COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Estimates

FRIDAY, 5 APRIL 2019

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SENATE

ECONOMICS LEGISLATION COMMITTEE

Friday, 5 April 2019

TREASURY PORTFOLIO

In attendance

Senator Cormann, Minister for Finance and the Public Service
Senator Seselja, Assistant Minister for Treasury and Finance

Department of the Treasury

Mr Philip Gaetjens, Secretary

Macroeconomic Group

Ms Meghan Quinn, Deputy Secretary, Macroeconomic Group
Dr Angelia Grant, Division Head, Macroeconomic Conditions Division
Ms Laura Berger-Thomson, Principal Adviser Forecasting, Macroeconomic Conditions Division
Ms Lisa Eliston, Division Head, International Policy and Engagement Division
Mr Damian Mullaly, Principal Adviser, Macroeconomic Modelling and Policy Division

Corporate Services and Business Strategy Group

Mr Matt Flavel, Deputy Secretary, Corporate Services and Business Strategy Group
Mr Robert Twomey, Chief Finance Officer, Chief Financial Officer Division
Ms Cristy England, Acting Division Head, People and Organisational Strategy Division
Ms Shannon Kenna, Division Head, Communications and Parliamentary Division
Mr Mike Webb, Division Head, Information Services Division

Fiscal Group

Mr Simon Atkinson, Deputy Secretary, Fiscal Group
Mr Jonathan Rollings, Division Head, Budget Policy Division
Mr Adam McKissack, Principal Adviser, Budget Policy Division
Ms Vicki Wilkinson, Division Head, Social Policy Division
Ms Philippa Brown, Principal Adviser, Social Policy Division
Ms Joanne Evans, Principal Adviser, Social Policy Division
Mr Robert Jeremenko, Division Head, Retirement Income Policy Division
Mr Darren Kennedy, Principal Adviser, Retirement Income Policy Division
Ms Michelle Dowdell, Principal Adviser, Retirement Income Policy Division
Mr Robb Preston, Principal Adviser, Retirement Income Policy Division
Ms Kate Phipps, Division Head, Commonwealth-State Policy Division
Mr Hamish McDonald, Division Head, Structural Reform Division
Mr Damien Dunn, Principal Adviser, Structural Reform Division
Mr Tom Dickson, Principal Adviser, Structural Reform Division
Ms Kirsten Baker, Principal Adviser, Structural Reform Division

ECONOMICS LEGISLATION COMMITTEE
Mr Damien White, Chief Adviser, Fiscal Group

Markets Group
- Ms Diane Brown, Division Head, Financial System Division
- Mr Warren Tease, Chief Adviser, Financial System Division
- Ms Nghi Luu, Acting Principal Adviser, Financial System Division
- Ms Julie Greenall-Ota, Principal Adviser, Financial System Division
- Mr James Kelly, Chief Adviser, Financial Services Reform Implementation Taskforce
- Ms Mohita Zaheed, Acting Principal Adviser, Financial Services Reform Implementation Taskforce
- Ms Neena Pai, Acting Principal Adviser, Financial Services Reform Implementation Taskforce
- Mr Warren Tease, Chief Adviser, Financial System Division
- Ms Nghi Luu, Acting Principal Adviser, Financial System Division
- Ms Julie Greenall-Ota, Principal Adviser, Financial System Division
- Ms Christine Barron, Division Head, Consumer and Corporations Policy Division
- Ms Kate O'Rourke, Principal Adviser, Consumer and Corporations Policy Division
- Ms Lucy Vincent, Principal Adviser, Consumer and Corporations Policy Division
- Ms Kate Lynch, Principal Adviser, Consumer and Corporations Policy Division
- Mr Roger Brake, Division Head, Foreign Investment Division
- Ms Kerstin Wijeyewardene, Principal Adviser, Foreign Investment Division
- Mr Tim Baird, Principal Adviser, Foreign Investment Division
- Ms Lina Wong, Acting Principal Adviser, Foreign Investment Division

Revenue Group
- Ms Maryanne Mrakovic, Deputy Secretary, Revenue Group
- Mr Matthew Brine, Division Head, Tax Analysis Division
- Mr Graeme Davis, Acting Division Head, Tax Framework Division
- Mr Paul McCullough, Division Head, Corporate and International Tax Division
- Ms Kathryn Davy, Principal Adviser, Corporate and International Tax Division
- Mr Hector Thompson, Principal Adviser, Corporate and International Tax Division
- Ms Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division
- Mr Patrick Boneham, Division Head, Black Economy Division
- Mr Simon Writer, Division Head, Law Design Office

Australian Charities and Not-For-Profits Commission
- The Hon. Dr Gary Johns, Commissioner, Australian Charities and Not-for-profits Commission

Australian Taxation Office
- Ms Jacqui Curtis, Acting Commissioner of Taxation
Mr Jeremy Hirschhorn, Second Commissioner, Client Engagement Group
Mr Alex Adams, Deputy Commissioner Service Operations, Enterprise Solutions and Technology
Ms Melinda Smith, Chief Service Delivery Officer, Service Delivery Group
Mr Andrew Mills, Second Commissioner Law Design and Practice
Ms Frances Cawthra, Chief Finance Officer
Mr James O'Halloran, Deputy Commissioner, Superannuation
Mr Jonathan Todd, Australian Taxation Office General Counsel, Australian Taxation Office Corporate
Mr Jeremy Geale, Deputy Commissioner, Review and Dispute Resolution
Mr Brad Chapman, Acting Chief Operating Officer

**Australian Competition and Consumer Commission**
Mr Rod Sims, Chair
Ms Rayne de Gruchy, Chief Operating Officer
Mr Scott Gregson, Executive General Manager, Merger and Authorisation Review Division
Ms Gabrielle Ford, General Manager, Advocacy, International and Agriculture Branch
Mr Rami Greiss, Executive General Manager, Enforcement Division
Mr Tim Grimwade, Executive General Manager, Consumer, Small Business and Product Safety Division
Mr Michael Cosgrave, Executive General Manager, Infrastructure Regulation Division
Mr Peter Maybury, Chief Finance Officer

**Australian Energy Regulator**
Mr Warwick Anderson, General Manager, Network Finance and Reporting
Mr Peter Adams, General Manager, Market Performance
Ms Angela Bourke, Director, Strategy and External Affairs
Ms Mark Feather, General Manager, Policy and Performance

**Australian Prudential Regulation Authority**
Mr Wayne Byres, Chair
Mr John Lonsdale, Deputy Chair
Mrs Helen Rowell, Deputy Chair
Mr Geoff Summerhayes, Member

**Australian Securities and Investments Commission**
Mr James Shipton, Chair
Ms Karen Chester, Deputy Chair
Mr Dan Crennan, Deputy Chair
Ms Cathie Armour, Commissioner
CHAIR (Senator Hume): I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2019-20 and related documents for the Treasury portfolio and the Industry, Innovation and Science portfolio. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has set Thursday, 18 April 2019 as the date by which senators are to submit written questions on notice and has fixed Thursday, 30 May 2019 as the date for the return of answers to questions taken on notice.

Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has a copy of the rules. In particular, I draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in Hansard:

*The extract read as follows—*

**Public interest immunity claims**

That the Senate—

(a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;

(b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;

(c) orders that the following operate as an order of continuing effect:

1. If:

   (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
(b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.

(2) If, after receiving the officer’s statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.

(3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

(4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.

(5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

(6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.

(7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).

(8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(13 May 2009 J.1941)

(Extract, Senate Standing Orders)

CHAIR: Witnesses are specifically reminded that a statement that information or a document is confidential or consists of advice to government is not a statement that meets the requirements of the 2009 order. Instead, witnesses are required to provide some specific indication of the harm to public interest that could result from the disclosure of the information or the document.

I remind senators and witnesses that microphones remain live unless I instruct otherwise—for example, at suspension or adjournment. I ask photographers and camera operators to follow the established media guidelines and the instructions of the committee secretariat. As set out in the guidelines, senators and witnesses’ laptops, mobile phones, other devices and personal papers are not to be filmed or photographed. I remind members of the public and
everyone in the gallery that they are not permitted to speak or interfere with the proceedings or with witnesses at any point during the hearing. Security is present, and they will be asked to remove anyone who does not follow these instructions.

The committee's proceedings today will examine the Treasury portfolio, beginning with the Department of the Treasury macro-economic and corporate groups. The hearing will then follow the order as set out in the circulated program.

Department of the Treasury

[09:02]

CHAIR: The committee will now begin consideration of the Treasury portfolio. I welcome the Minister for Finance and the Public Service, the Hon. Mathias Cormann, representing the Treasurer. I also welcome the Secretary of the Department of the Treasury, Mr Philip Gaetjens, and officers of the Treasury. Minister or Secretary, do you want to make an opening statement?

Senator Cormann: I don't, but I think the Secretary of the Treasury does.

Mr Gaetjens: The 2019-20 budget was delivered on Tuesday and provides an up-to-date view on the economic and fiscal outlook. This morning I plan to only briefly touch on a few of the main points from the budget, as well as what it means for Treasury's work going forward. I will start with the fiscal outlook.

The budget forecasts an underlying cash surplus in the 2019-20 financial year of $7.1 billion, the first surplus since 2007-08. It is then forecast to increase to a surplus of $11 billion in 2021, with sustained surpluses projected into the medium term. The fiscal outlook continues to benefit, in particular, from commodity prices that have remained at elevated levels, coupled with continued growth in resource exports, which both support further expected improvement in company tax collections in 2018-19 and 2019-20.

Ongoing strength in iron ore and metallurgical coal prices since the midyear review and a consequent delay in the assumed phase-down in these prices have contributed to a higher terms of trade in 2018-19. The budget prudently assumes a return to more sustainable levels over the next four quarters. Nominal GDP growth is expected to be 3¼ per cent in 2019-20, one-quarter of a percentage point lower than at the midyear review, and 3¾ per cent in 2020-21. In contrast to the upgrade in the terms of trade, growth in real GDP and domestic prices have been revised down, reflecting data since the midyear review, including the weaker-than-expected December quarter 2018 national accounts released on 6 March.

As I noted in my last statement to the committee, the path returning the budget to surplus has been a long one and reflects the long-lasting fiscal impacts of financial shocks and economic transitions that occur as an economy rebalances. The long run of deficits has also left Australia with substantially higher public debt levels. The improved fiscal outlook now enables a greater focus on public debt reduction to improve Australia's position to meet future domestic and international challenges. In the budget, gross debt is expected to be 27.9 per cent of GDP in 2019-20, falling to 25 per cent of GDP at the end of the forward estimates and, further, to 12.8 per cent of GDP by the end of the medium term. Net debt is also expected to decline in each year of the forward estimates and the medium term, falling from 18 per cent of GDP in 2019-20 to a projected zero per cent by 2029-30.
The economic data released since the midyear review were a bit weaker than had been expected, which I highlighted in my address to the committee in February. The December quarter 2018 national accounts data confirmed the slowing in momentum in the real economy in the second half of 2018, although this followed two quarters of strong growth earlier in the year. Spending by the household sector on both consumption goods and housing has moderated. We also know that housing prices have been declining over the past year and a half. Falls in residential building approvals since late 2017 are expected to flow through to lower dwelling investment over the coming years. Consumption of discretionary items has been particularly soft, including for those components that relate to housing market conditions, such as household furnishings and motor vehicles. While the pick-up in growth in retail sales in February was welcomed, it followed a number of weak outcomes.

In contrast, non-mining investment has continued to grow at a solid pace, and spending by the public sector, including on services such as health and education as well as on infrastructure, has been growing above its long-run average rate. Mining investment is expected to grow in 2019-20 for the first time in around seven years. Despite some weaknesses in the real economy, there has been continued strength in the labour market. Employment growth was above its long-run average over the year to February and the unemployment rate is now at 4.9 per cent, a rate last recorded in June 2011. The participation rate is close to its record high.

Growth in real GDP is forecast to be 2¼ per cent in 2019-20 and 2020-21. This is around Australia's estimated potential growth rate. Growth overall is expected to be supported by accommodative monetary policy settings and the Australian dollar, which is one-third lower than its 2011 peak against the US dollar. Household consumption, business investment and public final demand are expected to contribute to growth over the forecast period. Dwelling investment is expected to detract from growth over the forecast period, particularly in 2019-20. Solid economic growth is expected to continue to support employment growth, which is forecast to be 1¼ per cent through the year to the June quarter 2020 and the June quarter 2021. Consistent with positive employment prospects, the participation rate is forecast to be 65½ per cent and the unemployment rate is expected to be five per cent across the forecast period. As economic growth strengthens and spare capacity in the labour market continues to be absorbed, wage growth is expected to pick up.

Before moving on to the global economic outlook, I would like to take a moment to emphasise the importance of business liaison in formulating Treasury's economic forecasts. In the lead-up to the budget, Treasury conducted business liaison with a range of stakeholders, including banks, mining companies, industry bodies, economists, state and territory governments, representative organisations and small business. These consultations provide detailed, forward-looking insights on the economic outlook which directly inform our deliberations on the economic forecast. Our business liaison activity also substantially benefits from Treasury's state office presence in Sydney, Melbourne and Perth.

Moving now to the global economic outlook, since the midyear review there has been some deterioration in the outlook for global growth, particularly in the euro area and with economies outside Australia's major trading partners. Reflecting this, forecasts for global growth have been downgraded. Nonetheless, growth in Australia's major trading partners is forecast to continue to be robust—at four per cent in each of the forecast years. Labour market
conditions continue to be strong and inflation remains relatively contained in most major advanced economies compared with historical experience.

The United States economy continues to grow solidly. Wage growth has picked up an inflation has increased slightly, closer to the target rate. Growth in China is moderating, reflecting weaker domestic demand as authorities address risks in the financial system and trade pressures weighing on business confidence. With help from targeted macroeconomic policies, China is expected to achieve the authority's target of 6 to 6.5 per cent growth this year. ASEAN 5 economies continue to perform solidly, with domestic demand and favourable demographics supporting growth.

As outlined in the budget, there is a high degree of global uncertainty, which appears to be weighing on measures related to confidence amid a range of economic and geopolitical risks. The risks include continued concerns about trade protectionist sentiment; high levels of debt in a range of countries, including in Europe; and Brexit risks, although Australia's trade is oriented more towards Asia than Europe. In the near term, there is also uncertainty about how quickly activity in some countries will bounce back from temporary factors that weighed on growth in the second half of 2018.

The economic outlook that I've outlined this morning and is contained in the budget papers, along with the evolving risks to this outlook, provides an important frame through which to understand the context of the budget. A number of measures are positive for demand in the economy—for example, the extension of the low- and middle-income tax offset and the additional infrastructure expenditure. A number of measures will also help to support the supply side of the economy in the longer run—for example, investment in education and the reduction in the second-highest marginal tax rate, which are supportive of labour productivity and labour force participation.

Overall, however, the budget maintains a focus on fiscal consolidation—a focus which has given rise to the forecast surpluses. There were a number of policy announcements in the budget that directly affect Treasury's work program. Tax changes for both personal incomes and small businesses will feed into the large ongoing legislative agenda for the department. It may be of interest to senators that the Treasury portfolio accounted for about 27 per cent of the bills introduced into the parliament during the 45th Parliament, 2016-19, and our law design office does a fantastic job managing this. The department received funding in the Budget to establish a new centre for population to provide detailed analysis and advice on population issues. This funding commences from 2019-20, and the centre's establishment will be an organisational priority for us. As I informed the committee in earlier hearings, Treasury had established a dedicated task force to manage the related work during the financial services royal commission. Now that the commission is finished and the government has responded, Treasury received funding in the budget to establish a financial services reform implementation task force. An announcement will be put out later today within the department on a restructure in the markets group, which will establish a financial services reform task force division.

Before taking questions, I would like to acknowledge the efforts and professionalism of Treasury staff and public officials across government in preparing the budget five weeks earlier than usual this year. This substantially compressed the usual time frames for key parts of the process. Notwithstanding those constraints, the budget production process went very
smoothly, with the official documents, online resources and other budget related products delivered on time. Every year the budget is a massive undertaking that involves most areas of Treasury and substantial collaboration across government. I would particularly like to acknowledge the contribution collaboration of our Department of Finance colleagues, along with the support of their minister, whose name is also on the budget papers alongside the Treasurer. I also acknowledge the close work with the Department of the Prime Minister and Cabinet. Lastly, I'd like to thank the printers, who again provided fantastic, secure printing services for the budget papers. Thank you.

**CHAIR:** Thank you very much, Mr Gaetjens. For the benefit of colleagues, because we have a truncated agenda, my intention today is to give the coalition five minutes of questions but Labor 10 minutes. I will give the Greens 10 minutes of questions, should they choose to, in each session, but after that it will be five minutes only for crossbench senators and also for the Greens. Labor will continue to have 10-minute blocks, and the coalition will only have five. I will kick off questions. I want to ask Mr Gaetjens, first of all, about the outlook for business investment, whether there are signs that the outlook improved and potentially what that means for capacity in firms, particularly with regards to wages.

**Mr Gaetjens:** We cover that fairly well in statement 2 of the economic outlook. Non-mining business investment grew by about 9.7 per cent in 2017-18, and we are forecasting it to grow steadily over the forecast period. The latest ABS capital expenditure survey also showed a firming in non-mining business investment intentions over the forward period, so I think that augurs well for a continued boost. You will see included in the forecast on page 2-5 that mining investment was minus 4.1 per cent in 2017-18. We are expecting it to be about minus 10½ per cent in 2018-19 but positive four per cent in 2019-20. As I said in my opening remarks, that is the first positive amount there for about seven years. We are seeing some investments, particularly in Western Australia, with new mines coming on board, so I think that is a good sign for the forecast. Again, Meghan and Ange can add detail if they want to.

**CHAIR:** Can you explain to the committee how that correlates with your outlook for jobs growth.

**Mr Gaetjens:** I think what is happening now in mining in particular is that the industry went from an expansion and investment phase to a production phase. If they are now recommencing investment, there will probably be a greater job focus during the investment stage than from the production phase. I think I heard some announcements on the radio in the last few days from Fortescue about a second new mine that they were opening up over in the west. With non-mining business investment, we think measures such as the instant asset write-off can provide investment that will support a capital deepening for labour. As the forecasts show, generally labour force growth has been quite strong over the last few years in any event, and there has been a surge in the last couple of quarters again, with—my colleagues might have the right number, but I think it's about a 70 per cent proportion of full-time employment over the last few years.

**Dr Grant:** That's about right.

**Mr Gaetjens:** Again, the labour market has continued to be strong, and I think the investment measures in the budget will support, as I said, capital deepening with labour, and that might add to labour productivity.
CHAIR: What does that mean for the outlook for wages growth?

Mr Gaetjens: As we say, with strong labour force growth, we would expect and we actually forecast a growth in wages from, I think the last number was 2.3 per cent, up to 2½ or 2¾ per cent.

CHAIR: 2.3 per cent is reasonable wages growth compared to global trends, isn't it?

Mr Gaetjens: The wage price index was 2.1 per cent in 2017-18 and I think the last number we have is 2.3 per cent. Is that to the end of December?

Dr Grant: Yes.

CHAIR: You're forecasting 2.5 per cent?

Mr Gaetjens: Yes, we're forecasting 2.5 and then 2¾ per cent. That again goes to the continuing strength in the labour market. As demand for labour keeps going up, we think that will lead to a greater call for people and therefore upward pressure on wages, which is in the forecast.

CHAIR: I read a report from Goldman Sachs that said wages growth in the US had increased significantly since company tax cuts were implemented and the wages of the lowest 50 per cent of wage earners wages were growing at twice the rate as those of the highest 50 per cent of wage earners. Is that something that surprises you?

Mr Gaetjens: Again, I might ask my colleagues for details, but it doesn't surprise me to the extent that, as I understand, in the US there are skills and labour shortages across the income range of almost all workers. It's not just lower income workers; it's a shortage across the whole of the labour force. If that is happening, again, that is consistent with higher wages.

Senator KETTER: Just one question on your opening statement and that issue of wages growth: can you point to any particular government decision which is going to result in an increase in wages?

Senator Cormann: This is where Labor doesn't understand the fundamentals of the economy. If you think there is one specific magic pudding sort of magic-wand-type initiative—

Senator KETTER: I didn't suggest that.

Senator Cormann: I'll tell you how you get stronger wages growth: on the back of a stronger economy, on the back of a plan that facilitates increased investment, stronger employment growth, which we have been achieving; and a lower unemployment rate, which we've been achieving. As the excess supply in the labour market continues to reduce, competition for workers continues to increase and the additional investment improves the productive capacity of the economy, that is the only sustainable way to secure stronger wages growth into the future. Our plan is delivering the ingredients required for stronger wages growth into the future. There is no magic wand that can just, as the Labor Party appears to be suggesting—

Senator KETTER: I never suggested that.

Senator Cormann: The suggestion that the Labor Party appears to be making is a cruel hoax.

Senator KETTER: I take that as a negative response.
Senator Cormann: It's not a negative response. Our whole plan is about delivering a stronger economy, more jobs and a lower unemployment rate, which will drive stronger wages growth into the future. I point you to our track record. When we came into government, the unemployment rate was headed past 6¼ per cent. It has a four in front of it now. In the last financial year for which there is a final budget outcome, the 2017-18 financial year, actual employment growth was 2.7 per cent. When the 2017-18 budget was delivered, the forecast was for 1.5 per cent employment growth, so there was 1.2 per cent more employment growth than forecast. You know what that means? That means more personal income tax revenue for government without the need to increase taxes. It also means less expenditure on welfare and that over 1.2 million more Australians are now in a job. That is a real, tangible benefit for working families around Australia. As we continue to drive down the unemployment rate, wages growth will pick up into the future.

Senator KETTER: I think there are some heroic assumptions there.

Senator Cormann: They aren't heroic assumptions; this is economics 101.

Senator KETTER: Mr Gaetjens, you are saying that wages growth is expected to pick up, but we've seen company profits at fairly record levels for some time, relatively low unemployment, so—

Senator Cormann: We went through a period of massive losses to companies—

Senator KETTER: I'm trying to ask Mr Gaetjens a question.

Senator Cormann: I'm the minister at the table. You're making all these assertions. There was a period of significant losses across major companies around Australia on the back of the challenges faced during an economy in transition. People mention companies like Qantas and the like: yes, they've started making profits in more recent times after a sustained period of significant losses. Companies and businesses across Australia that are more successful and profitable are able to invest in their future growth. As businesses across Australia continue to grow, they will hire more Australians. In aggregate across the economy, more businesses hiring more Australians means the unemployment rate will continue to go down as long as employment growth outpaces population growth. That will necessarily drive stronger wages growth into the future as the excess supply in the labour market goes down.

Senator KETTER: Mr Gaetjens, have you received my letter of 3 April?

Mr Gaetjens: Yes, I have.

Senator KETTER: Are you in a position to table responses to the questions I've asked in that letter?

Mr Gaetjens: We're currently working on those requests. We hope to make it available as soon as we possibly can. Some checking still needs to be done. I don't think it will be tabled this morning.

Senator KETTER: Do we have officers here who can answer those questions?

Mr Gaetjens: Again, I will make sure that the information contained in those requests—

Senator KETTER: You're telling me you don't have officers here who can answer the questions in that letter?

Mr Gaetjens: You should ask the officers whether the questions relate to their areas. If the information is complete and has been fully checked, we will see what we can do.
Senator KETTER: We might have to go through each dot point then and find out. The first dot point is on the year-by-year breakdown of the full personal income tax plan. Tell me which group I should direct that question to.

Mr Gaetjens: Revenue Group.

Senator KETTER: I might go through the full list first, and then we will come back. The next one is the year-by-year figures that underpin all charts published in statement 3 of Budget Paper No. 1.

Mr Gaetjens: I think that information is on the website. If you look on the budget website, you will find there is data for charts on that.

Senator KETTER: Is that for the full—

Mr Gaetjens: That's for all the charts in the budget papers.

Senator KETTER: The next one is the full breakdown of the $28.4 billion of downward revisions to payments.

Mr Gaetjens: That's a matter for the Department of Finance.

Senator KETTER: Next is the detailed explanation for why payments as a percentage of GDP declined from 25 per cent to about 23.5 per cent at the end of the medium term.

Mr Gaetjens: You might be able to ask Fiscal Group, but, again, that would mainly be Finance, on the payments side.

Senator KETTER: Is that Fiscal Group or—

Senator Cormann: The finance department appeared yesterday. We went through all of these things in some detail yesterday.

Senator KETTER: Is Fiscal Group able to assist with this?

Senator Cormann: You can ask them the question but it is a finance department question.

Senator KETTER: The fifth dot point is the net overseas migration figures by visa class used over the forward estimates in the medium term, and how these impact on key economic parameters.

Ms Quinn: The headline numbers for net overseas migration are included in budget statement 3 on page 92. They capture the level of net overseas migration expected over the budget period. In terms of the detailed visa class information that you requested in your letter, that is a matter for the Department of Home Affairs. I believe they took that on notice yesterday, to provide that information.

Senator KETTER: And the question of how those revisions have impacted key economic parameters?

Ms Quinn: The level of net overseas migration as included in the budget numbers is broadly similar to the MYEFO numbers. There's been no significant impact on the overall economic parameters since that time.

Senator Cormann: In the spirit of openness and transparency, I can provide some further explanation. We did touch on this in the Finance estimates yesterday—why we had a $190,000 cap. The actual performance when it comes to relevant migration levels was running at about $160,000. That was reflected in the assumptions underpinning the budget forecasts. By locking in the planning level at $160,000, that didn't have a material impact.
compared to what was previously assumed, given the demands in the economy in terms of skilled migration and given the expectations around the level of family reunion-related migration. Previously there was a cap of $190,000 but we've brought that down to $160,000, which is broadly in line with what was assumed based on the demands and needs in the economy.

**Senator KETTER:** We have questions about that later. We will come back to that. The next one is nominal GDP value and percentage change by year over the medium term.

**Mr Gaetjens:** Sorry, I missed that question.

**Senator KETTER:** I'm going through each dot point in my letter to you. Have you got a copy of my letter there, Mr Gaetjens?

**Mr Gaetjens:** I've got one at the back of my folder.

**Senator KETTER:** I'm up to the sixth dot point: nominal GDP over the medium term.

**Mr Gaetjens:** I'm checking on that. We will have a look at that. I would say, however, that I am not aware of that number ever being included in the budget or released previously.

**Senator KETTER:** Right. Which part of Treasury should I be directing my question to in respect of that matter?

**Mr Gaetjens:** The macro group as well.

**Senator KETTER:** The next one is gross national income over the medium term.

**Mr Gaetjens:** Again, my understanding—and I might address this to the macro group as well—is we do not project that number. We don't do the number.

**Senator KETTER:** My last question is: can you just run through those points, Mr Gaetjens, and tell us which parts of Treasury we should be directing our questions to?

**Mr Gaetjens:** Unconstrained tax to GDP would be for Revenue Group. I'm reasonably sure that we have that. The department's total expenditure on advertising and information—Matt Flavel can answer that. The itemised list of advertising—again, that's for Mr Flavel. The last point on page 1 is for corporate.

**Senator KETTER:** No, I've got two more points—

**Mr Gaetjens:** The first item on page 2 would be for corporate. The value of any unannounced initiatives—again, I will double-check but you should be able to ask that of Fiscal Group. I think the answer to that is zero.

**Senator KETTER:** I might have missed something here, Mr Gaetjens. The last two dot points on the first page—what are you saying about those?

**Mr Gaetjens:** Corporate Group.

**Senator KETTER:** For both of those?

**Mr Gaetjens:** Yes. The first point on page 2 is for corporate. The value of any unannounced initiatives is, I suspect, for Fiscal Group, and I am pretty sure the answer to that is zero.

**Senator Cormann:** As we indicated yesterday, if there were any decisions taken but not yet announced by the time the Pre-election Economic and Fiscal Outlook was released, any
such measure would be openly and transparently published in the Pre-election Economic and Fiscal Outlook consistent with the requirements of the Charter of Budget Honesty Act.

