHAIRMAN: So was there an appendix or some explanatory note within the budget itself? We know that there were on some of the audit trails, but in the budget documents presented to parliament and the people, was there an annotation?

Mr CLARKE: No, there wasn't.

Mr CHAIRMAN: Okay, thank you. Now, Gerry.

Mr WOOD: Yes, I suppose slightly following on from that; who writes the budget speech?

Mr CLARKE: We usually do a first cut, at Treasury, and that goes over to the political side of things, and - but there's a bit of [inaudible] obviously, to make sure the facts are right.

Mr WOOD: Yes. I suppose I was just wondering who would make a decision whether the explanation for that, this presentational purposes change in the figures, should be in or out, or it wasn't that considered?

Mr CLARKE: I tried to recollect in my mind - my recollection was that it was discussed with the Treasurer, but I can't actually recall the time, or exactly you know, sort of what was said, but I was under no doubt that it was not going to be discussed in the budget papers or in his speech. But I can't recall the discussion that led to that conclusion.

Mr WOOD: Thank you.

Mr CHAIRMAN: I've just got a series of questions about - I've titled it 'Reduced estimates as targets', because we've heard evidence from various people that the reduced estimates say for Health of 436 when their allocation was 444, that the 446 actually then became a target for the department to spend to, a revised target, and that that was something that Treasury expected, so I mean, I'm …

Mr CLARKE: No, that's not right, no, it was never a target. They were never supposed to change their behaviour.

Mr CHAIRMAN: Well, you've just answered all the questions. Thank you for that emphatic answer. We've just saved ourselves a bit of time. Are there other questions, possibly about the estimates process?

Dr LIM: Just to follow what Dr Burns has asked, I'll call you Dr Burns. When you tell a department that your allocation was not legally cut but there is a reduction, would you influence the departments then - what can we - shall we look at our operations and see whether we can actually save some money somewhere? Would you expect some sort of effect upon the behaviour?

Mr CLARKE: Well, that wasn't - what I said to the agencies and CEOs was that it wasn't changing the allocation, that it wasn't - to me it wasn't designed to affect their behaviour - it was - the saving of the carryovers, the savings would be a natural process that would flow as had occurred in the previous years. Now, the Treasurer may well have thought that it would have an impact because he certainly was of the view that you know, if you set targets and hold expenditure down then that does

change behaviour, but I certainly was definitely not of that view myself in relation to this particular transaction.

Mr KIELY: Could the documentation we've received, Mr Clarke, from the departments, the THS, for instance, the allocations approved by the Burke Cabinet in April 2001 [inaudible] THS approximately $444m, Education approximately $351m, Police $128m. When the CLP Budget Cabinet signed off on the budget estimates in April 2001, the Ministers, the then-Ministers, Dunham, Lugg and Reed, signed off on estimates of $444m respectively, $451m and $128m for Mr Reed's portfolio as Police Minister. When Ministers delivered their budget estimate speeches in May 2001 with the reduced estimate figures, they acknowledge and spoke in debate on the floor of parliament advising the people of the Territory of estimates of expenditure of $436m respectively, $445m …

Mr CHAIRMAN: That should be $345m.

Mr KIELY: … and $126m respectively. Did any of the ministers, that's ex-Minister Lugg, ex-Minister Dunham or ex-Minister Reed, did any of them have any discussions with you about these revised estimates?

Mr CLARKE: I think the only one I recall is Minister Dunham; we had a chat out the back room. I don't recall - and obviously the Treasurer was the Minister for Police, so he was well aware of what was going on. No, I don't remember him, recalling our discussion.

Mr KIELY: It's certainly up to - no, I won't ask that, because I don't think it's a fair question to ask you. Mr Clarke, does Treasury have a whip hand, and it's a bit colloquial, for instance, documents, there's some witnesses who suggest, in other words, there's Treasury who were on the estimates, are they the controlling agent [inaudible] or should ministers take responsibility for what they do in parliament? So do you have the authority, the power, the responsibility to tell ministers what they should report to parliament?

Mr CLARKE: Well, Treasury definitely does not have the power. I think I answered that question before. There are certain estimates that we, only us would know what the right figure was, you know, sort of like interest payments for example, it's a technical calculation that has to be done. But what we seek to do is to present information in a form that the ministers of the day will, you know, understand and say, yes, they're prepared to sign off, and there's a bit of trust obviously, and that has to be build up.

Mr KIELY: The bottom line is, it is a minister's responsibility to ensure that the information he or she presents to parliament is correct to the best of their knowledge?

Mr CLARKE: Yes, I mean that is a Westminster tradition; I don't think you can get away from that.

Mr CHAIRMAN: I've got some questions, Mr Clarke, obviously following a line of questioning about estimates here, and what words or written directions do you use for Treasury staff to action the changes to estimates? You may have even supplied that to us in the paperwork that you've given us, but could you just sort of just briefly give us an idea of how you action this particular reduction in estimates?

Mr CLARKE: I think I just rang this young lady to my left and said, 'Do it'.

Mr CHAIRMAN: Okay. Just something that's been puzzling me just going through the audit trails; there's a different set of words used for Police and Education versus Health, and basically the audit trail for Police and Education reads 'realignment to allow for likely carryover of 2000-2001 expenditure into 2001-2002,' while the sort of audit trial related to health reads 'realignment' and a little bit of – a few words in front of there but basically a realignment to ensure increase in estimates for 2001-02 budget year of 2.5per cent growth. Now what was the reasoning? Why was the wording different between health and - Police and Education on one side and Health on the other?

Mr CLARKE: I think - I mean, the audit trial is up to individual budget officers to write what they say. I mean, to me the difference between those two is the first one - the first two give a why and the last one only gives a what. And so - I mean, I wasn't particularly - you know, it's just how a budget officer interpreted, like with the health one, what they had to do.

Mr CHAIRMAN: So, I mean could I ask whether they were different because of Mr Bartholomew's objections? I see …

Mr CLARKE: No.

Ms KIRKMAN: Can I answer that.

Mr CLARKE: Yes, sure.

Mr CHAIRMAN: Ms Kirkman.

Ms KIRKMAN: The reason the comments on Education and Police were exactly the same was that the same budget officer was working on those two agencies at that particular point in time, so it's a working document. They just put in basically their own words; it just happens that the same person was doing those two agencies at that particular point in time.

Mr CHAIRMAN: Okay. Thanks for that clarification. Evidence has been provided by Mr Plummer and other CEOs that they were advised about the realignment would not affect allocation. I think we've been through that. I think we've been through evidence also that Mr Plummer and other CEOs, and confirmed by yourself, that they couldn't recall any previous NT budget being realigned for presentational purposes. I think …

Mr CLARKE: In the same vein as this.

Mr CHAIRMAN: Yes.

Mr CLARKE: Other presentational changes have been made.

Mr CHAIRMAN: Yes. I think we've answered those, so we must be getting close to lunch. We've still got 25 minutes to go and I've got plenty of questions here so we'd better make good use of it.

Yes, okay. I'll take this one up: it's been suggested that the new Fiscal Integrity and Transparency Legislation will give Treasury more autonomy in the preparation of budget papers. I think this is something we've touched on today, and in an *NT News* article dated 29 November 2001, Assistant Under Treasurer Jennifer Prince was reported as saying that the new transparency laws have kept

politicians at arm length for the formulation of the mini-budget and the direct quote from the Assistant Under Treasurer was as follows:

> We've been able to prepare the budget papers in accordance with the new legislation which we haven't been able to do before. It carries the Under Treasurer's certification about numbers…

and here's the important part that actually relates to our terms of reference is:

> *Previously the Treasurer was able to review each and every one of the numbers.*

With specific reference to that last sentence do you believe that to be correct?

Mr CLARKE: Yes, I think that's right.

Mr CHAIRMAN: Under the legislation?

Mr CLARKE: Yes. Under the previous framework, ultimate responsibility for the numbers rested with the Treasurer. Under the *Fiscal Integrity and Transparency Act* there's some of the responsibility transfers to Treasury.

Mr CHAIRMAN: In terms of, you know, budget reporting, do you believe that quarterly reports on …

Mr DUNHAM: Do you have more questions on that line because I …

Mr CHAIRMAN: Yes, I do and there's another one after this.

You – you know, we've heard some doubt here today about quarterly reports being supplied to ministers. Do you think this is a necessary part of management within departments or it's up to each individual minister to really choose whether they receive quarterly budget reports and peruse them and action them?

Mr CLARKE: Well, common sense tells you that you'd expect their - each minister would get a financial report, but in my experience over the years different ministers operate at different levels and some, you know, have an information requirement up here and only want to be told if there's a problem; others want to know what the, you know, allocation is for paper clips, you know. And – but common sense tells you that you would expect that they would get a – normally get something of a report to tell them the status of the budget.

Mr CHAIRMAN: So – now, I think we're all aware here that you've got a sort of an illustrious history in terms of your public service to the Northern Territory and you've been in a very difficult position as Under Treasurer anyway, and I guess made even more difficult by some of the events and whatever's gone on, but I'd be very interested in your suggestions to constructively address, you know, improved reporting in the future, both the ministers and I guess the parliament. Have you got some thoughts on that?

Mr CLARKE: Gee whiz.

Mr CHAIRMAN: Because I think that's what this Public Accounts Committee is all about, to move on to try and make some solid suggestions in terms of making the system a little bit better.

Mr CLARKE: Yes, no, I agree. I think that's a good objective. I think, as I said in my other response to Mr Wood's question earlier on, the real - the budget debate should start with an understanding of the numbers. The debate should be about the policies and what's behind all the – you know, what's driving those numbers, not, you know, trying to work out what the hell they all mean.

Now - so that to me is the Nirvana. That's where it should all be going. To a degree the *Fiscal Integrity and Transparency Act* does help that because it requires the assumptions behind all the numbers to be sort of specified and the situation you're talking about here, there's no question that that would be – that would have been explained and elaborated upon in the - as we would have been required to under the *Fiscal Integrity and Transparency Act*. Look, I – you know, there's a - I think that's the best way to say it: that the facts should be known, obvious, apparent, clear and it is the policies which should be the review process.

Mr CHAIRMAN: And performance auditing?

Mr CLARKE: There does need to be performance management of sort. Whether it's performance auditing, I don't know. I mean, I always get - I'm just a touch wary of the audit process because that tends to give it another agenda and so you get into backside protection rather than saying: how can we do the job better. What you want is a culture where organisations say: Look, yes, we do want to report performance and both bad performances as well as good performance and - but not be shot if there's poor performance unless it's recurring poor performance and due to what they're doing rather than the situation that they face. So yes, I think you've got to be a bit cautious about performance auditing. There does need to be a degree of that but it's more to get the agencies to embrace performance management as part of their culture.

Mr CHAIRMAN: Mr Dunham.

Mr DUNHAM: Yes, the *Fiscal Integrity and Transparency Act,* in the passage, the Chief Minister talked about:

> *I acknowledge clause 2.2 of the bill provides obligations created under the framework are not enforceable in judicial or other proceedings. This is the usual provision that is included in similar acts elsewhere in Australia. This provision recognises that the government is accountable to the parliament and ultimately to the electorate for its performance not the courts.*

What I would ask you, I guess, is that notwithstanding that this Act is in place the same processes will take place in terms of budget interrogations, budget debate and community communication notwithstanding whether this Act exists or not. In terms of it penalising or regulating or having any other effect it's pretty much meaningless.

Mr CLARKE: No, I think the - because it will require the Treasury to specify the assumptions underlining the numbers, I think you're going to get a much, you know, better understanding of the logic for particular numbers. Now, you'll still have the debate, for sure, for sure, but I think it will take it to another level of - another level of debate. There'll be less questions about well, you know, what does that number mean, how is that derived; it'll be saying okay, you know, it'll be oriented at the policies behind them.

Mr DUNHAM: Right. So, for instance in the recent mini-budget the 5per cent CPI is explained or …

Mr CLARKE: Five per cent CPI …

Mr DUNHAM: Increase for this year.

Mr CLARKE: I don't remember – would there be a five per cent?

Ms PRINCE: No it's two and a half, and that is specified.

Mr DUNHAM: It's specified. I note that its purposes are to clearly state a fiscal strategy and a fiscal strategy statement, adopt fiscal indicators to enable tax payers to judge whether the government is achieving its stated strategies and objectives and report on progress on achieving the stated fiscal strategy at least annually in budget papers.

In another way and name and shape, I would have thought that previous budgets achieved those three goals.

Mr CLARKE: Would you run through it again?

Mr DUNHAM: It has three purposes. The fiscal integrity and transparency framework requires government of the day to, and I quote for the benefit of researchers from *Hansard* page 301, Debates of 25 October. It has three purposes:

- *clearly state its fiscal strategy in a fiscal strategy statement;*
- *adopt fiscal indicators that will enable taxpayers to judge whether the government is achieving its stated strategy and objectives; and*
- *report on progress in achieving that state of fiscal strategy at least annually in the budget papers.*

Mr CLARKE: Yes, I think …

Mr DUNHAM: I suppose what I am saying is, even though this device is now in the form of a bill, they are purposes which would have been evident in a variety of papers and government actions in previous budgets.

Mr CLARKE: I agree with that. They're pretty general sort of descriptions, and I agree. The previous - the aggregate position, I think, was pretty well explained. The fiscal strategy that we always had in Budget Paper 3, we always had a bit of an analysis of the fiscal strategy and, you know, if it had been or had not been achieved and why that was so.

Mr CHAIRMAN: Thank you. We've probably got down to 15 minutes left, and I appreciate, Mr Clarke, that you have borne most of the testimony today, so possibly we should make a bit of an early mark.

Mr DUNHAM: Could I just have a clarification to the point it was a CPI, sorry, and it's …

Mr CHAIRMAN: I had started asking a question, Mr Dunham, but I will allow you to …

Mr DUNHAM: It is a clarification of the previous question, sorry, Mr Chairman. Budget Paper No 1, the Budget Statement, at page 3, talks about Economic Growth, sorry: 'It was forecast by

Treasury to grow at 5per cent in 20001-02 despite recent setbacks'. So, one assumes the fact that in the problems in the world arising from 11 September and Ansett and the rest of it, do you believe that that figure is applicable in that document?

Mr CLARKE: I think that when we – we've got technical experts that give us that number - I think it definitely wasn't a doctored numbered - you know, one I think we were asked to put in, if you like. It was a response that came from our technical experts and I believe … I don't know whether even …

Mr DUNHAM: You reckon we were on target for that?

Ms PRINCE: The most recent indications are that that will be borne out, but that is an estimate of state product. Given the way the intergovernmental financial relations are set up in Australia, there is very little relationship between the state product of an individual jurisdiction - particularly the Territory's state product - and our own revenue-raising capacity. So, whether our economic growth is estimated to be 5 per cent or 15 per cent - well, there will be some affect on our own source revenues but it will not be substantial. So, there is not a really strong relationship - as there is at the Commonwealth level - between economic growth and revenues.

Mr CLARKE: And the other thing, that with our – that's GSP, is it, that it is referring to?

Ms PRINCE: Yes.

Mr CHAIRMAN: Yes, it does.

Mr CLARKE: Anyway, we've got such a large external influences with the Timor Sea. Again, I don't what elements were factored into it. Mind you, since then the oil prices have come down, so that would have a dampening effect on the number. But at the time, I think, yes, particularly the experts were telling us that that was a reasonable estimate at the time.

Mr CHAIRMAN: Thank you. Just to get into the calculation of estimates and carryovers on it. I will probably finish off this section with a bit of technical discussion. I certainly appreciate you expertise in this area, but I am just interested to know some things, I guess as an amateur, someone who is learning about budget processes and their calculations. So, specifically in relation to the Health Department and their estimated expenditure for 2000-01 – so, if we are talking specifically about the reduction in expenditure of $8m. It's been suggested by some that there was absolutely no signs in there, except to say that Treasury expected THS to come under budget, more or less, by this amount. Or by others that the figure of $8m was nominated to give the appearance of increased budget expenditure in the following year of 2.5per cent or in line with inflation. So, how arbitrary or how scientific was the estimate reduction of $8m for THS?

Mr CLARKE: Well, I think I described that in question 1 there, and it really was. It goes right back to me saying to the Treasurer: 'Well, it's about 2.5per cent', and he says: 'Well, that's what I'll have'. Now, the carryovers are normally about 2.5per cent - this is across the board. With Health, they've been a lot more than that, and they've been a bit less than that.

Mr CHAIRMAN: We've had documentary evidence from the Health Department that their proposed carryover for the 2000-01 into 2001-02 was approximate $790 000. That's a hell of a lot of difference to $8m.

Mr CLARKE: But that is another reason why you were expecting the number to be larger. Normally their carryovers in the March and April Budget Cabinet are a darn sight higher than $700 000. In fact, they – let me … So the fact they were only $700 000 is a sign that you will expect them to be larger, not smaller.

Mr CHAIRMAN: I guess we are coming onto the table that you submitted on page 6. For the 2000-01 carryover, I suspect that is for Health right at the end there, the total carryover that you've ascribed to be $2.99m.

Mr CLARKE: Yes.

Mr CHAIRMAN: So, presumably, that's the $790 000 plus the wave component. Is that correct?

Mr CLARKE: That's right, that's correct.

Mr CHAIRMAN: So, how did you calculate a wave component of such magnitude above the $790 000?

Mr CLARKE: Well, that's what it actually was. I mean …

Ms KIRKMAN: That's what Health actually submitted to Treasury as part of the budget refinement exercise after the end of the financial year. So, that's Health's number.

Mr CHAIRMAN: So, methodologically, or in terms of the method - and I am asking here as an amateur - is it quite acceptable to include a budget refinement process as a sort of carryover and wave?

Ms KIRKMAN: That's it. Historically, the budget refinement is where most of the carryover has occurred.

Mr CHAIRMAN: But under section 22, previously, didn't - wasn't Health trying to identify $790 000 under section …

Ms KIRKMAN: No.

Mr CHAIRMAN: Were they trying to identify $2.99m?

Mr CLARKE: There are three processes by which you could carry over expenditure. The first is for the March and April Budget Cabinets, that Cabinet can sign off as they did with the 797, so you change both the current year budget and the next year budget. So, that's not a section 22, it's a - there's other administrative processes. Obviously, the new budget hasn't been bought down so the numbers are just increased by the 797.

Section 22 is a provision within the *Financial Management Act*, where the Treasurer has got the authority as Treasurer, to say: 'I will allow the transfer and allocation from this financial year to the next'. That was the second method, and the third method is budget refinement where, in the next budget year, probably August/September, we seek from agencies proposals for to have the carryover included. Often that carryover is an amount - or in the past has been an amount they couldn't include within section 22, because the section 22 has a limit of 5 per cent, is it? – 5 per cent of their allocation

is the maximum amount they can carry over. So, they then use that in other process in budget refinement to get the carryovers reflected.

Mr CHAIRMAN: Isn't budget refinement a process that occurs in the next financial year, in August?

Mr CLARKE: That's right.

Mr CHAIRMAN: So, it's not essentially a carryover between one financial year and another?

Mr CLARKE: Yes it is, because the money has been unspent in the previous year, and they are saying that they want to now spend it in the next year.

Ms PRINCE: It's because the approval has been given for that particular purpose in the previous year.

Mr DUNHAM: The DCIS contract, would that be one of them? That they didn't have the money for at the end of the year, even though they had Cabinet approval. But, because Cabinet approval came so late …

Mr CLARKE: No, no, no. No, it's not. They didn't have the money. With carryover, the money has already been approved and allocated.

Mr DUNHAM: Right.

Ms KIRKMAN: That allocation has lapsed at the end of the financial year. You can't, except by section 22, on 30 June any allocation unspent lapses.

Mr CHAIRMAN: So, just say at the end of the 2000-01 financial year would you, as Treasury, have a figure, or an approximate figure, of what you estimated to be the wave carrying through from 2000-01 into the budget refinement process, apart from what's been identified as section 22?

Ms PRINCE: We would have an estimate of the lapsed allocation, and we would have a professional judgment as to how much of that lapsed allocation will be sought as being reinstated in the budget refinement process.

Mr CHAIRMAN: Well, and you'll have to bear with me here, I am just trying to ascertain and find out. Just say, in the case of Education, I guess, their allocation was 351 as of May. There was a further 5.3 that was added to that in June. There were some unspent funds which actually made their total expenditure somewhere in the area of $351m which was their allocation. So that $5.3m would actually then become part of the budget refinement process in the August of the next financial year.

Ms PRINCE: The $5.3m was Treasurer's Advance and so it was funds that they required for the previous year and that would have been actioned before 30 June so that was within the 2000-01 year. What they would have done in working out how much that additional allocation was, was to look at any other allocation that they had for other purposes that was going to lapse or wasn't going to be spent or could have possibly been used as carryover and work out the additional amount and then look at the next year's requirements in the budget refinement process. So Education actually both carried over and received addition allocation.

Mr CHAIRMAN: I suppose what I'm just trying to ascertain here, by your own calculation I am just trying to work out whether you would have had a number towards the end of the 2000-01 financial year. For Health you've got a total carryover of $2.99m and yet I guess basically the amount that was lopped off the estimate if you like was $8m. With Education, you've got a total carryover of $2.33m and yet in Education's case there was $6m that was lopped off the estimates, and in terms of Police, you know, I think that's probably a reasonable call, so can you just take me through.

Mr CLARKE: Hindsight is an exact science! At the time that this was actually done we did not know what the actual outcome would be. That is the reality of it. I mean that figure was for the $8m and the $6m was simply based on past years experience.

Mr CHAIRMAN: I'll put it to you that, I guess, Mr Bartholomew told the Public Accounts Committee in his evidence, and I've got page 22, paragraph 1 of Mr Bartholomew's evidence, and he said that the $8m which was taken out of the estimates six weeks from the end of the financial year was already spent. He said, 'The fact that there was $8m shown in the estimate which was not in fact already spent caused me concern'. So obviously he'd been telling you his concerns. But did he relay this to you?

Mr CLARKE: I think that was one of his concerns. He didn't think it was achievable, I think that's right. But there really was a fair amount of confusion about the Health numbers and they were telling their staff that they a humungous bunch of problems, they were telling Jodie that, 'Oh no, it was all explainable'. And we go further up the tree, we go through the budget process with them where they hadn't played with a straight bat. I am talking about what had happened with growth, so quite frankly we did not know what the real position was in Health.

Mr CHAIRMAN: So you are a little bit skeptical about this claim. This sort of, here is a department …

Mr CLARKE: Exactly. And don't forget, he was also pretty new, and every department always says, 'No, we're are going to spend all the money'. I mean, this has been one of the difficulties we've had in trying to cope with this wave type situation. You say, 'Look, for goodness sake, give us your best estimate', and they do and they are covered and what actually happens is a heck of a lot less.

Dr LIM: Could I put it to you, Mr Clarke, that the three departments we are really scrutinising here at the moment, that you have less confidence about the Health figures than the other two?

Mr CLARKE: That's true.

Dr LIM: And accordingly, you had to put most rigour into the figure?

Mr CLARKE: No. We just amend it. What you said was did we have less confidence in Health's overall position, I think that's true.

Mr CHAIRMAN: I think this is an important issue and we will pursue it this afternoon. I think it is a pivotal issue. It's getting on for 12.30pm. I am mindful that Mr Clarke's being in the Chair and I admire his stamina, but I think we should break for an hour for lunch and reconvene here …

Dr LIM: The other two women too are in a chair.

Mr CHAIRMAN: Well they are in a chair but Mr Clarke's been giving most of the evidence and the Committee is appreciative of that, so we will break for an hour so you can have a bit of a break.

Luncheon adjournment at 12.34 pm

The Committee resumed at 1.37 pm

Mr CHAIRMAN: We will just try and kick off on time and thanks everyone for their punctuality in coming back. So we'll resume the hearing and just point out to the witnesses that they remain under oath. I had started on a line of questioning about calculation of the budget estimates and carry overs and I would like to pursue that a bit further. Just referring to your table in your written submission, Mr Clarke, on page 6 where you look at the total carry overs and wave components for Health, Education and Police in consecutive financial years starting in 1996-97 through to what you've calculated to be carried over from 2000-01 into 2001-02.

It appears to me - we've gone through some of the methodology of how you calculate it and I'm glad that you've explained that to me, but looking at the total carry over for Education, I guess it's 3.5, 4.44, 5.6 and then 1.374 - I think it's fluctuating - but overall and then finally 2.33. It seems to be heading well below 6 so would you agree that there is a sort of a trend there? Also in terms of Health although it started at 13 in 1996-97 6 - 7 – 8, I guess, did you want to comment on trends and whether you had a look at the trends when you calculated the numbers?

Mr CLARKE: No, look I did not have a look at trends. Not me personally. At the time I just knew that there had been significant carry over from year to year. I knew what the aggregate figures were about and I think the one with Education, and it does look as though it's a bit lower, but Education there had been some quite larger supplements to their budget. I'm trying to work out how…

Education budget for the previous few years had been were trying to get the base right for the Education budget and I think that would have had some bearing on what the size of the carry over was. I suppose you could say why wouldn't that be lower. Look Dr Burns, I didn't have a look at the trends and the [inaudible] I gave the Treasurer. I just knew that it was - I looked at the aggregate rather than the individual ones. I don't know, Jennifer, if there's anymore we can say about Education.

Mr CHAIRMAN: It's just our consultant has calculated - made her calculations, and I guess for the four years starting 1996-1997 up to 1999-2000, for Education she's got 3.8, 2.1, 3.5 and 3.1, and for Health, 11.3, 9, 7 and 6, so that's what she's calculated. But I guess it comes down to different methodologies, and we could spend all day here, and we haven't got all day.

Mr CLARKE: Sure, yes.

Mr CHAIRMAN: But one aspect - you may have heard me ask the question of Mr Lugg this morning in relation to the Auditor-General's November Report, 2000-2001, page 22, in relation to the Department of Education and once again I'll quote from the Auditor-General's report. It said:

By March 2001 the Department had better identified its budgetary needs for personnel costs for the year. That analysis established that the original $204m budgeted for personnel costs for 2000-

2001 was insufficient. A $6m increase was approved by the government in March 2001, but the forward estimates in the government's 2001-2002 budget papers still show $204m; the actual outlays recorded for personnel costs for the year eventually totalled $212m.

End of quote. So can you explain to the Public Accounts Committee in terms of the forward estimates now why the increase of $6m for personnel costs which were actually approved by the former government included in the forward estimates for 2001-02?

Mr CLARKE: Yes, could I get Jodie to answer.

Ms KIRKMAN: The estimates - we look at the total agency's budget, and cabinet did approve $6m for the Department of Education. Cabinet doesn't approve expenditure by category of cost, so where Education chose to put that $6m was a choice that they made, and would not be something that we would interfere with.

Mr CLARKE: The [inaudible] their costs by personnel, admin, grants, capital.

Ms KIRKMAN: Personnel, operational, rather than a total expenditure.

Mr CHAIRMAN: But surely when you give - and once again, I'm a newcomer and I need to find out these things - surely when a department like Education makes a submission to Cabinet, Treasury would evaluate different categories of costs and what they're proposing to use it for. And wouldn't you have some ongoing monitoring process to see that these departments actually - if they've said, okay – if they've argued for a $6m increase for their personnel costs that they actually allocate the money for the costs that it has been allocated for.

Ms KIRKMAN: I'm not sure that category of cost information went to Cabinet**.** In this particular instance, Education had asked for $11m, and Cabinet didn't actually give them a specific amount for items. What they got was $6m and said, you go away and you spend that to your best ability.

Mr CLARKE: You work it out where you wish to use it.

Ms KIRKMAN: You work out where you want to put it. So normally, yes, if an agency came and said okay, I want $1.5m to buy a new boat, we'd make sure that they bought that. But this was - in this instance the $6m was a global figure given to them. So it was at their discretion as to where they spent it.

Mr CLARKE: It would be fair to say, too, that the trend that we've followed is to move away from us looking over the shoulders of the government agencies, certainly on the category of costs basis, but we try to - we're progressively moving to us looking at the total and for them to work out how best to live within the budget that they've been allocated.

Mr CHAIRMAN: Have you got a supplementary on that, Mr Kiely?

Mr KIELY: I think in your written submission you suggested that total actual expenditure at the end of the year for the budget as a whole was always less than the final allocation?

Mr CLARKE: Yes.

Mr KIELY: Is that through the big three of Police, Education and Health?

Mr CLARKE: I think it is generally true, I think. I think Health are always under, other than this year, and so are Police, but I think Education is a bit of a moving feast.

Mr CHAIRMAN: The figures that I have got here supplied by our consultant say for Education starting in 1996-97, the revised budget allocation was 287, they spent 283. The next year it was 326, they actually spent 323. The next year was 333, and it was 330. Next year their budget allocation was 330; they spent 327. So basically, I guess, in terms of Education, there is a history of a $3m underspend in the previous years. And for Health, on the figures that I've been given here, the revised budget for 1996-97 was 366. They spent 354. The next year they were allocated 404 and spent 395, the next year 410 and they spent 403. The following year was 440 and they spent 433. So I guess in some ways there was an underspend for those departments, so that is true.

But in your written submission, you describe some doubt over the presentation for the figure for Health, and just quoting from your written submission on page 2, paragraph 4, you say that you:

> *recall comparing the original budget for 2001 total in May 2000 with a figure that would have been presented if the 2.5 increase from the 2000-01 to the 2001-02 budget which was an $8m reduction in 2000-01 was to be included in the May budget papers.*

Then you go on to say, and this is the question:

> *As there was only a relatively small difference for Health ($4m) in my mind this could cast some doubt on the reasonableness of the 2000-01 estimated actual for Health.*

Did you want to explain a little bit what you meant by that?

Mr CLARKE: Yes, just that the - so we're looking at the estimated actual, the original budget after the adjustment, the estimated actual would have been only $4m more than the original budget. Now, I was aware that there had been some increases in the Health budget, like the carry forward from the previous year, for example, so I thought, gee whiz, you know, that looks to me a bit suss.

Mr CHAIRMAN: Well, the figures that I recollect for Health is an original allocation of $432m with approximately $4m in carryover which makes $436m which was the estimated actual expenditure that was presented in the budget papers, but we had documentation or we have documentation which shows that there was actually on top of that another $8m allocated or given in allocation to Health over the year. So, in other words, you're saying that - am I understanding you correctly? - the 432 going to 436 as an estimated actual with a $4m different might have raised some questions.

Mr CLARKE: Yes, in my mind, yes, and to me, I mean, thinking not necessarily about this process, but of the Treasurer being asked questions, you know, I had to say to him: 'Well, look, you know, this casts some doubt on the validity of that figure', and did he want to reconsider because I think - I didn't know what was the priority in his mind. If the priority wasn't a 2.5 per cent increase, well then his option was that he could increase the next - the 2001-02 budget.

Mr CHAIRMAN: So did you also feel that there might be - you say it might attract the interest of the Auditor-General?

Mr CLARKE: Yes, I think so. I mean, I was acting sort of, in inverted commas, in his interest, I think. I was saying 'Well, hang on a minute, in a previous brief discussion that we'd had, he'd settled on 2.5 per cent and I was saying: 'Gee whiz, I'm not sure that that looks valid'.

Mr CHAIRMAN: Did you also have a concern because of what - so this is prior to your conversation with Mr Bartholomew?

Mr CLARKE: Yes.

Mr CHAIRMAN: Okay. So what, then, was the rationale for the Treasurer for issuing the direction to maintain the $8m reduction? Did he - he obviously - you told him your concerns?

Mr CLARKE: Yes.

Mr CHAIRMAN: Did he give you a rationale, or did he just say: 'I want you to do it'?

Mr CLARKE: No, no, no. The next paragraph described it. I think he almost sort of convinced himself, and to a degree me, I've got to say, too, that it was okay to do it. I mean, we did not know what the real position was in Health and there was the possibility of savings. Now, I think it's probably true that he was thinking about well, okay, you know, how can I explain this, but there was a discussion about what was the real position in Health. We said we don't know. Now, I couldn't say for sure what the real position was - what would the real position be for Health at the end of the year - we didn't know. They, you know - they just weren't as - what's the word? - sort of reliable I think is a fair comment - as they had been in the past.

Mr KIELY: The question of reliability and concern over whether Health was being as up front and as accurate as it might well have been, for whatever reasons, then they - you did the $8m presentation purposes exercise. When you apply that rationale to Education, who we have heard volumes - volumes in this case - about how good the team was over there, how much in esteem, what a professional group of budget people we had in there – why? Why then, didn't they suffer the same punitive actions as what Health did? I mean, is it that, you know, on one hand we hear the concerns over Health – and they get an $8m presentation purpose adjustment - we hear what a great team the Education people were, yet they get a $6m …

Mr CLARKE: Yes, but Mr Kiely, the issue - the reason why this came up was because I rang the Treasurer and said: 'Gee whiz, I'm not sure this is the right thing to do for Health'. And so, he went through a process of trying to satisfying himself, I presume, that he could answer in the parliament, that he could explain it.

And so, it was: 'Well, where are we at with Health? What are they like?' And so, the issue of Education just did not come up. It was could, you know: 'What is the position with Health?' Can - is there an argument that could be made to say: 'Well, hang on a minute, that $4m difference is explainable'. It is still defendable, if you like, to have an $8m reduction. And, at the end of it I said: 'Oh well, he's got an argument'. It's a, you know, it was his - he had to come to that judgment himself because he's the one that carries the can.

Mr KIELY: Sir, is there any process in place whereby, when you have concerns about agencies - and it doesn't necessarily have to be Health, I mean, it could be one of the smaller agencies - where you think that they're deficient in their reporting to Treasury about their estimated actuals and their outcomes? I mean, do you sit them down at a table - because I've heard criticism of

Health, but I've not heard anything about saying: 'Well, we sat down and we talked it through and we worked it out, and this is the actual picture'. Now, I say that because there seems to be that one the one hand we're hearing what a good budget, like in Education and they suffered the same fate, and yet we're hearing a, well …

Mr CLARKE: Same fate?

Mr KIELY: Well, the same fate in that the $6m for presentation purposes, the same process was applied to them as what was applied to Health. Now, I could understand if it was some sort of: 'Look, we have concerns with Health, we're going to take this $8m'. I've not heard here one concern - for that matter I've heard nothing but constant praise for Education, and yet the same thing has happened to them. I mean, what's the balance in here?

Mr CLARKE: But the idea, the whole purpose of the adjustment was to just to try and reflect what the estimated actual could be presented to be? You know, what was a reasonable figure for the estimated actual. And it wasn't really to do with the management of the organisations. I'm …

Mr KIELY: So, there is never any degree of punitive action as such?

Mr CLARKE: Well, I'm not sure that I understand punitive action. I mean, in a different context, I mean, if an agency wasn't doing, in inverted commas 'the right thing', well, there would be a bit of a process we'd try and go through to sort it out. But that wasn't the issue that was the burning issue here. You know, I mean, this was an issue where the Treasurer had to take a judgment as to whether or not he could defend having that figure of 336 is it?, whatever the figure was, given that there was only …

Mr KIELY: 436.

Mr CLARKE: 436, given that there was only $4m more that the original allocation.

Mr KIELY: So the issue never was, and was never transmitted to any CEO of Health or Education that: 'We have concerns with your agency, therefore we're doing …' I mean, you were not critical of Mr Bartholomew's stewardship of …

Mr CLARKE: The issue of the $8m for Health wasn't a punitive action, it was just something that was expected, you know, it was expected to naturally occur.

Mr KIELY: Because he, in fact, came in on what was his allocation, didn't he?

Mr CLARKE: Yes, he came …

Mr KIELY: Well, I'd say well, this is the allocation I'm working to and I'd get my department in on that …

Mr CLARKE: Yes, sure.

Mr KIELY: … and as a measure that wouldn't - in most areas this would be considered a fine outcome.

Mr CLARKE: Yes, and you know, I don't think there is necessarily criticism of that. And at the time these decisions were taken the actual outcome was unknown, so a judgment had to be made as to what is a reasonable estimate of the actual outcome.

Mr KIELY: This judgment was made for Education and Health based on …

Mr CLARKE: Education, Health and Police, yes.

Mr KIELY: … and Police.

Mr CHAIRMAN: On 2.5 per cent?

Mr CLARKE: On 2.5 per cent, on the basis of a global number, knowing that all agencies had carryovers in the past.

Mr KIELY: Nothing whatsoever to do with their current management policies?

Mr CLARKE: Nothing to do with impugning the executives in any way. It was exactly right.

Mr KIELY: Well you've cleared that up for me, thank you.

Mr CHAIRMAN: So I'll just - the issue of confidence or lack of it in Mr Bartholomew is an issue that sort of has been raised before, and I think we should follow through. But I would just like to, before we get on there, just finish off with just two questions about the calculations of estimates and carryovers. So, I think you said there in your evidence, that there may be significant under-expenditure by Health, particularly in Commonwealth programs. So, at that time, in late May, did you have an estimate of THS under-expenditure overall, and for Commonwealth programs in particular?

Mr CLARKE: No.

Mr CHAIRMAN: According to our calculations, Health was spending approximately $37m per month in 2000-01. Did you check Health, the expenditure of the Health Department as of 30 April 2001?

Mr CLARKE: I don't recall actually doing so, but I operate on the assumption that if their was a problem with Health it would be brought to my attention. I think we briefly touched on this earlier on, where Health are saying to their own people that they've got a budget problem, but to us they were saying they didn't have a budget problem. Now, we actually asked them some questions about their budgetary estimates, because on the March numbers, they appeared to be about $14m over their pro-rata expenditure. But their response to us, as distinct from their response to their people, was that: 'Oh no, that is explainable. It's because of extra pays, grants we paid early and some other explanation'. So, to me – now, I wasn't involved in any of that, I must say - so at the time these issues were taken, there was not a burning issue of a great problem in Health.

Now, when I spoke to Paul Bartholomew a few days later, whenever that was, not long after, he was - you know, I think he did sort of say he didn't think he'd be able to achieve it. But, quite frankly, I still believe he knew at that point that they would under-spend, because he just wasn't familiar. He had only been fairly recently in the job, and he wasn't familiar with the fact that what naturally happens is that you have got all these things planned and lo and behold, it just doesn't happen.

Mr CHAIRMAN: Okay, so I mean, part of the calculation that we've been advised of anyway, or I've been advised of, is that if you had checked the Health expenditure as of 30 April, that the likely expenditure was probably going to be in the realm of $440m?

Mr CLARKE: Yes, but don't forget there – oh, look I think if – but, I mean, the advice that they were giving to our people was that they did not have a problem with their budget …

Mr CHAIRMAN: Okay.

Mr CLARKE: Now, whether that was right or not, and you know, I didn't have any of that knowledge. I just - if they'd acknowledged to me that they had a problem, then I'd be, rather than just talking about the $4m difference, I'd be saying: 'Hang on a minute, there's a problem here'.

Mr CHAIRMAN: Okay. Mr Kiely?

Mr KIELY: In your written submission, you mention that the reports were coming back to you, that there was much discussion amongst Health staff over the adjustments, and you were concerned that budget confidentiality had been breached. Who reported back to you, I mean, you know, what was the conduit by which you were becoming aware of the - it's safe to say disquiet?

Mr CLARKE: Yes, I think it was in a chat with Jodie, I think. But – I think it must have been, yes.

Mr CHAIRMAN: Well, who were the reports coming back from, to you that this was a problem in Health?

Ms KIRKMAN: Via me. But it wasn't actually coming from Health officers, it was coming from budget staff in other departments, which was a concern for us because the budget, as far as we're concerned, the budget is confidential until the day it is brought down. And so, there was enough discussion within Health that other agencies were hearing about it and ringing us and asking what was happening. And for us, it was not so much the concern of the $8m reduction, it was a concern that they were breaching budget confidentiality. And that is when Ken made the phone call to Paul.

Mr CHAIRMAN: So, in your written submission, you mention the mutual uneasiness in the telephone conversation between yourself and Mr Bartholomew in relation to the logic of the $8m reduction, and in terms of maintaining budget confidentiality. Did you both share uneasiness about the logic?

Mr CLARKE: No, no. I didn't have a problem with the logic. What I didn't like was the speed with which we were doing it. When we were talking before about alternative methods, I mean, we were doing this in a real rush. And I was just uncomfortable that this wasn't the best way of doing it. Now, Paul Bartholomew had a different concern. He was more concerned about the – well, I think both the propriety and I think it was their level of expenditure, so there were different concerns that we had.

Mr CHAIRMAN: So you both shared uneasiness about budget confidentiality? Did he share your uneasiness?

Mr CLARKE: Yes, I think so. I think he was surprised that there was - one thing I'd forgotten actually until Jodie mentioned it that in fact it had come from other agencies. I had thought that it was the Health staff ringing our people saying. But Paul was definitely concerned that we were hearing that the Health staff were talking about what was going to be in the budget papers.

Mr CHAIRMAN: So in your discussions with the Treasurer, this high level of discussion - I'm referring to page 2 now: 'We then had a fairly high level discussion about Health which did not go into the details of the numbers,' and then going on it says: 'The high level discussion involved concern about the quality of Health's budget management and its reluctance to be as open and frank as the previous management.'

Mr CLARKE: Yes.

Mr CHAIRMAN: So did you have a lack of concern and a lack of confidence in Mr Bartholomew?

Mr CLARKE: Lack of confidence in Mr Bartholomew?

Mr CHAIRMAN: In terms of the quality of Health's budget management.

Mr CLARKE: Well, I think Paul had fairly recently gone into that area but there's no doubt that why I had concern about Health generally, I didn't really think too much about Paul himself. The reports I was getting from my people was that Health were not being open and frank and that was it. That was the essence of our concerns.

A member: So it was more the entity of Health rather than the individual?

Mr CLARKE: Yes. I don't think - I mean Paul, I don't know whether it is attribution. It's a bit more than attribution I got to say. Health come from Western Australia and this is a mutual background I think to this issue. Peter Conran, who used to be the head in the Chief Minister's department had worked in Western Australia for a couple of years and he said he couldn't get over the environment in Western Australia which was one of confrontation between the central agencies and the line agencies. And that was the way we were moving with Health. Rather than sorting things out it, it was in that more of that. Now with Paul, I think it wasn't quite that bad but certainly the reports I was getting from the budget staff was that there was not the degree of openness and preparedness to discuss things that there was in the past. I read that as being a culture change. Because before Paul got there, there had been another Western Australia fellow - forgotten his name now - and so I think …

Mr CHAIRMAN: Mr Fletcher, that was his name.

Mr CLARKE: That was his name, yes, that's right. Peter had quite a different style and keen to be open and if we had a concern we could go to him, and he used to keep control, quite frankly, of their budget staff.

Mr KIELY: Mr Clarke, I get the feeling, and please I would like your thoughts on it, but you talk about the different culture, Mr Bartholomew coming in from WA where there is all this confrontational thing and certainly he was, certainly seems to want to - was not aware of the finesse perhaps which was happening around your level of public administration. And I also get the feeling that when you talk about the discussions where Mr Dunham described his discussions of having several formal meetings with Treasury that in fact there was only the one out the back here where the [inaudible]

was mentioned. Coming through all this as well, and Police and Education, in Health, I don't hear of too many formal minuted meetings. Does this get to a question of accountability in your mind?

Mr CLARKE: I don't think so, I mean, no I don't think so. The budget process, as you can see from the audit trail, that's a very highly documented sort of process and so we can track all the way through and go back and understand exactly what had happened.

Mr KIELY: Police, for argument's sake, advised us that they made a phone call and they were happy with information they got from Treasury in regard to the budget presentation alteration to the estimated actual and the ones that had been signed off previously by the minister. I don't believe, and I'll have to go back through the record for this, that have I heard of any minuted meetings in Education or in Health in regard to what I would have considered would be significant events. But when I say regard these as significant events in the culture of this public service at the moment that's not the culture we operate in. Is that correct?

Mr CLARKE: Well, you call it a significant event. I didn't really think of it as being a tremendously significant event other than the fact that, you know, I'm not sure whether this was the right method because it wasn't the allocation that was being changed.

Mr KIELY: This would be a culture - and I'm using the context of the NT public sector - and this would be the culture that it's currently operating in?

Mr CLARKE: Well, I think the agencies would, the culture would be that if we said that the Treasurer had sort of decided something they'd say well okay that's it and you move on from there, if that helps.

Ms PRINCE: Mr Clarke, I think the advice that was given to those three agencies was given to them formally in a minute from the Under Treasurer to the CEO of that department and discussions that may have been held subsequent to that fax was simply to clarify that the information that was in that. None of this was only communicated verbally; it was really just clarifying statements.

Mr CHAIRMAN: Okay, Mr McAdam.

Mr McADAM: Ken, I just wanted to ask you a question in respect to Mr Bartholomew and perhaps Territory Health. I think you've indicated that there were some concerns in respect to potential leaks or possible leaks from the department, Territory Health, I should say. I mean did you convey these concerns to Mr Dunham as the Territory Health minister at the time?

Mr CLARKE: No, I don't think so. I don't recall so in that chat we had, no, I don't recall doing so. We had had some chats with Minister Dunham at Budget Cabinet.

Mr McADAM: Did Mr Dunham discuss these concerns or is that …

Mr CLARKE: Yes, it was to do with the concerns about the information particularly on the growth side; that we were a bit nervous that we weren't being told the full picture.

Mr CHAIRMAN: So did you discuss these matters with Mr Bartholomew that - were you direct with him and saying we've got a concern about this?

Ms PRINCE: I discussed these matters with him.

Mr CHAIRMAN: And what was his response?

Ms PRINCE: After Budget Cabinet we were concerned that the information that had gone forward to Budget Cabinet wasn't as good as it could have been and it didn't represent the Health arguments as strongly as it might have done, and that was in the context of the Health arguments for the last three or four years. Jodie and I met with Paul Bartholomew and Joanne Schilling twice between the first and second Budget Cabinet in an attempt to assist them to improve their documentation, particularly in the items that they had submitted, and to look at this issue of hospital growth which had been a major contributor to their additional expenditure in the last three or four years.

Mr McADAM: I don't know whether you can answer this question, but what was Mr Dunham's response in respect to the concerns that you had?

Ms PRINCE: We also had one meeting after the first Budget Cabinet that I recall in the then Treasurer's office with Mr Dunham and my recollection of that discussion was that he took our comments in a positive way and what we all agreed to do was to try and improve that documentation for the second Budget Cabinet.

Mr CHAIRMAN: I think I know the answer to this question but it has to be asked in relation to Mr Bartholomew's memo. He said in evidence, and also in his memo, that he felt the presentation of the 2001-02 application to THS was falsely presented as being a 2.5 increase on the 2000-01 figures in an election year. Do you want to comment on that statement?

Mr CLARKE: No, I think he right over the top talking about false [inaudible]. There was a logic and a rationale.

Mr CHAIRMAN: Okay, there's also been evidence given to this inquiry about a so called safety net for THS. In other words, Treasury expected savings of $8m in six weeks but the full allocation was there if the department needed it. I think you've commented on that view previously but …

Mr CLARKE: No, I don't remember any reference to a safety net. What I told them was that their allocation was their allocation and …

Mr CHAIRMAN: Was there ever any talk of a safety net?

Mr CLARKE: I don't recall any reference to a safety net.

Mr CHAIRMAN: No, okay. Are there other questions?

Mr DUNHAM: Yes. The description of Paul Bartholomew's memo was raised and this leads on to pretty much a similar style of questions I asked before. One of the commentators said that Paul Bartholomew's showed very clearly the extent to which the CLP went to falsify figures, make false claims to mislead Territorians and the bottom line is to lie to Territorians.

His memo is also claimed to have corrupted the budget. The memo was also - and this is pages 317-319 *Hansard* debates of 25 October. His memo is claimed to establish - I quote here: 'establish that the former Treasurer put false numbers in the budget'. The memo is also claimed to provide 'undeniable proof of how far the former government leaders were prepared to let the ethical

standards sink and ultimate and vain attempt to hold onto power in the Territory'. If you believe the memo had that level of potency, would you believe that Treasury should be asked to provide advice to the Treasurer?

Mr CLARKE: In relation to this at the time?

Mr DUNHAM: Well, there is also an allegation that it would have led to a lack of confidence in investors coming to the Territory. I would have thought if a memo had that amount of clout, that as the advisor to the Treasurer, you'd have been sought - comment would have been sought about that memo. I note - it is a little bit of a rhetorical question, but I note that in your answers you say that that wasn't sought. Can you see why that would be the case?

Mr CLARKE: Now, let me just clarify it a little. There was - some advice was sought from me, and I think 'some' is probably the operative word, about the Paul Bartholomew memo. I had a half-hour briefing with a couple of senior bureaucrats without any advance warning - this was the issue where I was shown the Paul Bartholomew note - and so there was - and I went through the, sort of the bald rationales as to what I have got here, though I must admit I, you know, because there was no advance notice, I hadn't really got all my thoughts together about the issue. But essentially, my responses were not inconsistent with what I've got here. But yes, I've got to say I was surprised that I wasn't asked to provide a detailed response.

Mr DUNHAM: Particularly if those allegations were as substantial as mooted.

Mr CLARKE: Yes.

Mr DUNHAM: Thank you.

Mr CHAIRMAN: Mr Clarke, if we could just move onto the subject of the reinstatements that - I think we've established in the evidence pretty well that there was an $8m, $6m, $2m reinstatement to the estimates. And just correct me if I'm wrong, this reinstatement to the estimates of these amounts that have been taken off in May occurred in June, is that correct?

Mr CLARKE: No, I think it was almost the next day, wasn't it?

Ms KIRKMAN: Yes. Unfortunately, with the audit trail, it's is not a – something we can put a date on each adjustment, but I think I have got in the submission the Audit Trails are used to make sure that the balance - the budget that we're presenting is balanced and that we have got everything that should be in there.

Mr CHAIRMAN: So they were taken out on one day and put in the next?

Mr CLARKE: Yes, because - we have the budget system that's got all the numbers in it, and we have a pretty rigorous process for making sure that whatever changes are made to the budget system, there is documentation. So once the budget papers were printed and it was all done, then because at the end of the day the allocation was what was - that was, in inverted commas, that was the legal budget.

Mr CHAIRMAN: The legal budget. So we have got this movement back into make the legal budget legal again.

Mr CLARKE: That never changed . So the reinstatement was solely to make sure that the budget system married up with the - first of all, the budget system had to be changed to reflect what was in the budget papers, and then it had to be changed to reflect the allocation.

Mr CHAIRMAN: So do you think if it hadn't have been reinstated, that would have attracted the interest of the Auditor-General?

Mr CLARKE: Had they been changed …

Ms PRINCE: It was really only a paper reinstatement; it was never legally [inaudible] transferred it back to the legal budget …

Mr CHAIRMAN: Well, it didn't have to be because I think Mr Clarke points out in his written submission that because it wasn't a change to allocation, it was only a change to estimated actuals, that it didn't need to be. Just to clarify something in terms of the process - I think this needs to go on the record also - that once Budget Cabinet has signed off on the figures which include the estimated actuals, and that occurs in April, that the Treasurer is the only person who's got the authorisation or the power to actually change any of those figures including the estimated actuals. Is that correct?

Mr CLARKE: The only person?

Mr CHAIRMAN: He has to sign off on it to have …

Mr CLARKE: It can be a Cabinet decision. But certainly the Treasurer has got certain delegations.

Mr CHAIRMAN: Yes, he's delegated. So the process was that the Treasurer, Mr Reed, signed off on a change to the estimates of $8m, $6m and $2m for the three major departments.

Mr CLARKE: Yes.

Mr CHAIRMAN: In May.

Mr CLARKE: Yes.

Mr CHAIRMAN: Then subsequent to that, you say within a day of that occurring, those monies or that entry were reinstated. But Mr Reed didn't really need to do that because as, you know, you talked about the [inaudible] but he was aware of those reinstatements occurring?

Mr CLARKE: Well, I mean he wanted the budget papers with the minus 8, minus 6, minus 2. I mean, he didn't care how that was done. We only did this – reinstatement, that's just an administrative process. I mean, it's not a - - -

Mr CHAIRMAN: It's just an administrative process?

Mr CLARKE: Yes.

Mr CHAIRMAN: So at the end of the day I guess if the allocation didn't match the estimate, there might be some sort of questions raised in terms of departments overspending on their allocation

because it doesn't match. Is that what you're saying? Or are those questions only asked within Treasury walls, if the two figures didn't match up, if the reinstatement didn't occur?

Mr CLARKE: I'm not – I mean, we only changed the budget system so that we could produce the budget documents with the minus 8, minus 6, minus 2. But we had to have the budget system enabling us to, if you like, keep track of allocations.

Mr CHAIRMAN: The allocation hadn't changed.

Mr CLARKE: The allocation had not changed, so we had to work on the reverse that entry.

Mr KIELY: How – you've advised CEOs and ministers that their actual allocation is not changing.

Mr CLARKE: Yes.

Mr KIELY: You advised them that for presentation purposes, you are going to do – for want of a better term – a journal entry to change the - for presentation purposes to show this movement of 6, 8 and 2 being reinstated. This actual exercise which was happening at Treasury level but was feeding into the agencies, were you working with budget officers on - were the budget officers aware, through you or the people in your particular division I suppose - working with budget officers in Police, in Health, in Education? Were they all aware of what the exercise was about?

Ms KIRKMAN: The exercise in terms of reduction?

Mr CHAIRMAN: In terms of the reinstatements.

Ms KIRKMAN: Well, when they were advised of the reduction, their advice was for them to expect a carryover. That was the advice to them, but that their allocation wouldn't change.

Mr CLARKE: Unchanged, yes.

Ms KIRKMAN: There was no need - the reinstatement was purely an in-house working on the audit trails. The audit trails are just a working document. Agencies don't generally get to see our audit trails.

Mr CHAIRMAN: It seems - to be honest with you, it seems to me you've - the estimates have been reduced at one point in time, then quite soon after that they're reinstated by exactly the same amount. It appears to me to suggest that you never really expected the estimates to be 8, 6 and 2 lower, that you always expected them to be what had been submitted through Budget Cabinet before they were reduced by Treasurer Reed.

Mr CLARKE: But if we'd done what you're talking about, we'd be following Gerry's example; you'd actually reduce the allocation. Now, we didn't do that.

Mr CHAIRMAN: No.

Mr CLARKE: Now, whether that was the better thing to do, you know, I don't know.

Mr CHAIRMAN: So in other words, you needed to reinstate the estimates so that you wouldn't have to change the allocation. Is that a correct [inaudible]?

Mr CLARKE: No. We had to, in inverted commas, reinstate within the system so that we could reconcile our system to agencies allocation.

Mr CHAIRMAN: Okay. So would the respective ministers – you're saying the Treasurer probably wasn't involved - weren't aware - would the respective Ministers for Health and Education have been aware that there was going to be a reinstatement, or once again this was something occurring within the walls …

Mr CLARKE: Only within Treasury, because their allocation was never changed.

Mr CHAIRMAN: I'll come back to this safety net theory - you can tell that it's a favourite of mine. It's suggested that the reinstatements, you know, were part of the safety net for departments who may have spent more than their reduced estimate. You told us that their allocation to spend was unaffected. Is that correct?

Mr CLARKE: That's correct.

Mr CHAIRMAN: You've also told us that the reinstatements to estimates didn't require authorisation by the Treasurer. That's correct?

Mr CLARKE: Yes.

Mr CHAIRMAN: So, in reality, departments like Health could have spent to their full authorisation …

Mr CLARKE: That's right.

Mr CHAIRMAN: ... or allocation without reinstatements to estimates occurring. Is that correct?

Mr CLARKE: That's absolutely correct.

Mr CHAIRMAN: So, basically, the reinstatement of $8m of the Health estimate did not represent any real safety net at all?

Mr CLARKE: Exactly.

A member: Never. Never?

Mr CLARKE: There was no concept of a safety net as far as I was concerned.

Mr CHAIRMAN: All right. Here's an important question, Mr Clarke. There's been evidence given to this PAC that there was a belief in Treasury that THS had blown their budget, their 2000-01 budget, and that is why they would need to argue the incorporation of a further $8m during the 2001-02 year. And I'll quote from Mr Dunham's statement from his transcript as a witness on page 56, paragraph 5:

So I believe that Treasury was making it clear to Territory Health Services and others that the baseline for the 2001-02 had already incorporated the additional cost. That is, Health had blown their budget and they would have to argue the $8m in the next year.

How do you …

Mr CLARKE: That wasn't my understanding of the situation.

Mr CHAIRMAN: So, around the budget estimates period, there wasn't a feeling or any perception of any evidence that Health had actually blown their budget?

Mr CLARKE: There's always a worry about Health's budget because it's a big monster. But this issue, as far as I was concerned anyway, did not have anything to do with sending Health a message, or wielding a big stick.

Mr CHAIRMAN: I'll have to clarify this before I go on. I apologise to the hearing; I think the reference I was referring to there was in my original transcripts that don't match up to the pagination here, although I'm prepared to clarify that. I mean, I'll stake my reputation that is the quote, but I would have to adjust the pagination and paragraph. But I will do that.

Mr KIELY: Mr Clarke, in your meeting with Mr Dunham out here, did he raise with you the thought that why do you believe - did you give him the belief that Treasury considered that they had blown the budget by $8m? Was that raised there?

Mr CLARKE: I think we could have. I really don't …

Mr KIELY: Did you believe that?

Mr CLARKE: To me, the $8m was never anything to do with a blowing of budget.

Mr KIELY: But Mr Dunham has said that, in his belief, it was making it clear - not 'I intuitively thought, I had a gut feeling, and these shadow comments made'. But he was saying: 'I believe that Treasury was making it clear'. Who, in Treasury, could he have got that information off, if not from …

Mr CLARKE: I've got no idea.

Mr CHAIRMAN: So is it correct - I mean, their allocation for the 2001-02 year, or their forward estimate, was $447m …

Mr CLARKE: Yes.

Mr CHAIRMAN: ... were they expected to argue that $8m into that, on top of that $447m?

Mr CLARKE: Yes. If - what had actually happened was, an estimated actual had come in to be their actual, they would have then had to go into bat and …

Mr CHAIRMAN: So, in other words, if they had only spent $436m …

Mr CLARKE: Yes.

Mr CHAIRMAN: … that they would have to argue the $8m …

Mr CLARKE: Exactly, yes.

Mr CHAIRMAN: ... on top of the $447m allocated for the following year?

Mr CLARKE: Correct, correct.

Mr CHAIRMAN: Okay. I'm glad you've clarified that, Mr Clarke, thanks for that. That's all that I've got in that area.

Mr KIELY: Do you want to go into another area?

Mr CLARKE: Can I have a five minute adjournment?

Mr CHAIRMAN: Of course you can. I think that's appropriate, and I think we're sort of winding in to the final sort of - well, I'm a bit like a dentist, Mr Clarke - only one more drill left. So, we'll actually break for 10.

The Committee adjourned at 2.25 pm.

The Committee resumed at 2.34 pm.

Mr CHAIRMAN: So I have been supplied with a series of questions by our consultant and probably about some more technical matters, so if you don't mind. I am sure I understand what they are and I am sure your explanations will help me.

You state, I think it was on page 5 of your submission, you state that a reduction of $24m for the Treasurer's Advance was made. Was this reinstated after the budget came down?

Ms KIRKMAN: Well, yes effectively, because Treasurer's Advances are used right up to 30 June.

Mr CHAIRMAN: And I guess in a longer term can you provide details on the use of the Treasurer's Advance in 2000-2001 to this Committee?

Ms KIRKMAN: Yes.

Mr CHAIRMAN: Thank you. The next question is the Treasurer's Advance was originally $19m. On 17 May 2001 the Treasurer approved – this is Treasurer Reed – a reduction in the Treasurer's Advance of $24m. The Treasurer's Financial Report page 62 shows only $19m variation under the *Financial Management Act*. Can you explain the anomaly?

Mr CLARKE: The Treasurer's Advance goes up and down of course during the year. I don't know the …

Ms KIRKMAN: … in the Treasurer's Annual Financial Report that was tabled in November.

Mr CHAIRMAN: I'll have to be honest, I am reading the question here. It says: 'The Treasurer's Advance was originally $19m. On 17 May 2001, the Treasurer approved a reduction in the Treasurer's Advance of $24m'. However, the Treasurer's Financial Report page 62 shows only $19m of variation

made under the *Financial Management Act*. Can you please explain the anomaly, I guess, between the $19m and $24m?

Ms KIRKMAN: The Treasurer's Advance is varied through the year so it's actually, this is very technical.

Mr CLARKE: It can be increased during the year.

Ms KIRKMAN: It is actually increased in order to transfer allocations into other activities so that other agencies can get additional allocation and we use Treasurer's Advance to do that. In fact, during the year Treasurer's Advance was increased to a total $120m, then that transferred to other areas of government. So that the increases and the decreases in that effect must have been $19m through the year.

Mr DUNHAM: I can't understand the question. There was $19m in Treasurer's Advance and it was reduced by $0.4m.

Mr CHAIRMAN: Could I ask Ms Large just to clarify the question, please?

Ms LARGE: The question is as it stands is that it doesn't show anywhere how it went from $19m up to $120m, whatever it was. People could confuse other details as movements. It doesn't show in the financial report and yet in previous years you showed it. In previous years you showed all the pluses and explanations and you didn't this year. Therefore we have no idea how you got from $19m.

Ms KIRKMAN: Well, we can supply that.

Mr CHAIRMAN: Okay, thanks for that. The final paragraph on page 5 of Mr Clarke's written submission apparently needs some clarifying, as some of the wave was removed. I have got $8m in THS, $6m for Education and $2m for Police and $24m for Treasurer's Advance, which makes a total of $40m. However, it has been pointed out, there is a question here: There was further under expenditure of $26m. In which other areas of the budget did the – well, there are two figures here I think, Jane. You've got a $66 and a $26.

Ms LARGE: Well, we knock $40 of the $66 so it's $26m.

Mr CHAIRMAN: Would you like to take that question on notice.

Mr CLARKE: Yes.

Mr CHAIRMAN: I think you have already answered this question. Was there any notation in the budget papers that certain figures had been back-cast?

Mr CLARKE: No. Certainly not in the $8m, $6m, $2m.

Mr CHAIRMAN: No. In relation to back-casting which I believe refers to page 8 of your written submission, Mr Clarke, and I will start by reading the question: 'The back-casting of interest between Treasury and Treasury Corporation increased expenditure by $142m'. It's a very large variance, so is this again notated in the budget papers?

Ms KIRKMAN: Yes, I think we did the overview. I would have to check with …

Mr CHAIRMAN: Yes, well you can take that question on notice. I have also got a series of questions as well as that, so I think we've got most of the consultants questions out of the way.

I want to turn to a series of questions about NT Fleet which has been an issue that's been raised within the Public Accounts Committee. I think it's on the public record that you had told the Chief Minister and Treasurer that - or informed them - that the budget position was not sustainable. That was soon after the election, that's correct? I understand that you advised the incoming government that the budget position was not sustainable and the expected deficit for 2001-02 was something of the order of $100m?

Mr CLARKE: That's correct.

Mr CHAIRMAN: That was prior to Professor Percy Allan being commissioned?

Mr CLARKE: Yes.

Mr CHAIRMAN: Did your revised deficit calculation of around $100m include the presumption that the sale of NT Fleet may not proceed?

Mr CLARKE: Yes, it did.

Mr CHAIRMAN: Okay. The 2001-2002 budget papers that were handed down in May 2001 included the proposed sale of the NT Fleet for $50m.

Mr CLARKE: Yes.

Mr CHAIRMAN: Professor Allan, in his report to the incoming government, stated that this sale may not proceed for tax, accounting and economic reasons.

Mr CLARKE: That's correct.

Mr CHAIRMAN: I presume that he formed this view after speaking to yourself and other Treasury officials while conducting the research for his report.

Mr CLARKE: Yes.

Mr CHAIRMAN: Did you agree with Professor Allan's conclusion that the proposed sale should not proceed?

Mr CLARKE: Yes, I did.

Mr CHAIRMAN: Did you advise the incoming government that the proposed sale should not proceed?

Mr CLARKE: Yes, I did.

Mr CHAIRMAN: Okay. Mr Clarke, you're suggesting that you're reasonably convinced that the sale of NT Fleet should not proceed by the time the new government was sworn in on 27 August.

That is less than three months after the original budget for 2001 was announced by Treasurer Reed. Did you, Treasury staff, give the same advice to the outgoing Treasurer prior to the election?

Mr CLARKE: No. No, and it wouldn't be fair to say that we had reached conclusive advice, conclusive - come to firm conclusions that the sale would not proceed on 18 August. I think it was quite a bit later than that we actually did the work. The issue about the $100m deficit, what we were saying to the new government was that the underlying position was a deficit of $100m, ie there was an asset sale of $50m and that's a once-off, therefore you can't, you know, you should not treat that as being like revenue that's available to you on an ongoing basis because obviously it's only there for the one year.

So it wasn't until quite a bit - a little bit later than that that we did all the work to say that the - or prove, I suppose - I mean, we had our suspicions at the time, you know, when it first went in that it may not occur, but we then did the work to prove to ourselves, anyway, that the sale of NT Fleet would not be a financially sensible decision to do. Now, government could have still done it, but it wouldn't have produced the net benefits, any financial net benefits.

Mr DUNHAM: Is that information available to this Committee?

Mr CLARKE: Well, I guess it's up to the Committee.

Mr DUNHAM: Thank you.

Mr CHAIRMAN: So let me understand - I don't want to attribute things that you haven't said, but the sale of NT Fleet for $50m was included - I'll call it - in the Reed budget …

Mr CLARKE: Yes.

Mr CHAIRMAN: ... in May 2001?

Mr CLARKE: Yes.

Mr CHAIRMAN: You did have some doubts about it but really, it wasn't until you did further work on it that you came to a conclusive decision or whatever that basically it wasn't feasible for the reasons that have been outlined?

Mr CLARKE: That's right.

Mr CHAIRMAN: Okay. So in other words, you are telling us the former Treasurer, Mr Reed, really, you weren't able to advise him conclusively at the time that the May budget was framed that there were big question marks about the sale. You didn't say …

Mr CLARKE: I said to him it may be that it's not a financially sensible decision to proceed. Now, the government of the day, and even this government, could still proceed but it might - rather than getting, say, $50m back, you might get $40m or $48m back, you know, that sort of …

Mr CHAIRMAN: So, would it be a similar scenario to the 2.5 per cent in terms of the reduction of the estimate? This was attractive to Mr Reed and he wanted to proceed with the sale.

Mr CLARKE: I suppose in a way it is, yes, I mean, he - there's no question that the - well, you'd have to ask Mr Reed whether or not he was definitely going to proceed with the sale. I mean, all the indications were to us that he was, but knowing that, it was still - a final, final, final decision would be subject to the analysis to say 'Hang on, is this a financially sensible decision to do so?', then they take their final decision. I mean, obviously if it was financially advantageous, any government would proceed. If it was not financially advantageous, then you weigh up.

Mr CHAIRMAN: But you did - there was advice to the incoming government that, you know, the sale should not proceed and that was given quite soon after August, so obviously August 18, which is a pivotal day in a lot of people's lives, I guess, but - so you were forming the view coming into August, you're getting the facts and figures and doing the projection and doing a bit more investigation that it's probably likely that that sale wasn't feasible?

Mr CLARKE: That's correct.

Mr CHAIRMAN: So at that stage, you know, just immediately prior to the election or around the election, did you then go to the Treasurer , Mr Reed, and say: 'Look, this is the way things are shaping up'?

Mr CLARKE: No, we definitely had not done the work by then.

Mr CHAIRMAN: Well, you must have …

Mr CLARKE: Well, if we're going to provide the Minute, we'll see what the date is. I can't recall when it is. I don't know if you can recall, Jennifer.

Ms PRINCE: If I had to guess, it would be the second or third week of September. I think it was – it was before October, towards the end of September.

Mr CHAIRMAN: Yes, Mr Dunham.

Mr DUNHAM: I note that your advice to the new government was because of changes to tax and accounting which made it non feasible. I would have thought that the tax changes would have made it more feasible with the removal of – with the advent of GST and the removal of our sales tax exempt [inaudible].

Mr CLARKE: Yes, we were sales tax exempt. Look, I've forgotten all the details; if you're going to provide the Minute, it's all in there. [inaudible].

Mr DUNHAM: So it's advice as to why - whether the government should proceed or not.

Mr CLARKE: Yes, exactly, and why we should not proceed.

Mr DUNHAM: Right. Okay, well, I'll wait for the Minute.

Mr KIELY: Mr Clarke, you've indicated that you came to the view that the sale of the NT Fleet should not proceed until after the budget. What caused you to come to that view?

Mr CLARKE: It was the analysis done by our capital financing division, and that's the accounting and tax advice, you know, we've got technical experts who have a look at this sort of stuff.

Mr KIELY: Okay. There's a suggestion that maybe the decision to include the sale in the budget occurred before you or Treasury were able to come to a clear view as to whether the sale should proceed. So …

Mr CLARKE: I think that's probably a fair comment. I mean, certainly from a technical point of view, we hadn't done the work to say it's a good thing to proceed. It had come up sort of a year or two before and we'd been pushing it quite hard and the government of the day chose not to proceed with it, so it was a matter that was known, had been around, sort of like a magic pudding type thing. You can suddenly get $50m - your budget is $50m better off. It's a once-only, and, you know …

Mr KIELY: So a convenient asset they have in the back cupboard.

Mr CLARKE: Absolutely. Absolutely.

Mr KIELY: Okay. At what point was the decision made to include the sale of the fleet in the budget? Was it early in the budget process or towards the end?

Mr CLARKE: Towards the end.

Mr KIELY: Would it be correct to assume that the decision to include the sale was made in haste?

Mr CLARKE: Yes, I think that would probably be a fair comment.

Mr KIELY: It leads on to whose idea was it to include the sale of the NT Fleet? Was it yours or was it the former Treasurer's or was it Cabinet?

Mr CLARKE: Well, I don't know whether the former Treasurer had discussions with Cabinet, but certainly the advice to me was from the Treasurer.

Mr KIELY: It came from the Treasurer?

Mr CLARKE: Yes.

Mr KIELY: Right. And how was the amount of $50m determined for inclusion in the budget papers?

Mr CLARKE: Look, I think it was on the basis of work that we'd done previously, and that is the approximate audited magnitude of the value of the fleet.

Mr KIELY: But if the, you know, If the homework hadn't been done …

Mr CLARKE: You know, we …

Mr KIELY: ... was it that you said, 'Okay, we've got so many vehicles valued at $10 000, let's' - is that the figure or was it - you know, what was the basis of the - how did we get to $50m for an asset that was not really valued?

Mr CLARKE: Well, as I say, we had done quite a lot of work on this a couple of years before, and I think that was the audited magnitude. Now, I know - I actually got our people to do a little bit of checking; I can't remember all the details, but sufficient to be able to say we don't know whether it's 40 or 60 or what, you know, so that the figure of 50 was the estimate we put in. It was not a silly estimate, I know that much.

Mr KIELY: Using a colloquialism, is it a little bit rubbery, that $50m? One of these moving feasts?

Mr CLARKE: It's more - no, it's more precise than rubbery. It's a – it would be between 40 and 60, and you know.

Dr LIM: And do you have some idea what the fleet's worth?

Mr CLARKE: Well, they - that's their valuation. The question is: what would a financier be prepared to pay for it.

Dr LIM: But that will give you ballpark figures for you to make a …

Mr CLARKE: Yes, I think [inaudible].

Dr LIM: Reasonable intelligent estimate of its value.

Mr CLARKE: Yes.

Mr KIELY: Okay. Mr Clarke, given that it appeared the sale of the NT Fleet was included in haste and that a rough estimate was used to put in the budget, given the size of the estimate used, do you think that it would have been appropriate to footnote in the budget tables that there was perhaps some risk, either up or down, to the figure of $50m? I mean, you've quoted 60 to 40.

Mr CLARKE: Well, I think that the Budget speech did make some reference to that. I can't recall, but we didn't have the same problem with the NT Fleet as we did with the 8, 6, and the 2. That was discussed in the Budget speech. I don't recall all the detail …

Mr CHAIRMAN: We need to do a bit of homework about that. I am glad you've drawn our attention to it.

Mr DUNHAM: Are you aware of what the fleet might be worth today?

Mr CLARKE: No, I'm not.

Mr DUNHAM: The Budget Papers have it at $59m. Would you say that's a rubbery figure or a reasonable figure?

Mr CLARKE: That would be their book value.

Mr DUNHAM: Is it rubbery?

Mr CLARKE: No, you wouldn't call it rubbery, I don't think. That's a precise …

Dr LIM: It's in this mini-budget.

Mr CLARKE: Yes, I mean, that's the value that NT Fleet put on the fleet and, as I say, what you could actually sell it for would be a different value.

Mr CHAIRMAN: It's like my mother, I just put immeasurable value on her, but I don't know what the market place would put on her.

Dr LIM: You say you'd sell your mother? I wouldn't sell my mother.

Mr KIELY: Mr Clarke, had the proposed sale of the NT Fleet been included in any earlier budgets, or the subject of discussions prior to last year? And, if so, why did the sale not proceed earlier?

Mr CLARKE: It certainly had been. There had been quite extensive discussions for two or three years before, and well, quite frankly, Cabinet's decided not to proceed. Very interesting. I think we were pointing for a more comprehensive sort of, like outsourcing the management as well as the sale of the assets. And I think it was the outsourcing bit that frightened the government of the day off, so they chose not to do any.

Mr KIELY: But why would the, you know, outsourcing argument still raging after the outsourcing of the information technology and all this sort of thing? Why do you think that, given the sale of NT Fleet had been considered earlier and not proceeded with, why do you think it popped up again in this budget?

Mr CLARKE: Well, there is no question that the government of the day was, in my view - you can ask the Treasurer - but it made the bottom line look better. But also, the idea this time was not to outsource it. So all they were going to do was just sell the fleet and keep the management that they've currently got. So, it was considered to be less painful. So, all you really – it's just like a sale and lease back. That was the $50m proposal. Definitely not an outsourcing proposal because that would have meant 30 or 40 staff in NT Fleet would have got the flick and been totally different arrangement.

Mr KIELY: So, is selling up the cars and they were going to move into some sort of contract management role? Is that …

Mr CLARKE: No, no, no. That's what they rejected, the contract management role. That was the original proposal two or three years ago - was sell the fleet and have contract management. This time the proposal was just sell the fleet but retain the existing fleet management arrangement that we have.

Ms PRINCE: The fleet wouldn't own the vehicles, they would only lease them. A financier would own them, they would be ours through a two-stage leasing. The arrangement operates in New South Wales.

Mr CHAIRMAN: All right.

Mr DUNHAM: Mr Clarke, on the same line, given that it was mentioned in the Under Treasurer's speech and it was also the subject of some questions, I think, from the current Speaker at the time, do you think anybody was in any doubt that this money would flow every year? Or do you think it was pretty clear to everybody that it was a once-off thing?

Mr CLARKE: No, I think it was pretty clear it was a once-off option.

Mr CHAIRMAN: So, Mr Clarke, I guess, take a deep breath and have a glass of water. Let us know if you need to take another break. We are sort of getting near the end of it now - that's what the dentist says.

Just in terms of the Allan report and under-estimates of final consumption expenditure. So, one of the tasks, as we all know, assigned to Professor Allan last year, was to determine why the budget output had deteriorated from that indicated by the original budget for 2000 …

Mr WOOD: Can I just raise a point of order and I might need a ruling on it. But there was - when the censure motion was on there was several things that were not allowed to be - for us to cover. And I quote from a move Mr Dunham made. He moved amendment: 'That the PAC investigate Professor Percy Allan's two reports, the Access Economics investigation and assessment of Labor's pre-election policies, and the PAC be allowed to investigate Labor's mini-budget during November'. That motion was voted in the negative. So does that limit, basically, what we are talking about today? You are introducing Percy Allan's reports. I have been concerned whether we are drifting away from …

Mr CHAIRMAN: Well, I'm prepared to go into deliberative session about it, Gerry.

Mr WOOD: Well, this is what is in *Hansard*, and I just didn't know whether we were actually drifting away from what we are required to do.

Mr CHAIRMAN: Well, I think what - I am prepared to talk about my line of questioning here. What it's demonstrating here is in line with the terms of reference, and I think I would be prepared to go into a deliberative session to talk about that, rather than public session. Might give Mr Clarke a bit of a break for a couple of minutes.

Mr WOOD: See what other colleagues think.

Mr DUNHAM: We're quite happy to include Percy Allan.

Dr LIM: Do anything you like. When it suits them, he opens it up.

Mr WOOD: I think we'll go to deliberative, couldn't we?

Mr CHAIRMAN: Oh, no. If there's agreement there, that we pursue this line. So, as you are aware, you are aware of that aspect of Professor Allan's analysis that dealt with final consumption expenditure in the public sector?

Mr CLARKE: [inaudible]

Mr CHAIRMAN: And I guess for those of us who aren't economists, can you tell us what final consumption expenditure refers to?

Mr CLARKE: It is basically the normal operating costs of an agency and essentially, it's wages and salaries and running costs. It also excludes fees and charges that relate to those functions like Health and fees.

Mr CHAIRMAN: So, on pages 3 and 4 of the Allan report - and I will give you a copy just to make it easy for you to refer to. I do have other copies here if members want. And down to Mr Wood. I draw your attention to pages 3 and 4 of the Allan report, and in that Professor Allan claims that over the three budgets prior to 2000-01 the final consumption expenditure was under-estimated in the original budget, compared to the outcomes, by about $65 to $70m per year. Is that a fair enough call, do you think?

Mr CLARKE: Yes.

Mr CHAIRMAN: It's a fairly significant margin of error, wouldn't you say - or under estimate? 'Error' is probably an emotive word, but let's leave it as 'under-estimate'.

Mr CLARKE: I think what it goes to shows, yes, is that budgeting is not a precise science, and there are lots of situations emerge during the year that you haven't got control over.

Mr CHAIRMAN: I guess in this first graph that he's got, which shows the blue bars as the original budget, and the red bars as the budget result and sort of revised budgets - but basically there is significant …

Mr Clarke: Worrying signs.

Mr CHAIRMAN: Worrying signs …

Mr CLARKE: Very worrying signs.

Mr CHAIRMAN: … over consecutive budgets. So, he also indicated that the original 2001-02 budget, budget understates the final consumption expenditure by about $40m. Do you reckon that was correct, his call there?

Mr CLARKE: I think that was the advice that we gave to him …

Mr CHAIRMAN: I guess the bottom line is you're probably well aware and Professor Allan's, seems to be his conclusion - he said that the growth in final consumption expenditure, the estimates of the growth in final consumption expenditure were unrealistically low over consecutive years.

Mr CLARKE: I think the actual results prove that.

Mr CHAIRMAN: Yes. So, indeed the last three years show that, of the charts that we're looking at here, show no growth at all. So, were any specific savings measures identified in these budgets that were supposed to keep the growth in final consumption and expenditure at or below zero, as was expected?

Mr CLARKE: Well, they're - as specific saving measures you think should be [inaudible] but, I mean, there were things like efficiency dividends and - I remember Health, in particular it, being sort of kept down in the sort of, the hope, I suppose, that they are having a low target might mean they will achieve the target. But I don't think that - part of the reason for the growth was that, you know, we didn't really have in place something to make sure that they didn't exceed their budget. That's the first thing. And the second thing was that there really were a number of quite unusual events that occurred just about every year …

Mr CHAIRMAN: In terms of natural catastrophes?

Mr CLARKE: Yes that style of thing. But I mean not more – I mean, there is superannuation, how one year we were $16m, a sudden rise in superannuation because the Commonwealth had gone back and had recast all the numbers, and suddenly realised that we had to pay an awful lot more money. I remember …

Mr CHAIRMAN: When they increased the SGL, the superannuation …

Mr CLARKE: No, it wasn't to do with that. Under the superannuation arrangements those employees that are in the Commonwealth Superannuation Scheme, the Commonwealth pays the money, pays the benefits, and then bills us and our actuarial estimates were just sort of far, far too low, and …

Mr CHAIRMAN: If I could come back just to the Auditor-General's report that we spoke about earlier, there seemed to be a recognition in the Education Department and I guess through Treasury and then up to Cabinet that just the personnel costs in that particular organisation were - you know, they needed $6m more, and then suddenly that doesn't appear in the forward estimates. So do you think that sort of theme in other departments and through other things as well, that that was a contributor to this situation?

Mr CLARKE: Well, I don't think the Auditor-General mention of the Education numbers is a valid type of comparison because it really is up to the department as to how they apportion their money, but I think …

Mr CHAIRMAN: They identified it, and it seemed a reasonable thing. Actually, in the end it turned out that they didn't spend that amount; that's what the Auditor-General says in his report, and yet it wasn't included in your forward estimates. Do you think this might be an underlying cause or in some ways of why this situation of the budget outlook deteriorating as Percy Allan reported?

Mr CLARKE: Yes, look, I think it is definitely true that the forward estimates were, you know, optimistic from a Treasury perspective. You know, they were almost hoping that the agencies would come in with a lower number. Now, don't get me wrong though, I mean, I would still say that those numbers would be achievable, but it would be, you know, some real hard winding back.

Mr KIELY: So a little bit more rigour, it seems to be that …

Mr CLARKE: Yes, yes.

Dr LIM: The difference between the two columns you were referring to - Dr Burns was referring before, is it possible for you to give some indication of what those extraordinary events were that - to cause the difference?

Ms PRINCE: There was a document prepared by Treasury that was attached to Professor Allan's report that goes through year by year and provides explanations for all these significant variations, so it's done. We can get it for you.

Mr CHAIRMAN: Yes, that would be appreciated, but in the end, Professor Allan did - he basically concluded as I understand it that you know, given the factors like inflation and wages growth and population growth that estimates of zero growth weren't really realistic.

Mr CLARKE: Yes, I think it - yes, about the estimates being a bit optimistic, yes, that's probably right.

Mr CHAIRMAN: So did Treasury ever undertake a similar analysis to what Professor Allan undertook in terms of final consumption expenditure?

Mr CLARKE: I don't know that we actually did this. We …

Ms PRINCE: We do it every year, in the budget papers.

Mr CHAIRMAN: So did you come to - I think we should properly apply ourselves to that, but Ms Prince, can you tell us whether you reached the same conclusions as Professor Allan?

Ms PRINCE: **T**he conclusion that we reached, and we do it in a chapter that we've included in the budget papers for about the last eight years I think, is that our expenditures were increasing at a rate that was more rapid than our revenues and the effect on the budget bottom line was of concern to us. Now I guess what the government, the then-government was doing was trying to put the brakes on expenditure by keeping those increases low. But there were not - there was not other action taken to ensure that the actual outcome was close to the original budget estimate. There were increases through the year, hence this sort of ongoing understatement of expenditures.

Mr CHAIRMAN: So the way that Treasury address the issue was to, if you like, look at the brakes or the severe brakes on expenditure by departments rather than tell the government that, you know, that really there was a flaw in terms of the estimation of the final consumption expenditures as Professor Allan concluded.

Ms PRINCE: I think what we did in our Budget Cabinet documentation was to project the forward estimates and any effect on the bottom line; the government would then say that that bottom line was unacceptable in its view and it would apply additional efficiency dividends or reduced inflation parameters, that sort of thing, as a means of keeping those budget expenditures low.

Mr CHAIRMAN: So the strategy was to try and use this final consumption expenditure, or lack of growth therein, as a sort of management tool. It might not have been the management tool for Treasury, but was it a management tool used by the government to keep pressure on the agencies to keep their spending low?

Mr CLARKE: I think there was a belief - certainly the Treasurer had a belief that if you had a low target you were more likely to get the agencies to stick to that target.

Mr CHAIRMAN: So basically the decision to adopt such low forecasts was made by the government rather than the Treasury?

Mr CLARKE: Oh, yes.

Mr CHAIRMAN: As a management tool?

Mr CLARKE: Yes.

Mr CHAIRMAN: That must have made for a pretty difficult relationship for you with the former government, given that they were setting the estimates so low rather than letting Treasury determine the true costings of government policies?

Mr DUNHAM: I'm not sure we should be talking about the relationship of public servants with the government, Mr Chairman, because it's not an area I would venture into with the current government; it's got the potential to embarrass our witnesses.

Mr CHAIRMAN: We do - well, I'd be prepared to take clarification on the rules for witnesses, but my understanding is that we are allowed to ask senior officers of departments in relation to policy matters.

Mr DUNHAM: Of their comfortableness with government.

Mr CHAIRMAN: Well, Mr Clarke can demur that question if he wants to.

Mr CLARKE: I think from our perspective, I mean, the framework we were operating within, the government of the day decided what it wanted to do. Now we gave advice to the government. The government either took that advice or did not take that advice. Whatever their decisions were, we recorded those decisions and made sure they were reflected in the budget documentation. I didn't have a problem with that. I mean, I often said to the Treasurer that, gee whiz, you know, these crocodile jaws are opening up, we're going to have to get into this, you know, but typical electoral processes, you know it's very difficult for governments to do things before an election. And that's world-wide, it's not the Territory - that's the nature of politics.

Mr CHAIRMAN: I guess the bottom line, and I feel it's an important one as the Public Accounts Committee, is that these worse than budgeted-for outcomes in the final analysis added to the debt of the Territory.

Mr CLARKE: Absolutely. That was our concern. In budget paper 3, chapter 2, yes, chapter 2, recent fiscal developments, we always report - in fact, this is like a very famous graph that shows outlays in revenue and change in debt. That's the one where Jane years ago drew the teeth in this; that's where the crocodile jaws developed its name. And we used it as an indicator to the government, and I'm sure Jennifer will in the future of what is the underlying fiscal position, and when you see those jaws opening up, you know you're in strife.

Mr CHAIRMAN: Yes, I appreciate your position. I mean, it must have been alarming to be an Under Treasurer and seeing debt just ballooning year after year.

Mr CLARKE: It was a worry to us as bureaucrats, for sure, that's right.

Mr DUNHAM: Can I ask some questions?

Mr CHAIRMAN: Of course you can, Mr Dunham.

Mr DUNHAM: The crocodile jaw trend with the recent mini-budget is coming down?

Mr CLARKE: Well, yes, it will be, yes.

Mr DUNHAM: It will, this year, when?

Mr CLARKE: I'm not sure where we are this year, to be quite honest.

Ms PRINCE: The increase in net debt in the mini-budget was greater than the increase projected in the May budget, but part of that is because that $50m, the once-off asset sale revenue, has been removed in the mini-budget and perhaps more realistic allocations have been included for predominantly Health, to a lesser extent Education, and for superannuation costs.

Mr DUNHAM: The jaws have widened this year?

Mr CLARKE: Yes, they generally [inaudible] a financial statement as well, so that there was a - that's right, this year …

Mr DUNHAM: Okay. The second question is, Professor Percy Allan's report, we've had one tabled but there's actually two of them as you know - do you agree with his conclusions?

Mr CLARKE: I think on the whole I do.

Mr DUNHAM: We're not sure which ones the government will adhere to and which ones they will jettison, but we note that the land tax has been jettisoned, and that will go some way I assume to affecting some of his findings. The one that is particularly interesting to me is the one about the pegging of the domestic tariff for power consumers which is annotated at nil because its at no cost but its actually foregone revenue. I would ask if Treasury has made some estimates of what this particular promise might cost?

Mr CLARKE: I am pretty sure we have. Very roughly, off the top my head I could give you an estimate now, I would have thought. I mean, domestics would be about 50per cent of the total, the total revenue is about $200m, inflation 2.5per cent so you are talking of, say, $5m a year, so yes, basically $5m.

Mr DUNHAM: About $20m over the term.

Mr CLARKE: Yes.

Mr DUNHAM: Okay. Certainly not a zero. The other question I have concerns the collapse of HIH and some of the difficulties that were associated with the government leaving those liabilities. I note that in the current budget papers there is a $3m carryover and a $6m appropriation. Is it Treasury's belief that that is sufficient for this year?

Mr CLARKE: It will not meet all of the cash requirements and the government will need to introduce a new arrangement, I think in March is likely from memory, when the cash is likely to run out and the government has got some difficult choices to make as to whether or not the additional cash is met by a levy on the whole community or it's just on the insured and that's a matter that …

Mr DUNHAM: So, come March there's crunch time for the government with the funds running out. So I assume in the next sittings of parliament if they are going to introduce a levy they will need some sort of legislative base unless they wish to use the now famous motor vehicle levy to raise for the last quarter some significant dollars amounting to some millions.

Mr CLARKE: Well they've got a couple of options. One, they could introduce legislation straight away or alternatively, they could do what the original - previous government was going to do which was to borrow the money and to finance it, but then introduce a levy and recover the borrowings over time.

Ms PRINCE: I think the legislative base already exists for that. Mr Baldwin introduced that legislation.

Mr DUNHAM: For the levy?

Ms PRINCE: Yes.

Mr DUNHAM: No, this is going to a broad based community [inaudible].

Mr KIELY: You can't have it each way, Mr Dunham. What are you asking? I mean, you are asking about assumptions in the future which I don't think anyone is qualified to speak on.

Mr DUNHAM: I am asking about the veracity of the budget papers.

Mr KIELY: But when you don't get an answer that doesn't fit your assumption that you're making you are changing it again. It is just consistency is all I am asking.

Mr CHAIRMAN: Anyway, we need to move on. Have you got …

Mr DUNHAM: I've got millions of them. I've got hours of questions. But while we are on the Percy Allan Report, I was just hoping to [inaudible]. So the HIH we know is a shortfall. The other thing you talked about is too keep costs down you said the previous government was looking at some - for instance efficiency dividends and keeping Health costs down. We know that the mini-budget has given Health an extra $34m.

We heard in evidence from Mr Bartholomew that he went to the Health Minister and said he needed an extra $20m, and in the context of this debate where we're talking about $8m, there is an additional $34m this financial year. Do you believe this growth will be sustainable in the health sector?

Mr CLARKE: Sustainable? Well, anything can be sustainable. It's a question of what else is going to pay for it, that's all. I mean, the Health budget is a – I think I described it as a monster before, and that's right. I mean, if you don't keep it under control it will consume, you know, a very large amount. In fact, you will be interested to know that in the last 20 years, Health expenditure has gone up by about 100per cent in real terms since only the last 20 years; Police expenditure has gone up by 66per cent; Education by about 33per cent and everything else gone down. Now, that seems to be an increasing – a trend that has sort of maintained, you know, it's not only in the Northern Territory. This is in the states as well.

Mr CHAIRMAN: Well we have already discussed deadly Territory in another place. I would like to ask some questions about the conditions which are really in line with our Terms of Reference of looking at the budget that was handed down by Treasurer Reed in May last year.

I will refer you to the Auditor-General's Report, analysis of the 2000-2001 Treasurer's Annual Financial Statement which was – no, sorry. Wrong one. I am sorry about that. This is the August

2001 Report, and if I could just sort of read my notes here. In his August 2001 Report, the Northern Territory Auditor-General was critical of the way in which the CLP government had transferred $150m from the Conditions of Service Trust to attempt to portray $149m or turn a $149m deficit into a $1m surplus. Rather than paraphrase it, I'll quote from his key findings on page 16:

> *The government's ability to transfer significant amounts in or out of its budget scope highlights that the budget scope is unreliable as a measure of the government's fiscal stewardship and accountability. A better calculation of the estimated financial result for the 2000-2001 year is identified in the increase in net debt as calculated by the Uniform Presentation Format. This shows that the deficit estimated by the government was $149m.*

Now, I am sure, Mr Clarke, that you've read the NT Auditor-General's Report. Did you want to comment on some of his concerns or your view on his report in terms of bringing the Conditions of Service Trust into the scope of the budget document?

Mr CLARKE: Well, I mean, again, I mean, that's almost like a presentation change again, dare I say it. There is no doubt that the previous government introduced the bringing in of the $150m on budget as a means of improving the budget result, but they had a reason to do so. The budget scope, the money that had gone in to – that had build up the $150m had gone out of the budget over time, so the net debt in the budget had built up progressively as the $150m had built up. So there was an argument to bring it back in. Really, it's a bit like the NT Fleet. All of a sudden you've got this asset here and then you pull a couple of levers and - - -

Mr CHAIRMAN: Mr Reed seems full of arguments for all sorts of things. But didn't, essentially, it meant or part of what it meant, that comparing the original budget for 2000-2001 with the estimated outcome shown in the 2001-02 budget papers was made more difficult because suddenly, something was brought into the budget scope which basically showed what should have been, well in the Auditor-General's view, $149m deficit into a $1m surplus? Is that a fair enough comment?

Mr CLARKE: I think it is. The thing is that all of this was discussed over the Treasurer's speech and the tables were presented in the budget papers showing both the Uniform Presentation Framework as well as the other budget numbers. So it was all laid out for all to see. It was actually debated in the budget debates.

Mr CHAIRMAN: Well, it was a significant amount of money.

Mr CLARKE: Sure.

Mr CHAIRMAN: But, you know, was this another example, as Professor Allan described with respect to final consumption expenditure, of the government setting the numbers that appeared in the budget papers rather than the Treasury? What I am trying to say is: unless the government wanted to drag it in, you wouldn't have normally dragged in that $150m from the Conditions of Service Trust.

Mr CLARKE: Yes, that's probably right, I suspect. I mean, though we were moving progressively to having a budget scope that matched the Uniform Presentation Framework so at some stage or other, it would have had to, you know, it probably should have been included.

Dr LIM: Sooner or later this amount had to be included in the budget, and in fact the Auditor-General was driving through previous years to include it …

Mr CLARKE: To include it, yes, that's right.

Dr LIM: … to include this amount, and when it finally got included, others say that you shouldn't have done it and that it's not fair.

Mr CHAIRMAN: No, no. He commented on the method in which it was done.

Mr CLARKE: And the timing, I think.

Mr CHAIRMAN: That's the basis - and the timing, which is, I guess fits in …

Dr LIM: What? You've got to do it. When's the right timing? Today, tomorrow or yesterday? Today, tomorrow, or yesterday. A time is a time.

Mr DUNHAM: [inaudible] the introduction of Accrual Accounting. Was the matter discussed with the Auditor-General prior to this budget presentation?

Mr CLARKE The 150?

Mr DUNHAM: Mm.

Ms PRINCE: Yes.

Mr CLARKE: Yes, I think it was, too. That's right.

Mr DUNHAM: Did he voice significant concern?

Ms PRINCE: Not to us.

Mr DUNHAM: Interesting. He did to us.

Mr CHAIRMAN: So do you agree that sort of these type of transactions impede the transparency of budget data, or can impede it?

Mr CLARKE: Yes, I think they probably – they can impede it, yes. I think that would be a fair comment.

Mr CHAIRMAN: Okay. Look, we're getting down the list now, Mr Clarke. I'll hand over to my colleague, Mr Kiely.

Mr KIELY: In regards the AustralAsia Railway Corporation loan, Mr Clarke. Mr Clarke, the 2001-02 budget papers also included a transaction related to funding of the AustralAsia Railway Corporation, do they not?

Mr CLARKE: They do.

Mr KIELY: Of the $165m anticipated in assistance for the railway, with respect to 2000-01, the budget papers reported this assistance as taking two forms - a grant of $140m and a loan of $25m.

Mr CLARKE: That's correct.

Mr KIELY: Yet the Auditor-General, in his November 2001 report, claimed that this loan was never really expected to be repaid, its value being written down to just $400 000. Would you care to elaborate on that one?

Mr CLARKE: You want a go?

Ms PRINCE: The potted history is that the Northern Territory, in putting together its funding package for the railway, had taken the decision earlier that its assistance would mirror that of South Australia's. The South Australians provided their assistance in a grant/loan package, with the loan component being $25m. Treasury had been proceeding on the basis that our total payment would be in the form of a grant but, as the negotiations proceeded and the Territory took the view that its assistance would mirror that of South Australia's - at least, certainly in respect of the loan component - the numbers in the budget papers were changed to reflect that.

I guess our preference was that the assistance would still be treated as a grant, but that treatment didn't reflect the legal documentation that existed. And that was also the case in South Australia, where they recorded their assistance in the loan/grant components, but have since also take a different view about the loan. Now, the situation with the loan is that the loan will exist until the consortium does any refinancing of the concession arrangements that they have. The sooner they re-finance the project, the greater value our loan component has. So while, at this moment, the value of that loan has been valued at $400 000, that is on the assumption that the loan won't be repaid for 53 years, which is the time period of the concession. So each year, as that loan get revalued, its value will, in fact, go up quite rapidly …

Mr CHAIRMAN: What's it valued at …

Ms PRINCE: … so it's a curious arrangement in that it's not - you know, it is not without value, and its value will be changing as time goes on.

Mr DUNHAM In 53 years' time, you and I should be sitting pretty.

Ms PRINCE: We think it will probably happen in about five years …

Mr DUNHAM: We were thinking – we went before you and did it, mate, otherwise it wouldn't have happen.

Mr KIELY: 53 years, yes, Mr Dunham. I'll always thank them for that.

Mr CHAIRMAN: That's two 26s.

Mr KIELY: How does that …

Ms PRINCE: Sorry, it's a long list of …

Mr KIELY: Yes. How did the 2001-02 budget papers record the loan, and what was the effect of this treatment on the anticipated level of net debt?

Ms PRINCE: The railway transaction was recorded as a $140m grant, and a $25m loan. Because the loan is classified as a financial asset then it would have, effectively, no increase on net debt.

Going back to the grant component, it depends on this budget scope that you use (this is actually one of the benefits that we see from the fiscal integrity and transparency legislation because it removes any differentiation between the scopes - it relies on the ABS definition of budget scope). For the 2001-02 May budget, the $165m was sourced from the Conditions of Service Trust, which was outside of the public account, that is outside of the budget scope.

That money was brought into the budget scope as a revenue item, and then paid out to the AustralAsia Railway Corporation. So, in terms of its effect on net debt on budget scope, it had no effect – it's just money coming in and going out.

When you actually look at the whole - the big picture - though, the total Northern Territory public sector, which has got the Conditions of Service Trust included in the total, the net effect on net debt in the total public sector scope or the uniform presentation scope was an increase in net debt of the $140m.

Mr KIELY: So was it all - I'm a little bit – maybe it's cleared this up for me.

Ms PRINCE: I was thinking about …

Mr KIELY: So, was the effect to lower the estimate of net debt, at the time of budget, by $25m compared to the actual outcome?

Ms PRINCE: The payment of $140m would increase the amount of net debt by that amount. The classification of the other $25m as a loan, as opposed to a grant, would have no effect.

Mr CHAIRMAN: So the Auditor-General also says that it reduced the value of the Territory's financial assets.

Ms PRINCE: Yes, that's right, but next year when the loan is revalued, the financial assets will increase and …

Mr CHAIRMAN: Right. I mean, that's $400 000, I mean …

Mr KIELY: It'll eventually – you'll get …

Mr CHAIRMAN: … is it going to be $500 000?

Ms PRINCE: Well, no, it will probably be about $1m. It will go up quite rapidly. And it will essentially be the value that the consortium puts on the refinancing of that loan in their refinancing of the whole package.

Mr CLARKE: There's no question that, by classifying it as a loan, it improves the budget bottom line. But, you know, we really had no option but to do it like that, because that's exactly how the South Australians treated it and we had a number of very good reasons why we had to do it exactly the same as South Australia.

Mr KIELY: What were they?

Mr CLARKE: Well, if there was going to be any money tossing around the place, floating around the place, we wanted to be treated on exactly the same basis as the South Australians. Yes, they

were - no, I won't say that. The South Australians were difficult to deal with at times, so we just wanted to make sure there was no ambiguity, or there could be no room for treating us in a different way to the South Australians.

Mr KIELY: So was the decision to treat the $25m as a loan - knowing that we wouldn't see anything coming back on it for quite a substantial period of time - was that a Treasury decision?

Ms PRINCE: No, it was really just …

Mr CLARKE: It was forced upon us.

Ms PRINCE: It was consistent with the legal documentation that we had. We had a number of discussions with the railway people and they were adamant that it should be classified as a loan because of the legal documentation.

Mr CLARKE: Sure. We actually wanted to classify it as a grant. That was our initial preference because that to us was a closer representation to what the nature of the transaction – which is really what the Auditor-General sort of picked up. But our people were adamant that it had to be a loan for them because of this South Australian - that's what the legal documentation said. And once you got that, then the ABS treatment for how you treat these things meant that, well, there is no alternative; it must be treated in that way.

Mr CHAIRMAN: Mr Dunham.

Mr DUNHAM: If we had played silly buggers with this money, would there be a potential for this to be a deal breaker and put the whole railway line in jeopardy?

Mr CLARKE: With the $25m?

Mr DUNHAM: With the funds that came to the Northern Territory, the 165.

Mr CLARKE: Well, I mean, we had to satisfy the contractual commitments that we had. I mean, we could have - it wouldn't have been a deal breaker if we had said: 'No, look, our $25m is a grant, not a loan', that's for sure, because that would be better for the consortium - they've got something that they don't have to pay back and they've got it in the hand. But we didn't want to do that, we wanted to have the chance of getting the money back.

Mr CHAIRMAN: Other questions, Mr Dunham?

Mr DUNHAM: Not on the railway, no.

Mr CHAIRMAN: Any other questions?

Mr DUNHAM: Are we ranging far afield, Mr Chairman?

Mr CHAIRMAN: Well, within our Terms of Reference we are, Mr Dunham. You know we've already had discussions about this in deliberative session.

Mr DUNHAM: The Health budget, I note, includes some significant increases over the next few years which have capital allocated for them but no recurrent. I wonder whether some work is

unimportant. Have the moment to look at that - and I speak specifically of the birthing suite and the dialysis unit in Tennant, with chemotherapy, radiotherapy units and the palliative care unit, all of which are down as zero recurrent.

Ms PRINCE: We're going through a process right now of reviewing agency forward estimates with a view to identifying those sorts of things are important. They're not far away.

Mr DUNHAM: So, their absence in current documentation is really a lack of knowledge about it, rather than a Treasury device?

Mr KIELY: They're a bit loaded, those questions, aren't they, Mr Dunham - a lack of knowledge of …

Mr DUNHAM: A lack of knowledge of the numbers.

Mr CHAIRMAN: We are straying into area of the mini-budget and we have made decisions within in deliberative sessions about that and our focus has always been, and the history of this whole enquiry has revolved around, the estimates presented to parliament in May 2001 by the Treasurer, Mr Reed. It has as its history the memo written by Mr Bartholomew and that is our Term of Reference. Now you've continued to try and broaden …

Mr DUNHAM: That's not correct.

Mr CHAIRMAN: … them into the mini budget and basically you know we have had discussions about this, and unless you can find some direct relevance to the 2000-01 estimates and the forward estimates within the May budget …

Mr DUNHAM: Mr Chairman, can I ask you is that …

Mr CHAIRMAN: Let me finish. Unless you can find the relevance within that we will just have to move on with other questions that are relevant to our Terms of Reference.

Mr DUNHAM: Okay. There are two points I would like, Mr Chairman, and then I will desist. This is a letterhead of the PAC and it talks about inquiring into the accuracy of the budget data published in respect of the 2001-02 budget paper in respect to those estimate outcomes for 2001-02 …

Mr KIELY: And the budget.

Mr DUNHAM: … 2001-02. And it is entirely evident to me, Mr Chairman, that those figures will be in there. I do note however you are signalling that you will gag me if I ask further questions, and on that basis I won't.

Dr LIM: Mr Clarke, this question could have been asked early this morning when we talked about how Treasury negotiates with departments about their funding. Do you normally put pressure on agencies to underspend or provide savings from within the agencies to help the budget process?

Mr CLARKE: I would say yes to that. I mean, you know, we want, yes we do. We want them to, you know, have an improved budget result. I mean that is a pretty general question and a general response.

Dr LIM: Can you give me sort of - I mean I don't expect you to give me a comprehensive list, but what techniques would you use to then put pressure on agencies to underspend, or to contain their budget?

Mr CLARKE: Well, things like efficiency dividend for example. So you basically give them a lower target. I mean it's also attitude. I used to spend a fair bit of time trying to explain the crocodile jaws-type graph to the CEOs whenever there was a briefing, to say, 'Look folks, we're in an unsustainable position here. We are going to have to wind back'.

Dr LIM: Do they comply or do they assist? Are they, as some CEOs will tell us, 'We are very parochial, we will cover our departments only, we maximise what we can for our budgets and damn the consequences to the others, and it's up to Treasury to look after the global position'?

Mr CLARKE: I think it is true that - this is both Ministers and agencies - they think that someone is going to have to do it tough. Someone other than them. But no, there is no doubt the CEOs do, they look after their own departments. If the government of the day then says, 'Look, sorry folks, we are going to have to have a fairly significant reduction', they understand that.

Dr LIM: Do you believe that every agency would then pull their weight or would some say, 'Look, hang on, we can't do it. There is no way. We are going to spend every cent we have been allocated and we will not try and provide "real" savings to help any other than the department who might be in desperate need'.

Mr CLARKE: I don't think any agency thinks of helping another agency.

Mr CHAIRMAN: Except Treasury!

Mr CLARKE: Exactly right. I think over the years different agencies responded in different ways. I mean some have really tried to pull to tighten the belt a little bit, and others have basically given up. Sometimes the target has been absolutely unrealistic and they sort of throw up their hands and forget it.

Dr LIM: So you would say that agencies would contain their costs? They would try and not make a concerted effort to reduce their spending so that you have a surplus in your hand to divvy up to somebody else. You must try to contain the costs so you don't go past the allocation.

Mr CLARKE: They'll stay within their budget. They might try and stay within their budget. They won't go below that.

Dr LIM: So then it's really up to Treasury and the Treasurer to really swing the big stick and say we have to do something.

Mr CLARKE: Well the government of the day, it has to lower the target and they've got to then make sure that that target is complied with and they have got to be prepared to shoot a couple if they don't.

Dr LIM: Would you expect departments to put in processes to increase efficiencies of the departments so that when if they have real savings they, for instance THS. If I put good hygiene, the hygiene program among children and prevented renal diseases [inaudible] to put these on track, I would expect some savings there. If I put the program back 20 years ago I would expect to have

savings today. Now that means that my department can spend less money on renal care. What happens to the money that I will have?

Mr CLARKE: I think if you are talking about a 20 year timeframe I think it will be forgotten. But certainly we used to encourage agencies to say if you have got a new initiative, and all agencies have got initiatives coming up all the time, we would say, 'Look, great idea. Why don't you go away and find the money to do it?'. So this funding by substitution was and still is a really important matter. In fact, in Percy's report here he was basically saying that if an agency comes up with a proposal that is only going to cost 1per cent of their budget or something tell them to go away, and accommodate that from within their budget.

Dr LIM: What I am leading to then is that we can expect every year for every agency to continue to increase their demand on the Treasury and it is up to the government to say, hang on you can't. And for the government to push it down or the agency to contribute to the increase in demand.

Mr CLARKE: I think that is fair comment. I read the transcript, I think it was the Police and they will basically go out and fight for and argue their case and it's absolutely true. The Police and the Health people are tremendously successful because you guys are politicians, you know, believe that they are functions that the public want to see more money spent on, as bureaucrats. I mean they are …

Mr DUNHAM: I have got a question about, I mean one of the core questions to this whole inquiry is what is the correct figure for Health? It has been argued that at the middle of the year it was heading towards $462 and it was wound back to the May figure of $443. It came in at $447 which Health believed to be the target. The then CEO told the incoming Health Minister that it should have been $20m above that, which is $467 and it is now over $480. So somewhere between $443 and $480 is the correct figure. This Committee is arguing with a little margin of $8m in that $40 something millions, but when we put the question to the CEO of Territory Health about what the figure should be, and he gave the title The Correct Appropriation. So given that a question about the additional $34m whether that was indeed a blow-out he said: 'No, that is not a blow-out. That is our correct appropriation'. So we are trying to grapple, the six members here, what the correct number for Health is and whether the $8m reduction prior to the end of the late last year was an incorrect number or a correct number.

I guess what I will ask you to do as a Treasurer who has to at the end of the day, sorry former Under Treasurer, who has to at the end of the day ascertain what is the correct number, how would you reconcile these vast differences in people's perception of what the correct number for appropriation is?

Mr KIELY: Mr Clarke, prior to answering that, can I just clarify a few things.

Mr CHAIRMAN: No, let Mr Clarke answer that question first and then you can put your point of view in fairness to Mr Dunham.

Mr CLARKE: Yes, I mean I think you are mixing two years here of course. You are talking about the 2001-02 I think, and I don't know what the correct number is. I really don't.

Mr DUNHAM: But if you have two gravely differing points of view over a number, how do you reconcile that given your imperative for sustainability and most line agencies don't want to know

about that. How do you reconcile what will be the right number given that you are getting advice from a line agency: 'No, the right number is this, and your number is $40m out'?

Mr CLARKE: Yes, I mean, you've got to you know, get right down to how the number is derived; I guess. That's the only way I can think of explaining it. There's also the issue about, well, right number - I mean, the government of the day could say the right number is, you know, say $450m, and if the government of the day says that is the number, that is the right number because that's the number that they must, you know, operate within. If, however, the right number is: what is the amount that I need to continue to provide exactly the same standard of service as I was in the past, that's when you'd go to an analytical process, and you'd say: 'Well, okay, now what did you spend last year, what's going to change in terms of growth?' and all that sort of stuff, and do a calculation to say precisely how much do you need to – for that exact same standard of service. So, yes, it's either you start with your standard of service and say define that first and say that the dollars that you need for that, or you define the dollars and the standard of service will [inaudible].

Mr CHAIRMAN: Mr Kiely.

Mr KIELY: Mr Clarke, I think there was a little bit of a spin put on a question in that we were talking about $8m. Now, just so I get it clear in my head, there was never any intention to withdraw $8m from THS allocation last year?

Mr CLARKE: That's correct.

Mr KIELY: Never?

Mr CLARKE: That's correct.

Mr KIELY: So we're not talking about $8m physical, we're talking about a simple figure on paper that was …

Mr CLARKE: Yes. No, that's right.

Mr KIELY: That's right. So there was never an $8m saving to be had? That was quite clear, that was made to the CEOs, that was made to all the Ministers?

Mr CLARKE: Yes.

Mr KIELY: We are not talking about $8m in cash?

Mr CLARKE: That's right. A bit of it - might have to go [inaudible] a little bit in the following year, but certainly in 2000-01, no $8m.

Mr KIELY: Good. You've cleared it up for me. There is no - I do not feel [inaudible] when we talk about the $8m because there was no $8m to be saved which is quite well known.

Mr DUNHAM: [inaudible]

Mr CHAIRMAN: Dr Lim.

Dr LIM: Mr Clarke, what's - who is responsible for the sustainability of budget?

Mr CLARKE: Well, at the end of the day it's the government - the government of the day.

Dr LIM: The government sets limits within which then agencies have to perform.

Mr CLARKE: That's right.

Dr LIM: When an agency says: 'Look, we will perform to our maximum' and that maximum, while having a cap put on by parliament, that cap can occasionally be pushed through to - through re-submissions at any time through the year?

Mr CLARKE: Yes, that's correct.

Mr CHAIRMAN: That is part of their official allocation, is it not, if it's approved by Cabinet?

Mr CLARKE: Well, if it goes through the parliament processes and then there are formal …

Dr LIM: Essentially, but they push through that first allocation, when the parliament has passed the Appropriation Bill?

Mr CLARKE: Yes, pass the Appropriation Bill, that covers …

Dr LIM: You've got your level.

Mr CLARKE: Yes, got your allocation.

Dr LIM: Then for the next 12 months, potentially you can push through that and get another authorisation, another authorisation, another authorisation to stick within your allocation. But what I am saying is that every agency would attempt to push through that.

Mr CLARKE: Well, every agency will seek to - if it doesn't believe it's got enough money within that actual allocation, it will argue for more money and, you know, it's the job of the government of the day to work out 'Well, hang on, are they just bull dusting or is it true? And so will it mean that if they don't get the money that the standard of service must fall or do they - must they get the money in order to maintain the standard of service?' If there's not the money around, the government then takes a view about well, okay, we'll have a lower standard of service and therefore going to have a lower number, and what are the implications of this lower standard of service, and which service is it going to be applicable to?

Mr CHAIRMAN: Further questions, Mr Dunham?

Mr DUNHAM: No, thank you.

Mr CHAIRMAN: Further questions?

Dr LIM: Not from that.

Mr CHAIRMAN: I suppose a bit like the auctioneer, I'm about to wind it up, just finally.

Mr DUNHAM: [inaudible] thank you, Mr Former Under Treasurer for your good and meritorious service.

Mr CHAIRMAN: No, no, no. Well, I haven't finally finished. There's a bit of a summing up but on my observations during the day, our Terms of Reference, as we discussed here today, are to inquire into the accuracy of budget data published in the 2001-02 budget papers with respect to both the estimated outcome from 2000-01 and the budget for 2001-02, so I'm just tying together some of the questions that I've asked or some of my colleagues have asked today.

We've heard about the $16m of adjustments to the estimates for presentational purposes and we've discussed that. We've also discussed the sale of the NT Fleet of approximately $50m and the circumstances surrounding its inclusion in Mr Reed's budget and its subsequent sale not going ahead. We've also discussed elements of Percy Allan's report and particularly the underestimation of final consumption expenditure which he estimated to be about $40m.

We've looked at some of the concerns of the Auditor-General in relation to the Conditions of Service Trust, $150m, and we've learnt a lot more about the advance paid, and I thank you for that, to the AustralAsia Railway Corporation.

In total, give or take the $25m to the Railway Corporation, it's either approximately $260m or $283m in potentially disputed or at least controversial amounts spread across two years, 2000-01, 2001-02. Do you agree with those figures that I've presented there, that there's some dispute about them.

Mr DUNHAM: Go larger, Mr Chairman.

Mr CHAIRMAN: Larger? Okay.

Mr DUNHAM: Yes, because I think you could call into dispute some of the figures in Percy Allan's report and some of the other figures, so there is significant dispute, for instance, about the electricity tariff figure and the HIH figure, the NT Fleet figure which you've included, the various unfunded initiatives in Health, so I think it could be some $300m.

Mr CHAIRMAN: In terms of the May budget the then Treasurer, Mr Reed, put down for 2000-01 and the forward estimates for 2001-02, this approximately $260m might represent some 10 per cent of the total budget. Would that be a fair enough estimation?

Mr CLARKE: It would be a bit more than 10 per cent, I would have thought.

Mr CHAIRMAN: So just for members of the public who were here, or whatever, I'd like to register my concern over the magnitude of these figures, and I'd like to just ask you - - -

Mr KIELY: You might think it a laughing matter, Dr Lim.

Mr CHAIRMAN: ... what the overall impact of these amounts on the budget in terms of the impact of our net debt. Did they raise it or lower it?

Mr CLARKE: Generally, they lowered the net debt.

Mr CHAIRMAN: So we've heard evidence from you today, and I thank you for your honesty in terms of your oral evidence and in terms of your written submission, but basically what I've heard today is that in a number of those cases, there were political decisions taken which led to these decisions being made, and I appreciate your position as Under Treasurer, taking direction and I appreciate your integrity and honesty in coming here today.

A member: Hear, hear!

Mr CHAIRMAN: But once again, I'll come back to the two sets of books maybe not necessarily being kept by you but being kept by the former government …

Mr DUNHAM: How can you call him honest and then accuse him of running two sets of books? [inaudible] hypocrite.

Mr CHAIRMAN: ... and this Committee will look at all these issues in its report, and I thank you today, Mr Clarke, for your patience and your endurance here today and for your stamina, and I thank Ms Prince and also you for coming along today …

Dr LIM: Kirkman.

Mr CHAIRMAN: … Ms Kirkman - thank you, Dr Lim - for coming along today, and you are discharged as witnesses. Thank you.

Dr LIM: Hang on a minute. While the member for Sanderson alluded to my laughing over a matter - I was not laughing about the matter, I was laughing about the way the Chairman got his figures together. That was what I was laughing about.

Mr CHAIRMAN: Thank you, Mr Clarke

The Committee adjourned at 3.49 pm to 11 March 2002.

FORMER TREASURER

Appearing before the Committee on 11 March 2002

Mr Mike Reed, MLA

The Committee convened at 9.00 am.

Mr CHAIRMAN: It is dead on 9 00am so I would like to call the Committee to order and open this public hearing of the Public Accounts Committee on Monday 11 March 2002. Welcome to Mr Reed.

This Committee operates under the Standing Orders of the Northern Territory Legislative Assembly. I take this opportunity to notify people present in the public area that they are under Standing Orders. They are not permitted to record either the sound or the vision of these public hearings. The media is here and they are an exception to this and they understand the parameters that they must operate under.

I welcome Mr Mike Reed, MLA, the former Treasurer who is appearing to brief the Committee on the accuracy of the budget data published in the 2001-02 Budget Papers with respect to both the estimated outcome for 2000-01 and the budget for 2001-02. The Committee has ordered that evidence given before this Committee shall be sworn evidence. I would now ask the Secretary to now swear in the witness.

MICHAEL ANTHONY REED, sworn

Mr CHAIRMAN: Mr Reed, you have been issued with a copy of the Legislative Assembly Guidelines dated 20 August 1992 and the Public Accounts Committee Guidelines for Witnesses. Are there any matters of concern in relation to these guidelines that you wish to raise at this stage?

Mr REED: Mr Chairman, in terms of some public comments that have been made principally by yourself, I must say that they have concerned me, in that they demonstrated I believe, an unfortunate bias on your behalf. They were comments both made in the Legislative Assembly and as reported publicly, to the extent in fact, that one particular journalist in interviewing you did make the comment that it seemed that you were prejudging the issue and me in particular. So in that context, I just think it appropriate that my remarks be put on the record.

Mr CHAIRMAN: Certainly Mr Reed, and let me assure you, as you are aware that those matters were dealt with on the floor of the parliament within the last sittings within a privileges motion. I believe that I have addressed those issues within that motion, within my speech, but of course you are welcome to put your concerns on the record.

Mr REED: They do, of course, remain on the public record and that is a concern and you can't erase those regardless of what you have recorded in the Assembly. But we are talking about history now so let's get on with the business.

Mr CHAIRMAN: I am glad you feel that way. I am glad also that you welcome in the censure motion or the motion about this very matter that you welcome the fact that it would be referred to the Public Accounts Committee. Let me assure you, Mr Reed, that you will get a fair hearing today and an opportunity to put your case before the Public Accounts Committee. As you say, it will all be on the record, and that record will be made available to the public.

Just moving on. The Committee prefers that all evidence be given in public, but should you at any stage wish to give your evidence, or part of your evidence, or answers to specific questions in private session, you may apply to do so. The Committee will then adjourn to give consideration to your application.

For the *Hansard* record would you please state your full name and address and the capacity in which you appear today.

Mr REED: Michael Anthony Reed. Address is [address provided], and I appear as the member for Katherine.

Mr CHAIRMAN: Thank you, Mr Reed. Now just to establish that you have been sent documentation by the Committee in terms of the transcript of the evidence that was given by Mr Clarke, and I believe that there were probably other papers that were sent to this Committee from Treasury relating to this particular matter, I just want to establish that you had received that documentation.

Mr REED: Yes, I have received documentation.

Mr CHAIRMAN: Okay. Now would you like to begin by making a statement to the Committee?

Mr REED: In your opening remarks, Mr Chairman, you have indicated that I will have a full and thorough opportunity to provide the comments that I need to during the course of these matters today, and as a consequence of that, I think that you may as well get on with it.

Mr CHAIRMAN: All right then. I will throw it open to the Committee to ask you questions.

Mr McADAM: Mr Reed, obviously I think you are by far the longest serving member of parliament. Would you like to just detail some of your own background history in respect to your period in the House, particularly in your capacity in different areas of government, ie as ministers, Treasury etc, as background information for the Public Accounts Committee.

Mr REED: Any particular background information that might be of some relevance to your question?

Mr McADAM: Well, basically I guess your role over the last 16 or 17 years, in respect to your period in this House, and particularly as it relates to your capacity as Treasurer, if you would like to tell the Committee.

Mr REED: Yes, well I thank you for the opportunity. Fifteen years in fact it is not 16 or 17, and it was 15 as of last Thursday, and very proudly I have been able to serve both my electorate and the Northern Territory becoming a minister in mid 1988 and serving in the ministry until August last year. Without running the risk of self-glorification, I think that I could demonstrate over that period a considerable number of actions that I have been responsible for that have benefited the Northern Territory, and will continue to do so for many years. I have been honoured to be able to serve Territorians in the way that I have. The support that I have received from my electorate and that continues is much appreciated and that has enabled me in fact, to achieve on behalf of Territorians in a number of fields.

I have held the portfolios of Primary Industry and Fisheries; Correctional Services; Tourism; Treasury, of course; Police, Fire and Emergency Services; Museums; Parks and Wildlife - they have had from time to time, Mr Chairman, different titles as the want of governments to change the titles of agencies - and Public Employment. I think that just about rounds them up, but Health of course was a major one and very proud that during my period as Minister for Health and Community Services was able to make some advances for all Territorians in terms of the services provided by that agency

and governments. They were far and wide ranging from the introduction of vaccination programs to save children, particularly on Aboriginal communities, that was a direct response from the medical profession and people living on Aboriginal communities and the fatalities that were being experienced at the time. The introduction of an ongoing program over a number of years to upgrade health clinics on Aboriginal communities, the expansion of medical services for Territorians in hospitals with the expansion of hospitals across the Northern Territory.

In the form of Parks and Wildlife, destinations for our tourists not only in terms of increased development for locals and tourists to appreciate and value our national parks, but also with the initiatives to establish new national parks. The closest one in proximity is Charles Darwin National Park which was a direct initiative of mine, and will serve the people of Darwin for decades to come. Of those things, I am very proud. There were other parks, the Gregory National Park, and the proposed park in the McArthur River district.

In the area of Primary Industry and Fisheries, the initiative there in 1998 to start dedicating rivers to recreational fishing has had an enormous boon for the fishermen and fisherwomen of the Northern Territory and out tourism industry will continue to do so for many years. It was recognised at its introduction as something light years ahead of what was being done elsewhere around the country. Likewise will serve to serve Territorians and to attract more people here. I hope that the current government takes on that initiative and continues with it.

In other portfolio areas, Mr Chairman, Primary Industry and Fisheries, I was fortunate enough to be at the forefront of the contemporary, I suppose you would say, live cattle trade and it was in 1988, 1989 that I became directly involved in that with industry. Testing times for the industry in that we were also proceeding through the BTEC program and, at the request indeed of the industry, I undertook a number of trips into south east Asia to pursue the live cattle trade. I must say that they were very successful and that the industry government partnership, and ministerial partnership at that time was instrumental, I guess, in many ways of expanding the industry into what we know and enjoy today.

An area of course that will interest the Committee is my time as Treasurer. A very responsible position, and a very influential one in terms of the direction of government, working closely with the Chief Minister and other ministers to ensure that government initiatives are both developed, prepared, brought forward and then implemented. We have seen likewise many areas of progress there. For example, we hear much today about the woes of the current government and what they perceive to be a shocking funding circumstance. I think, Mr Chairman, it would be useful to put that in context in terms of a new government coming into power last August with absolutely no experience at all in terms of Treasury and all of the other areas of operation of a government, and at that time an experience of the then Treasurer myself of 14 years.

One has the opportunity, from my perspective in that regard, to look at the situations very globally, with a very long history both as a minister and the Treasurer in terms of what the circumstances are, how to respond to those issues and can you see a pathway ahead because the history of knowledge that one has a Treasurer and as a minister is very much important in terms of having the ability to understand the current issues and finding a pathway through them.

I think if you compare that to a new government - and I'm not criticising the new government because necessarily they had to respond to circumstances that previously they had no experience in - had they embarked on their program and, indeed, this very inquiry today rather than a few months ago as they did, I daresay they may well have been another decision because they would have been a little bit more aware of what the circumstances were, and they would have been able to see things in

a completely different context in terms of just what they issues were, were they as bad as they perceived them to be.

I give a couple of examples: one was the initial intent of your committee, Mr Chairman, to call the former minister for Lands, Planning and Environment, Mr Baldwin. That was principally, as I recall, on the basis that the figure in the budget papers brought down by the former government for land sales was considered by the new government to be…

Mr CHAIRMAN: Could I just interrupt you there, Mr Reed? Those discussions that you're talking about, about calling Mr Baldwin, were made in deliberative session of this committee. Has someone from this committee been telling – that's never been in the public domain.

Mr REED: Well, that's where I heard it. Indeed, we heard it in the parliament, I think.

Mr CHAIRMAN: No, I think you're mistaken there. That occurred in deliberative session so have members of this committee been discussing…

Mr REED: Certainly not, Mr Chairman. In terms of Mr Baldwin, it was public knowledge. I'm sure I recall in the media that Mr Baldwin was to be called in relation to these matters.

Mr CHAIRMAN: Well, please continue.

Mr REED: In terms of the decision, as I understand it again, Mr Baldwin won't be appearing, or he hasn't appeared yet, and I would have thought that if he was going to appear, it would be appropriate for him to be given evidence and then perhaps that could be cross-referenced with my involvement in the structure of the budget.

So, Mr Chairman, and to clarify the point, can I say that - and to address your concern that I may have been talking to another member of the committee, let me demonstrate that it's quite apparent to me from other sources that that information is readily available and the other source, of course, is the budget papers that I introduced last May and the mini-budget that your government introduced later in the year – I think in November - whereby the concerns in relation to the amount for land sales in the department of Lands, Planning and Environment's revenue, whilst thought to be initially overstated, were in fact the very same in the mini-budget as they were in the budget papers that I introduced. So I just use that by way of example.

Another one is, of course, the dependence on an interstate expert in Professor Percy Allan and …

Mr KIELY: Could I just ask a quick question? The question put to you was your history. I thank you for bringing up these other points, but I'm just having a bit of trouble with the relevance of talking about things which aren't your history to the question. So could I ask you to stick to the question, please. The question was quite clearly your own history in the former CLP governments.

Mr REED: All right, well this happens to be very much part of my history. It's part of my life today and I'm here living it and in that context, Mr Chairman, I would have hoped that my remarks would have been relevant.

Mr CHAIRMAN: Certainly, Mr Reed. But just one thing - I've certainly got quite a number of questions and we will press on to some of those issues that you've mentioned in terms of, I guess, getting into some of those domains that Percy Allan may have commented on. I think you'll get more than adequate opportunity to talk about that. But just to let you know, too, that if you feel like taking

a break at any time I'd propose - I think we're going to go into the afternoon here today, so I'll propose that maybe we take a break about 10.30, just see how we're going and take it from there. You know, you're one person on the stand, and we've got to no aim to put you under any discomfort, so just tell us if you want to take a break. But please continue, anyway.

Mr REED: I'm entirely relaxed, Mr Chairman, and look forward to a break whenever you want call one.

Mr McADAM: Well, perhaps I might go onto the next question, if I…

Mr REED: Well, if I could just finish my remarks in terms of then calling on Mr Allan to give advice - and I put this in the context of how, to cover Mr Kiely's point, of how this all does fit into together in terms of my vision of the circumstances with 14 years experience, 15 as of last Thursday and the experience of a new government with just a few months to rely on and to have to make some decisions that they, of course, considered crucial.

So in doing that, unfortunately, the new government didn't have the ability to rely on Territorians and call on their expertise of which there is much right across the public sector and, indeed, the private sector, and called on Mr Allan to provide them with advice which, again I daresay on reflection could have both been received and with local knowledge and input and experience, have been of very great use to the government.

So, to get back, then, to the core of the issue as regards my experience, there are many areas of Treasury that I look back on and perhaps at the time, you don't realise the importance of it. For example, the decision some years ago as Treasurer - in fact, I think it was Treasurer of the first year, myself, - that it was apparent that we needed to look at the debt structure and the repayment of loans that government had over a course of time and it included, over two years, visits to financial institutions from which we had borrowings in Europe and the UK to restructure our debt. To basically illustrate that situation, Mr Chairman, we have debt - the government has debt which extends over many years into the future and the interest payments on those debts in many cases were quite high because there were loans taken out when interest was much higher than it is today. The program that we embarked upon was to pay out some of the longer term and higher interest loans, to restructure the debt and to replace those high interest debts with low interest debts. Had that not been done, Mr Chairman, the government of which you are a member would today be paying interest payments some $40m annually in excess of what is being paid at the moment. Effectively, our interest payments annually, I think, were reduced from in the order of $120m a year down to, I think, a low of 175 – sorry, $75m a year and in terms of the impact and the money that governments have available to them, they are substantial changes.

So there are many other areas that I think I was quite effective in terms of Treasurer. One problem that Treasurers always have is that there is a continual march and knocking on the door of the Treasurer's office from ministers in terms of wanting more money for their agencies. I'm not criticising ministers for that; they're there to protect their patch and to get as much funding as they can for their particular agencies, as are departmental heads.

There is a need for Treasurers, as is often said, to be tough and to hold a line to ensure that circumstances aren't such that expenditure becomes out of control, and that doesn't always make ministers happy; it doesn't always make departments happy. But Treasurers have to try to ensure that public expenditures are kept to a level that, whilst they will maintain appropriate levels of service, that the government's intentions are met in other areas.

So, thank you for the opportunity. They're just some snapshots, if you like, Mr Chairman. I won't take up any more of the committee's time with other portfolio...

Mr CHAIRMAN: Thank you, Mr Reed.

Mr McADAM: Mr Reed how would you describe your relationships with the then Under Treasurer, Mr Clarke?

Mr REED: I have immense respect for Mr Clarke; always have had. He was the former Deputy Under Treasurer and, in terms of not just Mr Clarke, but the people who worked under him as Under Treasurer in Treasury have had an enormous amount of expertise. I've found it astounding that the current government was unable to find a way to work with Mr Clarke, given that he has an enormous level of experience and, indeed, achievement. That's not just here within the Northern Territory; his achievements and his respect is held across the country. I've seen him performing at Treasurers' conference in support of myself, at what were Premier's Conferences, that are no longer held; and Council of Australian Governments, in support of the Chief Minister and myself. I am very much aware that he had very sound input into some very important issues that face this country, and he was able to be influential in that arena. I speak of, most recently, the new tax system where, but for Mr Clarke, that system would be not as sound and as productive as it is. For example, he put forward - and I won't be specific - he put forward some suggestions in relation to Commonwealth funding for the states and territories that, had they not been put forward and recognised, would have seen the states and territories in a position far less advantageous than they currently enjoy. So, a man with that experience and the recognition has, both by Under Treasurers - at the time that he was in that arena - around the country; and I daresay he still has it, both at the state and Territory – the ACT - and Commonwealth level, can only be respected.

Notwithstanding that, he was the head of Treasury and, as do all heads of government agencies, they provide advice to their ministers and the government. From time to time, circumstances necessarily arise where advice might be provided that may not be accepted in full, or additional information might be sought in relation to a particular issue, because that's the guts of being a Treasurer or a minister or a Chief Minister. The advice is provided, Mr Chairman, by the heads of agencies, but the real test and the real ability is only shown, I think, by the capabilities of the person receiving the advice; the ability to determine whether that fits in with government policy; whether there are other issues that can be pursued and information sought in relation to those; and then developing and end result and position to be able to pursue and take forward as a government. So, I guess, in short what I am saying there, Mr McAdam, is that it was always the case that the information and the advice provided by Mr Clarke, was sound, professional, and reliable. But, there were times when additional information might be sought and, I think, examples will come out about those issues today, in the terms of our deliberations. Mr Clarke was an Under Treasurer who, I think, had the respect of the people who worked in Treasury. From my point of view, he always seemed to be inclusive and sought advice from all areas of his very professional agency, and he targeted at all times a very high level of achievement in terms of performance, and the outcomes of his agency. I think as a Treasury, you can't ask for much more than that.

Mr McADAM: Okay, Mr Reed, obviously you speak very highly of Mr Clarke in his professional capacity, in numerous areas. Do you think he is an honest bloke?

Mr REED: Well, what do you mean by that?

Mr McADAM: Well, I mean, would you describe him as an honest person?

Mr REED: Well, has he not been before you? Did you not make that [inaudible] of your own?

Mr McADAM: I'm asking you the question, Mr Reed. Would you describe Mr Clarke as being an honest bloke; a good bloke; a good, honest bloke?

Mr REED: I think my former remarks clearly demonstrate the level of advice that he provided.

Mr McADAM: Was he honest and straight?

Mr REED: Well, am I allowed to finish, Mr Chairman, without interruption?

Mr CHAIRMAN: Of course you are, Mr Reed!

Mr REED: That he was professional, was able to ...

Mr McADAM: Honest?

Mr REED: … was able to provide advice that could be relied upon. I can't recall any occasion when I would have questioned the integrity and honesty of Mr Clarke …

Mr CHAIRMAN: Thanks for that, Mr Reed.

Mr REED: … and I want to put on the record, Mr Chairman, that I find it offensive that the question is structured in a way that such a suggestion might have some sway with this committee.

Mr McADAM: I think it's important for the people of the Territory, to determine through this process, because there does appear to be some differences as to whether indeed, in your opinion, Mr Clarke is an honest bloke. And you have just confirmed that. Thank you.

Mr CHAIRMAN: So, Mr Reed, if you could just … As you say, we've been a new government and, I guess we are new members of parliament. Through this exercise we've been learning a lot about the budget process - and it's a very important process – but, in relation to the process of the April budget Cabinet, the May budget estimates, and the Treasurer's financial report handed down later in the year, could you just take us through the importance of these processes. I know you did speak to it in the censure motion a little, but do you mind just taking us through those processes again?

Mr REED: Well, the budget process is not a well understood process, Mr Chairman. I mean, it's a very long process. It commences early in the new year, and it has a period of intense activity in terms of Treasury officials, the finance officers and senior management of agencies and, indeed, all people in agencies who have to put submissions forward to gain funding for their particular area of activity. Those submissions have to be quantified and proven and, at the end of the day, they filter upwards through the system and are presented, by way of bids by the various agencies, to budget Cabinet, of which there are - well, there's a main budget Cabinet which we used to normally hold in March, and all of the bids and requests are considered. There's refinement and great debate takes place …

Mr CHAIRMAN: Within Cabinet?

Mr REED: Within budget Cabinet. That includes of course, people like the Under Treasurer, the Assistant Under Treasurer, and other senior Treasury officers. It may include, from time to time,

involvement - although not very frequently - of other officers from other agencies, if particular information as required and, of course, extensive input from the relevant ministers representing their particular portfolio responsibilities. This is then - the outcome of budget Cabinet - is then churned through in Treasury: advice back to departments, more information might be sought. There would be a subsequent budget Cabinet meeting to further refine that process and, while all that is happening, the very dedicated staff in Treasury and, indeed, other agencies, are going through the work to collate all of the information to put forward to government different outcomes and options. Of course, they're not just working their 8 am to 4.21 pm shift in that. They're working late, they're starting early, they're working over weekends. It's not unusual for a Treasurer to be able to call Treasury at any time over a weekend and get a phone call answered, because there's someone there working during the budgetary process, such is the extent of the work. So, it's a very thorough process, and it's one that the government has to answer to the parliament for the people on, and there few things more important than that.

Mr CHAIRMAN: Okay. Talking about the relevance of budget estimates and budget papers to the public in parliament - and I've asked this of a number of people - do you believe that parliament is entitled to trust budget estimates; the ones that are handed down in May?

Mr REED: Certainly, and the documents are presented with that intent. But just as those documents are presented and the information presented, they are also open to interpretation and I dare say that it is that interpretation that has been placed on my budget papers that is being undertaken by this government, that is very much we are talking about today.