Senator KETTER: What about outstanding questions on notice?

Mr Gaetjens: I think, as of last week, there were none.

Senator KETTER: There are none outstanding?

Mr Gaetjens: Correct.

Senator KETTER: Thank you.

CHAIR: Thank you, Senator Ketter. I'm going to give myself five minutes and then I will come back to you for 10 minutes, then go to Senator Storer for five minutes, then come back to you for 10 minutes and then go to Senator Spender for five minutes. I want to ask specifically about free trade agreements and how they are potentially supporting our monthly trade balance and the government's growth agenda. Specifically, how has the coverage of free trade agreements on our two-way trade changed in recent years?

Mr Gaetjens: The negotiation of free trade agreements basically expands the price of getting into an expanded number of markets for Australian exports. There was the most recent FTA signed—I think it was with Indonesia. There have been others signed previously, not just bilateral but plurilateral as well. If I remember rightly, 'CPTPP' is the word for the comprehensive partnership for the TPP. Again, that has expanded the markets and in fact expanded Australia's access without tariffs into markets. That is a good prospect for both activity and employment in Australia. I think the government has already said it will be looking at negotiations with the UK, and I'm sure we will also be looking at the situation with Europe again once the situation with Brexit becomes clearer.

CHAIR: I read statistics somewhere—and I will get the numbers wrong—that when the coalition came to government about 25 per cent of our trade was done on a bilateral basis with countries we had free trade agreements with. Now, with the expansion of free trade agreements and the inclusion of China, South Korea, Japan, Indonesia, the TPP and Peru, I think, as well, about 70 per cent of our trade is done with countries with whom we have a free trade agreement, whether it be bilateral or—was it plurilateral?

Mr Gaetjens: Plurilateral and multilateral.

CHAIR: I was going to use 'multilateral' but I like 'plurilateral'. I think I'll use that from now on!

Can I ask about the interaction of the lower Australian dollar that we've experienced in the last few years in supporting the transition of the economy particularly to a broader based economy, rather than just a pure mining focus, and how that interacts with the free trade agreements?

Mr Gaetjens: I might actually pass that on to the macro group to answer.

Ms Quinn: Senator, you are very close. It is 26 per cent rather than 25. Five and a half years ago, trade covered by free trade agreements was 26 per cent, and now it's 70 per cent, and that is expected to expand as the implementation of more recent agreements is completed. That provides increased access for exporters into those countries. It also provides for access for imports into our country—so, a lower cost of goods for consumers—through that mechanism as well. The lower Australian dollar helps with the competitiveness of Australian
goods into foreign markets. The free trade agreements give access, and then the lower Australian dollar supports the relative price of our exports and, therefore, increased demand in those countries. Those two go together to combine for increased demand for our exports.

CHAIR: When we talk about free trade agreements, the first thing we all see is the man with the box of cherries or meat or whatever it might be, but it's the services sector that I think is the most interesting. How is our export of our services sector working with the free trade agreements to grow the economy?

Ms Quinn: Services trade has become increasingly important over time. Most people focus on education and tourism services, which are the largest, but there are many services that we trade offshore in niche markets, representing our high-value services—financial services, things like architecture and even the provision of training services, which is offshore, in terms of TAFE-like services into countries such as India. So services exports are very important for Australia, and they're a growing part of our footprint particularly in the region.

CHAIR: Are export trends expected to continue?

Ms Quinn: We are expecting continued growth in our exports. We see mining exports levelling off a little bit, having the huge increase that we've had and now the completion of the LNG export components in recent times out of Queensland. But we are expecting continued growth in services exports—not just education and tourism, but other components as well.

Senator KETTER: Mr Gaetjens, I just want to return to my earlier questioning about the wages expectations. Why does Treasury think wages will be 3½ per cent in a few years time?

Mr Gaetjens: A large part of that comes from our projection methodology approach, and I might ask my macro colleagues to actually run through that.

Ms Quinn: As we often discuss, the first two years of the projections and forecasts are forecasts, and then the last two years of the budget economic outlook is a medium-term framework that's based on an overall system analysis. So we are expecting forecasts for wages to pick up as the excess capacity in the labour market is absorbed. We have seen that in recent times, and we're expecting the continuation of recent trends. So we're not necessarily expecting a change in the trajectory—just a continuation of what we've seen in the last six months. Looking out further to those two years where we have 3.5 per cent growth in wages, that's in the medium-term economic framework, and those numbers come about because of an assumed increase in demand to catch up for the output gap and an increase in productivity to catch up to the medium-term framework. An increase in productivity leads to an increase in wages, and we also have inflation returning to the middle of the inflation band over time. So an increase in productivity and an increase in inflation lead to an increase in wages.

Senator KETTER: I notice in our estimates of wages growth in recent times, there have been many examples where they've been revised downward, and they continue to be revised back. Does this indicate a problem with the medium-term analysis and this overall system analysis that you talk about?

Ms Quinn: In the nearer term, we have seen wages increase more slowly than expected, but the labour market is a combination of not only the price that firms pay for wages but also the demand for the number of people they employ. When a business thinks about what it
needs to do to increase its output, it has the choice of paying someone more money to work more or employing an additional person. We have seen in recent times a stronger increase in employment—the number of people employed—and a weaker increase in wages. Those two things offset each other, in some sense, in the decision of the firm. So we've revised up our employment growth numbers; at the same time we've reduced the wages numbers in history. That's the pattern over the last few forecast processes. Going forward, we are expecting employment growth to be a little bit less strong and wages to be a little bit stronger than in the past—so once again you've got the offsetting forces there.

**Senator KETTER:** What's changed since MYEFO such that you still think that wages will increase by this amount?

**Ms Quinn:** We have revised down the growth in wages going forward, reflecting the more recent information. We haven't necessarily changed our overall view of the mechanics of how the labour market works. We do expect the increase in demand for labour to increase the price that firms need to pay to absorb more labour, and that continues to be our view, as it is the view of most other forecasters of the Australian economy. The actual rate of increase we have moderated, partly because inflation has been lower than expected. When we look at the demand for wage increases, it's linked to the overall inflation rate, so the increase in real wages through time is a little weaker but not that much weaker. It's mostly inflation.

**Senator KETTER:** But if history is any guide, as I was referring to earlier, will wages be likely to hit this rate of growth?

**Ms Quinn:** It depends a little bit on the employment side and the inflation. If the inflation rate picks up as expected by the Reserve Bank and ourselves, and the demand for labour continues to grow as expected, then we would envisage that wages would pick up as we expect.

**Senator KETTER:** Can you confirm for me that wages growth has been revised down at every budget update since 2014?

**Ms Quinn:** I haven't been in this role since that time, so I don't have that number off the top of my head.

**Senator KETTER:** Dr Grant looks to be—

**Ms Quinn:** I don't think Dr Grant has been in her role since 2014.

**Senator Cormann:** We will take that on notice.

**Ms Quinn:** We're happy to take it on notice.

**Senator Cormann:** Let me make this point. Wages growth has been stronger than it would have been if we had not reversed the deteriorating position of the unemployment rate that we inherited from the previous government. If unemployment had been allowed to continue to rise as it was when we came in, wages growth would have been lower because excess supply in the labour market would have been greater and competition for workers would have been reduced. So, while we have had to work through a transition in the economy in recent years, the position that we're in is better than it would have been.

**Ms Quinn:** Can I add one point? I talked about the increase in employment growth. The other thing to think about is the overall number of people employed relative to the population.
There is a chart on page 2-18 of Budget Paper No. 1 which shows that the employment-to-population ratio is at a historic high.

**Senator Cormann:** That is a very important point.

**Ms Quinn:** A greater change than we were expecting that has surprised other people as well is the large number of people who have stayed in the labour market towards the end of their careers and the large number of women who are now participating relative to historical trends. That increase in participation has come with the strong employment growth, but it increases the supply of labour relative to what we were expecting. That's another reason why wages have been somewhat more modest than expected.

**Mr Gaetjens:** I would also add that actual data, the wage price index, is increasing. I can't remember the actual time, but the wage price index curve has bottomed and it is now increasing. That is actual data—the wage price index is increasing—not just forecasts.

**Senator KETTER:** Okay. Mr Gaetjens, I've noted what you said in your opening statement. Given that economic forecasts in this year's budget show that GDP is down, household consumption is down and wages are down, can it be deduced that the economy is likely to be softer than envisaged at MYEFO?

**Mr Gaetjens:** What we've done is reset the forecasts on the outcome of the December quarter. Yes, I think there was in the calendar year of 2018 a very strong first two quarters of the year, and in the second two quarters of the year there were indications of softening. Notwithstanding that, the labour market has held strong. As Meghan Quinn just pointed out, spare capacity is being absorbed, but we're sitting on a level from the December quarter, which indicated a little bit of momentum from the first six months of the year not continuing through.

**Ms Quinn:** There are a few temporary factors that were affecting the economy overall level of demand at the back end of 2018, and we are expecting some of these to unwind. Some of them will give an extra boost in the near term. There were some timing issues to do with gold exports, for example, and we have the impact of the drought and floods at the back end of 2018 which we expect to unwind. We have brought down the near-term economic forecasts and reduced the real GDP for the next two years as well by a quarter point, but, based on all available information, that is our best guess and forecast for what's going to happen to the Australian economy.

**Senator KETTER:** Okay. The last national accounts showed that GDP per capita has declined again after a decline in the September quarter. Mr Gaetjens, can you tell me what's driving this negative per capita growth?

**Mr Gaetjens:** In terms of the income side or the standard-of-living-type measurements, I think a much better look at that goes to some of the national income measures rather than GDP per capita. Again, there was, I think, a bit of media comment about that outcome, but, in terms of how we would look at standard-of-living-type measurements, we use the income measures, and they stay positive and, I think, have for the last few quarters. Could I get the detail on that?

**Ms Quinn:** Yes. Real gross household disposable income increased, as did national income per person. We have seen very strong employment growth and, as I said, there were some temporary factors weighing on GDP at the back end. There is a sort of mismatch of
timing in some ways between the GDP numbers and the employment numbers, and that results in a temporary negative number for per capita income.

Senator KETTER: Would you expect to see further declines in GDP per capita?

Ms Quinn: We are not expecting further declines in per capita GDP income.

Senator KETTER: Okay.

CHAIR: Senator Storer for five minutes.

Senator STORER: I'd like to discuss table 7 of section 4 on the government's revenue. I want to focus on the company tax component of the Australian government's general cash receipts, which in the last year were $93.7 billion of total receipts of $485 billion. So it's about 19.3 per cent of government receipts as I calculate it. I am interested in the impact with regard to chart 1 of section 6-7, which is the net debt projected to 2029-2030. I note that company tax through the projections is set to rise around that 18 or 19 per cent of total receipts. I want to know whether the projection after 2022-23 of chart 1, net debt, shows a step up of percentage decline of net debt to GDP. I want to understand whether, if there was a reduction in company tax percentages in the future, that step up in reduction of net debt would be achievable, given this is the current projection.

Mr Gaetjens: I might take that at a general level. It's a combination of Revenue Group and the tax and fiscal group, with respect to net debt. The driver of the outcome in 2022-23 is basically from the tax measures included in this budget and the previous budget. In 2022-23 there are two specific issues taking place. One is, in 2022-23, a cash payment of the low- and middle-income tax offset relating to the 2021-22 year. It is paid on assessment, so there is a one-year delay. There is a cash impact that relates to the previous financial year. That is also the year—2022-23—that the bottom tax threshold for the 32½ per cent rate increases. So there is a through-the-year impact in 2022-23. Those issues are the main driver of—a again, I think there's a bit of a dip in the UCB in 2022-23, and it's basically driven by the impact in that year of a post-tax year cash payment and a new within-tax-year cash benefit from the increase in the bottom threshold.

Senator STORER: After that period it's not in place?

Mr Gaetjens: After that period you have—in fact, the low- and middle-income tax offset ends at that time, and the benefits are continued through the structural embedding in the changes to the tax thresholds.

Senator STORER: Does this not reflect the importance—or the domination, in a way—of gross income tax in our tax receipts being in this year $223 billion of $485 billion? Our income tax take in terms of our total government receipts is close to 50 per cent. It is the defining structural aspect of our tax system that we don't have a very broad tax take.

Mr Gaetjens: Our tax system is very dependent on personal income tax and company income tax. They are the two very dominant—they dominantly provide the composition of our tax revenues.

Senator STORER: So if we were to reduce either of those it would have a significant impact on our net debt projections, correct?

Mr Gaetjens: We would, but we'd also have a significant impact of not keeping tax rates consistent, either internationally—to international competition, if you like—or with respect
incentive effects to get people at work. If you don't have reasonable tax rates, people then make their own decisions about the incentives and the benefits of extra work, overtime and things like that. Tax drives the supply side of the economy just as much as the budget revenue.

Senator McALLISTER: Mr Gaetjens, how far advanced is the Treasury's work on the red and blue books?

Mr Gaetjens: It is proceeding. I think it's as advanced as it needs to be at the moment.

Senator McALLISTER: So you've begun?

Mr Gaetjens: Yes.

Senator McALLISTER: Have you had oversight of any drafts of Labor's incoming government brief?

Mr Gaetjens: No.

Senator McALLISTER: So you're aware that the work's been done but you haven't seen it?

Mr Gaetjens: Yes.

Senator McALLISTER: Have you discussed with any Treasury officials any content of Labor's incoming government brief?

Mr Gaetjens: In a general sense, yes, in terms of what we would be looking at, but not in detail. We're basically looking at the structure of the briefs, for both red and blue, and not the detail yet. A lot of the detail, I suspect, will come out after the election is called, when policies are announced. It's very hard to get into the detail before policies are announced. We are preparing, as I expect the whole of the Public Service is, but it's not at the stage yet where we have got into the detail, especially, I think, on the red side, because I suspect there's a lot of information yet to come out.

Senator McALLISTER: In February, you indicated that you would personally sign off on the blue book and the red book.

Mr Gaetjens: Yes.

Senator McALLISTER: That remains the case?

Mr Gaetjens: Yes. It won't just be my work, though. I don't think it's strange that the head of a department would sign off on an incoming government brief.

Senator McALLISTER: No, you're right. That is your role now that you are the Secretary of Treasury. Senator Keneally would like to use the remaining time.

Senator KENEALLY: Thank you for being here today. I'd like to ask some questions about the budget speech itself. When was the final version of the budget speech finalised?

Mr Gaetjens: Could I take that on notice. I'll take that on notice, but I think it was Monday, and I think it was at the usual time for previous budget speeches.

Senator Cormann: We can safely assume it was finalised before it was delivered, which is very helpful with speeches!

Senator KENEALLY: Given what happened in the following 24 hours, I'm not entirely sure that's true, Finance Minister.
Senator Cormann: What happened in the following 24 hours—and I assume that you are referring to our initiative to provide cost-of-living pressure relief to eligible welfare recipients—

Senator KENEALLY: Your backflip—your crisis meetings, which you forgot about.

Senator Cormann: What happened in the following 24 hours is we made pragmatic judgements, as we do as a pragmatic government, to facilitate efficient passage of this measure through the parliament this week, and that was mission accomplished. It was successful, because we were very keen to ensure that aged pensioners would receive cost-of-living pressure relief in relation to the additional energy assistance payment. I would also just point out to you, Senator Keneally, as I did to Senator McAllister yesterday, that the Labor Party supported the equivalent measure in 2017 without raising at any point at that stage the need to include Newstart allowance recipients. Precisely the same measure as the one that was originally included in the budget was passed by the parliament with the support of the Labor Party in June 2017.

Senator KENEALLY: Thank you, Minister. I have a couple more questions about the speech if you don't mind. I'd be very happy if you want to table that information for me.

Senator Cormann: I'll continue to answer your questions openly and transparently, as is, of course, my job.

Senator KENEALLY: I do have some additional questions I would like to put to the Treasury secretary, please, Minister. Was the final version of the budget speech sent to the printers? Was it at the same time as the other budget papers were sent to the printers?

Mr Gaetjens: I will take the final time on notice, but the usual process for budgets, again, is that the bigger documents are sent to print first. The speech, by its nature, is a much smaller document, so it is generally one of the last documents to be printed.

Senator KENEALLY: So you can't say at the moment whether they were sent at the same time.

Senator Cormann: They never are sent at the same time.

Mr Gaetjens: No, they weren't.

Senator KENEALLY: They're never sent at the same time?

Senator Cormann: Under your government and under our government, I think you'll find that the budget speech is never sent at the same time as the more substantial—by size—documents, because by its very nature a speech continues to be refined for as long as you logistically can. But it was, of course, available in the lock-up.

Senator KENEALLY: That's great point, Minister. Thank you.

Senator Cormann: It was, of course, available in the lock-up at 1.30, contrary to some of the erroneous assertions that were made by some. It was available in the lock-up at 1.30 in the usual way.

Senator KENEALLY: I'm really pleased you raised that point, Minister. Were all copies of the budget speech ready for issuing at the start of the budget lock-up?

Senator Cormann: Yes.

Senator KENEALLY: You can categorically say that?
Senator Cormann: Yes.

Senator KENEALLY: So why are there some journalists who are saying that it was not?

Senator Cormann: That's a very good question. You'd have to ask them that. I often wonder why some journalists say what they say. It's a constant source of wonder.

Senator Ian Macdonald interjecting—

Senator Cormann: You could well say that. I couldn't possibly comment.

Senator KENEALLY: Well, while we're talking about media coverage of the budget: Minister, have you read an article from the Sydney Morning Herald by Paul Sakkal titled 'Voters unlikely to buy Morrison government tax cuts: Costello'?

Senator Cormann: No, I have not.

Senator KENEALLY: In that article, Mr Peter Costello, who I believe would be known to you, asserts that the government had an opportunity to deliver a surplus this year but instead took decisions to bring forward expenditure to prop up next year's surplus figure. Is Mr Costello's analysis accurate?

Senator Cormann: No.

Senator KENEALLY: Why not?

Senator Cormann: Because, as we have done in our last five budgets, we make judgements based on, obviously, a whole lot of information on how to prioritise expenditure and revenue in the context of the economic parameters and other non-economic parameter information in front of us. If you compare the current fiscal position for the 2018-19 financial year, it is more than $10 billion better than when we delivered the 2018-19 budget this time last year. This time last year we were forecasting a $14.5 billion deficit for 2018-19. In MYEFO that was about $5.2 billion, and it's now just over $4 billion. Even after we have made the adjustment to the energy assistance payment, taking that cost from about $285 million to $365 million, we still have a deficit position in 2018-19 that is more than $10 billion better than forecast this time last year. If you put that in the context of our performance against budget for the 2016-17 and 2017-18 financial years, when the final budget outcome in 2016-17 was more than $4 billion better than forecast at budget, in 2017-18 it was $19.3 billion better than forecast at budget time.

We have in recent years, after we were able to reverse the deteriorating trajectory that we inherited from our predecessors, been outperforming our budget forecasts over the last three years. The monthly financial statements that I release show that that is the case for 2018-19 as well. We are in the best possible position in the context of the priorities that we believe need to be pursued in 2018-19 in the public interest. But, of course, as we have indicated for some time now, we are now very confident and are forecasting a surplus of $7.1 billion for the next financial year. Australians can have confidence based on our past track record that we will deliver on that forecast that we've made in the 2019-20 budget.

Senator McALLISTER: Like the forecast Mr Hockey made for the first year of government and every year of the coalition government?

Senator Cormann: You're being extremely misleading. I've picked up every Labor person that has falsely asserted this. Some people try to misrepresent a quote out of 2012 when the then Treasurer Mr Swan had just announced four years of surpluses. Mr Hockey at
the time was asked, 'If these surpluses are real, will you also deliver a surplus?' Mr Hockey quite rightly pointed out at that time, in the context of the misleading information that Mr Swan had put into the public domain and which was subsequently proven to be wrong, that, yes, of course, we would be delivering surpluses in every year over the forward estimates of our period in government.

But in 2013, when we released our pre-election costings in the lead-up to the 2013 election, what we showed was that our budget bottom line would be about $6 billion better over the forward estimates as a result of policy decisions than that which we inherited, and we stand by that. But, of course, in the 11 weeks between Labor's last budget and the pre-election economic and fiscal outlook, the bottom line under Labor deteriorated by $33 billion—$3 billion a week over 11 weeks. That deterioration didn't stop when we came into government. It has taken a lot of work to turn that situation around. This is not the time to go back to these discredited, old Labor ways. Our message to the Australian people is we're now heading in the right direction, we've got on top of the mess Labor made to the budget and we now continue to head in the right direction.

Senator KENEALLY: Chair, can I just flag I'd like to come back to this line of questioning in a future time frame?

CHAIR: That's fine.

Senator IAN MACDONALD: People say to me all the time, 'In our household, we're required to balance our budgets, otherwise we lose the house,' and small business say to me, 'If we don't balance our budgets, we go out of business.' So I'm delighted to see the surplus of $7.1 billion, and I know people in the north are very pleased that the government is now doing what they've been required to do for years. You will appreciate from my questions that I'm not an economist or a taxation expert, but has the cash surplus been the same figure that's been used in the last 10 years in budgets? Under Labor, as I recall, for those six years, every year a surplus was promised next year and every year the deficit went up or wasn't reduced. Is it the same figure as has been used over the last 10 years? The terminology, the cash surplus, that we're talking about of $7.1 million—is that the same calculation that's been talked about in budgets over the last 10 years?

Mr Gaetjens: The answer is yes. As far as I'm aware, the approach of the underlying cash balance was introduced in about the mid-1990s. Prior to that, I think there was a greater focus on the headline cash balance, which actually included, then, the impact of asset sales and things like that. So the underlying cash balance was used, I think, as a measure to estimate the impact that the government sector had on drawing issues from the other sectors of government. It basically says: what is the impact of the government sector on the Australian economy? If it's an underlying cash deficit, then we have to borrow to make up the deficit. If we are in surplus, then the government is not drawing from other sectors of the economy; it's contributing. To go a bit further, the underlying cash balance is a feature, I think, of the IMF structure of accounts, but we also have to prepare budgets in accordance with accounting standards, and that's where the fiscal balance comes in. So, at the Commonwealth level, we do not audit actual budget documents, but we do apply the financial budget outcome, particularly to meet accounting standards. Some of the key differences there are the valuation of liabilities and the discount rate that you actually use. In terms of the UCB, the underlying cash balance,
that has been a consistent key aggregate of budget documents—again, I would say, since the mid-1990s.

**Senator IAN MACDONALD:** For simple minds like mine, and I suspect that most Australians share this simplicity when it comes to budget figures, can I take it that there's a $7.1 billion surplus that you can put in a bank and next year there's going to be an $11 billion surplus you put in a bank, and then you can start using that $18 billion to pay off government debt that's been run up? I know that's not how an economist would describe it, but, for me and most Australians, is that how it works?

**Mr Gaetjens:** Yes. Again, for the detail, it might be worthwhile pursuing it with the Fiscal Group, but the underlying balance, in a cash sense, is basically cash revenues minus cash expenses. You then have a sector of the operating statement that looks at changes in valuations of financial assets, or, if the government holds shares in companies, there might be a change in valuation of that equity amount. So the pluses or minuses of the changes in value come through, then you get the underlying cash balance and then you actually add back the financial asset transactions. That gives you the headline cash balance. But underlying cash balance, yes—you've done all of your revenue in spending out and there is a $7 billion surplus. People say, 'What do you do with a surplus?' You pay down debt.

**Senator IAN MACDONALD:** So you do pay down debt?

**Mr Gaetjens:** Yes. In the previous occasions of surpluses a debt had already been paid down, so surpluses went to the Future Fund. That is a measure of creating a net asset position to offset for liabilities coming onto the budget at a later stage, which basically are the liabilities of Commonwealth superannuation.

**Senator IAN MACDONALD:** As I recall, in the Howard government days when we left office there was a $60 billion surplus, which went to the Future Fund, I assume. It's that surplus which is now $200 billion or more in deficit. Is that the same sort of figure?

**Mr Gaetjens:** The surplus would be an underlying cash figure. An annual surplus or an annual deficit would be the same measure, given the methodology that we use to frame the budget, of either an underlying cash surplus or an underlying cash deficit.

**Senator IAN MACDONALD:** Thanks very much for that.

**Senator KENEALLY:** To Treasury: can you advise on whether a surplus this year is technically achievable via policy decisions?

**Senator Cormann:** That is a hypothetical question that is technically possible. Is it true that the government could have decided to increase the tax burden on the economy by $5 billion this year, in order to—

**Senator KENEALLY:** Or not have carried forward savings or spending?

**Senator Cormann:** This, of course, is a prerogative of government. We've made decisions as a government that we believe are in the public interest, based on our intention to keep the economy strong, to make sure that employment growth can continue to be strong into the future, making sure that funding for all of the essential services Australians rely on can be guaranteed and are sustainable into the future. So we are on a sensible, responsible pathway back to surplus and, as we've forecast now for some time, we are returning to surplus by 2019-20 to the tune of about $7.1 billion on underlying cash balance terms.
I hasten to add, we are already in surplus this financial year to the tune of about $8.5 billion when it comes to our net operating balance. That means we are, essentially, now more than meeting our recurrent liabilities through recurrent revenue. On net operating terms, we are already in surplus this year but we’ve made the judgements at the appropriate trajectory, when it comes to an underlying cash balance surplus, as reflected in the budget papers.

Senator KENEALLY: Does Treasury want to add anything to the minister’s—

Senator Cormann: You're asking them, essentially, for an opinion on policy choices.

Senator KENEALLY: That's a really good point, Minister. These are policy choices by the government not to have a surplus this year.

Senator Cormann: No, we made a judgement on what was a sensible trajectory back to surplus, given the terrible fiscal situation we inherited back in 2013 when we had a weakening economy, rising unemployment and a rapidly deteriorating budget position. We have worked very hard to turn the situation around, better controlling expenditure growth. Instead of four per cent average expenditure growth year on year, in real terms, we've brought that down to below two per cent, a 1.9 per cent real growth in expenditure in the period 2013-14 to the end of the current forward estimates period.

If you look at the current forward estimates period in isolation you will see that expenditure growth is down as low as 1.3 per cent, on average, per year in real terms. Spending, as a share of the economy, is down to 24.5 per cent at the end of the forward estimates period—

Senator KENEALLY: I wouldn't be crowing about that.

Senator Cormann: for this financial year, which compares to a trajectory that we inherited—according to the National Commission of Audit—of government expenditure heading to 26½ per cent by 2023-24 and rising beyond that. So we have put the budget on a structurally more sustainable foundation and trajectory for the future. And we stand by the policy choices we made, in terms of the trajectory back to surplus that is reflected in the budget paper.

Senator KENEALLY: Mr Costello said that the government probably could have had a surplus this year. He said:

… they actually moved a lot of expenses into this year.

You could have then gone to the election with one under your belt and the promise of more to come.

Mr Costello went on to say:

Since we can hardly tell you what's going to happen in the economy in the next six months, the idea we can tell you where we'll be in 2030—I wouldn't take that to the bank.

He said:

The government is forecasting as at June 30 next year there'll be a surplus of $7.1 billion dollars—that's not a large padding.

Minister, are you concerned that a former Liberal Treasurer doesn't believe that your $7.1 billion surplus is sufficiently credible?

Senator Cormann: It's a free world and everybody is entitled to their opinions. What I can tell you is that, having spent hours, days and weeks of reviewing all of the information about economic parameters, non-economic parameters and the impact of policy decisions on the revenue and spending sides of the budget, I'm very confident that we made the right
decision to put Australia on the strongest possible economic and fiscal foundation and trajectory for the future. I stand by the numbers in our forecast. What I would say to the Australian people is: 'Just look at our track record. Look at our performance against budget forecasts in 2016-17, 2017-18 and 2018-19 when we outperformed our forecasts in terms of the underlying cash balance, and we're on track to outperform it compared to the original forecast for 2018-19.'