Can I just say though, Mr Chairman, in a broader context, the budget is a snapshot in time of what circumstances are when the budget is introduced and it paints a picture of funding to agencies. It includes a very wide range of the intent of government and the direction of government in terms as, for example, particular activities at the lower level that the government wants to achieve; particular outcomes that it wants to pursue; and services that it wants to deliver to Territorians. It should not be interpreted though that the budget is a fixed picture of what is going to happen for the whole of the year. In that context, can I say there are many examples and indeed they pertain to the budget which we are discussing, two budget periods, that the variations are made later in the year for all sorts of reasons. There may be some unforeseen issue arise that the government has no alternative but to provide additional funding for it. It maybe, as has happened in the past, a quarantine issue where there has been a threat to a sector of the primary industries and fruit fly monitoring stations have to be put in place and additional money has to be provided for it because it just was not a foreseeable action.

In addition to that, there are other emerging issues, particularly in areas such as health, where additional funding might be required throughout the course of the year. I think if you are familiar with budgeting to that agency and others over the last decade or so, you will see that there has been consistent increases in their budgets. Not just at budget time, but during the course of the year, either to meet unforeseen, emerging circumstances or to undertake activities that the government has decided to pursue that were not evident at the time the budget was put in place.

Mr CHAIRMAN: Just trying to get to the heart of some of this matter, Mr Reed, my understanding - and correct me please if I am wrong - that you have the April Budget Cabinet where as you say there is a process, an estimates and particularly forward estimates, and I guess estimates of expenditure for the current financial year are placed before Cabinet and then to some degree they are locked in, and then after that the process for varying those estimates is really delegated to you as Treasurer. Would that be correct?

Mr REED: It may or may not be. In terms of - I wouldn't consider that to be the position every year, for example. There are necessarily some outstanding issues that take time to finalise in terms of the formulation of the budget and you don't always have control over them.

Mr CHAIRMAN: No, no I am not talking about control. I am just talking about your power or your delegation to actually, as Treasurer, to vary the budget estimates as they come out of Budget Cabinet, that you are the one who has the delegated authority, if you like, to actually vary those?

Mr REED: Well, if you are talking about varying in the global sense as regards the budget which you seem to be, that is that the Treasurer has a wide ranging ability to come into work one day and look at a particular budget or a number of budget areas in government and say, 'Well, I've changed my mind. We'll change these and the outcomes will be quite different and the budget will reflect that'. You're not recognising the realities of being Treasurer, or being in government, or even human nature, because Treasurers whilst they can be unpopular enough would be at the risk of their lives, I suppose, if they operated to such a way as you suggest, in that there are eight other ministers and a Chief Minister to whom you are working and with whom you are working. And if you are working in a partnership in government, your colleagues to achieve an outcome for government in terms of what's going to happen over the coming year, and I must say that budgets of course have an influence beyond the year for which they are framed necessarily, they are just part of an ongoing role in process, then your assertion is incorrect.

Some ability to have some minor changes in the overall scheme of things might be delegated to the Treasurer simply because of the way the budget evolves and some decisions have to be made when the crunch time comes and the Treasurer receives advice that the latest advice that can be fed into the budget in terms of having to have the budget papers printed and all of the other preparations made, then Cabinet may delegate to the Treasurer some fine tuning capacity.

Mr CHAIRMAN: Well, since the variations that were made to the Health department, the Police department and the Education department are, to some degree, central to our inquiries, I would just point you towards this particular Under-Treasurer's minute that was sent to you on the 17 May 2001. And I'll table this in a second, I am sure you have seen it in amongst the documentation that was sent to you. It is titled *Variations to the 2000-01 Estimated Actual and 2001-02 Budget*. It is signed off by you on the 17 May and there is an appendix to this that is indicated in the memo, and I have highlighted in there the minus eight for health, the minus two for police, fire and emergency services and a minus six for education. So if I could just give the secretary that and just give you a chance to have a look at it. So, I guess where I'm coming from, I'm just trying to establish that there was a variation in the budgets of 8, 6 and 2 for those three departments and that you, as Treasurer, signed off on that variation.

Mr REED: Yes, Mr Chairman, and I emphasise the point again that if Cabinet had given me an authority to sign off on what I previously said were minor adjustments, and whilst in the eyes of the public $8m, $6m and $2m are very large figures, in terms of a $3bn budget they are very minor adjustments in overall terms.

Mr CHAIRMAN: Except, Mr Reed, it was in the second paragraph as I recall it for your budget appropriation speech highlighting the increases of funding for these three departments. So you're right I guess in percentage terms, the amounts might be relatively small to the budget, but in terms of their political importance you highlighted in your own budget speech.

Mr REED: And rightly so. In terms though of let's then cut to the core of the issue as to why the reasoning behind these adjustments: you would be aware, in fact there's a very recent example of it

and I'll get to that shortly, of - well I hope you would be aware of it being a member of parliament - of the pressures on governments to perform in areas that are perceived to be, and indeed are, important and the enormous pressure that is applied to keep increasing expenditure. Now, that is the personified, if you like, at the departmental level as well where, and indeed I think I read in a transcript somewhere, that it may have been the police commissioner, the former police commissioner, who said that he wasn't overly concerned with the overall budget position, his responsibility was to fight for his agency and to get as much funding as he possibly could for it, and the bigger issues is to how that was dealt with well if the government. He wasn't all that concerned with that and a quite responsible position, can I say, for any head of agency to take. And that is very much the position that they do take. They are always coming to the Treasurer, through their minister, sometimes not through their minister but with their minister to plead for additional funds for all sorts of reasons.

Now, there are huge constraints on the ability to respond to those. Some things governments do respond to, some things governments don't respond to. But it has been my experience as Treasurer that you do have to keep, as a government, pressure on agencies and sometimes it can be quite strident, quite tough, as I am sure any public servant would tell you in terms of their view of Treasury and Treasurers, to ensure that the message is sent to agencies, particularly the big spending agencies, that they have to control their expenditure and they have to be aware that they have to live within their budgets and to be able to keep that pressure on, you have to keep sending messages.

Now the messages, Mr Chairman, have been many over the years. They can be simply blunt cuts or across the board reductions, or they can be more subtle, but as Treasurer, I can tell you that one is always searching for means by which that message can be conveyed and, hopefully in turn, implemented by an agency so that expenditure in fact is contained and that there is downward pressure on the expenditure of agencies not because as a government you don't want the services to be provided, but because you are aware that there are some agencies that will continue, regardless of how much money they get, to seek more money. Now, health happens to one of them and I can give an example. I was Health Ministers Conference on one occasion where the New Zealand Health Minister advised the Australian ministers sitting around the table that they thought they had solved this problem with the continual demands for increased expenditure from the health department, so they increased the funding of the health agency by something in the order of 50% and they found that efficiency and delivery of services reduced by 25%. He then advised the gathered ministers that if you think throwing more money at areas like health is going to solve the problem, learn from our example, because it won't.

Your government indeed Mr Chairman has experienced something very similar in that when I was Treasurer, the ask for additional funding from the Health department was $20m. And I daresay, looking at it now as to what your government has done and how they responded, that the Health Minister, with the support of the health agency, walked through the door and asked for $20m and your government chose to give them $34m of which they have only got $1m left we were advised in parliament this very sittings. I think that's an excellent demonstration of the sorts of problems that governments …

Mr CHAIRMAN: Mr Reed, the Health Minister will be appearing before this Committee, and I am sure those are questions that will be asked of her. But just coming back to my question and that Minute, all I am trying to do is establish that there was a realignment of estimates for those particular departments, that is Health, Education and Police of $8m, $6m and $2m respectively. Do you agree that there was a realignment of the estimates of those particular departments for those particular amounts?

Mr REED: Well, you have the signed document that was signed by me that says so.

Mr CHAIRMAN: Thanks very much for that. So who do you think takes responsibility for budget estimates presented to parliament? Is it government or is it Treasury?

Mr REED: Can you just expand on that a little? What's your real, what are you seeking?

Mr CHAIRMAN: Well, in other words, the budget estimates - the departments submitted their budget estimates. They were realigned as per what we have said there, and the realigned estimates were then presented to parliament. Now, is that Treasury's responsibility or is it government's responsibility? Is it your responsibility as Treasurer? How do you see the responsibilities falling for the presentation of those figures to parliament, whether its in the budget documents or in your budget?

Mr REED: Where does the buck stop is what your getting at.

Mr CHAIRMAN: Absolutely.

Mr REED: Yes, okay, right. Now, well let's go back to something that you touched on in relation to the requests from agencies. I can assure you that the requests from agencies is always up here and what they get is somewhere below that. So agencies, I think, would be very surprised if they got what they asked for.

Mr CHAIRMAN: But they were going on their allocations, were they not?

Mr REED: So they go through that process and it goes to Budget Cabinet and certain decisions are made. And at the end of the day, someone takes responsibility for it. Someone signs off on it. I am not blaming Treasury officers. I signed off on the budget and I take responsibility for it. Where this is leading us to is what were the reasons for some of these decisions.

Mr CHAIRMAN: Well, my understanding is - and we have heard consistant evidence from the CEOs of the departments - I was just turning to the exact pages there. I mean, I can give you the quotes if you like. But their allocations were never changed in this process. The departments have told this committee that they were always working to their allocation, that there was no processes in place for them to target their reduced estimate as a reduced target for spending. That was the agreement that they had with Treasury.

Mr REED: Okay, but, you see, you're looking at this from quite a different perspective than I. You are looking at it with respect of five minutes experience in government as opposed to 14 years and for that reason, Mr Chairman, with respect, you're drawing out a particular issue that you are wanting to pursue, but ignoring a whole lot of supportive issues that can't be taken - or that must be taken, rather - in the context of your question. Now, the point is that other than or in addition to the particular matters that the budget papers convey, there are other messages, real and implied, that governments send to agencies. One of the real messages that I was intending to send to three of the biggest spending agencies was that they had to be aware that we were still keeping pressure on them in relation to their expenditure, and this was yet another means of doing this and that was the intent of this action that they receive that message.

Now, you have interpreted it one way because you are looking at it very narrowly. I interpret it quite differently because I am looking at a history of events over a number of years and I am also considering it in the context of what was going to happen in the coming year and subsequent years,

because the budget in many ways can be a positioning document in that whilst it is a snapshot of that current position in time, it also positions you to do other things. I don't want to verbal you, Mr Chairman, but it would appear from your comments that you are also suggesting that my actions might have been done for devious means because we wanted to harm an incoming government. Well, can I tell you, that I was a member of a government that had very high expectations of retaining government and from that point of view, I was confident that the budget would serve the CLP government, if re-elected in August - and we weren't taking the election for granted, but we had an expectation that we would win - and in that context we'd continue to work with it.

So I just ask you to try and understand the broader context of the issues as opposed to your statements formerly, last year in the Legislative Assembly, where you appeared to have prejudged this issue and made comments about what I had done - made comments as a statement of fact, rather than going through the process now.

Mr KIELY: Could I just ask what the reference is to that, Mr Reed?

Mr REED: I am sorry?

Mr KIELY: Could I just ask whereabouts these comments were made in regards …

Mr REED: They were made in the Censure Motion, as I recall, or other debate in parliament and I think …

Mr KIELY: Can you give us the reference?

Mr REED: Well, I can't off hand, but you were there.

Mr KIELEY: Well, you know, I don't recollect it …

Mr CHAIRMAN: Well, I refute it. We'll move on.

Mr KIELY: I don't recollect it, Mr Reed, that's all.

Mr WOOD: Can I just stick with what the discussion was about. Mr Reed, you just said that your job was to send a message out to these major departments: they had to be aware that you were still keeping pressure on them, and they needed to control their budget and live within budget. We're referring to this $8m, $2m and $6m. In the response by the Treasurer dated 22 January to this committee, it states in the first week of May 2001:

> *The Treasurer indicated he was concerned about the comparison of how some of the agency budget numbers would appear in the budget papers, particularly health, education and police. He was concerned the figure showed that there were no growth. While this situation had occurred in the past, predominantly due to off expenditure and carry-over effects, the comparison was of greater sensitivity to him than in previous years. I interpreted his inquiry to mean that he was seeking to identify defendable means demonstrating there was growth.*

I see there's two odds - there's two different opinions as to why we have this reduction. You're saying it was to send a message to the departments; the Under Treasurer is saying that you were actually looking at ways of showing there will be growth in the budget. I'm not sure which is right now?

Mr REED: No, well, he didn't say that and, in fact, if I could just take you back to your quote he said that he interpreted - he interpreted - my comments to mean that; he didn't say it – if, with respect, I could ask you not to verbal the former Under Treasurer. That was his interpretation, it wasn't what he said in the context that you put it. So, where …

Mr WOOD: I'm not trying to verbal. I've got …

Mr REED: … which takes us to the point of his interpretation and mine …

Mr WOOD: That's right.

Mr REED: … and the intent. Well, and then could I touch on some of the other points that you raised: increases in budget. If you look at - and this is most important in terms of looking at budgets, because you just cannot look at one as regards the kaleidoscope of events. The budget had in fact been increased, quite substantially - and the amount I don't recall. You've got all the information available to you now. As a backbencher I don't have direct access to all that. But, it was in the order of, I think, $10m or $20m that the health budget was increased, during the course of the year, from the previous budget. So, there had, in fact, been a very substantial increase. But, notwithstanding that they're been a substantial increase since the previous budget, to one that we're talking about, the agency was still coming through the door saying: 'We want an extra $20m'. That's demonstrated by the fact that the current government gave them $34m. So, the picture and the circumstances continue: the picture gets bigger. So, you would understand, Mr Wood, from that, as Treasurer you have to keep looking for means by which you convey a message to the agency that you can't keep walking through the door asking for more money. Notwithstanding the importance of the delivery of health services and the desire, I think, of all governments in this country to provide additional resources and to ensure that services are improved. At the same time, as further demonstration - I gave the example rather, from the New Zealand health minister - you can't keep throwing money at the problem in the hope that money is going to fix it, because money isn't always the solution. In any event, if it was, there are limits to how much money as government you can throw at it.

So, if that was Mr Clarke's interpretation well, so be it. But the intent from me, as Treasurer, was to keep a downward pressure on the funding to agencies - particularly the higher spending agencies - so that they would be aware that government was still concerned about the levels of expenditure; their continuing approaches to their minister and to government for more money. Whilst in the context of the budget papers and these figures, you're not talking about a long expanse of time, you're talking about an ongoing, if you like, conditional approach and application of pressure from the government for agencies to contain their expenditure. And that would have been used as a means of following up that pressure, had the CLP been returned to government.

Mr WOOD: Could I just ask - I'm not clear on this then. Mr Paul Bartholomew basically stated that:

> In summary, there was no artificial reduction of $8m in THS's 2000-01 budget in order that the 2001 and 2000 budget figure could be presented falsely as 2.5% increase. In reality, THS 2001-02 budget represents a reduction of the final 2000-01 approved budget.

Are you saying that that interpretation is wrong, the interpretation that the Under Treasurer is wrong and, if so, why was the money always there?

Mr REED: Well, what Mr Bartholomew's view was in terms the government's intent - he's answered FOR that, I suppose. I would have, as Treasurer - once things had settled down after an election, had we been re-elected - been talking to the health minister in terms of his agency's budget, and the departmental head's attitude to containing expenditure within that budget. If he didn't get the message then, okay, well the message perhaps didn't hit the target, but that was the intent.

Mr CHAIRMAN: Could I just intercede there. This is an important point about whether departments changed their behaviour because of the reduced estimates. I believe it's a very important point, and Dr Lim asked the question just exactly on this particular issue. He said, and I'm referring to page 24 of Mr Clarke's transcript:

> *Just to follow what Dr Burns has asked, I'll follow Dr Burns. When you tell a department that you're allocation was not legally cut but there is a reduction, would you influence the departments then - what can we - shall we look to our operations and see whether we can actually save some money somewhere. Would you expect some sort of effect upon the behaviour …*

And Mr Clarke's reply, I think, was very clear cut. He says:

> *Well that wasn't. What I said to the agencies and the CEOs was that it wasn't changing the allocation; that it wasn't to me - it wasn't designed to affect their behaviour. It was the saving of carry-overs; the savings would be a natural process that would flow, as had occurred in previous years.*

And further up the page he also says about the reduced estimates as a target. On the same page, page 24 he says:

> *That's right no, it was never a target. They were never supposed to change their behaviour.*

So, I think Mr Clarke's evidence is quite clear and also, within his written submission, that departments weren't being asked to change their behaviour. Their allocation was unaffected, however, there was a reduction of estimates for presentational purposes.

Dr LIM: Mr Chairman, before Mr Reed responds to that comment of yours, I think what's beholden on you is to read the whole of the transcript from Mr Clarke. You left out a very pertinent sentence there.

Mr REED: Is that were he said you could take it either way?

Dr LIM: That's right. Now, let me read it out again for the benefit of …

Members interjecting.

Mr REED: Mr Chairman, with respect.

Dr LIM: Let me read it through clearly and put on record what in fact that sentence was:

> *Well that wasn't. What I said to the agencies and CEOs was that it wasn't changing the allocation; that it wasn't to me - it wasn't designed to affect take their behaviour. It was the saving of carry-overs; the savings would be a natural process that would flow as had occurred in previous years.*

And he continues where you left out Mr Chairman:

> *Now, the Treasurer may well have thought that it would have an impact, because he certainly was of the view that, you know, if you set targets and hold expenditure down then that does change behaviour. But I certainly was definitely not of that view myself in relation to this particular transaction.*

That's the full quote and, I think, Mr Chairman, that was mischievous.

Mr CHAIRMAN: It's not mischievous. Mr Reed's been given the opportunity to put his point of view.

Mr WOOD: What page was it you from?

Dr LIM: That's page 24 of the corrected transcript. You were reading from the uncorrected transcript.

Mr REED: Well, can I respond, Mr Chairman, to your point.

Mr CHAIRMAN: Of course you can.

Mr REED: I would, first of all, like to say, Mr Chairman, that it is of great concern to me. I was going to pick up that point myself - which I did, quite rudely by way of interjection, illustrate it - that you had selectively quoted from Mr Clarke's answer. That gets back to my core issue that I raised earlier this morning that, on ABC radio, I think Julia Christiansen said to you: 'You do appear to have prejudged these issues'. I'm very concerned, Mr Chairman, that in framing a question to me, and quoting Mr Clarke, that you have both cut short Mr Clarke's answer, and left out very pertinent sections of his answer, in an apparent attempt for me to provide you with an answer that you want, rather than one that deals with the whole issue. You may not like my comments, Mr Chairman, but I feel compelled to put them on the record because they are seen that way publicly as demonstrated, I think, by Ms Christiansen's remarks on ABC radio. I am very much concerned that the structure of your question that you just put also leads us down that path.

Mr CHAIRMAN: No, Mr Reed, I think everyone present here today realises what I said was that I was putting Mr Clarke's view. I didn't forward …

Mr REED: In part. So, if I could get to the question. Mr Clarke, Mr Chairman, did not allude to but stated specifically in that answer 'savings'. Savings, Mr Chairman, means not spending money. That's very much what I was on about in my intent as regards the matter which we currently discuss. So, if you want to interpret in part what Mr Clarke says, and then expect me to answer, then I am very concerned.

Mr CHAIRMAN: Well, the facts of the matter are, Mr Reed, that the two major departments that we are talking about, which is health and education, did spend to their full allocation.

Mr REED: Which in itself is very unusual. I don't recall it happening previously, in fact. There is usually what is called flop out in the public service, that is unexpended funds by nearly every agency, well, every agency normally in the past, and what Mr Clarke was talking here in part about, I emphasise, was savings. Now, that is very much what I was on about. I was on about savings. That is, reducing the level of expenditure, either at that time or positioning the government to be able to achieve it over time following the introduction of the budget to ensure that pressure was maintained

on most of the big spending agencies to contain their expenditure and for government to be able to control that expenditure.

Mr WOOD: Just ask another question. This is from page 4 of the interview with Mr Ken Clarke. Mr Chairman asked the question: 'So basically, from I understand of what you're saying here, the reduction in the estimates of expenditure for the 2000-01 year didn't have an accounting rationale as its imperative, or its impelling it. It was a political rationale in an election year.' And Mr Clarke's answer was, 'A political rationale. There's no question that in my mind, that that's what he is being driven by that. I gave him, if you like, an accounting rationale that it was the political rationale that no question had started the process'.

Mr McADAM: And Mr Clarke's an honest bloke.

Mr REED: Mr Clarke is an honest bloke, and I pick up that rather sarcastic interjection from Mr McAdam, and the inference that Mr McAdam believes that he isn't, or I don't believe he his. So, if you're going to be square about this, Mr Chairman, I think we need a little bit of decorum from the …

Mr CHAIRMAN: If we could just move on with the answer, please?

Mr REED: Mr Wood, in terms of that particular comment, you really are being a bit cute, in going through, selecting and paraphrasing certain parts of what Mr Clarke said and what Mr Clarke believed, when already you have demonstrated in the previous quote from Mr Clarke's remarks, that it was his interpretation. Now …

Mr WOOD: I am asking your opinion on his interpretation because we have interviewed him. I am not being cute. I mark these so I can find them, just like you mark any of your documents. That's not abnormal. We've got differing statements here. We've got from Mr Bartholomew, Mr Ken Clarke and yourself. What I am trying to do is find out where the truth lies. Now these people have been here before, and it is your turn. I now have to weigh up the difference between your opinion of what occurred previously, and their opinion.

Mr REED: I appreciate that, Mr Wood, and from that point of view, you've asked me to comment on what they say. They have given their interpretation and their view of what they thought the picture was.

Mr WOOD: No. The picture is what they're saying what they think the reason why you did it. Now, you have the opportunity to say that they are wrong. Because they're saying you had a political rationale for doing what you did.

Mr REED: Well, that's their belief. And I can't change that.

Mr WOOD: Do you accept that? Or not?

Mr REED: Well, if you'll let me answer. If that was their belief, and that's what they've espoused, and I don't question that they have, then so be it. My position is, that it was for quite different purposes. Now perhaps the failing was that it, that is my position, wasn't sufficiently conveyed to - I didn't speak to Mr Bartholomew about it, but certainly Mr Clarke. But if you treat in isolation that particular section, without reference back to other remarks that have been alluded to here, and Mr Clarke's direct reference that it was his interpretation, then if that's his interpretation, that's his interpretation.

Mr WOOD: But isn't that the basis behind the political rationale that the three most important departments, especially at an election, the three departments that people see as very important to their livelihood - law and order, health and education - are the three that were given this 2.5% cut, and isn't that one of the reasons he's saying that it appears to have political rationale? And I still have difficulty understanding the rationale that you were really trying to cut their budgets, why they didn't lose that money? Why you just didn't take $8m off them? Because they all knew that it was still there.

Mr REED: Right. Let's look at in - and I've been over this before. In the context that what had happened in the year leading up to that since the former budget, they had had their budgets substantially increased. So the amounts that they were receiving in the 2001-02 budget were already substantially higher for all of those agencies than the previous budget in any event. So that was demonstrable, in terms of it was able to be demonstrated in terms of the government's position. The fact then that they spent the full expenditure was another unusual circumstance. Never been done before, that I can recall. In addition to that, as Treasurer, I wanted to be able to convey that there were pressures on them to control their expenditure. Now, you can argue or question the success of that, but can I tell you that in reading Mr Bartholomew's remarks, when he appeared before this committee, Mr Chairman, he was certainly worried. He conveyed that concern, and I don't have the documents with me, but he conveyed that concern to this committee. Now, I think if he wasn't worried …

Mr CHAIRMAN: Mr Reed, if I can just interrupt you please, we did have a point of order in a previous committee meeting about being very careful about directing people and quotes to what was actually said so that we can put it on the record instead of people just paraphrasing what witnesses have said. So I see Mr Dunham has placed that before you …

Mr DUNHAM: There was a question I was going to ask if I got a chance.

Mr REED: Well, Mr Bartholomew stated that this committee, Mr Chairman, that, and I quote:

> *My principle concern throughout this has always been that there is sufficient funds in terms of the budget to provide the services that the community requires. The fact that there was $8m shown in the estimates which was not in, was in fact already spent, caused me concern in terms of the capacity to provide those services to the people.*

So my point simply is that Mr Bartholomew was concerned, and in that context, I believe that the message I was conveying, that is, contain your expenditure did have meaning, and was received as such. Now, that was my intent; it wasn't focussed just on the budget just as I did make a point before. Budgets have a life that go on for the remainder of the financial year, and what you say and do in the budget gives you the ability to some extent as Treasurer and government – it is not just the Treasurer's document, it is a government document - to be able to say in the following months and years to agencies: 'We have maintained pressure on you to contain expenditure'. Containing the expenditure can be achieved in many ways, Mr Chairman, by agencies. They can come forward with proposals to their minister and government to stop doing some things and use the money they use for that to put in areas - feed into areas of higher priority. That, of course, avoids the need for the government to provide additional funds for that new high priority area of activity, but it also runs the risk, of course, of the area that is going to be sacrificed might also have a priority to the government that is higher than that put forward by the agency. So there are those sorts of conflicts.

The other alternative is simply for the agency to come forward and request funding for an unforeseen activity that has emerged or some other priority that they can identify.

Mr CHAIRMAN: But, Mr Reed, these activities that Mr Bartholomew is talking about, their allocation, as I am sure you are aware now, was $444m. That was their official allocation through Cabinet. Now, what he was saying, in terms of the $8m, was with six weeks to go to the end of the financial year, that it was already committed. That's my interpretation of what Mr Bartholomew was talking about.

Mr REED: Got the right mind set, though, didn't it?

Mr CHAIRMAN: I beg your pardon?

Mr DUNHAM: Can I give my interpretation?

Mr CHAIRMAN: Yes, go ahead.

Mr DUNHAM: I was interested that he made those comments given that the Under Treasurer said he didn't want to influence his expenditure behaviour, but it was your view that such a mechanism would influence his expenditure behaviour. So we have different opinions on what it was you were trying to do. If that CEO was firmly of the belief that it was a bookkeeping exercise that had no concern about his expenditure patterns, do you believe those comments reflect that?

Mr REED: Well, I think that there is a clear demonstration and awareness on the behalf of Mr Bartholomew that he was under pressure. I mean, the position is that you have to maintain the pressure as a government and he has to be able to understand that that pressure is there. I think he did. I think that's demonstrated in his expression of concern here. In terms of achieving that, it's an ongoing process.

Mr KIELY: Mr Reed, the figures that are published in the Budget Papers are primarily for parliament and the public. So claiming the budget papers, you are sending messages to the CEO, that is a bit of a furphy, isn't it? I mean, these are things that are tabled for the parliament and the public. They are not for CEOs as such, are they?

Mr REED: Rather naïve question, I think, Mr Kiely. In terms of providing a response to it, those documents encapsulate the parameters of the operations of a department within a financial year and they incorporate the messages that government sends and the policies that government's set in terms of how the agencies are to operate.

Mr KIELY: For the next year. For the next year, Mr Reed. Not for the [inaudible].

Mr REED: Rather a foolish agency to ignore the budget documents.

Mr KIELY: Mr Reed, apart from publishing artificial numbers in the budget papers, did you have any other mechanism that you used with agencies to control the current year's …

Mr DUNHAM: A point of order, Mr Chairman! That question goes to bias.

Mr REED: Mr Chairman, can I repeat my …

Mr CHAIRMAN: Allegedly artificial figures.

Mr REED: Well, it is of great concern to me, and I express this concern again, that having done so in relation to some of your comments, that you now, as Chairman, have to call on one of your members to correct his question whereby he says that they were incorrect - figures were incorrect. I thought that's what this Committee was about trying to prove.

Mr CHAIRMAN: True.

Mr REED: Now, it is an allegation Mr Chairman, and it ill behoves Mr Kiely to suggest, as he did, that what he's saying is a statement of fact, and it doesn't do – well, the parliamentary process and this Committee of our parliament requires more respect than that.

Mr CHAIRMAN: Okay, well if I could just try and move through a bit methodically to just try and establish some facts because that's what we are interested in. So, Mr Clarke gave evidence in his written submission that he met with you as Treasurer in May 2001 regarding the issue of growth in your 2001-02 budget. Is that correct?

Mr REED: I am sorry. Could you just expand on that a bit?

Mr CHAIRMAN: In his written submission, I can quote from it if you like. Just hold on. He says:

In the first week of May 2001, the Treasurer indicated he was concerned about the comparison of how some of the agency budget numbers would appear in the budget papers, particularly health, education and police. He was concerned that the figures showed little or no growth.

So I am just trying to establish did you meet with the Under Treasurer, Mr Clarke, in May 2001 and was the issue of growth discussed - within the upcoming budget discussed?

Mr REED: Look in May 2001, I would have probably met daily with Mr Clarke, and that might include Saturdays and Sundays.

Mr CHAIRMAN: But growth is a pretty important issue. I am not making any allegation, I am just saying did you discuss the matter of growth with Mr Clarke?

Mr REED: Well, as I say, I would have had meetings daily with Mr Clarke, and in terms of the actual content - I think really what you are talking about here is the content of this Memorandum which I have signed.

Mr CHAIRMAN: All right, well if I can move on if that's your answer to that question. I was hoping for a yes or no. In his written submission, he also says you indicated your concerns about the lack of growth in the 2001-02 budget numbers for health, education and police. Is that a fair reflection of the conversation?

Mr REED: Well, again, Mr Chairman, for me to be expected to recall the specific details of so many meetings that I had with the Under Treasurer and other Treasury officers, but in the broader context of the issue, there are many things that worry a Treasurer and a government in relation to the formulation of the budget, as I have demonstrated to Mr Wood here. Growth was and is able to be demonstrated over the course of the former financial year.

Mr CHAIRMAN: But you did come out in your budget appropriation speech - as I said, it was about the second paragraph - you flagged that growth in police, education and health, so it was an important issue. You said so by its prominence in your appropriation speech.

Mr REED: Well, clearly an important issue in terms of over the course of the former financial year, the lead up to the budget papers, there had been substantial growth. And I think that demonstrated the former CLP government's commitments to expanding the funding for those important agencies of government and to the services, in turn, that they provide to the Territory.

Mr CHAIRMAN: There seems to be corroboration at least in some of the evidence that we have been given. Mr Bartholomew in his evidence on page 5, paragraph 8, he said:

What I will say about that conversation is that Mr Clarke informed me that he had a direction from the then Treasurer who was concerned that the budget papers would show an increase for the following year at least equivalent to CPI and to enable that to happen, the estimated budget outcome for 2000-01 would be reduced.

So there seems to be corroboration between what Mr Clarke is telling us and what Mr Bartholomew is telling us in terms of his conversation about - with Mr Clarke about the issue. Would you agree with that?

Mr REED: No, because - and I refer you to a quotation that Mr Wood made from Mr Clarke's evidence and that is that it was his interpretation. And if that's Mr Clarke's view and interpretation, well that's Mr Clarke's interpretation.

Mr CHAIRMAN: Okay, well just moving on with Mr Clarke's interpretation. In his appearance before the committee, Mr Clarke told us that you directed him to reduce the 2000-01 expenditure estimates. So he said - my question to him on page 5, paragraph 5:

So, did you interpret this as a clear direction from the Treasurer at the end of the discussion that that was to happen?.
Yes I did.

So he was clear in his mind that there was a direction from you to him to reduce the budget estimates.

Mr REED: Now …

Mr DUNHAM: Just a point of order, Mr Chairman. We are using different pagination here.

Mr CHAIRMAN: Well, I apologise.

Mr DUNHAM: Page 5 paragraph 5 only has questions to – no?

Dr LIM: I've got it here. Terry, I think you should hand out the corrected transcript of the – so that…

Mr DUNHAM: We will find it, its just that the pagination is different, that's all.

Mr CHAIRMAN: I don't know how this has occurred.

Mr KIELY: Could I have that question again, please, Mr Chairman?

Mr CHAIRMAN: Okay, so in his appearance before the committee, Mr Clarke told us that you directed him to reduce the 2000-01 expenditure estimates. In the evidence, the transcript that I've

extracted: 'So did you interpret this as a clear direction from the Treasurer at the end of the discussion that that was to happen?', and Mr Clarke said, 'Yes, I did'.

Mr REED: Well, correct me if I'm wrong here, but was that not following advice that I'd sought and received from Mr Clarke and …

Mr CHAIRMAN: So you sought out Mr Clarke on this issue of growth?

Mr REED: Well I think, no, we're talking about - don't get the issue confused with intent because I think that's what you're trying to do here and it follows or it leads back to your previous approach in quoting Mr Clarke. So let's keep the answer that you want separate from the facts because the intent I have already expressed here in terms of constraint on agencies, in terms of their expenditure.

Dr LIM: Mr Chairman, just to follow on, on the same question, similar line of questioning. This is – I'm quoting now from the written response from the Under Treasurer to the committee on the very first page Public Accounts Committee questions and you read part of it, and I will quote from him in second paragraph of his response to question one:

I interpreted his inquiry to mean that he was seeking to identify a defendable means of demonstrating there was growth. He was not saying:

and he quoted:

I wanted to artificially adjust the numbers.

Right, I think that puts it on record that the Under Treasurer was not interpreting anything else but that the Treasurer wanted to identify a defendable means of demonstrating there was growth. So what you're trying to lead on is …

Mr CHAIRMAN: But I can ask Mr Reed again: in your conversation with Mr Clarke, were you seeking a defendable means to demonstrate growth? Yes or no?

Mr REED: I was seeking a defendable means to keep pressure on agencies. Now, I suppose we can keep going around in circles here all day and of course I'm more than prepared to do so as the committee wants, but you have got some indications by Mr Clarke and, in terms of his evidence, I think he has demonstrated that the accounting practices and other matters were quite pertinent and taken into account. So I …

Mr WOOD: If that were the case, and I go back to Mr Bartholomew's testimony on page 4, and he said - I think it's about the fourth paragraph up from the bottom:

We did receive assurances from Treasury that it didn't impact upon our allocation for that year and that was a principle area of concern of ours so we were confident about the fact that the actual money that was available to us to spend in 2000-01 was still available to us and we'd still meet our commitments.

And over the page on page 5, second paragraph under Ms Schilling, the main thrust that was indicated to us was that it was presentation purposes and that our actual approved allocation had not altered.

Doesn't that indicate there was no pressure because they had been told the $8m would still be there?

Mr REED: No, because on the other hand, Mr Bartholomew was concerned about how he was going to handle the problem and in addition to that, I can assure you that if he didn't understand it at this time he would have understood it at a later time if the CLP had been re-elected, in that I would have been reminding his minister that, 'You will recall that we applied pressure to your and other agencies to contain their expenditure and that pressure still applies. What are you going to do about it?' It's an ongoing ..

Mr WOOD: Well, were there any memos to the CEO like Mr Bartholomew to say exactly that?

Mr REED: Well, I don't know.

Mr WOOD: Well, how would he know that that was the intent?

Mr REED: Well, I can tell you, Mr Wood, that in terms of - and I can speak with a little bit of experience here from a public servant's point of view - if the message comes down from the CEO of an agency through the system to your particular area of activity that there has been, even a minor pressure applied in terms of expenditure or monies not perhaps forthcoming, that are not forthcoming, then that has an impact on the whole agency. Because the whole agency and the areas of its operation will look at, and indeed may start to identify, functional areas where perhaps they had delayed funding or stopped doing something and transfer that funding to something else that was more important. So that when the crunch actually came - but bearing in mind we're in the position of the flag having gone up there is a message from government that we're going to have less money. This flag, by the way, is fluttering out there furiously at the moment because this government is withdrawing funding left, right and crooked and agencies are now in their second or third round of withdrawing funds and reducing expenditure. So the practice is alive and well today as we speak and the same would have been the case at the period of which you talk because that is the nature of agencies. It just doesn't effect a section of the agency; everyone in the agency would be expected to contribute to whatever the expected reduction was, and there would be a response from across the board, just as there is today.

Mr WOOD: But it didn't apply to the other departments. You're saying it – why didn't it apply to the other departments?

Mr REED: Well, they're the biggest spending agencies.

Mr WOOD: You'd think you'd get an equivalent sort of [inaudible] from the other ones to?

Mr REED: Well, their priorities are set by government. I mean, government can set those priorities in terms of what agencies may want to be cut or may not. Your government again today as we speak is setting priorities, that's what governments do in terms of their policies in relation to areas of activities, what the priorities are of that government and what they expect the government departments to do to deliver on those priorities.

Mr WOOD: You have legal priorities. I know you mentioned you've got a job. You work for government and you said you had when looking at all these issues that even matters of human nature come into things, but you are a politician of course and it was an election year and you would be trying to put the best spin on the budget before an election and those three departments would be the best ones to put a spin on. Wouldn't that be a reasonable sort of scenario?

Mr REED: Well, that's the interpretation.

Mr WOOD: No, no, my interpretation. As I see those as whenever there's a debate around an election time it'll be, 'We've got to strengthen law and order; we've got make people better; and our kids have got to know how to read and write,' so you have to put the money into those things. By showing an increase, you're saying to people out there, 'Look what we're doing. We've increased the budget.' But, in actual fact, when you look at the figures, they didn't.

Mr REED: Mr Chairman, we had over the former twelve months …

Mr WOOD: Ah yes, I understand that and you explained that in the budget …

Mr REED: … and that's were I was able to demonstrate that …

Mr CHAIRMAN: Let Mr Reed answer the question.

Mr REED: But there's limits to how much you can put in the budget speech. I mean you can stand there for hours explaining every finite detail if you wish. But, necessarily, it's got to be honed down to whatever the budget speech ends up being. But in terms of being able to demonstrate increased level of funding not only to those three agencies but to others over the course of the year, I think that we'd be able to do that and the facts demonstrate that. But the fact is also that you've got to have some other measures to be able to ensure that there is constraint and you have to develop a mindset, and it might sound harsh and cruel and blunt, but you have to have a mindset developed in agencies and in particular with the CEO that there is a limit to the amount of money that they can [inaudible] and that the government will apply pressure to ensure that CEOs continue to find ways of reducing expenditure, or becoming more efficient, and doing more with less, and all those wonderful phrases that you would have heard so tiresomely over the years, and this was just another means of doing that.

I mean you really do despair sometimes as Treasurer as to how you can get that message across. Not because of any - what would you say, ill will, on behalf of a CEO, but because of the pressures, and you have got to understand that, as Treasurer, too, and as a Chief Minister, I guess, and as ministers, that they are under enormous pressure, too, from staff within the agency for which they are responsible and that extends into the community, to keep doing more. So it's not in ignorance that treasurers and governments apply these pressures to CEOs and departments, but it just happens to be that its part of a process to try and maintain that mindset of: you just can't keep asking for more money.

Mr CHAIRMAN: But they weren't, Mr Reed. Say in the case of health, in the case of education and in the case of the police, they were actually spending to the allocation that had been approved by the Burke Cabinet. They weren't asking for more money. This was an allocation that had been made by the Burke Cabinet - I guess you would have had substantial input into that - and then six weeks out from the end of the financial year, you are reducing the estimates that were supplied to you by the departments themselves about where their expenditure was, without reducing their allocation.

Mr REED: Okay, let me put this to you: I have already alluded to it earlier, health were asking for another $20m. They, in fact, I suspect, subsequently asked your government for another $20m and your government gave them another $34m.

Mr CHAIRMAN: No. They were only asking to spend to their allocation of 444.

Mr REED: But in terms of your comment that they weren't asking for any more money, I can assure you they were. They - and I can also say that it was very difficult at the time to get just what the right figures were out of health in terms of their budgetary position. But I can tell you that they were asking for more money - and show me a health department that doesn't because of the pressures that they are under in terms of the comments that I have just made in responding to Mr Wood. So, yes, you can bet that they were asking for more money. They probably are today.

Mr KIELY: Mr Reed, I didn't pick up at the commencement of this when we were asking about your experience as a minister. How long have you actually worked as a minister with Mr Clarke as the Treasurer?

Mr REED: What as it? The sixth budget, so you are talking about roughly six years, I suppose. Now, the former Under Treasurer, Dr Neil Conn …

Mr KIELY: I am only interested in your relationship with Mr Clarke, Mr Reed.

Mr REED: Well, do you want the answer or not?

Mr KIELY: No.

Mr REED: Do you want an answer you want or do you want an answer that I am going to give? Can I just explain this. Can I just explain, Mr Chairman?

Mr KIELY: The question particularly is how long has your relationship been with Mr Clarke? If we can keep it at that.

Mr REED: Well my answer pertains to that, Mr Chairman.

Mr CHAIRMAN: Well, if you could be brief and concise and answer the question please, Mr Reed.

Mr REED: Well, so part of the first couple of years as Treasurer, Dr Neil Conn was the Under Treasurer, but the Assistant Under Treasurer was Mr Clarke, and to get to the very point of Mr Kiely's question, I necessarily, of course, worked with him as an Assistant Under Treasurer and also then when he was appointed as Under Treasurer. So, I guess the answer to your question is directly as Under Treasurer for the time that he was Under Treasurer and formerly when he was Assistant Under Treasurer under Dr Neil Conn.

Mr KIELY: Would you describe your relationship as strong, as having a good knowledge of each other?

Mr REED: I'd describe the relationship as a professional one, one where I respected Mr Clarke and - a guy that I have got a lot of admiration for, not a friend of his, so to speak, that is to say never mixed with him socially. The only time that I have had mixed what would be considered to be socially with Mr Clarke would be at functions of, you know, business or something like that or accounting professions or whatever where you might sit down at a dinner table and have a bit of a social discussion in addition to or an extension to the matters that you were meeting for. But he was a guy that was very, very professional and very careful in the advice that he gave. If I could enlarge on that Mr Chairman, could I give an example?

Mr CHAIRMAN: Of course you can.

Mr REED: In terms of the advice that he gave, it was always professional and it always had its limits. If, for example, advice was sought in relation to an initiative that government was wanting to pursue, then necessarily, governments being made up of politicians, somewhere in the debate there is going to be the boundary reached where the issue becomes politically coloured rather than factually covered from a point of view of Treasury advice. Once that boundary was met - and the advice that was sought in relation to how something might be funded, is it legal, does it meet the requirements of the *Financial Management Act*, and all the other things that would have to be considered in terms of undertaking an initiative - once that got to a stage where it was required to be considered by Cabinet or the minister in formulating the development of this initiative, Mr Clarke would say: 'Look, you are now getting into a political arena and that's really for you and your colleagues or however you handle those things'. He would never break into an arena like that. Very, very professional and that's why he held my respect. And he was a guy that never held back from saying: 'Hang on, you're wrong'. In fact, he might have demonstrated it here, I don't know, but he had an unusual way of conveying a message at times. It would sometimes be accompanied by laughter, but you knew it was a very serious message not withstanding the mirth. For example, if you put some proposition to him and he thought it entirely inappropriate, he might say something like: 'You want to what?' and burst into laughter. But notwithstanding ...

Mr CHAIRMAN: Did that happen very often, Mr Reed?

Mr REED: Notwithstanding the mirth with which the message was delivered, and it would not only be used - and very infrequently that he used it to me, but I appreciated the frankness of his advice when it came. That's the guts of a good man. A good man is the CEO of a department or the head of Treasury who comes to the Treasurer or his minister and has the courage to say: 'Minister, I don't think that this is a good idea. I don't think that this should be pursued'. Or something of the like. That is, had the courage to stand up and say what the facts were rather than trying to be a yes man, and Mr Clarke wasn't that.

Mr KIELY: So this good man that you worked with for many, many years, surely his interpretation of conversations has great validity.

Mr REED: Well, Mr Clarke was an individual. I mean, much, Mr Kiely, as you. Much as Dr Burns, Mr Dunham, Mr Hanley, Mr Wood, everyone in this room. Individuals in terms of we all have our own views of some particular issue and we place our own interpretations upon it.

Mr KIELY: I am talking more specifically about his relationship with you, his understanding of you, your relationship with him and the conversations that go on between you. You pick up on each others nuances, as intimates do. And the point I'm putting to you that he is a good man that you've worked with for four years as CEO, two years as the Deputy Under Treasurer, I think you said. But, in that time while – though there may not have been any great social aspects to your relationship - that you knew each other and so with this knowledge of each other and what is required and also with your point that Mr Clarke was very astute on being able to define the political aspects and not get involved in those, then, surely, his interpretation as you stated to this committee, his interpretation of what you wanted, surely that has great validity when put into that context.

Mr REED: Well, clearly it does in your view and that's for you to weigh. But can I say that in - and you're, by inference, I think, suggesting that everything that Mr Clarke suggested to me in terms of a recommendation or some response that he had given to my request, I accepted either without question or accepted in full. Now, that wasn't the case. You don't always accept the advice of the

CEO. There may be, from time to time, good reasons for not doing it. It might not fit with government policy. The advice that's received, just as Mr Clarke would question me in relation to some matters that he'd be talking to, I would question him in relation to the advice that he was giving: 'Thank you, Mr Clarke, Under Treasurer, I've received the minute that you sent me on this particular matter and I appreciate the advice that you've given me. However, I've got a number of questions, and I'd like you to provide me with some responses to these questions'. You might then verbally go through those questions. He, also being human, might say: 'Mmm, that's a good question. Actually, we hadn't quite pursued it to that extent, but now that you raise it, there are issues there that do warrant further investigation, and we'll get you back a further brief'.

Now, that's how things evolve and, if you've got a good working relationship with someone - and this was very much a business relationship - that's a demonstration of how it can work. But, it's not to say that Mr Clarke, I guess, necessarily accepted everything I said; nor did I accept Mr Clarke - that is to say, what he said from time to time. That is to say that human nature is that you will have differences of opinion from time to time. We currently have a difference of opinion in relation to his perceptions and my perceptions in relation to the matters that you've discussed.

Mr KIELY: If I can pick up on those differences in perception. I'd like your views on how it might be that [inaudible] working relationship with Mr Clarke, that you've used this blunt instrument of changing estimates to send a message out to CEOs. How is it that all the CEOs are getting the message back from your Treasurer, and getting the message back that there is no change of allocation. You're sitting here saying: 'This is the blunt instrument that we're using; this is the message that I'm sending up flags, missiles and other bits and pieces'. How can it be that such a dramatic change in the message occurs from you, to your Treasurer, to the other CEOs? How could the chain break down so much, and why wasn't this reported back to you? Why, if you had such close working relationship; that you were with him day in, day out, leading through this budgetary process? Why is it that your message can be so distorted out to the agencies? Why is it that the CEO never brought it to your attention?

I mean, I have real trouble in finding where this breakdown in communication has occurred, seeing that two are in constant contact with each other. You're saying to us the reductions are for one thing, quite clearly, this is it. You're saying: 'This is the message I want'. This is to the Treasurer who you've worked with for four years. And yet, it's [inaudible]. The Under Treasurer now, who's turned. He's turned around to CEOs getting the message that: 'No, we don't have to do anything'. What happened to the communication you've been alluding to?

Mr REED: Well, I think part of the problem is you're wanting a particular answer which you're not getting, because you've got your vision fixed on an outcome down the road that this committee has to deliver to your government, because that's the course that you embarked on. You've already made up your minds as to what the report's going to say. So, you have a very fixed view, and if you'll pardon me, I want to believe is a biased view, that was demonstrated here earlier here today in relation to the outcomes that you're seeking, rather than an information gathering process here in coming to a fair decision.

In addition to that, you have ignored what I have said to you previously, in relation to: this has a longer life, or was intended to have a longer life than what you're inferring. That is to say, the pressure that was being applied to agencies. Mr Bartholomew was of the view that he was concerned about the funding and, I think, demonstrates that the pressure, at least to some extent, was real, and that it started the alarm bells ringing. So, the mindset outlook that I had was working: that this was going to work over time, as it had in time past, in relation to conveying messages. If you're having trouble getting your mind around different interpretations and the fact that one individual can have a

different interpretation or a different view on an issue than another, well, that's something you're going to have to address, and I really can't help you with that.

Mr KIELY: No, no, the question, Mr Reed, and I'll give it again, was nothing to do with interpretations. The question was to do with communication. The question is: is that you were directing one course of events to happen - sent out a direct message. Your Under Treasurer, who was with you, was going out with another message. CEOs are acting on an understanding that there will be no reduction whatsoever to their allocation for that year, and that they can merrily spend as they did. The question - and it's not one of interpretation, Mr Reed - the question is …

Mr DUNHAM: It's your interpretation. It had a preface.

Mr KIELY: … what happened to the communication between you and your Under Treasurer, that you should be giving one direction and, yet, over a period of a short time, in a critical period of budget process, this information is not conveyed back to you?

Mr REED: Well, Mr Chairman, with respect, he's got his view; Mr Clarke has his view; I've got my view …

Mr KIELY: No, the questions …

Mr REED: If I may answer. As I've indicated previously, Mr Bartholomew was concerned. If Mr Bartholomew was concerned, the message was getting through. So, Mr Kiely, with respect, can have whatever interpretation he wants to place upon this. It just happens that if …

Mr CHAIRMAN: But, Mr Bartholomew was concerned with the propriety of what's going on. But, if I could move …

Dr LIM: It's got nothing to do with it.

Mr DUNHAM: No, no, I've got a line of questions on the same thing.

Mr CHAIRMAN: All right.

Mr DUNHAM: You've worked with Mr Clarke for several years. Apart from Mr McAdam's allegations about his honesty this morning, or imputations, and the Chairman's question about keeping two sets of books, have you ever heard anybody question Mr Clarke's honesty, other than those two occasions?

Mr REED: Never. And it offends me that his honesty should be bought to question here today. And …

Mr KIELY: It was never questioned, Mr Reed.

Mr REED: Well, it was by inference …

Mr DUNHAM: Two sets of books.

Mr CHAIRMAN: Let Mr Dunham pursue his line of question.

Mr REED: I think it was by inference, and indeed there were suggestions of two sets of books. If that doesn't infer a concern or a lack of …

Mr CHAIRMAN: We'll come to that a bit later on, Mr Reed …

Mr McADAM: Mr Chairman, can I make …

Mr CHAIRMAN: No, Mr. Dunham has a line of questioning, and we must let him continue.

Mr DUNHAM: The reason I'm asking it, is that it's also been said softly as an interjection. I think you've put firmly on your record your respect for his honesty, and my question was merely: had you heard any other concerns other than some people who make up this committee?

Mr REED: No, I haven't. The integrity of Mr Clarke is known, and well versed nationally amongst his peers, and I have, as I said earlier, seen him perform in those arenas, and to the extent where other Under Treasurers from other jurisdictions sought his advice, clearly demonstrating that they thought his honesty and integrity at the national level was of the highest order, and to have any inference to the other and also to have also alleged as I believe Mr Kiely has just done …

A member interjecting.

Mr CHAIRMAN: No, let Mr Reed finish.

Mr REED: … that some friendship or intimate understanding between Mr Clarke and myself should cover his view - Mr Clarke's view - in relation to the advice that he gives to me, I find offensive.

Mr CHAIRMAN: Have you got more?

Mr DUNHAM: No, that's it.

Mr CHAIRMAN: I'll come back - I've been trying to establish what I think are facts related to your meeting with Mr Clarke that obviously, is very important in his memory, about his perception or the evidence that he gave, that he received a direction from you to reduce the estimates. He also gave in evidence; he told the committee that without intervention from you as Treasurer, the budget figures for estimated expenditure 2000-01 for health, education and police, approved by the Burke Cabinet in April, would have appeared in the budget papers unchanged. I'll quote from the evidence. I believe Mr Dunham might have had the wrong sets of papers. Is that correct? So, Terry, the ones that I'm quoting from are the correct reference?

Mr HANLEY: Yes.

Mr CHAIRMAN: Okay. Quote from Mr Clarke's evidence on page 2, paragraph 6:

Mr CHAIRMAN: My question is: without Mr Reed's intervention, would those budget estimate figures gone forward into the budget papers unchanged?
Mr CLARKE: Yes, they would have.

So, do you accept that it was your intervention, your direction that these budget estimates were reduced and put into the budget papers, as Mr Clarke has given in evidence there?

Mr REED: Well, advice was provided by Mr Clarke and Treasury. As I have said I don't know how many times now previously this morning, the intention was to establish and maintain a mindset in agencies, the higher spending agencies, that they had to contain their expenditure. Now, if you disagree with how that's been done, if you have identified different reasons for that being done by Mr Clarke, Mr Bartholomew, or anyone else, I am telling you what the intent was. I've expressed it a number of times. I don't know how many times I have to repeat it.

Mr CHAIRMAN: Just following on from that answer, in his evidence Mr Clarke states that he believed that your decision to reduce the estimates of expenditure was largely based on the fact that 2001 was an election year. I will quote an answer from Mr Clarke given in relation to a question by Dr Lim on page 2, paragraph 9. Dr Lim said:

> Would a Treasurer always intervene on Treasury figures on any budget in the sense that he gives directions to Treasury?

Mr Clarke:

> *Oh no, no. I mean, this was a particular concern for him and this is what he said to me.*

So he's alleging that you actually said it was a particular concern to you and it's not an interpretation of what you wanted; he's saying that you said it was of particular concern to me and here comes his interpretation. He says:

> I interpreted it as being because it was an election year.

But in that little bit of evidence …

Mr DUNHAM: Can you keep quoting that please?

Mr CHAIRMAN: Well, you can keep quoting it.

Mr DUNHAM: On interpreting it being an election year:

…although he didn't actually say that and we'd had the same issue with it for a number of years that comparing estimated actuals with the next year's budget was that there was a reduction in expenditure and it was because the numbers weren't comparative. So my interpretation is he was looking for more comparable numbers not a distortion.

Mr CHAIRMAN: Well, it's all coming down to interpretation.

Mr REED: Well, rather negates the question doesn't it, Mr Chairman?

Mr KIELY: Well, yes, should I say we're out of time. Can I have an answer to that, please?

Mr DUNHAM: Which questions are unanswered, Mr Kiely, because perhaps we can revisit them?

Mr KIELY: I'll be talking to Mr Reed, Mr Dunham, thank you.

Mr DUNHAM: Well, put them again. You put three to him in the same question.

Mr CHAIRMAN: It's 10.55am. I think I'd like to have a bit of a break. Mr Reed has been …

Mr REED: I'm happy to continue, Mr Chairman.

Mr CHAIRMAN: You're happy to continue? Well, fair enough.

So Mr Reed, if there wasn't a political rationale for reducing the estimated expenditures for health, education and police in an election year, can you tell the PAC what was the rationale?

A member: Again.

Mr REED: I should have brought a tape recorder; I could play it back to you, Mr Chairman. In terms of the part of Mr Clarke's response which you part read a few minutes ago, and left out the gutsy bit at the end because it didn't support your train of questioning. The intent was, as I've said many times previously, the intent was to establish and maintain a mindset in agencies that they had to contain expenditure. The fact is that as Treasurer you have to be imaginative, if you like in the way, and I'll try to use some new words to convey the message that you have to imaginative in the ways that you do this, and you have to be innovative in terms of bringing up new measures to send the message. I reject the suggestion that the message didn't get through. Mr Bartholomew was concerned.

Mr KIELY: No, Mr Bartholomew was concerned about …

Mr REED: Mr Bartholomew was concerned. Now, Mr Bartholomew, as I think at least in part you must concede I would have thought, that the message was in part getting through. And okay, if it didn't get through in full, then that's a shame. But I can assure you that it would have because this has a life, or had a life, that was intended to be longer than the timeframe that you're talking about. You are talking about something that was done for convenience for an election. I am talking about setting the ground rules, setting the platform for keeping pressure on the agency beyond the election because your clear inference is that, poor bugger me, this new government has got all these terrible problems and it's all because of Reed and what he said in the budget and we're left with this awful financial - allegedly - crisis to deal with.

Well, we as a political party were expecting win the election and in expecting to win the election were prepared, of course, to follow through the intent of the budget. One of the great intents of the budget from my point of view was to maintain that message to, and pressure on, the key agencies to contain their funding.

Mr WOOD: If that were the case would you have notified the then minister for Health that that's what you were doing? Because I think he was notified by Mr Bartholomew of the concerns. Now, would have then, if what you're saying is true, Mr Dunham would have known that and told Mr Bartholomew?

Mr REED: Well, I don't know what discussions took place between the minister and Mr Bartholomew but certainly from the point of view of ministers, Treasurers have a never ending stream of ministers coming through their doors complaining about, I suppose, pretty well every area of funding for the operations of their agency. Because they're under the same pressure as the CEO, because behind the minister is the CEO, the agency and then the people of the Northern Territory all of whom are demeaning more in the way of services which requires more in the way of funding to deliver. And in that context I …

Mr WOOD: This was fairly serious from Mr Bartholomew's point of view who raised that serious issue with Mr Dunham. Now surely there would have been some communication between the two of

you to get an explanation as to why you had to cut. Was there any meeting or conversation held to tell the minister for Health why you were …

Mr REED: I dare say there probably would have been but the – it doesn't remove the intent.

Mr WOOD: No, but I would have thought if there was a real - if that was the case you'd be telling the CEO via the minister for Health that the reason for doing this is because you've got to start to pull your socks up.

Mr REED: You lot have got to keep your expenditure contained.

Mr WOOD: But that's not - my problem is that is not clearly coming out of Mr Clarke's - if you look at the overall discussion there is some discussion about health budget problems in his testimony. But that's not what's really come out of it. There appears to be a mixture of political and growth issues, and there's a 2.5%, the CPI keeps coming up. I mean, I'm not sure where that comes from mentioned by Mr Bartholomew, it's mentioned by Mr Clarke. I'm getting conflicting reasons to why we've got this 2.5% cut.

Mr REED: Well, please understand the position then of a Treasurer because they get lots of conflicting points: one is CPI, you raised CPI; Health always used to argue that the CPI, the national CPI, was always inadequate in terms of their budget. If you increase their budget by the CPI then they were still done in the neck on account of their argument being that medical items increased at greater than the CPI, so that if you gave them CPI they were still behind the eight ball. The minister often used to walk through the door with that argument, for example, saying that CPI isn't good enough for me; I need more than that because this is what happens with CPI in the medical profession and the delivery of, or the purchase of, items in that regard.

So you're dead right. I mean there's conflicting issues and points of view and understandings and interpretations, and what the view of one individual is in relation to a matter could be quite different to the view of another. And that's the core of your argument.

Mr WOOD: Has there been any documentation with the minister for Health in regards to this issue?

Mr REED: There may have been.

Mr WOOD: Has that been able to be checked or …?

Mr REED: I don't recall any. But, I mean, in terms of those sorts of things and being so late to the time, the answer may well have been well the decisions been made and that's it. You've got to keep pressure on your agency but I don't recall the specifics of that.

Dr LIM: Mr Chairman, may I draw Mr Wood's attention to the 2.5% that he keeps referring to and where it came from. It was not a figure picked out of thin air. If I draw you to Mr Clarke's, the Under Treasurer's, written response to question 1, it's here. It's the last paragraph of his written response. If you read that or shall I put into the record?

Mr WOOD: It's mentioned at least three times.

Dr LIM: But this is where it came from so it's not something picked out of thin air. Well, for the record then I'll read it and if you - if I may have the liberty of paraphrasing the question and his earlier comments.

Mr CHAIRMAN: Whereabouts were you referring to?

Dr LIM: Page 1 of the written response from the Under Treasurer. It was to a question that the Committee asked:

> *Can you give the background to these realignments to the 2000-01 budget figures and explain in detail why they were actioned, what discussions were held between the Treasury/government members/agencies on the realignments, and who authorised the realignments?*

That is on the record and I responded that there were two options, responded to the Treasurer:

> *Increase 2001-02 or reduce 2000-01. I explained that in principle, a reduction in 2000-01 estimated actuals had logic, fundamentally because total actual expenditure at the end of the year for the budget as a whole was always less than the final allocation. A large part of the difference between final allocation and final expenditure was carried over into the following year and over the years, all three agencies had carryovers. The Treasurer was familiar with these occurrences.*

Then there is something in brackets which I don't need to put on the record. The next paragraph, he said:

> *While the whole conversation was not lengthy and probably lasted no more than a few minutes, there was discussion particularly about carryover which progressed to a discussion of a likely quantum. I do not recall the order in which the discussion flowed, but I did say at one point that the orders of magnitude of the carryover would be around 2.5% which was the approximate rate of inflation, though I could not say that with any certainty. I would not know until the actual results were available at the end of the year.*

So that's where it came from.

Mr WOOD: I haven't got a problem. What I am saying is that I'm getting conflicting reasons as to why we had this change in the allocation for these departments. One is that it was meant to wake up the departments, and say, you know, get your act together; the other one is it was done because if was meant to show a growth. One of the figures used was 2.5% increase. I understand Mr Ken Clarke's reasoning. He was saying: 'Yes, we have got a logical reason for going down that path'. He stated all that, and he is not saying its artificial, he is saying: 'I can give you a legitimate reason.' In actual fact, I think 'a legal reason' as to why we can have this cut.

My question is that that is not the answer the Treasurer is giving. He is saying: 'No it wasn't done for that reason of growth, to show growth, it was shown to wake up to the departments', and that's where I see a conflict.

Mr DUNHAM: There is actually a third reason. He gives a third reason, Mr Clarke at page 2 of his transcript to us, where he says that he wanted to get the numbers to show growth: 'I interpreted this as getting the numbers to be, to get them to be more comparative'. So the third reason is that he believed it was a more transparent way of showing the budget.

Mr CHAIRMAN: Yes, thanks, Mr Dunham.

Mr McADAM: Mr Reed, I don't whether this has been clarified previously, but just let me ask you why you as Treasurer at that point in time chose police, education and health as the only departments that showed growth when in fact there were reductions? Can you explain to us fully, why you at that point of time only chose police, education and health and not the other departments?

Mr REED: Well, I think I have mentioned this this morning a number of times. Health, of course, is probably, together with education, but health especially is an area of continuing pressure in terms of an agency requiring more funding. Indeed, I have given a number of examples, the New Zealand example and others in relation to it. It's demonstrated by the fact that each year if you go back through the budget books, health on an annual basis after the budget - and this is a very important point, after the budget. The budget is a snapshot in time of what the circumstances are at that time and because the budgets brought down in May, there is an estimate of what the end of year outcome is going to be because you don't know that until the last day of June or afterwards. So you are assessing what the estimates are going to be. We are working on the historical data in that they would have a reduced expenditure compared to their allocation, and that's where you got the potential to save the money, I think, as Mr Chairman indicated Mr Clarke said. But unusually, last year there wasn't a reduction of expenditure; they expended up to their full allocation. So that opportunity to save, if you like, what Mr Clarke said, that money fell away because they had full expenditure and in terms of the other issues that you raised, well I think I have enunciated them a number of times.

Mr McADAM: Well, Mr Reed, in respect to your decision to apply this formula to police, education and health, I ask you: was your decision politically motivated?

Mr REED: Well, what do you mean by 'politically motivated'?

Mr McADAM: Well, I am asking you whether indeed it was politically motivated?

Mr REED: In what context?

Mr McADAM: Well in the context of this. Mr Wood, on page 10 paragraph 5…

Mr REED: Of what?

Mr CHAIRMAN: Mr Clarke's evidence.

Mr McADAM: Mr Clarke said in response to a question from Mr Wood, and the question from Mr Wood was:

Now why didn't the Treasurer look at other departments besides those three?

Mr Clarke responded:

I'm not sure. I think you would have to ask him, quite frankly. I mean, they are obviously the ones that politically to him were important.

Now, I am asking you to respond to Mr Clarke's response.

Mr REED: Thank you. Well, financially very important in terms of they were where the demands come from. I mean, again, historically, look at the police, education and health budgets. Go back a

few years. Go up to your office at lunch time and have a look at the budgets over the last few years in terms of the increase to police, I think, over the last five years has been something like 50%. You know, five or six years ago their budget was in the order of $60m; it's now $120m or thereabouts, so its doubled. So the pressures there were enormous. They were pressures that the government responded to. Similarly with the expansion of education services and in health services. So there were very sound historic reasons as to why the government was trying to contain expenditure in those areas because they continued to grow. As Treasurer, I considered it important to, as I said before, maintain and - establish and maintain a mindset in those agencies that the expenditure had to be contained.

Now, I am sorry, how many times do I have to repeat this?

Mr WOOD: I just want to ask a question, then, and I suppose in relation to how they didn't actually lose the money, but can you explain the reasons why you directed a reduction in 2000-01 for the purposes of carryover to 2001-02, but you did not wish to amend the 2001-02 figures in the 2000-01 budget papers?

Mr REED: Well, it's to keep the pressure on and the message would have been delivered at a later date, not just that date. Had there been no carryover - that is, had they underspent - I am sure that might have been some of the reasons for Mr Bartholomew's concerns. If they had have underspent, they mightn't have had the opportunity to carry over. That is to say that the money that they didn't spend would have gone back to consolidated revenue and in that case they might have been, as they would have perceived, disadvantaged.

Mr KIELY: Mr Reed, in his evidence Mr Clarke appears to back away from endorsing your choice of reducing budget expenditure estimates to show growth. I quote from Mr Clarke's evidence at page 2, para 14 and page 7, para 5. Mr Clarke says:

> *…and what the Treasurer, I think, was saying to me was he wanted a reason for the numbers to show, as you say, sort of growth. Now, I wasn't saying that was the best thing or the right thing. That wasn't the question that was asked of me. But it is true, it was a method that had a rationale. I am not saying it was the right method.*

Did he convey these doubts to you at the time?

Mr REED: I don't recall, but the fact remains that he clearly had a different view in relation to those matters, and I guess that's life.

Mr DUNHAM: Can I just clarify - you said that it was the Treasurer's choice. I seem to recall from evidence, and I couldn't find your attribution there, that it was a suggestion made by the Under Treasurer.

Mr KIELY: Mr Clarke's statement? Is that what you are saying, that that's what Mr Clarke said?

Mr DUNHAM: Yes. The choice of the route to take to make the money more transparent, I understood that ...

Mr KIELY: I will get that for you then, Mr Dunham.

Mr DUNHAM: Thank you. That will be good.

Mr CHAIRMAN: So, are you happy to keep going, Mr Reed? We don't want to cause you any discomfort.

Mr REED: I'm not uncomfortable, Mr Chairman.

Mr CHAIRMAN: Okay then. If we can just return to the estimates process. It's a fairly important part of what we're investigating here in our terms of reference. Now, correct me if I'm wrong here, but according to the documentation we've received from the three departments that have been mentioned so much this morning, that the allocations as of April 2001, for the 2001 year, was Territory Health $444m, Northern Territory Education Department approximately $351m and Police, Fire and Emergency Services approximately $128m. Are you willing to accept that snapshot in April?

Mr REED: Oh, in broad terms.

Mr CHAIRMAN: I'm sure if I'm incorrect, that there might be some contention here?

Mr REED: We'll leave you to [inaudible] it.

Mr CHAIRMAN: So, in terms of the April budget Cabinet, would respective ministers and Cabinet, they would have signed off on those particular estimates at that time? Is that correct?

Mr REED: I don't think 'signed off at that time' is the appropriate term. They would have been, in those ballpark areas, figures, the debated amounts. But, when the actual sign-off comes is at some time after that. There would have been other issues, I dare say, across agencies where more information might be sought by budget Cabinet, bearing in mind there's more than one. There's not just the March one, there's the April one, I think as you've alluded to. There may be, following on an April budget Cabinet, some issues that - and would have been - still had to come back to a normal Cabinet meeting, that I would have carried in as Treasurer or a minister might have sponsored on their agency's behalf, in the ongoing finalisation of the budget. The budget process is a very complex process and, in terms of getting to the end of that process, there are some minor issues - albeit at the agency level, very important matters - that additional advice would have been sought on. The minister would sponsor that into Cabinet, I might do it as Treasurer, and they would be stitched together, so to speak, as time went by. Now, I don't know if that answers your question or not.

Mr CHAIRMAN: No, that's a fair enough answer. But, it appears to me from Mr Clarke's written submission, he says that the reduction to the estimates occurred quite late in the budget finalisation process, and it happened quite late. These were the estimates that were put forward by the departments, they were accepted by the April budget Cabinet and then, according to his evidence, you became alarmed at the lack of growth evident in there and had them changed. So, that's just what I'm trying to establish. All this happened at the very end of the budget process; the numbers were changed.