All sorts of people have all sorts of opinions. I think my good friend Peter Costello has expressed opinions about our budgets in the past too. The Labor Party was invariably always very critical about what were supposedly heroic assumptions and forecasts that couldn't be believed. Well, guess what? 2016-17 was $4.3 billion better than forecast; 2017-18 was $19.3 billion better than forecast; and, indeed, 2018-19, according to the update in this budget, is more than $10 billion better than forecast when the budget was originally delivered. So I say to people: 'Look at our track record. Our forecasting assumptions overall have proven to be credible and our performance has been on the upside, not on the downside, as was invariably the case under the previous Labor government when Wayne Swan invariably had to confess that the budget position had deteriorated by more compared to what was reflected in the previous budget or budget update.'

Senator KENEALLY: Minister, are you concerned that the former Liberal Treasurer Mr Costello doesn't believe your debt reduction strategy? If a Liberal Party Treasurer can't take this Liberal budget seriously, why should the public?

Senator Cormann: I actually pretty comprehensively answered this question just now, but I'll do it again. We inherited from the Labor Party a weakening economy, rising unemployment and a rapidly deteriorating budget position. Indeed, in the 11 weeks from Labor's last budget to the independently released Pre-Election Economic and Fiscal Outlook, the underlining cash balance bottom line deteriorated by $33 billion.

Senator KENEALLY: That's not the question. The question was: if a Liberal Party Treasurer can't take your budget seriously, why should the public?

Senator Cormann: So we inherited a debt growth trajectory, and government net debt growth has been less because we've reduced expenditure growth.

Senator KENEALLY: Have you called Mr Costello to explain all this to him?

Senator Cormann: If you look at the budget forecast and medium-term projections, you can see that over the medium term we are expecting to fully pay down government net debt— in fact, to end up in a $1.2 billion positive net position when it comes to government net debt.

Senator KENEALLY: But Peter Costello doesn't believe you.

Senator Cormann: You're clearly not listening to the answers. If you look at the performance, our performance against budget—

Senator KENEALLY: I'm asking a different question.

Senator Cormann: Can I please answer the question, Chair?

Senator KENEALLY: Well, you're not.

Senator Cormann: If you look at our performance against budget over the last three years, we have materially outperformed the budget forecasts at budget time, with the underlying cash balance materially better than at budget time, which means the government
net debt position is materially better than it otherwise would have been on the basis of our underlying cash balance performance. Of course, people across Australia know that they can trust us to manage the budget sensibly and credibly—

Senator KENEALLY: But Peter Costello doesn't.

Senator Cormann: whereas of course they know that, when Wayne Swan and the Labor Party were in government, at every budget and budget update they had to fess up to a further deterioration in the bottom line.

Senator KENEALLY: But Peter Costello doesn't trust you.

Senator Cormann: It's a free world. People are entitled to their opinions.

Senator KENEALLY: But his is a pretty significant one. Don't you think Liberal Party members pay attention to what Peter Costello has to say?

Senator Cormann: Again, he's entitled to his views. I don't agree with them.

Senator KENEALLY: He's not just a man on the street.

Senator Cormann: Well, our track record disproves what he has wrongly asserted.

Senator McALLISTER: How much time do we have?

CHAIR: One minute and nine seconds.

Senator McALLISTER: We might forgo our one minute.

CHAIR: Thank you.

Senator McALLISTER: Perhaps we could have some leeway at the end of the next 10 minutes.

CHAIR: You can have 11.

Senator SPENDER: I want to run through a couple of issues. You're establishing a centre for population. Is it going to look at the responsiveness of fertility rates to financial assistance?

Mr Gaetjens: The centre for population is basically being set up after a process of the Commonwealth engaging with the states to look at what the benefits of population are in terms of being a big factor in economic growth itself and also the challenges that come out and meeting the needs of the population.

Senator SPENDER: Is it just going to focus on immigration, or is it going to talk about—

Mr Gaetjens: No, it will focus on population, so the total population, non-domestic well as domestic. As I said, we were getting funded to establish that in 2019. We have been involved in discussions that led to the Prime Minister raising this with the states in COAG last year. We had one meeting of federal and state treasurers earlier this year, I think—again, this could be followed up with Fiscal Group with respect to the actual detail—and we will now be looking at issues. But we have started off two tracks of work already. I think one is looking at regional, and the other one just escapes me at the moment, but Fiscal Group will be able to go into it this afternoon.

Senator SPENDER: Okay, I'll take it up with Fiscal Group. This is more macro, probably. You can either correct my understanding here or, hopefully, talk to these things. I understand that your forecast period for real GDP is based on your 20-year average, but your
forecast period for nominal GDP is not. I also am of the understanding that you don't have a sensitivity analysis relating to these GDP forecasts presented in the budget, and therefore there's no consideration of the possibility of, for instance, the last decade's worth of averages being used to present a more pessimistic idea about how maybe we're in a changed world. There are a couple of related issues there, including the issue of real GDP versus nominal GDP forecast periods.

**Ms Quinn:** I'm happy to go through that. In terms of the first two forecast periods, we look at our best assessment of what's happening in the economy to get a forecast for GDP and similarly for nominal GDP—both real and nominal. Then, beyond the first two years of the forecast, we have projection methodology, which is underpinned by a 30-year average growth rate for productivity, then an assessment about what's happening with population, which is a detailed bottom-up assessment that joins recent trends with the *Intergenerational report* numbers, which are updated every five years, and then a participation rate as well. Then we add the productivity, the population and the participation together, and we get our GDP medium-term projections. Then, for the nominal GDP projections, we assume that domestic inflation is at the middle of the target band, and then we have the terms of trade flat at the level that they're at at the end of the forecast period. So nominal GDP is real GDP plus the inflation rate.

**Senator SPENDER:** What would seem to drive the distinction there is that your first two years of your terms-of-trade assumption have a winding down of the current levels of prices.

**Ms Quinn:** The terms of trade are projected to be flat, around the 2005 level, from 2022-23, so we do have an unwinding in the terms of trade in the forecast and then out to 2022-23 and then flat. We look at the level of the terms of trade for the medium term, using detailed cost curves for our major commodity exports and also what we think are the medium-term trends for international prices. We do an analysis each year to make sure that that assumption of the terms of trade going back to around the 2005 level is accurate, so that bottom-up analysis matches the top-down one.

**Senator SPENDER:** On the issue of sensitivity analysis, you mentioned a 30-year productivity assumption. Obviously there's literature saying that maybe that's a bit optimistic and we're in a different world, but you don't present any more pessimistic scenario on that.

**Ms Quinn:** We do have a sensitivity analysis looking at potential growth in statement 7, which looks at exactly this issue: if we thought the potential growth was higher or lower by a quarter percentage point, what would that mean for the overall fiscal aggregate? That sensitivity analysis is in this year's chapter 7.

**Senator SPENDER:** I'll have a look there. This is economic; you might say it's partly fiscal. There's increasing reference in budget documents to the distinction between economic parameters and non-economic parameters.

**Senator Cormann:** It has always been thus.

**Senator SPENDER:** However, there's no distinction presented as to which parameters you're counting as economic and which parameters you're counting as non-economic.

**Senator Cormann:** We can provide that to you on notice, but it's been a consistent approach all throughout. There's been no change in this budget. But I'm happy to provide you—
Senator SPENDER: If you could distinguish those—which you're treating as which. We can have a discussion about whether or not you've always presented your policy decisions on payments in the same way, but that's a separate matter.

CHAIR: Last question, Senator Spender.

Senator SPENDER: It's amazing that the first couple of dozen pages, at least, of your budget document don't mention the company tax rate. And then, when you were asked about what your silver bullet—in your language—about wages is, you made no reference to company tax cuts. Why is the government going quiet on company tax cuts when you've got analysts here who have provided work before, which you've published, talking about how company tax cuts are important for growing wages?

Senator Cormann: Indeed. My answer referred to our national economic plan, which of course includes our commitment to keep taxes across the economy low. That's why we've imposed on ourselves a cap of 23.9 per cent tax as a share of GDP, something that the Labor Party have refused to do. In fact, they've already announced $200 billion in higher taxes. In this parliament, when it comes to lowering taxes, we've obviously delivered $144 billion worth of income tax relief for working families, but on top of that we've also delivered a reduction in the corporate tax rate to 25 per cent for businesses with a turnover of up to $50 million per year, which is all that was achievable, I guess, through this parliament. I think that that's a matter of public record and history.

Since then we've made further decisions. Given that that was not able to be secured, we've made decisions to further expand the instant asset write-off, increasing it initially from $20,000 to $25,000 and in this budget to $30,000 per relevant investment and also expanding the threshold, in terms of the businesses that are eligible to participate, from $10 million in turnover to $50 million in turnover.

What I said to Senator Ketter by way of response is that you've got to look at our plan as a holistic plan across the board: lowering the tax burden to help strengthen economic growth, which in turn helps to drive stronger wages growth; giving better access for our exporting businesses to key markets around the world through our free trade agenda, free trade agreements with China, South Korea, Japan and Indonesia and the Trans-Pacific Partnership; investing in productivity-enhancing infrastructure—you name it. There are a whole series of components. What I said to him is that there's not one magic bullet that you can use.

The Labor Party is suggesting that the way to increase wages is to mandate a legislated increase in wages, which, of course, at the low-income end in particular, that would harm Australians because if you end up in the unemployment queue you don't get a minimum wage; you get the dole. Increasing the minimum wage by government legislation beyond what even the Fair Work Commission thinks independently is economically sensible would lead to higher unemployment. If you drive unemployment up, what that means is that, in aggregate across the economy, wages will end up lower than they otherwise would be.

Our economic plan across the board, including when it comes to tax policy settings, is designed to deliver stronger growth, more jobs, lower unemployment and, in the context of higher participation, over time, stronger wages growth as the excess supply in the labour market reduces; whereas the alternative, we would submit, of higher taxes and various other...
policy settings that would make us weaker as an economy would lead to fewer jobs, higher unemployment, less competition for workers and hence lower wages over time.

Senator SPENDER: Chair—

CHAIR: I will come back to you.

Senator SPENDER: can I just check. Questions on effective marginal tax rates should be directed to Revenue Group, not you guys?

Senator Cormann: Revenue Group, yes.

Senator McALLISTER: We were speaking earlier about migration and the reduction of the planning level from 190,000 to 160,000. I want to ask about the impact on employment because, despite the fact that the unemployment rate and the participation rate remain the same, employment growth appears to be stronger this year and next year. What's driving that, Ms Quinn?

Senator Cormann: Just conceptually—I will let Ms Quinn answer—obviously, in order to bring down the unemployment rate, you need to ensure that employment growth runs faster than population growth. That is the overarching point, but I'll let Ms Quinn go into the detail.

Ms Quinn: In 2018-19 we have seen strong employment growth, and the unemployment rate has drifted down, but it hasn't drifted down as much as the increase in employment, because we've had a lift in the participation rate—so the number of people that have come into the labour force. They have been in Australia, but they have come into the labour force. That's what's happened in the most recent period. We do expect population to grow about 1.7 per cent in the budget forecast period, based on demographic forces in Australia and the net overseas migration, which captures Australians going in and out and also visa processes. With the 1.7 per cent population growth and with our projected employment growth, we end up with a flat unemployment rate.

Senator McALLISTER: Yes. So the employment growth is to some extent dependent on the population growth?

Ms Quinn: In the longer term, yes. In the shorter term, the demand and supply of labour both go together, with the wage being the one that brings them together. In the longer term we think of the labour supply matching labour demand, with wages adjusting, but in the short term you can have gaps between those two as things work through the system.

Senator McALLISTER: The temporary migration projected in Budget Paper No. 3 represents a significant increase on the levels that were projected at the last budget on a year-by-year comparison, around 40,000 additional people. Does that impact on the strength of the employment numbers in this year, in 2020-21?

Ms Quinn: These numbers are provided to us by the Department of Home Affairs. As we understand it, a large part of the increase in the net overseas migration is overseas students. We have had a significant increase in overseas students come into our education system over this period. The implications for the labour market depend a little bit on the reason for the increase in net overseas migration. Those students have an ability to work but a restricted number of hours, so they would have less of an impact than, for example, an increase in net overseas migration because of a shift in the Australian balance or the New Zealand balance or other classes of visas.
Senator McALLISTER: What's the proportion roughly of that increase that is a student increase?

Ms Quinn: I believe the Department of Home Affairs said they would provide that information on notice. I don't have that.

Senator McALLISTER: But they've provided it to you, surely, because you were able to rely on that information in your answer just now.

Ms Quinn: We get an aggregate number and then a breakdown. I don't have those numbers with me. I'm happy to take it on notice and check.

Senator McALLISTER: I will make the point that I asked this same question of the Economic Division in Prime Minister and Cabinet. They took it on notice. It appears that Home Affairs took this breakdown on notice yesterday, and now you're taking it on notice, Ms Quinn. Minister, is there some problem with telling Australians what is going on in the temporary migration program? Why can't that be presented at these estimates? It's been asked three times in three separate—

Senator Cormann: It will be presented. You're asking for detailed information. Consistent with usual practice, including under your government, when detailed information is not at our fingertips in the form that's been requested—we will openly and transparently supply that information, as we always do—in order to ensure the accuracy of the information provided, we will take advantage of the opportunity that is afforded to us under standing orders to take the question on notice.

Senator McALLISTER: Minister, the change to what you're calling the 'planning level' in migration has been—you've made quite a song and dance about that publically.

Senator Cormann: That is your characterisation.

Senator McALLISTER: Yes, it is my characterisation.

Senator Cormann: It sounds like a political characterisation to me.

Senator McALLISTER: It is a political characterisation, and, indeed, you have sought to make a political big noise about it. Why is it that you can't present facts about the migration program in the estimates process in any one of the departments that I've referred to?

Senator Cormann: I completely reject the proposition that we're not presenting facts.

Senator McALLISTER: You're not presenting all that we're asking for.

Senator Cormann: First, all the relevant facts I would submit are actually in the budget papers. Second, we are here answering questions and we've provided the information that we're able to provide—

Senator KENEALLY: You're actually not.

Senator McALLISTER: I think that's a debatable point.

Senator Cormann: There is some further detail that you are interested in and, given our total commitment to openness and transparency, we will, of course, provide that information. You surely wouldn't criticise us for wanting to ensure that the information we provide to you is accurate. Given the level of detail involved, we will take the question on notice, as ministers in your government routinely did in these sorts of circumstances.
Senator McALLISTER: Ms Quinn, I think where we got to was you expressing some qualifications about the impact that temporary migration might have on employment where the temporary migration takes the form of the issuing of student visas.

Ms Quinn: We do know that there are different demands for employment from different categories of visa applicants, so it does depend on the changes. You can get an increase in net overseas migration because less Australians have left the country or more Australian citizens have returned. They have different access to the labour market than other visa categories.

Senator McALLISTER: You must have some visibility on what the present projections in Budget Paper No. 3 for net overseas migration actually mean for employment?

Ms Quinn: Between MYEFO and the budget: broadly unchanged.

Senator McALLISTER: They've changed reasonably significantly since the last budget. I accept your point that they may have been adjusted in MYEFO. Is that your point?

Ms Quinn: Yes.

Senator McALLISTER: What was the impact of that changing level of temporary migration on employment between the last budget and MYEFO?

Ms Quinn: Not a significant impact.

Senator McALLISTER: Given the potential for net overseas migration to have an impact on employment outcomes, is that because of the visa categories that were issued as part of that?

Ms Quinn: In part, yes.

Senator McALLISTER: What other dynamics might be relevant?

Ms Quinn: When we look at our labour-market projections, we look at the overall supply and demand. Another factor on the labour market has been the increase in participation domestically.

Senator McALLISTER: Sorry, I think we're talking about something different. I suppose I'm asking you: given that there was this increase in net overseas migration, is your proposition that that's not had any impact on employment—or marginal impact on employment?

Ms Quinn: Not a significant number overall. When we ran through the factors looking at the reason for changing the economic outlook between budget and MYEFO, we did see that there'd been an increase in net overseas migration. We did do some analysis on the impact, and it wasn't a significant part of the story—otherwise we would have mentioned it at the time of MYEFO.

Senator McALLISTER: Right. My question two clicks ago was: what dynamic is operating within the net overseas migration that produces this counterintuitive result?

Ms Quinn: It is related to the visa categories of immigration, yes.

Senator McALLISTER: Right. And is it related to students?

Ms Quinn: Yes, as we understand it from the information provided by the Department of Home Affairs.

CHAIR: You have about a minute and a half if you would like to carry over the same minute, Senator McAllister.
Senator McALLISTER: Perhaps I will. I will ask this quickly. There's obviously been some public discussion about the possibility that China may switch to more domestically supplied coal. Do you see this as a material risk for the economic outlook?

Mr Gaetjens: I would say a couple of things there. Australian coal, I think, is saleable across the world. So there are markets that are able to take it. There is also the fact that there has been a focus, I think, on thermal coal rather than metallurgical coal. We have certainly been discussing these issues with China. They have given their reasons for what is happening. And I think what we are trying to do is just, again, examine what is happening. We are obviously in our own conversations, but at the moment we do not see it as having a significant macroeconomic effect on Australia.

Senator McALLISTER: Thank you. More generally, would a severe slowdown in coal exports have a significant macroeconomic effect on Australia?

Mr Gaetjens: I think I would need to look at that in terms of, again, what is the definition of 'severe'. I'm not trying to have a semantic debate; it's just—

Senator McALLISTER: That's okay. I used your words so that you would be able to extend the point that you'd made already.

Mr Gaetjens: Again, I think what I'd say is that Australian coal is very high quality; it matches the needs of markets overseas, some better than others, and I think we would probably see the impact of a substitution effect before a deep impact on the economy, but it would be very difficult to go through hypotheticals to come to an answer.

Senator McALLISTER: I understand. Thank you.

CHAIR: I have a couple of follow-up questions to Senator Spender's questions, believe it or not, particularly about the new Centre for Population. Is that new centre going to be responsible for the Intergenerational report?

Mr Gaetjens: I think the new centre will actually look at probably more short-term impacts and what population levels are, both domestic and from overseas migration; what the needs are; the distribution between cities and areas; the distributions between states. Again, the state impact on population at the moment is very different. In Victoria, the population growth is well over two per cent, I think. In the other states I don't think it's as strong. The ACT is pretty strong too.

CHAIR: So it's not responsible for the Intergenerational report?

Ms Quinn: Treasury at the moment does put together demographic—the underpinnings for the Intergenerational report, drawing on information from across the Public Service, but—

CHAIR: I should know this, but when's the next Intergenerational report due?

Mr Gaetjens: 2020.

Ms Quinn: Yes. Every five years there is an update to the population projections going forward. That is based on, as I said, information drawn across, and that is put together in Treasury at the moment. These are things to be worked through with the centre being set up. But I'd envisage that the near-term implications for population, but also the longer term implications, would be part of the centre's work.
CHAIR: Will the Centre for Population inform things like GST distribution recommendations or will it inform things like infrastructure requirements of different states?

Ms Quinn: At the moment the population projections included in the budget do form the underpinnings for GST distributions to the states, in terms of expectations, and then the actual outcomes of population feed through the Grants Commission. The growth in population will affect demands for infrastructure. Working with the states, it is envisaged that the Centre for Population will bring together a holistic view from all the different states and the Commonwealth—the considered view from all of those parties for population growth for Australia. That's one main activity for the centre. The other main activity is to help devise a population strategy for the Commonwealth government.

CHAIR: And will the new Centre for Population inform labour projections as well, employment rates in various areas, where the demand for labour is—

Ms Quinn: That work is done in the department as it stands now. The centre is looking at the supply side, so the actual increase in the numbers of people and where they are, but obviously supply and demand go together over the longer term. So you do have to factor in the demand side as well. It might not be in the actual centre, but working with other parts of the department, as an integrated whole, to produce an overall outlook for the implications of population.

CHAIR: Will it look at things like the effect of policy decisions like free trade agreements, for instance, on population? I remember when we were in the midst of negotiating the China free trade agreement there was a somewhat ill-informed assertion that, potentially, the China free trade agreement would affect the job prospects of Australians, because the Chinese would take advantage of this and come to Australia and flood our job market.

Ms Quinn: Those sorts of things are more related to the work we already do in the department. The additional bit that the centre's looking at is pulling together a whole-of-country view on the population side and putting more information in the public domain. The population strategy would be an avenue for examining those sorts of things, but it might not be done exactly in the centre, because it's already done in the Australian government, in Treasury.

CHAIR: So, if there were a political request to assess whether there were particular labour demands in certain areas because of policies that were put together by either the government or the opposition of the day, that's something that the Centre for Population would look at? I'm not describing this very well.

Ms Quinn: No. It would work with other parts of the system to come up with a holistic view of the implications for changes in population of quite a few different policies.

CHAIR: If the former opposition leader for New South Wales, Michael Daley, came out and said something as ridiculous as, 'Chinese with PhDs are taking our jobs,' is that something that the Centre for Population would consider?

Ms Quinn: It would depend particularly on the policy issues going forward. But it is envisaged that the population strategy would talk about what the population implications were both for regions but also for economic growth.

CHAIR: Okay. Thank you. Senator Keneally.
Senator KENEALLY: I would like to ask questions about the government's Climate Solutions Package. Has Treasury done any modelling on the economic impact of that package?

Ms Quinn: The overall package policy issue is a matter for the Fiscal Group to talk about; they look at the environmental portfolio. In terms of the overall economic impact modelling, I'm not aware, but you can check with them.

Senator McALLISTER: Would not Macroeconomic Group have done that modelling?

Ms Quinn: Sometimes we do in-house modelling; other times we contribute to analysis to other departments, and sometimes that's by different parts of the department. Macroeconomic Group hasn't done anything specific on that package, but I don't want to speak for my colleagues in Fiscal Group—there might be something I'm unaware of.

Senator McALLISTER: So there's a possibility that Fiscal Group contributed to modelling the Climate Solutions Package?

Ms Quinn: There is a possibility yes.

Senator McALLISTER: You can't rule it in or out.

Ms Quinn: So just check with them.

Senator KETTER: Mr Gaetjens, are you aware of whether Fiscal Group has done modelling in this regard?

Mr Gaetjens: Again, I think the question should go to the group, in particular.

Senator Cormann: Of course, the lead department for this is in another portfolio.

Senator KENEALLY: I apologise: I just didn't hear Mr Gaetjens.

Senator Cormann: He referred to question to Fiscal Group.

Senator McALLISTER: But you haven't seen it, Mr Gaetjens?

Senator Cormann: The lead responsibility for this area is in a different portfolio. It's not in this portfolio.

Senator McALLISTER: Yes, sure, but I mean—

Senator KENEALLY: Which portfolio would that be?

Senator Cormann: Well, it's the portfolio for the environment, obviously.

Senator KENEALLY: I asked them yesterday and they said they hadn't done any economic modelling.

Senator Cormann: We obviously have done the modelling that is required in order to ensure we meet our emissions reductions targets by 2030, and you would be aware that when we came into government the Labor Party left behind a significant gap when it came to meeting the 2020 Kyoto emissions reduction target of 755 million tonnes of CO2.

Senator McALLISTER: That is nonsense!

Senator Cormann: We are now on track to exceed—

Senator KENEALLY: With the greatest respect, that wasn't my question—

Senator Cormann: the 2020 target by 367 million tonnes of CO2—
Senator KENEALLY: Have you done any modelling of the economic impact of your plan—

Senator Cormann: We have a plan to meet the 2030 target that we signed on to in Paris in a way that is environmentally effective and economically responsible.

Senator KENEALLY: If you're saying it is economically responsible, what modelling can you point to within the government that shows that?

Senator Cormann: You should direct those questions to Fiscal Group, as has been indicated to you.

Senator KENEALLY: So we're clear, the department of environment told me yesterday that they haven't done any economic modelling of the Climate Solutions Package. Mr Gaetjens is now referring to that Fiscal Group. Are they kind of our last hope that the government has done some economic modelling of its Climate Solutions Package or is there some other area to ask—

Senator Cormann: Our respective policy agendas will be there for all to see. Your reckless 45 per cent emissions reduction target, which would harm the economy, put jobs at risk and increase global emissions by shifting issues overseas—

Senator KENEALLY: How can you say that if you haven't even done modelling of your own policy?

Senator Cormann: There's been a lot of modelling done over the years. There's been some independent modelling done in more recent times on various policy scenarios, including some by Brian Fisher, which was very prominently reported in recent times—

Senator KENEALLY: Do you endorse Mr Fisher?

Senator Cormann: It's not our analysis; it's his analysis. But I have noted his analysis. It's just one of a number of pieces of analysis that is out in the public domain. I think it is one of a number of pieces of analysis that will help to inform public opinion.

Senator KENEALLY: Can you tell us what Dr Fisher's modelling says is the Australian carbon price in 2030 under the government's policy, including your use of Kyoto carryover credits?

Senator Cormann: It's not my work, so I'm not here to answer questions on it—

Senator KENEALLY: Without me asking you raised Brian Fisher, so I—

Senator Cormann: I referenced his work, which has been widely reported—

Senator KENEALLY: If you can't provide me with any economic modelling that your government has done, and you've raised an independent person, I would now like to ask you
to tell us what that independent modelling says is the Australian carbon price in 2030 under your policy—

**Senator Cormann:** Senator Keneally, that is actually not the way it works. Can I tell you how it works in the Senate? You've been here for a while now, so you should—

**Senator KENEALLY:** No. Please don't patronise me, minister, because you raised—

**Senator Cormann:** I will tell you how it works, because I used to chair a committee called the Senate fuel and energy committee, which among other things inquired into the Rudd government's carbon pollution reduction scheme—

**Senator KENEALLY:** Minister, you—

**Senator Cormann:** and in that context when you wanted to ask independent—

**Senator KENEALLY:** raised Brian Fisher. I didn't—

**Senator Cormann:** If we wanted to inquire—

**Senator KENEALLY:** You can't point to any economic modelling you've done—

**Senator Cormann:** and ask questions about independent analysis—we invited those people to appear in front of a committee. I have raised it. I would encourage you to invite him to a future Senate inquiry, if you want to, that is given the job to review the policy agenda that you are proposing to put forward, so that you can ask all of these questions about his work to him.

**Senator McALLISTER:** We're asking you about your policy—

**Senator KENEALLY:** We're asking you about your policy, which is the purpose of Senate estimates. Again, I have asked the department of environment. They have done no economic modelling and macro group has done no economic modelling. I accept that perhaps we can live in hope that Fiscal Group has done some, but you, Minister—not me—raised Brian Fisher, and pointed us to his modelling, so I am now asking you—

**Senator Cormann:** No. I've pointed you to Brian Fisher as one of the people that has put independent analysis out there, but I'm not—

**Senator KENEALLY:** He must make an impression on you. You raised him; not me.

**Senator Cormann:** going to be answering on his behalf. He's not a Treasury official—

**Senator KENEALLY:** If you don't have any Treasury modelling you can point to and if you don't have any department of environment modelling you can point to—you have raised Brian Fisher, can you tell us what his modelling say will be the Australian carbon price in 2030 under the government's policy, including the use of your Kyoto carryover credits?

**Senator Cormann:** I'm not going to answer questions on behalf of somebody who is not an official of the government.

**Senator KENEALLY:** Well, then, do you have an official in the government who's done any economic modelling—

**Senator Cormann:** We have referred you to Fiscal Group.

**Senator KENEALLY:** of your Climate Solutions Package?

**Senator Cormann:** We've referred you to Fiscal Group.

**Senator McALLISTER:** But they haven't spoken to Mr Gaetjens about their work.
Senator Cormann: You're just pursuing political—

Senator McALLISTER: Mr Gaetjens isn't aware of any work being undertaken.

Senator Cormann: We have referred you to Fiscal Group.

Senator KENEALLY: Well, Minister, I can tell you that Brian Fisher says it will be $92 per tonne. Do you stand by that?

Senator Cormann: I'm not standing by anything.

CHAIR: Senator Keneally, I'm not entirely sure these questions are appropriately directed to this minister or even this portfolio.

Senator KENEALLY: This minister raised this economic analysis.