Mr REED: Yes.

Mr CHAIRMAN: I guess that Treasury minute …

Mr REED: Yes, but you conveniently ignoring all of what I've said previously this morning, in terms of, even at that late stage, we were still fighting tooth and nail to get more information out of health. They were still stating that they needed an extra $20m and the ongoing 'Give me more, give me more' chorus remained. In that context, you've got to look at it then from a Treasurer's

perspective - what do you do? What, really, do you do to put the lid on continued demands from agencies for more money?

Mr CHAIRMAN: But they were asking – all they were expecting to do was to spend the allocation. If we're talking about 2000-01, they were expecting to spend to the allocation that had been put forward by and signed off by your Cabinet.

Mr REED: But …

Mr CHAIRMAN: They weren't asking for an extra $20m …

Mr REED: Historically, that had never been achieved.

Mr CHAIRMAN: Okay. Well, if we can go into the whole issue of presentational purposes, which is certainly an issue within our inquiry. Evidence was provided by Mr Plummer and other CEOs that they could not recall any previous Northern Territory budget being aligned for presentational purposes. If I could just quote from Mr Plummer's evidence on page 4, paragraph 12: I asked Mr Plummer:

Have you every come across a realignment for budget presentational purposes before?
Mr PLUMMER: Not that I can recall.

So had – well I'll ask you the question: to you acknowledge, had realignment for presentational purposes ever occurred in any other years here in the Northern Territory?

Mr REED: No, it may not have, but that doesn't … The fact that a mechanism hasn't been used before doesn't preclude its use.

Mr CHAIRMAN: No. Are you aware of precedents elsewhere in Australia for presenting budget figures like this?

Mr REED: Not particularly.

Mr CHAIRMAN: So, if this was such an unusual method which - you know, we've been given evidence, including Mr Clarke I guess, why didn't you give some explanation within the budget papers about the change in nature of the presentation? If I could just quote from - Mr Wood asked that question of Mr Clarke on page 13, paragraph 1:

Mr WOOD: I think from the public's perspective, if they'd been told why that had been done, I think everyone would have seen upfront what was happening.
Mr CLARKE: Yes, I agree 100%

Can you tell us why it didn't go as part of the budget documents, as an annotation about presentation purposes.

Mr DUNHAM: Can I add another quote there, Mr Chairman?

Mr CHAIRMAN: No, no look you can …

Mr DUNHAM: Well that one doesn't relate - he was questioned at some length about presentational purposes and it occurred later in his …

Mr CHAIRMAN: No, look, Mr Dunham to be fair, I'm trying to be fair here. I'll ask Mr Reed the question and then you can have the question straight after that. Do you want me to repeat the question, Mr Reed?

Mr REED: Please don't. In terms of - what would you say? One doesn't have the benefit of hindsight; one makes decisions on the information and the reasoning on the day. If there is a belief that if that was described in a better way that it would have been advantageous well, so be it. I think what you say there, too though, is that you do allude to the fact that Mr Clarke - there were words like 'believed' and 'perhaps' and whatever. So, let's be a little bit fair about it.

Mr CHAIRMAN: So, in hindsight do you think, if you'd actually put that there'd been this realignment of estimates for presentational purposes as an annotation, that possibly, we mightn't be here today?

Mr REED: No, no I didn't say that. Now, see, you're trying to …

Mr CHAIRMAN: In hindsight?

Mr REED: … you're trying verbal me now.

Mr CHAIRMAN: No, I'm not trying to verbal you, Mr Reed.

Mr REED: That's not what I said at all. I mean, one might, for example in hindsight, one would have conveyed more directly to Mr Clarke and Mr Bartholomew, et al, that: 'The reason for this is we are keeping pressure on you in terms of your expenditure, and expect it to be used against you in the future'. You know, brutal stuff in terms of controlling expenditure and agencies. That might have been something that you'd do in hindsight.

Mr CHAIRMAN: Okay, I suppose not directly related to this but, in terms of ministers being abreast of expenditure ..

Mr DUNHAM: Can I ask my question that is related.

Mr CHAIRMAN: Oh, sorry.

Mr DUNHAM: There is some other evidence for people who might review this at a later time, where we actually do question Mr Clarke, via Mr Wood, at page 22 of his transcript. First, the genesis of the term 'presentational' Mr Clarke said:

I think I was the one who was the architect of the word 'presentation' or 'presentational purposes'.

And, at a later time on the following page 23, there was a question of why he would use that, and I quote again:

> I mean, it's still literally, as I've said there, to make the numbers more comparable, that's all, because we do get a number of presentational changes we discussed here, you know, over the years to get the numbers comparable. I mean I put it in that same sort of category.

So do you believe there was anything devious, mischievous or misleading about the word 'presentational' and do you believe Mr Clarke's evidence here, that what he was trying to do is make

an obvious comparison that would be transparently evident to people by the use of that word 'presentational'?

Mr REED: Well, it would appear that way. That's the expressed view, it seems, of Mr Clarke. I must say it, worryingly, differs with the interpretation and the structure of the question that you formerly asked, Mr Chairman. It puts quite a different meaning on the two approaches.

Mr CHAIRMAN: Well not really. Mr Clarke was very clear that he thought there should have been some annotation, some explanation within the budget papers about, without putting any devious intent on things, that this had occurred and what it was all about.

Mr REED: Again, his view and as Mr Dunham has just read from the record, Mr Clarke thought that the process was an appropriate one.

Mr DUNHAM: Well, there is another quote that I could give and that is at page 22 again: 'It wouldn't have been put there as a sign post for us to sort of have a look at it being unusual, this particular amount of money' … which goes to the footnote theory, and Mr Clarke answers: 'No, no definitely not. Not from my use of it anyway'. Could you comment on that as being maybe a pedestrian use of it rather than something that had neon lights flashing.

Mr REED: Certainly that seems to be the intention, or seemed to have been the intention of Mr Clarke, and let the record stand.

Mr CHAIRMAN: I think what Mr Clarke was referring to there was the audit trail and the budget blueys not the budget documents that are presented to parliament.

If I could just move on and I guess this is, it is related but not directly to presentational purposes. Do you believe, you have talked a lot about management tools and making sure that departments keep their expenditure low and being ever vigilant about keeping expenditure low. Do you believe that quarterly reports on budgets within departments should be made available to ministers? Do you think ministers should be interested in quarterly reports of expenditure just to see how their department's going?

Mr REED: I guess that's up to ministers. Speaking from experience, and I won't mention the agencies, and there weren't many in fact, one springs to mind, in years past as a minister, when I had concerns about the financial management of an agency and their expenditure levels, I sought that type of information. I suspect that is a touch unusual that a minister would get involved at that level, because it really is the responsibility of the agency head and his or her staff to fulfill that role. But if there were some areas of concern it may be appropriate but it would be more in the extreme then than the norm and the minister I expect more often than not would leave that to the agency.

Mr CHAIRMAN: Okay, thanks, Mr Reed.

Mr KIELY: Mr Reed, we have had evidence from some ex-ministers and CEOs but ultimately Treasury decided what was to be the correct [inaudible] … the correct figure presented to parliament and the people in the last CLP budget. Do you believe this is correct?

Mr REED: Sorry?

Mr KIELY: That Treasury, that it is ultimately Treasury who decided what was to be the correct figure presented. That it is Treasury that decides what goes into the figures.

Mr REED: Well, the decision is really made by Cabinet. Treasury, I suppose, make the decision on advice from Cabinet, the Treasurer, and principally the Cabinet.

Mr KIELY: So everything that goes into these papers is Cabinet authorised and discussed in Cabinet?

A member: Parliamentary authorised. It's a law of the parliament.

Mr REED: I think you are confusing a few aspects of the parliamentary process, the government process and the operations of agencies.

Mr KIELY: Well, please enlighten me.

Mr REED: What specifically would you like to be enlightened on?

Mr KIELY: I would like to know whether, you know, we have heard evidence from ex-ministers and CEOs that ultimately Treasury decided what was to be correct figures presented to parliament and people in the last CLP budget. Now you are saying is it Treasury or was it Cabinet who decided?

Mr REED: Well, in the context of Treasury input into the budget, you necessarily rely on them because they have access to information that ministers quite rightly don't. For example, in terms of a particular agency it is Treasury to verify, through advice from agencies and other means, what the figures will be because they include more than the small microscopic view that you're taking. For example, some agencies have Commonwealth funds, they have external fundings from industry, they have all sorts of input from revenues, from activities, that they undertake and it is Treasury's responsibilities to corral all that into a figure that goes into the document.

Mr KIELY: So the figure in there is the correct figure?

Mr REED: Well, it's the figure of the day. It's the snapshot in time, but you have got to appreciate that you're using the term 'correct' quite cutely.

Mr KIELY: No, I am using it exactly as it was used in here previously.

Mr REED: You're using it quite cutely in my view, in that as I've pointed out to you earlier, because the budget is brought down in May, the figures in the budget books are based on estimates about current expenditure on account of the real estimates and outcome of expenditure aren't known until some six to eight weeks later, when the financial year is completed. So, if you think that I am so naïve as to so yes they are the correct figures using your meaning of the word, rather than estimates and a process that is applied which, I think, the Under Treasurer, or the former Under Treasurer gave evidence to is a one of sound accounting practice and meeting the needs of legality, then you can make what you will of that.

Mr KIELY: Most certainly I will have to check the transcripts, but there appears to be a bit of a difference between your interpretation of 'correct' than the previous witnesses. But I am not too sure on that, I will certainly look back on the transcripts.

Mr CHAIRMAN: Can we move on, Mr Kiely, and then …

Mr WOOD: Just to clarify again, you said that your budget speech would go on forever if you had to put explanatory notes all the way through. But as this 2.5% change was, first of all, was a one-off we believe, it hadn't been done before. It was for presentational purposes which was a term that just seemed to develop at this time. Shouldn't it have actually occurred in the budget papers as an explanation as to why there was something different and especially when the $8m didn't sort of fall out?

Mr REED: Well, Mr Wood, with respect it does appear in the budget papers.

Mr WOOD: No, this is the explanation …

Mr REED: It is in print in the budget papers.

Mr WOOD: No, the explanation as to why it appears in the budget papers.

Mr REED: Well, if you wanted to explain everything that's in the budget documents that go to six volumes or something in budget papers and highlight in the budget speech each and everyone of them, I would be still on my feet in the Assembly since last May reading them.

Mr WOOD: Yes, I understand …

Mr REED: So necessarily you have to include in the budget speech those items that have been included for the reasons that they were included, and there's decisions to be made there and they are not always easy decisions in relation to what's in and what's out. They have to account for the full scope of government activity and the year ahead and beyond in terms of what the budget speech is portraying. The fact that as Mr Clarke I think has alluded to as a number of members have mentioned in his comments, it was mentioned in the budget papers. I think it is highlighted in terms of 'this is for presentational purposes only'. So there you go.

Mr KIELY: Mr Reed, how much responsibility do you believe you, as ex-Treasurer, and ex-ministers should take in budget speeches and documents, particularly estimates delivered in May 2001? I mean, do you take full responsibility for the content of those speeches and what was said there?

Mr REED: Well, your line of questioning is such that there is a heavy underlying inference. You say …

Mr Kiely interjecting.

Mr REED: … questions and the implied expectation of the answer that you want. But the information is provided in good faith. It demonstrates the government's position and views of the day, and the actions that are intended over the course of the year for which that budget applies. However, it is not just a written message. There is also in the budget – and you're a former public servant, so you would be familiar with this – there are many not just in the public service, but in life, there are many implied messages that are both demonstrated in different ways and conveyed in different ways.

Now, there was a very strong message in terms of what I was intending imply and to deliver in terms of constraining messages in relation to agencies. Now, if that was not conveyed in a way that satisfies you or in a way that you consider would have been more effective, well, for that I apologise. However, that's life. I happen to do things a different way to you do. And if you get the opportunity

in your political career to be either a minister or a treasurer, then no doubt you will approach it with the wisdom of your views and your methodology in fulfilling the task of the positions that you'll hold. That that will be different to the way that I did it is life.

Mr DUNHAM: Mr Reed, I have some questions. Would it be common for the figure printed in a Budget Paper to actually come to fruition as actuals over the course of a year?

Mr REED: As actuals?

Mr DUNHAM: So would the number appropriated at the start of the year often be the figure that's actually spent at the end of the year?

Mr REED: Very unusual.

Mr DUNHAM: It's very unusual.

Mr REED: Highly unusual. In fact – in fact in terms of the health expenditure in the past financial year, for an agency to spend to its allocation is – well, I don't know – extraordinary wouldn't be too strong a word, I wouldn't have thought. It's rather extraordinary that an agency should spend to its allocation. Had, dare I say, Mr Chairman, health not spent to its allocation, we probably wouldn't [inaudible] because, you know, the circumstances would have been quite different. Mr Clarke's…

Mr CHAIRMAN: Well, we not only had health; we had education as well, Mr Reed.

Mr REED: Well, that's been what you've been focussing on. It wasn't an issue, for example, with police because they didn't spend…

Mr CHAIRMAN: That's true.

Mr REED: And does that not prove my point, Mr Chairman?

Mr CHAIRMAN: Well, we'll come to carryovers in the course of our questions.

Mr DUNHAM: I've got a couple of other questions on that theme. There is now a new *Fiscal Transparency and Integrity Act* which has a variety of ambitions. One is that it gives Territory – and I'll quote from Hansard here:

> *Territory taxpayers certainty about the veracity of final estimates made by Treasury in the budget process.*

So the allegation now is that with this new act, those numbers in Budget Papers will in fact complete as actuals. Do you believe that this act will achieve its ambition?

Mr REED: No, I don't, and it won't for a couple of reasons. One is that the Fiscal Integrity Act as proposed by the current government has already been shattered by the current government and it might be useful for the committee if I gave a couple of examples. One is that the integrity is out the window and went out the window in November when the mini-budget was delivered, with the government's express desire to decrease the size of the public service and the fact that in those mini-budget documents, to conceal just the extent of the reduction in public service numbers, the whole of the staffing numbers of the public service were removed, expunged, cancelled from the budget papers. That's the first time that has ever happened in the Northern Territory. Budget figures have always included, by agency, the staffing numbers for agency. The only reason that you would

exclude them is to conceal, that is have no integrity in relation to what your intentions as a government were, in my view, as to how much you would reduce the staffing numbers by, and the best way to do that is to have nothing in the budget books and just some out-in-the-ether target that no one's going to know about and if that's integrity, well, I think the act or the bill [inaudible] the act is rather shatered.

There is another example, and that's HIH. And this bridges a couple of areas. One is budget integrity in that the amount that the budget is going to suffer in terms of payment to – for HIH, we are now told by the Chief Minister, of $39m. There is no mention of this in the budget papers. In fact, there's a dash or a zero, I think, in relation to the government's commitment. And in that respect, there are some other conflicting pieces of advice, one from the minister responsible for that arena in parliament last week whereby he said that there was enough money in the budget to carry through to June. That was immediately contradicted by the Chief Minister who said: 'No, there's enough there for May' and if we take, then, the integrity requirements in the new fiscal legislation that's been targetted by this government whereby the Under Treasurer the Under Treasurer specifically – is going to be the person who says what goes in the budget and that that will be the bible and he will determine it. That is, Treasury will determine it, not the political side of government, the Chief Minister or the Treasurer – is in direct conflict with the practice as regards HIH because the Under Treasurer, and I think he might have – I think I saw it in his comments, of his minutes to the appearance that he made here, Mr Chairman – said that there was enough money in the budget to last through until March, whereas the Chief Minister now tells us May and the minister tells us June, yet there is nothing – there was nothing in the budget papers.

That is not fiscal integrity and from the point of view of double-handedness, pales what is being directed at me as an accusation as to what I did as Treasurer – pales into insignificance, as wrong as it is, in terms of what this government is saying as regards fiscal integrity and what it's doing as far as expunging the public service staffing numbers from the budget papers and thus not advising Territorians what their real intent is and completely eliminating from any meaningful reference the HIH commitment that the government has to meet and, of course, most seriously, in terms of the fiscal integrity act, is saying that whilst the act says that the Treasury and Under Treasurer will be responsible for what goes in the budget papers and we won't have anything to do with it are completely at odds with each other. So it's just a nonsense and flies in the face of the accusations that are being made against me personally and the former government.

Mr CHAIRMAN: So, Mr Reed, if I could bring the questioning back, you've made your statement about HIH and fiscal integrity and, you know, I've given you the freedom to do that, but I'd just like to get back to your responsibilities as Treasurer. If I could just quote from Mr Clarke again, on page 16, paragraph 20:

> *Mr CHAIRMAN: I've got some questions. We've heard evidence from some ex-ministers and CEOs that ultimately Treasury decides or decided what was to be the correct figure presented to parliament and the people. I mean, is this correct?*
>
> This was Mr Clarke's response:
>
> *I think that would be a bit bold. I mean, there'd be some things that we would have almost the final say, but the final say is actually the Treasurer. I mean, we give everything to the – everything to be signed off by the Treasurer.*
>
> And again, on page 26, paragraph 16, he said:

Yes, under the previous framework, ultimate responsibility for the numbers rested with the Treasurer.

So, will you take responsibility now for the reduction of the estimates?

Mr REED: Well, thank you for the opportunity to answer that question because it is a very important question. It gets to the basis of the fiscal integrity act which is exactly what you say, that the Treasury should make those decision and that's your clear inference, and in fact that is the intent of your government's legislation, but it has already broken it. It has already broken it in terms of HIH because it has removed the responsibility and duties of the Under Treasurer by comments of the Chief Minister and the minister, both of which differ which further complicates the issue, but what it demonstrates is this – and indeed the other example, of course, is the exclusion of public service figures in the budget papers which, I daresay, if you had the opportunity to ask the Under Treasurer: 'Should these be expunged from the budget papers?' the Under Treasurer would advise, or Treasury would advise: 'No, because the staffing numbers are central to the operations and the costs of agencies because the biggest component of any agency is their salaries bill'. And then, to take out the numbers of staff that they have, I think Treasury would argue against strongly, and therefore, this government is already in conflict with its *Fiscal Integrity Act*, having taken away that responsibility from the Under Treasurer, which it said would lie with the Under Treasurer. So, if you get to the …

Mr CHAIRMAN: Can I ask you again, Mr Reed – I really don't believe that you're answering the question. I asked you a direct question **..**

Mr REED: Well, I'm …

Mr CHAIRMAN: … based on the evidence by Mr Clarke …

Mr REED: And I'll get to that now.

Mr CHAIRMAN: … that you signed off …

Mr REED: I remember the question.

Mr CHAIRMAN: … and the major part of the responsibility should be yours …

Mr REED: Exactly. Now …

Mr CHAIRMAN: …and yet you – can you answer the question please?

Mr REED: Well, it's important that you get a full and fair and thorough answer, Mr Chairman, and that's what I'm taking care to do today. That's why I appreciate the opportunity to be here, and I want to …

Mr CHAIRMAN: You had your chance with the Fiscal Integrity Bill before. We're talking about your stewardship as Treasurer here. Now, I let you have your head in terms of HIH and the Fiscal Integrity Bill. I didn't interrupt; no one interrupted. You were able to place on the record your concerns and your view about that. Now, I just ask you to come back and answer the question, please, Mr Reed.

Mr REED: Good. Well, it's important that the fullness of the question is provided by myself to the committee, Mr Chairman. That's why I gave that by way of example, because there are other people here who might be interested in these matters. I'm sure that those people who take the trouble to

read the transcript will be interested to know that the current government says one thing and does another, and it is applying one set of standards to what I did, and another set of standards to what they are going to do. So, in the context of what goes in the budget papers, the political system of which you are part is such that, constituencies elect members to parliament; the party with the greatest number forms the government, of which you are now one. Now, in terms then, of that government applying its policies and, in a budgetary sense, having funding to implement those policies, the government must, necessarily, have some say as to – well, the say in relation to what the priorities are in relation to the allocation of funding to different agencies. But, if …

Mr CHAIRMAN: But, did you have the final say, Mr Reed?

Mr REED: If Treasury were to come back to your government and say, the Under Treasurer says to the Treasurer: 'Treasurer, I reckon the priorities are wrong. Look, poor old Parks and Wildlife – I go fishing a fair bit in their national parks – they could do with an extra few million. So, I've rubbed that off this Correctional Services agency and put that over there'. And I could go on with examples, but I think you get the point.

The priorities must, necessarily, be set by the government in terms of delivering their policies. That's what this is all about; this whole process is about the Labor Party, the Labor government, delivering its policies, its election commitments in a few years time, and all this is a big smokescreen to be able to corral as much money as you possibly can, in terms of the additional taxes you've applied to every poor bugger, in $100 on their vehicle registration and what have you …

Mr CHAIRMAN: Please, Mr Reed, watch your language, please!

Mr REED: … in terms of …

Mr CHAIRMAN: It might be common talk with you, but we don't want it.

Mr REED: That's what they think they are, as long-suffering poor buggers! And it's a rather well-used colloquial Australian terms. I'm sorry you are offended, Mr Chairman.

In terms of what this is all about, let's be honest with each other and recognise that this whole issue is about corralling enough by the government over the next few years, to spend on your election commitments. If that weren't the case, in all the fundraising issues to fix the so-called $107m black hole, why are you, as a government, getting an income of $160m, why have you gone out and raised $100m in additional loans …

Mr CHAIRMAN: Mr Reed …

Mr REED: … why have you got extra additional things, but you've given up none of your promises in terms of election commitments? So, you are not sincere in your overall directions …

Mr CHAIRMAN: I won't ask the question relating to Mr Reed, because …

Mr REED: Well, I've given you the basic answer …

Mr KIELY: You haven't answered, Mr Reed.

Mr REED: Well, I have answered it, with respect. The answer is that governments must, by virtue of their being, ensure that the agencies and the policies which they want to deliver are

adequately funded. As a flow-on from that, the figures are then determined by government. If that's not the case, why have a Budget Cabinet? Why have a Budget Cabinet, whereby the ministers receive advice from agencies as to what funding they would like. The Cabinet, made up of politicians, determine what the allocations to different agencies will be, based on the priorities that they took to the people in an election campaign, or other commitments that they have made since an election campaign. So, necessarily, there has to be a deal of politics in it, because you, Mr Chairman, are a politician, and one day you might be in Cabinet and one day you might understand how the decisions are made, and what the processes are, and why the Cabinet – vis politicians – have direct involvement in the budgetary process.

Mr CHAIRMAN: Mr Reed, I was simply asking you to respond to a very plain view by Mr Clarke, who, you've said today, is a very experienced public servant and been very, very experienced in budgetary matters. I won't ask the question again.

I'd like to move on now, to talk about ministerial responsibility. Now, if we look at the health budget – and we did go over it before – the allocation, as of May 2001, was in the region of $351m. There was then a realignment of the budget estimate, which you signed off on, to take $6m off, to bring it back to about $345m or thereabouts. Nevertheless, Mr Lugg, who was then education minister, in the appropriation debate, 31 May 2001, Parliamentary Record 28, page 7780 said:

As I've stated before, the overall NT education budget has been increased by $9.4m, to $354.7m.

Now, it's been given in evidence to us by the people from health, that they are always working to their allocation, which was $351m. I put it to you that you should have, really, corrected Mr Lugg because the increase wasn't $9m as he alleged, it was more like $3m.

Mr REED: Well, I don't know what the figure would have been if you went back to the former budget, that is the 2000-01 budget, which I seem to recall there were some additions to during the course of the year. This is where you fall into this very narrow view of the budget, because you do have to understand that the budget, when it's brought down, sets that picture at that particular time; it's a snapshot in time.

Mr CHAIRMAN: Well, that's what I'm talking about, Mr Reed.

Mr REED: What's been increased prior to that, and any budget increases, if they occurred, would be what the state of play is. But …

Mr CHAIRMAN: So, you didn't feel the need to correct him at all?

Mr REED: Well, certainly not on what your submission is.

Mr CHAIRMAN: No. But, in the case of education, obviously you and Mr Lugg thought $345m was a reasonable estimate. As you say, it's snapshot in May 2001 – why then, did you accede to a request from the department for a further $5.3m to be allocated in June 2001?

Mr REED: Two points here, and you raised it in your preamble to your former question which now escapes me, was in relation to – now I've lost my train of thought there. All right. Your other question is, I'm sorry?

Mr CHAIRMAN: Oh, well, if you thought that $345m was a reasonable estimate, reduced down $6m in May, why did you allocate another $5.3m on top of their allocation of $351m, in June 2001?

Mr REED: It may well have been because the information that was required for the budget process wasn't available …

Mr CHAIRMAN: Yes.

Mr REED: … and, as a consequence of that, it had to be left over until after the budget. It's a timing issue, I guess, if that was the reasoning. I don't remember the specifics of it.

Mr CHAIRMAN But you're aware …

MR REED: In terms of the overall budget, it gets back to the pressures that agencies and governments have in relation into these high spending agencies. And if there is a need to respond, then okay. You would have to respond, but you would respond on the advice that came to you, not necessarily in relation to a specific time. That is, to just meet the demands of a budget deadline in terms of the annual budget. So if that information wasn't available at that time, the decision may not have been made at that time, and as a consequence of that, the money flow didn't occur.

Mr CHAIRMAN: But you're aware that Education did come in at approximately $351m, more or less spot on to what their allocation was, and what they told this committee they were always spending towards?

Mr DUNHAM: Could I have a point of order, Mr Chairman? It might be helpful for Mr Reed if I actually gave him the allocation figures and the five year expenditure figures. I know that he doesn't have any papers with him. It might …

Mr CHAIRMAN: Well, he can answer – let's …

Mr REED: I'm happy to answer your question, Mr Chairman, and can I say thank you for the opportunity to repeat it because that it what I have said a number of times. It is unusual for agencies to spend to their full allocation. That's been said a number of times. I think in fact Mr Clarke said it, did he not, in his evidence? I seem to recall in reading his transcript …

Mr CHAIRMAN: Their allocation as of May 2001 was actually $351m. You knocked $6m off, to make it $345m, actually spent $351m.

Mr DUNHAM: Their original budget was $335m.

Mr CHAIRMAN: We're talking about the snapshot in time here, towards six weeks before the end of the financial year.

Mr REED: Every financial year towards the end of it, every agency, and it's been reeled in considerably over the years, there used to be a time where in fact public [inaudible] used to be referred to as the slush fund. There was often the headline on the front page of the paper, *'Government spend up. New office furniture. This that and the other. New vehicles, telephones.'* All sorts of things. It was known as the end of year spend up. It happened quite commonly. In fact, I can recall it happening when I was a public servant. That as you approached the end of the financial year, and it was evident some programs were not going to be fully expended, so you use that money to achieve other ends. Quite legitimate ends. In those historical times, and I'm speaking some years back, that amounted to a lot of money. And over a period of time, over many years, Treasury applied

mechanisms to draw in that end of year expenditure so that it wouldn't be such an anomalous situation. It used to be an incredible anomalous situation.

But a few years ago you know, the flop out as it is commonly refereed to internally, could be $30m or $50m and you never knew what was floating around out there. I mean, you're talking here about, what, $16m? $8m for health, $6m for education, and $2m for police. Put that in context. But the flop out used to be $50m or more each year. That is, to say, the amount of money that was sitting around in agencies that wasn't spent, that would just fall over into the next financial year, and then Treasury had to mop up the difference, it used to be $50m. That is a lot of money. In the context of what you are talking about here, this amount isn't a particularly large amount of money. However, that mechanism to draw in that end of year expenditure and to - well, the hope was always to reduce flop out. Not to eliminate it. It's in fact a good sign, I guess, that the flop out in health and education this year didn't occur. That is, they spent to allocation. First time it's happened that I know of.

It's an achievement, indeed, in terms of the methods that Treasury has put in place, and in turn in the agencies, to make sure that what is going to be spent - and ironically, Mr Chairman, this used to be a criticism of your party when they were in opposition of the then CLP government that: 'Oh look, you all say that you're going to spend this much, but actually you lie, because you only spend something less than that'. Well, the lie was the flop out. Now that the flop out has been removed, you're whinging still! So, can you understand where I'm coming from in terms of what you're really on about here? The flop out's been set aside in terms of at least two agencies and the expenditure has been to their allocation, so we don't have this dreadful position of how do you handle the unexpended funds and the conundrums that are required to address it. That's quite a different circumstance.

Mr KIELY: It gets back to communication once again, Mr Reed. You've told us how you use this blunt instrument to reel in expenditure of the three departments. You told how you have to be tough and do all these horrible things and it doesn't really matter what people think about you as long you get the job done. What then occurred when education came to you after you had already told them, 'I'm taking $6m off you', and then in a matter of weeks had come back and asked for additional $5m. Did you carpet the minister, or did you get the minister to carpet his CEO because clearly this is a terrible thing to have occurred in breaches of guidelines you set.

Mr REED: I thought I'd already answered that.

Mr KIELY: No. I am asking you what communication did you have with your minister, or with the CEO of Education, regarding them breaching your clear and distinct views about wanting to cut back on expenditure?

Mr REED: I've already explained the reasons why that may have happened, and what the circumstances may have been. I don't recall the direct incidents. I do, sort of, I recall sort of many times. The ministers you'd see most would be health and education because they were the ones that were always after more money. Police, well, that was me anyway, but you just didn't throw them a bucket of money every time they asked for it. These processes more often than not went to Cabinet, and they went to Cabinet in terms of additional expenditure for the additional programs that the minister might've wanted to implement, and Cabinet would eventually make a decision and that's it. That's life.

Mr KIELY: So, in direct contradiction to your expressed wishes, an agency goes ahead and overspends, doesn't even make an attempt to hold back on expenditure, and overspends another $5m, and you can accept that. That's life, is it? That's how we manage it?

Mr REED: That's a statement by you.

Mr KIELY interjecting.

Mr REED: And I thank you not to verbal me in this way. If this is tackling me, and this is your attitude towards fairly and squarely speaking to witnesses before the committee, well, I'm disappointed.

Dr LIM: Mr Chairman, if I might ask along similar line of thought. First of all, I think the amount of belligerence or badgering witnesses I think we agreed not to do anyway. But come back to talking about budget accuracies. Are the figures in the mini-budget for instance, correct, or incorrect, given the Chief Minister's announcement at sittings …

Mr CHAIRMAN: Dr Lim, I'll question relevance. You have to make it directly relevant …

Dr LIM: It's relevant in a sense of budget accuracies …

Mr CHAIRMAN: …but you are aware of what we have discussed in committee.

Dr LIM: …and we've agreed that we can use if it is relevant to the current inquiry.

Mr CHAIRMAN: Well, you demonstrate the relevance.

Dr LIM: Again, the relevance is budget accuracies. And I'm saying are the figures in the mini-budget correct or incorrect, given the Chief Minister's announcement that a number of expenditures last week in parliament relating to say the port, or to capital works. How would that affect the figures. Just like the members here are asking how our budget figures were affected would the current announcements make any difference to her mini-budget?

Mr REED: Well, Mr Chairman, I thought this inquiry extended to the 2001-02 budget of which that is part? I'm happy …

Mr CHAIRMAN: You're aware, Mr Reed, that a motion to that effect was negatived in relation to the terms of reference, so there has been quite a lot of discussion within the committee. We have received advice from the Clerk, and we have resolved that wherever things are directly relevant to the estimates to the 2000-01 budget, and as it relates to the forward estimates for the 2001-02 budget that those things are relevant. Now, in terms of the mini-budget, in terms of Percy Allan, in terms that the Access Economics report, we've resolved as a group where issues are directly relevant to our terms of reference, we will allow the question. Now, I've given you – you know, your head and a platform here today. You've talked about HIH, and no doubt you're going to talk about a whole range of things, but I'd ask Dr Lim to demonstrate the relevance of his question. I think he's sort of straying into an area that isn't particularly relevant, but I'll allow him to ask this particular question. But I'd appreciate it, Mr Reed, if you could just take into account what I've just said, please, in terms of your answer.

Dr LIM: You want me to demonstrate the relevance?

Mr CHAIRMAN: Yes.

Dr LIM: The relevance is, as members have been trying to demonstrate, that the budget being a snapshot in time gets altered during the year. Isn't it so that the same processes have occurred with the Chief Minister's announcement to its the mini budget.

Mr KIELY: Wouldn't we be better the compare it with a budget that's already passed so that we can see, rather than draw on hypotheticals about what might happen?

Mr REED: Mr Chairman, perhaps I could help in terms of an answer.

Mr CHAIRMAN: Thank you, Mr Reed.

Mr REED: I'm sure that you'd be seeking to have your government under the same scrutiny as you're applying to government to which I belonged, and in that context I think what Dr Lim is alluding to is that in the budget that I delivered, and which you're questioning, there were certain works to be undertaken at the port and he asks directly: is this an example of how budgets change? Well, it is because your government then came along and said: 'Well, we'll defer what the previous government said for 12 months' or whatever period it was and that is, they changed the budget. That demonstrates the moving scene of a budget. Your government also, notwithstanding advice from a man that you've introduced into the debate, Professor Percy Allan, completely ignored his advice in relation to Power and Water Authority and the freeze on electricity charges whereby there's a cost there of some $20m to the government to achieve that, but it does not appear there is an enormous $20m hole in the budget because that is not accounted for.

So, that then takes us back to the fiscal integrity argument and a whole range of other things but I think I've addressed Dr Lim's question.

Mr CHAIRMAN: All right. Well, I'd like to take - I think what I'm particularly interested in, and I know a number of members here are interested in, is the budget process that occurred between April and May 2001. So I just want to return to that and I want to talk a little bit about the health budget and the then health minister, Mr Dunham, who's a member of this committee, and it comes down to responsibility for budget estimates.

Now, I'll quote from the *Hansard*, Parliamentary Record No. 28 page 7789 31 May 2001. Mr Dunham said in his speech:

> *As shown in the budget papers at this time last year, a total of $432m was allocated for Territory Health Services. During the year, this amount has been increased by a further $3.9m predominantly relating to funding carried forward from the previous financial year and the specific purpose and externally funded items in 2001-02. $447m has been allocated.*

So that's what Mr Dunham said. And if you put the maths together there, it's $432 plus $3.9 which is approximately $436 meaning that there would an approximately $11m increase in the health budget, you know, at the forward estimates. So that's what you went to an election year on.

But Mr Reed, I put it to you that you actually knew there'd been an increase of more than $10m during that year added to the health allocation during 2000-01, not the $3.9m that Mr Dunham stated, and I submit to you that you should have corrected Mr Dunham and informed parliament of the error.

Mr REED: Okay. So you put it to me.

Mr CHAIRMAN: So do you disagree that you knew it was $10m?

Mr REED: Well, look, you've got the access to all of this information and I sit here with little. You've further demonstrated today that you are not only prepared but have very selectively drawn out an issue and - to the extent whereby you've quoted from evidence given, but only in part and left out the juicy bit, that is that that mitigated against you. So if you expect me in those terms to be able to take your question with faith, then my faith, I'm sorry, is fastly dwindling because you haven't demonstrated that the [inaudible] in terms of ..

Mr CHAIRMAN: So if you had known - if you had known it was $10m, would you have corrected Mr Dunham?

Mr REED: Well if. What's the point of 'if' or 'why'? These are your interpretations and beliefs in relation to a particular issue which you are trying to construct a road to take you to a destination which you already in your mind know, and the answers you are now trying to extract from me will you help you construct the pathway to that destination. I'm not in that game, I'm sorry.

Mr CHAIRMAN: Well, could I use statements that you made in an interview on this matter?

Mr REED: Give it a go.

Mr CHAIRMAN: I'd like to quote from a transcript of an interview you had with Fred McCue on 26 October 2001, and you said:

In terms of the 2000-01 health budget, as I recall, there was about a $10m increase during the course of the year for emerging new issues that were funded by the CLP government.

I put it to you that you did know that there had been a $10m increase and that you failed to correct your health minister.

Mr REED: Well, what's your point?

Mr CHAIRMAN: Well, my point is I believe that you misled parliament.

Mr REED: Oh. Righto. Okay. In what context?

Mr CHAIRMAN: Because you knew - first of all, you knew that the allocation for Territory Health was $444m. I think that you also knew that the department was spending to that, and it ended up that they did spend to that. I think you knew that more than $3.9m had been added during the year; it was more like $10m because the allocation was 444, and yet you allowed your health minister to go forward and tell parliament 432 plus approximately another 4 and you didn't correct him.

Mr REED: Well, that I didn't correct him - I mean, you are being a little bit cute, and I've already addressed the issue in terms of spending to allocation. It was an abnormal event in terms of what's happened historically. Do I have to go back through the flop out and the fact of the examples I gave?

Mr CHAIRMAN: No, you don't have to do that …

Mr REED: Well, my point is you've got the answer.

Mr CHAIRMAN: … but you knew the 432 was the starting allocation. I believe that you also knew that 444 as of May was the allocation that had been approved by Cabinet, and yet you heard

your then health minister get up and talk about 436. You were right. In terms of the increase in allocation, it was $10m plus some, and yet you allowed - you didn't correct your health minister. I contend that you misled parliament by not correcting him, and you allowed your health minister to do the same.

Mr REED: I just reject it because…

Mr DUNHAM: Can I ask a question?

Mr REED: You're simply - as I say, you're constructing a – you're wanting me to construct a path to a destination that you've already determined and it's just nonsensical.

Mr DUNHAM: I think the theme of the question is prior to the end of the financial year, you could have reasonably anticipated what the actual end of the financial year cost was, and that in not doing so you misled parliament. I've had an earlier question to you saying: is it normal for appropriations to come in exactly on the button, and you've said it would be quite rare.

Notwithstanding anything that the parliament said, I think this opens up the theme of questioning here about the veracity of budget documents and the responsibility of ministers to correct them at the most appropriate time. You've already told us that HIH is deficient and it was only belatedly that we got a rectification of that, and you've also talked about electricity tariffs. Do you believe it's incumbent on the minister responsible to bring those figures to parliament immediately she knows that they're incorrect which, certainly in the case of electricity, was brought up in evidence in this particular committee some months ago. In case of HIH, it was known prior to the election.

Mr REED: Well, it's a very pertinent point in terms of what some members – and, sadly, I have to include you, Mr Chairman - are prepared to apply, in terms of scrutiny and questioning, to a former government but ignore in relation to your own. I think it tells a rather sad story that, if you can apply one line of questioning and expect a level of performance from me in regard to a former government, but not apply it to your own, it is rather contradictory - to use a soft term - and that, indeed, the examples that Mr Dunham has given are quite astute ones.

In terms of the flop out, I've said a number of times that the end-of-year expenditure - to be able to say that an agency is going to spend to its allocation has not been an option in the past. It is only in terms of the budget of which we speak - or the former budget - that that was achieved, and it was quite an extraordinary event. If it was incumbent on me to act in the way that you infer, Mr Chairman, why is it not incumbent on the Chief Minister and Treasurer of the day to do exactly the same thing in relation to HIH; the Power and Water Authority and the $20m to freeze electricity costs which don't appear in the budget; and, of course, the most awful of all, to expunge the very people who do the work from the budget documents - that is the public servants - have no figures in there at all for the sole reason of covering up what the government's intentions are in relation to the reduction of numbers of public servants. If there is no figures there, no one is going to know what's intended, and no one is going to know what the outcome is.

Mr CHAIRMAN: Well Mr Reed, you have the opportunity, and have had the opportunity to debate these matters in parliament, but I will come back to our terms of reference. I have explained to you before, and I will throw to Mr Wood.

Mr WOOD: Referring to accuracy of the budget documents, I would just like to raise some questions our assistant, who couldn't be here today, has asked us to raise. One was, that further evidence had been provided in the circumstances of the inclusion of the sale of the NT Fleet in the

2001-02 budget - and we have a document from the Treasurer to the present Chief Minister regarding that particular matter.

Despite advice being offered that it may not have been financially sound as you could foresee, the $50m anticipated proceeds of the sale were included in the budget. Mr Reed, two questions: what was your reason for including the $50m anticipated proceeds from the sale of the NT Fleet in the budget when there was doubt on its financial viability; and, as a Treasurer, had you requested and/or obtained an up-to-date analysis on the financial viability of selling the NT Fleet?

Mr REED: The answer to the last part of the question first was yes, and it would not have been included in the budget had I not received advice. I recall that I did receive advice from Treasury that it was appropriate to put it in the budget. It, in fact, had been considered in relation to the former budget, but we didn't include it the year before, because we just didn't proceed with it.

The sale of NT Fleet: it is interesting to note, Mr Wood, that it was included in the budget that I brought down in May last year at an estimated value of $50m and, in the mini-budget under the Labor government, it is estimated at a value of $60m. So, that eliminates any chance for this government to suggest that we over-valued NT Fleet. Which then gets to the question of why it was included in the budget. Well, it was included in the budget because there is $50m tied up in vehicles. We consider that to be inappropriate, and that that funding could be better used for other purposes of higher priority to government. On face value, the intention was to, instead of purchasing vehicles for NT Fleet, to lease them. It must have had a fair bit of validity because, when it was announced, I, at my office, received a number of calls from vehicle leasing companies keen to be involved in the process, or at least be able to put in a bid. One of them, as I recall, went through such a process elsewhere in the country, so the sale of the government fleet must have happened somewhere.

Now, Mr Wood, can I say that, in further comments in relation to NT Fleet, Professor Allan said that it couldn't be sold, yet we have seen no evidence as to why it can't be sold. So, that is, we are taking the current government's word for it, which we are expected to accept; but they wouldn't accept our word for wanting to sell.

Mr WOOD: Can I just mention, have you seen the document? This is from Ken Clarke, not from Percy Allan.

Mr REED: No I haven't.

Mr WOOD: This document basically says: 'It now appears clear that the sale and lease-back of NT Fleet would not be worthwhile …

Mr REED: Yes.

Mr WOOD: Essentially, the proposal should be abandoned …'.

Mr REED: I'm getting to that point.

Mr WOOD: I didn't know whether you knew that that document existed.

Mr REED: I am getting to that point. I knew that he had made those remarks - I think it is in the transcript - or that it had been said publicly. So, to get to that point, Mr Wood, can I give you a few examples in relation to the sale of government assets? You will recall that, well, in the former budget, the one previous to the one that this discussion relates to, there was a decision to sell the TAB. Now,

there was a time when advice was provided that there would be some difficulties in selling the TAB. As I recall, it might even eliminate the ability to sell the TAB - very similar advice to what's been received here. I recall, of the sale of the Yulara Resort that when - and I wasn't Treasurer at that time - that government made a decision to sell and, subsequently, advice was provided to government by Treasury that that could be very difficult. It is a long time ago, but my recollection was in relation to the tax regime under which Yulara was built and the ability to sell it without the tax implications, and whether or not you sold it, it would return a profit.

The reason that I raise these points, Mr Wood, is that in the context of NT Fleet, when that advice came from the Under Treasurer - and it gets back to some remarks that I made earlier, Mr Chairman - in that, whilst I had enormous respect and a very good liaison with the Under Treasurer, I didn't always just openly accept or reject his advice; one asks questions. In relation to the TAB, a number of questions were asked and a number of issues were resolved, and the sale proceeded. The process for sale proceeded and eventually came to fruition and the TAB, as we all know, was sold.

I suspect, as a former Treasurer that if some 'what ifs', if you like, were asked in relation to NT Fleet - okay, in the context of just a sale that's not possible and it can't be achieved, that's fine. But what if it was approached in this way: what if, for example, instead of selling off the fleet and taking on hire vehicles it was done, if you like, by attrition? I don't know if these would work, but they are the sorts of questions one might ask in getting to a decision. Instead of NT Fleet selling off vehicles each month at the auction centre and then buying a new vehicle to replace it, what if the vehicle was sold off and, instead of buying a new vehicle, a new vehicle was leased from a vehicle leasing company? Which, whilst up front that wouldn't give you a result of selling NT Fleet, over time it would achieve the same thing and perhaps accrue a similar benefit.

What I am saying, Mr Chairman, is that in relation to NT Fleet, I think that it would certainly at least warrant further investigation. I am not saying that Treasury is wrong in the advice they have given, but what I am saying is that a questioning of that and the investigation of different options in relation to the sale of NT Fleet, may well deliver a possible means of selling it, whatever that structure would look like. We just can't discard altogether that particular scenario, and use it then in another context to make up a substantial slice of the alleged $107m black hole, for which the current government is going to raise - through all sorts of nefarious means - $160m. Now, if there is not a conflict in that, what is? And it's interesting to note that that $160m of course was the $100m in extra loans …

Members interjecting.

Mr CHAIRMAN: Mr Reed, can you come back to NT Fleet.

A member: It's relevant.

Mr WOOD: Did you obtain an updated analysis of whether it was financially viable? Did you say yes?

Mr REED: My recollection of the events in relation to NT Fleet was an inquiry to Treasury as to, given that we considered and, in fact, it had been encouraged by Treasury, some Treasury officers over the proceeding year or so, that we should sell it. I asked if it was appropriate that it be included in the budget; the advice as I recall it was that yes it is. The estimate of its value was I think in a range - I don't think it was just a square $50m - I think it was something you know, the real value of it isn't known but it would be between X and Y and I don't know if X was $50m or what the higher

figure was off hand. But there was a range and I think we took towards the bottom of the range in terms of that value. And from that point of view I was confident that its inclusion in the budget was quite appropriate.

Mr WOOD: Was there an equivalent documentation?

Mr REED: I don't know.

Mr WOOD: I don't know whether the committee would ask if you could …

Mr KIELY: I am not too sure if I actually got an answer out of that.

Members interjecting.

Mr CHAIRMAN: Can I just, I guess …

A member interjecting.

Mr KIELY: Sorry, what was that, Mr Dunham?

Mr DUNHAM: I said you were a dimwit.

Mr CHAIRMAN: No, we're not going to get into this sort of thing. Look, it's getting near 12.30. I'd like to try and – we're on this topic of NT Fleet. I'd like to see if we could just tie this off without diminishing your ability to answer in the fullness of how you want to answer, Mr Reed. But I've got a couple of questions about the sale of NT Fleet. Now, we heard evidence from Mr Clarke and it's on page 48 paragraph 13.

Mr CLARKE: I said to him it maybe that it's not an financially sensible position to proceed.

He's talking about the sale of NT Fleet; and a bit later on in that particular quote, he just says:

Well, I think you'd have to ask Mr Reed whether or not he was definently going to go and proceed with the sale.

So there's two elements in there. Do you recall Mr Clarke telling you at the time it might not be a financially sensible decision to proceed and where you going to proceed with the sale of NT Fleet?

Mr REED: Well, clearly the intention was to proceed; it wouldn't have been in the budget otherwise. So the intention was to proceed with the sale of NT Fleet. Now, there were a couple of issues that pertain though to that. If it was subsequently shown that it wouldn't be appropriate to proceed with the sale then clearly then that would have been a matter that would have been taken back to Cabinet. But on the basis of advice that I'd received leading up to the budget, it was appropriate to have it in the budget and to have it as a line item in terms of income with an estimated value of what I said was somewhere $50m to $60m or whatever the higher amount was and we took the lower amount.

Now, by way of example, I've demonstrated that we put the TAB on the market in the budget; that we were going to sell it and some doubts arose as to difficulties that might sort of arise there. They in turn had to be considered by Cabinet but the sale proceeded; similarly with the Yulara Resort. So what I'm saying to you, Mr Chairman, is that these matters once the decision by government is made,

and if you look at the alternative, the alternative would have been: 'Okay, we'll sell NT Fleet but we won't put it in the budget. We'll just keep it in the top drawer and when we've made some further inquiries, we'll slip it out and we'll just surprise everyone with it and sell NT Fleet'. That I dare say would not have been an acceptable practice. So what we did was make it open, known, accountable, honest and open government, and have it in the budget as in intention to sell NT Fleet.

Now, along comes Percy Allan and Percy says you can't sell it. Interesting that we can't see why Percy says we can't sell it. It's one of the conundrums of life.

Mr CHAIRMAN: Well, he talked about tax accounting and economic reasons, as you are well aware, Mr Reed.

Mr REED: Yes, well it would be nice if we'd get a copy of that. Now if indeed …

Mr CHAIRMAN: Advice that was confirmed by subsequent Treasury advice, as you're well aware.

Mr REED: If indeed that was the case, then you wouldn't proceed to sell it. I'm sure though that other governments interstate have sold their fleets. Notwithstanding that there still is my scenario of saying, 'Okay, well you just can't go out and sell it as a going concern and what it looks like now, but could you please explore other options,' and I've given one example. No doubt if you gave it a bit more thought you might come up with others and indeed the professionalism and commitment of Treasury staff, I dare say that if they had another look at it, they may well come up with some other options as they did with TAB and the sale progressed and everything happened.

However, if the advice was that you can't sell it and that there were all sorts of reasons for not doing that that were quite valid, the matter would have to be reconsidered. But better have it in the budget as a government intention, highlight it and demonstrate that this was the path that you were going to go down, than be sitting here facing criticism, 'Ah, Mr Reed, we also understand that you were thinking of selling NT Fleet but you concealed from the budget and you just kept it in your top drawer, and you would have just pounced this out as a surprise issue sometime during the course of the financial year.' No, don't operate like that, and that's the long and short of it.

Mr CHAIRMAN: Mr Clarke gave evidence to us that far from it being a considered sort of proposal that had come up through Treasury, he told us that the NT Fleet was included in the budget in haste. Now I'll quote again the question from Mr Kiely, page 49 paragraph 18:

Would it be correct to assume that the decision to include a sale was made in haste?

Mr CLARKE: Yes, I think that would probably be a fair comment.

So here's something that's been included in haste, but Mr Clarke previously:

So I said to him it may be that it's not a financially sensible decision to proceed.

Mr REED: I saw that comment of Mr Clarke's, and yeah, he made the comment and it's a fair comment and let me put it in a bit more context, and I've already alluded to the fact that the sale of NT Fleet that was something – well, I can recall it was discussed some years previously when Minister Coulter I think was Transport and Works minister. That it was something that well we could sell it, we really don't have to own the vehicles and it's just one of those assets that if it's structured in a different way could still provide the services required to government agencies, but not at the same time tying up an enormous amount of government funds which could be released for other purposes.

Now, over a couple of years it was considered will we sell it, will we not, but for whatever reasons it wasn't sold. However, in the last round of budget deliberations, it was discussed. I think it was discussed at the first budget Cabinet but no decision was made and it was talked about I dare say that I might have asked Mr Clarke for some comment on it, certainly in terms of whether it was appropriate to include it in the budget. If it was included late and hence the connotations of haste, well that's really just relating to the timeframe of the decision but it was something that was always an option in the government's mind given that it's valued by your own government at $60m. So if it's got a value of $60m, that must surely be worth something on the open market. Now whether you would accrue that full value is the argument that we're having and we won't know the full answer to that unless all those 'what if' questions are asked and subsequently answered and we know it. But it was put in the budget in good faith with sound intention …

Mr CHAIRMAN: So it was your decision to put it in the budget?

Mr REED: Well, budgets aren't just made by Treasurer; budgets are made by Cabinet.

Mr CHAIRMAN: So it was a Cabinet decision?

Mr REED: There would have been I daresay a Cabinet decision behind that.

Mr CHAIRMAN: So Mr Reed, Mr Clarke in his verbal evidence, page 51 paragraph 15, suggested that the prime reason for including the sale of NT Fleet in your budget was and I quote:

It made the bottom line look better.

Mr REED: Well, that might be Mr Clarke's view, and he's expressed it as such. In terms of the sale of any asset in any company, in any government, in any enterprise, if you sell something and you accrue a benefit, it makes the bottom line look better. By definition, Mr Clarke is dead right. Spot on. Accurate.

Mr CHAIRMAN: All right, well thanks for that, Mr Reed. It being about 12.30, I propose that we take a bit of a break now. So would you like half and hour or an hour break?

Mr REED: You're running the show.

Mr CHAIRMAN: An hour. We've got a fair bit to get through. So thanks very much, Mr Reed.

Mr REED: It's a pleasure. Thank you.

Mr CHAIRMAN: I appreciate your endurance. We'll be back in an hour, we'll call it at half past one.

The Committee adjourned at 12.31pm.

The Committee reconvened at 1.32 pm.

Mr CHAIRMAN: I'll declare the meeting open and just to remind the witness, Mr Reed, that you're still under oath and hopefully we can transact our business over the course of the afternoon. I'll call from questions from the floor.

Well, I'll kick off, then. Mr Reed, I've got a series of questions about the health estimates, or the estimate for health. It was a subject that Mr Clarke did raise in his written submission to us, and that we questioned him about in terms of his verbal evidence. So in his written submission and his verbal evidence, Mr Clarke says that expressed his concerns and some doubt to you about the size of the reduction to the estimated expenditure for Health for the 2000-01 year. I'll quote from his written evidence. He says:

> *…and there was only a relatively small difference in health ($4m) in my mind could cast some doubt over the reasonableness of the 2000-01 estimated actual for health.*

He then says:

> *I rang the Treasurer and asked if he wanted to reconsider the notion of an increase for health in 2001-02, if he wanted to show growth between the two years.*

Do you recall that conversation at all, Mr Reed?

Mr REED: Not particularly, but in terms of the intent of keeping pressure on the department, I would have thought if - increasing their budget might have been just the opposite.

Mr CHAIRMAN: To – so, in other words, you're saying you weren't really prepared to increase the forward estimate for 2001-02 on that basis?

Mr REED: Well, that would be one basis. I don't recall the particular discussion with Mr Clarke, but one has many discussions during the course of the budget and all the other business of governments.

Mr CHAIRMAN: Well it seems to me, just reading what Mr Clarke had to say, that he was pointing out to you that the expected result for health was going to be much more than $436m and the reduction of $8m was too large. Would you like to comment on that? This is in terms of the estimated expenditures for 2000-01.

Mr REED: Well, it might seem like that to you but in terms of going in the opposite direction, it might also seem to you that if you were to give them more money then they may well relax in terms of their attitude to expenditure and that would be entirely counter to my intention of maintaining the pressure.

Mr CHAIRMAN: But wasn't – I mean, it seems to me he seems to be challenging you in a way to - if you were serious about actually having a substantial, significant increase in the health funding for 2001-02 that he was saying to you: 'Well, you should consider that this way of reducing the estimates by $8m' - what did he say? He said it would cast some doubt on the reasonableness of it, and he was imploring you in a way to consider increasing the forward estimates for 2001-02.

Mr REED: It was the figure that he came up [inaudible] less the 2.5% that you quoted earlier.

Mr CHAIRMAN: Yes, but in his evidence before us, he evinced concerns and in there he said I rang, you know, relevantly small difference, only $4m, and he was concerned about it.

Mr REED: Mm. That was his view.

Mr CHAIRMAN: That was his view?

Mr REED: Yes. Well, I mean, as I recall you're a doctor of philosophy and you'd appreciate fully that different people have different views and he was expressing a view there, Mr Chairman, and far be it from me to suggest that he should have that right removed.

Mr CHAIRMAN: No, I'm not saying he should.

Mr KIELY: In his verbal evidence, Mr Clarke also suggested that you worked hard to convince yourself of the propriety of the reduction to health. He says, and I quote, and this is on page 35:

Mr CLARKE: I rang the Treasurer and he said: 'Gee whiz. I'm not sure this is the right thing to do for health.' and so he went through a process of trying - to satisfying himself I presume, that he could answer in the parliament, that he could explain it. He had come to that judgement himself because he's the one that carries the can.

Mr Reed, will you now accept responsibility for this act?

Mr REED: Well, in terms of the decision that was made, the decision was made and from the point of view of making that decision, advice was provided by Mr Clarke. He talked [inaudible], waxed lyrical about the 2.5% and where the figure come from, and was it provided or the basis of advice and, yes, it was and that was the course that was adopted.

Mr KIELY: So you accept responsibility?

Mr REED: Well, that was the course that was adopted.

Mr CHAIRMAN: Much of the evidence today and what we've been talking around circles or centres around the $8m reduction to the health budget. Now, there's been documentary evidence that you signed off on that in May - I think, 17 May, I think, the Minute says there. Mr Clarke raised the issue of the $8m being - in his opinion, he thought it cast reasonableness over the reduced estimate. So in an interview with Fred McCue on 26 October, you were reported as saying you could not recall anything about the $8m reduction in the health estimates, is that correct?

Mr REED: Yes, I do believe that I would have made some comments along those lines. I didn't and I don't - as I said to you earlier, that answer is consistent with what I said to you earlier - I don't particularly recall the discussions I had with the Under Treasurer, but where does that leave you?

Mr CHAIRMAN: Well, I'll just read: 'Reporter', who is Fred McCue:

Are you saying that you have absolutely no knowledge of what is contained or the detail of what is contained in this particular memorandum?

I'll try again.

Mr KIELY: I'm sorry. I thought it was switched off. My apologies to everyone.

Mr CHAIRMAN: Are you saying – I'll start again, Mr Reed. This is Fred McCue:

Are you saying about you have absolutely no knowledge of what is contained or the detail of what is contained in this particular memorandum?

He's talking about Mr Bartholomew's memorandum.

You knew nothing about the 8m being shuffled from one budget to the next?

And your reply was:

So for her…

meaning Clare Martin

…to suggest that I can sit in my office as Treasurer, or could have, and fiddled around to the tune of $8m, .03% or whatever of the budget and be able to prepare the many very thick volumes of the budget documents myself is just nonsense and every public servant…

and then Fred McCue interrupted. He said:

Okay, just a simple question, though: are you saying that you knew about it, or you didn't know about it?

And Mr Reed in reply said:

Fred, I don't recall anything about this, because it's an issue that clearly, as indicated in the minute by Mr Bartholomew, that it is a matter between Mr Clarke and Mr Bartholomew.

Do you stand by that statement?

Mr REED: Of course I do. Now that you've read out the full detail of it, Mr Chairman, it's a little bit more evident, isn't it? There are a number of issues being pursued there. One was in relation to the need to apply constraint, and that has been addressed, as I've said today. The matter of: did I know about the Bartholomew note, and what have you - no, I didn't - in the context of the discussions that had taken place. The budget is a snapshot in time. We've been through all this at length this morning.

Mr CHAIRMAN: Well, we have, except we heard evidence from Mr Clarke that he had certain discussions with you about showing growth - that's his interpretation of the discussion about the method to present that particular increase - obviously, discussion between you and Mr Clarke over health, education, and police - that's what he's saying - and here you are on radio saying that you recall nothing about it; that it was just a matter between Bartholomew and Clarke.

Mr REED: Yes, well you just left out one other important little point, and that was - to which you referred earlier, the context of this interview with Mr McCue - and that was the vision created by the Chief Minister that I sat in the office and prepared the whole of the budget documents - quite stupid! It's one that demonstrates naivety of a level that you would not expect from a Chief Minister that, first of all a Treasurer in his office would have the resources to be able to do that is an extraordinary suggestion. Secondly, that a Treasurer could conduct himself or herself in a way, to that extent, in isolation from the Cabinet. They were the context that I was talking in there. And bearing in mind that overall nature of these issues and the complexity of them, one doesn't – in a radio interview - have everything spring to mind as a matter of convenience when one wants it. One often ends up and thinks: 'I wish I'd have said that,' or 'Oh, if only I'd remembered so and so I would have

been able to make that point a bit more firmly'. I'm sorry that you were disappointed with my interview with Mr McCue on that occasion.

Mr KIELY: Mr Reed, can I just bring you back to what the reporter said to you? You said that this was a picture that Clare Martin painted, and all that sort of thing. Well, what the report said to you and what the question was - and I think you went off answering it in some interview – the question was: 'Are you saying that you have absolutely no knowledge of what is contained, or the detail of what is contained, in this particular memorandum? You knew nothing about the opening end of it being shuffled from one budget to the next?' Now, taking away all the colour about you sitting there and fiddling around with the books and all this sort of thing, the question is: did you know anything about that $8m?

Mr REED: With respect, it is not colour, Mr Kiely, it's fact, because they were the statements that the Chief Minister made. So, they're quite pertinent, and I object to any reference to them being colour just to embellish the facts. But, having made that point, can I say that the context of the funding of $8m and the reasons for which it was applied in the way that it was, was to instil in the mind of that particular agency - and there were others, of which you are aware - that the wood was on them in terms of living within their means, so to speak.

Mr KIELY: Mr Reed, I put it to you that you've contradicted yourself on this matter on may occasions: in documents in parliament, in important conversations, in press interviews, and in evidence here today. Do you now have total recall or any adjustments to figures?

Mr REED: Well, you put it to me and then you go on to state a number of areas which I've allegedly contradicted myself …

Mr KIELY: Do these jog your memory?

Mr REED: …contradicted myself. Yet, without a shred of evidence of it, I mean, I'm expected to have this by hearsay in my …

Mr CHAIRMAN: Well, with all respect, Mr Reed, there's part of the evidence sitting on the table in front of you.

Mr KIELY: A memorandum you signed off on.

Mr CHAIRMAN: Yes, a memorandum you signed off on; a realignment of the estimates.

Mr REED: Which I've, yes …

Mr KIELY: So the question is: do you now have recall, Mr Reed, ordering the adjustments?

Mr REED: With respect, Mr Chairman, in terms of these particular issues, I think we've canvassed them very thoroughly. I don't know how many times you want me to repeat the answers, but I'm happy to stay here all day - all week if necessary - to do so. But I think I've verified the reasoning behind my decisions, and why things transpired in the way that they did. I'm sorry if Mr Kiely thinks that I've contradicted myself. Indeed, as I took the trouble to find out this morning, Mr Chairman, I was of the belief that you virtually perjured yourself in some of the remarks that you made. But that's my view; that happens to be Mr Kiely's view in relation to this matter.

Mr KIELY: Mr Reed, I'd just like to say that I've asked you twice. Do you now have recall ordering adjustment of figures? I don't believe you've answered that question satisfactorily. I move on.

Mr CHAIRMAN: Okay, according to the documentation we've been supplied, you as Treasurer, approved the realignments in May 2001 – that's the documentation there. Did Mr Clarke, at any time, relay the concerns expressed by Mr Bartholomew and any he – meaning Mr Clarke - may have had to yourself, that the target for health was not achievable – that's $436m?

Mr REED: I don't believe so. But, it's not an unusual remark, because it's a wonderful defence. I can see yourself nodding to each other here, and 'I'll ask the next question', and what you're trying to set up here, and the theatrics of it all, but let's get into the reality of it, and take your question on its face value. In terms of that as a defence from an agency, when you've been a Treasurer for a few years - and it's sad really, I suppose, that I didn't keep a record of all these - one gets some marvellous defences. A very good one is: 'But tell the Treasurer we just couldn't possibly live within this figure'. All sorts of very powerful and extraneous and heart-wrenching arguments are put forward by agencies in an attempt, quite rightly - which is what they are there for - to fight for every dollar that they can get. Now, if you can find that statement emotive, or disturbing, or of concern to you, well, so be it. It would then demonstrate to you the pressures that are faced by Treasurers, and then the question that you subsequently have to ask: 'Okay, this is what …' You don't ignore the advice, but one thinks: 'Will they bleed to death if they don't get the extra whatever million?' They're judgments that you and your colleagues have to make. So, that it sounds emotive - and you try to embellish that emotiveness here today - it's true.

Mr McADAM: Mr Reed, Mr Dunham has said in evidence that he had discussions with a number of people, including yourself, and more formal discussions with Treasury officials in relation to these concerns about having to find $8m of savings in the last six weeks of the year. Do you recall any conversations with Mr Dunham?

Mr REED: I'd be surprised if they didn't occur. In terms of my former question, don't think for a moment that, if the CEO of a particular agency is using all these emotive terms - they'll bleed to death and they won't be able to meet their commitments if they don't get the extra funding - don't think for a moment that that isn't taken up by their minister; that the minister doesn't come knocking on the door saying: 'Shock, horror, the end is nigh'. I think the answer was implicit in the former question and answer that I gave.

Mr KIELY: I'm sorry, do you recall any conversations you said? Do you recall, or you don't recall?

Mr REED: I don't specifically recall them. I recall many conversations with the minister for health in relation to budgetary matters - very regular. And they would be very wide-ranging, in terms of the agency. To remember any particular one would require a mind of a computer, in these terms: that a health minister comes to the Treasurer very regularly in the budget preparation phase, because he has information to provide. That might change on a daily basis in terms of: 'I would like this in the budget and its already in there and this is the line and these are the dollars against it, however, it might change'. It might change for example because there is a Commonwealth component in it and the minister or his agency might be liaising with the Commonwealth to get a confirmation of the figure. If the figure happens to be more or less than what is already in the budget, then you have discussions, different programs and their structure and funding requirements. I have no idea how many times he would have talked to me and other ministers, but you can multiply the times that the

Minister for Health spoke to me by the number of ministers and the number of portfolios and if you expect me to remember a particular occasion, then I am sorry, I don't.

Mr KIELY: Can I ask you this: Mr Dunham had conversations with his CEO who expressed great concern and Mr Dunham expressed alarm or something to that effect …

Mr REED: Oh yeah, well he certainly expressed alarm …

Mr KIELY: … and this [inaudible] $8m being reduced off the budget right at the end of the year. There was great concern within Health and I would imagine Mr Dunham would have come to you also expressing his great concern and you just cannot recall that conversation.

Mr REED: Oh no, I can certainly remember him expressing concern. Whether it is in the conversation to which you allude, who knows? But concerns were expressed and I have just demonstrated that they have been expressed in a number of ways and in a number of times. What you've just done of course is clearly demonstrated that my strategy was being very successful. That is Health were nervous Nellies and they were saying, 'God, the end is nigh. We are going to lose $8m'. You don't see the wisdom of that?

Mr KIELY: No. Mr Reed, I have expressed to you Mr Dunham's version of the conversation and his interpretation.

Mr REED: And I have just expressed to you …

Mr KIELY: That is not what the CEO outlined in his letter that you keep on referring to. So, I mean, let's get that one straight on the record shall we, Mr Reed?

Mr REED: Your view.

Mr KIELY: No, no, that's the CEOs view.

Mr REED: I am here, Mr Chairman, to express my views, not those of someone else's.

Mr CHAIRMAN: You have got that freedom, Mr Reed.

Mr McADAM: I have another question of Mr Reed. During the course of these proceedings, Mr Dunham indicated very strongly that he had previous discussions with Treasury officials in respect to this proposed $8m cut. Did anyone from Treasury report to you the conversations that they had with Mr Dunham at anytime?

Mr REED: Again, may have. Not unusual for Mr Dunham. If you were fighting for your patch and seeking additional funding or more importantly trying to avoid a reduction in funding, whoever you bumped into from Treasury on whatever occasion arose for you to get into their ear as a minister, would not do it? I expect Mr Dunham did exactly the same thing.

Mr McADAM: You don't recall any conversation with the Treasury officials in respect to Mr Dunham's concerns?

Mr REED: Well, I think Mr Chairman has just straight after lunch said that certain comments were made by Mr Clarke and what have you, as I say, agencies are forever conveying messages in many and varied and emotive and sincere and whatever terms about their plight, as they say.

Mr CHAIRMAN: Mr Reed, if I could just continue here, and we all know that 2001 was an election year. Do you agree that it is of extra importance in an election year for the NT pubic and the parliament to have confidence in the budget figures presented to it? Not ascribing any nefarious motives, but just a straight up and down question. Is it important for the public to be able to look at the budget figures and say, 'Yes well that's good. The CLP government is having an X increase or $9m increase in the education budget,' and so on and so forth?

Mr REED: Yeah well, and indeed they do. I mean I am at a bit of a loss, I am just looking for something here in my budget speech where I think it demonstrates clearly that year on year there were increases and from that point of view Territory Health Services budget will increase in real terms this year. True statement. I don't have an argument with that, Mr Chairman.

Mr CHAIRMAN: I would have to look at the global numbers. We are focussing down on police, education and health. Those are the agencies that have flopped out to us through the written evidence that they have given us and also through their evidence that they have given to us in hearings. That's what we are focussing on here. Certainly a lot of voters, particularly parents, would look at education and say, 'Well that's great. Here's a government that is looking to increase education spending by $9m'.