Senator Cormann: I said there'd been a series of—

CHAIR: No, I think he referred you to an economic analysis. He didn't answer—

Senator KENEALLY: Why did he independently, and without my prompting, raise it and then refuse to answer questions?

CHAIR: Minister, perhaps you could confirm if this is an appropriate question for this committee.

Senator Cormann: No, I've already said—

Senator KENEALLY: My questions are utterly appropriate. I'm asking about the economic modelling—

Senator Cormann: several times that the appropriate group to ask these questions is Fiscal Group, and I'm not going to answer questions about the work. I've just referred to it as one of the pieces of work—

Senator KENEALLY: Have you read it?

Senator Cormann: That's been out in the public domain.

Senator KENEALLY: Have you read it?

Senator Cormann: I've read parts of it.

Senator KENEALLY: You've read parts of it! Have you read the parts that relate to your government's Climate Solutions Package?

Senator Cormann: This is not a matter for these estimates.

Senator KENEALLY: Minister, you raised it. I cannot keep coming back to this point more emphatically. You raised Brian Fisher.

CHAIR: Senator, I think the minister referred you to the report but didn't necessarily answer on behalf of Mr Fisher. I think that perhaps these questions are better addressed to a different committee and not this one. If you have questions that are appropriate for the economics committee—

CHAIR: Chair, through you, are we not we not allowed to pursue the minister's line of thinking and evidence he offers?

CHAIR: I think that the minister has answered your question.

Senator KENEALLY: He hasn't, actually. Minister, can you tell us what Dr Fisher's modelling says about the GDP impact of the government's policy by 2030?
Senator Cormann: I've referred you to the Fiscal Group in relation to all matters related to the climate change package of the government.

Senator KENEALLY: Are you aware that he says it will be $90 billion?

Senator Cormann: His report is on the public record, and it's one of a number of pieces of analysis that's out in the public record.

Senator KENEALLY: Can you tell us what the impact of the government's policy is on jobs, according to government modelling? Can you tell us that?

Senator Cormann: Well, I've already referred you to Fiscal Group.

Senator KENEALLY: Can you tell us what Dr Fisher says it will be?

Senator Cormann: I'll tell you what: the outcome of our policy on jobs will be better than the alternative because—

Senator KENEALLY: How do you know? You haven't done any modelling.

Senator Cormann: That is your assertion.

Senator KENEALLY: No, no—you can't produce any today.

Senator Cormann: Well, our modelling—

Senator KENEALLY: You cannot produce any modelling here today—

Senator Cormann: in terms of our economic growth forecast and our employment growth forecast—

Senator KENEALLY: of the Climate Solutions Package—

Senator Cormann: is reflected in the budget. And we have included all of the relevant and necessary information in terms of economic parameters, which includes employment parameters and forecasting assumptions around employment growth and wages growth and other such matters into our budget. What people across Australia know is that, having inherited a weakening economy, rising unemployment and a rapidly deteriorating budget position from Labor, we are now in a stronger position, with a stronger outlook, with stronger jobs growth, with a stronger and improving budget position.

Senator KENEALLY: Minister, these are all words unless you can point to some modelling.

Senator Cormann: That is our track record and that is also because we have taken a more sensible approach to environmental policy than that which was pursued by the Rudd and Gillard Labor governments—

Senator KENEALLY: You must be really hoping Fiscal Group has done some modelling.

Senator Cormann: and which as been widely discredited since then.

Senator KETTER: Before we finish, can I confirm, Mr Gaetjens, that you are not aware whether or not Fiscal Group has done modelling in relation to the government's Climate Solutions Package.

Mr Gaetjens: No, I said I'd refer the issue to that group.

Senator KETTER: But I'm asking you: are you aware of whether—

Senator Cormann: I think he's answered that question.
Senator KETTER: No, I'm asking: are you aware—

Senator Cormann: He has referred the question to the Fiscal Group.

Senator KETTER: You should be able to tell us yes or no—

Senator Cormann: Well, all the necessary modelling had been done for the purposes of preparing the budget papers, and the group within Treasury that is responsible for this type of modelling is Fiscal Group—

CHAIR: They'll be appearing after the break.

Senator Cormann: which will be appearing after the break—there you go.

Senator McALLISTER: Historically it's Macro Group but, you know, whatever.

CHAIR: May I ask one more round of questions about housing, in particular. Obviously supply is an important factor in the housing market. I'm wondering whether Treasury can describe the pipeline of dwellings/projects under construction in Australia at the moment?

Dr Grant: You are right. In budget statement 2, we outline the near-term forecast for the housing market. There still remains a fairly solid pipeline of investment in the residential construction sector. However, we have seen a fall in building approvals since 2017. We expect that to start to come through in the dwelling investment forecast in 2019-20 and 2020-21. We have dwelling investment falling in those two forecast years.

CHAIR: Obviously house prices have fallen quite significantly in some markets, and I know that, although we have AAA credit ratings from Standard & Poor's and from Moody's and from Fitch, a number of those agencies have identified that the housing market poses a significant risk to the economy. Is that something that Treasury would agree with?

Dr Grant: Yes. You can see in statement 2 that the housing market is listed as an uncertainty for the domestic outlook. In terms of how significant that risk is, there is a box in statement 2 that shows that, while the magnitude is fairly difficult to estimate, it's not huge in terms of what you would expect from a significant house price fall. But, yes, there is uncertainty at the moment around the outlook for the housing market, because of housing prices.

CHAIR: Have the changes to APRA's lending standards, particularly the macroprudential measures announced in March last year, had an effect on the housing market and house prices generally?

Dr Grant: It has been one of the factors. It's the case that the prices in the housing market are being affected by both supply and demand at the moment. Significant supply is coming online after large amounts of investment in previous years. We are also seeing some factors on the demand side. There has been some tightening in credit conditions, including from macroprudential measures that have been very much targeted at increasing the quality of lending.

CHAIR: Do you differentiate between investment lending growth and owner-occupied lending growth and the effects of those changes on those two segments?

Dr Grant: The way we look at it is to separate it between the detached housing market versus the medium to high density market, rather than the investor and owner-occupied sectors of the market. Of course, you have a higher proportion of the investor market in the medium-to-high density market. The reason we have to differentiate is that there's very
different time lags between building a house and building some of these high-rise apartments. So we look at the approvals from that perspective rather than an investor or owner-occupier perspective.

CHAIR: Is the data on foreign investment in housing something that Treasury has access to?

Dr Grant: The Foreign Investment Review Board do put out a report, and they include some information around foreign investment in the housing market. The quality of that data and consideration of mapping that data into the macro forecast is very difficult, but of course we look at that data and we consider what we're seeing from the foreign investment data in the housing market.

CHAIR: Obviously the concern over a number of years has been housing affordability. While house prices have come back considerably, we don't want to see a crash in the market. That could possibly be the worst thing for the economy. Have you tracked first home buyers as a share of the market compared to recently?

Dr Grant: Yes. I don't have the exact numbers in front of me, but the share of first home buyers in the market has been increasing.

CHAIR: Increasing? Well, that's good. Since when? It's been increasing for how long, do you know?

Dr Grant: I don't have the exact numbers, but it is over the last little while. It's a fairly significant increase.

CHAIR: Thank you.

Ms Quinn: Senator, that goes back to your question about investor loans. We have seen a slowing in investment purchases of housing and a rise in homeowners. Those two trends are going in opposite directions.

CHAIR: Obviously we've been speaking about housing affordability for a number of years. We know that there is no one-size-fits-all approach that is appropriate for housing, because of the different markets. The Sydney and Melbourne markets have experienced considerable rises but they've also come back a significant way. Do Treasury have a forecast as to where they see the housing markets, particularly in Sydney and Melbourne, landing in the short to medium term?

Ms Quinn: As we've discussed in previous evidence before this committee, we don't specifically forecast house prices as such, because they're an asset price. What we look at is the underlying production in the economy, so we do look at house prices in the sense of: what's the price of a new building or a new apartment? We don't forecast asset prices, such as equity prices or house prices, in the macroeconomic outlook, but we have seen a significant increase in supply and we've seen a softening in demand. Exactly what happens is going to be up to the market to decide.

CHAIR: A significant shock to the housing market, though, is a risk to economic prosperity?

Ms Quinn: As Dr Grant mentioned, we have put a box in statement 2 this year to talk through the implications in the near term of a reduction in demand for housing and what it might mean for the overall economy.
CHAIR: A reduction in demand that might occur from a change in the tax regime, for instance?

Ms Quinn: It could occur for a number of reasons.

CHAIR: Senator Keneally?

Senator KENEALLY: We're trying to determine, Chair, where we were up to in relation to—

CHAIR: We have 10 more minutes and then we're going for a break. Senator Storer and Senator Spender, do you have extra questions for these groups?

Senator KETTER: We would like to keep going.

CHAIR: Yes, absolutely. So you need this group to come back after the break, because I do know that both the secretary and the minister need to go at the break.

Senator STORER: I have some questions for the minister. They're very short.

CHAIR: All right.

Senator Cormann: We're still breaking at 11.15?

CHAIR: We're still breaking at 11.15. We just have to come back with another minister.

Senator STORER: My questions will maybe take couple of minutes.

CHAIR: All right. We will let Senator Keneally go for 10 minutes.

Senator KETTER: I will ask my questions and then Senator Keneally would like to ask questions. I just want to go back to that issue of the modelling of the government's Climate Solutions Package and an explanation as to why the macro group hasn't been involved in doing the modelling for this and it has been left to fiscal, because that seems unusual.

Ms Quinn: All known government policies are included in our economic forecasts.

Senator KETTER: Could you repeat that, please?

Ms Quinn: The economic forecasts include the economic implications of all known government policies. That's the standard practice. The economic forecasts do include all announced government policies and all known government policies. I thought the question earlier was about whether there was a specific, targeted, full dynamic scoring type analysis of the government's package, and we haven't been involved in such a thing. If Treasury were involved, it would be usual for some members of macro group to be involved in that, but I didn't want to speak definitively because our fiscal colleagues are often involved in whole-of-government approaches and analysis that is done by other agencies—and I'm not aware of any specific work that they would be. If Treasury were doing economic modelling then the Macroeconomic Group would be involved in it. But the question was: had there been any modelling done by government, and I don't know the answer to that.

Ms Quinn: Not specific dynamic scoring, but we have included the economic implications of the package in the forecast.

Senator Cormann: That is the important point. This is the key point: the economic effect and the economic impact of all known government policies, including the climate change package, are reflected in the economic forecasting assumptions underpinning the budget—so,
into our economic growth forecasts, our employment growth forecasts and all of the other relevant parameters that are reflected in the budget and underpinning our forecasting assumptions.

Senator KETTER: What does that modelling look like, Ms Quinn?

Senator Cormann: This is obviously part of the budget process and the deliberative processes of cabinet, but the area of Treasury that should be asked these questions is the Fiscal Group, as we've now said on a number of occasions.

Senator KETTER: But macro has done some work in this regard, and we're simply asking: what work has been done?

Ms Quinn: We've incorporated all known government policies into the economic forecasts. That's what we've done.

Senator KENEALLY: In order to do that, it presupposes that somewhere, somebody did some kind of modelling on the Climate Solutions policy package on things like impact on wages, employment, consumption. Would that be the type of modelling that feeds into the overall budget? Is that what you're speaking about?

Ms Quinn: It depends on the size of the overall policy package and the implication of how much we individually identify versus put packages together. So we go through a process of looking at the list of the hundreds of measures that are in the budget. We identify what implications they have for overall government spending. We look at the tax side as well, and so we go through that. Whether any individual package gets the sort of Rolls Royce treatment, so to speak, of individual modelling is based on the overall priority and implications for the economy. I'm not aware that we did a specific, separately-identified analysis of this package, as we did not for any other package. The main implications we looked at this time were the tax rates, which were the largest implications for the macro economy in this forecast period.

Senator KENEALLY: Thank you very much, Ms Quinn. Mr Gaetjens, is Treasury undertaking modelling on Labor's Climate Change Action Plan?

Mr Gaetjens: Not that I'm aware of. It's not government policy, so I don't think we'd be working on it.

Senator McALLISTER: Not elements of it? The extension of the safeguard mechanism and the ability of companies to earn or sell permits if they've met below baselines—are they being modelled, Mr Gaetjens?

Mr Gaetjens: Not to my knowledge, no.

Senator McALLISTER: You haven't been asked about the impact of the inclusion of international permits?

Mr Gaetjens: No.

Ms Quinn: We may well have been asked that in a policy sense, as part of the overall policy. Certainly, we've had that question in the past.

Senator McALLISTER: It's a specific question about modelling the impact of those kinds of things. In the past you've said, 'We don't model Labor policies but sometimes model policies that are provided to us by the minister's office, and they may resemble Labor policies.' So I'm trying to ascertain whether or not you are modelling things which will subsequently be represented as Labor policies, because that's been a practice in recent months.
Ms Quinn: Macroeconomic Group has not been asked anything like that.

Senator KENEALLY: How about a 50 per cent electrical vehicles target by 2030? Have you done any modelling of that?

Mr Gaetjens: No.

Senator KENEALLY: That's also part of the government's Climate Solutions Package. The Department of Environment confirmed that yesterday: that a 50 per cent electrical vehicle policy by 2030—where 50 per cent of all new car sales would be electric by 2030—is part of the government's package as well.

Senator Cormann: Questions on the Climate Change Package should go to the environment portfolio and/or to Fiscal Group.

Senator KENEALLY: They did yesterday. They said they hadn't done any and suggested we speak to you.

Senator Cormann: 2030 is outside even the medium-term projection period.

Senator KENEALLY: It is in your climate solutions policy, though.

Senator Cormann: The questions are either for environment or Fiscal Group, and that's been made very clear for some time now.

Senator KENEALLY: Alright. What about a more robust land offset market or land clearing restrictions? Mr Gaetjens, has Treasury been asked by the government to model any of those—the economic impacts of those policies?

Mr Gaetjens: Not that I'm aware of.

Ms Quinn: I'm not aware of any analysis like that.

Senator KENEALLY: Or a $5 billion energy security and modernisation fund—that is, loans and equity to support financing of transmission infrastructure assets?

Ms Quinn: That is a question for Fiscal Policy, who would have provided policy advice on those matters, to the extent that they're government policy.

Senator McALLISTER: But it's not something you've been asked to look at, Mr Gaetjens?

Mr Gaetjens: No.

Senator KENEALLY: Thank you.

Senator STORER: Minister, yesterday you very kindly said that you were happy to answer questions regarding meetings that you've held. I believe that transparency of meetings you've held with lobbyists, both in-house and third-party lobbyists, is quite important in terms of your role as Minister for Finance. Would you be able to provide, on notice, a list of both in-house and third-party lobbyists that you have met with since the start of this year?

Senator Cormann: I'll take that on notice.

Senator STORER: Secondly, the petroleum resource rent tax is only 0.25 per cent of overall receipts. It's $1.16 billion. It's forecast to just be $1.4 billion continually over the forward estimates, which is an interesting forecast. The Henry tax review in 2010 identified that this tax was very low in terms of its required reform:
... it fails to collect an appropriate and constant share of resource rents from successful projects due to uplift rates that over-compensate successful investors for the deferral of PRRT deductions.

You became finance minister in 2013, but it was only in 2016 that the Callaghan report commenced, and it is only now in 2019 that we have just passed a revision to the PRRT. Is it not the case that this very, very low revenue stream shows that this is one of the most egregious tax rorts in our Australian tax code and there should be further review of this?

**Senator Cormann:** The answer to that is no. The first thing to remember is that the petroleum resource rent tax was designed initially by the Hawke government, when Paul Keating was the Treasurer.

**Senator Storer:** Yes.

**Senator Cormann:** It's designed as a superprofits tax.

**Senator Storer:** Yes.

**Senator Cormann:** You are right: we did initiate the Callaghan review, which made certain recommendations, and we have—actually this week—legislated through the parliament reform to the PRRT arrangements, which, at the time when we made the decision, was expected to deliver about $6 billion additional over the medium term—nothing, at that time, over the forward estimates but, over the medium term, about $6 billion in additional revenue.

**Senator Storer:** Yes.

**Senator Cormann:** With these sorts of matters, it is always important to make decisions carefully, because these projects that pay petroleum resource rent tax are very capital intensive. There's a very high level of investment. In order to ensure that we can continue to attract investment into these sorts of capital-intensive projects into the future, making sure that people can have confidence in the stability of our relevant tax policy settings—including, obviously, not pursuing retrospective changes to taxation—is a very important element of how we approach these things. It was very important to have the review and to make these judgements sensibly, and we have.

**Senator Ketter:** Can I just check: is Mr Gaetjens coming back?

**Chair:** No, Mr Gaetjens is going at the break as well, I believe. But we can return with Macroeconomic Group if you wish.

**Senator Ketter:** Just before you go then, Mr Gaetjens, are there any aspects of my letter to which you are able to table written responses to us today, or will some of your officers be in a position to provide written responses?

**Mr Gaetjens:** As I said, we are currently working on this. All I want to do is make sure that we can provide as much as we can as soon as we can, so we are hoping to get some of that, at least, to you today.

**Senator Ketter:** Thank you.

**Chair:** The committee will now break for 15 minutes for morning tea. Thank you, Minister. Thank you, Mr Gaetjens.

**Proceedings suspended from 11:17 to 11:31**

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ECONOMICS LEGISLATION COMMITTEE
CHAIR: The committee will now resume. I welcome to the desk Senator the Hon. Zed Seselja, Assistant Minister for Treasury and Finance, representing the Treasurer. We will resume with the macroeconomics and corporate group. Senator Ketter?

Senator KETTER: Thank you very much. I return to my letter to see about Mr Gaetjens's response in respect of the sixth and seventh dot points in my letter. These are macro responsibilities and haven't normally been provided, but I'm going to press the issue, Ms Quinn. Are you able to provide those figures for us?

Ms Quinn: As Secretary Gaetjens mentioned earlier, the medium-term projection levels of nominal GDP are not published in the budget. However, from 2023-24 to 2025-26, real GDP is assumed to grow faster than potential, at three, as identified in the budget, as spare capacity is absorbed. As prices are assumed to grow at 2½ per cent and terms of trade settle to its long-run level, nominal GDP growth is expected to grow around 5½. That is expected to go forward over time. As prices grow and we have other implications on the supply side, GDP goes back to its potential rate of 2¼, and we expect nominal GDP to grow at 5¼. So it's 5½ at the start and 5¼ from there going forward. They are the growth rates that underpin the medium-term projections for nominal GDP. As for national growth—

Senator KETTER: Can I just stop you there for a second. I'm after the value and percentage change by year over the medium term. Are you able to provide that?

Ms Quinn: That's right. I've just read them out. They're published in the budget. From 2023-24 to 2025-26 we have 5½, and from 2026-27 onwards, it's expected to grow at 5¼.

Senator KETTER: And the GNI?

Ms Quinn: We do not project or produce projections for real gross national income over the medium term. It's not something we're required to do as part of the overall medium-term analysis. We would expect nominal GNI to grow at around the same rate as nominal GDP because we wouldn't make any assumptions about the depreciation, which is the element between those two numbers.

Senator KETTER: Thank you for that. Mr Flavel, I think you might be able to help with the questions relating to the total expenditure on advertising and information campaigns in the current financial year.

Mr Flavel: Yes. I will just run through those dot points in order, if that's fine. On dot point 9, total expenditure on advertising, as at 18 March 2019—that's the latest date we had available—the total amount was $4,321,612.

Senator KETTER: All right. The next one?

Mr Flavel: The next question is about an itemised list of all campaigns and the funds attributed. There has been just one campaign in the current financial year, the Better Tax campaign, and the government allocated a total funding envelope of $24.2 million for that campaign.

Senator KETTER: How much of that has been spent?

Mr Flavel: That was that figure I referred to in the answer to the ninth dot point—the $4.3 million figure.

Senator KETTER: Can you provide us with departmental expenditure on advertising and information campaigns. You say there is only one campaign for the whole of 2018-19?
Mr Flavel: That's correct. For the current financial year, there is just the Better Tax campaign.

Senator KETTER: The total funding there is $24.2 million.

Mr Flavel: Yes.

Senator KETTER: Do you have any advertising or information campaigns planned for the rest of this financial year?

Mr Flavel: No. There are no other campaigns planned for the current financial year.

Senator KETTER: So that's the eleventh dot point. I now go to AusTender contract notice numbers.

Mr Flavel: You asked me some similar questions at the additional estimates hearings back in February and we provided a written response to a question on notice that outlined those. I can run through them again. I think it is question No. 60 where we have outlined the individual contract numbers from AusTender in relation to the Better Tax campaign and the component parts.

Senator KETTER: Okay, that disposes of that. So that was the only advertising and information campaign contract for the 2018-19 financial year?

Mr Flavel: That's right. The Better Tax campaign was the only campaign for the current financial year.

Senator KETTER: That takes us to housing, and I think Senator McAllister has an interest in that issue.

Senator McALLISTER: There was obviously something of a discussion about housing earlier while Mr Gaetjens was here, but can you explain what is driving the tighter credit conditions that Treasury highlights as a factor in driving lower prices?

Ms Quinn: Some of the elements that have been referred to come under the broad heading of macroprudential policies. APRA, as the agency responsible for financial stability, implemented a cap on investment loans at 10 per cent. They also released guidance to banks on prudential lending requirements. That includes a buffer on the assessment for serviceability of loans. So if someone applies for a loan and the current interest rate is, say, five per cent, there needs to be an assessment of their ability to pay with an additional buffer above that. There are other requirements detailed about which our Financial System Division, in Markets Group, can give you more details. The other thing that happened is that the operation of the responsible lending obligations and enforcement action and processes were reviewed by ASIC to make sure responsible lending was being operated effectively in the banks. That is another element.

All of that has led to increased scrutiny of applications for loans through the banking system. Some of that will have resolved in a slowing down in the pipeline for approvals, but not necessarily a change in the overall volume of approvals. So there is an adjustment phase as the system adjusts, but we should be getting to the end of that now. So it will become clear in the near term how much the credit tightening has been as a result of macroprudential change in the level versus just the timing of when approvals come through. Overall, the assessment is that that is only one component that is affecting demand. The underlying demand for housing is a function of population growth, household formation, the overall
income and prospects for future income of people wanting to buy a house—that's on the demand side—and, on the supply side, the overall number of household units that are being produced. And, as Dr Grant said earlier, in particular markets such as Sydney, Brisbane and Victoria, there's been a significant increase in the volume of houses and apartments, high-density building, that have actually been built. So there's been a big increase in supply, because there had been a gap between supply and demand with supply not keeping up with demand for a period, which was underlying the increase in house prices.

Senator McALLISTER: Just going back to the APRA regulatory measures, would we describe those as government policy?

Ms Quinn: There are regulatory actions taken by independent regulators who are given the objective of financial stability, so they're decisions by the independent regulator.

Senator McALLISTER: Are you anticipating that prices will fall further, given the credit environment?

Ms Quinn: As I mentioned earlier, we don't have a specific house price forecast sense of asset prices, and so we don't have a specific view. We look at what the implications currently are of the housing market, and we look at the implications for the building of houses, such as dwelling investment, which we expect to fall but remain at a high level over the next two years.

Senator McALLISTER: Finally, what are the relevant policy settings that government has in place to improve the current credit environment?

Ms Quinn: These are questions I urge you to direct to our Markets Group. There are some government policies, such as the securitisation fund, small business securitisation fund and other things such as that, but our Markets Group colleagues would be better able to talk to those in detail.

Senator SPENDER: I just want to ask about the PBO's paper Australia's ageing population: understanding the fiscal impacts over the next decade. Ms Quinn, are you familiar with that publication?

Ms Quinn: I have looked at the publication, but questions of that nature are best directed to our Fiscal Group colleagues, who look at the fiscal implications of the ageing of the population.

Senator KENEALLY: I want to ask some questions about bond yields and market expectations for the future state of the economy. What are Treasury's views on bond yield changes recently and increasing market expectation of cash rate reductions by the RBA?

Ms Quinn: As you know, the Reserve Bank's an independent body that sets interest rates. We look at what's happening in the market and we provide advice on the implications of that, and what's happening to the bond yields going forward is encapsulated in our forecasts. So we capture all that information, in terms of our overall aggregate outlook for the economy. The low bond rates in recent times obviously are supportive of growth, to the extent they get passed through to market rates. And, looking forward, the balance of the bond market is obviously making its assessment of the implications of inflation and aggregate demand over time.
Senator KENEALLY: Can you give us a broader view than that? I understand how the process works. Are you able to speak more broadly about the bond yield changes recently and how you see that impacting the increasing market expectations of cash rate reductions by the RBA?

Ms Quinn: The bond yield falling has an implication for the broader interest rate market. They feed through the market rates, as determined by the financial institutions that do the lending. So, overall, the market is expecting interest rates to be lower in future. Whether they are or aren't is a matter for the Reserve Bank.

Senator KENEALLY: What I'm trying to get to is: is that normally a sign that the market is expecting the economy to weaken?

Ms Quinn: It's usually around the outlook for inflation more specifically, and you can have inflation moving for demand or supply side conditions.

Senator KENEALLY: You would reject that it's normally a sign that the market's expecting the economy to weaken?

Ms Quinn: More specifically, bond yields are related to the outlook for inflation. That's what matters: the overall growth in prices. And you can have prices shifting for supply or demand side implications.

Senator KENEALLY: Let me put it this way. How is the declining bond yield consistent with the Treasurer's language about the budget being back in black and Australia being back on track? We have a circumstance that I would argue does indicate a weakening economy that is not back on track.

Ms Quinn: We are expecting the economy to grow below potential in this financial year at 2¼ per cent. As I mentioned earlier, there are some temporary factors that we expect to unwind going forward. The drought is one of them and there are other implications in there as well affecting the growth rate, and once that goes through, we would expect the economy to return to around potential. That is what we're expecting in the forecast. That's off the back of an increase in investment, continued growth in exports and modest growth in consumption continuing. And they're factors that we have in the forecast, and that—

Senator KENEALLY: And growth in wages as well?

Ms Quinn: As increase in aggregate demand continues to pull people into the labour market, we are expecting wages to continue their current path of increasing. So, as Secretary Gaetjens mentioned earlier, wages have picked up in recent times, off a very low base, and we are expecting that current trend to continue.

Senator KENEALLY: What about household debt and household spending? Right now, we have household debt at record highs and household spending is slowing.

Ms Quinn: Household spending has been modest. We do have very low interest rates at the moment. That's supporting overall household expenditure. We've seen a reduction in the household savings rate in recent times, although it increased more recently in December. We're expecting the savings rate to stay around where it is now, over the forecast period. So, we expect the increase in consumption to be supported by continued growth in employment and a modest pick-up in wages.
Senator KENEALLY: How is an increased personal income tax cut for high-income earners consistent with the situation where we've got a budget facing some headwinds, the market pricing of bonds is low and we aren't seeing a significant uptake in wages forecast? How does it help the economy to provide a tax cut to high-income earners in that circumstance?

Ms Quinn: So, in the near term, as I understand it, the reduction in tax take is actually at the lower- and middle-income areas, and that is taken into account in our forecasts. It will be supportive of consumption in the forecast period, and we've incorporated that into the near-term forecasts.

Senator KENEALLY: So you're banking on consumption increasing?

Ms Quinn: We are expecting consumption to grow over the forecast period, and those numbers are in the budget.

Senator KENEALLY: As a result of income tax cuts to high-income earners?

Ms Quinn: It's partly as a result of the income tax, but also strong employment growth that we've seen in the recent period, modest pick-up in wages, low interest rates, continued increase in prices for commodities, resulting in increases in nominal income across the economy: the usual factors affecting consumption. We do have headwinds from falls in house prices in recent times, and that's also encapsulated in our outlook for the consumption forecast.

Senator KENEALLY: Can you also see economic growth come from larger income tax cuts to people on the lower end of the income scale?

Ms Quinn: We do look at the distribution of income in the economy, and it is the case that people who have got lower incomes typically save less out of their incomes. So any increase in their incomes would have a relatively larger impact on consumption for the lower- and middle-income components.