Dr LIM: Mr Chairman, you could extend that question to therefore include the shortfall in HIH funding.

Members interjecting.

Dr LIM: Hang on. In the same question, you are saying you know this is a budget you put down for 2001, is it right or wrong? Can people have confidence? Well then, the same question can be …

Mr CHAIRMAN: Well they can have confidence, Dr Lim, because if they look in budget paper No. 3 of the mini-budget they'll find that the explanation of HIH is there, which is no different to the treatment that it received under the CLP budget. I am trying to pursue a line of question …

Mr KIELY: Can you ask the question of Mr Reed.

Dr LIM: I am not asking a question. I am asking that you should extend the question to colleagues …

Mr CHAIRMAN: You can extend the question after I have finished talking.

Mr REED: I will finish my answer then. Mr Chairman, if I may for the record, quote from the budget speech: 'The Territory Health Services Budget will increase in real terms this year. The major redevelopment programs continue at Royal Darwin and Alice Springs Hospital with expenditure of $6.3m and $15.4m respectively in 2001-02'. That's the opening paragraph under Health and Community Services. The only thing that has changed …

Mr CHAIRMAN: But we know that education didn't increase by $9m it increased by $3m.

Mr REED: The only thing that's changed, Mr Chairman, is that it's a Labor government that's now taking credit for those wonderful initiatives, not the CLP government that indicated that Territorians in the budget speech could be very well assured that those things would happen.

Mr CHAIRMAN: All right, so just moving on from that. I think in that, from what I have divined from your answer, is that you do believe that it is important during an election year for those figures to be out there and that they are important figures in an election year.

Mr REED: That's right, that's right.

Dr LIM: He didn't say that. I didn't hear him say that.

Mr REED: That is your belief as a doctor of philosophy. I understand you know what belief means so I will take it in that context.

Mr CHAIRMAN: Well, that's what I thought that you were expressing to me, Mr Reed. That you did say that you thought that it was important. That those figures are important.

Mr REED: Mr Chairman, I did give you my answer and I thank you not to verbal me in relation to what you think I said, and what I actually said.

Mr KIELY: Could I seek some clarification: is it a yes or a no?

Mr REED: I gave you my answer if you want to read the answer.

Mr KIELY: I'll ask the question again, Mr Reed, because I have all the time in the world. So the question is, do you believe that budget figures should be accurate?

Mr REED: Well, by example of the budget speech, can I give you an example as to the accuracy of the budget speech …

Mr KIELY: A simple yes or no will do, Mr Reed. A simple yes or no, that's fine.

Mr CHAIRMAN: Let Mr Reed continue.

Mr REED: A very simple yes or no, Mr Chairman? Or are we here for full and detailed facts rather than constructing a path to a destination which you have already identified, Mr Kiely?

An example of that is that under the Health and Community Services mentioned in the budget speech: 'Territory Health Services budget will increase in real terms this year. The major redevelopment programs continue at Royal Darwin Hospital and Alice Springs Hospitals with expenditure of $6.3m and $15.4m respectively in 2001-02'. Now that and many other things in the budget speech are clear indications that Territorians could in fact believe what was in the budget speech, and indeed those very things are being done and as I said, so pleased is your government about those initiatives that you are now taking credit for them.

Mr KIELY: Mr Reed, I don't want to be accused of verballing you in anyway whatsoever. I would just like it noted that I have been unable to divine a yes or a no to the question should the NT public and the parliament have confidence in the budget figures presented to it. I have been unable, perhaps other members of the Committee have been able to, but I could not divine a yes or a not in that answer.

Mr REED: With respect, Mr Chairman, am I to assume that this, what appears to be a fast becoming it from Mr Kiely's point of view a kangaroo court, that the members of this Committee will only accept a yes and a no answer? And I ask you in the name of fairness, and the fact that in this

country we have a process called not guilty and that an assumption of guilt is not to be made, that it is quite improper and quite unfair - and as a doctor of philosophy, you'd be familiar with that - that a yes or a no answer is the only answer that would satisfy particular inquirer.

I mean, that is quite an extraordinary statement. Now, I believe, Mr Chairman, that those sorts of statements and others that I have directed referred to today will reflect poorly on this committee and that's a great shame because as a 15 year member of parliament, I have always held in highest regard the traditions and the rules under which parliament works. And this, arguably, is one of the most important and powerful committees of this parliament and from that point of view, for a member to demand a yes or no answer and to be not satisfied and to express the fact that he is not satisfied unless he gets a yes or no answer in my belief is quite unfair.

Mr KIELY: Perhaps I should – the transcripts will reinforce this with you, Mr Reed, is that I said I was unable to [inaudible] answer in that response. I was unable – I was unable to [inaudible].

Mr REED: I heard what you say.

Mr DUNHAM: On that same theme, Mr Reed, do you believe that there should be the same level of integrity in the financial documents of the alternate government prior to going to an election as that which is demanded of the now opposition?

Mr REED: Well, I think it would be obscene in the extreme for one government to expect a higher level of standard and performance and credibility from another government but not apply those same standards to themselves. I believe that I've demonstrated here today on a number of occasions the fact that that is wanting in this current government.

Now, I am more than happy, Mr Chairman, if the standards that you are applying - in retrospect, I might add for the benefit of the transcript - to me and to the government in which I served not applied to the government in which you serve, will, again, further degrade the value and the quality of service to our parliament of this committee. I think it's a very serious issue. It gets to the core of the parliamentary process that if this committee or some of its members - and I certainly don't exclude all of the members but certainly I believe some have demonstrated today - that if this committee are prepared to apply some standards to what I did and the government that I served with did, and not apply them to the government which they serve is quite extraordinary, and I include there either directly, by omission, facts by omission or inference and there's been lot of three of those today.

Mr CHAIRMAN: Can we move on, Mr Reed?

Mr WOOD: Taking up the point about the accuracy of the budget, I was going to use a question that our adviser has given us to ask you, and it relates to Professor Percy Allan, and in this case I think it's relevant to the particular budget. In his examination of the NT finances and budget, he has concluded in his report that over the three budgets prior to 2000-01 final consumption expenditure compared to the outcome was underestimated in the original budget by about $65m to $75m per year. The question is: this is a very high underestimation over quite a period of time, a time when you, as Treasurer, had portfolio responsibility for the Territory's finances. Could you comment on the statement and provide an explanation on why it continued to occur?

Mr REED: Yeah, well, it's a good question and I'm pleased to answer it. Can I do so perhaps by starting with the approach that Professor Allen took. Now, he took the approach for a number of reasons. One is he was a complete stranger to the Northern Territory and is not familiar with the circumstances that exist here and for its own reasons the government avoided - the government of

the day avoided contracting someone locally who was familiar with the circumstances. For example Mr Allan clearly failed to recognise the fact that we are a new jurisdiction in the terms of Australia. The other states have been under settlement and being developed for a period exceeding 200 years. This jurisdiction has been speaking in its own right and looking after its own affairs since 1978. We commenced that process with very little infrastructure, a very neglected part of Australia, and a situation which the government of the day and subsequent governments have had to respond to in terms of providing infrastructure and services for Territorians.

Necessarily, Mr Wood, that's led to a higher level of debt than the residents of other parts of Australia - per capita, that is. Now, could I just ask you to reflect a minute on New South Wales, we'll use as an example, 70 years ago when the government of the day said things are getting a bit busy in Sydney; we're going to have to build a bridge across here and they chose to build the harbour bridge. In doing so, they borrowed the full amount of money to build that bridge because their view was whilst they would have to make repayments to build the bridge, on the loan for the bridge, those repayments would be made by future generations of New South Welshmen who would be gaining the benefit of the bridge through its use. The very much the same principle has applied in the Northern Territory whereby we have had to borrow money to undertake the provision of infrastructure to serve Territorians, and you've been here a long time, you would know that the roads are now better, the hospitals are better, the sporting facilities are better, the schools are better, the access to recreation is better and I could go on.

So, I think that sort of underscores the thinking that went into is it responsible to take out loans and, again, is it responsible to exceed the national average in terms of the amount of debt per person and it's been often mentioned - I think it's something in the order of $8000 or something that every Territorian owns – which, in a way, is a nonsensical comparison because it infers that one day, someone's going to go and tap your wife on the shoulder and say give us the 8000 bucks you owe which is quite nonsensical.

Mr WOOD: You wouldn't get it, anyway.

Mr REED: I'll tell them not to bother. So, in terms of why it was done, that, I think, addresses some of those issues and explains the underlying philosophy, if you like, to providing services.

I mentioned earlier today the fact that yes, we have high levels of loans, high levels of debt. It has been noted by those organisations who are so regularly quoted nowadays by the Chief Minister - who but less than a year ago were considered the filth when they were saying nice things about a CLP government - that it is not unusual for the Northern Territory to have high levels of debt because they had an infrastructure void and had to fill that void and they did that through borrowings and it is the capacity to pay that is the real issue. And I further alluded today that the fact that, through my efforts combined with Treasury that over a period of a year or two and a lot of hard work, we were able to restructure our debt and reduce our debt payments by very, very substantial amounts.

So that sort of underscores the basic principles to all that. Now, we get to Percy Allan, to Professor Percy Allan, who was a chap - he's – and I'm not being derogatory of economists, but it's said, you know, sort of: ask 10 economists a question and you'll get 11 answers on a good day and you might get 30 on a bad day. That is to say that different economists have different views, Mr Chairman, different opinions, and different translations.

Mr CHAIRMAN: We'll come to that, Mr Reed.

Mr REED: Mr Allan doesn't like debt, clearly, and is offended by the amount of debt that the Territory has, which is his right. But I don't believe that he's seen it in the context of the Territory's demands since Self-Government and the need to provide the services that Territorians want. I, for example, cannot understand why a Territorian would be expected to accept a substantially lesser level of service than they would receive if they were living elsewhere in Australia.

So, it gets us then to the crux of Professor Allan's approach. He made all sorts of recommendations - very extensive recommendations – to the government. Again, as I indicated to you this morning, I look at the situation with a 15-year span and the ability to look into the future in relation to that and, that is, how do you manage what you face now, into the future - whereas the government of the day looks at it with a very small timeframe, for obvious reasons.

I ask myself: what didn't Mr Allan include in his recommendations to government that I knew? One of the things that has become evident, and that didn't particularly surprise me, is the funding to be extended to the Territory next financial year in relation to the Commonwealth Grants Commission. Last year, the amount was a fairly small amount, and I think it was in the order of $10m or $11m. That's the additional funding to be provided to the states and territories. The figure is struck each year following an assessment by the Commonwealth Grants Commission in relation to disability, if you like, of a particular disadvantage that a jurisdiction has, and then the Commonwealth funding required to address that disability.

Notwithstanding that, last year, when we received that advice, I recall that Treasury said: 'We expect this figure to be very much higher next year because it will be a different part of the cycle; other things would have caught up'. For example, it might be the adjustment of the population, which Treasury, and in particular Mr Clarke - and this is an expertise that's been lost to the current government because they flicked him …

Mr KIELY: He resigned, actually, due to aged retirement.

Mr REED: Yes, I think he was pushed. But, in terms of the amount, Mr Clarke indicated and, as I say, successfully argued, that over a period of years that the Grants Commission was under-estimating the Territory's population, and that we would eventually have some catch-up with that in relation to the Commonwealth Grants Commission recognition and funding. To some extent, that's happened this year. But it is a very high figure - $74.6m – that the Territory will receive this year from the Grants Commission, albeit that it is yet to be approved in the forum that will take place and will be attended by the Chief Minister and Treasurer. It will be most unlikely to be altered, an extraordinary step.

What I'm getting that there, Mr Wood, is that I wonder if Mr Allan took any of that into account in identifying the $107m black hole, rejecting any suggestion of the $50m sale of NT Fleet, and, of course, open, honest and accountable government. If that was a defendable position, one would think that the reasoning behind that would have been released, but it hasn't been.

Mr WOOD: He talked about this consumption expenditure being underestimated by 65 …

Mr REED: Yes, I'll get to that because …

Mr CHAIRMAN: That was the question, Mr Reed.

Mr REED: Well, we're talking about the expenditure and this is consumption; if you're spending money, you're consuming. It's a consumption expenditure; you're spending money. And in relation to the Commonwealth Grants Commission, that is particularly relevant to consumption expenditure,

because it recognises the consumption of expenditure required to provide services to Territorians. And that's why I raised this point. I'm sorry, Mr Chairman, that you didn't appreciate that.

So, I don't think Mr Allan included in his $107m, the $74.6m, or any make allowance for what might be forthcoming this year. So, there in two items, is gone $107m. Now, in relation to consumption expenditure more directly, one of the items that Mr Allan referred to, I believe, was natural disasters. That there are, over the last few years – again demonstrating his lack of knowledge of the Northern Territory – over the last few years, there's been a natural disaster. Yes, last year there was. There was the Borroloola to Western Australia border floods …

Mr CHAIRMAN: Does that include powerlines?

Mr REED: In addition to that, there's the floods of 1998 in Katherine. I'll be happy, now that you've raised that by interjection, to address that issue, Mr Chairman. We've got plenty of time, I hope?

Mr CHAIRMAN: Yes.

Mr REED: In terms of those two natural disasters, Mr Allan looked at them and said: 'They've both been sizeable, so every year the budget should have a $40m component …' Don't hold me to the figure, but that was the number I seem to recall …

Mr KIELY: We're not holding you to any numbers, Mr Reed, that's all …

Mr REED: Well, I'm sorry, I hope …

Mr KIELY: Well, the $74.6m you referred to is for 2002-03, Commonwealth Grants Commission …

Mr REED: I made that point. I'm only …

Mr KIELY: … to do with relativities for next year. Mr Reed, your whole story is right out there; it's got nothing to do with the year we're talking about. Now, please, please, can we just stay to our point here.

Mr REED: Mr Chairman, if I could just say: I did say that it was for next financial year. The fact that Mr Kiely has had to have it transmitted to him on a computer by someone sitting upstairs demonstrates his lack of understanding of these issues, and that in itself is a great disappointment to him. But I hope that Mr Wood is interested, because if then you say that consumption expenditure is misunderstood, or was …

Mr WOOD: Underestimated for the last three years.

Mr REED: … underestimated, that's right. So, if every year, Mr Allan expects the government to have an allocation of $40m to address an emerging disaster and, for example, touch wood, this year we haven't had one, why then would you do that? It's quite extraordinary to say that: 'Oh, because over the last couple of years you've had a disaster, you've got to allocate $40m a year to be able to address that'. There's also, of course, another mechanism called Treasurer's Advance which, when a disaster does emerge, or something large that the government has to respond to, then through Treasurer's Advance and an allocation into that by Treasury, funding can be provided.

But, as a matter of course, to have $40m in the budget for something that, in all likelihood isn't going to happen – I mean, what have we had, over the last say, 10 years? We've had the floods of last year, the Katherine floods, and the Alice Springs floods, which were a much lesser call on the public purse. So, for three years in 15, or whatever it is, that might be appropriate. Well, it isn't an appropriate form, in my view. That's why I argue with, if not the concept that Professor Allan put forward, certainly the quantum.

Mr CHAIRMAN: So, Mr Reed …

Mr REED: So, I'm sorry that the story …

Mr CHAIRMAN: Gerry, did you have any follow-ups on that?

Mr WOOD: Not, that's it.

Mr CHAIRMAN: I take your point about investment in infrastructure in the Territory, and I think everyone around this table acknowledges the importance – and to a large degree, I think we commend the former government for their efforts in developing the Territory.

Mr DUNHAM: Hear, hear!

Mr CHAIRMAN: That's not what I think we're talking about here. We're talking about unrealistically low estimates, in terms of growth, for total consumption expenditure. Now, you've talked about natural disasters, but Mr Clarke, in – I can go through the evidence here – this is on page 54:

Mr CHAIRMAN: But, in the end, Professor Allan, did he basically conclude, as I understand, that you know, given factors like inflation, wages growth and population growth, the estimates of zero growth weren't realistic.

Mr CLARKE: Yes, about the estimates being a bit optimistic, yes, that's probably right.

So, we take it on board about natural calamities - and the Territory is subject to those – but what we're talking about here, I believe, Mr Reed, is management. You're setting a budget target in terms of total consumption expenditure and what Professor Allan said and what Mr Clarke said are in agreement - that the estimates of growth in your total consumption expenditure were unrealistically low, and then, never really achievable. Do you have a comment about that?

Mr REED: Well, I do on relation to your interpretation of what Mr Clarke said. He didn't give you an unqualified answer to that question. What he said: 'They probably are', which clearly, in my view, means that some aspects of the question in relation to the matters that were raised by Professor Allan, he may have agreed with and others he may not have. So, I think …

Mr CHAIRMAN: Well, if I could quote from Ms Prince.

Mr REED: … and then, so if that's the case, that's fine. But, I notice it interesting that, you know, in looking at this, you don't raise any questions of an underestimation of revenue – and they've occurred in years past, perhaps not the last couple of years because of the leveling off of the

economy, but it is a fact of life that they are estimates and estimates means that they may or may not achieve what you expect them to be. In fact, quite the opposite. Sometimes you make an estimate and if there's a higher level than expected of real estate sales for example, then stamp duties in that area are going to exceed the estimates. So what I am saying is, there is give and take with estimates.

Mr CHAIRMAN: Well if I could quote from Ms Prince, who I think her title at that time was Deputy Under Treasurer, I think she's probably Acting Under Treasurer at present, in relation to this matter. I think you will see from this quote that she concurs that your government set unrealistically low estimates of growth and she also added that she believed there was no action to take to reach these low targets. If I could quote from her on page 55, paragraph 4: 'But there was not other action taken to ensure that the actual outcome was, you know, close to the original budget estimate. There were increases through the year, hence this sort of ongoing understatement'. So that's what Ms Prince has to say about it.

Mr DUNHAM: Well, she said several things actually and it is probably a good idea …

Mr CHAIRMAN: No, no Mr Dunham, we have talked about this before. If Mr Reed can answer that question …

Mr DUNHAM: He doesn't have a transcript and …

Mr CHAIRMAN: … and then he can take a question from you.

Mr DUNHAM: It is not a question. I am merely …

Mr KIELY: A point of order, Mr Chairman! We should have a deliberative if this is going to occur.

Mr DUNHAM: Why? All I am trying to do is give him a more fulsome quote.

Dr LIM: Get the full quote.

Mr CHAIRMAN: We require Mr Reed to answer the question, please Mr Dunham.

Mr DUNHAM: Why would you want an abridged quote other than just to put some spin?

Mr CHAIRMAN: Would you please continue, Mr Reed.

Mr REED: Well, I haven't started. Interesting to hear the concern about the facts being put on the record, but that's another issue.

In terms of the examples which you use, there has been or had been a concerted effort in a number of areas to normalise, if you like, the budget allocations for agencies. One was police where there was a funding problem and a need for increased resources. As I mentioned this morning, over the last five or six years there have been substantial increases in the police budget during that time. That was for a couple of reasons. One was to better resource the place so that they could do more things to protect Territorians; and the other was at the behest of the Commissioner to have a budget that was aligned as closely as possible with the agency's demands.

We went through a very similar process with education. That started in the *Planning for Growth* exercise wherein the investigations of the education department we found extraordinary anomalies in

terms of their budget, the accuracy of the information that could be provided to government, and the knowledge of just what the real budget figure was. Now, over the following couple of years that issue was pretty well addressed, and I think was getting close to what might be referred to as the right figure, if you know what I mean.

A similar process was being undertaken in health where the minister and others were working to ensure that the budget was somewhere in the same field as the demands.

Now, in terms of what might be perceived by others to be correct or the right way to go about it, we still hadn't, in my view, reached that stage and there was still need to apply pressure, and not just for those reasons but for others, to have the mindset that you still had to live within your means and to pursue all of those matters that I referred to at length this morning.

Now, Mr Chairman, you did ask me to address the question of the Darwin to Katherine power line. I don't know if you would like us to go down that road. Your understanding of it I am not sure of, but …

Mr CHAIRMAN: Well, I have read the Auditor-General's Report.

Mr REED: Well, and that's very good. I note with interest that you might have read the Auditor-General's Report, because one can either take on board and accept the Auditor-General's remarks or one can do what your Deputy Leader of the Opposition did last week and said, 'We know what the Auditor-General said about compulsory redundancies in the public service and we don't believe him. And we don't accept his findings on that particular matter'. So it is nice to see, Mr Chairman, that one would hope that attitude would flow down to you in relation to whether one accepts or has the ability to accept or reject the Auditor-General's point of view in relation to any particular matter on which he should report given that the standards are now being followed by your government.

Now, in relation to the power line, that is clearly demonstrated and has been by Treasury that the outgoings are much the same as they were now as when we leased the line or paid for use of the line. The big difference will be that in a number of years' time we will own the line, rather than paying out the use payments each year of $5m, $4.7m - I just forget what the figure was but quite high - and ending up with nothing at the end of the day. So I would just implore you to don't always take on board as accurate and correct the advice that's provided to you by your parliamentary colleagues. Challenge it from time to time and ask the question about, well perhaps I've got to look at this from another angle, and as I have demonstrated it is not always that the Auditor-General is right and that's been recognised as recently as last week by your Deputy Chief Minister.

Mr CHAIRMAN: Thank you, Mr Reed. I was hypnotised by that answer, I must confess. So we have heard evidence that we have had under estimates of total consumption expenditure in consecutive years between $65m and $75m a year. In his evidence, Mr Clarke told the PAC that he attempted to warn you about the infamous crocodile jaws, that yawning gap over consecutive years between income and expenditure of the Northern Territory government under you stewardship. And I'll quote from Mr Clarke on page 56, paragraph 1:

Mr CLARKE: I mean, I often said to the Treasurer that 'Gee whiz, you know, those crocodile jaws are opening up. We're going to have to get into this'.

Why didn't you heed his advice?

Mr REED: Well, I was interested to hear about crocodile jaws from comments made by your Treasurer and Chief Minister, and the Deputy Leader of the Opposition, as if it were some new found wonderful exposé on government finances. The crocodile jaws have been something that I have used extensively and with some effect over the years in the presentations that I have done to Cabinet throughout the course of the year and also to budget Cabinets, so it would have come as no surprise to former ministers of the previous government that you had discovered the crocodile jaws because they are a very effective means of explaining the situation. The crocodile jaws come and go.

One of the things that impact on crocodile jaws are some of the initiatives that I was fortunate enough to be able to put in place as Treasurer. I referred to one today in relation to the restructure of the debt and reduction of interest payments. Another one that springs to mind was the NTGPASS scheme and the alterations that were put in place for it so that the forward projections of exposure of government to that scheme were reduced. So to sit here telling me how wonderful the crocodile jaws are is sort of water on a duck's back in relation to my knowledge of it. From time to time, circumstances arise for all sorts of reasons in relation to the particular budgetary circumstance at the time, or the economic situation with the drop off of the military build-up in the north over the last few years; there was a tapering off construction; there was then a tapering off also in other areas of the economy which was a flow on from that, given that it had been in place for a number of years. And as a consequence of that, Territory own source earnings reduced and the economic situation started to turn around. And that would be something that this government would be addressing now if we'd have been re-elected to government. I would quickly emphasise that we would not be doing it in the very brutal and far too extensive way that this government is, and can I say that in terms of being able to address the crocodile jaws – and that's the issue that you are pursuing at the moment – that the $90 extra with registration taxes imposed on Territorians, a 5% increase in water and sewerage charges, cuts to funding for the Northern Territory Public Service, reductions in staffing numbers in the public service, and the question has to be asked: all those areas of pain are being felt in the broader community. Who is not on that list? The one group that is not on that list is the Northern Territory Labor Government. They haven't contributed out of their election promises, which exceeded $300m, one sacrifice to help address the budgetary position that they perceive to exist.

Mr CHAIRMAN: Well, just to place on record, Mr Reed, we're committed to implementing our election promises, however due to the situation that we inherited, some of those – you know, the timing of those might be altered. But in terms of your statement about water off a duck's back, I'm a bit aghast at that because what the crocodile jaws and the growth in total consumption and expenditure is all about is increasing the debt burden and if I could just quote here a question on page 56 that I asked Mr Clarke, I said – it's paragraph 2:

> *I guess the bottom line – I feel that it's an important one as the Public Accounts Committee – is that these worse than budgeted for outcomes in the final analysis added to the debt of the Territory?*
> *Mr CLARKE: Absolutely. That was our concern.*
>
> So you've got this lack of management, it appears to me, allowing total consumption expenditure to gallop out of control because you weren't willing to set realistic growth and come out and lay it on the table exactly where you were going and what you would spend in the end. You had departments coming back to you through the year trying to – and adding to your expenditure and in the end, you've got this mess of total budget expenditure blowing out on consecutive years between $40-60m and adding to the debt of the Territory.

Mr DUNHAM: Was that a question?

Mr REED: Okay, and you're not going to – as a government, your government isn't going to do any of that. For example, the $2m for Virgin Airlines doesn't fall into that category? Oh, an emerging need! Yes, we'll put $2m into that. Your decision to put extra money into the port. Oh, an emerging need! Yes, we'll put an extra $10m into that. Oh, some capital works! $4.5m, was it, you put extra into capital works? They're not emerging needs that you're responding to?

Mr CHAIRMAN: But we've got a plan.

Mr REED: Oh, you've got a plan! Oh, I see. That makes a difference. Dear me. Can I say, Mr Chairman, that your plan is pretty transparent.

Mr CHAIRMAN: I hope so.

Mr REED: In terms of – transparent – just let me finish – in terms of substance because there isn't any. Because you, by your question that you put to me, you say that emerging needs and responding to them is a nasty no-go area, yet, by your actions of your government, you demonstrate that you believe that it's quite an appropriate course to take. So let's be a little bit fair and even-handed in how you apply some rules to me and the former government and how you apply them to yourselves.

In terms, then, of the other point that I was making before I was interrupted, the fact is that this supposed $107m black hole – if you'd have even taken $50m off your election promises, you could have halved that problem, that perceived problem. But what you have done is said: 'No, this is what this whole exercise is all about' – and it is – 'It's about putting ourselves in a position to be able to keep our election promises. Don't think the Labor government is going to suffer. We're not going to contribute to this, but every car owner in the Northern Territory, every pensioner, every disabled person will because they're going to pay their 90 bucks in their extra registration fees and their increase in water and sewerage charges.' So if we could just inject a little bit of honesty and practicality into this and to final – to finish off on your point in relation to what you're talking about really here is the position of not being funded enough and in agencies and the circumstance to which you allude that we were the criminals in that regard, can I quote from the Moody's Investor Service – well, in the sort of vernacular. Similarly as my remarks about water off a duck's back with the crocodile jaws. I wasn't being disparaging in terms of the principle of the crocodile jaws; what I was saying is news of the crocodile's jaws is old hat and I'm familiar with that…

Mr CHAIRMAN: That was the question, Mr Reed, because I was trying to ask you did you…

Mr REED: Well, okay, well the crocodile jaws. Let me address the crocodile jaws as it pertains to your government, and I quote from the Moody's document, Moody's Investor Service, and it's from page 4 and I quote:

The government plan…

that is, your Labor government plan

> *…allows for annual average increases of 2.3% in current expenditures for the general government sector and the plans out years as compared to the 6% pace realised over the past three years.*

Not a bad growth rate, 6%, under a CLP government. And to continue with the quote:

Achievement of this slower pace of growth will be challenged by ongoing pressures in health,…

$34m already you've put into it don't forget.

> *…education and justice along with the expansion of services that are part of the new government's mandate. New initiatives including the hiring of teachers, police and nurses and salary adjustments amounting to $19m this year rising to $69m in 2004-05 complicate the task of achieving balance. The current program of expenditure measures may be insufficient to offset these pressures. More aggressive adjustments could become necessary.*

The crocodile jaws. That's the crocodile jaws. Para 1, 2, 3, 4, 5 on page 4 of Moody's analysis. You've got the same problem.

Mr KIELY: Mr Reed, could I just say to you the question is: why did you not heed this advice, not, you know, thank you for enlightening us on that, but…

Mr REED: Okay. So it's all right for me but not for you?

Mr KIELY: No, the question – no. We ask the questions here. Why did you not heed this advice, the advice that you got from your Treasurer – from your Under Treasurer? It's simple, you know. We're just asking [inaudible] with the Under Treasurer and we're just inquiring as to why you didn't heed it.

Mr REED: Mr Chairman, I again take exception to Mr Kiely's assertion that I didn't accept advice and didn't do anything about it. Things were done about it and advice was accepted and actions were taken. And for him to suggest that the advice was ignored is erroneous. It is wrong and it again lowers the standard of this committee and reflects on all members of the committee through Mr Kiely's questions and unfortunate actions. And I must place that on the record.

The fact is that the former government did respond to those advices and pressures…

Mr CHAIRMAN: Well, I'll come back…

Mr REED: If I could just finish.

Mr CHAIRMAN: Sorry. Please, finish.

Mr REED: Just as we had to respond to them, you are going to have to respond to them because your government now faces the very same problem as demonstrated by Moody's.

Mr CHAIRMAN: I'll come back to the evidence that I've quoted before from the Acting Under Treasurer, Ms Prince, and she said:

> *…but there were not – there was not other action taken to ensure that the outcome was, the actual outcome was, you know, close to the original budget estimate.*

So she seems to be refuting what you're saying about some sort of action being taken.

Mr DUNHAM: It might be helpful, Mr Chairman, to read that whole quote because we've now been on this issue for a while and the allegation that Treasury's advice hadn't been heeded, I think, is put to bed by the answer we got in transcripts where Treasury admit to having discussed stuff in some deeper analysis every year in the budget papers for over the last eight years. It was a matter, I think, that is in Jennifer Prince's quote from just prior to what you quoted and we…

The conclusion we reached and we do it in a chapter that we've included in the budget papers for the last eight years, our expenditure increasing at a rate that was more rapid than our revenues. The effect on the bottom line was of concern to us and our guess what the government, the then government, was doing was trying to put the brakes on expenditure by keeping those increases low.

I wouldn't say that's an indicator of the Under Treasurer not heeding Treasury advice.

Mr CHAIRMAN: Then she goes on, Mr Dunham, to say:

But there was not other action taken to ensure that the actual outcome was close to the original budget estimate.

Mr DUNHAM: So, it doesn't mean it's not heeding it.

Mr CHAIRMAN: There were increases through the year, hence this sort of ongoing understatement of expenditures, and if I could go to one example of these understatements, it's the Auditor-General's November 2001 Report on page 22 in respect to the Department of Education, and I'll quote:

By March 2001, the department had better identified its budgetary needs for personnel costs during the year. That analysis established that the original $204m budgeted for personnel costs for 2000-01 was insufficient. A $6m increase was approved by the government in March 2001, but the forward estimates in the government's 2001-02 budget papers still showed $204m. The actual outlays recorded for personnel costs for the year eventually totalled $212m.

So, can you tell us, here's an example: why wasn't the increase of $6m for personnel costs in the Education Department budget that was approved by the CLP government in March 2001 included in the forward estimates for 2001-02?

Mr REED: Well, I did explain. I don't know if you are listening, Mr Chairman. I did explain just after lunch and I used, by way of example, the Planning for Growth exercise. Specifically, as you had pointed to education, in relation to determining just precisely what their needs were and getting that information. As you have just said, I think, Ms Prince said that by - was it April 2001? - we found out …

Mr CHAIRMAN: No, that was the Auditor-General.

Mr REED: The Auditor-General, sorry. They had found out what the amount was. Well, that was precisely the process that we were following: getting out of the department just how much money it was. The Auditor-General may have been of the view that we knew precisely what the costs were. There's a couple of alternatives to government: you can either just give it to them, and off they go and they will be happy. But can I say this: that if you give it to them upfront – that's it, gone, very difficult to withdraw it or to reduce funds. If you provide them with, in the parameters.

A member interjecting.

Mr REED: Well, it might be a contradiction, but can I give the answer?

Mr CHAIRMAN: I'm sorry, Mr Reed, I didn't mean to interrupt you. I apologise.

Mr REED: In terms of the overall approach, if they have sufficient money, in the global sense, to operate within reasonable parameters, you can always give more to pick up on, perhaps, any other identified areas of need. Now, you mightn't like the process; it might look messy to you. But, the fact is that there is always an opportunity, as time passes by, to provide additional funding and to get it to - as was pretty well achieved with police - to get it to a level where this looks pretty right. You've got higher levels of confidence in the expenditure, the demands of the department, and you can base your funding on that.

It's not a criticism of people in the agencies necessarily, because they too are facing evolving circumstances. If you look at the pressures faced by education and health over the years with high population growth, they've had to respond to additional schools at Girraween and wherever, Palmerston - and in doing that you have to give them additional money. They don't know just precisely how many patients or pupils are going to turn up at the door, so necessarily, there's going to be a period of adjustment and catchup in relation to funding. I can tell you, when you become Treasurer, and you open the bottom door expecting to find a crystal ball, it's not there.

Mr CHAIRMAN: All right, thank you. We'll get this one out of the way - we'll get a couple out of the way now, Mr Reed. I think I know what the answer's going to be. We've talked a little about the sale of NT Fleet; we've talked about the almost chronic underestimate of total consumption expenditure; you've mentioned $107m deficit; Percy Allan's mentioned it. Will you accept responsibility for it?

Mr REED: Certainly not! I won't, because I believe that – and it gets back to my comments earlier today about the fact that you're a politician. You will be implementing, as a member of your government, what you consider to be your mandate following the election. You are intending, as a government, to deliver on all of your promises, notwithstanding the fact that, if you do have a financial problem, it would be quite reasonable to extend the sharing of that to your own desires, as a political party, and not just expect the people of the Northern Territory and public servants to carry the brunt of it. So, I don't accept it, because I'm not convinced about the rejection of the sale of NT Fleet, and perhaps the ability to explore other options there. Even if the answer to that were negative and, at the end of the day you looked at all of the facts and said: 'Okay, I can accept that to sell it would be marginal, or you wouldn't make any money out of it; it wouldn't be worthwhile, better to leave it as it is'. The Commonwealth Grants Commission, to which Mr Kiely took great exception - notwithstanding that I'd already pointed out it was for next financial year - budgets go beyond the year for which they are bought down. Life goes on. You don't all die, and reform and regroup in another form on 1 July. You must, necessarily surely, and indeed, Professor Allan did, Mr Chairman, look at the potential income over the coming years. I'd be surprised if Treasury didn't advise him that they would have expected a higher level of CGC payments this financial year as opposed to last year. Those sorts of things should be taken into account. There is always, of course, the question - and that gets back to politics - about what you actually do with that money; which of your priorities, as a government, will you fund with that $74.6m? That responsibility lies with the government of which you are a member, quite rightly so.

Mr CHAIRMAN: We take it seriously.

Mr REED: And you take it seriously, and so you should. But the fact is, in all fairness, that Commonwealth Grants Commission allocation should be taken into consideration. The reason I reject the proposition put forward by Mr Kiely is based simply on his own reason, and that of his government. This whole exercise is about a budget improvement process through to 2005. For Mr Kiely to interject and say that this doesn't occur until year 2002-03 clearly demonstrates that he

has no understanding about the path that his government's on, in relation to the budget improvement and the so-called reasons for having to pursue it. That's a disappointment.

Mr CHAIRMAN: Can I ask you another question, Mr Reed? We heard evidence from Mr Clarke - and it's been in the public domain - about the budget that you handed down in May 2001 not being sustainable. Did Mr Clarke, did Treasury, ever come to you at any stage and give you this sort of message that it wasn't sustainable?

Mr REED: Oh, indeed, I made similar remarks. Not in relation to that budget, but in terms of the longer-term issues that face government; that we have to get ourselves into a more sustainable position. Treasurers recognise that on a daily basis. Now, a more sustainable position can mean anything from - you can try and get yourself in a more sustainable position if you have $200m in the bank. 'Not satisfied with that, let's see if we can get $300m in the bank, and it will be more sustainable in the event that there's a disaster, and be able to respond to it'. More sustainable …

Mr CHAIRMAN: You had 300 in the Conditions of Service Trust.

Mr REED: Happy to address that if you want, Mr Chairman.

Mr CHAIRMAN: Yes, we will come to that one.

Mr REED: That's good, I'm getting the opportunity. But, in terms of sustainability, the beauty lies in the eye of the beholder. In terms of being able to improve your position, however weak or strong that position might be, it is something that Treasurers always strive to achieve, as one would expect them to do. I hope that, if you are the Treasurer one day, you would do the very same thing. Can I say this: what is sustainable about a government which ignores the imposition of a $39m debt as regards funding the HIH outgoings …

Mr CHAIRMAN: All that is set out in the budget papers, Mr Reed.

Mr REED: Well, it isn't.

Mr CHAIRMAN: Yes, it is.

Mr REED: Well, it isn't because …

Mr CHAIRMAN: In budget paper 3.

Mr REED: There is dashes, there is nothing, there is not even a zero.

Mr CHAIRMAN: Because there is no impact on the budget.

Mr REED: Well, why did your Treasurer then say last week that there was an impact?

Mr CHAIRMAN: I will just refer you to budget paper 3.

Mr REED: Well, that conflicts with the advice that was provided both by the responsible minister and the Treasurer last week, and indeed as I alluded to earlier, it conflicts with the former Under Treasurer's advice that attention needs to be drawn to that matter before the end of this month. That then gets back to your legislation of fiscal trust or whatever it is.

Mr CHAIRMAN: Transparency.

Mr REED: Transparency, and there again, we get into it. Sort of unsustainable, the fact that in your budget you have a promise in your commitments not to increase electricity prices. Now Percy Allan advised your government that the Power and Water Authority should be left to run as a commercial entity without interference from the government. Your government has interfered to the extent that it says its going to freeze electricity prices and Territorians …

Mr CHAIRMAN: Were you going to increase them?

Mr REED: … they won't have an argument against that. However, your government has not made any allowance for that, and it is going to cost $20m. Is that fiscal responsibility.

Mr CHAIRMAN: With all respect, Mr Reed, we may have not put anything in there against that $20m, but neither had you. So are you suggesting you were going to put up power prices?

Mr REED: Well, I thank you not to verbal me. Our intention was not to put up electricity prices and how we would have dealt with that would have been clear and transparent. How you are going to deal with it as a government is not clear and transparent, and it doesn't comply …

Mr CHAIRMAN: We have given a commitment.

Mr REED: Well, it is an unfunded commitment, it's a $20m hole in your budget, and it doesn't comply with almighty Mr Allan, whom you hold up so highly. Of course, there is the most deceitful of practices of removing public service staffing numbers from your budget documents so that you can conceal as a government the reduction in public service staffing numbers. And if you don't think that's hurting you out there then nothing is.

There is another aspect of that, too, and we will talk about that later, I guess.

Mr KIELY: Mr Reed, this goes towards accountability I should imagine. Mr Clarke has acknowledged in his written submission and confirmed by the CEOs of Police, Fire and Emergency Services, Territory Health Services and the Northern Territory Education Department that the Cabinet approved allocations for these departments did not change despite the change in public estimates. So, you were aware of this?

Mr REED: I answered the question this morning.

Mr CHAIRMAN: Is that a yes or a no?

Mr REED: Well, I answered the question this morning. Go and have a look at the answer.

Mr CHAIRMAN: You are aware of it?

Mr REED: I answered the question this morning.

Mr KIELY: Well, according to the evidence that we've got there, the note that you signed off on, the memo you signed off on the issue, you were aware. These departments …

Mr REED: That doesn't assume that …

Mr KIELY: You have signed off on that minute …

Mr REED: Well I have answered that question this morning. I don't have to keep answering questions I wouldn't have thought that are repetitious.

Mr KIELY: Well they do lead to a point, Mr Reed, and if we had nice clear cut answers, and ones that I could remember all the way through …

Mr REED: That's your problem, not mine.

Members interjecting.

Mr CHAIRMAN: Order, order! Just ask the question.

Dr Lim: A mind that's capable of remembering one word at a time.

Mr Kiely: Dr Lim, can you stop talking?

Mr CHAIRMAN: No, no. Come on let's get on with business.

Mr KIELY: Mr Reed, these departments have also stated in evidence that they were always begging for their [inaudible]. They all allege that they had such an understanding with Treasury. Were you aware of this?

Mr REED: I have been through all of this this morning. In relation to the budgetary matters, the reasoning behind the action that was taken, I explained in sufficient detail to get you upset and to be interjecting and saying that I was giving too comprehensive an answer. I am not going to repeat it all, because you'll get again upset.

Mr McADAM: Mr Reed, can I just ask you a question? Would you agree that it is a minister or our Treasurer that has responsibility to ensure what he or she presents in parliament is correct and accurate and to the best of their respective knowledge?

Mr REED: I think I have answered that question two or three times today.

Mr McAdam interjecting.

Mr REED: Why do you find it necessary - well, you say that it wasn't answered clearly. It was answered clearly and at length to the extent that you were upset with the answers. Now, I am sorry but I can't, what's the point in sitting here repeating all these things. Go and listen to the tape recording.

Mr McADAM: The only other comment I have to make, Mr Reed, is that you obviously agree that as a member of parliament it is our responsibility to ensure that what we present to parliament is accurate and correct. I would assume that you would agree with that, as a member of parliament?

Mr REED: Well, one would hope so. But I might say that I have grave concerns in relation to that, given the comments made by the Chairman in the parliament, and also by the comments made by the Chairman in the public arena and the fact that a journalist on ABC Radio was moved to comment that he had, the Chairman had already determined a position in relation to these matters and that there were very real concerns of bias. Now, we have seen today, and I have had the

unfortunate need to put on the record similar examples from Mr Kiely. That, whilst I agree with you, Mr McAdam, that I would hope that this Committee - and I am sure that some members will - provide accurate and detailed and factual information to parliament on the actions, based on the actions as I know them and the comments made by both the Chairman and Mr Kiely, I have very grave concerns in relation to some of the comment that might be included and the advice provided to the parliament in relation to this inquiry. Very grave concerns.

Mr CHAIRMAN: Mr Reed, if I could just sort of encapsulate or sum up elements of the evidence that has been presented to this Committee. It appears that in terms of Police, Fire and Emergency Service, the education department and the health department, that their estimates of expenditure were reduced. I think there is documentary evidence about that. We've also heard over the course of our hearings consistent evidence given by CEOs and also by the Under Treasurer, Mr Clarke, that these departments were spending to their full allocation. We have also heard evidence from Mr Clarke who, and there seems to be conflict about between the evidence you've given and the evidence Mr Clarke's given. He said that you were very keen to show growth in an election year relating to these three departments. You contend that you were applying the brakes in an expenditure sense to these departments.

I was very interested when I put it to Mr Clarke about here we are, we have got the departments running to their allocations. We have parliament being presented with a set of estimates, and I put it to Mr Clarke about a government keeping two sets of books. Now Mr Clarke, to be fair, to read what he said there on page 19, paragraph 9, I said: 'Now I put it to you, to me anyway, this strongly suggests the former government was working with two sets of books'. Now Mr Clarke said: 'There were two numbers, no question about that'. So I mean the Under Treasurer, he didn't say there were two sets of books, but he is saying there were two numbers.

Mr REED: Did he not go on, Mr Chairman, to say that either of those numbers could be considered and both were acceptable? Or words to that effect?

Mr CHAIRMAN: Well, I don't recall him saying that.

Dr LIM: Mr Chairman hear me out, and therefore continue that: 'There were two numbers, no question about that'. And you said, 'Two numbers'. Then he followed by saying: 'You know there was the estimated actual and there was the allocation'.

Mr CHAIRMAN: Yes.

Dr LIM: Quite frankly, there was two numbers.

Mr CHAIRMAN: Yes, well two sets of numbers if you look across the …

Dr LIM: No, let's not misquote him. He said: 'Two numbers', okay? And that's what Mr Reed was trying to explain to you. Two numbers, and he explained that.

Mr CHAIRMAN: But that was true …

Mr REED: But that raises, Mr Chairman, that you should try to, in his absence, verbal Mr Clarke when before you in the transcript that you have you had that advice but failed to read on, preferring instead to impart to me a suggestion quite erroneous and lacking of fact and that's just after, immediately following a discussion that we have just had about the veracity and the honesty of some of the questioning and the process applied by this Committee. I am appalled.

Mr CHAIRMAN: Mr Reed, I am quite comfortable because what Mr Clarke is talking about there is the estimated actual and the allocations. This is where the difference comes in. The departments were working to their allocation and there was an estimated actual that had been reduced by you, according to Mr Clarke, the whole thing happened at your instigation and without your intervention the original estimates would have gone forward into the budget papers.

Mr REED: How many times have I explained today the necessity to apply a very rigid process to cap expenditure? We've been through the comments of Mr Clarke where he referred to savings if they didn't achieve full expenditure. We've been through the process of the flop out at the end of the year which normally occurs and last year, for the first time, it didn't. I don't know how I can explain it to you in more detail or in a way that you will understand it, but I hope that some of the members can appreciate the fact that it is a changing circumstance throughout the year. The outcomes in 2001-02 were anomalous that two agencies spent to their allocation, and had they not done so we probably wouldn't be here. But to focus on a single point, as you are, and to ignore all of the other contributing factors that occur in the lead up to and indeed following the bringing down of the budget will necessarily give you a distorted figure. I'm sorry. I just don't believe that you can come to any other outcome.

Mr CHAIRMAN: All right. Thanks for your answer there, Mr Reed. In an attachment to his written evidence, Mr Clarke - or in the Minute that stated 17 May 2001, he talks about budget figures in the report represent the "legal budget". So I'll say:

> *…the budget figures in the report represent the "legal budget", that is, published budget plus variation tabled in the Legislative Assembly.*

What do you understand to be the "legal budget" that Mr Clarke is referring to there?

Mr REED: Well, I think you should have asked that of Mr Clarke. He made the statement, and you're expecting me now to do what you've been doing all day: interpreting in a way that best suits you the meaning of what he said. Well, I'm not going to get into that game. I'm not going to go second guessing Mr Clarke or verballing him in terms of what he may or may not have [inaudible]. Sorry.

Mr CHAIRMAN: Well, no, he wrote to in a Minute and he made use of this term. I would have expected that there would have been the understanding on your part exactly what the …

Mr REED: You're talking about an issue here – you're talking here about a comment I think that Mr Clarke made. So, I'm not going to verbal Mr Clarke. I've got more respect for him than that.

Mr CHAIRMAN: So you're not going - no, I'm asking you what you understood to be the "legal budget" as words contained in a memo that was written to you by Mr. Clarke.

Mr REED: Okay, well we can go and choose some other memos, too. They're in their countless thousands.

Mr CHAIRMAN: We'll note your refusal to answer that question, Mr Reed. So, if we could just sort of keep moving on. The issue of contra entries is one that's been raised within the hearings and then in some of the written evidence. So you know what the contra entries are?

Mr REED: You might expand on it.

Mr CHAIRMAN: Well, if an amount of funding is identified to be carried over into the next financial year, a contra entry - just say in the case of health if it was $8m identified as a carryover, there would be a –8 and there would be a +8 as a contra entry in the 2001-02 forward estimates. In terms of what we've heard in evidence is that these three departments were told that they could carry these sums of 8, 6 and 2 between one year and the next, and then it was removed. But the question that I'd ask you was: was the lack of a contra entry in the audit trail a sign that a decision had already been reached that there would be a withdrawal of carryover in June? In other words, the fact that the contra entries did not appear on the audit trail, did that mean that those funds - that a decision had already been made that those funds would not be carried forward?

Mr DUNHAM: Do you think, Mr Chairman, that we should tell him what Treasury said about it or are you laying a little trap here?

Mr CHAIRMAN: No, no. Well, in this case, I'll let you bring out the evidence, Mr Dunham.

Mr DUNHAM: My recollection is that Treasury said that the reason they did not do it is was the proximity to the end of the financial year and it was a particularly late budget process this year. I'm quite happy to look for the quote so that you can give the question to the former Under Treasurer, not just in the context of what you've done, but what Treasury, I believe, had a very cogent explanation for.

Mr CHAIRMAN: So were you involved at all in the decision about the carryovers, Mr Reed?

Mr REED: Well, it seems that you have already got an answer, Mr Chairman.

Mr CHAIRMAN: I put it to you that if the 8, 6 and 2 had've been carried over into the next year, it would have added another $16m to your bottom line.

Mr REED: Well, you can put that to me. But in terms of the cuteness of the question that you ask, in part, carefully avoiding to mention the fact that you already had an answer and full explanation in relation to the contra deals further underscores to me the sad conduct of this committee. I mean, it's…

Mr CHAIRMAN: Well, Mr Reed, let me assure you in a very direct way, Mr Reed, that it's always been my intention as Chairman to afford you the full right to put your point of view to all the issues that have been raised during the conduct of this inquiry.

Mr REED: I appreciate that.

Mr CHAIRMAN: Now, it would be remiss of me not to give you the opportunity because contra entries has been an issue that has been raised consistently during our inquiry, and I believe it would have been remiss of me and this committee not to raise the question with you.

Mr REED: I have no concern about you raising the question, Mr Chairman, but I do have grave concerns when you structure the question in a way that suggests you have no knowledge as to what actually happened, and it seems that you do. That's a pity.

Mr CHAIRMAN: Can we move on to another major area that we've heard quite a lot of in the conduct of our inquires, and that relates to reinstatements. What we've been told in evidence was - say with the 8, 6 and 2 that were removed from the three departments in question - that they were

actually reinstated within a day. If you'll just bear with me, I'll read an answer that Mr Clarke gave on page 41 paragraph 9. I asked the question:

Mr Clarke, can we just move onto the subject of reinstatement that I think we've established in the evidence pretty well that there was and 8, 6 and 2 million dollar reinstatement to the estimates. And just correct me if I'm wrong, this reinstatement to the estimates of these amounts that have been taken off in May occurred in June. Is that correct?.

Mr CLARKE: No, I think it was almost the next day.

So, I mean, you talk about snapshots in time. We've got you signing off on the reduction in the estimates and suddenly within a day, they're put back in there with no change to the allocation. Do you have any comments about that?

Dr LIM: Well, before…

Mr CHAIRMAN: No, no, no. Mr Reed…

Dr LIM: No, hang on. Mr Chairman, you've got to bear with him because again there is an incomplete quote, Mr Chairman.

Mr CHAIRMAN: No, no.

Mr KIELY: A point of order, Mr Chairman.

Dr LIM: It's an incomplete quote, Mr Chairman.

Mr KIELY: Raise it as a supplementary question, Dr Lim.

Dr LIM: Well, no. It's an incomplete quote.

Mr KIELY: Dr Lim, raise it as a supplementary question.

Dr LIM: It's an incomplete quote.

Mr CHAIRMAN: Well, you can follow up, Dr Lim.

Mr McADAM: Through the Chair, can I suggest that you ask the question again, please?

Mr REED: I don't need that. I'm brighter than that. In terms of me saying one thing one day and something happening the next is what you are talking about. Which is the inference is this: that budget comes down and virtually the following day there's another action taken. What you are very, very conveniently ignoring is that there's gaps between when the budget delivered, when it's printed, when the last decision was made. Now, it probably isn't a sufficient length of time to satisfy the very predetermined approach that you're adopting in this process, but you are trying to conjure up a picture that one day this decision was made and the very next day something else was done.

Mr CHAIRMAN: That's what we've been told.

Mr REED: Where, in fact, there has been a space of time between the finalisation of the budget, the printing of the budget papers and the final decisions that were required to enable that to have

been done. During that course of time, additional information might have come forward in relation to the fact that they were going to achieve full expenditure, so this really - this does demonstrate your destination has been clearly identified and you are constructing the cobblestones to make the road…

Mr CHAIRMAN: I'm just trying to ask the question. Dr Lim, please.

Dr LIM: I will follow up then, Mr Chairman, because, as I said, it was an incomplete quote and it is a form of entrapment by asking half a question. Asking a question, half a quote, and for the record I'm going to read exactly what was said so that people do understand when they read it.

Mr WOOD: Sorry, Dr Lim, where are you reading from?

Dr LIM: I'm reading from page 41, same page. Our chairman stopped immediately after Mr Clarke responded:

No, I think it was almost the next day, wasn't it?

The rest of the information that came from Miss Kirkman and Mr Clarke and Ms Prince had a lot of bearing on that particular topic, and you chose to leave it out.

Mr Kiely: Sorry I don't …

Mr CHAIRMAN: No, let Dr Lim continue.

Dr LIM: Let's read, okay? Immediately after Mr Clarke responded: 'No, I think it was almost the next day, wasn't it?'. Ms Kirkman said:

Yes, unfortunately, with the audit trail it is not something we can put a date on each adjustment, but I think I've got in the submission the audit trails I used to make sure that they balance, the budget that we are presenting is balanced, and that we have got everything that should be in there.

Mr Chairman then said: 'So they were taken out one day and put in the next?'. Mr Clarke said: '

Yes, because we have the budget system that's got all the numbers in it. We have a pretty rigorous process for making sure that whatever changes are made to the budget system, there's documentation. So, once the budget papers were printed and it was all done then, because at the end of the day, the allocation was what was – that was the 'legal budget.

Then Mr Chairman then said: 'The legal budget. So we have this movement back into - make the legal budget legal again'. Mr Clarke then responded:

That never changed. So the reinstatement was solely to make sure that a budget system married up with this. First of all the budget system had to be changed to reflect what was in the budget papers and then it had to be changed to reflect the allocations.

Mr CHAIRMAN: Thanks, Dr Lim.

Dr LIM: No, I am sorry. You had to read it through, otherwise it would have made no sense.

Mr CHAIRMAN: Well, what it means to me, Dr Lim, is that there was a change within a day to marry the two figures up, because the allocations had never changed. If there was a serious intent on the part of the Treasurer to reduce expenditure and use that as a target, the allocation would have changed. But the allocations, we have heard consistently in evidence, were never ever changed.

Dr LIM: We also heard Mr Reed explain to this committee - we also heard from Mr Reed that he was signalling to the departments that they must be cost contained. There was a message that he was trying to get to the departments. And you are reflecting a different thing altogether.

Mr KIELY: Dr Reed, what were the movers that made the reinstatement so urgent? Here we have you sending out the signal of the $6m, $8m, $2m, and then, within 24 hours there has been this calamitous - and I must have slept through it because I don't remember anything - there was this calamitous event. Can you tell us what it was that made you reinstate these funds to these agencies?

Mr REED: Well, I don't think I had anything to do with the reinstatement. That was a Treasury initiated action and it was something that was done within Treasury, as I recall.

Mr KIELY: So, there was no communication between you and the Under Treasurer about this reinstatement?

Mr REED: Well, not that I recall. No, not that I recall.

Mr KIELY: There certainly seemed to be a lack of communication between you and the Under Treasurer.

Mr DUNHAM: Following the advice that they gave.

Dr LIM: That is precisely why - we will argue about that at a later stage.

Mr CHAIRMAN: That's a matter for the committee. How are you going there, Mr Reed? Do you want a cup of tea or keep going?

Mr REED: Keep going. Work – I'm a hard worker.

Mr CHAIRMAN: I know you are, and no one's ever doubted that, Mr Reed. Okay, let's turn onto the Conditions of Service Trust.

Mr REED: Yes, please do.

Mr CHAIRMAN: During 2000-01, the Conditions of Service Trust was wound up, was it not?

Mr REED: Yes.

Mr CHAIRMAN: Can you take the committee what happened to proceeds? I think there was about $300m-odd involved in winding up the Conditions of Service Trust, but you can correct me, Mr Reed.

Mr REED: Well, I won't get into the detail of the dollars because I don't recall the exact amounts, but there were, broadly, two components of them: funding out of the Conditions of Service Trust for the railway and a residual. The Auditor-General - that chap that your Deputy Chief Minister has chosen to ignore - had for many years decided to push the government, to lobby the

government - quite within his right - to bring the Conditions of Service Trust on the book - that is, to not have it set aside, separate - so that they would be on budget.

We didn't do that, and that was a decision that was up to the government. It was funding that was available for uses to be specified by the government, and we left it there. It was as a separate entity. It was the Trust in which we put the proceeds from the sale of the Yulara Resort. We identified, as a government, we'd be a contributor to the railway - something that your government now takes great credit for and did little to achieve. So, from the point of view of having the funding there, it was safe, it was identified as being in Conditions of Service Trust and an appropriate place for it to be. It was a - from the point of view of the money for the railway - it was a no-go area: 'That's it, it's for the railway and away we go'.

So, came the time - and this is all about timing, as have been most of the things we have been talking today in relation to 'when the time comes an action has to be taken'. The time came for moneys to be paid into the railway, somewhat later than we anticipated that that would be required, and that was because of the longer process than was first considered that it was going to take to finalise the railway. In effect, the transfer of funds for the railway and the budget overlapped, and there was another factor in addition to that. That is, that in the previous year's budget, I had announced that the government would be proceeding to adopt the practice of accrual accounting. It became evident to me, from discussions with Treasury that, if we were going to adopt accrual accounting, we would need to bring the Conditions of Service Trust on to book, because you have to have all your assets, so to speak, identified.

That being the case and, albeit that the move to accrual accounting wasn't going to occur in the last budget but the next one, there were some preparatory steps that could be taken. Further to the fact that the payment to the railway from the Conditions of Service Trust was required, it appeared apparent to me - and I did discuss it with Treasury officers - that if the Conditions of Service Trust had to be brought on the budget, then why not do it for the last budget, given that the railway money had to be paid out of it? It seemed silly to leave the residual sitting out on its own when, within the next year, it had to be brought on the book anyway because of accrual accounting. Hence, the demise - I think as some of your members have referred to it as – of the Conditions of Service Trust. So, I don't know …

Mr CHAIRMAN: Would you like a comment on the Auditor-General's criticism in his August 2001 report, on page 16? He says:

> *The government's ability to transfer significant amounts in or out of its budget scope highlights that the budget scope is unreliable as a measure of the government's fiscal stewardship and accountability.*

Secondly, and I believe this is very important:

> *Better calculation of the estimated financial result for the 2000-01 year is identified in the increase in net debt as calculated by the uniform presentation format. This shows that the deficit estimated by the government was $149m.*

Mr REED: Well, that's a comment by the Auditor-General which you would accept with alacrity, Mr Chairman, as has your government, because it suits your argument of the day, and your right to embrace that comment if you so wish. Of course, equally - as has been clearly demonstrated by your Deputy Chief Minister - when the Auditor-General makes a comment that your government doesn't like, they rubbish it. So, don't hold up to me, please, Mr Chairman, an example that I should adhere to if your government and Deputy Chief Minister isn't prepared to adhere to it himself. He has

demonstrated by his actions, and the actions of your government, that your government clearly believes that the Auditor-General has every right and responsibility to report to parliament, and the government of the day may or may not accept the comments that he makes. As it happens, the comments that he has made in his most recent report of February to the parliament, those that offend the government, they have rejected. Surprise surprise. In relation to that particular comment, well, the Auditor-General had every right to make the comment and you can use it to your benefit it you wish.

Mr CHAIRMAN: Mr Clarke also agreed on page 59 - I'd have to count down the paragraphs - paragraph 16 on page 59: 'So do you agree', it's talking about this transfer of funds from the Conditions of Service trust, 'So do you agree that these type of transactions impede the transparency of data transparency or can impede it?' 'Yes, I think they probably can impede it. I think that would be a fair comment.'

So, the Under Treasurer also thinks the same way. So that leads me to the question: Whose decision was it to pull the $150m in from the Conditions of Service trust into the budget scope?

Mr REED: Well, I thought I'd already alluded to that, Mr Chairman, in terms of my reasoning as to why the Conditions of Services trust were disbanded, and why it was brought on to budget. It was an inevitable requirement in the move to accrual accounting. It is rather ironic that for many years the Auditor-General was requesting of government to bring the Conditions of Service trust into the budget, and then, for the Auditor-General, when we did it, to criticise us for doing so. He may have had his reasons for doing it, but I must say that on face value, I'm at a bit of a loss. I would have thought that having for many years as Treasurer, and I think that the Auditor-General commented on it every year in his report, that he was of the belief, and I'm not quoting him here, I'm just sort of paraphrasing, that the Conditions of Service trust should be brought onto the budget, for transparency or whatever reasons. I suppose I could be excused for thinking that the very year that we did it, he would have acknowledged the fact that even if he did it in a way that: 'We've been asking the government to do this for years and they haven't, and I'm very pleased that its now been done'.

Instead, having acceded to his wishes, that we've ignored for years, he was critical of it. So, that was his position, Mr Chairman, and I'm not going to verbal him in terms of what he had to say.

Mr CHAIRMAN: Thanks, Mr Reed. Just I suppose going to one side. We've heard, I think some conflicts in the evidence today between what Mr Clarke has said and given in verbal and written evidence. I'll just quote from an editorial from the *NT News* on 6 February 2002: 'Mr Reed says Mr Clarke's evidence vindicates him. How he works that out is anyone's guess" Do you want to comment on that?

Mr REED: Oh, a couple of comments in relation to that. One of course is that this is the very same newspaper that your government was rejecting a report in last week as totally unfactual and no basis in fact at all, and was discredited in the parliament by your government, and your Minister for Industries and Business, or whatever it is called these days. So it's interesting that within a matter of days to suit your purpose you can quote for it, saying it's a wonderful publication.

Mr CHAIRMAN: But how do you …

Mr REED: Well, that's for you to answer …

Mr CHAIRMAN: How do think that Mr Clarke's evidence vindicates you?

Mr REED: Well, again, who was - who was the author of that great social justice [inaudible]. That great socialist, Mr Loizou, was it?

Mr McADAM: It doesn't matter. The question being asked..

Mr REED: Well, it does. It matters not to you, Mr McAdam, but it matters to me, and I'm a pedantic sort of person, so it …

Mr McADAM: It may also matter to the people in the Territory, and they might like to get a straight answer, Mr Reed.

Mr REED: It may do, Mr McAdam. So let's just say that that was his interpretation of my view, and I was talking there particularly to something that you've avoided mentioning today. As I recall I think Mr Clarke said in his evidence said that the budget was entirely legal and it was constructed within sound accounting practices. Now, that being the case, I would have thought that the comments were quite justified. But you have your right to sort of not agree, so …

Mr WOOD: That is probably what he meant by a legal budget.

Mr REED: Sorry? By a legal budget?

Mr WOOD: That the budget was legal.

Mr REED: Well, again, I think we are trying to put words into Mr Clarke's mouth. I mean, had the budget not been legal, or some malpractice been perpetrated, or it did not comply with accounting practices, I believe you would have an argument. But there's been nothing found in that regard. The intentions were I think sound, as I demonstrated in quoting from the budget speech here today. There's things been done now which we said we'd do, and the current government's got credit for it.

Mr WOOD: I think what the – the difficulty I have anyway, is I suppose, I don't have any problem with what Mr Clarke said. He said it was a legal budget, or the budget is legal. He said that he could legally basically show why there had been this adjustment the 2.5%. The difficulty is, was the real basis of that adjustment a political basis or a sound economic basis?

Mr REED: Well, I've explained that. In terms of the advice that came from - just to recover some of those items - in terms of the advice that I sought and I think Mr Clarke says that he gave, someone asked the question today about where did the 2.5% come from, or what the figure was. Well, didn't Mr Clarke say something to the effect that that was about the amount of the flopover and it was a figure that I'd mentioned …

Mr WOOD: No, inflation.

Mr REED: …$50m and/or inflation. It was inflation about the same figure. It was the flop out in previous years of about $50m. So the figure that Treasury provided was a figure based in fact. The intent for that application was an intent based in fact. And the fact of mine was, as I believe I've demonstrated here today, and it was my commitment and this government is going to have the same problem as alluded to here to by Moody's that you have to keep pressure on your agencies to contain the expenditure. It is not a nice job. It's not a nice job when an agency head comes to you through their minister, or with their minister, and says if we don't get more money, we will not be able to

provide this service. And you don't make those decisions in isolation as the Treasurer, but you certainly argue in Cabinet, 'Hang on a minute, folks. There are constraints here. We have to contain expenditure'.

Mr WOOD: Probably chicken and egg case, pardon me to bring that sort of subject up. But what I see is that the Under Treasurer has, because he's seeing him most days, he understands, he's saying: 'But I've been told by the Treasurer that he wants to see some real growth in next year's budget'. The Treasurer thinks: 'Well, I suppose I could show that if I sort of looked at the averages over the last few years and that figure just came up at about 2.5%'. There's some calculations on the blueys here. You mentioned the three most important - that's according to Mr Clarke - the three departments you were looking at were health, fire and education. So he's saying that he's come up with a legitimate way of approaching that, but it could have been based on your requirement to give this growth, or appearance of growth, in an election year.

So on one hand there is some political rationale for what you are doing, but he's not a politician of course. He's come up with an economic rationale. Now, the point is, from my point of view, should have that happened? Should it have been purely an economic rationale and not a political rationale? That's what we're trying to find out today, and that's what I've got to go back and look at, make a judgement on.

Mr REED: No, I can see where you're coming from. In terms of real growth, and that's what's mentioned in here, if we could just step back to the previous financial year and that budget, and then throughout that year there were increases in funding. Now, it could be normal practice in some cases to say: 'All right 2000-01, your allocation was this and you got extra so that - and that demonstrates real growth in this budget because it was higher than the other budget.'

Mr WOOD: Hang on…

Mr REED: No, no, but on account of - those additional fundings that were provided in that year, in the intervening year could have been considered to be one-offs. Hang on, we gave you that, but don't think you've got it forever, if you know what I mean. It might have been to address a flood problem or some emergency health needs or something like that. Instead, they were kept intact largely, and then you got real growth, but that still leaves the age old problem of treasurers of - I mean, you will see it every year. I mean Peter Costello goes through the same thing. You see the federal government, what do they always run? The health minister and the education going to the Treasurer for more money and they do it in quite blatant ways by getting in front of the TV camera and saying: 'I'm going to the Budget Cabinet fighting for more health and education money', the respective ministers.

So I understand precisely where you are coming from, and you'd have an understanding of it from local government at a different level of government. But my imperative was to be imaginative, if you like, and try to find a way to keep rejuvenating the message, if you like, reinforcing it: don't think life's going to get any easier. If you're suggesting that the message conveyed to the Under Treasurer could have been better enunciated or explained more forcefully by me, okay, well that might be a fair suggestion. But the fact is that the underlying issue is as I have explained it to you today, and the fact is that if we were still in government, that pressure would be applied and that action that was taken in relation to their end of financial year circumstance, they'd be reminded of it. I would be reminding the minister on a very regular basis: 'Listen, this lot know what the story is. Don't let them come this business of "Oh, we need more money and we know things are tough but these are the reasons." Remind them of what happened at the end of last financial year. Remind them of the fact

that they were sent a very forceful and serious message' because you have just got to keep doing that.

Now, I think Mr Bartholomew got that message. I think that that's demonstrated in his comments and others don't, but that's where we are at balancing the different views of different people. But the overall intention was there.

Mr KIELY: Good-o. Mr Reed, what can you tell us about Treasurer's Directions? What are they used for?

Mr REED: Treasurer's Directions in terms of advising agencies about the circumstances that pertain to them or advice in relation to the *Financial Management Act* and how agencies conduct their financial management.

Mr KIELY: Can you use a Treasurer's Direction to cap expenditure in an agency?

Mr REED: Well, Treasurer's Directions don't come from the Treasurer. They're not…

Mr KIELY: Where do they come from?

Mr REED: They come from Treasury. You weren't aware of that?

Mr KIELY: Tell me all about them.

Mr REED: Well, that's it. They are advice – there's advice - as a public servant, I thought you would be rather familiar with it.

Mr KIELY: Please enlighten me, Mr Reed. I could do with enlightening.

Mr REED: If you are not, well that's a problem for you. But in terms of Treasury providing advice to agencies in relation to matters financial and their management.

Mr KIELY: So you could, through a Treasurer's Direction, you could direct the Under Treasurer to cap expenditure in an agency?

Mr REED: No. No, no.

Mr KIELY: No?