Senator KENEALLY: Yes. Thank you. Actually, can I just ask one last question—I apologise? Just to come back to the income tax cuts for the people in the higher income scale, you mentioned those as part of the forecast that you've done in order to project a growth in consumption. Isn't it the case that those income tax cuts are some years away yet though?

Ms Quinn: That's right. We take into account the changes in taxes in 2018-19, 2019-20 and 2020-21 into the forecasts. Any changes to policy in the outer years we don't take explicit impact in because we use a projection methodology as outlined in the paper released earlier, which is about the economy returning to trend in different ways.

Senator KENEALLY: Thank you. That's helpful.

CHAIR: Thank you. We will let macro group and corporate to go. We will invite Fiscal Group to join us. Welcome to the Fiscal Group. We might kick off questions with Senator Keneally.

Senator KENEALLY: Thank you, all, for coming today. May I turn to a line of questioning that Minister Cormann recommended we raise with Fiscal Group? So have you—

CHAIR: Didn't you raise it with macro?
Senator KENEALLY: No. Minister Cormann suggested I raise these questions with Fiscal Group. Has Fiscal Group done any modelling on the economic impacts of the government's Climate Solutions Package?

Mr Atkinson: We've done no specific modelling of that package, but any economic effects, as my colleague said, were reflected through the normal budget modelling process.

Senator KENEALLY: So, if I can unpack that in a minute, Mr Atkinson. You've done no specific modelling of the economic impacts of the Climate Solutions Package, but it has fed into the overall budget?

Mr Atkinson: Correct, Senator.

Senator KENEALLY: So how has that happened because I haven't found anyone yet who's done any modelling at all of the economic impacts of the Climate Solutions Package?

Mr Atkinson: As my colleague Ms Quinn was saying, in putting together the budget forecast, Macroeconomic Group look across all of the government policy decisions and, where there are material impacts, they take those into account, as she articulated with respect to the tax packages.

Senator KETTER: But they haven't done any modelling, and you're ever telling us you haven't done any modelling. That's fairly extraordinary—

Senator KENEALLY: And the Department of Environment tells me they haven't done any modelling. So are you trying to say that perhaps the Climate Solutions Package doesn't have a notable impact on the economy?

Mr Atkinson: I'm sorry to say this, but that is a question for Macroeconomic Group. We haven't done the modelling.

Senator KENEALLY: You haven't done the modelling? The question of whether or not it has an impact would be a question for Macro Group?

Mr Atkinson: Yes.

Senator KENEALLY: How convenient! Who decides, then? Is it Macro Group that decides whether a policy gets modelled for its economic impact.

Mr Atkinson: Macroeconomic Group decides which government decisions are material to its forecasts.

Senator KENEALLY: So they make that decision, and then what? Do they ask you to do the modelling?

Mr Atkinson: In the ordinary course of events they would do that.

Senator KENEALLY: So I'm just a little confused as to how we have gotten to a point in government—and perhaps it's not fair to ask you, Mr Atkinson—where we have a Climate Solutions Package delivered by the government, which results in over 200 megatonnes of carbon abatement to 2030, and nobody's modelled the impact of that on the economy. I understand you probably can't answer that question. Minister, can you answer that question? Why hasn't the government modelled the economic impact of its Climate Solutions Package, which, as I said, takes some 200 megatonnes of carbon emissions out by 2030?

Senator Seselja: I don't have anything to add to what Mr Atkinson's provided to date.
Senator KENEALLY: Has Fiscal Group done any modelling of any Labor climate policies? Have you been asked by government to do that?

Mr Atkinson: No.

Senator KENEALLY: So no-one's modelled it? All right. That makes that easy. Minister Cormann held out great hope that Fiscal Group had modelled it.

Senator KETTER: What can we infer from the fact that there's no modelling anywhere? That indicates that there's almost a studious avoidance of looking at the economic impacts of a fairly significant government program. What inference can we draw from that?

Mr Atkinson: I'm not in a position to speculate about what inferences can be drawn from the approach to this policy, which actually is a matter for the department of the environment.

Senator KETTER: But the economic consequences of a policy are a matter for Treasury.

Mr Atkinson: Yes, and any economic implications of this were taken into account by Macroeconomic Group in the budget forecasting round.

Senator KETTER: Fine, but they have told us they haven't done any modelling, and they've moved off. Now we're stuck with you, and you're telling us you've done nothing to that effect.

Senator KENEALLY: They've passed the football to you.

Senator McALLISTER: As I understand it, your function in Fiscal Group is to work with the other line agencies and understand the impact of their programs on the budget, which presumably means providing some kind of guidance and advice to those organisations, when they're developing those policies, about the kinds of analysis that ought to have been undertaken. Did you ever advise the department of the environment that they ought to undertake modelling to cost the Climate Solutions Package?

Mr Atkinson: In the ordinary course of ERC and budget considerations, we provide advice into government, into those cabinet processes, and we work with our colleagues in the department of the environment closely on that. I don't know whether Mr McDonald can add anything about discussions around that, but the nature of the advice to government obviously is not something we can talk about. But there may have been some further conversations.

Senator McALLISTER: Perhaps, Mr McDonald, you could answer that. You might just tell us what the organisational arrangements were for the development of the Climate Solutions Package. Was it done as a standalone thing, in the department of the environment, or was Treasury involved in some sort of cross-government—

Mr McDonald: The Climate Solutions Package was developed through cabinet processes, similar to the other items that appear in the budget. We worked with our colleagues over at the Department of Environment and Energy. They led on the development of it, but we worked with them in the development of that. We worked with our other colleagues across the central agencies, especially, in the development of that and it went through the normal cabinet processes. We provided advice as part of that.

Senator McALLISTER: Was there a formal working group or was it just informal conversations between the central agencies in the department of environment?

Mr McDonald: There wasn't, to my memory, a formal task force, but we talk a lot.
Senator McALLISTER: For completeness, when you speak of the central agencies, you're talking about Prime Minister and Cabinet and the Department of Finance?

Mr McDonald: Yes.

Senator McALLISTER: Which division in the Department of Prime Minister and Cabinet was responsible?

Mr McDonald: There's an equivalent division in the Department of Prime Minister and Cabinet to my division that looks at industry and energy policy.

Senator McALLISTER: So it wasn't the economics division, it was the—

Mr McDonald: No, it's a similar structure, in terms of—

Senator McALLISTER: Okay.

Senator KETTER: The question of whether modelling should be done on the government's policy, was that a matter for discussion at this group you're talking about?

Mr McDonald: I'm not at liberty to talk about the advice that gets provided as part of these processes.

Senator McALLISTER: It's not really advice, is it?

Senator KETTER: It's a question about, 'Did you discuss at your central agency meeting', cross-agency coordination group or whatever you want to call it, 'Was that question of modelling discussed at that level?'

Mr Atkinson: The inputs into the cabinet processes and the approach to those, we don't usually talk about. Those conversations were central to forming the cabinet consideration.

Senator KETTER: We're not asking about the advice you gave to cabinet, we're asking whether the issue was discussed.

Mr Atkinson: Your question goes to the structure of the advice we provide. We can take on notice whether there was any conversation around that.

Senator KENEALLY: Minister, I might put this to you. The government's Climate Solutions Package projects that by 2030 energy efficiency will remove 63 megatonnes from the air. Twenty-five megatonnes will be taken out by Battery of the Nation and 10 megatonnes will be taken out by electric vehicles, with a 25 to 50 per cent electric vehicle target, and 100 megatonnes through technological improvement. Yet it does not appear the government's done any modelling on the cost of consumption, employment, electricity prices, food prices or wages. Is it a deliberate decision by government not to do that modelling, in order not to have to answer these questions?

Senator Seselja: No.

Senator KENEALLY: So why didn't the government do it?

Senator Seselja: I'm not in a position to add anything to what the officials have indicated. If you'd like further information, I'm happy to take some of that on notice, if the Treasurer's got anything additional to add.

Senator KENEALLY: Thank you.

CHAIR: Fiscal Group, are you the right group to speak to about the tax to GDP cap or is that Revenue Group?
Mr Atkinson: It's probably Revenue Group.

CHAIR: I'll ask Revenue Group then. But you are the right people to be speaking to about the AAA credit ratings by Moody's and Standard & Poor's. Is that correct, in some aspects?

Mr Atkinson: Yes, we can speak to that.

CHAIR: We've had these AAA credit ratings for some time now, and that's in the face of some pretty daunting economic headwinds. Can you tell the committee what those AAA credit ratings mean for the Australian economy and about the state of the economy and of the budget?

Mr Rollings: What I can say about AAA ratings is that each of the major ratings agencies, when they comment on their ratings for Australia, point to the government's fiscal position and the country's fiscal position as one of the key criteria that support their assessments. In the last few days, for example, Fitch have come out and talked about their views on this week's budget, and they commented that the credible commitment to prudent fiscal management is a supporting factor for their view of Australia's AAA sovereign rating. We're yet to see comments from Standard & Poor's following this week's budget, but in the past both Standard & Poor's and Moody's in particular have always pointed to the fiscal situation and the positive trajectory and return to surplus and prudent fiscal management as one of the key factors that support their assessments.

CHAIR: The words that they used were 'a credible commitment to prudent fiscal management'—is that correct?

Mr Rollings: Yes, that's right.

CHAIR: Why is it so important to maintain those AAA credit ratings?

Mr Rollings: Those sorts of details are probably more for our macro group, but, in the sense that we're one of only a few countries that have AAA ratings, it is relevant to Australia's borrowing costs, and those borrowing costs are relevant across the economy.

CHAIR: What have the ratings agencies said about potential risks to the economy, particularly from the housing market?

Mr Rollings: I'm not in a position to comment on that one.

CHAIR: All right, thank you.

Senator KETTER: I refer you to my letter to Mr Gaetjens of 3 April—I'm not sure who might be the right person to start with. On the third dot point, which is the full breakdown of the $28.4 billion worth of downward revisions to payments due to parameter variations, who's best able to speak about that?

Mr Atkinson: I believe Mr Gaetjens directed that one to the Department of Finance.
Senator KETTER: He mentioned the Department of Finance but also that your group may have a role here. Do you have a breakdown of those revisions?

Mr Atkinson: No. I believe this question was asked of them and they're providing that to you separately. The revisions in payments is a core issue for the Department of Finance. I am able to speak about the medium-term question, though, a little.

Senator KETTER: Which one is that, sorry?

Mr Atkinson: I think it's probably next on your list.

Senator KETTER: The fourth dot point?

Mr Atkinson: Sorry, I don't have the letter in front of me.

Senator KETTER: All right. Do you want to speak to that one?

Mr Atkinson: You were talking about the movement in the total payments-to-GDP ratio question?

Senator KETTER: Yes.

Mr Atkinson: If you turn to page 12 of budget statement 3, that outlines the total payments. We need to put this in context. It's a bit over a one and a bit per cent move over 11 years, and the scale of this chart obviously starts at 23 and ends at 26 per cent.

Senator KETTER: Excuse me. I don't have a page 12.

Mr Atkinson: Of budget statement 3? It 3-12 in Budget Paper No. 1—sorry. That's the line we're referring to. I wanted to give you a bit of context. If I add a scale of zero on this, it would be a fairly marginal move. If you look on page 5 of budget statement 3, real growth has been around 1.9 per cent.

Senator KETTER: Page 5 of Budget Paper No 3?

Mr Atkinson: Yes. Real growth in payments has been 1.9 per cent of GDP, due to payments constraints between 2013 and projected to 2022-23. The causes for that are part of the conversation with Finance, I think, but the movements in the medium term reflect the extension of that spending constraint out through the medium term. Then it becomes a mathematical factor that if spending growth is lower than GDP the payments-to-GDP ratio will drop over time.

The other thing worth noting in here is that this movement in payments includes a virtuous cycle, you might say, of PDI reducing as debt reduces over time, as well. It also factors in the stronger employment figures that are in the forward estimates, which are driving some of that payments constraint. Obviously, in the positive part of the cycle the distance between these two lines is what produces the surpluses. So, through the positive parts of the cycle, you'd want a picture that looks a bit like this.

Senator KETTER: Going now to the second last dot point on the second page of my letter, which is the value of any unannounced initiatives, can you provide that figure for us?

Mr Atkinson: What I can say is that any unannounced initiatives that are in the contingency reserve will be articulated in a PFO, except for any that are commercial in confidence or national security, in accordance with the act.

Senator KETTER: I'm asking for the value of them, rather than asking you to identify them.
Mr Atkinson: Because you're talking on the payments side, the contingency reserve is once again an issue that Finance will answer. They have these questions, too, as I understand.

Senator KETTER: Mr Gaetjens specifically said that your group would be able to answer that question for us.

Mr Atkinson: He suggested we'd be able to talk to it, yes. The answer will be that, by definition, anything that is in there would be a decision taken but not yet announced. And, from a Treasury perspective, if there is anything in there we would be announcing it in PFO, if it's not announced directly.

Senator KETTER: Are you able to provide that figure for us? You say it's a figure that the Department of Finance has, but have they provided that figure to you?

Mr Atkinson: I'd have to take on notice what the figure is. I believe the secretary of Finance took on notice to provide the answer to this question. The reason I'm passing it to them is that there are some complex issues in there, like conservative bias allowance and those things that Finance deals with. That's what the major figures in the contingency reserve at the macro level are.

Senator KETTER: Okay. Can I now take you to page 19 of Budget Paper No. 1. Can you confirm that, excluding policy decisions, receipts have been revised down over the four years to 2022-23?

Mr Atkinson: Yes. That's on page 19—I think it's the fourth paragraph down.

Senator KETTER: And Treasury cites weakening household consumption, dwelling investment and average wages as being an issue for these receipts.

Mr Atkinson: I'm sorry to say this, but this is an issue for Revenue Group. Is that in the text?

Unidentified speaker: It is.

Mr Atkinson: It is the next paragraph down.

Unidentified speaker: Yes or no.

Senator KETTER: So, the economy has worsened since MYEFO. Would that be—?

Mr Atkinson: I believe my colleague Ms Quinn gave a very elaborate description of where the economy is up to. I wouldn't want to go across the top of Macroeconomic Group's answer.

Senator KETTER: You have confirmed that we've got weakening household consumption, dwelling investment and average wages being an issue for receipts. Yet we've got the budget back in the black and Australia's back on track. How do you reconcile that, Mr Atkinson?

Senator KETTER: Sorry, as I said, macroeconomic conditions were, I think, answered by the Macroeconomic Group colleagues.

Senator KETTER: I take you to Budget Paper No. 2.

Mr Atkinson: Is that Budget Paper No. 2 or statement 2?

Senator KETTER: Budget Paper No. 2. We can see that revenue is going to be lower over the forward estimates. That's on page 4. Expenditure will be higher over the forward
estimates and capital investment will be higher. Revenue is on page 4. You're looking a bit puzzled.

**Mr Atkinson:** Are you in Budget Paper No. 1, statement 2, or Budget Paper No. 2?

**Senator KETTER:** Budget Paper No. 2.

**Mr Atkinson:** The measures table.

**Senator KETTER:** Table No. 1 on page 4. I'm just briefly going to allude to these.

**Mr Atkinson:** Sorry, Senator, this is a Department of Finance document.

**Senator KETTER:** I thought we were talking about Budget Paper No. 2?

**Mr Atkinson:** Yes; got it.

**Senator KETTER:** Just very quickly, if you look at page 4 you'll see that revenue is lower over the forward estimates—the bottom line on that table.

**Mr Atkinson:** That's the total impact of revenue measures.

**Senator KETTER:** Yes.

**Mr Atkinson:** The total impact of revenue measures is negative over the forward estimates. Actually—sorry—I'd have to add them up because there are pluses and minuses in there. Revenue movements are an issue—

**Senator KETTER:** If you add them all up, the figure is negative $399.1 million. It would have been helpful to have a total figure, but for some reason there isn't a total figure.

**Mr Atkinson:** The impact of revenue measures is in budget statements 3 and 4 in Budget Paper No. 1, with totals.

**Senator KETTER:** Expenses are on page 45. Where I'm going, Mr Atkinson, is that policy decisions announced since MYEFO have led to revenue being lower over the forward estimates, expenditure being higher over the forward estimates and capital investment will also be higher over the forward estimates.

**Mr Atkinson:** Probably the best articulation of this is in budget statement 3 in Budget Paper No. 1, on page 19. That has the total impact of policy decisions split between payments and receipts. If you look at that table, about halfway down it has the total policy decisions' impact on the UCV.

**Senator KETTER:** Which budget paper?

**Mr Atkinson:** Budget Paper No. 1, statement 3, on page 19.

**Senator KETTER:** What's the full—

**Ms Wilkinson:** It's 3-19, Budget Paper No. 1.

**Senator KETTER:** My question is about the direct impact of policy decisions taken by this government since MYEFO. My proposition to you, Mr Atkinson, is that the impact of policy decisions since MYEFO has made the budget worse.

**Mr Atkinson:** The particular position you're looking at there is total policy decisions impact on UCB, and the total is negative 10.3.

**Senator KETTER:** What does that represent?

**Mr Atkinson:** That's a decrease in the underlying cap value.
Senator KETTER: So there's been a deterioration in the budget bottom line as a direct impact of policy decisions by this government since MYEFO. Is that correct?

Mr Atkinson: Obviously there are swings and roundabouts with parameter variations which offset that, but that's what that line represents.

Senator KETTER: So you agree with my contention.

Mr Atkinson: As I articulated it, yes.

Senator KETTER: I'm being very specific about whether or not there has been a deterioration in the budget bottom line as a result of the direct impact of policy decisions taken by this government since MYEFO.

Mr Atkinson: Yes, senator.

Senator KETTER: Thank you.

CHAIR: There is a campaign going on at the moment alleging that the underpayment of workers superannuation is a particularly widespread issue. My understanding was that this had been addressed in a package of measures introduced by the government into parliament recently to recover unpaid superannuation for workers. Is that correct?

Mr Jeremenko: That is correct. Only a couple of months ago, legislation was passed through both houses that contains a significant integrity package around unpaid superannuation. The figure of $2.79 billion is too large, and this package is the government's attempt to really get into that and make sure that the tax office has appropriate powers to ensure that that figure is reduced over time.

CHAIR: What are the powers that the tax office has?

Mr Preston: The fundamental change to the integrity package was to increase the visibility that the ATO had over noncompliance. What it did was require all employers, particularly small employers, to report, effectively, SG owing, which it could then match with information that it receives from super funds to identify underpayment of SG. That was the main part of the package. There were several other elements.

CHAIR: Does it include a penalty regime?

Mr Preston: That is what I was getting to. One of the other major changes in the penalty regime was to introduce penalties for what I guess you could call egregious nonpayment. Where there's a pattern of nonpayment that the ATO identifies it now has several additional sanctions. One relates to education, but the other relates to criminal penalties that can be brought in extreme cases.

CHAIR: Has any other government, as far as you are aware, ever introduced a penalty regime for egregious nonpayment of superannuation?

Mr Preston: No.

CHAIR: I understand that an amnesty period is in place at the moment for the implementation of this. Why is the amnesty period in place for those employers that may not have paid the appropriate amount of superannuation guarantee?

Mr Preston: Are you referring to the SG amnesty?

CHAIR: Yes.
Mr Preston: The main plank of the reform that I referred to was about improving the visibility that the ATO has over noncompliance. That has several elements, some of which start from 1 July 2019. That will, going forward, significantly improve its ability to track down non-compliant employers, but it won't of itself give it visibility going backwards. Recognising that there is that lack of visibility, the amnesty was put in place to try to encourage non-compliant employers to come forward and self-identify by giving them several incentives to reduce the cost for them to self-identify but not reduce what they would have to reimburse their employees. The intention of that was to try to generate more money being paid into the super accounts of employees who'd missed out.

CHAIR: I should have asked first: how many employees are we talking about that Treasury believes may have missed out on the appropriate amount of superannuation guarantee?

Mr Preston: Are you asking what is our estimate of—

CHAIR: The number of employees that will benefit.

Mr Preston: It's important to state that this was an estimate undertaken before the policy was enacted, and it was assuming that it was going to be passed through parliament in a timely fashion. If you're wanting to understand the actual take-up of the measure, it would probably be better to direct your questions to the ATO. The original estimate was that an additional 10,000 employers would come forward, benefiting 50,000 employees. I think the figure that would be paid into those employees' accounts was $230 million in superannuation.

CHAIR: Should the amnesty period not have existed? Can Treasury confirm that employees would get the same amount paid to them if it's paid voluntarily under the amnesty, as if their employer had been caught by the ATO? I'm sorry; I didn't explain that very well. Do you know what I mean?

Mr Preston: That is correct. The employee would be in the same position if their employer had been caught; yes, that's right.

CHAIR: The threat of jail time, obviously, would be something that would be a significant impetus for employers to participate in the amnesty period.

Mr Preston: The threat of jail time is for noncompliance that occurred after— I'd have to take on notice the exact start date but it didn't apply—

CHAIR: It's not retrospective.

Mr Preston: to retrospective noncompliance; that's correct. One of the further incentives to encourage employers to comply is the increased penalties that the amnesty is to apply after the amnesty period finishes.

CHAIR: Thank you, Mr Preston and Mr Jeremenko.

Senator KETTER: Could I resume with Mr Atkinson. Going back to Budget Paper No. 1: I want to take you to table 3 on page 3-10. From what I can see, this type of table is a relatively new development; I couldn't see it in the previous budget papers. Can you explain why this particular table appears in the budget papers?

Mr Atkinson: What I can say is that this table, as I recollect, did appear in MYEFO. It is constructed by the Department of Finance and it demonstrates:
Taking into account reductions in payments as a result of non-economic parameters and other variations, the net impact of decisions in the 2019-20 Budget on payments is a reduction of $982 million over the four years from 2019-20.

Any further questions apart from what's in the face of this are for the Department of Finance.

**Senator KETTER:** We've already confirmed that the direct impacts of policy decisions taken by this government since MYEFO have made the budget worse at a time when, I would say, the economy is weakening. Many have pointed to the headwinds, and Mr Gaetjens talked about some of the risks going forward. This particular table indicates that the effect of—I'm looking at the first line. The total payments impact of policy decisions taken since the 2018-19 MYEFO is minus $8.275 million. That's slightly different to the figure that you mentioned earlier from the other table, Mr Atkinson.

**Mr Atkinson:** The difference is that that table you're talking about relates to payments and the figure that we were talking about before, in reconciliation of underlying cash balance estimates, is about total policy decisions. That covers off both payments and receipts and includes tax cuts, et cetera.

**Senator KETTER:** The second line goes to payments impacts of noneconomic parameter and other variations. Can you tell me whether all of the noneconomic parameter changes and other variations in that line are directly attributable to the policy decisions taken and summarised in the first line of that table?

**Mr Atkinson:** You really have to direct this question to the Department of Finance. It's their responsibility. They construct this table. I believe they were asked these questions yesterday, too.

**Senator KETTER:** Can you explain to me how the government is acting consistently with its budget repair strategy—that your spending measures will be more than offset by reductions in spending elsewhere within the budget? The first line of that table clearly indicates to us that the policy decisions are having a negative impact on the budget bottom line.

**Mr Atkinson:** Once again, that's an issue for the Department of Finance. The bottom line of that table is the line that demonstrates compliance with that part of the fiscal strategy. Once again, I think this was asked and answered yesterday.

**Senator KETTER:** I'm going to take you back to the issue of payments as a proportion of GDP over the period to 2028-29, where we see it falling from 25 per cent to 23½ per cent. I am going to ask whether or not you've had the opportunity to consider the PBO's paper *Australia's ageing population: understanding the fiscal impacts over the next decade*.

**Mr Atkinson:** Yes.

**Senator KETTER:** You have?

**Mr Atkinson:** Yes, we have.

**Senator KETTER:** One of the key findings was that there would be a substantial impact by the end of the medium term on both the revenue side and the expenditure side. Do you agree with that?
Mr Atkinson: The impact of demographics even in the near- and medium-term is not a new thing. Intergenerational reports update that; we have the next IGR next year. Our medium-term model actually takes into account those types of demographic impacts.

Senator KETTER: That's good. The PBO says that the ageing population will cost the budget about $36 billion by 2028-29. What do you say about that?

Mr Atkinson: I'd probably have to refer that to my Revenue Group colleagues, in terms of being able to verify that number.

Senator KETTER: Well, Macro referred it to Fiscal.

Mr Atkinson: In terms of the medium term, what I can say is that those types of demographic factors are part of the underpinnings of our medium-term model and are factored into these projections. What I'm saying is: to cost whether the PBO's number is accurate, based on the existing current tax data, would have to be a discussion with the Revenue Group.

Senator KETTER: But what do you say about whether or not it will cost the budget around $36 billion by 2028-29?

Mr Atkinson: I don't think we've costed that. Mr Rollings, do you have anything to add?

Mr Rollings: It would be very difficult to unpick which aspects of demographic change you're referring to. To reiterate what Mr Atkinson said: the various models that we use which underpin the medium-term projections, which would relate to health or pension payments, or all those sorts of things, all include demographic factors as part of the parameters underlining the models. Beyond the medium term would be a matter for the next IGR, and we'll be updating our assessment of that at that time. There is a specific area of Revenue Group that looks at demographic factors and retirement income factors. They may be able to offer more comments on those issues coming out of the PBO report.

Senator KETTER: Well, the ageing of the population—the share of the population at retirement age increasing significantly, which I think you're well aware of—has an impact on revenue due to lower labour force participation and increases in spending because of more government programs supporting older Australians. The ageing population is projected to subtract 0.4 percentage points from annual real growth and revenue, and add 0.3 percentage points to the annual real growth in spending. The PBO found that, in real dollar terms, this equates to an annual cost to the budget of $36 billion. That's larger than the projected cost of Medicare in that same year. I'm asking: are you able to concur with these findings?

Mr Atkinson: I can't really add anything to what I've said previously and what Mr Rollings has said—that is, these types of demographic factors are already factored into our estimates. Obviously this PBO report is recently out. It's probably a question for them—the way they did those calculations. They might be able to describe how that fits with their knowledge of the existing budget forecasts and the models that underpin them. Revenue Group may or may not be able to go further with respect to verifying those numbers. But we haven't costed those.

Senator KETTER: What I'm interested in reconciling is what the PBO is saying, which is common sense. How are the budget papers consistent with those findings if the budget outlines the total payments as a per cent of GDP will fall to 23½ per cent? So rather than an increase in 0.3 of a per cent in spending over the medium term we'll see a 1½ per cent fall.
Mr Atkinson: As I said, the concept of ageing of the population in demographics impacting medium-term models is not a new thing at all. That is built into our models already. These types of things are offset by strong employment figures which flow through to lower social security numbers on the other side of the equation. As I said, there's the virtuous circle and PDI as debt goes down with payments being significantly less. Remember that PDI's running at $18 billion this financial year, so that's a very substantial thing. As that decreases as a percentage of GDP, that moves payments down. I suppose, to answer your question, the types of demographic factors that the PBO is talking about are factored in to the existing models.

Senator KETTER: Are there spending reductions that are going to overcome the impact of the ageing population?

Mr Atkinson: At the moment we have a net structural decrease in payments that takes into account those types of demographic challenges.

Senator KETTER: Can you tell us what those are?

Mr Atkinson: It gets it back a little bit to the structural decreases in the requirement for paying social security because of strong employment and the differential in growth rates between those payments and GDP growth, because this is always a percentage of GDP. Obviously, these total payments continue to grow in nominal terms, consistent with both the demographics we're talking about and the PBO report, I suspect.

CHAIR: Senator Rice, before you begin, I understand that you have a document you want tabled?

Senator RICE: Yes, but I may not get to in this five-minute slot. I'm starting elsewhere. I want to start by asking questions about the overall work of the department on the costs and benefits of public infrastructure investment. Last year, in Budget Paper No. 1, the department put forward a GDP multiplier of four for public infrastructure investment over the 25 years of investment. Senator Whish-Wilson asked some questions about that last year. I wanted to start by asking whether the department stands by that multiplier or whether there are any changes to your views on that.

Mr Atkinson: I was just going to ask Mr McDonald to expand on that. That question is our Macroeconomic Group's responsibility. It's a macro modelling outcome.

Mr Rollings: I would say that this was a specific piece in statement 4 last year. It was informed by our Macroeconomic Group. I'm not aware of any updating of their analysis that underpinned that statement.

Senator RICE: I just wanted to start with that. I don't know whether your Macroeconomic Group is the best place to look at whether you have done any further work or looked at the average return on investment or benefit-cost ratio at the economy-wide level of investment in publicly funded infrastructure.

Mr McDonald: I don't think we've done any further work to update that work from last year.

Senator RICE: Certainly in the introduction to the budget overview you say that you continue to invest in productivity-enhancing infrastructure to ease congestion and manage a growing population. So I was just wondering, given the emphasis on infrastructure in this
year's budget, whether there had been any further work that you had done on that. But you're saying you haven't. You're basically standing by the estimate of the GDP.

Mr McDonald: We provide advice through the budget process across the spectrum of the budget spending measures, including the infrastructure spending measures, measure by measure.

Senator RICE: That would confirm that you believe that investing in public infrastructure is a productivity-enhancing investment.

Mr McDonald: Certainly.

Senator RICE: Moving on from there, and doing a bit of a comparison, what's the current cost of borrowing for the Commonwealth via issuing bonds?

Mr Rollings: It probably can't be collapsed into a simple metric, because there are different bonds across the yield curve. But the assumption we've made in the budget is based on the 10-year bond yield, which is about 1.9 per cent.

Senator RICE: Yes, that was my understanding—that it was a bit under two per cent. It's a pretty low rate of return, historically. Where I'm getting to is: what's the cost of borrowing it at under two per cent per annum, compared with the wider economic benefits of public infrastructure investment? Would you see that the rate of return on public infrastructure investment would be higher than two per cent?

Mr McDonald: It depends on the project.

Senator RICE: Yes, but presuming that you've got well-chosen projects, which have positive benefit-cost ratios in the analysis of them—

Mr McDonald: For projects that have a rate of return that's higher than the cost of borrowing and that accounts for the risk associated with the project as well and takes account of broader public benefits, you'd expect that those projects would expand the economy.

Mr Atkinson: I would just add that of course we're talking about the cost of borrowing over time, and we're at extremely low levels at the moment, which may not always be the case, as we move through to the medium term.

Senator RICE: Yes, but if you were taking out borrowing for public investment now—the 10-year bond rate of under two per cent—at least you've got it then for that next—

Mr Atkinson: Yes.

Senator RICE: But would you agree that the rate of return from well-chosen public investment is generally higher than two per cent?

Mr McDonald: If it's well-chosen, yes.

Mr Atkinson: And it's an economic return, not a fiscal return.

Mr McDonald: That's true.

Senator RICE: But in terms of the benefits to the community, to society, to Australia, it's an economic return that's basically a higher return than the cost of borrowing is.

Mr Atkinson: On average that's probably correct. Once again, it depends on the project.

Senator RICE: Where I then want to go to is: in the budget strategy, as stated by the Prime Minister, the Treasurer and indeed the finance minister, the aim is to achieve a budget
surplus not only in recurrent expenditure but also including capital expenditure. That's correct? That's my reading of the government's current position.

Mr Atkinson: Well, underlying cash balance, which covers both.

Senator RICE: Yes, so it's actually covering capital as well as recurrent—

Mr Atkinson: Nonequity—so, in general terms, yes.

Senator RICE: Given that debt is cheap by historical standards, and you agree that the overall return on your public sector investment will exceed the costs of borrowing, why is the government pursuing a surplus with regard to capital expenditure as well as recurrent? It seems to me that Australia is missing out on that return because of that position of insisting on a surplus on capital as well as recurrent.

Mr Atkinson: I think this goes to the fiscal and the management of the balance sheet and the size and the stock of debt in the Australian context. There are three measures of the balance sheet in the budget papers. There is net debt, net financial worth and gross debt. Gross debt, in particular, is at a fairly historic high at the moment, and so the way to move that down is through running underlying cash surpluses. The stock of debt would increase otherwise, which decreases the flexibility to deal with economic shocks and those sorts of things.

Senator RICE: That is gross debt, but the debt that you would get from investing in public sector infrastructure is a particular type of debt that you know is going to generate those returns. What I'm getting at, I suppose, is the difference between good debt and bad debt. You have debt where it is of greater benefit to have that infrastructure than the cost of borrowing. And so it seems to me that the government is essentially throwing the baby out with the bathwater by insisting that we are going to have to move to a surplus both for capital as well for recurrent expenditure.

Mr Atkinson: I think the position is a bit broader than that. It's that we need to manage the overall size of the balance sheet. In terms of the average return of projects economy-wide, it's a separate thing to fiscal management.

Senator RICE: But you'd expect that economy-wide benefit to actually be higher than the benefits for a particular piece of infrastructure, because often in the infrastructure benefit-to-cost ratio you can't always take into account the wider economic benefits, whereas if you're actually looking at a suite of public sector infrastructure those wider economic benefits are what you want to consider.

Mr McDonald: There can be a distinction between the fiscal impact of the projects and the economic impacts of the projects. So it can be the case the overall economic impact of projects, taking account of all these factors, is at one particular rate and is higher than the cost of borrowing for that project, but the direct fiscal revenues associated with that project down the track might not cover that. So, in that sense, you imagine a project might have an economic benefit but might not be able to, in monetary terms—

Senator RICE: But they are nation-building and overall society-building projects that governments should be investing in.

Mr McDonald: And so then those projects have an ongoing cost of debt associated with them.
Senator RICE: Have you done any modelling of the cost to the Australian economy of paying down low-interest debt compared to the benefits of having productivity-enhancing infrastructure that is adding to the broader societal benefits?

Mr Atkinson: I don't think we have specific modelling on that, but I think if you look at the budget as a whole, with $100 billion investment in infrastructure, there is also a point in infrastructure projects where—and this is a matter for the Department of Infrastructure, Regional Development and Cities—the stock of projects have high cost benefit returns, funded either by states or ourselves or in conjunction, and eventually you get to diminishing returns on projects.

Senator RICE: I think we're a long way from that at the moment given the need for infrastructure, particularly as we are a growing population. Having asked questions about this yesterday of Infrastructure as well, I know there are so many infrastructure projects that would have potential high rates of return that could be invested in. It seems to me that, given the historically low cost of capital—

Mr Atkinson: Did they discuss the readiness for those projects?

Senator RICE: Not in the discussions that I had with them yesterday. But, certainly if you look at the Greens platform, we have a whole range of well-considered potential infrastructure projects that would be of massive benefit to the Australian society.

Senator KETTER: This question goes to the issue of Newstart recipients and the energy assistance payment. I just wanted to go to the decision-making around that change to the budget. I'm not sure who I should be asking this question to, but when was the decision taken to expand those who can access the energy assistance payment?

Mr Atkinson: I'm not personally aware, but I believe it's been publicly stated that that was on Tuesday night.

Senator KETTER: Tuesday night?

Mr Atkinson: I believe so—but that's from a media report.

Senator KETTER: When did Treasury first find out about this decision?

Mr Atkinson: We were first informed of this on Tuesday evening.

Senator KETTER: Can you tell me what time?

Mr Atkinson: I'd have to take that on notice.

Senator KETTER: Was it late evening or—

Mr Atkinson: I think so.

Senator KETTER: Late evening. And can you tell me how you became aware of the decision?

Mr Atkinson: I'd have to take that on notice, too. Sorry, it wasn't to me.

Senator KETTER: Can you tell me who received the information about the decision?

Mr Atkinson: It would have been one of our officials.

Senator KETTER: You're not able to tell me who?
Mr Atkinson: I'd have to take that on notice too, sorry, because things just come into the organisation as parts of decision processes—because we're not involved in costing processes, which are between DSS and Finance.

Senator KETTER: How was the decision conveyed to you?

Mr Atkinson: I presume the final decision was in correspondence.

Senator KETTER: You presume? One of your colleagues in Treasury has—

Mr Atkinson: Correspondence on decisions comes through the normal systems. We'd have to take on notice when that came, which wouldn't necessarily tell us when it was signed.

Senator KETTER: Were there discussions before budget night to consider these same cohorts we're talking about for inclusion in the energy assistance payment?

Mr Atkinson: Not that I was involved in. I'm not sure what ministers talked about.

Senator KETTER: You're not sure what, sorry?

Mr Atkinson: What ministers talked about.

Senator KETTER: Okay. But, within Treasury, were there discussions about Newstart recipients and other cohorts being included in the energy assistance payment?

Mr Atkinson: I'd have to take on notice if there were internal discussions at working level.

Senator KETTER: You're not aware of any?

Mr Atkinson: Not aware of any.

Senator KETTER: So those considerations didn't go anywhere, because this measure wasn't included in the budget papers. Are you aware of any rationale at the time for this group of Australians not being included in the energy assistance payment?

Mr Atkinson: Sorry, are you talking about at the time the original decision was made on the energy assistance payment?

Senator KETTER: Yes, the original decision not to include Newstart recipients.

Mr Atkinson: Those decisions were made as part of the cabinet and budget processes, so I can't really talk about that.

Senator KETTER: Can you tell me, Mr Atkinson, what's the rationale for including this group of Australians?

Mr Atkinson: The finance minister's spoken to this already in estimates.

Senator Keselja: The finance minister's spoken to this already in estimates.

Senator KETTER: So can you tell us, Senator Keselja?

Senator Keselja: Well, the finance minister's put it on the record. I don't have anything to add to what he said.

Senator KETTER: Can you tell me what changed over that 24-hour period to justify the change—this significant policy change?

Senator Keselja: As I said, the finance minister has outlined this in estimates—I think it was yesterday—and he talked about facilitating the speedy passage of legislation.

Senator KETTER: So that wasn't a consideration prior to the budget being—
**Senator Seselja:** The finance minister put on the record exactly what the government's position was.

**Senator KETTER:** So that only became a consideration after the budget was announced?

**Senator Seselja:** What I'm saying to you is that the finance minister put on the record exactly what happened, and there's nothing that I'm proposing to add to that.

**Senator KENEALLY:** Can I ask a supplement to your question, Senator?

**Senator KETTER:** Sure.

**Senator KENEALLY:** You quoted, and the minister did say earlier, that it was for a speedy resolution of the matter through the parliament, Minister. Does that mean to suggest the government was more concerned with the passage of the legislation than providing assistance to people on Newstart?

**Senator Seselja:** No, I wouldn't draw that conclusion at all. I'd just refer you to the finance minister's comments.

**Senator KENEALLY:** What is the government's view about people on Newstart—should they receive the energy supplement? Or is it simply about getting the budget through the parliament?

**Senator Seselja:** As I say, I've got nothing to add to what the finance minister's said on the subject.

**Senator KENEALLY:** You don't have a position on whether or not people on Newstart should receive the energy supplement?

**Senator Seselja:** We've got a position that's been indicated by finance minister.

**Senator KENEALLY:** You can't outline it?

**Senator Seselja:** I've got nothing to add to it, no.

**Senator KENEALLY:** You're a minister. You can't tell us whether or not people on Newstart deserve to have an energy supplement?

**Senator Seselja:** You're asking me to provide additional information to what the finance minister has very clearly stated on the record.

**Senator KENEALLY:** He said it was for the passage through the parliament.

**Senator Seselja:** As I said, I've got nothing to add to what the finance minister has had to say.

**Senator KENEALLY:** So you can't give us any insight into whether or not the government thinks people on Newstart should be receiving this payment?

**Senator Seselja:** I've answered the question several times.

**Senator KENEALLY:** Well, you actually haven't.

**Senator Seselja:** I have.

**Senator KENEALLY:** We have had neither from you nor from the finance minister any justification as to whether or not people on Newstart should be receiving this payment.

**Senator Seselja:** Sorry, I missed that.
Senator KENEALLY: We've had neither from the finance minister nor from you a position as to whether or not people on Newstart should actually be receiving this payment. We've only had evidence that it was to facilitate passage through the parliament.

Senator Seselja: I could read to you exactly what Minister Cormann had to say if you'd like me to restate it, but, as I say, I've got nothing to add to what he's put on the record.

Senator KETTER: Mr Atkinson, just coming back to you—

Senator Seselja: I can read it to you if that would help, but you could read the Hansard as well.

Senator KENEALLY: We've heard it this morning. I'm asking you if you can give us any insight into the government's thinking on this and whether or not they think people on Newstart should get this payment.

Senator Seselja: As I say, I can put to you exactly what Minister Cormann said.

Senator KENEALLY: We could have Siri here instead of you, Minister. It would be just as effective.

Senator Seselja: I can repeat to you what the minister has had to say on the matter.

Senator KETTER: Coming back, Mr Atkinson, to the original decision to not include the cohort we're talking about in the energy assistance payment, just tell us about the policy development process that underpinned that.

Mr Atkinson: This measure was considered through normal budget processes.

Senator KETTER: Just outline what those were.

Mr Atkinson: I can't go to the specific considerations. Like all of the many, many hundreds of decisions these—

Senator KETTER: No, I'm just talking about this particular one.

Mr Atkinson: It would have been gone through the budget and ERC processes. PM&C is probably best placed to talk about that. Obviously, we don't remember where every individual decision was made over the last few months.

Senator KETTER: So PM&C is the primary driver of this particular policy?

Mr Atkinson: The policy itself would have been developed by the Department of Social Services, but PM&C run the decision-making system.

Senator KETTER: Was it the department that made the decision not to include the Newstart recipients and other groups within the energy assistance payment?

Mr Atkinson: All of the decisions that are in here are decisions of the government.

Senator KETTER: All right. I think we're done.

Senator RICE: I'm continuing on with the cost of investing in infrastructure versus the benefits. Does Treasury work with the department of infrastructure and/or Infrastructure Australia to assist them in finding out the appropriate figures for the cost of capital or to develop or evaluate business cases?
Mr McDonald: Infrastructure Australia has a role in providing advice about how to assess business cases and cost-benefit analysis. We work with both the department of infrastructure and Infrastructure Australia on different issues from time to time.

Senator RICE: Do you provide them with advice on what the appropriate costs—the bond rate costs of capital—are for their assessment, or do they do that themselves?

Mr McDonald: I don't think we've provided them with advice on the government bond rate in recent times.

Senator RICE: Do you have a view—in particular given that we've got a bond rate of around two per cent—on whether using a discount rate of seven per cent is appropriate, given the low cost of capital?

Mr McDonald: I'm taking it that the seven per cent is from Infrastructure Australia documents?

Senator RICE: Yes. Infrastructure Australia use a discount rate of seven per cent sometimes, four per cent at other times. That's my understanding. But certainly seven per cent is widely used.

Mr McDonald: We've not developed advice on that issue, to my knowledge.

Senator RICE: Would you have a view about whether, given you've got a bond rate of less than two per cent, a discount rate of seven per cent is appropriate?

Mr McDonald: I don't have a view that I can put forward.

Senator RICE: Does Treasury do any work on looking at that as an issue?

Mr McDonald: I don't think we've done work recently on discount rates.

Mr Atkinson: We do work more broadly on the balance sheet management and the structure of that. I would just make one other point. You talk about the bond yields, which are on page 14 of budget statement 6, where you have the curve there. You see that the MYEFO line is there, which is quite a bit higher. It was 2½ per cent in December, so it moves around a bit. It's just worth noting that in this context.

Senator RICE: I'll leave that there, then. I want to move on to looking at government investment in Defence verses non-Defence spending. I've got a document that I'd like to table. We made some copies of it before.

CHAIR: Fine, we're happy for you to table that.

Senator RICE: The document I'm tabling is a graph and a table that my team have developed; I think we saw something similar at the last budget estimates. Looking at this table and the figures for expenditure from 2017 through to 2023 in terms of Defence and non-Defence capital, are they are a true reflection of the numbers contained in Budget Paper No. 1 on page 3-28?

Mr Atkinson: That's really hard to do on the spot. I'll just have a look, if that's all right?

Senator RICE: Okay.

Mr Atkinson: There's quite a bit of data. There are pages of spreadsheets behind—

Senator Seselja: It's perhaps a bit difficult for an official to interpret that data on the spot.

Mr Atkinson: I can take it on notice.
Senator RICE: Can I talk you through it, then? In Table 10 of Budget Paper No. 1, on page 3-28, if we're looking at 2019-20, we've got $14.3 billion in direct capital investment, $8.9 billion in capital grants, $21.3 billion in financial asset investment and then a total of $44.5 billion. So it's a reflection of the column that's on page 3-28. Adding up 2019-20, we've got $44.5 billion being invested in total.

Mr Atkinson: Yes, I'm familiar with that table. It's the other ones.

Senator RICE: And then the other one, which I've tabled here, is from the Defence budget paper. Table 45 shows that the investment for Defence is $12.6 billion for this year.

Mr Atkinson: Yes, I can see the $12.6 billion at the bottom of total cash used. Senator RICE: Essentially then what we have done, for this year and for all other years, is just subtracted that $12.6 billion from the $44.5 billion of the total capital spending, giving the non-Defence capital spending—just a simple subtraction—as $31.9 billion.

Mr Atkinson: Yes.

Senator RICE: For this year, we've got capital being spent on Defence at $12.6 billion and capital on non-Defence at $31.5 billion, adding up to total capital of $44.5 billion.

Mr Atkinson: Sorry, the complexity of doing this on the run is that these figures are not always done on a like-for-like basis, so conceptually where you're going—if we had some notice—we'd be able to actually verify it.

Senator RICE: It's basically the same table that Senator Whish-Wilson presented you with at last year's budget estimates. I don't know whether the same people are around the table. There wasn't a concern about this methodology then.

Mr Atkinson: I can take on notice whether the methodology works or not.

Senator RICE: The methodology worked last year, and it's basically just expanding the methodology to add in this year's figures.

Mr Atkinson: You're saying that taking the total capital spending down by the total Defence leads you the residual.

Senator RICE: That's right.

Mr Atkinson: Yes, the problem is accounting classifications. In general, that might be right.

Senator RICE: Certainly, as I said, there weren't concerns that were expressed in retrospect about the methodology when Senator Whish-Wilson pursued this line of questioning at last year's estimates. It's really just continuing on the next year in the series.

Mr Atkinson: The difference was that last year we had budget statement 4, which broke out the Defence expenditure. We actually had the work done on it. That was all articulated.
and properly Treasury costed, with the differentials between Defence capital et cetera, so it was able to be subtracted. We had done that. We don't have that statement 4 in this year's budget papers.

Senator RICE: That's what I understood. In terms of the information that we used last year, that was as reflected in the Defence portfolio budget statement that I have given you a copy of there.

Mr Atkinson: They are probably reconciled back. There's probably adjustments in here. Sorry, we don't have that particular table in this year's budget papers. That's why it's hard to verify.

Senator RICE: You would agree that the figure of the $12.3 billion is the same figure that we had from last year.

Mr Atkinson: I will verify that it could well be correct, but I can't sit here and verify a set of numbers that have just been put in front of me.

Senator RICE: Certainly, if you look at those numbers and the graph that I've presented there, going forward, from this year, we have a substantial increase in Defence capital spending and actually a decrease in non-Defence capital spending. Would you agree from those figures, if you look at the figures or if you look at the graph, that that's the scenario that we're in?

Mr Atkinson: I'm not sure. It's really difficult to tell whether major capital expenditure that's inside of things like Sydney Airport, Snowy Hydro and those sorts of things are in here. That's just because of the accounting classifications, as they don't impact the UCB. Those are huge investments in infrastructure.

Senator RICE: But they would be included in your estimate of that total capital spending of $44.5 billion? You're saying you haven't got the same level of detail about the Defence numbers; but on the non-Defence numbers, you should have. You've got total capital of $44.5 billion. Essentially, from the Defence budget, we see that the capital in Defence is increasing. If you subtract the Defence numbers for the out years of the forwards—that is, the rest of the forwards—basically we end up with a scenario where non-Defence spending capital is decreasing.

Mr Atkinson: I really have to take this on notice, because it's incredibly complex. I think that the NBN is in here as well. The cash flow associated with the NBN could well be some of these spikes. It's not as simple as cutting Defence out and then you see, presto, the picture of investment in infrastructure. I can certainly take it on notice.

Senator RICE: All of the things that you have talked about would actually increase the amount of money in non-Defence capital. It would make the situation better.

Mr Atkinson: That's what I'm saying. I'm not sure whether that—

Senator RICE: If they weren't included, you would actually have an even worse situation of a decline in investment in non-Defence spending.

Mr Atkinson: No, it would increase non-Defence spending, because they're not Defence assets.

Senator RICE: Are you saying that you don't think that they are in—
Senator Seselja: The question has been taken on notice. There is a level of detail that the official has indicated it is difficult, on the spot, to be able to give firm answers on. He has undertaken to take it on notice, and he can reconcile those numbers for you.

Senator RICE: Could I clarify then, with those questions: if we go to the table 10—

Senator Seselja: If you want to move to the next phase, obviously—

Senator RICE: No, I want to clarify, in terms of table 10, as to what the government's capital spending is. With that total capital spending of $44.5 billion, are you saying that it doesn't include things like the NBN and doesn't include the Snowy Hydro? That's what you seem to be arguing.

Mr Atkinson: Unless one of my colleagues can answer that definitively, I will take that on notice.

Senator RICE: Where else would it be if it wasn't in total capital?

Mr Atkinson: Because some of that expenditure is out of other entities. You get movements inside the general government sector and equity investments that are treated differently in a cash-flow sense. I genuinely need to take it on notice.

Mr Rollings: Senator, I agree. We can take it on notice. I suspect that those things are in there. I think the part of your methodology we're struggling a little bit with is on the Defence side, in that a more detailed analysis of spending is a matter for Finance and not something that we—

Senator RICE: No, but the confusion at the moment isn't on the Defence side. The Defence capital budget is as per the Defence paper, which shows the Defence capital increasing over the forwards. Where we're having confusion is as to whether all of the infrastructure capital is included in your table 10. It's your budget. This is your stuff. You should know this.

Mr Rollings: That is the methodology underlying that. It's including all capital spending, including grants to the states for capital purposes.

Senator RICE: Yes. I don't see what the confusion is then. If that is all capital spending, that's the presumption that the rest of us are making. It's that all capital spending is included in that table 10.

CHAIR: I think the panel has taken it on notice.

Senator RICE: No, we've just—Mr Rollings has just told us that table 10 is meant to reflect all capital spending.

Mr Rollings: That is correct.

Senator RICE: In which case, with a simple subtraction, if you have all capital spending and then we've got Defence spending, then you will—if you subtract Defence spending from that all capital spending—get your non-Defence spending. They are the two figures that I want to compare. They are the two figures where, if you look at them on the graph or in the table, you've got Defence spending going up and you've got non-Defence spending going down.
CHAIR: May I suggest to the panel—we literally have two minutes and we will be breaking at 1.15, a hard marker—that perhaps the panel take the question on notice, understanding what the question is that is being taken on notice, or respond to Senator Rice.

Senator RICE: All I want to know is if you agree with that finding that, over the forwards, we have Defence spending increasing and we have non-Defence spending decreasing.

Mr Atkinson: As sit here today, I can verify what is in table 3-28; but I have to take on notice the material that has been given to us in the room. We can answer this question, but not at the table.

Senator RICE: You can verify that table 3-28 includes all of your capital spending, Defence and non-Defence?

Mr Atkinson: If Mr Rollings is sure that that includes all things inside and outside—

Mr Rollings: Yes.

Senator RICE: I could go around to Defence at the moment and ask them whether table 45 includes is an accurate reflection of their Defence capital spending. I'm sure they would tell me that it is.

Senator Seselja: Well, perhaps you should direct that to the Department of Defence.

Senator RICE: I don't know why I should have to, given that I have a table from their budget paper. I would presume that was accurate.

Senator Seselja: But you're asking officials to comment in a level of detail—

Senator RICE: No, it's a very simple subtraction. You have capital spending that can be divided into Defence and non-Defence. You have agreed that—

Senator SESELJA: Mr Atkinson has put to you the issues he has with providing a definitive answer in that space. He has undertaken to take it on notice. I don't think there's much more that can be added.

Mr Atkinson: The reason why I want to do this properly is: if you look in foot note (c), it says that the investments in financial assets for policy purposes are presented on a gross basis. That means that what's represented here are the investments into the financial assets, rather than expenditure out of the financial assets that buy infrastructure. That's why I'm taking it on notice; it's not simple.

CHAIR: Well, it is quarter past one. I'm not entirely sure that we are going to get much further, Senator Rice, at this stage. The questions have been taken on notice.

Senator RICE: I don't really see what the question is. Basically, you are going to get back to me and tell me whether we can believe the numbers that are there, in terms of total capital spending in your table 10, and whether that really, truly reflects total capital spending. That seems to be a pretty fundamental thing. If you have a table that says it reflects total capital spending, that is what it should reflect.

Mr Atkinson: It's total capital spending outside of the general government sector, including investment in financial assets.

Senator RICE: I look forward to getting your explanation of how total capital spending can't be relied upon to reflect total capital spending.
Mr Atkinson: Sorry, Senator, I didn't say that.

CHAIR: Thank you very much to the Fiscal Group. We will let you go now, and the committee will break for lunch. We will resume at 2.15 with the Revenue Group.

Proceedings suspended from 13:16 to 14:15

Department of the Treasury
Australian Taxation Office

CHAIR: I welcome the Department of the Treasury Revenue Group and the Australian Taxation Office. I understand the commissioner is not with us, but Ms Curtis is here as the acting commissioner. Senator Seselja, I understand that you have a statement.

Senator Seselja: Yes. I just want to add some information to an earlier discussion. There were questions around the $3.5 billion Climate Solutions Package and the economic impacts. I've got some figures. The estimate from the department of energy for the Snowy Hydro is 5,000 direct and indirect jobs. Hydro Tasmania, Battery of the Nation: 3,000 direct and indirect jobs. The Tasmanian government did that work. In the land sector under the Climate Solutions Fund, direct and indirect jobs should be between 7,875 and 15,750. The Carbon Market Institute did that work.

CHAIR: Thank you very much for that, Minister. Acting Commissioner, do you have an opening statement for us?

Ms Curtis: No, I don't have an opening statement. The commissioner did want to pass on his apologies. He had longstanding leave arrangements. He's very disappointed not to be here today.

CHAIR: I'm certain! Does the Revenue Group have an opening statement? No. Senator Ketter, why don't you kick us off.

Senator KETTER: I'll start with my letter to Mr Gaetjens of 3 April. I understand that the Revenue Group can assist me with a couple of the dot points in that letter, the first one being the year-by-year breakdown of the full Personal Income Tax Plan. Is someone able to assist me with that?

Ms Mrakovcic: Yes, I'm aware of the letter. I believe that the secretary addressed those issues this morning. In terms of the first item, which is the year-by-year breakdown of the full Personal Income Tax Plan, the government did actually set out in statement 3 of this year's budget, on page 313, a breakdown by the various depths of the Personal Income Tax Plan over the forward estimates period and the 10-year period. This is consistent with the level of detail provided during last year's process and information released on the Personal Income Tax Plan in the 2018-19 budget.

Senator KETTER: Okay. What are you referring to there? Is there a table?

Ms Mrakovcic: On page 313, box 2.

Senator KETTER: Of?

Ms Mrakovcic: Sorry, of Budget Paper No. 1. You'll see that there is information provided on each of the individual steps of the enhanced tax plan with a figure provided for the total cost over the forward estimates period and then over the 10-year period.
Senator KETTER: Can you give me a year-by-year breakdown through to 2029-30 of the low- and middle-income tax offset as per the 2018 budget?

Ms Mrakovcic: As I indicated, the government has released information at this level of disaggregation, and this is consistent with the level of disaggregation that was provided last year in response to the original personal tax plan set out in the 2018-19 budget.

Senator KETTER: So you're not prepared to provide that information.