Mr REED: No, no. You don't understand what a Treasurer's Direction at all is.

Mr KIELY: Please tell me.

Mr REED: A Treasurer's Direction is not a direction from the Treasurer to the Under Treasurer or to Treasury. A Treasurer's Direction - I think they might be called Treasury Directions, I am not sure what they are called…

Mr DUNHAM: They are subordinate legislation under the regs and under the act.

Mr REED: But they're messages that flow between Treasury and agencies and your evil little attempt to implicate me in that process won't be successful.

Mr KIELY: No, no. I haven't finished - I mean, please don't attribute anything to me that is not true.

Mr REED: No, all right.

Mr KIELY: Can you use – can you direct the Under Treasurer to issue a Treasurer's Direction to an agency which may be over expending to cap its expenditure saying: 'We do not wish you to exceed a certain limit.'?

Mr REED: I don't recall ever doing it.

Mr KIELY: I am not saying you did do it, I say: can you do it?

Mr REED: To be honest with you, it's not an avenue of action that I have ever sought to pursue. I think it would happen probably as a normal course of events. You're saying that a direction to an agency not to overspend?

Mr KIELY: I'm saying – well, how about *Planning for Growth*, how was that done?

Mr REED: No, no, no. I want to answer the question that you asked earlier.

Mr KIELY: Well, I am giving you back an example. Tell us how *Planning for Growth* …
Mr REED: No, that's not an example. It's got nothing to do with it.

Mr KIELY: Yes, it is. Please don't be evasive, Mr Reed.

Mr REED: The question, Mr Chairman, was: could I direct the Treasury to put out a Treasurer's Direction telling agencies not to over expend. I think that was the question. Agencies don't need that message. They are more competent than Mr Kiely's understanding of this matter because agencies are aware, I would have thought, Mr Chairman, that under the *Financial Management Act* they cannot over expend. We have or had, in the Northern Territory, a very professional and dedicated public service until the Labor government came along and decimated it, the decimation which now continues and which so upsets so many public servants notwithstanding that we don't how many of them there are or there are going to be because that's been expunged from the budget documents of this government.

So that sort of direction wouldn't be necessary, Mr Chairman, because I think agencies would be aware of their obligations under the *Financial Management Act*.

Mr KIELY: Mr Reed,…

Mr CHAIRMAN: No, wait a second, Mr Kiely. So, obviously, if there is some suggestion that such minutes of memos were used in the past, we should investigate that and just see what sort of context they have been used in the past?

Mr KIELY: I think probably the *Planning for Growth* might be a good one to look at.

Mr CHAIRMAN: Anyway, we will work that out.

Mr KIELY: That was done one under Treasurer's Direction, wasn't it? That was done…

Mr CHAIRMAN: That's an important one.

Mr REED: No, no, no, no, no. See, you are trying to be evil and it's not working.

Mr DUNHAM: A point of order! This is further away from our terms of reference than the mini-budget. At least the mini-budget's encapsulated in the …

Mr KIELY: We are finding out if Treasurer's Direction could be useful, Mr Dunham.

Mr DUNHAM: No, no. Let me finish.

Mr KIELY: I haven't finished my questions, Mr Dunham.

Mr DUNHAM: I am making a point of order.

Mr CHAIRMAN: No, no. Let Mr Dunham make his point of order.

Mr DUNHAM: The Terms of Reference for this committee talk about the accuracy of the budget papers 2000-01, 2001-02. Now, it is moot to some of us whether that includes the mini-budget. I would suggest it does. You would like to go back five years. Now, that's okay. That's okay.

Mr CHAIRMAN: Speak to me on the point of order, Mr Dunham.

Mr DUNHAM: I don't think it matters that we budget out a couple of years, but there shouldn't be a brick wall that hits sometime in August because I think it's good that we have that much hindsight, but it is also good that we had that much foresight.

Mr CHAIRMAN: But if I could address that point of order, Mr Dunham, a large part of Mr Reed's testimony today has been about the reduction of estimates becoming the brakes, the target, a new target for departments. I think what Mr Kiely is trying to allude to here is what actions could Mr Reed have taken, what actions have been done in the past to ensure that agencies comply with such targets?

Mr REED: Oh, no, I think you missed the point, Dr Burns.

Mr KIELY: No, no, no, no, no, no. It is my belief – well I can give the point. No. It is my belief that the Treasurer's Directions can be used, and they have been used in the past, to control expenditure. Now, I put this question to you. What I would be happy to do would be to look for instances back in the past to see whether this had indeed been done because I am having difficulty getting an answer out of you whether its been used or not.

Mr REED: Well you are not having difficulty …

Mr KIELY: Hang on, Mr Reed. So I believe that the answer may lie in the way that the *Planning for Growth* was done because it wasn't done through the budget process, it was done through Treasurer's Directions, I believe.

Dr LIM: Let's look there.

Mr CHAIRMAN: Yes, let's look for it.

Mr KIELY: Hang on. But the question then for you, Mr Reed, is that I was hoping to find out whether we could have used Treasurer's Directions rather than the blunt instrument of winding back - did you consider using Treasurer's Directions rather than the blunt instrument of winding back the estimates that were provided by THS, Police, Fire and Emergency Services and Education as a means of controlling expenditure within departments?

Mr REED: Well, I don't know how effective that would have been. Treasurer's Directions aren't written or posted, if you like, by me - that is, directed to agencies by me - or weren't by me as Treasurer. I must say that I wouldn't have thought that a Treasurer's Directions, in terms of it being written and applied by the Treasurer, was appropriate. Treasurer's Directions are, once a decision has been made - and it might be a Cabinet decision that was associated with an item sponsored by the Treasurer. If a decision was made by Cabinet, then that might end up in a Treasurer's Direction out of Treasury, in the form of an advise from Treasury to an agency about a decision that Cabinet had made.

I want to clarify one other misconception that Mr Kiely has alluded to; that *Planning for Growth* was all me, my idea, instrumented and initiated and what have you, by me. I was a key player in it and I don't withdraw from that for one moment. But, it was very much a Cabinet process, in terms of *Planning for Growth*. If you are trying to now cast dispersions on that process or me, or what have you, then it is rather ill-directed, Mr Chairman.

Mr KIELY: No, no, you don't have to …

Mr CHAIRMAN: No. let Mr Reed finish.

Mr REED: So, Treasurer's Directions, it is not something that I did as a Treasurer. I don't know whether or not it would have been appropriate to act in the way that you suggest - that is, advising those agencies by Treasurer's Direction as to what the action is. And, if it could have been done that way, I doubt that it would have had the impact, if you like, as just something that was decided in terms of ringing the bell and what have you. But, I suppose, they're matters of judgment …

Mr CHAIRMAN: Well, obviously it didn't have an impact, Mr Reed, because two departments spent to their allocations.

Mr REED: No, but you see, you still miss the point on that, and this is where you have got your eye on the destination and you're just deaf and blind to the information that's being provided to you. Because had they not - and you're completely ignoring what Mr Clarke had to say because it suits you to ignore it - had they not achieved their full expenditure there may have been then, an opportunity to accrue some savings or, of course, you are ignoring the implied and real message that was sent by the actions that were taken. But that's life.

Mr CHAIRMAN: Okay. I'm just about out of questions. I intend to wind up and formerly close the meeting, but before I do that, I would like to either give the members on this side a chance to make some comments and some summation. I would certainly like to accord Mr Reed a similar right, and to Mr Wood also. I notice the member for Drysdale certainly seemed to have something to say.

Mr DUNHAM: Yes, it goes to the two sets of books. They were mentioned a couple of times, but there was an exchange, at page 20 of the transcript with Mr Clarke, and it was put, I think on about three occasions during the thing - but this is the most telling one. I would ask you, Mr Reed, to give me your opinion on Mr Clarke's answer: 'With all respect Mr Clarke you might call them two figures,

but I'll call them two books'. This is the Chairman speaking. Mr Clarke answers: 'Two books suggests you are sort of managing to two books. I think that's my only point. It's not. You're not only managing two books - I mean the estimated actual is the estimate of what you think the actual result will be. The allocation is the statutory amount of money to which the agencies can spend to'.

I guess my question is: he's identified that there's two labels to the figures, rather than two books; would that be exactly the same circumstances today, that there will be an allocation and an estimated end of year financial? Or do you think that the system is totally different now to what it was?

Mr REED: Well, I think the current government's going to have exactly the same problem. If they think - and I think this is where you're coming from - if they think that in their mini-budget they have set an allocation and, at the end of the year, dollar for dollar, expenditure is going to relate directly to the allocated figure - which is I think what they're suggesting - then they are very sadly being misled, or they're naïve.

It has already been demonstrated, I believe, that can't be achieved. The tourism budget, as fudgey as it is, has $2m extra expenditure injected into it because of a commitment made to bring Virgin Airlines - which is applaudable - to the Northern Territory. But the agency didn't receive funding for that, so they have got to find it out of their hide. On the other hand, the Tourist Commission had to find the $241 000 that was taken from it in the budget. Now, during the course of the year there will be, likely, emerging issues where the government might want to respond again, as it did with Virgin, which would change the outcome and make sure that the end expenditure wasn't the same as the allocation.

Transport and Works is a very good example - the infrastructure department - where it would be, I would suggest, impossible to have the allocated figure matched by expenditure. Simply for very simple reasons: local government. The Litchfield Shire might have wanted to build a road and they got held up because of the wet and, as a consequence of that, they had to carry funds over; or they couldn't meet the expended levels for matching the allocation. There are just so many variables in relation to agencies, where the current government will quickly come to realise that, matching allocation and achieving full expenditure to that allocation, as occurred with health and education, will be anomalous rather than - I thought I was being waved to stop talking out of tape or something. My apologies; it was just exercising - you know, RSI, I can understand. So it would be exceptional to expect that to occur on very many occasions. That is why I think that illustrates the points that I was making today that, had that not been achieved last year - and there were very good long-standing reasons why you would expect it wouldn't have been achieved, because it had never been done before. I think Mr Clarke said it had never been done before; where expenditure has matched allocation.

As again I indicated earlier today, it was something that we strived for to reduce the carry-over from one financial year to another, because of the enormous amounts of money involved, and you didn't really know how much money was still there unspent against overall allocation, until a couple of weeks or a week or so into the new financial year. That's why you must keep the pressure on the agencies to make sure that they can spend to their allocation - although it had never been achieved before - notwithstanding that that's what we were trying to achieve. We knew that, traditionally, it had never been done before and so, as a consequence you would say: 'Well, it would be nice if it happened, but it won't because its never happened', and whacko it did with two agencies. So, an extreme outcome in historic terms. But if the government believes that its going to - and I think they have enunciated this virtually - that their expenditures are going to match allocation, well, they are going to find life very difficult and frustrating.

Mr DUNHAM: My second question is about the editorial, and your comments that Mr Clarke's comments had vindicated your position. Do you think it's more likely that your position has been vindicated, or that the position of some other commentators who have used words like 'fraud' - which obviously has an accounting connotation – 'corrupt', 'deceit', 'cooking the books'; do you think that its more likely that your position will be vindicated or those other commentators who are on the *Parliamentary Record*?

Mr REED: Yes, well, I am under no allusions as to what the outcome of this is likely to be in terms of, certainly, the government members and their recommendation, and the report flowing from this, because I believe that those comments from unfortunately the Chairman and others have demonstrated a bias from the outset. And indeed, from before the outset, in terms of their comments, the Chairman's comments in parliament, which are quite profound.

Mr KIELY: A point of order. I don't think you should speculate on the outcome of this item.

Mr DUNHAM: No, it is to do more with the media comment. Your question was did he believe that Ken Clarke's evidence afforded him some comfort. His position. And I'm putting the corollary of that as to whether you think Mr Clarke, and you've read his evidence, was able to demonstrate and the word fraud, corrupt, collusion, they're all accounting terms and some of them are covered under criminal codes and others. I was merely seeking your comment as to whether Mr Clarke's evidence is closer to those commentators, or yours.

Mr REED: Well, I certainly don't think that Mr Clarke's comments are in any way in the field of the anti-commentators if you like. I must sympathise with some of the other commentators, because to some extent they've been influenced or dragged along by comments that have been made by people who are seen to be either influential, or thought to be knowledgeable in relation to these matters, but have, in my view, spoken out of turn, or have been using inappropriate terms at inappropriate times. And commentators necessarily feed off all of this.

It can lead to quite erroneous points of view being developed and expressed and that is greatly unfortunate in my view. I just think that the dictum of presumption of innocence has suffered very sadly as it paints to me in relation to this, and for the Chairman, as I said earlier, to have made the comments that he did in parliament. It worries me, in relation to our parliament; its efficacy and continued operation and its respect that is held in the broader community. Mr Clarke's comments, to get back to Mr Dunham's point, I think that whilst he has a view different to mine in relation to the intent of the actions which have been central to the discussions today, okay, well he's got a different view. My outlook and my purpose was, as I've expressed here today very strongly and very sincerely, we've demonstrated an increase in real allocations to those agencies which have principally been in question, and I think that okay, as I said to Mr Wood, if there were some suggestions that my views could have been better expressed to Mr Clarke, well that's history. And that opportunity is lost.

You can't revisit these things, and re-do it. You just have to keep on. The real intent, the real purpose and the practical reasons for doing it I think I've enunciated here today. Mr Clarke has not made any suggestion at all in his evidence, in my view, and I've read it, of malpractice, of illegality, of deceit …

Mr CHAIRMAN: Well, I'm not sure about that, Mr Reed.

Mr REED: Well, that gets back to, Mr Chairman, your comments in parliament, where you demonstrated that you had a fixed view, in relation to these matters, before you even embarked on this process.

Mr CHAIRMAN: As we said right at the outset, I've put my case on the floor of parliament, and we're just going over this, but you mention visitation, Mr Reed. I'll have to make a terrible confession here. I have to visit the gents room, and I've just asked the indulgence of the committee to give me five minutes for a comfort stop.

Mr DUNHAM: My other question is that it was asserted that Mr Bartholomew's memo had the effect of impacting on the confidence of investors in this place and several other global economic issues …

Mr KIELY: A point of order. We'd better wait for the Chair to come back because I don't believe that was the context of the - where are these assertions coming from?

Mr DUNHAM: In the censure motion it was asserted that the memo had the capacity to erode the confidence in the Territory as a place to invest.

Mr KIELY: Where is it? Can we have that quote of everything?

Mr DUNHAM: The point I'm getting to, is that …

Mr KIELY: No, I haven't got a copy of that. You are making some pretty strong assertions there. This better be context, that's all I'm asking.

Mr DUNHAM: You can take another question while I'm doing this if you like.

Mr KIELY: I'm happy to wait for the Chair.

Mr McADAM: I've got one question, Mr Reed. This term 'presentational purposes', do you have any idea of where it may have emanated from?

Mr REED: Treasury assertion. It didn't come from me.

Mr CHAIRMAN: I would have preferred if we could have just waited a couple of minutes, Mr Dunham …

Mr DUNHAM: Nothing's happened while you've been gone.

Mr CHAIRMAN: So, where were we up to? Mr McAdam is asking a question.

Mr REED: I have answered that.

Mr DUNHAM: I'm happy for you to ask another question if you like.

Mr CHAIRMAN: Dr Lim, have you got any questions?

Dr LIM: No, go ahead Mr Chairman.

Mr CHAIRMAN: No, I'll reserve the best for last.

Mr REED: Doesn't say much for your questions, Mr Wood.

Mr DUNHAM: I've found it.

Mr CHAIRMAN: Whose evidence is this, Mr Dunham?

Mr DUNHAM: This is my evidence that I'm reading. In the contribution to the censure debate: 'Publishing the financial accounts for the Territory, knowing they were misleading and deceptive, puts the Northern Territory in a terrible position in the financial markets both here and abroad'. So, given that that comment's been made …

Mr KIELY: Did you say that, Mr Dunham?

Mr DUNHAM: No, the Chief Minister and Treasurer said it, in *Hansard*. My question to you is that when you would think that something as serious as that would have been brought to the attention of Treasury as soon as it was bought to the attention of the Treasurer. In evidence, and I haven't found it, but I'm happy to find it and look for it, the Treasurer claimed that he hadn't received advance notice of Mr Bartholomew's memo …

Mr CHAIRMAN: No, that's not entirely true, Mr Dunham. He did say that he was consulted about it.

A Member: Consulted quickly about it.

Mr DUNHAM: Would you, as a Treasurer, take a memo such as that immediately to your major advisors on economic matters if you believed it had the potential for that impact?

Mr REED: This is - the memo of which you speak is the one written by Mr Bartholomew to the minister for Health?

Mr DUNHAM: Yes, that's correct. And is alleged to put the Northern Territory in a terrible position with the financial markets both here and abroad. What I'm saying is that if you believe that to be the case, would you not seek advice from your senior economic advisors?

Mr REED: Well, you'd do it as a matter of urgency. In terms of prompt action. I mean, if something that has led to this inquiry is of such importance, it would require, you would think, immediate and the highest priority in terms of action. Now, my understanding of this minute that Mr Bartholomew sent to Minister Aagaard, was that it was sat on for some weeks, I think. In terms of importance, you'd have to question that, but of course what was being done was the mixture was being added to and a few more spices added and a little bit of political colour here, and a bit of political colour there, demonstrating, I think, that the issue was to be used for purely political purposes, rather than one that might generate some benefit for the Northern Territory.

For a Chief Minister and Treasurer on the other hand, to suggest that this perceived action might have led to a lack of confidence in financial circles is rather extraordinary. on a number of accounts. One is that she prejudged the issue, the Chief Minister, inasmuch as notwithstanding that she intended to have a Public Accounts Committee inquiry into the matter, she had reached a conclusion and she was sending a message to financial institutions of 'shock, horror, this was what was done'. Why bother having the inquiry if that was the decision that was already made? That is to say that was the conditioning process for the media and others from the Chief Minister to clearly infer, notwithstanding that not a question had been asked of those people who were involved in it, and the ability for them to be able to respond in depth.

I know the financial market is just a little bit better than that. I know that they would first of all receive those comments with a great deal of suspicion because inevitably they would first of all think,

well maybe not rejecting the comments but realising immediately that they would need to validate those remarks coming from the Chief Minister to determine whether or not the actions that she alluded to would frighten off investors and of course they haven't, and they wouldn't in any event. It is just a nonsensical political exercise that was pursued by the Chief Minister and others to try and discredit the former government and enhance their own level of public acceptance.

That was obviously done for their own good reasons, and we are seeing now similar enunciations from the South Australian government. I mean the new Labor government in South Australia, I think the day after they were sworn in, started talking black holes and budget shortfall, shock horror. The Western Australian government developed the model that this government is using in terms of black hole, shock horror. It's a good ploy. Its one that's used very effectively by Labor governments. Not to say that it hasn't been used by conservative governments around the country, but is a common practice of new governments who want to try and elevate their position, bearing in mind that as a new government, especially from a party that hasn't been in government ever before, would try to use anything they could to elevate their public profile as quickly as possible. And this government is in particularly dire straight because it isn't doing anything and it still needs to do that, and that is where this mechanism is to some degree helpful to the broader populace albeit that the broader populace is now becoming aware of the fact that it is not so much the practice of the former government that was - I forget the words the Chief Minister used - something or other and deceitful, this very request to the committee to investigate some of these matters.

Mr DUNHAM: For the completeness of the record, and this isn't a question, but I have found the quote from Mr Clarke, page 41, about the lack of confidence in investors:

> *Now let me just clarify it a little. There was some advice sought from me, and I think some is probably the operative word, about the Paul Bartholomew memo. I had a half hour briefing with a couple of senior bureaucrats without any advance warning. This was the issue where I was shown the Paul Bartholomew note, so there was, I went through the sort of bald rationales as to what I had got here, though I must admit I, you know because there was no advance notice, I hadn't really got all my thoughts together about that issue.*
>
> It's hard to talk like Clarkey. But essentially my responses were not inconsistent with what I have got here. But yes, I've got to say I was surprised I wasn't asked to provide a detailed response.

Mr REED: Well, I think Mr Chairman, that demonstrates the contempt with which the government held the Under Treasurer. It is a great sadness when you consider a public service which in the Northern Territory, and the Northern Territory public service is recognised nationally as being very professional. One that has been very innovative over the years. Many of the things that this Northern Territory Public Service have done have been adopted interstate. They have been used as models for implementation in other jurisdictions. And as I've evidenced here earlier today, in the case of Mr Clarke, he was respected by his peers throughout the country and others in other Treasuries. Now it is a sad indictment that a new government should be so suspicious and so unwilling to take an Under Treasurer into their trust and be able to accept that person as a professional. Not as a former Under Treasurer who served successive CLP governments, but looking at the man and establishing his own credentials and values and being able to say, this man is a professional. Ring up some of the Under Treasurers in the other states, even the Labor states, and ring up the Federal Treasurer's Office. Ring up the Federal Under Treasurer, the head of Treasury, as a Chief Minister and Treasurer and say: 'Look, it might be a bit of a difficult question, I don't really know how to ask it, but basically what I am getting at is can I trust this Under Treasurer? Do you think the is professional enough or do you think he would be tainted by his service to former governments'.

Mr Kiely: I think you were the one who was objecting to verbalising.

Mr REED: In terms then of being able to check-out the credentials, if you like, of the former Under Treasurer and to be able to use his expertise rather than trash it, I think is a great shame. It demonstrates to me a government of fear. A government unable to accept the trust of public servants, and senior public servants in particular, and we have seen a number of them pushed and the Auditor-General has clearly recognised that a number of them were sacked. No one falls for the 'asked to go', or 'do you want to retire'. Everyone knows that the interpretation of that is 'You're sacked, you haven't got a future in this organisation', and that's why they were made full redundancy payments.

So it's a great sadness in terms of the public service and the loss of expertise that someone like the Under Treasurer couldn't have been – you might find this tiresome, Mr Kiely.

Mr KIELY: I do, Mr Reed.

Mr REED: But nonetheless, I think it needs to be placed on the record.

Mr CHAIRMAN: Absolutely. Please continue, Mr Reed.

Mr REED: And in diffidence to Mr Dunham, I think that I should answer his question wholesomely.

Mr CHAIRMAN: That's true. Any more from you, Mr Dunham?

Mr DUNHAM: No.

Dr LIM: I am glad that you disagree with your member for Sanderson, that's all.

Mr KIELY: Yes, I just want one quick one, a bit of clarity. When this transcript was handed up and it just re-awakened in me the sense of urgency, I guess, that Mr Dunham had in relation to his CEO concerns that he had. I just want to reiterate once more for the public record: you can or cannot recollect having meetings specifically with the minister for Health in regard to the concerns of his CEO on this particular issue?

Mr REED: Well, this particular issue was of such importance to the current government that they did not seek a detailed memorandum, briefing, considered opinion from the Under Treasurer. The minister for Health who received the minute from the CEO of Health sat on it for some weeks. All of this of course was because they didn't want the truth in relation to this matter. If they wanted the facts and the real detail, the Treasurer and Chief Minister would have sought a full and detailed briefing from her Under Treasurer. Notwithstanding that she might not have accepted that advice, she would have at least asked for it.

Mr KIELY: Mr Reed, I think you misunderstood my question. Because the question is quite clear: can you tell us whether or not can you reaffirm your position from this morning, whether or not the then minister, CLP minister, Mr Stephen Dunham, the member for Drysdale, just so you have got no mistake, came to you and you had discussions with him in regard to those issues raised by his CEO in regard to the $8m artificial adjustment to the estimates? Did you have any meetings on that?

Mr REED: So, Mr Chairman, if I may just continue my remarks in relation to leading up to the answer for Mr Kiely, although he is uncomfortable with it and he wants to get away.

Mr CHAIRMAN: Of course you can.

Mr REED: We've surely got enough time to give thorough answers. The fact is that this issue was never intended to be pursued to find a factual outcome by the government, at least - other members, I think, have been a bit more honourable in relation to it - because had that been the intent, to find out what the real circumstance was; why it was done and the reasons that lie behind it, then the Under Treasurer, as, you know, sort of almost the equal to the head of the Department of Chief Minister in terms of the importance of officers in the public service structure, would have been asked without fail, without any doubt, without any delay, as a matter of priority and urgency, to provide a full and detailed briefing on this very, very important matter.

But instead what happened here was the minute was first of all delayed by the health minister, and then not responded to appropriately by the Chief Minister and Treasurer, but instead was manipulated for use in blatant political ways. So, that's where we have to consider the construction of all of this process and the issues that surround it.

In terms of the question asked by Mr Kiely, I've said today earlier that Mr Dunham approached me on many occasions. I think Mr Dunham in his evidence even said that he bailed up the Under Treasurer somewhere and got into his ear.

Mr KIELY: You're aware that you're under oath?

Mr REED: So – well, is that a threat?

Mr KIELY: No, it's a…

Mr REED: Is it intended as a threat? Is it intended to unsettle? Mr Chairman, I find this behaviour, that I have to be reminded that I'm under oath, quite extraordinary. Could you explain to me why that's necessary?

Mr CHAIRMAN: Well, you are under oath, Mr Reed.

Mr REED: You had already reminded me that after lunch, Mr Chairman, and I've demonstrated here today…

Mr CHAIRMAN: All right. So we all understand that. Let Mr Reed continue, please.

Mr REED: …that I take these matters very seriously. Mr Dunham found it sufficiently necessary and disturbing to him that his agency was going to be chopped back a bit that he bailed up, I think he said in his evidence, the Under Treasurer, or the Deputy Under Treasurer in Parliament House.

As I've said, he accosted me on many occasions not only in relation to perhaps this matter, but to a whole range of issues in relation to his budget that he thought needed forcefully presenting to me. As I think I indicated earlier, that might have been in relation to particular activities that he was proposing for inclusion in the budget or other issues that he thought worthy of inclusion.

Mr CHAIRMAN: So, are there other questions? Would you like to make a closing statement before I close off, Mr Reed?

Mr REED: No, I don't think so, Mr Chairman. I thank you for the opportunity to express my point of view.

Mr CHAIRMAN: Do you feel that you've been given a full opportunity to put your point of view in your case?

Mr REED: Yes, tainted as it is, as I say, by the former remarks that have been made both by yourself and reported most disturbingly over the airwaves to the extent that a journalist was forced to comment that she thought even the chairman of the PAC had predetermined views in relation to these matters. Mr Kiely may laugh. I think that demonstrates the lack of seriousness that he takes this committee in.

Mr KIELY: Well, I think you are very wrong there, Mr Reed. You are very, very wrong.

Mr CHAIRMAN: Let's just get on with it.

Mr REED: And I think that that reflects on all members, unfortunately, of this committee. I hope that in the deliberations and the report to parliament that those public utterances and the parliamentary utterances which I think are in direct conflict with the deliberations of this committee can be set aside. I must say that I don't feel comfortable that they would be, or could be now, because of - at least by government members of the committee - because of the stance that you've taken and the embarrassing position you would be in if you were to report contrary to your formally stated views. And that compromises yourself and to some extent other members of the committee. I think that's very sad.

Whilst I've had the opportunity to enunciate those issues and you have been tolerant in relation to some of my answers, Mr Chairman, to which I have provided sort of lengthy answers, I suppose, thank you for the opportunity.

Mr CHAIRMAN: Well, if I could just sum up. I take what you've said, Mr Reed, about your concerns about objectivity, and I repeat again that my statements in the press were merely repeating evidence that had been given to the committee that day. I can assure you, Mr Reed, that although I'm a doctor of philosophy, I'm also a scientist and I believe in looking at the facts and weighing the evidence and drawing conclusions based on the evidence.

Now, obviously in this issue there's areas between your evidence and Mr Clarke's in particular where there are areas where this committee is going to have to weigh up those issues. And if I could just sort of go through them very briefly: there seems to be agreement, I think, based on the Minute that you signed off that there was a realignment of estimates of 8, 6 and 2 million dollars respectively for health, education and police. I think where we're going to have to weigh up the evidence relates to Mr Clarke's evidence. He, I believe, gave very clear evidence that he believed it was a direction from you to him to reduce the estimates, that the process was initiated by you, you were keen - he says that you were keen to show growth; you maintain that the reduction in the estimates was all about setting targets for the departments to try and put the brakes on and keep expenditure within limits and down to a certain level. So that's what the committee is going to have to weigh up.

Mr Clarke - and I don't think I'm misrepresenting him or verballing him here - he did believe and interpret what you were saying to him as having a political motive in an election year. That's something that you've disputed, and that's another area where this committee is going to have to weigh up the evidence given by Mr Clarke and the evidence that has been given by you.

Mr Clarke also talked about you wanting to have a defendable point of view in terms of the reduction of the budget estimates and you've come along here today and you've put your defence, I

believe. I hope you've been given an adequate opportunity to put your defence to this committee. So that's another area where we are going to have to weigh up.

There was the whole estimates issue and, I guess, not only the realignment of the estimates, there was also the reinstatements. That's an issue that the committee is going to have to weigh up in terms of what Mr Clarke told us about the reinstatement of the estimates and what you've told us.

We've touched a lot on Parliament and responsibility, and that's been a theme going throughout the evidence that we heard from CEOs of departments and also some of the written evidence from Mr Clarke. So I guess some questions have been put to you about your responsibilities and the responsibilities of ministers in delivering budget estimates to Parliament, and that's another area that the committee will have to deliberate on.

Mr Clarke, in his evidence, gave quite a deal of attention to the reduction in estimate to the health estimate. I believe his evidence speaks very strongly that he was asking you to consider the reduction of $8m to the health estimate, and just how - whether that would take, detract from the reasonableness of those budget estimates. So that is another area that we are going to have to consider between your evidence and Mr Clarke's.

I think that we've been through the two numbers and the two sets of books, or two numbers, and we're going to have to comb back through the transcripts and look at that. We also touched on the issue of legal budgets. We talked a little while about contra entries, and that was probably one area of your evidence that I have a fairly direct message about. I am prepared to look very carefully at what you've said there.

We have talked about the reinstatements; we talked about the budget sustainability. We did talk about NT Fleet, and there was obviously some issues put forward by Mr Clarke in terms of what he alleges was a hasty decision, and advise to the contrary to you about proceeding with the sale of NT Fleet. But, that is an important issue and it is one that we will have to look at in terms of a committee.

We talked about the notorious crocodile jaws and, as you say, this is something that's been around for a while. I think, going back to the evidence according to Mr Clarke, it was actually something that Ms Prince probably developed …

Mr DUNHAM: Ms Large.

Mr CHAIRMAN: I beg your pardon?

Mr DUNHAM: Jane Large.

Mr REED: Jane Large.

Mr CHAIRMAN: It was Jane Large, was it? Well, I thought it was Ms Prince that they were talking about. They will need to go over that evidence …

Mr REED: No, it predated Ms Prince.

Mr CHAIRMAN: We talked about conditions of service, and touched on elements related to the Auditor-General's report.

But, anyway, look, I have given you a fairly good platform during the day, so I would just like to close off with a couple of observations that - we talked about the adjustments to estimates of $16m for presentational purposes. There is a controversy about that; that's why we're here today. We have discussed about the sale of NT Fleet and, as you said, there is differing points of view about that. We spent quite a lot of time about the overall under-estimation of final consumption and expenditure. I think Mr Clarke, in his evidence said, in the 2000-01 year that it was about $40m. We also talked about the Conditions of Service Trust.

So, all in all, by my calculation anyway, there is about $260m of potentially disputed - or at least controversial - amounts spread across the two years of your budgets, which probably represents somewhere around 10% of the annual budget. These are matters we are going to have to come to terms with, because it seems to me that, in some of these cases, that there is a very strong allegation that these amounts were concealed and, basically, they added to the level of net debt of the Northern Territory. This is something that this committee is going to have to look into, about whether those things were concealed and their impact on net debt.

Basically, Mr Reed, I thank you for your appearance here today. As I have said before, I have never suggested that you're not a hard-working person, and that you're not dedicated to the Northern Territory. I have also heard from a number of sources that, as a minister, you were always someone who was extremely well-briefed and that you had a handle on a lot of the detail. With that sort of background, I think we are going to have to make some judgments about your evidence. Let me assure you again that I, for one, will be doing it on as fair a basis as I can, given the evidence that has been placed before us.

So once again, Mr Reed, thank you for your appearance today. Now I would like to call this Public Accounts Committee formally to a close.

Dr LIM: Mr Chairman, before you close the meeting, I just want to make sure that your summary of the evidence, what you just did, because of our silence doesn't mean that we acquiesce, or agree entirely with your summary. It's your summary, not ours …

Mr CHAIRMAN: It's my summary and no doubt it will be …

Dr LIM: Okay, I wanted to put it on the record.

Mr CHAIRMAN: … scrutinised, and I am prepared to accept that.

Dr LIM: I just wanted to put it on the record.

Mr WOOD: I would just like to thank the member for Katherine for coming today, and also tell him that the last person who told me I was cute was 'me mum; so I will let her know that.

Mr CHAIRMAN: All right. I formally move that this meeting of the Public Accounts Committee close.

The Committee adjourned at 4.24pm.

402

MINISTER FOR HEALTH AND COMMUNITY SERVICES

Appearing before the Committee on 27 March 2002

The Hon. J.L. Aagaard, MLA

The Committee convened at 9.00 am.

Mr CHAIRMAN: It is right on 9 o'clock according to my watch, so we will start proceedings. Welcome to the Minister for Health, the Honorable Jane Aagaard. I call the Committee to order and open this public hearing of the Public Accounts Committee on Wednesday 27 March 2002.

This Committee operates under the Standing Orders of the Northern Territory Legislative Assembly, and I take this opportunity to notify people present in the public area that under Standing Orders, they are not permitted to record either the sound or the vision of these public hearings. Now, there is an exception for the media and they're well aware of the parameters and rules in which they operate.

I would like to welcome the Honorable Jane Aagaard MLA, Minister for Health and Community Services, who is appearing to brief the Committee on the accuracy of the budget data published in the 2001-02 Budget Papers with respect to both the estimated outcome for 2000-01 and the budget for 2001-02. The Committee has ordered that evidence given before the Committee shall be sworn evidence, and I would ask the Secretary now to swear in the witness.

JANE LESLEY AAGAARD, sworn

Mr CHAIRMAN: Minister, you have been issued with a copy of the Legislative Assembly guidelines dated 20 August 1992 and the Public Accounts Committee Guidelines for Witnesses. Are there any matters of concern in relation to those guidelines that you wish to raise at this stage?

Mrs AAGAARD: No, nothing, Mr Chairman.

Mr CHAIRMAN: The Committee prefers all evidence to be given in public, but should you at any stage wish to give your evidence or part of your evidence or answers to specific questions in private sessions, you may apply to do so and the Committee will then adjourn and give consideration to your application.

For the *Hansard* record, would you please state your full name, address and the capacity which you appear today.

Mrs AAGAARD: Jane Lesley Aagaard [address provided]. I appear as the Minister for Health and Community Services.

Mr CHAIRMAN: All right, well the way I intend to proceed here is to begin by asking you some questions as the Chairman. However, I would like to remind the Committee of our terms of reference. We have discussed them many times in deliberative session and we received advice from the Clerk. Our focus is on the budget estimates and the alleged reduction of budget estimates for the 2000-01 financial year, and the forward estimates for the 2001-02 year. So we have discussed aspects of the mini-budget and where that is relevant to our inquiry and I intend to be very I guess studious in terms of relevance here today.

Mrs Aagaard, what really sparked this inquiry was the …

Mr DUNHAM: A point of order, Mr Chairman! Previous witnesses have been asked to give a brief potted history of their career thus far, and we would be very interested.

Mr CHAIRMAN: You can ask that question, Mr Dunham. I intend to run the inquiry and my questions the way that I would like to, so that question is your prerogative. Also, I would like to confirm with Mrs Aagaard that you have received transcripts and other paper work to do with this inquiry from the Secretary.

Mrs AAGAARD: Yes, I have, thank you.

Mr CHAIRMAN: Okay, well just coming back to the memo that sparked this whole inquiry which was the memo to you from Mr Paul Bartholomew which was dated 27 September 2001 …

Dr LIM: Mr Chairman, if I may interrupt here for a second then. If we are going to embark onto the memo straight away, I think let's have a similar format as with other witnesses …

Mr KIELY: What's the point of order? What's a point of order got to do …

Dr LIM: Hang on, let me finish what I have to say. May I do that?

Mr CHAIRMAN: Yes, you have that right.

Dr LIM: I think what we should do is we should keep the inquiry in the same format right through. I think - sure, we can ask the question; it's not a problem. But I believe its easier for us, all of us, and our consultants and our Secretary if we keep the whole format the same. That's what I am proposing.

Mr CHAIRMAN: I intend to proceed with the line of questioning that I am and, Dr Lim, you have the right to ask the questions that you wish to ask, but I am cutting straight to the memo that sparked this entire inquiry. It was written on 27 September to the Minister from Paul Bartholomew. This memo, of course, is a public document, and I guess one of the main reasons why we have called the Health Minister here today is to find out about the circumstances in which that memo was written. So, do you mind telling the Committee the train of events which gave rise to this memo?

Mrs AAGAARD: Thank you Mr Chairman. The memo needs to be looked at in the context of becoming a new minister in a new government. As part of becoming a new minister and, indeed, as part of coming to government, there is a considerable series of briefings which happened, particularly over the first two months of government. I first met Mr Bartholomew on 26 August, which was the day before I was sworn in as a minister. On that date he told me for the first time that the budget had underfunding of $14m-plus. He indicated that this would probably be considerably more, but at that stage it was unknown.

In the next couple of weeks a number of things happened. On the first week in Parliament the then Under Treasurer Mr Clarke had already informed the Chief Minister and subsequently Cabinet that the Territory was facing a budget deficit of $100m. So it is in this context that budgets were of great import to the whole government, and it was a considerable topic of conversation amongst ministers. Throughout the first few weeks as a minister, I received regular briefings from Mr Bartholomew. On, I would say, every occasion he would discuss underfunding of the budget and probably by the end of the first week he was talking about the underfunding being in the vicinity of $20m perhaps more, because of the things which were at that stage unclear in the budget. So it was

in that context, in the context of a new minister in a new government being responsible for a very large portfolio asking for a written briefing on the true state of the Health budget.

Mr CHAIRMAN: So it was then that Mr Bartholomew sent this memo to you as a result of your inquiries and your discussions?

Mrs AAGAARD: That's correct. I received that as it is dated here on 27 September. I have to say that I was extremely shocked when I received the memo. It wasn't until I received the memo that I had any knowledge of the information contained in it. 'Til that point we had only been discussing underfunding.

It was clear, when I received this memo, that we were looking at something which was far beyond the health portfolio, which involved other agencies of the government and so I decided that it was necessary to discuss the matter with the Chief Minister, who is also the Treasurer. And subsequently the matter was discussed with Cabinet colleagues and then due process took place.

Mr CHAIRMAN: Then – you're saying that after the Cabinet discussions, that the memo was then tabled in Parliament and there was subsequent debate and the censure motion that we are all aware of.

Mrs AAGAARD: Due process took place. We had to ensure that the matters raised in the document were properly dealt with, so due process took place.

Mr CHAIRMAN: I am sure there is going to be questions in relation to the $20m underfunding and the 14 that were identified in the mini budget papers, but I will leave those questions.

Mrs AAGAARD: I am happy to answer those now if you would prefer, Mr Chairman.

Mr CHAIRMAN: No. I would just like to ask a small series of questions in relation to Mr Bartholomew before I throw it open to other Committee Members to ask their questions.

In terms of Mr Bartholomew - I guess you have been Health Minister since August - would you call - in your dealings with Mr Bartholomew, do you have confidence in his abilities as a CEO?

Mrs AAGAARD: Mr Bartholomew enjoys my full confidence and support.

Mr CHAIRMAN: And particularly in terms of budgetary matters and budgetary planning and his financial prowess, let's say?

Mrs AAGAARD: I think he is a very competent CEO. I think the fact that he actually alerted the previous minister to the situation, as outlined in the memorandum, indicates that he is a man of integrity and he also understood the budget process quite well, and he was very alarmed at the situation that he was being put in. I would say that he understood financial matters quite significantly.

Mr CHAIRMAN: From what you are telling us here today, you believe Mr Bartholomew to be a man of the highest integrity and honour and honesty?

Mrs AAGAARD: He enjoys my full confidence.

Mr CHAIRMAN: All right, well those are the questions that I wanted to ask.

Mr KIELY: Did you at any stage, Minister Aagaard, coerce Mr Bartholomew into making any statements to you? Was there any form of coercion whatsoever?

Mrs AAGAARD: No, there wasn't.

Mr KIELY: So the memo was provided to you as a part of normal business?

Mrs AAGAARD: It was part of the normal business, and I didn't know the contents of the memo until I received it, so there would be no possibility of coercion as I was simply unaware of the information that was contained in the memo.

Mr KIELY: And there was no sign of any apprehension from Mr Bartholomew in providing this memo to you?

Mrs AAGAARD: Not that I was aware of. You have to bear in mind that as a minister, you actually are asking for a lot of briefings on a lot of different topics. This was simply one briefing relating to the budget.

Mr CHAIRMAN: Just in terms of the memo itself, Mr Bartholomew did give evidence that he didn't expect that memo to become a public document. There may be some criticisms about that. What's your response to that particular feeling or allegation?

Mrs AAGAARD: Well, obviously all matters that are given to a minister from a CEO would normally be considered to be confidential, and I would have to say that that is absolutely the rule as far as I'm concerned. However, in this instance we were talking about matters, the memo talks about matters which are clearly beyond the scope of my portfolio. We were talking about things which actually affected the entire government and we were in the process of having just heard that we had $100m deficit. It was because of that that I decided to discuss the matter with the Treasurer.

Mr CHAIRMAN: Yes, I agree and it appears - the language of the memo is quite serious. Mr Bartholomew talks about proposed deception, artificial reductions. He was obviously quite concerned about propriety of what went on. So you're telling the Committee that in that context the memo was handed on, and I guess ultimately a decision was made to make that a public document on the floor of Parliament.

Mrs AAGAARD: As I said before, I discussed the matter with the Treasurer. It was also subsequently discussed in Cabinet meetings and due process took place.

Mr CHAIRMAN: Okay.

Dr LIM: I broach the subject of going through the same process we have had with every witness that has been to the PAC was taken through a process of personal information, work information, history before we launch into specific questions. So if I may ask the minister: could you give us a bit of history about yourself, your work history, your political history including, say, your records as a businesswoman in your previous life? Would you mind taking us through that?

Mr CHAIRMAN: I'll just explain to the minister: Dr Lim is right; we have asked previous witnesses …

Dr LIM: Every witness.

Mr CHAIRMAN: Every witness - well, previous witnesses , every witness, including public servants and ex-politicians and current politicians a little about their history. How long they have been a minister, I think that is fairly obvious to everyone. But your history, as Dr Lim says, as a successful businesswoman before you entered politics. You know, I think that's what Dr Lim's after there, so if you don't mind, minister, maybe you could answer this question. You don't have to tell him when you were married or anything like that …

Mrs AAGAARD: That's an interesting detail.

Dr LIM: You can tell us anything you like.

Mr KIELY: We did not ask members to talk about their political allegiances in any way, witnesses to talk about their political allegiances, as Dr Lim alluded to.

Dr LIM*:* I asked for political history. I did not say political allegiance.

Mr WOOD: Mr Chairman, I think we'll just leave it up to the minister.

Mr DUNHAM:: What's the problem, mate?

Mr KIELY: I haven't got a problem, Mr Dunham, mate.

Mr CHAIRMAN: Order! We'll let the minister continue with the question. You answer it the way you see fit, minister.

Mrs AAGAARD: Yes, I'm happy to answer that question. Until I entered politics I had my own business, which I had run for thirteen years. I have a Bachelor of Business degree from the Queensland University of Technology. I have been very involved in community groups over many years, particularly ones relating to churches and justice matters. I have a strong focus on things such as families and young people, and I have done a lot of work in community aid such as that. I entered politics with the clear intention of wanting to make a difference in the Northern Territory. Personal information – I'm happily married with three children. I live in Nightcliff. I'm the member for Nightcliff.

Mr CHAIRMAN: Okay, thank you.

Mr DUNHAM: Have you ever dealt with government budgets in the course of your thirteen years, or had a relationship with government appropriations or any of those types of issues?

Mrs AAGAARD: No, I haven't.

Mr DUNHAM: Right. Have you ever, in your own business, come across incidents of fraud?

Mr CHAIRMAN: Mr Dunham, I just question where this particular line of questioning is leading to?

Mr DUNHAM: It's an allegation that's been made in relation to Paul Bartholomew's memo.

A member: Sorry?

Mr DUNHAM: It's an allegation that's been made in relation to Paul Bartholomew's memo.

A member: Whose that allegation contain?

Mr KIELY: Who made the allegation, Mr Dunham?

Mr DUNHAM: At page 319, in a Censure Debate, 25 October 2001, the words 'this is gross fraud' were used. Earlier in that same debate by the same speaker it was alleged that the Treasurer 'corrupted the budget', that they were 'corrupt acts', that a fraud - and I'll quote exactly 'perpetrate a fraud on the budget papers'. The memo 'establishes that the former Treasurer put false numbers in the budget. You even documented your fraud.' The word fraud is used quite often in relation to this memo, and I'm merely asking the minister if she's ever come across fraud.

Mr CHAIRMAN: Go ahead.

Mrs AAGAARD: Dr Burns, as someone who has a business degree, and who has run a business, you have to be able to know various matters in relation to running your business. I personally have not dealt with any companies that have acted fraudulently. I'm not quite sure what it is that the honourable member is looking for, but I have a knowledge of what might be or what might not be fraudulent. Certainly, this circumstance …

Mr CHAIRMAN: Well, we could be talking about a legal fraud here, or you could be talking about moral fraud, so let's not just get tied down by legality here. So, what you are talking about here is legal fraud, of course.

Mrs AAGAARD: Yes, certainly under the *Corporations Act* there are quite serious penalties for presenting false or misleading information in budget papers in the corporate world.

Dr LIM: May I just follow through just to finish the sequence of questions that normally the Chairman would ask of witnesses. Every witness was also asked if they had a written submission or a statement or a presentation to make …

Mr CHAIRMAN: No, hold it, Dr Lim. That is not true. I'll have to confess that I was remiss in some circumstances of not asking some of the witnesses and I realised later that I should have, and I'll confess that to the Committee. But it's not right for you to assert that every witness was given …

Dr LIM: Well, I will withdraw that remark, Mr Chairman, and say that witnesses were asked for submissions or presentations or a statement. Do you have such a presentation or a submission to make to the Committee?

Mrs AAGAARD: I do not wish to make a written or oral submission.

Dr LIM: All right. Now, for the record, if I may, and this is for the record, will you detail your background history in respect to your period in the House, particularly in your capacity as the minister for Health and Community Services. For the record.

Mr CHAIRMAN: I'd really call relevance on this, Dr Lim. Can you tell me where this is going to, in relation to the terms of reference of our inquiry?

Dr LIM: Well, specifically because the reference to the inquiry we are talking about Health and Community Services. We have the minister here. Then I believe that it is important for us to understand her background in her …

Mr CHAIRMAN: But our terms of reference are specifically about the budget estimates. Now …

A member: No, they're not.

Mr CHAIRMAN: I'll read them out.

Mr KIELY: Good idea.

Mr CHAIRMAN: If I can find them here, in amongst everything. There we go. Okay. Number 1. The Public Accounts Committee inquiry into the report upon the accuracy of the budget data published in the 2001-02 budget papers, with respect to both the estimated outcome for 2000-01 and the Budget for 2001-02, with particular reference to, firstly, whether the data published for individual agencies differed materially from that understood by the agencies to properly reflect the best estimates available to each agency at the time. Secondly, whether there is any material difference; whether there is any supporting advice issued by the Treasury or the Treasurer's office in regard to these differences, and the nature of that advice. (c) whether the agency undertook to advise their respective minister prior to the budget being delivered that these differences existed. (d) The impact these differences had on the reported tables for the Northern Territory public sector (e) Examine both the expenditure and receipts attributable to each agency in regard to the first four points. So, can you just tell me where this particular question is relevant?

Dr LIM: Gladly, Mr Chairman. Now you read out that the Public Accounts Committee inquire into and report upon the accuracy of the budget data published in 2001-02 budget papers, with respect to both the estimate outcome for 2000-01 and the budget for 2001-02. Now, I ask the minister, do you have any responsibility for the budget of 2001-02?

Mr KIELY: Aren't we dealing with the published estimates?

Dr LIM: No, no no.

Mr KIELY: Could you clarify your elements?

Dr LIM: The statement - we have just read out twice. The Public Accounts Committee inquire into and report upon the accuracy of the budget data published …

Mr KIELY: Published in the CLP budget.

Dr LIM: …published in the 2001-02 budget.

Mr KIELY: We know the intent.

Dr LIM: Mr Chairman, I think I should be listened to with due respect, and let's not have any interruption from the member for Sanderson.

Mr KIELY: You're badgering.

Dr LIM: I'm badgering you, precisely. Because you are badgering me. Now, let me go back again. The terms of reference is that the Public Accounts Committee inquire into and report upon the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcome for 2000-01 and the budget for 2001-02. Now, I therefore ask the minister, are you responsible for the budget or are you responsible for the management of your budget for 2001-02?

Mr CHAIRMAN: Are we indeed, Dr Lim, talking about Budget Paper No 2 in the mini-budget and the 34 …

Mr DUNHAM: We're talking about the terms of reference.

Dr LIM: Mr Chairman, you are anticipating what I'm going to lead out to. I'm asking the minister …

Mr CHAIRMAN: That's what we're really talking about here.

Dr LIM: With due respect, you should not be forecasting correctly or incorrectly what I plan to do. What I'm asking the minister to answer for me is whether she has any responsibility for the budget 2001-02.

Mr KIELY: Well, let me put some relevance to the terms of reference

Mr DUNHAM: Surely, it's a yes or no answer.

MR CHAIRMAN: I think that question's actually answered in the budget papers, and if I could just have a minute to turn to the relevant section here. If we're talking about the mini-budget …

Dr LIM: No, I am not.

Mr CHAIRMAN: You are not talking about the mini-budget?

Dr LIM: I am talking about the budget.

Mr CHAIRMAN: Which budget are you talking about?

Dr LIM: There is only one budget, the budget that runs the Territory …

A member: Why mention it in the first place?

Mr KIELY: No, there's two.

Mr DUNHAM: Oh, you have two sets of books, have you?

Dr LIM: There is only one budget.

Mr DUNHAM: You've got two sets of books!

Mr CHAIRMAN: If I could read what is in Budget Paper No 2, and I think that this answers the question; it says 'Financial Information'. It says:

The financial information presented is for the May 2001-2002 budget and the November 2001 mini-budget. A variation between the two estimates is shown. Because of the significant changes in structure of the public sector agencies between May 2001-02 budget and the mini-budget, and the need to provide comparative information based on new agency structure, May 2001-02 budget information has been adjusted in line with the new structure. Information is provided for each agency on the administrative changes which have affected that agency.

Now, here it is:

Because of the short time available between the announcement of the new administrative structure and the mini-budget, Treasury has prepared information in Budget Paper No 2 with minimal input from agencies.

So, I think that answers your question. A lot of the input, if you are referring to the mini-budget, actually comes from Treasury. It is there in black and white …

Mr DUNHAM: There was a series of questions that talked about ministers being responsible for budgets that has gone to the core of the issues in this interrogation. The member is merely asking …

Mr CHAIRMAN: But are we - No, no, no, I will call the relevance here. Are we talking about … I don't believe the focus of our inquiries, looking at the stewardship - which is a word that you played with - of the health budget by the current Health Minister. What sparked this whole inquiry was Mr Bartholomew's memo and the allegation of artificial reductions in the budget which you were informed about, and also about the forward estimates and any differences therein. Now, try as you might to derail this particular inquiry into where you want to take it, I am going to be savage about relevance here …

Mr DUNHAM: You are obviously savage. The point we are trying to make is that, in the previous discussions we talked about the responsibility of the minister for the budget under their control. The terms of reference, with due respect, Mr Chairman, give absolute capacity for us to interrogate this area, and I would merely ask the same question - I am sure the minister is able to answer it yes or no - do you have responsibility for the budget papers that are described in our terms of reference for 2001-02?

Mr CHAIRMAN: I think the answer is there. You can answer that, Minister, but I think the answer is there in Budget Paper No 2.

Mr DUNHAM: Don't answer for her. She is capable.

Mr CHAIRMAN: Hang on, I'll …

Dr LIM: Minister, if I may? I apologise for the behaviour of the members of the Committee, including myself. I asked a fairly simple question; really asking for you to tell me about your background as the Minister for Health and Community Services. Obviously the terms of reference does refer to the management of the 2001-02 budget. If you do not wish to answer the question, that is fine. I don't think that Committee members should be answering questions that I put to you; I think that is inappropriate …

Mr KIELY: It seemed to work last time for you.

Dr LIM: … you should be answering the questions yourself. It's up to you.

Mr KIELY: You could regard it as not having any relevance to the terms of reference, Minister.

Mrs AAGAARD: I am not at all sure what it is that Dr Lim is interested in here. I became the minister on 27 August last year, and we subsequently brought down a mini-budget which represents the views of this government and for which I have responsibility.

Dr LIM: That's fine. Thank you very much.

Mr CHAIRMAN: I think to some degree, what the members here are alluding to is that there is an extra $34m that was in the mini-budget for health. Do you mind taking us through that $34m and where it comes from?

Mrs AAGAARD: There is a lot of interest in this $34m.

Mr CHAIRMAN: Well, there has in this Committee, so if you don't mind, Minister, I think it might …

Dr LIM interjecting.

Mr CHAIRMAN: … facilitate our hearings this morning.

Mrs AAGAARD: As you would be aware, in book 2 of the mini-budget, on page 105, it outlines all the matters which relate to the $34m, which was the extra funding for health. As I said earlier, in the first few weeks of coming to government, I was informed that there was an underfunding of between $14m, $20m-plus - and this was over a very short period of time. Clearly, there were things that came to the notice of the government which could not have been known about at the time, even when the memo was written.

Mr CHAIRMAN: Was it Treasury that alerted you, or the Health Department or a combination of both?

Mrs AAGAARD: About the $34m?

Mr CHAIRMAN: Yes.

Mrs AAGAARD: The process was that we knew that there was an underfunding. We weren't at all sure what level of underfunding there was. Clearly, the process was mainly between my department and Treasury, who then fed back information through to Cabinet. Mr Chairman, there were things that could not have been known about; things such as the collapse of Ansett meant that the PATS scheme needed another $1m. These would certainly not have been known at the beginning of my term.

Mr CHAIRMAN: So you are saying, because Ansett collapsed, that alternative arrangements had to be made with Qantas which were more expensive …

Mrs AAGAARD: They were much more expensive.

Mr CHAIRMAN: … and added $1m to the PATS budget?

Mrs AAGAARD: That's right. Also, we weren't aware of how much the cross-border charges were, and they ended up being around $10m. There are also various other items, as well, which were

added to the list. So, really, the $34m was made up of things such as capital works funds which were transferred from the Department of Infrastructure, Planning and Environment for the fit-out of the Alice Springs and Royal Darwin Hospitals …

Mr CHAIRMAN: So there is $2m there?

Mrs AAGAARD: That's right. The increased patient travel expenses resulting from the demise of Ansett. The additional allocation for legal advice, damages award and cases settled. I mean, it is all on that page. In addition, there was …

Mr CHAIRMAN: So, that was a legal liability that only, probably, came to the notice of the Health Department in a comparatively short space of time when a judgement had been handed down? I see that is a substantial amount which was $5m.

Mrs AAGAARD: $5m.

Mr CHAIRMAN: Yes, well, if you don't mind just working through them, Minister?

Mrs AAGAARD: No, all right. There was increase in fringe benefits liability which was imposed by the Commonwealth. This is due to the capping of fringe benefits for public benevolent institutions, including hospitals. There was an increased allocation for the provision of care and service for the children in the care of the Minister - that was $800 000. The Aerial Medical Service required another $200 000. Increased …

Mr CHAIRMAN: You mentioned that funding from growth in cross-border activity …

Mrs AAGAARD: … for cross-border. The increased base funding to reflect the growth and demand for services. This was growth and demand for all sorts of services across the department, and also included the Aboriginal health worker career structure implementation, 'TB control means healthy lifestyle' and increase to minor costs in hospitals. One thing which was definitely not known at taking over government was the amount that would be required for the EBA for nurses, and that was almost $4m. Additional funding for the Coordinated Care Trial Information System and, as I said before, a revision to a number of Commonwealth funded programs including the childhood pneumococcal vaccination program, common diseases and supported accommodation assistance program. That covers the full …

Mr CHAIRMAN: Then I see underneath that there is the government initiatives which were the …

Mrs AAGAARD: That's correct.

Mr CHAIRMAN: … which I interpret to be the commitments made by the incoming government to implement their election platform.

Mrs AAGAARD: That's correct, and that is less than $1m. They're there – there's also the target as well.

Mr DUNHAM: Can I ask a question of the Minister?

Mr CHAIRMAN: Of course you can.

Mr DUNHAM: Could you tell us which ones of those are recurrent?

Mrs AAGAARD: Which ones are recurrent?

Mr DUNHAM: Of the list you gave us, which ones are recurrent?

Mrs AAGAARD: Well, not the capital works at the Royal Darwin Hospital; not the patient travel.

Mr DUNHAM: Why wouldn't that be recurrent?

Mrs AAGAARD: Well, we've since …

Mr CHAIRMAN: Are you talking about recurrent expenditure in terms of salaries or other … I think we need to …

Mr DUNHAM: Recurrent is the word that is understood by budget types.

Mrs AAGAARD: No, it would not be recurrent because negotiations have taken place with Qantas in the meantime, and we would expect that not to be recurrent funding.

Mr CHAIRMAN: Or not to the same degree anyway.

Mrs AAGAARD: Not to the same degree, anyway. It is certainly not as good deal, as I understand, as we had with Ansett. Legal advice: it is hard to say that that is recurrent or not. Each year there is an amount required for legal advice. Fringe benefits liability: I think this was one off. I wonder how much detail we have to go into here, Mr Chairman?

Mr DUNHAM: Well, I suppose I can go to my question. It seems to me that they are nearly all recurrent with a couple of exceptions. I wonder, therefore, why, in Parliament when you described the $34m, you talked about comprising $17.3m base funding and $16.9 for once off expenditure items. I find it very difficult to reconcile that statement that you made to Parliament with Budget Paper No.2.

Mrs AAGAARD: Well, I stand by my statement.

Mr DUNHAM: So, you can demonstrate to this Committee how you can achieve $16.9 …

Mr CHAIRMAN: Well, with all respect, Mr Dunham, if you had a detailed sort of question like that - I mean, Dr Lim pulled me up about the format. We did give witnesses who were expected or agencies who were expected to come up with detailed answers some advance notice by sending them a letter and asking them to supply certain information. I don't think it's really fair on the minister here to ask her for the sort of detail that we could have asked, but I think it is appropriate for us to expect the minister …

Mr DUNHAM: I can answer it from the data she has provided.

Mr CHAIRMAN: … to reply on that issue. Do you take that question on notice for us Minister?

Mrs AAGAARD: I will take that question on notice, Mr Chairman.

Dr LIM: With due respect Mr Chairman, you never called a deliberative meeting of this Committee to work out questions for the minister, did we? You did not call a meeting, a deliberative meeting of this Committee …

Mr CHAIRMAN: Well, I've got a telephone, Dr Lim. If you wanted to foreshadow …

Dr LIM: Surely, you are the Chair!

Mr CHAIRMAN: Well we did discuss - we have discussed the Health Minister appearing here before, and if you wanted to raise issues, you should have done it then. It is no good you coming here today and saying that you weren't given the opportunity.

Dr LIM: At every turn, you actually had called a deliberative of this Committee to work out the questions for every witness.

Mr CHAIRMAN: And I also asked our Secretary whether our consultant might have some written questions for the Health Minister, and Terry replied in the negative there. But I think I have tried to be as accommodating as I can during these hearings, and I certainly would have acceded to your request of having written questions for the Minister.

Mr KIELY: We are not out to ambush anyone here, surely ...

Mr DUNHAM: This is not an ambush. The question is entirely appropriate in that the Minister has told us that she has great familiarity with the $34m. In evidence she has talked about how it was discussed on a number of occasions. She has talked about the argument she had to put forward. These are significant dollars …

Mr KIELY: I don't see what the problem is because the Minister has taken it on notice.

Mr DUNHAM: They are detailed here. I can …

Mr CHAIRMAN: Well, she doesn't have to answer it today. She has given an undertaking that she will communicate with this Committee in answer to your question, Mr Dunham. I think that should satisfy you.

Mr DUNHAM: I will change my question: are you able to answer it?

Mrs AAGAARD: Mr Chairman, I am happy to get back to the Committee with the information as requested. I was on the understanding that I actually wasn't going to be queried at all about the mini-budget today and so I haven't come prepared with information on that. If you want extra information, then I am happy to provide it to the Committee.

Mr CHAIRMAN: Thank you.

Mr DUNHAM: Can I ask another question?

Mr CHAIRMAN: I think Gerry has got a question. He's been waiting for some time.

Mr DUNHAM: It's on a similar theme.

Mr WOOD: If it is following up, I'll let it go.

Mr DUNHAM: Would you agree - I mean, there are some on this Committee that believe that budgets are a matter that cross financial years, and certainly we've heard that in evidence from several of our witnesses. Would you believe - do you agree with your Chief Minister when she said in discussion of this matter, and I quote from *Hansard* Thursday 29 November 2001, page 562:

> The member for Drysdale made a lot of play about the fact we should be having full appropriations. He said this somehow is an exception. I do not know whether the member for Drysdale understands, but this is actually an amendment to the previous budget. It is an amendment.

So the Chief Minister has told Parliament that this budget here merely amends the previous budget, and that the two, I guess in her opinion, are seamless. Would you agree with her?

Mrs AAGAARD: I believe that the mini-budget reflects the views of the government in relation to economic and financial matters.

Mr CHAIRMAN: Do you also believe that the $34m that has just been discussed here has a rationale that was put forward by Treasury and the department?

Mrs AAGAARD: Yes.

Mr CHAIRMAN: And that it was accepted by Cabinet as part of ensuring the viability of the Health Department?

Mrs AAGAARD: That's correct.

Mr WOOD: Thanks, Mr Chairman. I feel that there's two things in relation to your appearance today that need to be discussed. One is in relation to the censure motion and two is in relation to the Public Accounts Committee inquiry, because the two are interrelated. They are matters that were referred to on the same day in Parliament and one followed into the other. So my question's, to some extent, trying to get an understanding of how you feel or your knowledge of what happened in that period, and some of that relates to the memo and discussions you had with various people, and also some opinion on how you think this process is working.

You have answered a couple of questions already that I was going to ask, and that was about when were you made aware of the budgetary problems and what was your reaction to that. Mr Bartholomew actually said in his statement to this body, and I quote from page 3 of our document:

> *…that most people – well - sitting round this table would be aware, certainly, that when any new minister is appointed, and clearly with the change of government, the department was charged with providing comprehensive briefings on a whole range of issues to a new minister. Obviously, one of the very important aspects of those was briefing the minister on the budget situation.*

Minister, in the light of that statement re comprehensive briefings, were there any other meetings held and any other memos written regarding Territory Health Services budget for 2001-02 prior to 25 October, which was the day of the censure motion and the suspension of standing orders, that we perhaps should know about? Have you got any copies of other memos that are similar to the one Paul Bartholomew put here, that raise the issue of budgetary difficulties that we could actually look at?

Mr CHAIRMAN: Do you mean as a background to the shortfall in funding of what added up to $34m? Is that what you are talking about, Gerry?

Mr WOOD: Mr Chairman, just in the light there was comprehensive discussions, that Mr Bartholomew said, and that we have only got one memo which is fairly specific. I am basically asking was there any other memos that could be made available to this Committee?

Mr CHAIRMAN: Well, my understanding is …

Dr LIM: Come on. The minister can answer. What are you answering it for, mate?

Mr CHAIRMAN: No. Well, it happened quite a deal in some of our previous hearings, Mr Dunham and Dr Lim, and you would have put forward that you are helping to clarify questions for the witness.

Mr DUNHAM: Clarify it.

Mr CHAIRMAN: All right, clarify it. Going back to Budget Paper No 2, it is quite obvious that there was a minimal amount of consultation with the agencies - it's said there in black and white - and that Treasury took a lot of the responsibility for reforming the budget estimates, so I think if we are going to ask that question we need to ask it inside Treasury as well.

Mr WOOD: I have a follow-up question, but this one is specific to basically …

Mr DUNHAM: Can we get an answer to that one first?

Mr WOOD: … discussions you held with Paul Bartholomew. To put it succinctly, was there any other memos regarding the budgetary problems and regarding this particular issue that could be made available to the Committee?

Mrs AAGAARD: There were no other memos that related to the matters raised in this document. None at all.

Mr WOOD: Were there any other meetings perhaps where matters might have been recorded as regarding this particular issue?

Mr CHAIRMAN: Outside of Cabinet, do you mean, Gerry?

Mr WOOD: Yes, outside Cabinet. Were there any other - was this the one and only …

Mrs AAGAARD: You're talking about before I received this?

Mr WOOD: No – well, before or after. I am just trying to get an understanding. This is the only document we got basically.

Mrs AAGAARD: That's correct.

Mr WOOD: Was there any other meetings or other documents?

Mrs AAGAARD: The briefings that I received on the budget situation were in fact in the lead-up - this is about under funding - were verbal briefings, and it was sort of an evolving sort of thing. I

mean, in the context of my CEO coming to see me, I mean, he didn't specifically come to see me about the budget. He would come and we would talk about a number of different issues frequently with other staff from the department, about various matters relating to the department. During those briefings he would occasionally discuss under funding matters, but this matter absolutely was not discussed with me, and it was an absolute shock when I received it on 27 September. There had been no discussion whatsoever of anything even remotely relating to this. I had no knowledge of the information presented here.

Mr DUNHAM: What about after the 27th?

Dr LIM: So before or after, as Mr Wood asked you, you have no other information or other communication regarding the budget problems?

Mrs AAGAARD: No.

Mr WOOD: Could I just - I have got a line of questions, if I could finish that.

Mr DUNHAM: Mmm, sure.

Mr WOOD: Then did you have discussions, formal or informal, with the Under Treasurer, Mr Ken Clarke re specifically problems with the Health Services Budget and more specifically with Mr Bartholomew's memo which dealt with the issue of the dollar alteration? I ask that in the context that I think in the memo the Under Treasurer's name is mentioned.

Mrs AAGAARD: In the context of Mr Clarke, I never had any personal conversations with Mr Clarke. He was not my CEO, he was the Under Treasurer. My only contact with Mr Clarke was through the Cabinet process where he would come and brief Cabinet on various matters relating to Treasury. In relation to discussions regarding the memo with Mr Bartholomew, when I received the memo I decided that I would have no conversation with Mr Bartholomew about this matter. In fact, I took the approach that I would discuss it with, as I have said to you before, the Chief Minister and my Cabinet colleagues. It was only after those discussions that any conversation whatsoever was held with Mr Bartholomew.

Mr WOOD: Despite [inaudible] still there. You have answered my question about when did you notify your Chief Minister and Treasurer, but what was the reaction then of the Chief Minister and Treasurer to that memo?

Mrs AAGAARD: It is the usual practice of ministers of the crown to follow the Westminister tradition and to not discuss conversations that have been held between colleagues, particularly ministers and senior executives, as indeed Mr Dunham pointed out when he gave his evidence. However, I feel that the Chief Minister would want me to say that she was equally shocked as I was.

Mr WOOD: Just a final question there for the moment, and I suppose this is one of the issues that has disturbed me a little bit in this whole process. Do you think it appropriate or fair that a censure motion was passed by the government based on the evidence of this single memo which, from my point of view, was certainly alarming. This condemned three ministers or ex-ministers, Messrs Burke, Reed and Dunham before the Public Accounts Committee was established which would have enabled Parliament to then judge whether any of those people censured, or any other persons were responsible for, and I put in parenthesis, 'artificial' changes to the budget estimates?

Mrs AAGAARD: Well, as I have said previously, we put in place what I am referring to as 'due process' to ensure that the matter was looked at properly prior to the decision being made to take it to Parliament. I believe that the actions that we took were the correct ones.

Mr WOOD: That has never worried me. When you said 'due process', isn't it possible this could be seen a little bit like somebody clocked somebody on the football field, they were immediately given - sorry, they were given a suspended - they were given a …

A member: Sin bin.

Mr WOOD: They weren't allowed to play for a few games but we then had the tribunal which found out whether they were guilty or not. Do you think the process is flawed because the censure motion has come first and the Parliamentary Accounts Committee has come second?

Mrs AAGAARD: It doesn't seem so to me.

Dr LIM: Well, following on the questioning that Mr Wood had in relation to any other communication from the CEO regarding his memo or subsequent memos. I draw your attention to the Territory Health Services Annual Report 2000-01 in which, in there, there is a letter signed by the Chief Executive Officer, Mr Paul Bartholomew on 30 September. I will give you this copy to look at shortly and, if I can quote from that, he wrote 'Dear Minister …', it was addressed to you, minister, and he made several points. A couple of points which I thought might be of relevance here is at point (c):

No indication of malpractice, major breach of legislation or [inaudible], major error in or omission from the accounts and records existed …

Mr CHAIRMAN: Could we have that memo circulated to the minister so …

Dr LIM: Yes, I have another copy here.

Mr DUNHAM: It is a public document.

Dr LIM: It is a public document which the minister would have received and, in fact, tabled on the 30th of - there is a reference on the front of the cover, and was tabled in Parliament by the minister on 17 October and in point (e):

> Financial statements included in the annual report were prepared from proper accounting records and were in accordance part 2 of section 5 of the Treasurer's Directions were appropriate. All financial statements prepared by DCIS on behalf of THS was prepared from proper accounts and records.

That is a letter written to you by your CEO three days after the memo which you then tabled in Parliament on the 17th. Is that not a subsequent communication from your CEO to you that finances are in order?

Mr CHAIRMAN: Dr Lim …

Dr LIM: Hang on, hang on. I have asked the minister a question, please.

Mr CHAIRMAN: Well, are we talking about legality here, Dr Lim, or are we talking about accounting procedures? Are we talking about the budget estimates? And I don't have a copy of that particular document in front of me and I would appreciate it if Terry could …

Mr DUNHAM: Every member was given a copy.

Dr LIM: Every member in Parliament received a copy of that letter.

Mr CHAIRMAN: Well, I don't have a copy here today, Dr Lim. Just wait for Terry to copy that.

Mr DUNHAM: The question is, it goes to communication.

Mr CHAIRMAN: Well, we are just waiting for a copy of this. I would just like to be able to read what it says. We will just take a bit of a break.

A member: Yep, it's all right.

Members interjecting.

Mr DUNHAM: Have you received that letter.

Mr CHAIRMAN: I would ask the witness, just to …

Dr LIM: I am happy for the minister to have time to consider the letter, that is fine, it is not a problem.

Members interjecting.

Dr LIM: Let me ask another question of the minister while we are waiting? Minister, you talk about 'due process'. I wonder whether you can explain to me what due process really means?

Mr KIELY: What is the relevance there, Dr Lim?

Dr LIM: The minister keeps using the word 'due process' in her responses, so let's ask the minister what she understands about due process.

Mr CHAIRMAN: Well, we have got the document here now, thanks Terry, so you can have that question on notice, Dr Lim. Which particular sub-paragraph are we talking about here?

Dr LIM: I am talking about the letter and there are five points in the letter. Point (c) - six points there, but Point (c). Actually, for the people who are present in the gallery, I might - if you will bear with me, I might read the letter out. The letter was written on 30 September by Paul Bartholomew:

The Honourable Jane Aagaard MLA, Minister for Health, Family and Children's Services

etcetera.

Dear Minister,

In accordance with the provision of section 28 of the Public Sector Employment and Management Act*, it gives me pleasure to submit the Annual Report of the activities and*

operations of Territory Health Services for the year ending 30 June 2001. I advise that in respect of my duties as an accountable officer and to the best of my knowledge and belief:

(a) Proper records of all transactions affecting the agency were kept and that employees under my control observed the provisions of the Financial Management Act*, the Financial Management Regulations and Treasurer's Directions. Proper records were kept of transactions undertaken by the Department of Corporate and Information Services on behalf of THS;*

(b) Procedures within THS afforded proper internal control and a current discretion of these procedures which were prepared in accordance with the Financial Management Act *can be found in the Accounting and Property Manual.*

(c) … This is where I refer to this specifically - *No indication of malpractice, major breach of legislation or delegation, major error in or omission from the accounts and records existed;*

(d) In accordance with the requirements of section 15 of the Financial Management Act*, the internal audit capacity available to the agency was adequate and the result of internal audits were reported to Chief Executive Officer.*

(e) … This is another one that I referred to specifically - *Financial statements included in the Annual Report were prepared from proper account and record and were in accordance with part 2, section 5 of the Treasurer's Directions where appropriate. All financial statements prepared by DCIS on behalf of THS were prepared from proper accounts and records.*

(f) All employment instructions issued by the Commissioner for Public Employment were complied with.

Yours sincerely.

So, I ask the minister, you did receive this?

Mr CHAIRMAN: I would just like to clarify here, Dr Lim, I would like to clarify. Are you alleging that the $8m reduction in estimates was included in that document?

Dr LIM: I am just not alleging anything.

Mr CHAIRMAN: This is a very important point …

Dr LIM: What have I alleged, I haven't alleged nothing?

Mr CHAIRMAN: … because that is the focus, that is the focus of our inquiry and what I understand as being talked about here is compliance with the *Financial Management Act*. We have yet to determine whether the actual reduction in budget estimates that we received consistent evidence about before this Committee, actually breaches the *Financial Management Act*. It may well be that they …

Mr DUNHAM: Is that an answer on behalf of the witness?

Mr CHAIRMAN: … also, I am asking you again, whether you are saying that the reduced estimate of $8m is included in that Annual Report. Is it?

Mr DUNHAM: Can I make a point of order? As one of our members has pointed out, that memo there has been read into *Hansard* on at least four occasions. It's widely available, and I would have thought a public, contemporaneous document, at about the same era – this is three days after that memo – should be queried, because it talks about exactly the same things we're talking about: the finances at the time.

Mr CHAIRMAN: Well, I'm sure neither …

Mr DUNHAM: And it's allowed that the mere question is …

Mr CHAIRMAN: … Mr Bartholomew nor the minister would sign off on something that was untrue. What's being spoken about there is compliance with the *Financial Management Act*, which is quite different to what we're – and you know it's quite different, Mr Dunham – to what we're investigating here. But anyway, I'll let the minister answer the question.

Mr DUNHAM: Oh, good, well done. We're going to get there. Did you get the letter?

Mrs AAGAARD: The matters that are outlined in this document are clearly the matters which were not the subject of this inquiry, but the figures which were the presented figures in the budget. In that case, it was audited on the basis of the figures published in Parliament, as opposed to the figures that we now know – as I believe it - are the true figures.

Dr LIM: So what you're saying is that the CEO said: 'Everything's in order for the year 2000-01', and that's what he wrote to you …

Mr CHAIRMAN: Well, what he said was that it would comply …

Dr LIM: Hang on! Look …

Mr CHAIRMAN: … with the *Financial Management Act* which …

Dr LIM: Mr Chairman, please …

Mr KIELY: If you're going to attributing what he said, look, you know …

Dr LIM: Please, look, don't put words in my mouth.

Mr KIELY: Well, you have a habit of doing it to everyone else, Dr Lim.

Mr DUNHAM: I'm sure she's capable of answering, you know. You don't need to babysit her like this. Let her answer.

Mr CHAIRMAN: No, I object to that, Mr Dunham …

Mr KIELY: Yes, I think you should.

Mr CHAIRMAN: … because going back through the transcripts of previous witnesses, you were interceding quite a lot and trying to clarify matters, and we're just doing the same, because what

we're discussing here is very important, that there is a clear understanding of what the minister is answering in relation to. And within relation to this document here, it's obvious from what it is, that it's compliance with the *Financial Management Act*.

Mr DUNHAM: Yes. So let's ask the question.

Dr LIM: Mr Chairman, Mr Wood asked a question, whether there was any other communication. Now, I don't put words in Mr Woods' mouth – Mr Wood, sorry. He asked whether there was any other communication and the minister said, 'No', she did not. I drew her attention to the fact that there was, indeed, a communication three days subsequent to the memo that we are talking about today. Now, I just asked the minister a fairly straightforward question. Now, she doesn't have to answer it if she doesn't want to answer it, that's fine. But tell me you don't want to answer it, that's okay.

Mrs AAGAARD: I've already answered the question.

Mr KIELY: Yes.

Mr CHAIRMAN: So, can you reframe your question, Mr Lim …

Mr DUNHAM: Doctor!

Mr CHAIRMAN: Dr Lim, sorry.

Mr DUNHAM: You're doing that on purpose …

Dr LIM: Of course he is! Of course, he has done it all the time, and …

Mr KIELY: Oh, God, give it [inaudible] yourself, will you.

Dr LIM: Let me put this on the record, that …

Mr KIELY interjecting.

Dr LIM: Let me put this on the record that, if anyone were to have a heart attack right at this moment, the real doctor will be required.

Mr KIELY: They won't call one. The won't call them.

Mr CHAIRMAN: I'll bite my tongue on a little aside there, Dr Lim, and I won't say it.

Dr LIM: Good!

Mr CHAIRMAN: But everyone knows what I'm talking about.

Mr KIELY: Yes, I do.

Dr LIM: Now, another question that I asked earlier, which the minister has not responded to yet, was that, while we're waiting for this to be photocopied, you kept using the words 'due process'. I wonder whether you could explain to us what you meant by due process? As minister, you referred to earlier that there was some difficulties with due process. Can you explain what you meant?

Mr CHAIRMAN: Well, there's legalities in there, Dr Lim, or are we talking about due process of Cabinet …

Mr DUNHAM: Oooh!

Mr CHAIRMAN: … that's what we're really talking about here, aren't we?

Mr DUNHAM: They're her words.

Mr CHAIRMAN: Well, just be a bit more specific with your questions.

Dr LIM: The minister used the words 'due process'. When she received the memo, she went through 'due process'. She did not speak further to Mr Bartholomew, she did not speak any further with Mr Clarke, or in fact, spoke to Mr Clarke at all about the memo. She went through due process. Now, what does that mean?

Mrs AAGAARD: I think due process has a fairly common understanding amongst most people, and is to ensure that the matter is considered properly or adequately. That's how I understand due process.

Mr CHAIRMAN: By the relevant authorities.

Mrs AAGAARD: By the relevant authorities.

Mr CHAIRMAN: In this case being Cabinet. You've already given that in evidence.

Mrs AAGAARD: Yes, the Chief Minister and Treasurer and subsequently, Cabinet.

Mr DUNHAM: Mmm.

Dr LIM: Obviously, this gentleman wants to sit in that chair instead. He's answering those questions for the …

Mr CHAIRMAN: No, we'll leave that to Mr Dunham, he's the only member of this Committee who's also been a witness.

Mr DUNHAM: The due process thing, though …

Mr KIELY: The only one who sat in that chair.

Mr DUNHAM: The due process issue intrigues me also, because of the people in the memo, there's yourself, myself, the Chief Minister's been implicated and the former Treasurer. Now, you've chosen not to go to your senior advisers, so we understand Ken Clarke wasn't asked, neither was Bartholomew asked. We understand …

Mr CHAIRMAN: Asked in terms of what, Mr Dunham?

Mr DUNHAM: Due process.

Mr CHAIRMAN: But Mr Clarke has given evidence that he was consulted by Cabinet.

Mr DUNHAM: Well, that's interesting.

Mr KIELY: He has given evidence that he was consulted by you.

Mr DUNHAM: Well, that's interesting. All I am trying to say is, I would like to know the minister's role in this, because there is the beginnings of a conspiracy here, Mr Chairman. I would like to know how it was hatched. For instance, we know that this document here - which was a much more fulsome advice - was probably not …

Mr CHAIRMAN: So, Mr Dunham, are you suggesting that there was a conspiracy to get Mr Bartholomew to write his memo? Are you saying that there was conspiracy …

Mr DUNHAM: I believe …

Mr CHAIRMAN: … or are you saying that he wrote that of his own volition …

Mr DUNHAM: I believe …

Mr CHAIRMAN: … because that is a very serious allegation, Mr Dunham …

Mr DUNHAM: It is very serious. It's as serious as …

Mr CHAIRMAN: … and it cuts the very integrity of Mr Bartholomew, whom you have given in evidence and said that he's a man of great integrity and honesty …

Mr DUNHAM: I shall keep asking and we'll see what happens, Mr Chairman.

Mr KIELY: Well, what is the conspiracy?

Mr DUNHAM: The minister has alleged that the words 'due process' are well understood by people. I would have assumed that matters relating to due process - if the Chief Minister is right, and this is an allegation of fraud - you would have sought police, legal, financial, economic advisers to tell you whether fraud has indeed been committed. Because, when she went into Parliament and used those words - much as the word 'conspiracy' offends you - the word 'fraud' offends others of us, including myself. I will point out for you …

Mr CHAIRMAN: [inaudible] fraud, Mr Dunham.

Mr DUNHAM: I will point out for you …

Mr CHAIRMAN: There are different sorts of fraud, let's face it.

Mr DUNHAM: Well, there is, there is. But, let's talk about the act we are talking about here, which is the *Financial Management Act* - that's the act we're talking about, isn't it?

Mrs AAGAARD: That's correct.

Mr DUNHAM: That's correct. Now, the word 'fraud' is used in there, and it comes under internal control. So, I would have thought when the annual report is tabled - which talks about internal control measures, and there is a total absence of the word 'fraud' or a flag that goes up for you - I

would have assumed that you would be worried that the words used by your Chief Minister - where she used words like 'gross fraud' - you would have brought this to her attention immediately - the three days after and, certainly, prior to the censure debate, that: 'Treasurer, there has been no fraud committed. Treasurer, please don't go down this road'. So, in due process was this document considered, or only the Bartholomew memo?

Mr CHAIRMAN: You can answer that.

Mrs AAGAARD: Mr Chairman, I have tried to describe what actually happened here. I received the memo; it was clear that it was a matter which didn't really relate totally to the health portfolio. I then discussed the matter with the Treasurer, who is also the Chief Minister; it subsequently became discussed in Cabinet. As I have already mentioned before, it is the tradition, as Mr Dunham discussed previously, the Westminster tradition prevents me from divulging conversations with my colleagues or with senior executives. This is a normal process of government.

In terms of due process, we put in place a series of things to ensure that the matter was considered properly, and that's what I refer to as due process.

Mr CHAIRMAN: Mr Kiely's got some questions.

Mr KIELY: Minister, were you aware that the Treasurer directed the Under Treasurer to amend the forward estimates for health, police and – what's the other one? - education? Were you aware of that?

Mrs AAGAARD: Do you mean the previous Treasurer?

Mr KIELY: The previous Treasurer.

Mr CHAIRMAN: No, at the time of Mr Bartholomew's memo.

Mr KIELY: At the time Mr Bartholomew was …

Mrs AAGAARD: No, the only knowledge I had was what was in the memorandum.

Mr KIELY: Were you aware, at any time prior to Mr Clarke's revelations before this Committee, that the books have been altered for one day, and that an adjustment had been made so that the records could accurately reflect what was stated? Were you aware of that prior to it? Treasury's actions, you had …

Mrs AAGAARD: Prior to receiving the memo?

Mr KIELY: Prior to that, yes.

Mrs AAGAARD: I had no knowledge of that.

Mr KIELY: So, therefore, this occurred over in Treasury. Would there be any reason then that, while Territory Health Services say that their records were correct at the time of this publication, that they did provide the correct forward estimates, they were the ones provided, that there had been action over in another department to amend or alter or present these figures in another way? Were you aware prior to that letter from Mr Bartholomew?

Mrs AAGAARD: I knew nothing about the contents of the memo from Mr Bartholomew until I received it on the 27 September. There had been no conversation, or even so much as an intimation, of any of the contents of this memo. It was an absolute shock to me when I received this.

Mr CHAIRMAN: So, I think what Mr Kiely's getting at here, in the direct question is: are you aware of any conspiracy by the government over any of these matters that we are talking about here?

Mrs AAGAARD: What possible conspiracy could there be? None of us knew about the contents of the memo. We did not have the knowledge which has been presented to this Public Accounts Committee in relation to other budgets. We were a new government, we were all considering the budgets. I'm sure that each department was receiving briefings on their own budgets. I knew nothing about the matters related in this memo until 27 September.

Mr KIELY: And the point that I'm actually making, Mr Chairman, is that I don't have any problems with Mr Bartholomew's letter in respect to the annual report. All the paperwork, all the Financial Management Act was complied with, but the actions actually took place over in Treasury under the guidance of the then Treasurer that it was no part of Mr Bartholomew; Mr Bartholomew was acting with full integrity and that everything that happened within his department, he's the accountable officer, was taken – and I would take it as a point that Mr Bartholomew is the one who lifted the lid on this whole sorry…

Mr CHAIRMAN: And informed the minister.

Mr DUNHAM: Was that a question?

Mr KIELY: Mr Batholomew, as an accountable officer, has fulfilled his duties all the way. And as far as conspiracy goes…

Mr CHAIRMAN: Absolutely.

Mr DUNHAM: Is this a question?

Mr KIELY: It's seeking clarification on this, okay, Mr Dunham?

Mr DUNHAM: Well, I think you've made a very good point. He's cleared up a big point that's been worrying…

Mr KEILY: Yes, well don't **-** hang on, before you start making points about me, just make sure that you use the right words.

Mr DUNHAM: Not you. Not you. I think you've cleared up a point because if the issue is as has been put, that the two budgets are so totally disconnected that what happened in the previous budget has no connection with the subsequent budget…

Mr CHAIRMAN: Who said that?

Mr KEILY: Who said that?

Mrs AAGAARD: That's ridiculous.

Mr DUNHAM: So the budgets flow each year?.

Mr KIELY: Hang on. No, no …

Mr CHAIRMAN: Well, it says so here in Budget Paper …

Mr DUNHAM: No, that's good because the point I'm making is that …

Mr KIELY: No, Mr Dunham. Once again you're attributing things here that did not get said.

Mr DUNHAM: …prior to the end of the financial year …

Mr CHAIRMAN: Yes, I'd ask you to be very careful …

Mr DUNHAM: No.

Mr CHAIRMAN: Hold on a second, Mr Dunham. I'd ask you to be very careful because on a number of occasions you've done this. I've read it in the transcripts again and again; you attribute things that aren't true, you carry them on as an argument, and no one has ever suggested that. And I read from the budget papers about the figures, the whole bit about how they are connected and why they are connected, and the attribution of the figures.

Mr DUNHAM: Okay. Good. This is not an argument. We're starting to agree with each other here. This might surprise you. What I'm saying is that at the end of the financial year, the figure that's reported in this book is the actual figure. It's the actual figure. So while there was some debate prior to reaching end of financial year as to what that figure might be, this book records it exactly. Down to the last cent.

Mr KIELY: Is this your 'correct' argument again?

Mr DUNHAM: Down to the last cent. Now, I would say to you the matters relating to what happened with estimating …

Mr CHAIRMAN: It was certainly different from the estimates you produced to Parliament, Mr Dunham.

Mr KIELY: Yes, that you spoke on.

Mr DUNHAM: Prior to the end of the year. So what I would say to you is that if you had an actual end of the year figure, surely it's a moot point which figures have been used to estimate that figure if it's not relevant to how you construct your budget in the next year. Yes or no?

Mrs AAGAARD: I don't agree with that at all. I think that the fact that in the May 2001 you published a figure that was $436m, fully knowing that you'd already increased the Health budget to $443.8m which was increase of $8m which was not printed in the Parliamentary Record, is not printed in the budget papers. And then in the new budget of 2001, in June 2001, you published another budget document which said that the budget for this current year would be $446.9m clearly indicates that there was something very suspicious about that indeed.

Mr CHAIRMAN: A conspiracy, even.

Mrs AAGAARD: To my mind, I completely agree that the only possible reason for doing such a thing was political motivation; that in a lead-up to an election, the only thing you could have been thinking of was that there was insufficient growth in the health budget and you were dissatisfied with the concept that it was only going to be about 1%, you wanted it to look like it was a greater amount, and you must have plucked it out of the air - 2.5%. And that's what you did. In my opinion, you made a mockery of the Parliament, you allowed the people of the Northern Territory, who consider health to be an absolute priority for them, to believe that there was a growth in the figures when this was clearly not the case. I think it's ironic that you actually bring up the matters relating to the actual outcome which was actually $447.2m which is less than the amount that you actually budgeted for this 2001-02 which is $446.9. So I think this whole argument is rather a ludicrous one.

Dr LIM: We might come to that in a little while, Minister. Minister, when you were asked by the Chairman to speak about - or Mr Wood, I can't recall who now - asked you to describe events leading up to the presentation of memo, there were quite a few leaps in time that I could not quite follow the sequence. If you could bear with me and perhaps explain for me, as close as you possibly can, the events that led up - from the time that you were sworn in as minister to the presentation of the memo. Could you do that for me please?

Mrs AAGAARD: Mr Chairman, I thought I'd already done that in my previous evidence.

Dr LIM: You did. What I'm saying is that there were quite a few leaps in time.

Mr CHAIRMAN: Do you want to be specific about those leaps in time, Dr Lim?

Dr LIM: Well, okay, let me try and get back to …

Mr KIELY: What dates are we talking about, Dr Lim?

Dr LIM: Let me get back to the dates then, Mr Chairman. I believe the minister said she was sworn in on 27 August.

Mrs AAGAARD: Correct.

Dr LIM: All right. And you had briefings every day with the CEO?

Mrs AAGAARD: Not every day, no.

Dr LIM: Well, once a week; twice a week.

Mrs AAGAARD: It would have been several times a week.

Dr LIM: Okay. And he explained to you about the budget issues within THS and then out of the blue, the memo of 27 September appeared. Am I right so far?

Mrs AAGAARD: No, you are not right. It wasn't out of the blue. As I mentioned before, I asked for a written briefing of the true position of the budget.

Dr LIM: Okay. But earlier in one of your responses, you said you were extremely shocked by what you read, so - and having had no knowledge beforehand that something like this information was in here. If you were extremely shocked, it means you knew nothing about it or you knew something about it and you asked him to produce this memo for you. Now, which is it?

Mrs AAGAARD: I've already indicated to the inquiry several times that I knew nothing whatsoever about the memo until I received it. Prior to that, as I previously said, the only information that I'd been discussing with Mr Bartholomew regarding the budget had been matters relating to underfunding.

Dr LIM: So this memo was something that you – you would not know this memo was there until it was presented to you, obviously. You can't predict what's going to come to you; I accept that, okay?

Mrs AAGAARD: I had no knowledge of the information as outlined or even anything even vaguely like it until I received the memo.

Dr LIM: But Mr Bartholomew, in his evidence …

Mr KEILY: Mr Chairman, this is bordering on badgering. He's asked his question four or five different ways; got the same answer every time. How many times is he going to keep on asking the same question? This is badgering, Dr Lim, badgering.

Dr LIM: I'm trying…

Mr CHAIRMAN: Well, I'll let Dr Lim continue with his line of …

Dr LIM: I'm trying to get the sequence correct in my head because I haven't quite got it clear. Now, Mr Bartholomew said in his evidence that he briefed you on the budget situation when you became the minister.

Mrs AAGAARD: Mm.

Dr LIM: And then – now, were these briefings just oral briefings, were they written briefings as well?

Mrs AAGAARD: Oral briefings

Dr LIM: Nothing on paper whatsoever.

Mrs AAGAARD: Not that I recall.

Dr LIM: Okay. So, you did not request this memo - him to write this for you, he just wrote it?

Mrs AAGAARD: He wrote this. He obviously - I asked him for a written briefing on the true state of the health budget. And this is what he gave me.

Dr LIM: So, you did ask him for?

Mrs AAGARD: A written briefing on the true state of the health budget. And that's what I received.

Mr CHAIRMAN: Minister, would it be fair to say that - this is the impression I get from the memo, and I suppose I'm asking for your opinion - that Mr Bartholomew was actually getting

something off his chest here in what he had to say in the memo, that he had been troubled by what had happened and that he put it in writing to you in this memo?

Mrs AAGAARD: I wouldn't even like to make that surmise, actually, Mr Chairman. I haven't discussed the matter of the memo in that kind of way with Mr Bartholomew at all. I imagine that he was very concerned about the situation…

Mr CHAIRMAN: But what surprised you, I suppose, was the language of the memo when he talks about proposed deception, artificial reduction, presented falsely. That's very strong language. That's what upset you, would that be fair enough to say? Or alarmed you?

Mrs AAGAARD: I was very upset by the contents of the memo. And I imagine that Mr Bartholomew was also very upset with the matters relating to this matter.

Dr LIM: Okay. Thank you for that, Mr Chairman. That clears it up a bit for me as well, too. Now, Mr Bartholomew obviously briefed you about the budget for this financial year. And he was concerned that he was underfunded.

Mrs AAGAARD: That's correct.

Dr LIM: What relevance had this memo which relates to the year before - which he expanded and gave you a report on - what relevance has this memo got to do with the current state of affairs?

Mr CHAIRMAN: Well, you know very well, Dr Lim, because Mr Bartholomew has given in evidence that his major concern was the fact that because there was reduced estimate in there, that that would affect their upcoming allocation and also would reflect badly on the management of Territory Health. You've heard that in evidence yourself from Mr Bartholomew.

Mr DUNHAM: We want to know whether that is what he said; we are testing the evidence. Did he say that to the minister?

Mrs AAGAARD: Mr Bartholomew was free to give me whatever advice, in any memorandum that he chose. I was not aware - and I keep saying this - I was not aware of what he was going to advise me on. He was free to give me any kind of advice in the same way that he was free to come here and give you any kind of testimony when he was here.

Dr LIM: Obviously, Mr Bartholomew …

Mr KIELY: [inaudible] trouble understanding are you, Dr Lim?

Dr LIM: I do have difficulty understanding and, you know … I'm just a plain, old Chinaman …

Mr CHAIRMAN: I'll let Dr Lim go for a couple more and then I think we should be taking a break, if there's a lot of questions, a lot more questions. I will be looking to take a break in about 15 minute or so.

Dr LIM: Mr Bartholomew, in the annual report, gave evidence that he understood what his budget was for 2000-01. It was, in fact, $447m which he duly spent. Right or wrong? Am I right in saying that, making that assumption?

Mrs AAGAARD: Correct.

Dr LIM: Yes. So, what you are saying is that you know he had no idea about any adjustment to the budget estimates, and the memo of the 27th came out of the blue, and was not a response to any direct question explaining a situation that he was trying to put to you?

Mrs AAGAARD: As I said, he provided me with this memo after I had asked him for a written briefing on the true state of the health budget. I can't say any more than that. He provided me with the memo; it is up to him what he wants to put in it. I had no knowledge of what was going to be in this memo. Mr Chairman, I feel as if I have been asked this so many times …

Members interjecting

Mr DUNHAM: In terms of the two documents before us …

Mr CHAIRMAN: You have been, Minister, you …

Mr DUNHAM: In terms of the two documents before us …

Mr CHAIRMAN: Wait a second, Mr Dunham, unless there is sort of a new direction in the questioning around that, Dr Lim, can I just ask you to move on. But go ahead, Mr Dunham.

Mr DUNHAM: We have before us two documents. One is a one-page memo and one is a document that goes to a hundred and whatever - 190 pages. The minister is telling us that she asked him for a wholesome, full reply as to the true state of the budget. Within three days, she had two documents: this one 190-page and a memo, with language that has surprised not only herself, but the Chief Minister and others. My question is: do you believe this document has more veracity, in terms of describing the budget, describing the outcome, describing the program areas, talking about the potential for fraud and whether that occurred, than the one-page memo?

Mr KIELY: That document talks about accountability within the THS system, doesn't it, Dr Lim - Mr Dunham?

Mr DUNHAM: Well, I don't think you are the minister. I am asking that person.

Mr KIELY: Well, hang on, let's get what that is. That is an annual general report isn't it?

Dr DUNHAM: I am sure she is able to answer it.

Mr KIELY: Well, no …

Mr DUNHAM: She said she asked her CEO for a briefing on the true state of the budget. Now, he gave her a memo and three days later he gave her this. I am putting it to you that I would think …

Mr KIELY: But, that's an annual report.

Mr DUNHAM: Not a bad one either, if you have a read of it. But, the point I am trying to make is: if that document conveys information to the general public - you saw fit to table in the Parliament so you have obviously read it and thought this is the document that conveys the true state of the department - wouldn't you believe that this document had much more veracity than the memo?

Mr CHAIRMAN: Yes, except we are looking into budget estimates here, not a report of capital expenditure, and that is what you …

Dr LIM: Well, look …

Mr DUNHAM: It's difficult to ask the witness when you …

Mr CHAIRMAN: … that's what you're trying to get away from all the time. What Mr Bartholomew's memo was all about was talking about - was making very serious allegations which included you, Mr Dunham, particularly about the reduction - 'false and artificial reduction' to use his words - of budget estimates. That is a report …

Mr DUNHAM: Are you disallowing my question, Mr Chairman?

Mr CHAIRMAN: No, no, because …

Mr DUNHAM: Well, could she answer it, please?

Mr CHAIRMAN: … we have been through this before and basically …

Mr DUNHAM: Could she answer it, please?

Mr CHAIRMAN: … that is a report under the *Financial Management Act*. Mr Bartholomew's memo is about processes that went on; political processes that went on around the budget.

Mr KIELY: They are not linking them to name, 'not me'. They are not linked …

Mr DUNHAM: But are, I think, constrained by the …

Mr KIELY: They're not linked, Mr Dunham, and you are trying to draw some linkage to it ...

Mr DUNHAM: Okay, is it possible to get the answer from the witness?

Mr CHAIRMAN: Please go ahead, Minister.

Mrs AAGAARD: This document relates to your budget, and it relates to information which was known to the auditors at the time. I imagine that, had they known the information which was appearing in this memo, that it would have appeared differently.

Dr LIM: Well, the CEO had known.

Mr DUNHAM: He knew!

Dr LIM: He knew, and this is what he wrote to you with that, three days before he wrote you the other one.

Mrs AAGAARD: I would have suggested, Mr Chairman, that, in fact, Mr Bartholomew has already appeared before this inquiry and these are questions for him and not for me.

Mr DUNHAM: Ooh! So, do you believe this document has more veracity than the memo - that is the question I am asking, in terms of a true reflection of the state of the budget?

Mrs AAGAARD: I believe that the memo is a true reflection of the things that happened in relation to the Territory budget.

Dr LIM: Let me follow up on this …

Mr CHAIRMAN: As a corollary, are you saying that the report - the Territory Health Services report - is a true and accurate reflection under the *Financial Management Act*, of reporting expenditures and programs?

Mrs AAGAARD: Yes.

Dr LIM: Well, let's go back to the time sequence again. You were sworn in on 27th …

Mr CHAIRMAN: No, no. Look, I think it's time …

Dr LIM: Look, I am making some …

Mr CHAIRMAN: I want to break here, I want to break here, Dr Lim. I feel like a cup of tea because I just hear the same question rolling out again and again, so I would like to take a 15 minute break.

Dr LIM: Mr Chairman, I appreciate that you need to go upstairs for consultation with your department, but …

Mr CHAIRMAN: Thanks very much. The meeting stands adjourned, Dr Lim. I formally move that the meeting adjourn for 15 minutes and we will reconvene here at 10.35 am.

The Committee adjourned at 10.16 am.

The Committee reconvened at 10.35 am.

Mr CHAIRMAN: Can you take your places, please. We are resuming the hearing. Just to remind the witness, Minister Aagaard, that you remain under oath, and we will proceed. So, I think Dr Lim had a line of questioning.

Dr LIM: Well, I do, Mr Chairman, if I hopefully can do that without too much interruption, because it just does throw off the line of questioning.

Earlier we spoke about the time that you were sworn in, the briefings you had and then a request was made by yourself to Mr Bartholomew requesting a written briefing, and subsequent to that you got the memo of 27 September. You didn't put the question in writing, minister?

Mrs AAGAARD: It wouldn't have been necessary. I haven't put any other requests in writing to the CEO.

Dr LIM: All right. Can you recall when you actually asked for the briefing? The written briefing?

Mrs AAGAARD: I have to think about this, because it wasn't something which I was expecting to be as dramatic. I wasn't expecting it to be dramatic at all. It would have been at the beginning of my third week as minister.

Dr LIM: Okay, so up to the time of the memo, the briefings did tell you that there was going to be some financial shortfall, but it was not something that you were really practically concerned about?

Mrs AAGAARD: I was very concerned about it. That's why I asked for the written briefing. I was extremely concerned about the state of the budget. Don't misunderstand me there, Dr Lim.

Dr LIM: Alright. So between the time, what was it, you can't remember the date that you asked for the written briefing?

Mr CHAIRMAN: She did say it was the third week.

Mrs AAGAARD: The third week, either on the Monday or the Tuesday.

Dr LIM: Sorry, I missed that. The third week of your ministry, and he produced the report about a week later, 10 days later?

Mr KIELY: What's the [inaudible], Dr Lim?

Dr LIM: I am trying to get the sequence.

Mrs AAGAARD: It would be, that was as I say on the Tuesday of the third week; I received this report on the following Thursday.

Dr LIM: So about 10 days?

Mrs AAGAARD: Yes.

Dr LIM: Okay. So, on the 27th you received the report and you read it and you went through, and I quote you, 'due process', you dealt with the memo. You did not present it, or made it public, for about four weeks to a month after that. Am I right in that so far?

Mrs AAGAARD: It was confidential and [inaudible] government.

Dr LIM: That's right, but you did not table that in Parliament until 25 October; that is when you tabled it in Parliament. I just wondered why it took you four weeks, if it shocked you, you were extremely shocked by this document, you thought it was very damaging to the Territory, it took you four weeks before you did anything with it. Can you explain why it took you so long?

Mrs AAGAARD: Well, what you have just said Dr Lim isn't correct at all. On receipt of the memo, as I have already said, I was extremely shocked, I had discussions with the Chief Minister who is also the Treasurer. There were also, subsequent to that as I have repeatedly said this morning, discussions at the Cabinet level and what I have already described as due process took place. As part of that process that was what resulted in the memo being tabled in Parliament.

Dr LIM: So, you took it to the Chief Minister, you took it to Cabinet, and talked about the memo. Who was the person who actually edited the memo and crossed the names out? Are you aware?

Mr CHAIRMAN: You don't have to answer that, minister, if it involves the Cabinet discussions.

Mrs AAGAARD: Well, actually I am not able to answer the question because I don't know who blacked it out. But I understand it was - this is not about public servants, this inquiry - this is about activities relating to what we believe to be serious matters relating to the budget, and whoever that public servant is, is not relevant to …

Mr CHAIRMAN: You mean the unofficial reduction of the $8m?

Mrs AAGAARD: That's correct.

Dr LIM: Okay. Well I wasn't trying to get to what the name was or anything like, or whoever it was, or whatever he deleted. What I am trying to get at is, you had a confidential from your CEO. You provided it to the Chief Minister and Cabinet within Cabinet process, and I am comfortable with that, not a problem. You did not alter that document, but somebody did and you don't know whom. This was a confidential document to you. You present it to Cabinet in confidence within the confidential aspects of Cabinet and you don't know who altered the document. Do you think that is a reason for concern?

Mrs AAGAARD: No I don't. It was altered in the context that it was to be tabled in Parliament and why would we include the name of a public servant in that?

Dr LIM: It is a name, is it? I wasn't aware, sorry.

Mr KIELY: Already been up there and said.

Mrs AAGAARD: It's clearly, it says it relates to a public servant's name.

Dr LIM: Okay. So, somebody other than yourself - it could have been officer. So, it was outside of Cabinet that this was done, or a member of Cabinet did it? I just wondered.

Mrs AAGAARD: It was part of the due process, Dr Lim.

Dr LIM: The plan of action, the due process, was it decided then, by yourself with your CEO? How did it come about that it was then decided that you present it in Parliament?

Mrs AAGAARD: I am not quite sure what more I can add to the evidence which I have already given. I have described, several times, the process that we took. I really have nothing more to add. I have already explained, as Mr Dunham did when he gave evidence that, under the Westminster tradition, we do not discuss matters between colleagues.

Dr LIM: Okay.

Mr DUNHAM: So it was a Cabinet member that did it.

Dr LIM: Yes, it could have been a Cabinet member, it could be anybody. That's all right.

Mr DUNHAM: It was a Cabinet member.

Dr LIM: Did you speak to Mr Bartholomew about how you and government intended to use his memo?

Mrs AAGAARD: There was a meeting where Mr Bartholomew - there was a discussion regarding the memo with him.

Mr CHAIRMAN: Also, Mr Bartholomew gave in evidence - I am sure you will recall, Dr Lim - that there was a discussion with the Chief Minister about the use of the memo.

Dr LIM: Mr Chairman, point of order!

Mr KIELY: Would you like to answer that, Minister?

Mrs AAGAARD: No. [inaudible] to answer …

Dr LIM: Let me address the issue with you, Mr Chairman? Now when you seek evidence from witnesses, you ask one witness a question and the witness will answer that question in a particular way. You go to another witness, you could simply put the same question and find out from the second witness what that witness thinks. And sometimes that evidence could be conflicting. So, I am trying to work out whether there is, or in fact, no conflict at all …

Members interjecting

Dr LIM: …so nothing, that's a fair way …

Mr KIELY: This is the same thing that we saw with you, Mr Dunham, when we said that you had previously ….

Dr LIM: … and I believe …

Mr DUNHAM: So you've allowed it.

Mr KIELY: No, no. I am saying this does happen. When we get …

Dr LIM: May I proceed?

Mr CHAIRMAN: Yes, of course.

Mr DUNHAM: So, you've allowed the question?

Members interjecting.

Mr CHAIRMAN: Order, order! Dr Lim will …

Mr WOOD: Mr Chair, I just wonder whether we are really losing the plot here. My feelings, from talking to people about what happened previous to the break, is that this is becoming a little bit of a laughing stock. We are interrupting one another and we are sort of counteracting one another. I am not taking any sides here, but I think you have really got to tighten up, allow the question. If the question is repetitive, certainly pull it up; if it is badgering, certainly pull it up. But I think if we are going to have interchange across the table, we are not going to get anywhere. We are here on behalf of the public so, if the minister is quite happy to answer the question - because I think, notwithstanding some of the questions, the relevance of this memorandum is quite important. Its veracity is very important because it was the start of what we are doing.

So I think questioning the validity of this document – and I am not saying to the nth degree whether someone's name is crossed out - I think it is a fair debate, but I think, at the same time, we are being seen by the public at the moment as being a bit of a rabble. I think we have really got to tighten up and show people we are here to get to the truth, whichever way it goes. I would like us to, if possible through you, Mr Chair, see if we can have this more orderly debate.

Dr LIM: I concur with Mr Wood. I am not trying to set a trap for you, Minister, please don't think that. I am just trying to work out the sequence in my head so that I can understand, truly, what actually occurred.

Mr WOOD: Mr Chair, I am not also supporting one side or the other …

Mr LIM: No, I am not saying that, but I …

Mr WOOD: … in this debate, so I wouldn't want to be seen as saying you're right or not.

Dr LIM: I am not suggesting that you should, but I concur with you …

Mr CHAIRMAN: Please continue, Dr Lim.

Dr LIM: Okay. So, my question was, did Mr Bartholomew know what you planned to do with the memo?

Mrs AAGAARD: At what point, Dr Lim?

Dr LIM: At any point. He wrote you the memo understanding - in his evidence, he said that he understood that …

Mrs AAGAARD: It was confidential.

Dr LIM: … this was confidential to you. Now, did he understand what you were going to do with it?

Mrs AAGAARD: You are suggesting, Dr Lim, that immediately on receipt of this advice, that I knew what was going to happen?

Dr LIM: No, no.

Mrs AAGAARD: I am sorry, this is what you are suggesting to me; that is how I understand your question is leading me. That is not what happened. There was - I keep saying the same thing - conversation with the Chief Minister, who is also the Treasurer; conversations with Cabinet colleagues. I understand that the Chief Minister had a conversation with Mr Bartholomew about the tabling of the document, and he consented to that.

Dr LIM: Okay.

Mrs AAGAARD: That is my only knowledge of the matter.

Dr LIM: All right, so you did not speak to Mr Bartholomew about the fact that you were going to present it to Cabinet or the Treasurer …

Mrs AAGAARD: No, I did not.

Dr LIM: … and you did not explain to him that you would be tabling it to Parliament?

Mrs AAGAARD: As I said to you before, I did not discuss this document with Mr Bartholomew, and the only person who discussed this document, in relation to the tabling in Parliament, was the Chief Minister. It was not me. This was a government matter, not a health portfolio matter.

Dr LIM: All right, so you received it on 27 September. On 25 October, you stood up in Parliament and you tabled it? That was the last day of the sittings. Again, as you said, it was due process that took you that length of time to produce the document. You could have done it on the first day of the sittings, it was that important. I put to you the questions: why did it take you two weeks to present the paper? You could have presented it on the first day of the sittings, it was that important?

Mrs AAGAARD: Dr Lim, that is a matter for government business, it is not a matter for me. That is my answer.

Dr LIM: Am I, therefore, then, to believe that after Cabinet having considered the document, thought it was that important that it could come up on the last day of the sittings rather than the first day? If the Leader of Government Business decided that your paper, this document, was that unimportant that it can come on the last day?

Mrs AAGAARD: Mr Chairman, I think I have really answered this question. There was due process, there is also government business. I mean, this was the swearing-in of a new government. A lot of things happened on that first day as you recall, Dr Lim, including the Administrator's speech. There was huge gatherings of people from the community. Quite apart from that, we followed due process. I am sorry if it doesn't make you happy, but that is what we did.

Dr LIM: Okay, I accept that, that is fine. Mr Bartholomew said in his evidence - and I quote, and for other members of the Committee, second last paragraph of page 9 of the health transcript. I quote:

> *The Chief Minister approached me for my permission for the document to be used in Parliament and I assented to that, and that's essentially the totality of the discussions.*

Now, you earlier alluded to the fact that you do not know anything about that, so you were not present when …

Mrs AAGAARD: I didn't allude to that at all. I said that the Chief Minister spoke with Mr Bartholomew regarding the tabling of the document in Parliament, and he gave his consent. That is exactly what I said.

Dr LIM: So the Chief Minister approached …

Mrs AAGAARD: I don't know the manner in which the Chief Minister approached Mr Bartholomew. I don't know whether it was in person or whether it was by telephone. That is a matter that is part of government business; it's once again part of the Westminster tradition, and I have to say that I am not privy to that information anyway.

Dr LIM: He was the CEO. I find it a bit unusual, that. When I was the minister: whenever the CEO went to see the Chief Minister or another minister, my CEO would actually inform me as to what happened, because the CEO is usually responsible to the minister. I am confused that you are not aware.

Mrs AAGAARD: The Chief Minister is responsible for all CEOs, Dr Lim. It is the Chief Minister who takes total responsibility for every CEO.

Dr LIM: Okay. So, that's a little bit different to the Westminster system that I understand. You told us that the Chief Minister knew about Mr Bartholomew's memo because you showed it to her, and then you went to Cabinet. You said you were not present when the Chief Minister spoke to Mr Bartholomew?

Mrs AAGAARD: About the tabling of the document in Parliament?

Dr LIM: Asking for his consent to table the document?

Mrs AAGAARD: That is correct.

Dr LIM: Okay. But, after the Chief Minister received his consent, you actually were the person who carried it into Parliament?

Mrs AAGAARD: That is correct.

Dr LIM: Did you know whether Mr Bartholomew was happy that his memo was in possession of others, and it that was going to be used that way, prior to you tabling it on the 27th?

Mrs AAGAARD: Mr Chairman, I am not really able to talk about the mood, or otherwise, of Mr Bartholomew. I didn't have discussions with him about it. I am not a psychiatrist, and I don't make any attempt to know his state of mind at the time.

Dr LIM: So did he not voice any concerns that the memo was his private and confidential memo to you and it was going to be made public? He did not express any concerns about that?

Mrs AAGAARD: I had no conversations with Mr Bartholomew about that.

Dr LIM: Okay. In Parliament on 25 October, you were asked a question by the member for Sanderson and that was what led you to the tabling of the memo of 27 September.

Mrs AAGAARD: Mm.

Dr LIM: Who prepared the question for the member for Sanderson, and was he aware of the answer that you had and that you were going to table that in Parliament?

Mrs AAGAARD: Mr Chairman, as part of government business, we have discussions in relation to the workings of Parliament, including Question Time. That's the way it's handled.

Dr LIM: So is it reasonable - and tell me if it is not – if it reasonable to then believe that the member for Sanderson was privy to this document before it was tabled?

Mrs AAGAARD: No, that's not correct. He was not a privy to that document.

Dr LIM: All right. In his evidence to the PAC, Mr Bartholomew said that he told you in his original briefings that the department was and I quote:

> *Actually facing a shortfall of some $20m to discharge the responsibilities of the department to Territorians…*

That was the last line of page 3 of the Health transcript. This would have been a further 4.5% increase on what was expended by the department in the previous year and a total increase of some 8% on what was actually allocated to the department in that year. Did Mr Bartholomew put forward a formal submission for the increases that he needed, and did you take it to the Treasury or to your Cabinet colleagues?

Mrs AAGAARD: Are you talking about in the context of the mini-budget?

Dr LIM: Of the budget 2001-02 which we are dealing with. It doesn't matter whether it's the mini-budget or whatever. It's the budget for this financial year.

Mr KIELY: No, it does matter.

Mrs AAGAARD: I fail to see what it is that you are actually asking me, but I have already indicated to you that I was told initially that there was underfunding of $14m plus and this went up to $20m, $20m plus. I have also said to you that the two departments, Treasury and Health were discussing these matters and that in relation to the mini-budget, obviously those things were reviewed. I don't quite see what it is you're asking me and I don't think its at all relevant.

Dr LIM: All right, okay. So there was a total of $34.4m provided, and that's extra for this year. In the statement that you made in Parliament at the last sittings, you told us there is only $1m left out of that. How do you see this $1m lasting 'til the end of the financial year?

Mr KIELY: We are starting to strain the areas of relevance.

Mrs AAGAARD: Mr Chairman, this is actually about the mini-budget, and we didn't say there was $1m left. What we said was there was $1m which related to government initiatives. That is quite a different matter.

Dr LIM: No, no. Well, I don't want to have to quote your words to you, but you were …

Mr CHAIRMAN: I think you'd better, Dr Lim.

Dr LIM: Do you want me to do that?

Mr CHAIRMAN: Yes.

Mrs AAGAARD: It was left for government initiatives, Dr Lim.

Dr LIM: All right. I'll find it for me if you are happy to wait for me to pull the minister's speech up and we can go from there. Anyway, I will find it shortly. In the meantime, if I can move on to the next question. You were aware that for the past five years there have been carryovers in the THS budget for amounts ranging from $13.2m to about $2.9m, you are aware of that?

Mrs AAGAARD: Yes.

Dr LIM: So what do you think is going to happen here in terms of carryovers?

Mrs AAGAARD: Mr Chairman, I fail to see the relevance of this question in relation to the Terms of Reference. But I would specifically like to say, Mr Chairman, that in the letter that I received from this Committee it was made clear that in fact I would be here discussing matters relating to the receipt of the memorandum and that nothing like this was mentioned.

Mr DUNHAM: A point of order! Could we have that? That is not available to other members. Can we have a copy of it?

Dr LIM: We never received that memo at all. That surprises me, Minister, that you received a memo saying that we are not going to talk about anything else but about Mr Bartholomew's memo.

Mrs AAGAARD: It doesn't say that. It says: 'seeking clarification on the events leading up to the receipt of the memorandum dated 27 September 2001'.

Mr CHAIRMAN: Now, Dr Lim, I would ask you not to be mischievous because you are well aware of the discussions we had in deliberative session and the motion that was moved in deliberative session, and the correspondence that was received by the Health Minister reflects those discussions and that motion, so I just ask you to bear that in mind, please.

Dr LIM: Yes, I will bear that in mind. If I can put to you that the Minister obviously was receiving briefings from the Chief Executive Officer of the THS from the time she was sworn in to the presentation of the memo, and he obviously explained to the Minister the issues about budget shortfalls relating to this year, this financial year. He then produced the memo, subsequently, relating to last year. What I am asking now is that - this budget obviously was the springboard which caused this memo to come about. Therefore, I have every right to ask about this year's budget.

What I am asking the minister is: is she aware of this page, page 6 which you all have, of the written response from Treasury, okay, talking about the 1996-97 through to the years 2000-01 carryovers in health, education and police?

Mr CHAIRMAN: That's on page 6, is it?

Dr LIM: Page 6 of the chart. In it, it says, just under health - and I quote [inaudible]:

In 1996-1997 the carryover was $13.217m. In 1997-1998 the carryover was $6.303m. In 1998-1999 the carryover was $7.289m. In 1999-2000 the carryover was $8.436m, and for the year 2000-01 the carryover was $2.994m.

So there is a huge variation from 13.2 to the lowest which was about 3m. What do you anticipate this year's carryover is going to be?

Mrs AAGAARD: Mr Chairman, if I had known that I was going to be having to answer detailed questions in relation to anything to do with budgets, I would have actually bought counsel with me, which is the usual practice. I, once again, just say to you that what I received a document on was that I was to discuss the matters in the memorandum. In relation the mini-budget …

Mr CHAIRMAN: I feel that we are straying away from our Terms of Reference, and that's all I can say Dr Lim.

Dr LIM: Okay, well, obviously the Minister is not…

Mr WOOD: Could I – I mean, I mentioned before that I am happy for [inaudible] to run this meeting a little bit more orderly, but I am certainly aware that - I would like to know the relevance of that question in relation to what we are doing because I think relevance is important.

Dr LIM: Well, we talked about - explaining to Mr Wood, Mr Chairman, we talked about the $8m…

Mrs AAGAARD: This is the wrong letter.

Dr LIM: …adjustment made by the former Treasurer.

Mrs AAGAARD: This is not the correct letter.

Mr KIELY: Incorrect, is it?

Mrs AAGAARD: Mmm

Dr LIM: Now, if it the carryover was going to be $10m, then he had every good reason to adjust his figures.

Mr WOOD: Through you, Mr Chairman, of course we have had the ex-treasurer tell us why he – he believed [inaudible] adjustment which wasn't that reason.

Dr LIM: No, but if the figure was available, if the Minister is aware what the figure is, we are now in the end of March and normally, as business people, we would have our financials geared to see what it's like at the end of the year.

Mr CHAIRMAN: [inaudible] in terms of that table.

Dr LIM: Okay, look, I will leave that. I will leave that. That's fine.

Mr CHAIMAN: Okay. Can we move on, then, please.

Dr LIM: When did you find out and from whom that for the first time THS did not have a carryover for 2000-01?

Mr CHAIRMAN: But surely that table says the opposite, Dr Lim?

Mr KIELY: It says 2.9, doesn't it?

Mrs AAGAARD: I will have to get back to you on that, Dr Lim.

Dr LIM: Did Mr Bartholomew explain that THS in 2000-01 had been given a budget of $432m, but had to seek more funding through the year and in fact overspent the original budget by some $15m, and how did he explain that?

Mr CHAIRMAN: Sorry, Dr Lim. I honestly missed that question. Can you repeat it, please? I was just reading that memo.

Dr LIM: We're talking about starting the year 1 July 2000. The budget allocated for THS was $432m. Through the year, funding was provided to THS. At the end, there was estimated was $15m above what started the year 2000. You get it? July 2000, $432m was allocated. Through the year, additional amounts were added in. By the end of that financial year 2000-01, in fact THS had received $447m and spent $447m, which was $15m above $432m. Follow me so far?

Mr CHAIRMAN: Yes, I do.

Dr LIM: How did he explain his department receiving that $15m?

Mrs AAGAARD: Well, isn't that the subject of the memo? Isn't that what he's written to me about?

Dr LIM: I'm trying to work out - you understood that he received those extra funding through the year?

Mrs AAGAARD: I don't know what it is that you're trying to say here. I'm not at all sure what the relevance is. My understanding is that in your published budget of 2000-01 there is an allocation of $432m and then in the following May, you did a revised estimates which was $436m. In the meantime, you'd had Cabinet deliberations which increased the budget by $8 which is the subject of this inquiry, which was not printed in those papers even though it was apparent that you knew that the figure was not $436m at all. So, I think, is that what you're asking me?

Dr LIM: So, you knew that the department spent $447m at the end of the financial year 2000-01?

Mrs AAGAARD: At what – what do you mean?

Dr LIM: The annual report tells you that the THS spent $447m for the year 2000-01.

Mrs AAGAARD: That's correct. The annual report is about final outcomes. That is correct.

Dr LIM: Did Mr Batholomew tell you, based on these figures I quoted earlier of the carryovers, that in fact the year 2000-01 is not a normal year; that there was no carryovers, or very little carryovers?

Mrs AAGAARD: Mr Chairman, I fail to understand what the relevance is of this question. I mean, we are here to talk about the memo. The memo's talking about something completely different to the annual report. The memo's talking about published estimates, which appear to be incorrect.

Dr LIM: The relevance is that, in fact, in education $6m was removed …

Mr KEILY: No, it wasn't!

Dr LIM: …and with police, $2m was the figure, and they did not even get anywhere close to that $2m.

Mrs AAGAARD: Dr Lim, are you suggesting that in fact, the $8m was actually meant to be a cut, as opposed to being told that the people - the agencies were told that in fact that this was for presentation purposes only, and that they were to spend to their allocation?

Dr LIM: No, what I'm saying is that in the health department, $8m was adjusted. Education was $6m. Police was $2m. These were adjusted because of the anticipated underspending.

Mrs AAGAARD: That is absolutely untrue. The understanding was that this was money that had already gone through the Cabinet process, and had been approved by your Cabinet. $8m, which was already committed, and was subsequently spent, and there was never any question that this was meant to be a cut. This was, as it says in the memo, this was specifically an artificial reduction in the budget and, in my opinion, it was a political move to make it appear that there was going to be a growth figure in the new budget.

Dr LIM: You understand what I said about the carryovers from 1996 through to 2001?

Mrs AAGAARD: I understand that, so why do you…

Mr CHAIRMAN: Just to clarify; I think this is important, Dr Lim, because on the table you are referring to, which the minister doesn't have in front of them, we're talking about a total carryover which includes the August budget refinement process. And it also identifies a separate wave component in there. Now, obviously the figure for health in 2000-01 isn't going to have an August budget refinement process.

Dr LIM: The wave complement's there, which mean that in fact the carryover is $800 000. Am I right?

Mr CHAIRMAN: Well, that was identified as the sort of wave component. Well, it was earlier. That's a question that I actually had for Jane Large, in terms of there was a published figure of $790 000 within the THS papers, and yet in the Under Treasurer's submission, he identifies it as $2.19m. I have got a question about that, but I'm sure it is a technical question that Jane will be able to support us with. So there is some discrepancy or divergence between what THS identified as their wave component and obviously what the Under Treasurer identified. And I'll be interested in deliberative sessions to find out from Jane Large. I think it is a very technical question. I think it is a little bit unfair to be asking that of the Health minister, because obviously there's a divergence of methods, I'd say it would be, in estimating those components between Health and the Treasury. I'm not saying that anyone's juggling the figures; I think it's probably a calculation matter, and I think I'd like to find out more about that.

Dr LIM: Sure. Addressing the question to the minister. Mr Bartholomnew, did not explain to you that the year 2000-01 was going to be an unusual year, that there was going to be very minimal carryovers?

Mrs AAGAARD: Not that I recall.

Mr DUNHAM: On that same theme, it's been put by some that that figure should be evident from at least this far out. Do you have any inkling of what that figure might be this year?

Mrs AAGAARD: Dr Burns, I believe that is a matter about the mini-budget, and …

Mr DUNHAM: It's a matter about method. Do you believe that you should know what that figure is now?

Mr CHAIRMAN: Well, it's only in May I think, traditionally, from what we've heard in evidence here that those figures become evident -well, it's March now - it becomes evident in May. I think it's a little bit unfair to be asking the health minister that question that far out from when the budget estimates …

Members interjecting.

Mr CHAIRMAN: Please continue.

Mrs AAGAARD: Dr Burns, I've not received any figures relating to that at this stage.

Mr CHAIRMAN: Thank you.

Dr LIM: Let me go back to your comment that you were extremely shocked when you received this memo. You said then that you did not speak with Mr Bartholomew after that, about the memo, and the next significant event was when you tabled this document in Parliament. I find it curious that you say that this was a very significant document for you. It shocked you, it really threw you fairly hard; you went to see the Chief Minister about it, and said that this is a real problem. You went to Cabinet. But you never went back to see who wrote you the memo part. Can you explain why?

Mr CHAIRMAN: I'd like you to make this the last time you ask this question of, and ask the health minister to answer it once again, and hopefully, we can move on.

Dr LIM: I don't believe I'm being repetitive. You did not speak to him at all about this memo after you received it. But you spoke with your colleagues, your Cabinet colleagues, and I respect you confidentiality and I'm not asking what you said, but I find it curious that you do not speak to the CEO after he wrote you such a memo. Can you explain?

Mrs AAGAARD: You asked me previously a quite separate question which was in relation to the consent of the tabling of the document in Parliament,

Dr LIM: Yes, that's right.

Mrs AAGAARD: You asked me had I had [inaudible] asked him about it and I said no.

Dr LIM: That's right.

Mrs AAGAARD: There was a meeting, one meeting, with the Chief Minister, one of her advisors, myself and Mr Bartholomew to discuss this memorandum.

Dr LIM: Okay. So you did speak to him now, that's what you're saying?

Mrs AAGAARD: As part of the due process after Cabinet deliberations. I don't have the date. I have nothing more to say. It's part of the due process.

Dr LIM: Mr Chairman, I was going to - I asked the minister about this $1m left for the financial year, and I said I'd soon find a quote.

Mr CHAIRMAN: Yes, Dr Lim.

Dr LIM: If I may read the quote from Hansard, Ministerial Statement, Health and Community Services Debate, 26 February. Third paragraph of your statement, and I quote:

> *It is worth reiterating the budget position, if only for the sake of members opposite, who seem to think that we are rolling in untold wealth and thus can fund every organisation who makes a claim for additional money. The November mini-budget identified an increased to the Health and Community Services budget allocation of $34.2m since May 2001 budget …*

I think its $34.4m, isn't it?

> *… yet only $17.3m of this was for ongoing items. The rest was to meet one-off expenses, in the large part comprising no liabilities that hadn't been allocated for.*

Now, this is the particular reference I was making:

Less than $1m is left to us this financial year from the $34.2m after paying off the debts of the previous government and meeting commitments.

That's what you said.

Mrs AAGAARD: That's correct - $1m for government initiatives.

Dr LIM: That's not what you said.

Mrs AAGAARD: Well, we are talking about the context of the $34m and it's fairly obvious, it was all printed in the mini-budget. It is even outlined which parts of the actual government initiatives - and they are about $1m. That's what that refers to.

Dr LIM: That's what that refers too, okay. Well that's clarification, because in your statement …

Mrs AAGAARD: I was talking about the $34m. It is clear from the information that you just read then, that $1m dollars related to the government initiatives. What I am saying is, that out of the $34m only $1m - in fact slightly less than that - was actually available for new government initiatives. The rest were for the things which were outlined in the mini-budget.

Dr LIM: Okay. Coming back to the annual report from THS, I was perusing through the hospital redevelopment page - and that page is page 16 for your reference. You have the document there? Yes. On page 16 on hospital redevelopment you have two columns: one Royal Darwin Hospital the other Alice Springs Hospital. Now, coming from a very parochial Central Australian perspective, I note, with great concern, under stage 3 and 4, that there is no mention of the private hospital facility in Alice Springs. Was that …

Mr CHAIRMAN: With all respect, Dr Lim, if you have a question about this I suggest you ask it on the floor of Parliament. I just come back to our terms of reference once again, and I would ask you to show the relevance of your question.

Dr LIM: This is the management of the budget.

Mr CHAIRMAN: Are you trying - you know, obviously you have got a Central Australian perspective and, obviously, you are passionate about putting forward the interest of Central Australia, but I would suggest the question, as it's forming up now, should be for the floor of Parliament. That's not part of our …

Dr LIM: It is about the management of the budget process for the year 2001-02.

Mr DUNHAM: It's called the mini-budget.

Mr CHAIRMAN: But is it about the estimates? How does it relate to the estimates, please?

Mr DUNHAM: Well, it relates …

Dr LIM: It relates to the expenditure of stages funds …

Mr DUNHAM: The estimates.

Dr LIM: … for the year 2000-01. Which …

Mr CHAIRMAN: Which particular term of reference does it …

Dr LIM: … as a consequence of that, is the memo.

Mr CHAIRMAN: Well, if we could come back to the terms of reference again, if you could just point towards …

Mr KIELY: Would you care to have a cigarette?

Mrs AAGAARD: I don't smoke, Mr Kiely.

Mr CHAIRMAN: So, let's have a look. So, which term of reference does it come under, please?

Mr DUNHAM: Inquiry into the accuracy of the budget data published in the 2001-02 budget papers with respect to both the estimated outcomes for 2000-01 and the budget for 2001-02. Which, I note, is the letter that was sent to the minister, so she is well aware that this is the one …

Mr CHAIRMAN: Well, no, I am talking about whether its 1(a) to 1(e). Which particular term of reference does it refer to?

Mr DUNHAM: The specificity of those subsections doesn't preclude questions on the main header, Mr Chairman.

Dr LIM: We have discussed that before, Mr Chairman. You know that.

Mr KIELY: We discussed it at great length.

Mr DUNHAM: I guess the point is that we are talking about estimates that are no longer estimates, they are actuals, because the year has completed. So, when you keep using the word 'estimate', we now have a document in front of us that can be paraded out as exactly what happened in that year. So, while it was difficult for some …

Mr CHAIRMAN: It's very specific about the estimated outcome for 2000-01, it's not talking about the estimated outcome for 2001-02, Mr Dunham.

Mr DUNHAM: Of course it is!

Mr CHAIRMAN: I mean, I think you are just getting into incredible detail that is leading us right away from the focus of our deliberation, which was clearly set out in the memo that was sent by Mr Bartholomew about what he called artificial reduction …

Mr DUNHAM: What did he say?

Mr CHAIRMAN: … proposed deception, and we have heard evidence from police and also from education about reductions there. We have heard evidence from the Under Treasurer how the reduced estimates were reinstated within a day of them being taken out. So, that's the focus of our investigation.

Mr DUNHAM: We've heard this. We've heard evidence …

Mr CHAIRMAN: That's the focus of our investigation. It isn't the minutiae of the Territory Health Services' report and Alice Springs Hospital. I am sure if Dr Lim …

Mr DUNHAM: But, in the quote you just heard, the minister has used this as a reason why her budget has been …

Mr CHAIRMAN: On another point, Mr Bartholomew offered Dr Lim a briefing about all these issues. I would like to ask Dr Lim whether he has taken up that invitation made by Mr Bartholomew, when he was sitting in that chair, to get a briefing on these issues. Did you take it up, Dr Lim?

Dr LIM: No I did not, and the issue is not to do this outside the PAC. Surely, we are in the PAC deliberation …

Mr CHAIRMAN: Like the minister, Mr Bartholomew questioned the relevance, but he was quite open to you and said: 'Look, I am willing to give you a briefing, Dr Lim'. And you haven't availed yourself of that. Instead, you want to sit the minister down here and ask her minutiae which I think …

Mr DUNHAM: The private hospital in Alice Springs is hardly minutiae. It has been mentioned by the minister …

Mr CHAIRMAN: … this side of the table, I am pretty sure, this side of the table would - are not particularly relevant. I think you are wasting the minister's time, to be honest with you.

Dr LIM: I take your comment that the Alice Springs Hospital private facility is minutiae.

Mr KIELY: Point of relevance, Mr Chairman. The whole thing is just getting hijacked, railroaded into some other area. Either rule the question out and let's get on with the business. I, too, have a busy day ahead of me.

Dr LIM: Well, the question has been posed. Minister, you're not going to answer it?

Mrs AAGAARD: I don't see any relevance …

Mr CHAIRMAN: Would you like to repeat that the offer for briefing …

Mrs AAGAARD: … and I do not understand what the question is that you are asking me, anyway. But I see no relevance in the private hospital in Alice Springs to this inquiry.

Mr CHAIRMAN: Well, I think that's your answer, Dr Lim. If you could move on, please.

Dr LIM: The real position of the budget, as stated in the annual report, then only three days away from being presented to you, the minister, in terms of the letter that was written 30 September. How does Mr Bartholomew's memo relate to the real position of the budget? The figure he is talking about in the memo is an estimate, some five months earlier, not the actual expenditure, in fact.

Mr CHAIRMAN: I feel this has been answered before, Dr Lim.

Mrs AAGAARD: I have actually answered this. Dr Lim, as you would be aware, an annual report is about the final outcomes - the actual outcomes - whereas the memo which has been tabled deals with published estimates. So, the two things are completely different.

Mr DUNHAM: I understood that the memo was sought from you because you wanted - and I will quote and I hope this conforms exactly with *Hansard*: 'A written briefing on the true position of the budget'. I would have thought that the annual report put that fairly succinctly.

Mrs AAGAARD: Mr Bartholomew provided me with this memo after I had asked him for a written briefing on the true state of the health budget. As I have already said, I had no knowledge of what was going to be in this. He was free to advise me however he wished. This is the advice he provided me with.

Mr DUNHAM: He provided you with two advices. You have chosen to use that one. My second question is: did you provide the second advice, ie the annual report, to the Chief Minister?

A member: It was provided to Parliament.

Mrs AAGAARD: It was provided to Parliament.

Mr DUNHAM: So, the Chief Minister was aware of the annual report prior to the censure motion?

Mrs AAGAARD: They are separate things, Mr Dunham.

Mr DUNHAM: Was she aware of the annual report prior to the censure motion?

Mrs AAGAARD: I am unable to answer that question, unable to answer.

Mr CHAIRMAN: I don't think the witness could answer that, with all due respect. I mean, as you are aware, Mr Dunham …

Mr DUNHAM: We might have to call the Chief Minister in.

Mr CHAIRMAN: No, we're not going down that path. I think you're just clutching at straws. I will ask Dr Lim to continue, if he has got more relevant questions, please.

Dr LIM: Yes, I do Mr Chairman. Now, Mr Bartholomew told you - and this might sound repetitive and please bear with me, okay?

Mr KIELY: God forbid!

Dr LIM: Well, God's not forbidding. Mr Bartholomew asked you - told the Committee rather - and I quote:

> *So during the course of those briefings I informed my minister that, in my view, the department was facing a very difficult budget situation. My estimate to her was that we were actually facing a shortfall of some $20m to discharge the responsibilities of the department to the Territorians. Some time after that advice, Minister Aagaard requested me to provide a written briefing to her as to how that situation had arisen, and it was at that time that I provided the memo.*

This is the memo that we are talking about. I am at a little bit at a loss now, to reconcile the statement with what you said that you asked him. I can see just - just how did the memo come about and how did it go to answering what Mr Bartholomew told you that he was asked?

Mr CHAIRMAN: Look, with all respect, Mr Lim – Dr Lim, rather - I think that the witness has answered that question a number of times. I think you are only going to get the same answer …

Dr LIM: This is a very fine point.

Mr CHAIRMAN: … as you have received.

Dr LIM: The Minister said that she asked him, all right? And then we hear the Minister didn't ask him. I mean, I just don't know where we're going to.