Ms Mrakovcic: Basically, as you will recall, this was an area that was traversed last year, in terms of a discussion around the preference of the government and the department in terms of setting out the information at that level of aggregation. There was a conversation around the challenges and the inherent uncertainties that lie in year-by-year and point estimates over a long period of time and the fact that there is more confidence in the aggregated data than in looking at year-by-year estimates.

Senator KETTER: Okay.

Ms Mrakovcic: But, certainly, you'll recall that, at this level, providing a disaggregation by each step in the personal tax plan—and in Budget Paper No. 2 there are detailed annual estimates for the package year by year over the forward estimates, and then there is also information on the full cost by step for the full medium term out to 2029-30. In fact, I should have been clear that that cost is over the medium term from the start of 2018-19.

Senator KETTER: I think your answer's going to be the same, but I'm just going to ask for a number of other pieces of information as well. The LITO as per the 2019 budget—is that something you can provide on a year-by-year basis?

Ms Mrakovcic: Sorry?

Senator KETTER: The low income—the LITO?

Ms Mrakovcic: The LITO?

Senator KETTER: Yes.

Ms Mrakovcic: A year-by-year estimate for the 2019-20 enhanced tax plan component going from $530 to $1,080?

Senator KETTER: Yes. But, again, I'm looking for the year-by-year breakdown through to 2029-30. What's your response to that?

Ms Mrakovcic: The only information available on that would equate to the first line, which indicates $15 billion in the period to 2022-23, and then the total to 2029-30 also is $15 billion.

Senator KETTER: What about increase in the upper threshold for the 19 cent marginal tax rate from $37,000 to $41,000 as per the 2018 budget?

Ms Mrakovcic: I don't have it handy, but I believe we would have given information on the $37,000 to $41,000 cost last year in the information that was provided to the Senate at that time. In all cases this is the disaggregated data.

Senator KETTER: All these questions relate to the year-by-year data to 2019.

Ms Mrakovcic: But the $37,000 to $41,000 is not in this year's budget; it was last year's budget.

Senator KETTER: Yes.
Ms Mrakovcic: And the full information—which was not provided on a year-by-year basis; it was aggregated over the medium term—was provided last year, but not at the level of disaggregation of the year-by-year estimate.

Senator KETTER: So, for the increase in the upper threshold of the 19 per cent marginal tax rate from $41,000 to $45,000 in this year's budget, is it the same answer?

Ms Mrakovcic: Yes.

Senator KETTER: And for the 32½ per cent, is it the same answer?

Ms Mrakovcic: Yes.

Senator KETTER: What about removing the 37 per cent tax bracket and increasing the threshold for the 45 per cent tax bracket from $180,000 to $210,000 as per the 2018 budget?

Ms Mrakovcic: We have no additional information to provide.

Senator KETTER: If you can't provide a year-by-year breakdown, can you provide forward estimates and medium-term figures for each of these elements?

Ms Mrakovcic: We'll have a look at what we provided last year, and I'm happy to take the question on notice as regards this year.

Senator KETTER: So you don't have those figures to hand. There's nobody here today?

Ms Mrakovcic: I don't have them to hand, no. But we're just having a look at what we provided last year. Could I just take down the details of exactly what you're after?

Senator KETTER: Yes. I will go through them. It's the LMITO as per the 2018 budget, the LMITO as per the 2019 budget, the increase in the LITO as per the 2018 budget and, separately, as per the 2019 budget, the increase in the upper threshold for the 19 per cent marginal tax rate from $37,000 to $41,000 as per last year's budget, the increase in the upper threshold for the 19 per cent marginal tax rate as per this year's budget, the increase in the upper threshold for the 32½ per cent marginal tax rate as per last year's budget, removing the 37 per cent tax bracket and the increase in the threshold for the 45 per cent tax bracket as per last year's budget, and reducing the 32½ per cent marginal tax rate to 30 per cent as per this year's budget.

Ms Mrakovcic: And the level of disaggregation you're asking for now is over the forward estimates.

Senator KETTER: The forward estimates and medium-term figures for each of these elements.

Ms Mrakovcic: I think that we have addressed the issue of the year-by-year estimates over ten years—or, indeed, over the medium term. The issue there is that we have always indicated, as we indicated last year, and that answer remains consistent with this year, that we are comfortable talking in terms of a level of aggregation, but, given the inherent uncertainties in those point estimates, we don't believe that there is benefit in releasing the year-by-year numbers.

Senator KETTER: Okay. All right.

Ms Mrakovcic: In terms of the forward estimates, I'm happy to take that on notice and look at what we provided last year to see if there is anything more that we can provide. But I
would note that my understanding is that certainly what we have provided in this year's budget is consistent with the level of disaggregation that was provided last year.

Senator KETTER: Has Treasury prepared legislation for the 2019-20 budget personal income tax changes?

Ms Mrakovcic: I'd have to take that question on notice.

Senator KETTER: Is there somebody in the room or in the vicinity who might be able to help us?

Mr Writer: We've certainly done some work to prepare legislation for proposed amendments, but, as you would have noted, no legislation has been introduced by the government.

Senator KETTER: What's the stage that it's up to at the moment? Have you finalised?

Mr Writer: Given it has not been introduced, no, it's not finalised.

Senator KETTER: What stage is it at, at the moment?

Mr Writer: I'd have to take that on notice and come back to you.

Senator KETTER: The other request, which is in my letter and which I understand you're able to assist us with, is the figure for unconstrained tax to GDP as a percentage in 2029-30.

Are you able to provide that?

Ms Mrakovcic: As the budget documents set out, the tax to GDP cap that the government has of 23.9 is set. Its revenues are expected to remain under that cap until 2029-30, and that is the year in which normally the cap would apply. When estimates of the medium term are set out in the budget documents, they apply that cap of 23.9 in that 2029-30 year. It's not normally the practice to provide what the unconstrained numbers are, but, given that it is the last year of that medium term and the close proximity of it, we can say that it is 24 per cent of GDP.

Senator KETTER: I do have quite a few other questions, but I'm happy to go to other people.

CHAIR: We might go to Senator Spender and then come back to that issue.

Senator SPENDER: I just want to ask about effective marginal tax rates. Is it correct that through the additional offset changes in the budget we're going to get a further reduction in EMTRs for people on incomes of between $36,000 and $48,000 at the bottom end, but we're going to get an increase in EMTRs as that offset phases out from roughly $90,000 to $126,000?

Ms Purvis-Smith: As the LMITO—the low- and middle-income tax offset—phases out, it will have the impact of increasing the EMTRs by a small amount, by three percentage points, on taxable incomes of between the phase-out incomes, which is between $90,000 and $126,000. Other parts of the package and the package as a whole, taking last year's and this year's, affects EMTRs by either keeping EMTRs unchanged or reducing EMTRs, and that's due to the changes in the thresholds, which move some taxpayers into lower marginal tax rates, and also to the changes to the rate.

Senator SPENDER: What I'm interested in is an elasticity—the change in income for a change in your effective marginal tax rate. Do you have that sort of information for different
levels of income? For instance, for someone who is on between $36,000 and $48,000, how responsive are they to the EMTRs compared to people in that $90,000 to $126,000 range? Do you have any data on those sorts of responsiveness measures?

Mr Brine: We don't have detailed information like that to hand—labour supply elasticities. Normally, we would work with the Macroeconomic Group on those. I guess a lot of the literature suggests the most elastic people are going to be those at the very high end of the income spectrum they might move overseas, or then non-working partners, and lower incomes. I think those are the factors that come through the literature about being important for labour elasticities.

Senator SPENDER: I've not done it myself, but some people who were very quickly analysing over the first two days of the budget have said that this might have a net effect of discouraging working and saving, because you tend to think that the people at the higher end are more responsive. I know that people who are on beyond $126,000 are eventually going to face some lower effective marginal tax rates, but $90,000 to $126,000 seems like a pretty key income range. There would be reasonably responsive people in that range.

Mr Brine: You wouldn't think the two groups which we spoke of would naturally fall in that range. There could be some.

Senator SPENDER: Are you arguing that the most responsive would be beyond that income range?

Mr Brine: One category might be people who move overseas to access a lower jurisdiction. They are generally on high incomes, and I would suggest they would be above that range. Lower-income people and people perhaps not working at all or working one or two days a week generally, I think, would be below that range. That would be my thinking. I wouldn't jump to the conclusion that that is going to be the part of the population that has the greatest labour supply elasticity.

Ms Mrakovcic: You would be aware that the effective marginal tax rates usually take into account the interaction of the tax and transfer system and the kind of movements that we're talking about in the marginal tax rates, and their contribution to effective marginal tax rates tends to be relatively small compared to the withdrawal of transfer payments and such like. I think our view is that for much of the broad range of incomes that the package covers, the impact of effective marginal tax rates on the actual tax package is relatively small. Certainly we'd expect that a large part of the income span, as you pointed out, would actually be having lower effective marginal tax rates. I'm aware—like you, I suspect—of some of that sort of research, including recently by Dr Breunig and Shane Johnson. That certainly would seem to suggest the elasticities are higher at the higher end. But I think you keep in the perspective by the magnitude of what we are talking about.

Senator SPENDER: It's a couple of percentage points. I don't want to create too much hassle, but if there is any existing collation, maybe in macro, can I ask you to take on notice advice on your understanding of different degrees of elasticity at different income ranges, even if it's just a general thing, like, 'It is our understanding that it rises over income ranges.'

Ms Mrakovcic: We are happy to take that on notice and perhaps pull together something including some of the recent literature.

Senator SPENDER: That would be great. That's it from me.
Senator KENEALLY: Thank you to Revenue Group. Has the Treasury been asked by the Treasurer's office over the past few weeks for more information on issues relating to negative gearing, franking credits or family trusts?

Ms Mrakovcic: Senator, we don't normally comment on what advice has been asked of us by the Treasurer's office. It does go to policy advice to a minister.

Senator KENEALLY: Has Treasury been asked by the Treasurer's office for any analysis or modelling that relates to negative gearing, family trusts or franking credits?

Ms Mrakovcic: Do you mean within the same time span? I don't know that I heard the time span.

Senator KENEALLY: Let's say in the last two months.

Ms Mrakovcic: Again, we don't comment on what advice has been provided to government.

Senator KETTER: We're not asking for the advice.

Senator KENEALLY: Well, actually, this morning both Fiscal Group and Macro Group did comment and said they had not. So is there some different rule for Revenue Group?

Ms Mrakovcic: I don't know that it's a different rule. These questions have come up before, and generally the approach I take is not to comment on what advice has been provided to government.

Senator McALLISTER: Ms Mrakovcic, arguably, by an extension of that logic, everything Treasury does is advice to government, and it would render the estimates process entirely pointless. Every other official who turns up here is willing to discuss the work that they are undertaking. There are obviously things which are narrowly confined within the process of cabinet decision-making, and we accept they are excluded from discussion. But Senator Keneally is asking a much more general question. I don't imagine that Labor Party policies in relation to negative gearing, family trusts or franking credits are part of the cabinet decision-making process of this government. I think there really isn't any reason for you not to answer those questions.

Ms Mrakovcic: Senator, I understand the point you're making and the speculation around what may or may not have been considered by cabinet. In my view, it still would be inappropriate for us to comment on what advice we have provided to government on policies.

Senator McALLISTER: I am going to seek advice from the secretariat about your response because I don't believe it is consistent with the standing orders. I'm just looking for some advice about how you're approaching this.

Senator KETTER: While we're seeking that advice, just to clarify the question, we're not asking what advice you've provided; we're asking whether you have been asked by the Treasurer's office for information on issues.

Senator KENEALLY: For analysis or modelling that relates to negative gearing, family trusts or franking credits.

Senator KETTER: Have you been asked to do work in this area? We're not asking for the advice that you may or may not have given; we're asking a much broader question.
Senator KENEALLY: Again, I point out that this morning both Macroeconomic Group and Fiscal Group were able to answer these questions.

Senator McALLISTER: I have now also sought clarification from the acting secretary about the way the Clerk has considered this in the past. Advice to government is not a sufficient ground for not providing an answer. You need to demonstrate some harm to the public interest.

Senator Seselja: Ms Mrakovic has given the answer.

Senator McALLISTER: No, she has not.

Senator Seselja: She has.

Senator McALLISTER: She has refused to provide an answer.

Senator Seselja: She's given an answer.

Senator McALLISTER: No, no. She's been non-responsive, and she is not entitled to do so under the standing orders.

Senator Seselja: She's given you an answer which you don't like.

Senator McALLISTER: No. She's been non-responsive.

Senator KENEALLY: She's not making a public interest—

Senator Seselja: She has. She's given an answer.

Senator McALLISTER: No, she's been non-responsive.

Senator Seselja: She's answered your question. You may not like the answer she's given, but she's—

Senator KENEALLY: What is her answer, Minister?

Senator Seselja: Sorry?

Senator KENEALLY: What is her answer? Can you—

Senator Seselja: Her answer was that it hasn't been practice to provide that information in the past.

Senator McALLISTER: It's not her decision.

Senator Seselja: But that's her answer.

Senator KENEALLY: We've had a ruling from—

Senator McALLISTER: She's subject to the Senate standing orders. This is a ridiculous argument. You may wish to seek some advice about how you approach this. There are, in fact, ways out and around for the government—and more skilful practitioners than you might know what they are—but just asserting that you can say this is not correct.

Senator Seselja: The official has given the answer. Now I'm answering the question. I'm very happy to take that question on notice.

Senator KENEALLY: Is the Treasury making a public interest immunity claim here?

Senator Seselja: No. I'm answering the question, which I'm entitled to do under the standing orders, and I'm taking the question on notice.

Senator KENEALLY: Why can't you just say yes, because obviously you're hiding—

CHAIR: I think the minister has now been asked this question twice.

ECONOMICS LEGISLATION COMMITTEE
Senator Seselja: The question has been taken on notice.

Senator KENEALLY: Do you know, Senator Seselja?

Senator Seselja: I've take the question on notice, so we'll get you an answer.

Senator KENEALLY: There's someone sitting right next to you who knows.

Senator Seselja: The question has been taken on notice.

Senator KENEALLY: You can't just turn to her and ask her? She's actually required to answer our question under the standing orders.

Senator Seselja: No. I understand the standing orders, Senator Kenneally, as do you. A minister can choose to take a question, which I've chosen to do, and I've taken it on notice.

Senator KENEALLY: Has the Treasury been asked by the Treasurer's office in the past two months for costings that relate to negative gearing, family trusts or franking credits?

Senator Seselja: We'll take the question on notice.

Senator KENEALLY: Has the Treasury been asked by the Treasurer's office over the past two months for more information on issues that relate to negative gearing, family trusts or franking credits?

Senator Seselja: Again, we'll take the question on notice.

Senator KENEALLY: I think we know the answer.

Senator McALLISTER: Based on the evidence today, is it correct to say that the Treasury has done no modelling on a major government package—the Climate Solutions Fund—but is undertaking modelling work on a whole range of Labor policies, including negative gearing, family trusts and franking credits?

Senator Seselja: No-one has said that. What I've said is I'll take the question on notice.

Senator McALLISTER: I'm asking the question: is that correct?

Senator Seselja: You were implying—and what I've said is that I'm taking the question on notice.

Senator McALLISTER: Sorry, the question I've just asked you—you're taking that on notice as well?

Senator Seselja: Was it different from the previous questions?

Senator McALLISTER: Yes, it was.

Senator Seselja: You'll have to restate it for me.

Senator McALLISTER: Is it correct to say that both of these things are true—that the department has done no modelling on the signature climate policy promoted by Minister Taylor and Minister Frydenberg, but it has undertaken modelling and analysis on a range of Labor policies on negative gearing, family trusts and franking credits?

Senator Seselja: I'm not saying that.

Senator McALLISTER: What are you saying?

Senator Seselja: I'm saying that the questions you have asked have been taken on notice, so you will get an answer as to whether any of that has been requested.
Senator KENEALLY: Were you here for Fiscal Group? I'm trying to remember, Minister.

Senator Seselja: Sorry?

Senator KENEALLY: Were you here for Fiscal Group this morning?

Senator Seselja: I was here for part of Fiscal Group, yes.

Senator KENEALLY: Why did they answer the questions? Why didn't you take them on notice then?

Senator Seselja: I'm sorry, I'm not—

Senator KENEALLY: They answered these questions. They answered very similar questions. Why didn't you take them on notice then?

Senator Seselja: I'm not sure that I was here while those particular questions were being asked.

Senator KENEALLY: Why didn't Minister Cormann take them on notice?

Senator Seselja: That's something you'd have to ask him.

Senator KENEALLY: Actually, you were here for all of Fiscal Group. Minister Cormann was not here for any of Fiscal Group.

Senator McALLISTER: That's true. He left.

Senator KENEALLY: He left. You were here for the entirety of Fiscal Group. The same questions went to Fiscal Group, and you allowed them to answer them.

Senator Seselja: They're not the same questions.

Senator KENEALLY: They were questions asking whether or not the Treasury had done modelling in relation to Labor policies. You allowed those questions to be answered. Why won't you allow them to be answered by Revenue Group?

Senator Seselja: Sorry, you got an answer which you didn't like.

Senator KENEALLY: No, I didn't get an answer.

Senator Seselja: Yes, you did. We can go back and forth over it.

Senator KENEALLY: I'm asking you now—

Senator Seselja: You were given an answer which you didn't like. I've now undertaken to take that question on notice for you.

Senator KENEALLY: That's not the question I'm asking you. I'm asking you why, given that you sat here for the entirety of Fiscal Group and they were asked very similar questions, seeking the same kind of information, you allowed the questions to be answered by Fiscal Group but you're taking them on notice now for Revenue Group? Why?

Senator Seselja: I've just answered the question. I can answer it again for you.

Senator KENEALLY: It is a double standard.

Senator Seselja: From an official, you got an answer which you didn't like and which you didn't accept. Under the standing orders, I'm entitled to take the question. I've taken the question. The question has been taken on notice. We will come back to you.
Senator McALLISTER: Ms Mrakovcic, I want to ask you a different question. Will you undertake to seek advice prior to the next time you come to estimates about your obligations in terms of this committee under the Senate standing orders?

CHAIR: I think that's out of line, Senator McAllister.

Senator McALLISTER: Ms Mrakovcic is a very experienced public official—

CHAIR: She is, and I think that you are—

Senator McALLISTER: and she has chosen to be non-responsive. She persisted even when provided the information provided by the Clerk about the nature of public interest immunity. I'm actually quite surprised by it. There are other ways we can deal with this. But we cannot have an estimates process where officials just don't answer questions. That is not an acceptable way.

Senator Seselja: That's not what has been happening here. You just didn't like one of the answers that was given by an official and now that question has been taken on notice.

Senator KENEALLY: Senator Seselja, you are misunderstanding the plain English meaning of the word 'answer'.

Senator Seselja: She responded to your question in a way in which you didn't like.

Senator KENEALLY: She was non-responsive and was not in accordance with the standing orders. You decided to act in a certain way. You decided to act in a way that was contrary to how you acted earlier this morning.

Senator Seselja: No. I acted under the standing orders as you know, Senator Keneally. I have taken the question on notice.

Senator McALLISTER: To protect Ms Mrakovcic because she had no leg to stand on. That was not acceptable grounds to not answer—

Senator Seselja: That's your assertion. I reject that. I have taken the question on notice, as is appropriate, as you well know.

CHAIR: Thank you, Senators McAllister and Keneally. I will come back to you.

Senator McALLISTER: Chair, can I get some advice from you about this?

CHAIR: Yes.

Senator McALLISTER: Do you consider it acceptable to just not answer questions?

CHAIR: How about I ask Ms Mrakovcic some questions and see if she answers for me?

Senator KENEALLY: No, that's—

Senator McALLISTER: No, I'm asking advice from you, as the chair.

CHAIR: That's exactly right. My understanding, Ms Mrakovcic, is—

Senator KENEALLY: Are you not making a ruling?

Senator HUME: Excuse me, Senator Keneally. I'm now asking the questions. Ms Mrakovcic, can you please explain how this works? My understanding is, and perhaps correct me if I'm wrong, Treasury doesn't actually undertake modelling of opposition policies. What it does undertake is modelling of government proposals as appropriate. Is that correct?

Ms Mrakovic: Yes.
CHAIR: Right. So, if you undertook modelling, it would be of a government proposal? Is that correct?

Ms Mrakovic: Yes. This issue has arisen a number of times and we've always said that we cost what the government asks us to cost. Our specifications are provided to us by the government.

CHAIR: Thank you very much. When I was working in funds management and in superannuation, we had an understanding that past performance, while it was no guarantee of future performance, was the best indicator of future performance. Is that something that Treasury would adhere to?

Senator McALLISTER: In every circumstance or in any in particular?

CHAIR: Generally? Past performance, while no guarantee of future performance, is a good indicator.

Ms Mrakovic: I think I couldn't agree to that as a general proposition without understanding the specifics.

CHAIR: I understand.

Ms Mrakovic: It is one indicator and it can be a useful indicator.

CHAIR: It's one indicator. I had always worked on the assumption that taxes always went up under a Labor government and always went down under a coalition government. That's something we have always said in the catchcry. So I did a little bit of research to make sure that was entirely true. I'm specifically looking at personal income taxes. I'm wondering if there's anybody here at the table that can talk me through—has anyone been here for 10 years or 20 years?

Ms Mrakovic: Do you mean in the tax space?

Senator McALLISTER: What about debt over the last—

CHAIR: Excuse me, Senator McAllister. I'm now asking questions. I didn't interrupt you.

Senator KENEALLY: What are the top 10 tax—

CHAIR: Senator Keneally, I didn't interrupt you either.

Senator McALLISTER: But we asked you for a ruling and you didn't provide one—

Senator KENEALLY: You didn't give it.

CHAIR: You can continue to wait until I have finished asking my questions and then I will decide whether I'm going to give you a ruling on a stupid, bloody question anyway.

Senator McALLISTER: Well, it's a point of order, actually, and you are obliged to rule.

CHAIR: Has anybody done any work over the last 10 years or even 20 years as to whether personal taxes have increased under coalition governments—ever?

Ms Mrakovic: I don't believe we would have information on that. We would have to take it on notice.

CHAIR: Have personal income taxes decreased under Labor governments?

Ms Mrakovic: Again, we'd have to take it on notice.

CHAIR: You've done no work on this at all?
Ms Mrakovcic: I'm sure we would have done work, analysing this, but I do not have the results of that to hand.

CHAIR: Have tax brackets changed in such a way that would increase personal income taxes under a coalition government in the last decade?

Senator SPENDER: The deficit levy.

CHAIR: Yes, you're right: the temporary budget deficit levy in 2014-15. In fact, from my analysis, that's the only time that taxes have increased under a coalition government—and, in fact, that's now been removed. Is that your understanding, Ms Mrakovcic, or Ms Purvis-Smith, as this is your department?

Ms Mrakovcic: We have not looked at the evolution of the personal tax brackets in detail under different governments. I can't comment on the specific questions that you are putting to us. If you asked me whether bracket creep featured as an increasing issue in a situation where thresholds do not change and more people are moved up into a higher bracket, we can talk about general themes like that. But the specificity of the questions that you're asking in terms of dates et cetera is not something we can ready answer. We're happy to take the questions on notice and give you as fulsome answers as we can on the analysis that may be back in the department.

CHAIR: Okay; maybe I will give you some questions on notice. I have done analysis of the last 20 years, and I can see only one incident where personal income taxes have increased under a coalition government, and that was the temporary budget levy of 2014-15, and I have seen only one incidence where they have gone down under a Labor government, and that was the compensation package linked to the clean energy future package or the carbon tax. The second tranche did not proceed and, of course, the carbon tax was repealed. So I can see no evidence that personal income taxes have ever gone down under Labor or have consistently gone up under the coalition without being repealed.

CHAIR: Senator Keneally, do you have some questions?

Senator KENEALLY: I might follow on from your questions. Does Revenue Group have any information on the top 10 highest-taxing governments since 1970? Can you confirm that they are Howard, Howard, Howard, Howard, Howard, Howard, Turnbull, Howard, Hawke—in that order?

Ms Mrakovcic: Senator, as I indicated, we don't normally look at the personal income tax system under different governments, however they are categorised. I'm happy to go away and do some work on the evolution of the personal tax system over time.

Senator KENEALLY: Just as Senator Hume can do research, so can I. Could you confirm that in 2004-05 tax to GDP under John Howard was 24.2; in 2005-06 tax to GDP under Howard was 24.2; in 2000-01 tax to GDP under Howard was 24.1; in 2002-03 tax to GDP under Howard was 24; in 2003-04 tax to GDP under Howard was 23; in 2006-07 tax to GDP under Howard was under 23.7; in 2007-08 tax to GDP under Howard was 23.7; in 2019-20 tax to GDP under Turnbull was 23.2; in 2001-02 tax to GDP under Howard was 23.2; and in 1986-87 tax to GDP under Hawke was 23.2? I would appreciate it if that can be confirmed. I am happy for you to take that on notice.

Ms Mrakovcic: We will take that on notice.
Senator KENEALLY: Right. Do we want a ruling from the chair, Senator McAllister?
CHAIR: What was your question?
Senator McALLISTER: Whether or not advice to government is sufficient in terms of making a claim of public interest immunity.
CHAIR: I think that the minister has taken that on notice.
Senator McALLISTER: He's taken that particular point of order on notice?
CHAIR: Yes. The ruling is clear.
Senator McALLISTER: I see; so you are declining to provide advice—
CHAIR: Senator McAllister, I have been extraordinarily gracious today.
Senator McALLISTER: I am just trying to understand.
CHAIR: I have given an exceptional amount of time to ask questions. If you can't land a blow in the time that you have been given, that is not my problem. I have given you extra time. Now don't turn it on me.
Senator McALLISTER: I'm just trying to seek a ruling and I'm trying to understand how you're approaching your role as the chair in that regard.
CHAIR: You've seen the ruling. You've seen the secretariat's advice. I have taken that advice. The minister has taken the question on board and will come back to you at a suitable and appropriate time.
Senator McALLISTER: It is just that the secretary's not in a position to—
CHAIR: I don't know why you're bothering arguing with me, Senator McAllister. It's not my—
Senator McALLISTER: Because the secretary is not in a position to make a ruling. You're in the chair, so I was seeking you to exercise that role.
CHAIR: As I've said, the rule applies and the minister is bound to answer the question, and he said that he will take it on notice. What more can I give you, Senator McAllister?
Senator McALLISTER: Is that your ruling?
CHAIR: Do you want to put Ms Mrakovic in the stocks and we can throw some dead fruit at her and see what happens then? The question has been taken notice. I don't know why you are cross at me.
Senator McALLISTER: I'm not; I just asking for you to make the ruling.
CHAIR: I have.
Senator McALLISTER: I think you maybe now have.
CHAIR: And it's been done and the question has been taken on notice.
Senator McALLISTER: It is just a little unorthodox. The reason I asked—
CHAIR: Would you like to ask some more questions of the department or would you like to ask some more questions of me?
Senator McALLISTER: I would like to have a private meeting to discuss this, actually.
CHAIR: You can't be serious.
Senator McALLISTER: I am serious.
CHAIR: Would you like to ask some more questions of the department?

Senator McALLISTER: No; I'd like a private meeting to discuss it.

CHAIR: Fine. I'm happy to call a private meeting. The committee will suspend while we have a private meeting.

Proceedings suspended from 14:56 to 15:10

CHAIR: The committee will now resume. The committee has confirmed that, as advised by the secretariat before we broke, the mere fact that information consists of advice to government is not grounds for refusing to disclose it; some harm to the public interest must be established. The minister has appropriately taken the question on notice, and we can now move on. That is my ruling. Senator Keneally, do you have further questions for this witness?

Senator KENEALLY: I'm going to cede the rest of my time to Senator McAllister.

CHAIR: You have two minutes and 39 seconds to go.

Senator McALLISTER: Senator Ketter wrote prior to these hearings, seeking some specific information in relation to a year-by-year breakdown of the full personal income tax plan, including the elements that were announced in 2018-19 and the elements announced in 2019-20 budgets. Are those available?