Mr KIELY: No one has ever said that.

Mrs AAGAARD: I said previously, several times, that I asked Mr Bartholomew for a written briefing on the true state of the health budget. And then I said to you, just a few minutes ago, that he was free to give me whatever advice he chose to, and this is what he provided me with.

Mr DUNHAM: I have a question. The briefing that he provided to you - you've told us you have a Bachelor of Business – do you believe it indicated fraud?

Mr KIELY: Hasn't that been asked?

Mrs AAGAARD: I believe it indicated that there were serious issues which needed to be looked through in relation to the budget. And that's why I took the course of action which I did.

Mr DUNHAM: So did the allegation of fraud come out of the investigation and due process, or did you believe that the memo was *prima facie* evidence of it?

Mr CHAIRMAN: What sort of fraud are you talking about here, Mr Dunham, because, as I said before, there can be moral frauds or there can be legal frauds? Certainly in political life and in terms of transparency to the public, I think the public demand more than just the standard – the legal standard which some people have retreated into. They want transparency and honesty, particularly in budget papers.

Mr DUNHAM: Why don't we go to the [inaudible] under the Act.

Mr CHAIRMAN: And anything less than that is a moral fraud.

Mr DUNHAM: What about the definition under the Act? Do you believe that the due process…

Mr CHAIRMAN: That's a legal definition.

Mr DUNHAM: …was able to demonstrate fraud had taken place, or do you believe that Paul Bartholomew's memo was *prima facie* evidence of it?

Mrs AAGAARD: I believe that in receiving this memo, that there were significant questions which needed to be answered. I was very alarmed by the whole memo. It certainly indicates and has been, in my opinion, upheld, that in fact the May budget figures, 2000, and then the ones which were published in May 2001 of $436m substantiate the claims made in this memorandum which mean that the $8m was not represented in the published figures in the Parliament, so it would be my opinion that the reason for this was to mislead the people of the Northern Territory.

Mr DUNHAM: So you believe it was a fraud?

Mrs AAGAARD: It is my opinion that this was – the reason was to mislead the people of the Northern Territory.

Mr DUNHAM: Do you agree that it was a fraud?

Mrs AAGAARD: My choice of terms is that I believe this was to mislead the people of the Northern Territory.

Mr DUNHAM: So you disagree with the Chief Minister when she called it a fraud?

Mr KIELY: Oh, Mr Dunham.

Mr CHAIRMAN: No, no, you're badgering the witness now.

Mr KIELY: You're badgering, you're leading, you're verbalising…

Mr DUNHAM: There is a – this is a lady with a Bachelor of Business who would understand what the word 'fraud' means. The Financial Management Act talks about what the word 'fraud' means. We have a situation in front of her where there is potentially a case to be put that the Chief Minister has misled Parliament in the Censure Motion because she has claimed that the memo of Mr Bartholomew is evidence of gross fraud. I merely asked the Minister whether she concurs with the Chief Minister that the memo of Paul Bartholomew is evidence of gross fraud.

Mrs AAGAARD: I've already given my answer which is that I believe that the memo indicates and…

Mr CHAIRMAN: The Minister's answer is on the record.

Mrs AAGAARD: …the backing up of the documents from the published record which had been tabled in Parliament had been done deliberately to mislead the people of the Northern Territory to believe that there was to be a significant growth in the health budget when this was clearly not the case, and there was a deliberate attempt to not include in those papers the $8m which had already been agreed to by your Cabinet and which was being spent by the department. Your choice of words is your choice of words; mine is that you…

Mr DUNHAM: These are the Chief Minister's words.

Mrs AAGAARD: … misled the people of the Northern Territory. And I'm sorry if…

Mr CHAIRMAN: Your interpretation of the Chief Minister's words.

Mrs AAGAARD: …you're not happy with my response.

Mr DUNHAM: So do you believe, then, that the annual report is wrong?

Mrs AAGAARD: I believe that the annual report is as it should be. It is the final outcomes of the department.

Mr DUNHAM: Hmm.

Mrs AAGAARD: The memo is about published estimates. They are completely different things, Mr Dunham.

Mr CHAIRMAN: Budget papers.

Dr LIM: Final outcomes that you don't believe …

Mr DUNHAM: They were three days apart.

Dr LIM: …that include the Alice Springs Hospital. Minister, I know you – you think I'm being repetitive, but, you know, just to take a point: I asked you on several occasions whether you did speak to Mr Bartholomew or you did not, and you kept saying no. And then, at the last…

Mrs AAGAARD: No, you were asking if I had spoken to him about this before.

Dr LIM: …response, you said…

Mr KIELY: Hang on. You're badgering. Dr Lim, you're badgering.

Dr LIM: Let me finish my preamble to the question. I asked you several times whether you did speak to Mr Bartholomew and you said no, after receiving the memo that was it. You went to speak to the Chief Minister, to Cabinet and then after that you tabled in Parliament with the member for Sanderson asking the question. And then on – and asking the question a different way, you then said to me that you actually did speak to Mr Bartholomew in the presence of the Chief Minister and one other person. So, obviously, sometimes it is important to ask the questions in several ways.

Mr CHAIRMAN: Please ask, Dr Lim.

Dr LIM: The Minister had corrected her previous answer.

Mrs AAGAARD: No, Dr Lim, I did not correct my previous answer. You had asked me a completely different question which related to the consenting of the tabling of the document in Parliament. I was not part of that process. I have talked to you about due process in relation to Cabinet colleagues and senior staff as well, and that includes CEOs of departments. I said that that was part of the Westminster tradition, that we did not discuss that kind of conversation. You did not actually specifically ask me had I had a conversation, after I received the memo, with Mr Bartholomew. Nobody here has asked me that question, and I did have, as I related before, have one conversation with Mr Bartholomew in the presence of the Chief Minister and one of her advisors.

Dr LIM: The transcripts will bear me out, Minister, that you did say that you didn't speak…

Mr KIELY: Just as the question.

Dr LIM: Anyway, that's fine.

Mr KIELY: They'll bear out the minister, actually.

Mr DUNHAM: I have a question. Would you agree that a minister or Treasurer has the responsibility to ensure he or she presents in Parliament – the figures he or she presents in Parliament are correct and accurate to the best of their respective knowledge.

Mrs AAGAARD: Of course.

Mr DUNHAM: Of course. So you are wholly confident of the figures in the mini-budget?

Mrs AAGAARD: What is it that you're asking me about here, Mr Dunham, because…

Mr DUNHAM: I asked you if you think it's important that the figures are correct.

Mrs AAGAARD: …the mini-budget is not part of this – there's no relevance to this.

Mr DUNHAM: It goes to theme.

Mrs AAGAARD: There is no relevance.

Mr DUNHAM: Are you happy to give a fulsome vote of confidence to the mini-budget in terms that the figures presented there are accurate and correct?

Mrs AAGAARD: As they were published? What, at that time?

Mr DUNHAM: Yes.

Mrs AAGAARD: Yes.

Mr DUNHAM: You are, okay. Perhaps then we can ask some questions about the mini-budget because there are some troublesome figures in there that don't seem to have – to bear scrutiny.

Mr CHAIRMAN: Before we embark on that, Mr Dunham, which particular years are you going to be speaking about here in the mini-budget?

Mr DUNHAM: The years that our Terms of Reference allow us, Mr Chairman, and that is I want to inquire into the accuracy of the budget data published in the 2001-02 budget paper with respect to both the estimated outcome for the budget 2000-01 and the budget for 2001-02.

Mr CHAIRMAN: Will you be talking about 2002-03? So will any of your questions relate to 2002-03 or 2003-04?

Mr DUNHAM: No, perhaps not.

Mr CHAIRMAN: Well, if you could just be specific when you ask the questions about what particular years you're talking about.

Mr DUNHAM: Well, let's start with the year in questions.

Mrs AAGAARD: Excuse me, Dr Burns, I'd just like to make the comment that had I known I was going to be questioned specifically on the mini-budget, that naturally, like other people who have appeared here, I would have sought counsel from my department and I would have had someone here who was in charge of that area to assist me in giving my advice. I feel as though this is completely irrelevant to the matter before us. I understood that I was here to describe the matters relating to the memorandum which I had received. It has nothing whatsoever to do with the mini-budget, and I feel quite concerned that I am being put in this position.

Mr CHAIRMAN: Yes. I agree with you, Minister. You have the right, as a witness, at any time to question relevance and I would expect you to do that, so if you feel – and I'll certainly be looking at the relevance.

Mr DUNHAM: Okay.

Mr CHAIRMAN: And this has been – let me tell you – inform you, Minister, that this has – this issue has been a troublesome one for this Committee right through our deliberations, and I've said it before this morning, that I know where our focus should be, but it's obvious that other people are trying to make a smokescreen, trying to derail us, trying to pull us off into all sorts of other directions other than what was actually done by the previous government and what Mr Bartholomew talks about, not only in health but in education and police also where there was a reduction of estimates that had a political motivation that the Under Treasurer told us about. So I'm clear about what our Terms of Reference and what we should be inquiring into, but I guess we have to give our colleagues here the benefit of the doubt. If they can show relevance, well let them proceed.

Mr DUNHAM: Well, we have either the problem that the terms of reference were clumsily drafted, which could well be the case; or that I think it is evident to everybody, including in the letter that you received, that is in fact what we are inquiring into. I also understand that if you had received transcripts, you would be well and truly aware because these matters have been canvassed, well and truly. So I would prefer you didn't feign surprise. I think the issue for you here is that when you are talking about the relevance between the two budgets, there are people who can question that both ways. If there is a brick wall that happens at the mini-budget - there are many occasions when you have talked about the circumstances you are in that you have inherited. What I would like to query is whether that inheritance is in fact a benevolent one or a bad one, and I am merely going through exactly the same sorts of jargon that you use.

I would also reinforce that this is exactly the opinion of the Chief Minister and pretty much everybody that has ever held a ministerial portfolio that sat in that chair. Notwithstanding that there are members on this Committee that believe this is a 'no go area', I believe that we are reporting to the Parliament and the Parliament has given us terms of reference and they are abundantly clear to everybody.

So my question, and we will start with this year's budget, goes to nursing. Can you tell us how many nursing vacancies are unfilled, how many nursing positions are unfilled?

Members interjecting.

Mr DUNHAM: I don't mind it being take on notice, take it on notice.

Mr CHAIRMAN: Gerry, do you want to make a deliberative session about this?

Mr WOOD: No, well, the member for Drysdale knows my opinion. I do think it is not relevant. That simply, I understand that perhaps this is something the PAC can take up at another date but I think …

Mr CHAIRMAN: I think that is a question for the floor of Parliament, Mr Dunham.

Mr DUNHAM: I will ask another question, can you tell me what your budget appropriation is?

Mrs AAGAARD: Mr Chairman, are we talking about the new budget? What is it …

Mr DUNHAM: Can you tell me what your budget appropriation is?

Mr CHAIRMAN: Well, obviously everyone around the table knows here, it is $447 plus $34.

Mrs AAGAARD: What is it that you are after, Mr Dunham?

Mr DUNHAM: I would like to know whether you are familiar with your figures …

Mrs AAGAARD: I have to say, that it is …

Mr KIELY: A point of order! You are badgering, Mr Dunham, you are badgering and that is all you are doing. I don't know what relevance has. You are badgering - that you are right on this …

Mr DUNHAM: Well, I am happy to talk to the point of order. The whole business of this inquiry is to say what was the end figure; shouldn't that have been carved in stone; was it evident to everybody; was it subject to change? Now there are some people who have given evidence that say, yes, those figures changed enormously. There are some people who have given evidence that believe they go across financial years. And I am asking this minister if she is aware of what her current budget is?

Mrs AAGAARD: Are you talking about the allocation for the year?

Mr DUNHAM: That you have available to you.

Mrs AAGAARD: The one that is published in Book 2, on page 104 of the mini-budget?

Mr DUNHAM: Yes.

Mrs AAGAARD: Do you have that book with you?

Mr DUNHAM: Yes, I do.

Mrs AAGAARD: Then it is published there at the bottom of the page.

Mr DUNHAM: Okay, okay. The next question is, *pro rata*, do you believe you will achieve full expenditure or you will come in over-running?

Mrs AAGAARD: We are asking departments to come in on budget.

Mr DUNHAM: So *pro rata*, how are you travelling, you are three quarters of the way through the year.

Mrs AAGAARD: We are asking departments, including my department, to come in on budget.

Mr DUNHAM: Do you have monitoring devices available to see if that is happening?

Members interjecting.

Mr CHAIRMAN: Once again, that is a question for the floor of the Parliament. I think that the member for Nelson has made his views clear about this. I know the three members here are also of the same mind and I think you are really in a minority, the way that you are pursing this thing and trying to score political points.

Mr DUNHAM: Maybe. All I want to know is, if you don't want to answer that question, say you don't want to answer the question. Do you have a monitoring device to tell you that three quarters of the way through the year, you are on target or not on target?

Mrs AAGAARD: The budgets are looked after obviously by the department who will keep me informed of what is happening.

Mr DUNHAM: So it will be exception reporting, do you expect?

Mrs AAGAARD: I have just given my answer to you, Mr Dunham. And I just have to say, at this point too, that I actually think it is pretty amazing that you ask me questions like this when this memo actually reflects very poorly on you. I would have to say that it is very strange that you bother to ask me these questions and I think that you need to look at your own position in relation to a conflict of interest in this matter. I have chosen not to actually make any comment on that and I know that in a legal sense you are entitled to be on this Committee, but from a personal point of view, I would say that it is pretty odd that you have decided to even be part of this Public Accounts Committee inquiry.

Mr DUNHAM: Thank you.

Members: Hear, hear!

Mr DUNHAM: I believe my questions went closer to the fact than yours have, minister, and I would ask you again, is there any device you have to monitor how your budget, nearly half a billion dollars, is travelling three quarters of the way through the year? Do you know how it is travelling?

Mr KIELY: Call Treasury.

Mrs AAGAARD: Mr Chairman, that is why you have a department with senior people in it to do the monitoring and then they report to you as minister.

Mr DUNHAM: So the next question is about the correct figure.

Mrs AAGAARD: Excuse me, Mr Chairman, I want to have a brief adjournment, if you wouldn't mind?

Mr CHAIRMAN: Okay, we will have ten and come back.

The Committee adjourned at 11.35 am.

The Committee reconvened at 11.40 am

Mr CHAIRMAN: We will resume, just to remind the witness that you are under oath.

Mrs AAGAARD: Thank you, Dr Burns.

Mr CHAIRMAN: And if we could continue. Once again, I will make the statement about relevancy. Obviously, Dr Lim and Mr Dunham have got questions here.

Dr LIM: Well, let me again come back to the memo. I think that is the pressing issue for all of us here. I don't believe that the question has been answered, so far, about this. You described a memo of the 27th as extremely shocking; that it was of great concern and, when you received it, it was the first time that you actually were aware of the circumstances. I am really at a loss, if this document was of such significance, that you never went back to the CEO until that one time that you spoke with him in the presence of the Chief Minister and one other person. Did you question him about the content of the memo, as to why, or what he wrote, why he put it in such language?

Mrs AAGAARD: No.

Dr LIM: You didn't? I mean, it concerned you that much that you did not say: 'What the heck happened?' Why? Why didn't you put it in such words, never asked him that at all?

Mrs AAGAARD: Mr Chairman, I have already indicated we went through due process. I have nothing more to say about this.

Mr CHAIRMAN: So, just a question, minister, would you say that the memo is quite self-explanatory and sufficient detail that it says what it says?

Mrs AAGAARD: The memo is self-explanatory, it's chronological, it outlines the matters as understood by Mr Bartholomew, and which I subsequently agree with; and it outlines a very serious situation undertaken by the previous government in relation to their budgets. It talks about political interference and all sorts of things. It's a very, very serious document.

Dr LIM: Precisely my point.

Mrs AAGAARD: A very, very serious document.

Dr LIM: Precisely my point. Okay, can I …

Mr CHAIRMAN: Mr Kiely.

Dr LIM: Look, I haven't finished the questions yet.

Mr KIELY: I asked you before, was there any collusion?

Mrs AAGAARD: There was definitely no collusion.

Mr KIELY: Was there any inducement?

Mrs AAGAARD: How could there be, given that I didn't know the contents of the memo until I received it. You can't coerce someone into doing something that you have no knowledge of.

Mr KIELY: I am just trying to clarify a point here. I will ask you to validate it or not. So, there is no coercion of Mr Bartholomew to provide this letter; there is no inducement to Mr Bartholomew to produce this letter; and you had no idea what the content of the briefing would be? Is that correct?

Mrs AAGAARD: All of those three are correct.

Mr DUNHAM: There is a further one. If you were a CEO, and you were sitting in the public service and the Chief Minister rang you up and said: 'Look, I've got a copy of your memo I am going to table', do you think they're likely to answer: 'No'.

Mrs AAGAARD: Dr Burns, this is all part of what I have described as due process. I was not privy to the conversation the Chief Minister had with Mr Bartholomew. It was all part of due process. There would have been other conversations with Mr Bartholomew, by other people, which I am either not privy to or will not, under the Westminster tradition, discuss with you.

Mr DUNHAM: So, without speaking to the Chief Minister …

Mr CHAIRMAN: Could I ask you a question …

Mr DUNHAM: Without speaking to the Chief Minister, we can't …

Mr CHAIRMAN: Could I ask you a question please, Minister. In your experience with Mr Bartholomew over the six months - and it became evident to me in the evidence that he gave here, that when he raises sensitive and political issues as he did with Mr Dunham - and he gave evidence here that he didn't follow up on what he told Mr Dunham because he realised that it was going into another realm which is a political realm - would you surmise that that is probably where he stood on the issue, once he'd written a memo like this - and being such an experienced public servant, he would realise that it was going to the political realm?

Mrs AAGAARD: Well, I would have been surprised if that didn't occur to him, but I don't know whether it did or not.

Mr CHAIRMAN: I mean, that was the reason he gave to this Committee when we questioned him about whether he had questioned the former health minister, Mr Dunham, about efforts he had made to redress this situation about the $8m reduction in estimates. Look, I don't have the evidence in front of me, but …

Mr DUNHAM: No, that's pretty much right.

Mr CHAIRMAN: That's right.

Mrs AAGAARD: Mr Chairman …

Mr CHAIRMAN: So, he recognised when things went into the political realm, and he knew when to stand back. So, I would suggest that that is probably what he did here, with this particular memo.

Mrs AAGAARD: Well, it's [inaudible] true.

Mr DUNHAM: Well, I would like continue on Mr Kiely's theme that you can demonstrate that there was no collusion, enticement or anything else. From your answer, I can assume that you are not aware of the conversation between the Chief Minister and Mr Bartholomew, and you can't give an absolute assurance to this Committee that you didn't parade this matter to him in such a way it made it very evident to him that he would have to agree to the tabling.

Mrs AAGAARD: That is an outrageous statement, Mr Dunham!

Mr DUNHAM: Well, we can't verify it.

Mrs AAGAARD: I would just like to repeat to you that this document relates to you and people from your side of Parliament.

Mr DUNHAM: That is correct.

Mrs AAGAARD: Naturally, you will try and turn this back on us. Unlike you, when you received this information, it would appear that you did nothing. I received information and I made certain that our government attempted to find out what was happening in previous budgets.

Mr DUNHAM: That is what we are trying to get to.

Mrs AAGAARD: Mr Dunham, I think that your credibility here is very, very, low.

Mr DUNHAM: That is where we are going.

Mr CHAIRMAN: [inaudible]

Dr LIM: Mr Chairman, may I follow up on a question that you just asked about what Mr Bartholomew said or did not say? I'd like to quote from his evidence.

Mr CHAIRMAN: Which page?

Dr LIM: Probably – this is page 8 of the Health transcript. It was in response to what I was asking him that he said - Mr Bartholomew said:

Let me say something about this: I was asked to provide advice to the minister. That is what my memo does. At the time of writing that advice to the minister …

Mr CHAIRMAN: Page 8, was it?

Dr LIM: Page 8. Top of the page. Mr Bartholomew said:

Let me say something about this: I was asked to provide advice to the minister. That is what my memo does. At the time of writing that advice to the minister, that is my understanding of what I was doing, I had no indication at that stage that it was going to go beyond the minister. It was a piece of advice that I was running to her. It wasn't written for any other purpose.

So Dr Lim asked:

So your understanding was that you wrote a confidential memo to your minister?

And he said:

Yes.

So the conclusion that the Minister came to earlier in response to the Chairman's question that Mr Bartholomew would have anticipated that the memo would go further is not the case.

Mr KIELY: No, that…

Dr LIM: That is the evidence put forward by Mr Bartholomew to this Committee not so long ago.

Mr KIELY: No, that is not the premise that Dr Burns was talking about, Dr Lim. That was not the premise. The premise was that…

Dr LIM: Don't rewrite history. Now, the…

Mr KIELY: Read the transcript! You are the greatest [inaudible] of history.

Mr CHAIRMAN: No, look…

Mrs AAGAARD: Dr Lim, I have already answered a question regarding the confidentiality in relation to briefings coming from my CEO. I have already indicated that under usual circumstances, confidentiality would definitely be maintained. I have already said in this inquiry that this was exceptional circumstances; the gravity of the matter was such that it did not just simply relate to my portfolio, but related to matters for the whole of government. I've already said that.

Dr LIM: Okay.

Mr CHAIRMAN: And, Dr Lim…

Dr LIM: No, let me finish…

Mr CHAIRMAN: I mean, we had some discussion when Mr Reed was a witness about people taking things out of context. Now, you have chosen to use …

Dr LIM: I have read the whole…

Mr CHAIRMAN: No, no. You did not read the preamble questions that you had put to Mr Bartholomew which was very leading to Mr Bartholomew, and that was his response that you saw there. You were trying to work in the whole business: '*undeniable proof of how far former government leaders are prepared to let their ethics and the extent - extent in an ultimate and vain attempt to hold on the power in the Territory, would that be true?*

Mr Bartholomew said:

They weren't my words.

No, no, I agree, they are not your words but that was how your memo was described. Would you agree or disagree, that is your memo?

And then he made that reply that you just said then. So as you admonished me the last time, Dr Lim, I will admonish you to not take things out of context.

Mr DUNHAM: What an excellent point, what an excellent point. The point that was being made there is that Paul Bartholomew also does not agree with the words that were used in Parliament.

Mr CHAIRMAN: No, he wouldn't be led by you. Once again, I feel the member for Nelson feeling that this is going all the way downhill. I would like to ask the members here to keep to the point, to keep relevance and not to take things out of context, please.

Dr LIM: Minister, you said just now that the memo contained information of such gravity that you felt compelled to go through due process, the way that you continue to hide behind…

Mrs AAGAARD: Excuse me, Dr Lim. I object to that statement.

Members interjecting

Mrs AAGAARD: I am not hiding behind it. I am saying to you that due process took place and I am quite offended by the kind of imputation...

Mr DUNHAM: It is ill-described.

Members interjecting

Mr KIELY: You should apologise for that.

Dr LIM: [inaudible] okay? You can't describe what it is. Anyway, you use the words…

Mrs AAGAARD: Excuse me, Dr Lim. I have repeatedly described to you what I meant by due process.

Dr LIM: Yes, your advisors [inaudible]. That's fine.

Mrs AAGAARD: I am sorry if you are not happy with the description, but that is a separate matter all together.

Dr LIM: The best form of defence is attack, and you have been advised to do that quite well.

Mr WOOD: Could I bring a point of order?

Dr LIM: No, no. Let me – I have a question.

Mr CHAIRMAN: I believe there is a point of order from the member for Nelson.

Dr LIM: Look! I'm trying to lead up to a question.

Mr WOOD: Yes, and I have got the document, too. I mean, is the relevance of whether the Chief Minister - the timing relevant to the authenticity of the document?

Dr LIM: Yes, it does, in the sense that what I am trying to get to is the fact the Minister received a document that she described as containing grave information, that she needed and she felt compelled to go to the Chief Minister and her Cabinet colleagues yet she did not question or test the content of the memo and that is what concerns me. You are the Minister in charge of a department; you receive a memo containing grave information from the CEO and yet you did not go and test it. You said, 'No, I did not'. You did not, you chose not to test that information or you did not or you overlooked the fact that you need to test the information. What I am saying to you - why did you go

down that path? I mean, the information was there and you were very concerned and you never brought him back to ask him to justify the document.

Mr KIELY: He wrote it. He wrote the thing.

Mrs AAGAARD: Mr Chairman, this memo is very political in its nature. It makes serious matters …

Dr LIM: So [inaudible/indecipherable] are writing political documents?

Mr CHAIRMAN: I beg your pardon? Who did you say wrote the…

Dr LIM: [inaudible] wrote political documents.

Mrs AAGAARD: I am not saying that.

Mr CHAIRMAN: I thought you said that the Health Minister had written it.

Dr LIM: No, I said CEO writing political documents.

Mr CHAIRMAN: Well, I'm glad you clarified that.

Dr LIM: Well, that's what you just said.

Mrs AAGAARD: I am saying that the matters dealt with in this…

Mr WOOD: I must admit I would challenge – I didn't believe he said that.

Dr LIM: What, I said that?

Mr WOOD: I thought you said: 'Then you are writing political documents.'

Dr LIM: No, I said the CEO wrote…

Mr KIELY: Well, we'll have a look at the transcripts.

Mr CHAIRMAN: We need to look at the transcripts.

Dr LIM: Look at the transcripts, yes, get the transcripts out - quickly.

Mr CHAIRMAN: That is a very serious allegation.

Mr KIELY: It is.

Dr LIM: I did not say that.

Mrs AAGAARD: This raises serious political matters.

Mr DUNHAM: It is political by its nature.

Mrs AAGAARD: It is my – it was my reasoned opinion that …

Mr CHAIRMAN: So was the reduction in the estimates.

Mrs AAGAARD: …I should discuss this with my political colleagues which is what I did and due process followed. I have answered this question so many times, Dr Lim, it is getting a bit tiring.

Dr LIM: Yes, but the thing is you remember also that on one occasion you did change your statement.

Mr KIELY: It wasn't changed.

Mrs AAGAARD: I have not changed my statement.

Mr KIELY: It wasn't changed.

Dr LIM: Well, let's get the transcripts out.

Mr DUNHAM: No, no. We'll go on. We'll go on. We've got [inaudible].

Mr CHAIRMAN: We will go on. We'll have a look at the transcripts. So, have you got more questions, Dr Lim? Mr Dunham?

Dr LIM: Mr Dunham's got some questions.

Mr DUNHAM: We have got some. Do you agree it is important that the Northern Territory public and Parliament have confidence in the budget figures presented to it?

Mrs AAGAARD: Yes.

Mr DUNHAM: Good. Do you think that if a member or the Treasurer - do you think its incumbent, sorry, on the Treasurer to advise a realignment of figures immediately they are known, and do you believe that not to do so is tantamount to misleading Parliament?

Mrs AAGAARD: Mr Chairman, we are clearly referring to the documents before us. I have already stated that I believe that what happened in relation to the CLP's budget misled the people of the Northern Territory. The previous Cabinet knew that there had been an increase in funding to the health budget of $8m. This was not published in the figures. To my mind, this is misleading the people of the Northern Territory and I think it is an appalling thing when politics go down this kind of line. It was clearly, in the run-up to an election, it was politically motivated in my opinion.

Mr CHAIRMAN: And so said the Under Treasurer.

Mr DUNHAM: With respect, that's not the answer. The question was: do you believe that a member - and that's any of us - we are not talking about a specific instance here - or the Treasurer to advise on a realignment of estimates or if they believe that the numbers in the documents are wrong, that it is incumbent on them to immediately inform Parliament?

Mrs AAGAARD: Mr Chairman, what is the relevance of all this?

Mr DUNHAM: It is a question that was put to me.

Mrs AAGAARD: What is the relevance?

Mr KIELY: Well, you realigned the figures.

Mr CHAIRMAN: But you – with all respect, Mr Dunham, your name is in the memo.

Mrs AAGAARD: You realigned the figures. It says in the memo here that it was for presentation purposes only.

Mr DUNHAM: So you must entirely agree that a Treasurer should come and advise Parliament, surely?

Mrs AAGAARD: I believe that the $8m should have been published in the documents in Parliament in June 2001.

Mr DUNHAM: June 2001. Okay.

Mrs AAGAARD: The budget documents.

Mr DUNHAM: Well, to a generic - we could go back years. I mean, Mr Kiely wanted to go all the way back to the ERC. What I am suggesting to you is …

Mr KIELY: No I didn't. No, I didn't, Mr Dunham. Not once did I mention the ERC. Not once.

Mr DUNHAM: You have never mentioned the ERC?

Mr KIELY: No, I didn't. Now, if you are going attribute things to me, get it right. That is the only thing I put on there.

Mr DUNHAM: Okay.

Mr KIELY: Now, I did not say it so don't attribute to me.

Mr DUNHAM: Okay, okay. We can read *Hansard* later.

Mr KIELY: And if you are going to attribute things to me, then let's have the proper place, all right?

Mr DUNHAM: Okay. You're running interference.

Mr KIELY: Now, I mentioned Planning For Growth, Mr Dunham, is that what you mean? I said we'd go back to the Planning for Growth. So get it right when you quote.

Mr DUNHAM: The question for you is: do you believe it is incumbent on a minister and the Treasurer, once they know that figures in budget documents are wrong, to immediately inform Parliament? That's the question.

Mr CHAIRMAN: Now, that is a very unfair question Mr Dunham, because you were the one who talked about the philosophical aspects of right, wrong and correct. Now, I you know, anyway, I take umbrage at that question, because you, I believe that you as a witness, and this is where this whole hearing becomes difficult because you are a witness, you are also on the Committee, I believe that

when we asked you that question you said 'Correct is what is in the budget papers'. That was your answer, and I think you have got a hide to be asking the Health Minister the same question.

Mr DUNHAM: She may have a different answer, Mr Chairman. Do you believe that to be the case?

Mrs AAGAARD: I believe that the people of the Northern Territory should be able to trust the documents which are published in Parliament, which are called budget documents and which should reflect the true state of the affairs of the budget.

Mr DUNHAM: Including the mini-budget? That same principle would obviously apply to your government as well, surely?

Mrs AAGAARD: That's correct.

Mr DUNHAM: That's correct, good. So if there was a mistake in the mini-budget, just saying for instance, a mistake, would it be something that the Treasurer should immediately inform the Parliament of?

Mrs AAGAARD: Mr Chairman, what is the relevance of this?

Mr DUNHAM: It is a question that was asked of other witnesses.

Mrs AAGAARD: We are talking about something, a document which relates directly to you, Mr Dunham. Directly to you. And this is about you and your Cabinet meetings which gave my portfolio, the health portfolio - then your portfolio - an extra $8m. Now, this was not recorded in the published documents in Parliament. I am simply saying to you that it should have been and everybody of right thinking should have thought that they should be published because you knew, the department knew because it was spending the money and the final outcomes indicate that they did spend the money. But, for what clearly seems to me to be political motives, you chose not to publish that figure and you chose to use a much smaller figure so that in the new budget it would appear that there was a greater growth in the budget. I am simply saying that your figures mislead the people of the Northern Territory.

Mr DUNHAM: And yours don't. Is that the point you're making?

Mr CHAIRMAN: We are talking about hypotheticals here, Mr Dunham.

Mr DUNHAM: I think it is a reasonable question.

Mr CHAIRMAN: We've been given evidence about three departments, about the reductions in three departments. That's real. I think the evidence that we have been given is real. Now, if you've got evidence that you seem to be alluding too, lay it on the table and let it …

Mr DUNHAM: The first point I would make is the minister has already said to us she doesn't know whether the budget has come in on target or not. She has great confidence that her department will do so. She has no monitoring devices for it.

Mr CHAIRMAN: She did not say that.

Mr DUNHAM: Well, what are they. Could you please answer …

Mrs AAGAARD: Dr Burns …

Mr KIELY: Mr Dunham, you are badgering. You have asked this question before about monitoring. Clearly they've got the budgetary …

Mr DUNHAM: She said its too early to tell.

Mr KIELY: Look they've got the business unit over there, they have got Treasury. We all know about their management information. This question has been answered, Mr Dunham. I find it quite offensive that you keep on going back and badgering the minister.

Mr DUNHAM: We have at the moment an exact replica …

Mr KIELY: No we don't.

Mr DUNHAM: Well, pretty much a close replica of the budgetary timetable. The budgetary timetable I was quizzed on March figures by the then shadow minister Henderson about how you'd extrapolate that to an end of year figure. You might recall in evidence the end of year figure was something that would cause concern because it was about $462m. What I am saying to the now minister is, given that that sort of scrutiny was available to the previous opposition, can you give confidence to the current opposition that you are in control of the budget, that you know what the end of year figure is likely to be, and you have a variety of monitoring devices to tell whether pro rata you are over or under. If you are listening to those monitoring devices, can you tell this Committee are you over or under?

Mrs AAGAARD: Dr Burns, this has absolutely no relevance to this inquiry. These matters are in hand in my department, and are of no relevance to this inquiry. At appropriate times, such as in Parliament, things like this would be discussed. This is not the appropriate time. Mr Dunham also knows that its not the usual practice to release material of this nature prior to the official times in Parliament. I think that its all very, very odd. I know that he is very upset that this memo's been received by me, and I can understand that. But it doesn't - his behaviour here today and trying to turn this on to me as if somehow I have done something extraordinarily strange, doesn't explain the fact or cover up the fact that it is his budget which is odd. It is his budget that has the figures which are not accurate. $436m when he knew that there was in fact $8m more. There is no explanation as to why he would do that, except for this strange expression, 'presentation only', given that the department knew that they could spend the amount and they did. It was clearly political.

Dr LIM: Well, let me come to this $8m you just mentioned. You stated that this $8m adjustment was a political act to mislead Territorians …

Mr KIELY: There was no adjustment.

Mrs AAGAARD: No.

Dr LIM: Can you tell us if it had any effect on what money was spent by the department in the year 2000-01, and did this political act deprive any Territorian of health care or altered services provided by your department in any way? Would you concur, with comment, in this health department's report that expenditure for Health and Community Services has increased each year to meet the needs of a growing and ageing Northern Territory population.

A member: Not by 2.5%.

Dr LIM: Why do you think the annual report made no mention of your words, 'shocking', in a budget situation 2000-01 or 2001-02.

Mrs AAGAARD: Well, I have already explained that the annual report is about final outcomes, Dr Lim, and the memo deals specifically with published estimates. You know perfectly well that the actual outcomes were $447.2m. The point of this inquiry is that you knew, when you published the figure, $436m, that in fact that was an incorrect amount. It should have included the further $8m but you chose not to include that. The department was told that this was for presentation purposes only and that they could spend the money. They did spend the money, I have said this several times, now that's the amount $447.2m

Now, one thing I would just like to say is, the actual amount you did budget allocate for the next year was $446.9m. This is actually less than the amount that actually being the final outcome for the previous year. So in fact, although you said there was a 2.5% increase, even though the reality had been using the other figures would have been 1%, in fact there was a decrease in the health budget.

Mr DUNHAM: So you used the words in there 'correct figures'. How do you ascertain that the money you had this year is the correct figure? Is it advised to you by the department or the Treasury?

Mrs AAGAARD: Dr Burns, I feel as though that these questions are totally irrelevant to the inquiry. I am quite concerned about it. I feel I have quite adequately answered questions in relation to the memo and various other questions which do not relate to this inquiry. I am concerned about the line of questioning here. I would be happy if you made a ruling on this sort of thing.

Mr CHAIRMAN: I have already made it clear. I mean, I think we are just grinding on with the same thing.

Mr DUNHAM: I would really like to know about the accuracy of the budget for 2001-02. Parliament has given me the imprimatur to ask you that question.

Mr CHAIRMAN: Yes, but not an unreasonable - I mean we have been through the fact that it's now March, coming into April. So reasonably there should be an expectation round May about expenditure, and I think it's just too early. I think it's an unreasonable question, Mr Dunham.

Mr DUNHAM: Well, that's not a view held by your predecessor. Your predecessor …

Mr CHAIRMAN: The minister has already answered that there is scrutiny of expenditure and budget, and that there are mechanisms in place for the department to look at that. My inclination is to accept what the minister has said. Unless you have got some new spin or some other area of questioning, I would just like us to move on.

Mr DUNHAM: I am not asking to be putting the question in a new way. I want the answer in the accurate way. It was in the *Hansard* debates of 27 June 2001, that your predecessor was asking for an extrapolation for March figures. Those March figures should be available about now. They were troublesome at the time, because they indicated we were going to have a blow-out. I am merely asking you, are your budgets tracking on line? Are you confident that the department, with this exception reporting, is going to ring a bell and say: 'Minister, you're running out of money, and the

figure we're going to advise you is the correct figure, because that's the one we're going to hit. It will be the correct figure, Minister'.

Mrs AAGAARD: Dr Burns, there's a process in place relating to the budget in my department. At the appropriate time, well, I'll report it to Parliament.

Mr DUNHAM: When is the appropriate time?

Mr KIELY: Oh, Mr Dunham!

Mr DUNHAM: I'd just like to know.

Mrs AAGAARD: At the appropriate time.

Mr CHAIRMAN: Can we move on? Dr Lim, Mr Dunham, have you exhausted your line of questions yet, or are we just going to keep going around in circles here?

Dr LIM: Well, I don't know that it's fair to say that I am going around in circles. I mean, that there are …

Mr WOOD: No, it is.

Mr CHAIRMAN: Well, I think that expression tells it all.

Dr LIM: Oh, does it? I think he is praying, that's all.

Mr WOOD: Mr Chairman …

Mr KIELY: It would need divine intervention to get through this.

Mr WOOD: My thoughts are my own.

Dr LIM: That's fine. That's right. So, the Chairman should not attribute anything to you, Mr Wood?

Mr KIELY: You are the one who said he was praying!

Dr LIM: It was the Chairman who referred to Mr Wood in the first place.

Mrs AAGAARD: It's an important past time, as well, Mr Wood.

Mr WOOD: Yes, it's an important phase in the religious calendar, but I wasn't praying.

Mr KIELY: I don't want to give up the Lent.

Mr WOOD: I hope we can continue without going on any further.

Mr CHAIRMAN: All right. Can you give us an idea of …

Dr LIM: Coming back to the …

Mr CHAIRMAN: … back to the content, or how much longer we are going to be here, because I really think we should be …

Mr DUNHAM: Yes, after lunch we'll tell you.

Dr LIM: Coming back to …

Mr CHAIRMAN: Well, I think it's coming to a stage - I'm just giving you warning here – it's coming to a stage where I will pull the Committee into deliberative session, and we will discuss it, and there'll be a ruling about it. I'm just putting that up front, so if you've got fresh questions …

Mr DUNHAM: Oh, we have questions.

Mr CHAIRMAN: … that aren't repetitive - I know you've got questions, but whether they're fresh and not repetitive, that's the question. So, I just let you know that's where we're headed at this stage.

Mr DUNHAM: I'd ask, Mr Chairman, that you use the consistency that you used with me. Thank you.

Mr CHAIRMAN: Well, thank you, Mr Dunham, but, anyway …

Dr LIM: If I may lead with this question, Mr Chairman? Minister, please bear with me, because the previous answer you gave did not deal with the question that I asked, that were asked. Mr Bartholomew told the Committee, and I quote again:

So during the course of those briefings, I informed my minister that, in my view …

Mr CHAIRMAN: Which page is that?

Dr LIM: Page 6, I think of the …

Mr CHAIRMAN: Page 6?

Mr KIELY: It might be a good practice if you start 6 paragraphs out …

Dr LIM: Page 6 …

Mr CHAIRMAN: So, whereabouts down the page?

Dr LIM: Sorry, it's page 3, down the bottom of the page:

So during the course of those briefings …

Which I'm quoting now:

So, during the course of those briefings, I informed my minister that, in my view, the department was facing a very difficult budget situation. My estimate to her was that we were actually facing a shortfall of some $20m to discharge the responsibilities of the department to Territorians. Some time after that advice, Minister Aagaard requested me to provide a written

briefing to her, as to how the situation had arisen, and it was at that time that I provided that memo to her.

Now, I'm a bit lost. To reconcile that statement with what you said you asked of him. Now, I can see, just how the memo of 27 September would go to answering what Mr Bartholomew told us he was asked. But, you say you asked him for the real or true - your own words - state of the budget. The answer to that, as to annual report, and the Treasurer's annual financial statement both attest, was that health spent it's final allocations of $447m in 2000-01, and now was spending its allocation of $446, in which the CEO's mind was $14m to $20m, as he said, less than you needed. Okay? Follow me so far? Having received the memo of 27 September, you then said you did not contact the CEO. And while you said you were shocked, you know, by what you'd read, you've never queried him. I mean, this is the crux of the issue that I don't understand - how you've been told: 'Things are okay for the year before, I'm short $14m to $20m this year', produced this memo for you, without prompting, and you did nothing, except …

Mr CHAIRMAN: But with all respect, Dr Lim …

Dr LIM: Hang on, hang on! Except …

Mr CHAIRMAN: Mr Bartholomew never said that everything was all right for the former year, because he made it very plain in the evidence that he gave here.

Dr LIM: He did!

Mr CHAIRMAN: No, he didn't! In the evidence that he gave here, he said he had concerns in three areas, and I guess I could take five minutes and read through it. But, one of his major concern was that there would be appearance of mismanagement by the department, in that they'd been allocated $436m and they spent the $447m. That was a major concern of his. And, the fact that they overspent would cast a shadow in terms of them getting the money that they would need to perform their duties and give service to Territorians over the following financial year. So, it's wrong to ascribe or attribute to Mr Bartholomew that he is saying that everything is hunky-dory with the 2000-01 year.

Dr LIM: Minister, are you happy that he's responded to the question for you?

Mrs AAGAARD: Well, I think you have answered …

Mr CHAIRMAN: No, I'm just clarifying what you said, Dr Lim.

Mr KIELY: You never get it right, do you, Dr Lim?

Dr LIM: I asked the minister the question. You've gone through a fairly long answer on behalf of the minister. I'm asking the minister whether she is happy with the answer.

Mr CHAIRMAN: No, I was just verifying – that was misleading what you were saying, Dr Lim, with all respect. But please go ahead and ask your question, maybe minus that statement about Mr Bartholomew …

Dr LIM: That was the question I have …

Mr CHAIRMAN: … saying everything was okay in the 2000-01 year, because he clearly said it wasn't, and he was upset about it.

Mr DUNHAM: Is it possible we could read Mr Bartholomew's annual report which is signed by him, into the record? At page 30 he says:

> *Expenditure for Health and Community Services has increased each year to meet the needs of the growing and ageing Territory population.*

I would suggest that Mr Bartholomew is saying in that annual report that he believed the money was sufficient.

Mr KIELY: What he was saying was that there was never any $8m reduction. You keep on going on that there was. What it's about is the false published figures.

Dr LIM: That, Minister, was precisely my question. Here we have a report that says everything is fine. Every year, money has gone up to cover the services for THS for Territorians. And then you produce a memo saying: 'Hey, there is a problem in the previous year', which conflicts with that, number one. Number two, you didn't do anything about it except going to your colleagues, and talked about: 'What do I do with this?' You did not test the information. You did not find out what the real worry was, after having received this. You did not go back and say: 'Please explain'. And you didn't do all that. I'm just trying to work out the rationale behind your course of action.

Mr CHAIRMAN: I think you may have answered this before. But, it's your call.

Mrs AAGAARD: Mr Chairman, I certainly have answered this probably seven to eight times already.

Mr KIELY: We've certainly been happy with the answer.

Mrs AAGAARD: First of all, I'll start with the annual report. This is the final outcomes. This is the final outcomes of 2000-01. The memo, as I've already said, deals with published estimates. These are separate matters. The memo, as I said, relates to published estimates. I've already described the process. I'm sorry if you're not happy with the process. It's the process which we agreed on, in terms of a government, how we would do things. I'm sorry if that is not a process which you have enjoyed.

Mr DUNHAM: We don't know anything about the process.

Mrs AAGAARD: The due process …

Mr DUNHAM: The due process has not been described to this Committee.

Mr CHAIRMAN: Well, I think she's described it as a Cabinet process.

Mrs AAGAARD: It's, as I've described, conversations with colleagues, various matters relating to people - it's due process. Due process, I've already described that. I really have nothing further to add.

Mr CHAIRMAN: Okay. I'm now going to call relevance on that, because I think we've exhausted that line of questioning; I think any fair person on either side of this table would acknowledge that Dr Lim has been given adequate time to ask a whole lot of variations around this question. I think it's

very repetitive, and I just don't think it's serving the Committee; we're not progressing anywhere. The minister has given her answer. That's it.

Mr DUNHAM: Okay. Can you describe for us those portions which are not covered by Cabinet confidentiality of due process? We know, for instance, that somebody outside of Cabinet abridged the document …

Mr KIELY: No, we don't. No. When did that …

Mr DUNHAM: It said, well …

Mr KIELY: That didn't get said at all! It did not get said here!

Mr DUNHAM: Are you aware of who abridged the document?

Mrs AAGAARD: Who what?

Mr DUNHAM: Abridged the document which was tabled.

Mrs AAGAARD: I believe it was a Cabinet colleague, but I'm not certain.

Mr DUNHAM: A Cabinet colleague. Okay. Well, don't go there if it's a Cabinet issue. So, the issue was you had a document in your hand that went into Cabinet in it's entirety. It's been described by you as 'political in its nature'. Three days later, you have – that's how you describe it: political in it's nature?

Mr KIELY: You said that earlier.

Mrs AAGAARD: I said it – yes, it has political dimensions.

Mr CHAIRMAN: Well, it has political dimensions.

Mrs AAGAARD: The main concern about it is …

Mr DUNHAM: That's all right. I just didn't want to misquote.

Mrs AAGAARD: …the fact that it indicates that the documents which were presented in Parliament were not a true reflection of the situation and it was really – the whole document relates to a misleading of the people of the Northern Territory. I keep saying that.

Mr DUNHAM: Yes.

Mrs AAGAARD: And that's why it is such a concern.

Mr DUNHAM: I'm merely trying to interrogate those portions of due process that are able to be described to this Committee – and I don't want you to talk to a Cabinet process. If it's entirely been the province of the Chief Minister – and certainly in her discussion with Mr Bartholomew – and if it was entirely within the Cabinet process, I'd be happy for you to confirm that.

Mrs AAGAARD: The parts that I were involved in related to the – just conversations in Cabinet and matters relating to the Chief Minister.

Mr DUNHAM: So how is Mr Kiely so aware to ask a question of this nature.

Mrs AAGAARD: I'm not sure what Mr Kiely asked.

Mr DUNHAM: Would you like me to read the question out?

Mr CHAIRMAN: Look, that question has already been answered. Mr Kiely – and I'd have to say the rest of the back benchers in the government – had no knowledge of this memo. Now…

Mr KIELY: That's already been…

Mr CHAIRMAN: Mr Kiely may have been given the question to ask, but none of us had any knowledge – none of us had seen that memo prior to it being tabled in Parliament. And if I could suggest, Mr Dunham…

Mr DUNHAM: That's okay. That's okay.

Mr CHAIRMAN: Just let me finish here.

Mr DUNHAM: Yes.

Mr CHAIRMAN: Your whole line of questioning and where you're leading to, you'd be a lot more comfortable if that memo had never, ever seen the light of day and if the people of the Northern Territory were not made aware of the duplicity and deception that had occurred under the previous government in relation to budget estimates. That's where this is coming from. It's all about – and that's what would have happened under the previous government. No one would have known.

Mr DUNHAM: Can I advise you of two things, Mr Chairman? First is the language used here has got to be similar to the language we use in Parliament and you're going very close to using unparliamentary language.

Mr KIELY: I don't think…

Mr DUNHAM: The second thing is you're exhibiting your bias to a large degree, Mr Chairman.

Mr KIELY: No, no, no.

Mr DUNHAM: And I think the matters that you've just put into *Hansard* are fairly condemning of you, but I will leave it there. I am merely trying to say in this due process, which is a label to describe I'm-not-going-to-tell-you-anything-about-it, tell us the bits about it that you can. Now, we know it went to Caucus, even though the memo…

Mr KIELY: No, no, no.

Mrs AAGAARD: [inaudible], Mr Chairman.

Mr CHAIRMAN: No…

Mr DUNHAM: Hang on, hang on.

Mr KIELY: That's not been said anywhere, Mr Dunham.

Mr DUNHAM: Well, what…

Mrs AAGAARD: Mr Dunham, that is totally incorrect and it's quite correct what Dr Burns said…

Mr KIELY: You mishear so often!

Mrs AAGAARD: …that it was not revealed to others until the tabling in the House.

Mr DUNHAM: Okay. So Mr Kiely was informed of a question that was – he didn't know the answer of…

Mrs AAGAARD: Dr Burns, I've already answered this question previously. Government business happens, question time involves government business. I don't feel it's necessary for me to discuss the way in which we organise strategy in Parliament.

Mr DUNHAM: That's the point. This is entirely a strategy and we believe there is a conspiracy at work here…

Mrs AAGAARD: There is no conspiracy, Mr Dunham.

Mr DUNHAM: …because you have obtained a document which has good political mileage because it is political in its nature. You receive another document which arguably strongly criticises it or certainly doesn't favour it. We've been told that the Chief Minister knew both of these documents, that she had this certainly before the…

Mr KIELY: There is no relevance between those two. Why do you keep on telling these stories, Mr Dunham, drawing them out, trying to fabricate fabricate some of…

Mr DUNHAM: I don't think the annual report and…

Mr CHAIRMAN: Let Mr Dunham go. I mean, obviously…

Mr DUNHAM: …the Auditor-General can advise us on this. The Auditor-General considers the annual report to be a very cogent document.

Mr KIELY: I just find, Mr Chairman, that my patience gets tried when I see the truth stretched so much.

Mr DUNHAM: We know, we know. And you've got a problem. The issue for those of us who believe that there is a…

Mr KIELY: [inaudible] something you should come to grips with.

Mr DUNHAM: …you should be very careful, the language you use. It's the same language you're not allowed to use in Parliament.

Mr KIELY: I don't [inaudible] be intimidated by you, you who call people names.

Mr DUNHAM: The issue about the conspiracy theory is that we have a document that doesn't go to the police, a document that doesn't go the CEO of Treasury, a document that doesn't go back for further clarification, a document that is criticised by the annual report a mere three days later, and a document that is cooked or hatched in some due process type pressure cooker so that it can drop at an appropriate time in Parliament which happens to be the last day of sittings for that particular sittings that it dropped. We believe that this thing has got politics written all over it, and we don't mind that because…

Mr KIELY: Who's we?

Mr DUNHAM: …we're in a political – we? Me and several of my colleagues believe that. So the issue is not whether it's a political witch hunt, because we believe that to be self-evident. The issue for us is: is there a problem with – and even the collusion and even all that stuff is not something that worries us so much. What we're trying to get to – what we're trying to get to is whether…

Mrs AAGAARD: Mr Chairman, I'm very upset by this implication that there's been some kind of collusion. My evidence this morning has not indicated anything of the sort. I have completely indicated that I did not know anything about the contents of this memo until I received it. I really feel that Mr Dunham should withdraw his comments.

Mr DUNHAM: Okay, it may be a verb that you've taken offence to. What I'm saying is that Cabinet made a joint decision, colluded in a decision.

Mrs AAGAARD: Cabinet did not collude. Cabinet followed a process of looking in to the items mentioned in this memo, as any normal group of people would. When you receive something like this, what do you think would happen? You look in to the matters relating to this. The annual report, Mr Dunham – how many times do I have to say to you? – that has no relevance to this.

Mr DUNHAM: Really?

Mrs AAGAARD: No relevance.

Mr CHAIRMAN: Mr Dunham, you've made your statement. Now put a question.

Mrs AAGAARD: That's the final outcome. This memo deals with the published estimates.

Mr KIELY: Ask the question, Mr Dunham.

Mr DUNHAM: Of course there are questions.

Mrs AAGAARD: These are separate matters. Completely separate matters.

Mr DUNHAM: Well, some of the generic questions go to whether the processes that so offended you of changing budgets are processes that are still embedded in the system today. So what is part of our defence – or my defence in particular – is…

Mr KIELY: Hang on. Are you talking as part of the PAC or as a witness here, Mr Dunham? I have real problems now. What is it? Are you talking as a witness, as being out there before, or are you talking as a member of the PAC?

Mr DUNHAM: This is background…

Mr KIELY: Have a look at what you just said there.

Mr DUNHAM: What we have – okay, my defence. My defence. Stephen Dunham's defence.

Mr KIELY: So you're talking – you are interrogating the Minister as a witness.

Mr DUNHAM: No, no, I'm not. I'm going over old evidence, which is what we do a lot of.

Mr CHAIRMAN: Well, Mr Dunham, I'm looking at my watch.

Mr DUNHAM: In a…

Mr CHAIRMAN: I'm looking at my watch, and I've had some discussions with other members. You are just going to have to make what you have to say relevant. You've made a statement about your views on the matter. I think everyone has heard that. If you've got questions, please ask them because…

Mr DUNHAM: I have got questions.

Mr CHAIRMAN: Well, please ask them.

Mr DUNHAM: It's difficult with your colleague, Mr Chairman. The questions that go to the defence of some the witnesses – if he's got difficulty in me describing myself as a witness – is that these matters were not fraud; these matters were not corrupt; these matters were not illegal. Now, the questions are going to: if you concur with the Chief Minister, who has used words like that to describe it, I believe she has misled Parliament, so I would like to know your role in this matter because eventually, we need to know from you as a Bachelor of Business whether you believe – and you've said that his memo is self-evident, that what you get is what you get. If you believed it was evidence of fraud, why didn't you go to the police? Why did you take so long to do it? Why didn't you seek economic, legal or other advice? Why did you only seek political advice?

Mrs AAGAARD: Mr Chairman, I don't know what it is that makes Mr Dunham believe that advice wasn't sought from other people. What I said was due process took place. Due process.

Mr CHAIRMAN: Within Cabinet.

Mrs AAGAARD: Within Cabinet.

Mr DUNHAM: Yes, an indescribable due process.

Mr CHAIRMAN: Okay. All right, I think you've answered that. Can we have Dr Lim? I'm sort of looking at my watch here.

Dr LIM: Did Mr Bartholomew say to you that he was concerned about the figures in the budget papers?

Mrs AAGAARD: Yes.

Dr LIM: He did.

Mrs AAGAARD: What do you mean? Mr Bartholomew discussed with me underfunding, significant underfunding.

Dr LIM: For the year 2001-02?

Mrs AAGAARD: Correct. We were – Dr Lim, I just want to go back to how I described this in the beginning. We're talking about a new minister, a new government. We're talking about in the first week of government being told by the then Under Treasurer that there was a deficit of around $100m in the Territory budget. We're actually talking about a very, very serious matter in relation to the whole of the Northern Territory. And it was obviously something which was clearly related to all agencies. In that context, don't you think it's a little bit – it would be unusual for me not to be having discussions with my CEO about the budget. And I've already said to you, to the Committee, that I spent a lot time talking about the budget, talking about underfunding in those first few weeks.

Dr LIM: So, you…

Mr CHAIRMAN: Just before we go on, I've had discussion with other Committee members. Like to – there's a very strong feeling amongst the rest of the Committee that the questions are repetitive to a large degree, and I'd like to foreshadow that we'll wind it up in 10 minutes.

Mr DUNHAM: For luncheon adjournment?

Mr CHAIRMAN: No, just wind it up unless you can demonstrate some sort of…

Mr DUNHAM: I'm surprised at this, Mr Chairman.

Dr LIM: Mr Chairman, a point of order on that determination. If there is going to be such a decision, it should be a decision of the Committee.

Mr CHAIRMAN: Well, it will be because I'll put it to a vote.

Dr LIM: Yes, well, that is fine.

Mr CHAIRMAN: I'm sure where the votes are going to lie.

Dr LIM: Let me finish my discussion on the point of order. If you wish to call upon a vote of the Committee, then we should do that after due debate. You just don't go and whisper to a couple of colleagues and then decide that you are going to take a particular course of action. Surely, that is not due process, if I may say so.

Mr KIELY: Could you describe that there please, Dr Lim?

Mr DUNHAM: No, it is a secret.

Dr LIM: So if I may ask the Minister this question - now, you said that - the question that I asked was that did Mr Bartholomew say to you that he was concerned about the figures in the Budget Papers and he said he did. Did he say to you that he was concerned the department will be seen as overspending when you came in on the final allocation rather than the estimate published in the Budget Papers? What do you say his responses were?

Mrs AAGAARD: Dr Lim, I don't - Mr Chairman, I have got nothing further to add to the things which I have repeatedly said this morning.

Dr LIM: This is a completely different question altogether.

Mr KIELY: No, it's not.

Mr DUNHAM: I've a - can I ask you a question? You talked about the Under Treasurer coming to see you as a new minister and talking about the $100m deficit.

Mrs AAGAARD: No, I didn't say that.

Mr KIELY: No!

Mrs AAGAARD: No, I did not say it.

Mr DUNHAM: Can you tell us - well, can you embellish that?

Mr KIELY: Will you please stop trying to put words into the minister's mouth.

Mr DUNHAM: When the Under Treasurer came to speak to you…

Mrs AAGAARD: No, I did not say that. I have previously said, and it is the absolute truth, that I have never had any personal conversations with the Under Treasurer. What I said was that in the first week of government, the Under Treasurer informed the Chief Minister that there was a $100m deficit in the budget and as part of the Cabinet process, Mr Clarke came to talk to Cabinet about budget.

Mr DUNHAM: That is sufficient. We are both in agreement.

Mrs AAGAARD: I have never had any personal conversations with Mr Clarke.

Mr DUNHAM: Okay. So we're both in agreement. I will go back. When Mr Clarke informed you about the deficit and the size…

Mrs AAGAARD: Informed the Cabinet.

Mr DUNHAM: As a member of Cabinet, right. So, you were in his hearing. Did he speak about the …

Mr KIELY: These are Cabinet deliberations, surely?

Mr DUNHAM: Did he speak about the potential windfall that was coming through the Grants Commission and known to certainly the previous government about the $74m additional? Did he speak about that?

Mr KIELY: Not relevant.

Mrs AAGAARD: Mr Chairman, this is so irrelevant as to be unbelievable.

Mr CHAIRMAN: Next question, please Mr Dunham?

Mr DUNHAM: He didn't speak about that or you are not prepared to divulge?

Mrs AAGAARD: Mr Dunham, apart from anything else, you are talking about Cabinet matters. I think it is highly inappropriate, this line of questioning.

Mr DUNHAM: Do you believe Mr Clarke is an honest bloke?

Mrs AAGAARD: Yes, I do.

Mr DUNHAM: Good. Do you believe that the Chief Minister's actions in the Parliament were motivated only by politics?

Mr CHAIRMAN: Well, you are ascribing meanings to words that the Chief Minister used. We have discussed it before. There is more than one sort of fraud other than legal fraud. There is moral fraud.

Mr DUNHAM: Okay. Perhaps you could describe that for us.

Mr CHAIRMAN: Let's not judge everything by the legal standard, because I think the people of the Northern Territory want more than that and they voted for more than that on 18 August last year and they are getting more than that. This open, public hearing is part of that and if you find it difficult, if you find that difficult, well so be it.

Mr DUNHAM: I am not finding it a bit difficult; I am enjoying it. The question, then, about – when he keeps running interference, it does become a bit tedious, a bit difficult for those of us who want to pursue the truth.

Mr KIELY: Another rarity.

Mr DUNHAM: The issue for us, I guess, in terms of your current budget is whether the principles, morality and circumstances that applied to the previous government will unequivocally apply to this current government.

Mrs AAGAARD: I guess that is why we brought the Fiscal Integrity Bill down, Mr Dunham.

Mr DUNHAM: Right. So you believe that bill will be the device to make sure that there will be no figures in budget papers that are inaccurate ever again?

Mrs AAGAARD: It certainly means that the Treasurer will be unable to adjust any figures.

Mr DUNHAM: Do you believe the figures in relation to your portfolio are correct?

Mrs AAGAARD: Mr Dunham, I have already answered that question.

Mr DUNHAM: Do you know that you are under oath?

Mr KIELY: Mr Dunham!

Mr CHAIRMAN: Now, that's…

Mr DUNHAM: The question has been put.

Mr KIELY: Mr Reed, went right off his brain about that, and you were there and you supported him and you stand there and ask this.

Mr DUNHAM: Do you realise you are under oath?

Mr CHAIRMAN: No, no, that is not fair, Mr Dunham. Next question, please.

Mr DUNHAM: Do - are you entirely confident about the accuracy of the figures in your portfolio area that have been published in the budget papers?

Mrs AAGAARD: Mr Chairman, I, once again, would say that I think that this question is irrelevant, that we are here to discuss matters before us in the memorandum and the situation as described relating to the change in the figures which were mentioned in the memorandum. I have nothing further to add.

Mr DUNHAM: So you are not confident, or you refuse to answer the question?

Mrs AAGAARD: Mr Chairman, there is no relevance in this questioning.

Mr WOOD: Can I make a - can I interrupt a minute? Look, I am all for one that reckons we should find every - allow everybody to find the truth about various issues, but I really am concerned about this particular meeting today. It has got heavily political on both sides. In fact, I think the questioning is becoming political. I am not against the questioning of the minister by any chance. I mean, the minister is quite capable of answering the questions, but I think there has been, to some extent, prompting, sometimes of answers from one side. There has been, I think, the very general questions being asked now which I think perhaps have been trying to some extent gain some political advantage. I actually think that we have probably expended all questions that we really need to ask. That is my opinion.

Mr CHAIRMAN: So you want to move that the Committee now adjourn?

Mr WOOD: And I will move that – well, I think the Minister should be allowed to sum up because that was the process we gave to every other person who came here. If the minister would like to sum up, I think that she should have the time to do that. But at the moment I feel that we have basically run the…

Mr DUNHAM: So can I ask some other questions on a totally different line?

Mr CHAIRMAN: You've got five minutes, so come on.

Mr DUNHAM: Okay. You have said in Parliament that hospital activity is currently high at Royal Darwin. I think you used the number 104%. It came out in evidence that the hospital activity was in fact low at about the time of Budget Cabinet last year which was a very abnormal event.

Mr KIELY: What evidence was this, Mr Dunham?

Mr DUNHAM: Mine, actually. And we did seek, because the papers weren't available, we did seek to obtain those documents from the department but to my knowledge they haven't been forthcoming. The question really is this: has Mr Bartholomew been able to tell you about hospital

activity funding, how you would formularise that and whether there are occasions when it would go down and, if so, how you would harvest that money?

Mrs AAGAARD: Mr Chairman, once again, this is a discussion of the budget for this year and relates to matters which we have already talked about. There is a process within the department which would be reported to me relating to all issues relating to the budget, and at the appropriate time I will record that to Parliament.

Mr CHAIRMAN: Thanks, Mrs Aagaard. Well, in line of…

Dr LIM: Mr Chairman, I have got a question about the budget.

Mr CHAIRMAN: All right, and then we will get the minister to sum up.

Dr LIM: When Mr Bartholomew talked to you about his concerns with the Budget Papers related to the year 2000-01 and his concerns that what he said would be seen as a budget blowout, why didn't he mention this problem with the estimates as he then later detailed in the memo of 27 September?

Mr KIELY: Why didn't you ask him?

Mrs AAGAARD: 2000-01, you are saying? I don't recall having a conversation with Mr Bartholomew.

Mr CHAIRMAN: Well, from what the minister has said, she's engaged with Mr Bartholomew…

Mrs AAGAARD: You're talking about the 2001-02 budget.

Dr LIM: Hang on, hang on! I can't hear the Minister.

Mrs AAGAARD: I don't know what you are talking about.

Dr LIM: What you are saying just now is that you did not have a conversation with Mr Bartholomew about the budget 2000-01?

Mrs AAGAARD: What are you asking me? Are you asking me about this Annual Report?

Dr LIM: No. When I asked you…

Mrs AAGAARD: The matters relate to a different budget.

Dr LIM: So he didn't talk to you about 2000-01 at all?

Mrs AAGAARD: We talked about underfunding. We talked significantly about underfunding and what those projects might be. I have already said that.

Dr LIM: The underfunding is the year 2000...

Mrs AAGAARD: We talked about underfunding. I have nothing further to add to that.

Mr LIM: Well, that is fine if you don't have anything else to add that. I am just trying to get to clear my head. The underfunding is obviously on the budget year 2001-02 because the 2001 year was already gone well past. What you are saying is that you did not talk to him about the year 2000-01?

Mrs AAGAARD: That is a matter for this Annual Report.

Dr LIM: Okay. Then how the heck - excuse me, I am really getting confused now - you are saying that the underfunding was for the year 2001-02. Okay, I can compartmentalise that. You said to me also that you did not talk to him about 2000-01, yet this memo is about 2000-01, so where did that come from?

Mrs AAGAARD: Mr Chairman, the memo certainly is about the estimates. This is about outcomes. I don't - this line of questioning is bizarre.

Dr LIM: I'm not talking about the report.

Mr CHAIRMAN: Okay, that's…

Mrs AAGAARD: I'm talking about underfunding.

Dr LIM: I'm not talking about the report.

Mr CHAIRMAN: That is it. I think the Minister's answered. We have discussed it. Minister, would you just like to sum up?

Dr LIM: Mr Chairman, with due respect, I have a question to ask.

Mr CHAIRMAN: No. You have demonstrated that you're…

Dr LIM: What you are saying is that you have are going to gag the Committee.

Mr CHAIRMAN: No. If you want to, we will vote on this.

Dr LIM: Well, vote on that. But I am sorry, but I have a question to ask.

Mr CHAIRMAN: Do you want to move that motion, Gerry, that the minister be allowed to sum up and then the proceedings finish?

Mr WOOD: Well, if the member for Greatorex has got one more question only, I will let him put that and I think then we …

Dr LIM: I have more than one question, I am sorry, Mr Chairman.

Mr WOOD: Is it the same question in different terms, or is it [inaudible] question? I do get the feeling that we are nitpicking on a particular issue that I am finding it difficult to see the importance to the context of the big picture. I think it's getting down to dotting the i's and crossing the t's and I not sure in this case it's relevant. I will leave it up to the Chair to decide because that's the Chairman's job.

Mr CHAIRMAN: Okay. I'll ask the minister now to sum up and then the proceedings will close.

Dr LIM: We are not going to close the meeting now, are we?

Mr CHAIRMAN: I beg your pardon?

Dr LIM: You are not asking that we close the meeting now?

Mr WOOD: I am asking the Chair to make the decision one way or the other.

Mr CHAIRMAN: Okay. I move that following the minister's summation that this meeting then adjourn. Do I have a seconder for that.

Mr McADAM: I second that.

Mr CHAIRMAN: All those in favour. All those against.

Mr DUNHAM: I am against.

Mr CHAIRMAN: Two against. So, minister, I think the motion is carried. If you would just like to sum up, please. You don't have to.

Mrs AAGAARD: I am not sure that I have any more to add really, except to say that once again, I had no knowledge of the information that was in the memorandum until the day it was printed. I believe that the matter is really about the actions of the previous government, and the figures, and about what it is that the people for the Northern Territory should expect of their elected government in relation to budget matters. And that for the people to hear that in May they are told that the budget figure is $436m or its revised estimates, and therefore there appeared to be an increase in the budget for 2001-02 is, in my opinion, simply a political matter and was put in place in an attempt to look like there was an increase in the budget greater than there was in relation [inaudible]. Thank you.

Mr CHAIRMAN: Thanks, Minister Aagaard. This meeting is now formally closed.

I would remind members and I notice that the member for Drysdale has left, if the member for Greatorex could remind him that we have got a deliberative meeting relating to the formation of the report, and Ms Large is going to report to us. Did you want to do that over lunch, Gerry?

Dr LIM: I think we should have a lunch break.

Mr CHAIRMAN: All right, let's have a lunch break and reconvene in that room there at 1.45 pm.

The Committee adjourned at 12.42 pm.