Senator Seselja: This question was asked and answered earlier in the session.

Senator McALLISTER: It's difficult, in some ways, to have the proper discussion, isn't it? Last time this happened, at budget estimates last year, we were trying to work out what the impact of the tax plan was on women. You recall we talked about it then, Ms Mrakovcic. Is still Treasury's view that the tax system is gender neutral?

Ms Mrakovcic: Yes.

Senator McALLISTER: Are you aware of the joint media release by the Treasurer and the Minister for Jobs and Industrial Relations and Minister for Women on 19 March titled 'Labor's Retiree Tax to hurt women more than men'?

Ms Mrakovcic: No, I don't believe so. If I was aware of it at the time, I don't have the recollection of it.

Senator McALLISTER: You were aware?

Ms Mrakovcic: No, I don't believe so. I'm just flagging that, if I did, I don't have a recollection of it.

Senator McALLISTER: Understood. Was Treasury asked to carry out any work in preparation for this media release?

Mr Brine: I'm not aware of us being asked for any work.

Senator McALLISTER: It would have been your area, Mr Brine, that would have done the work?

Mr Brine: That's correct.

Senator McALLISTER: Was the table on the bottom of the media release produced by Treasury?

Mr Brine: I'm not aware of the table; I'd have to check. I know that this type of information is available from the tax statistics document the ATO puts out.
Senator McALLISTER: Was Treasury asked to fact-check the media release? I think the answer is no, based on your earlier answers, but I ask for clarity.

Mr Brine: Not that I'm aware of. I don't have any recollection of being asked to fact-check that document.

Senator McALLISTER: Mr Mrakovcic, you confirmed earlier that it's Treasury's view that the tax system is gender neutral. Can I ask a slightly different question: is it Treasury's view that gender analysis is important when considering tax policy?

Ms Mrakovcic: Let me answer the question as best I can. I think that within the tax system, if a male and a female, a man and woman, are earning the same amount of income, then they face exactly the same tax consequences for that. The tax system itself does not deliver different outcomes for men and women. That is a completely separate issue to the question around the distribution of income and broader issues around what men may earn versus what females may earn. The point is that when you look at it through the prism of the tax system, if a male and a female are earning the same amount of income, they pay the same tax consequences. In that regard, we say that the tax system is gender neutral.

Senator McALLISTER: Okay. That's an explanation of your earlier answer. I am asking a different question, though, which is: is it Treasury's view that gender analysis is important when considering tax policy? I think—

Senator IAN MACDONALD: As you and anyone who's been around the Senate estimates committee for a long time knows, you do not ask public servants for a view or an opinion.

Senator McALLISTER: I am really asking about the operating—

Senator IAN MACDONALD: This is simply an opinion. This is an opinion not of an individual office; it's an opinion of Treasury. I'm not sure how Treasury has an opinion but it's asked of this officer and it's asking for an opinion and it is not allowed under Senate rules.

CHAIR: Senator Macdonald has made a point of order. Please rephrase the question, Senator McAllister.

Senator McALLISTER: Is it Treasury's practice to conduct gender analysis when considering tax policy?

Ms Mrakovcic: It depends on what you mean by 'tax policy'. For example, the tax system has a very wide range of tax expenditures associated with it. If the objective that a government were to set was to use the tax system to achieve particular gender outcomes then you may want to undertake gender analysis to assess whether or not your policy objectives were being achieved. It's a very broad question that you're asking. What I'm trying to say is that, in terms of the tax settings at the general level we're talking about, the tax system is not influencing the outcomes on the gender. It's not the operation of the different marginal tax rates or thresholds which are achieving different gender outcomes; that goes to underlying distribution of income issues. If the objective was set differently and with regard to making a specific issue then one might have a different conversation.

Senator McALLISTER: I think you're answering a different question to the one I asked, which was: is it Treasury's practice to undertake gender analysis when considering tax policy? I think you're sort of trying to explain the circumstances when you might and the
circumstances when you wouldn't, but it doesn't really tell me what your practice to date has been.

**Ms Mrakovcic:** I think then the way I would answer is to say that we would not have that practice if there was no objective of gender behind the policy that was being proposed.

**Senator McALLISTER:** So have you done any gender analysis around any of the personal income tax policies that have been developed in the last two years?

**Ms Mrakovcic:** Not to my knowledge.

**CHAIR:** I would like to ask questions about the instant asset write-off, please. The government has accelerated tax cuts and has included in the budget an expansion of the instant asset write-off program to $30,000 for businesses with turnover below $50 million rather than $10 million. How many businesses have previously used the $20,000 instant asset write-off?

**Mr Hirschhorn:** If I talk to you about the 2016-17 numbers, there were 362,000 claimants of the instant asset write-off, as per their tax returns.

**CHAIR:** How many businesses are eligible under the new measure?

**Mr Hirschhorn:** I would not have the exact number with me, but we estimate about three million businesses are entitled to claim.

**CHAIR:** So what proportion of businesses, approximately, as a thumbnail, that were entitled to claim did claim under the old system?

**Mr Hirschhorn:** In a rough sense, it's somewhere between 10 and 15 per cent of businesses in any one given year have been—I might answer more precisely—disclosing in their tax return that they have claimed the instant asset write-off. It may well be that other companies have claimed it but have disclosed it as a general deduction rather than specifically as an instant asset write-off.

**CHAIR:** The old cap was $10 million turnover. How many businesses did that include?

**Mr Hirschhorn:** The three million was in relation to the old cap. Unfortunately, I would have to take on notice how many additional companies are included in the new cap.

**Mr Brine:** I think it's about another 20,000 that get brought in. It's 22,000 that are brought in under the extended cap.

**CHAIR:** Did you say '22,000' businesses?

**Mr Brine:** Yes.

**CHAIR:** Do you know how many people those businesses employ?

**Mr Brine:** I don't have that figure to hand, I'm afraid.

**CHAIR:** So if you were a small company, a little local supermarket, and you made a taxable profit of $100,000 a year, how much would it reduce your tax bill in the next two financial years if you used this instant asset write-off? It would depend on how many items you purchased and wrote off, wouldn't it?

**Mr Brine:** That is correct. As Mr Hirschhorn said, it's difficult to be 100 per cent accurate because sometimes they use the general deduction label, but, of those using the instant asset write-off label, it's an average claim of about $11,000.
Senator IAN MACDONALD: For some clarification on this whole issue, the original instant tax write-off was for a limited period of time, wasn't it? Is this new arrangement limited by time? If so, what sort of time?

Mr Brine: It is still limited by time.

Ms Purvis-Smith: The new arrangements are as from budget night out until 30 June 2020.

Senator IAN MACDONALD: Not 2030?

Ms Purvis-Smith: No, 2020.

CHAIR: I will leave it there.

Senator SPENDER: Just going off the question before about gender analysis of tax matters, I'm assuming you would potentially be able to do so because, for income tax, you know about males and females. But you couldn't really do it with indirect tax because you don't know about male and female drinkers, smokers and drivers. Is that fair?

Mr Brine: Yes, that is correct.

CHAIR: I was looking forward to the next one after that, Senator Spender.

Senator KETTER: Ms Mrakovcic, I will revisit the question I asked about the unconstrained tax to GDP. You were helpful enough to tell me what the figure was for 2029-30. If I take you to box 2 on page 3-14 of budget paper No. 1, which shows the difference between the tax to GDP ratio as per the 2019-20 budget, what would happen if tax receipts were unconstrained and there was no personal tax relief?

Ms Mrakovcic: Sorry, do you mean statement 3?

Senator KETTER: No, I am talking about budget paper No. 1, page 3-14, which shows the difference between tax to GDP ratio as per the 2019-20 budget and what would happen if tax receipts were unconstrained and there was no personal tax relief. Firstly, the scenario under which there is no personal tax relief, is that the position of any major political party, to your knowledge?

Ms Mrakovcic: Sorry, can you repeat that question?

Senator KETTER: Is the scenario under which there is no personal tax relief the position of any of the major political parties?

Ms Mrakovcic: I can't comment on it. I think the chart is just providing an analysis of where the government would say that tax receipts would be heading without their personal tax plan of last year or this year. That's all it purports to do.

Senator KETTER: Is the 2019-20 budget line based on constrained tax receipts?

Ms Mrakovcic: Yes. As I mentioned earlier, the 23.9 per cent tax cut comes into play in 2029-30.

Senator KETTER: Are you able to provide the data and figures for what it would be if there were unconstrained tax receipts?

Ms Mrakovcic: That's the answer we gave you earlier of 24 per cent of GDP.

Senator KETTER: Okay.

Mr Brine: I will add that the data underpinning this chart is available on the website. So, if it were the unconstrained percentages of GDP you were interested in, that data is available.
**Senator KETTER:** I now want to go to the R&D tax incentive and refer to Budget Paper No. 1, page 5-35, and table 14.1. It's the table that refers to the expenses on mining, manufacturing and construction for this year's budget. I will be referring to versions of that table from earlier budgets to put this year's budget in context. Firstly, can I confirm that the figure of $1,967 million is the estimate for the cost of the R&D tax incentive for 2018-19?

**Mr Brine:** Not quite. It's the estimate for the refundable component. So it's not the non-refundable component which is earned by companies over $20 million; it's just the refundable component. This is a little bit tricky. I should predicate this by saying this is a Department of Finance table. So they are the experts, but I can try to help a bit. This table is predicated on the economic transaction method. So what it's trying to show is the amount of refundable claims that relate to economic activity undertaken in the 2018-19 year. So it may be that the tax return is not put in until one, two or three years later. They then try to estimate, from those tax returns, how much of that economic activity relates to the 2018-19 year and then they forecast that forward.

**Senator KETTER:** If I refer to the equivalent table and figure from 2017-18 budget, it was $2.8 billion. Would you have those figures here?

**Mr Brine:** I do have the figures for the 2018-19 budget and the 2018-19 estimate for that same figure was $2,373 million, so that has gone down by $406 million since the 2018-19 budget.

**Senator KETTER:** So has the cost of the scheme fallen from 2017-18?

**Mr Brine:** That is correct. The estimate that is provided by Finance is lower. It's $400 million lower in the 2018-19 year. That's driven by two components. So $200 million of that is driven by observed outcomes or the claims that are coming in through the door to the ATO for the 2018-19 year. The other half of that is due to a technical accounting treatment of this ETM-type table. Since the 2018-19 budget, the ATO and Finance have become aware that their estimates for 2017-18 and 2016-17 were a little bit too high. Their estimate about what economic activity would be subject to the R&D refundable component in 2017-18 and 2016-17 was a bit high. The way these tables work is that that $200 million correction is fed into the 2018-19 table. So $200 million of the $400 million change is due to an accounting technicality, and $200 million is due to what we would call observed claims. The $200 million which is due to an accounting technicality affects that year only. The $200 million which relates to observed claims affects the base year and is carried on through the future years. The difference in the future years: it's $200 million in 2019-20, as you'd expect, and it then grows to $317 million and $397 million. That larger difference in those years is due to the company tax rate reduction commencing. You'll remember in the 2018-19 budget the government amended the refundable scheme so that the amount of the refund is tied to the company tax rate. As the company tax rate for small businesses goes down, the gross amount of payments that are picked up by these tables will go down.

**Senator KETTER:** When I looked at the 2016-17 figure, it was $2.8 billion. Is that your recollection?

**Mr Brine:** I'm not able to reconcile back to 2016-17, sorry. I could reconcile back to last budget, but that would be going back two budgets and I just don't have that paperwork in front of me.
Senator KETTER: Okay. Does the answer you've just given me give the full reason as to why the cost of this scheme has fallen?

Mr Brine: Compared to the 2018-19 budget. None of that is policy change. That's just those other factors I alluded to.

Senator KETTER: What about going back to the 2016-17 budget?

Mr Brine: There was a significant change to the R&D tax concession introduced in the 2018-19 budget, so part of that would be policy. I'd have to take that on notice to reconcile back to 2016-17. But policy changes would be the main driver there, I suspect.

Senator KETTER: If we look at the forecasts in table 14, we see that the expenditure forecast for 2018-19 was $3.2 billion, and this is the projection for the 2017-18 budget.

Mr Brine: Sorry, Senator; I'm not able to help with numbers from the 2017-18 budget, but I can take those on notice.

Senator KETTER: All right. My questions go to the fact that, three years ago, Treasury thought the government would be spending $3.2 billion in 2018-19, but now it turns out the cost is $1.9 billion.

Mr Brine: I'd need to take that on notice. That's going back a few budgets now. As I said before, there have been changes to the design of the policy, and that will explain some of that.

Senator KETTER: I can table an extract from the 2017-18 budget, the comparable table from that budget. It's got my squiggles on it, so excuse those. So I'm looking at table 14.1, and the figure for 2016-17 is the $2.8 billion that I was referring to. If you look at the 2018-19 figure—you might find it difficult to read, but that's actually the $3.2 billion projection for 2018-19.

Mr Brine: The figure I have here for the 2018-19 budget is $2.3 billion.

Senator KETTER: This figure comes from the 2017-18 budget.

Mr Brine: That's correct. That's correct. I just can't read—is that 3.2?

Senator KETTER: Yes, I apologise. That was a three.

Mr Brine: I'd have to take that on notice. There were policy changes announced in the 2018-19 budget, and this is a volatile revenue head, an area of the budget that sort of goes up and down a fair bit.

Senator KETTER: So, in last year's budget, which you have been referring to, the cost was $2.3 billion for 2018-19. That was down $400 million from last year's estimate.

Mr Brine: That's correct.

Senator KETTER: Now, that reduction is before the implementation of the measures announced in last year's budget; is that correct?

Mr Brine: No, that would be predicated on the government's announced policies. That assumes the government's—

Senator KETTER: The implementation—

Mr Brine: The implementation of the government's policies—that's right.

Senator KETTER: Okay.

ECONOMICS LEGISLATION COMMITTEE
CHAIR: Senator Ketter, your time expired some time ago. I'm conscious that we've got Senator Patrick, who's been waiting very patiently.

Senator KETTER: I'm happy to come back later.

CHAIR: Senator Patrick.

Senator PATRICK: I want to raise issues of public interest disclosure. I don't know who the best person to chat to is.

Ms Curtis: That would be me.

Senator PATRICK: Ms Curtis. Thank you. In the context of your policies—and I know the act is silent on this—if someone inside the department wishes to make a public interest disclosure, what are the mechanisms for them preparing a disclosure?

Ms Curtis: In the tax office, obviously we follow the guidelines that are produced by the Commonwealth Ombudsman and the advice that he has available, which is made available to our staff on the internet and by other communications. We take the whistleblower act, or Public Interest Disclosure Act, very, very seriously, so we want to make sure staff are informed about that. I can't go into the detail because I don't have the actual guidelines with me, but staff are encouraged to, and supported to, make disclosures if they feel that they have something to disclose that's in the public interest that constitutes serious misconduct or wrongdoing.

Senator PATRICK: Okay. So I'm an ATO staffer and I think my immediate supervisor's doing something wrong, and what I allege about that person is quite serious, but that supervisor, of course, has placed expectations upon me about my work and what I need to be able to complete on a daily basis, How is someone in that environment, working closely with that person, able to sit down and clearly articulate the issue that needs to be disclosed?

Ms Curtis: Normally, they would just raise their concerns via some sort of written disclosure, but equally—

Senator PATRICK: I'm going to how they get to write that down. There was a former ATO employee who was dismissed whilst engaged in disclosure activities—in fact, trying to assist the IGT—in relation to a PID that they made. I put it to you that it's very difficult if you want to make a disclosure about your area of work, which is what you're most likely going to make a disclosure about, in that environment, because to do so you have to, in a sense, use time that is supposed to be for doing work, and you are very likely to be in the presence of the very people whom you are making an allegation about. What do you put in place to make sure that someone is there? Is there some weekend spot they can come to? How do you manage that?

Ms Curtis: I'm not really clear on your question. There's nothing to stop an employee in their break, for example, writing whatever it is that they want put forward as a public interest disclosure or going home and doing that from home. But I don't know the specifics of the type of claim that you're discussing. However, I do think that the case you're referring to, which is in the public eye, is the case of—

Senator PATRICK: No, I'm not referring to any particular case at this point. There's a good reason for me not doing that.
Ms Curtis: Yes, that's where I was going. I can't comment on specific cases. I do have our general counsel here, Mr Todd, who is actually the person who really has the expertise on public interest disclosure, and he might be able to answer, or we may be able to take it on notice.

Senator PATRICK: Sure. That's great.

Mr Todd: I think you could do the work on the public interest disclosure in the workplace or at home, but you can only disclose what is reasonably necessary to make that disclosure. You can also seek advice from someone internally in the ATO—for instance, in ATO People if it's in your immediate management area—or you could seek advice from the Commonwealth Ombudsman's Office. You can also seek—

Senator PATRICK: Yes, but, at the end of the day, I'm trying to get down to the actual act of writing. You said you can do something at home. That might require you to, for example, take some documents home. Where this in some sense comes to is that the act is silent on where the protection starts, but one would reasonably presume that the protection starts from the moment you decide to make a disclosure and protects any act of which the dominant purpose is to bring the disclosure to the attention of the organisation. Would that be a reasonable proposition?

Mr Todd: I think the act protects you from the time you've made a disclosure, and in making a disclosure you've got to be cognisant of the requirements of the PID Act and other laws.

Senator PATRICK: So you think that is only at the point you make the disclosure? Obviously, you're an expert in this area.

Mr Todd: Once you've made a disclosure, the protections apply.

Senator PATRICK: But, if you're going to make a serious disclosure, you need to sit down and work through it properly. Some disclosures will require care and attention. For example, in the preparation for this particular discussion, I may have had many discussions with many different people, all protected by parliamentary privilege because it's a discussion that is incidental to the proceedings of the parliament. In legal matters, before you get to the court, there are protections offered in respect of legal professional privilege. They're common-law protections. In making a disclosure, it would be reasonable to say that, for someone who is preparing for a disclosure, acts that are done for the dominant purposes of making that disclosure would in some sense be protected.

Mr Todd: That would depend on the particular facts. It's hard to comment on intentionality.

Senator PATRICK: Actually, you need to spend time preparing a disclosure. That's clear.

Ms Curtis: I think these questions are best directed at the Commonwealth Ombudsman, who actually has—

Senator PATRICK: No, they go to your policies, actually. I'm trying to understand. If you have no understanding of these, it tells me the ATO hasn't thought this through.

Ms Curtis: I also think that this is getting a little bit close to the case of the—

Senator PATRICK: Respectfully, I am entitled to ask questions about the general manner in which you are giving effect to the Public Interest Disclosure Act. I haven't mentioned
anyone or anyone's cases. These are very general questions, and just because there's a matter before the court doesn't mean the Senate can't ask questions about process inside the ATO. So I would appreciate an answer to my question.

Ms Curtis: They are specific questions which I would like to take on notice, because we would have to give that due consideration.

Senator PATRICK: All right. So it's clear to me you don't really have a policy about the acts conducted prior to making a disclosure.

Mr Todd: The act has requirements. We can give you detail on that.

Senator PATRICK: Sure, but the act's silent on that particular matter. I have had a look at it.

I might actually go to the specific matter now, the matter of Richard Boyle. I am aware that that matter is before the court, and I will not be dealing with any questions that that court will be asked about illegal conduct for Mr Boyle. I'm just trying to understand the processes that took place prior to charges being initiated, so I'm dealing with matters that are executive matters, not matters dealt with by the judiciary. Can you give me the date upon which the ATO started its investigation into Mr Boyle?

Ms Curtis: I have to be very careful now in what I can actually say, because there is a risk of prejudicing the trial.

Senator PATRICK: If there's a risk, you can state what you think that risk is and what the harm would be, and the committee can make a decision in respect of that. But, to give you an example, the Attorney-General has provided all the dates related to witness K. The CDPP provided all of the dates. They're not matters that are at question before a court.

Ms Curtis: I can provide the dates.

Mr Todd: I think the date was in February 2018. I don't think I have the precise date.

Senator PATRICK: That's when the ATO commenced its investigation?

Mr Todd: The investigation of the criminal offences?

Senator PATRICK: Yes. So, you needed to conduct an investigation to prepare a brief for the CDPP?

Mr Todd: Yes. And there was a warrant executed with the AFP's assistance.

Senator PATRICK: Sure, but that's some time after February, one presumes?

Mr Todd: That's 4 April 2018.

Senator PATRICK: That was when the raid occurred—4 April?

Mr Todd: The warrant was executed, yes.

Senator PATRICK: Sorry, the warrant. I apologise. In some sense, this is unusual in the context that the ATO has investigative powers and normally, as a matter of course, would use its investigative powers, presumably, against taxpayers who are in breach of the law.

Mr Todd: We didn't use ATO investigative powers for this. The AFP executed the warrant.
Senator PATRICK: I had a conversation with Commissioner Colvin yesterday. He made it very clear to me that they did not prepare a brief and they did not conduct an investigation—

Mr Todd: You were talking about the warrant though.

Senator PATRICK: No, I'm talking about the investigation. They did assist you with the warrant, because you don't have powers in respect of the ability to execute a warrant with a side-arm, for example.

Mr Todd: Yes, that's right.

Senator PATRICK: I'm talking about the investigation. It must have been initiated. What I think is unusual in this case—I just want to get a feel for how you typically deal with this—is that, if I want to raise a matter, or a normal department wants to raise a matter with the AFP, the AFP have a prosecution guideline, which is a series of steps they go through where they independently assess whether or not they wish to proceed with the investigation. I want to know what happened in this particular instance, because, in some sense, there's no independence. Someone has decided to conduct an investigation. Normally, if you'd done that with the AFP they would have looked through their prosecution guidelines and come up with a decision about whether or not to prosecute. How does that work in the context of the ATO trying to investigate an internal matter?

Mr Todd: We investigate the matter. The AFP assisted us with the execution of the warrant, and then we handed the investigation over to the—

Senator PATRICK: No, I'm talking about the start of the investigative process. The AFP, when it conducts an investigation, goes through a process to decide whether to proceed with an investigation.

Mr Todd: Our internal FPII people would have similar access to similar guidelines and advice, so—

Senator PATRICK: Can you provide to the committee those guidelines for your own internal decisions about how you initiate an investigation.

Mr Todd: Yes.

Senator PATRICK: I might go now to the disclosure that Mr Boyle made—once again, these are not matters before the court; this is really to do with him having made the disclosure. He made a disclosure on 12 October 2017—that's my understanding. Can someone let me know: was that disclosure accepted or rejected? There are obviously many outcomes. You can just say: it's not disclosable conduct; it is disclosable conduct, but we didn't find that there's any issue; or it is disclosable conduct and we did find there was an issue.

Mr Todd: Well, I think this does go to matters that may be in a jury trial, so I don't think we want to answer that.

Senator PATRICK: Sorry? There's a question in the court as to whether he lodged a PID?

Mr Todd: It's on the public record that he lodged a PID.

Senator PATRICK: I'm looking at executive actions here, not questions as to his criminality and things that he may have done. I'm looking at what the department has done in complying with law. I'm simply asking: was the disclosure that was made dismissed, did
someone just ignore it, or did it progress to a point where someone made a decision that it was or wasn't disclosable conduct?

Mr Todd: The processes required under the PID Act were followed.

Senator PATRICK: So, my question is, very specifically: what was the outcome? Was it determined that this was a public interest disclosure? Or was it not?

CHAIR: We might make this the last question.

Senator PATRICK: All right. I will come back to it. Thank you.

Mr Todd: It was determined it was not a public interest disclosure.

Senator PATRICK: It was not a public interest disclosure. So, it didn't meet the disclosable conduct in accordance with the act?

Mr Todd: No. That's right.

Senator PATRICK: He certainly raised issues of unethical conduct, breaches of the Public Service Code of Conduct, and they fit within the meaning of 'disclosable conduct'.

Ms Curtis: Senator Patrick, we can't comment on the contents of the PID itself. You know that.

Senator PATRICK: Actually, I'm not going to take a response like that. Just so you're very clear, the Senate has enormous powers with respect to its inquiries. If you think that you can't answer a question, you are welcome to turn to the minister and ask to raise a public interest immunity—okay? That's the way it works.

Mr Todd: We've been trying to answer the questions we can.

Senator PATRICK: Sure, and I appreciate that, but I'm not accepting a blanket, 'I'm sorry, we can't talk about that,' because you can.

Ms Curtis: He did answer the question.

CHAIR: Senator Patrick, I'm happy to come back to you.

Senator PATRICK: Thank you.

Senator Seselja: Just to be clear, officials are being as helpful as they possibly can, but it is challenging when there are court processes. You're right: it's not a blanket ban. No-one's suggesting that. I think the officials are rightly being cautious in their answers.

Ms Curtis: Senator, I wasn't trying to say we wouldn't answer your question; I was trying to say that we can't comment on what was in the public interest disclosure. What we can say—

Senator PATRICK: Because?

Ms Curtis: Because the public interest disclosure is protected information. What we can say—

Senator PATRICK: We've been through this with the tax office before. Protected information does not apply in this forum.

Mr Todd: We're not talking about tax-protected information.

Senator PATRICK: No. The law is very clear in this country. Unless an act of parliament prohibits the disclosure to either house of the parliament, you cannot claim that it's protected, it is secret, it's covered by privacy laws.
Senator Seselja: Senator Patrick, just to counter that for a moment, as you know, there is a range of conventions in this place and the Senate rarely uses all of its legal ability, for good reason and that includes when there are court processes. That's why we have conventions, such as sub judice conventions, and so we seek to balance those concerns.

Senator PATRICK: I'm happy to follow that.

Senator Seselja: It's not as clear-cut as you always being able to demand an answer on everything, because the Senate also expresses a view, as do committees. I think you're trying to paint a picture which is a little more black and white than, in fact, how things operate. There is a series of conventions and the Senate effectively self-restrains itself in the public interest from pursuing every question that it could and having every matter in the public domain.

Senator PATRICK: I have the resolution here on how this is supposed to be handled. I will go back to the Chair.

CHAIR: Thank you, Senator Patrick. Senator Ketter.

Senator KETTER: I want to return to the tax incentive. You've previously said the 2018-19 measures have been factored into the projections for the cost of this particular measure. Is that correct? I see you nodding.

Mr Brine: In the budget.

Senator KETTER: This committee provided unanimous advice to the government with respect to what is called the intensity threshold, which you'd be aware of, Mr Brine. Do you know whether the government has accepted that advice?

Ms Purvis-Smith: Senator, the government's not made any further decisions on the R&D tax incentive as yet. So the policy that the committee inquired into is as it stands.

Senator KETTER: Can you tell me whether the government is considering the intensity threshold measure?

Ms Purvis-Smith: I can't tell you a level of detail. I know that the intensity threshold was one of the issues that the committee asked to be looked at. We are looking at the report and the government will consider its position. But it has not changed its decision on the R&D tax incentive.

Senator KETTER: So it's an open question as to whether the government will proceed to implement those measures from the 2018-19—

Ms Purvis-Smith: Sorry—in terms of the legislation that's currently before parliament?

Senator KETTER: Yes.

Ms Purvis-Smith: There has to be a government decision to change anything to do with their current policy. There has not been any further government decision to change what's before parliament.

Senator KETTER: So we've got the saves from that particular intensity measure and they have been included in the budget, but we haven't got a decision yet as to whether the government will be proceeding with that?

Ms Mrakovcic: I think the issue is that until the government changes a decision, and they have given no indication at this point of any intention to change the decision, the budget
documents reflect the decisions that have been taken by government. As you will recall, that decision was taken at the time of last year's budget and it was incorporated into the estimates, and that remains the position.

**Mr Brine:** I will add one further clarification. The intensity threshold affects the non-refundable component of the scheme. I think the table we're looking at is the expense side, the refundable component. So that one aspect, the intensity threshold, isn't really relevant for this table, but there are other measures in that package that would affect the refunds.

**Senator KETTER:** Alright. Is the save from the 4 million cap on the refundable part of the incentive incorporated in these estimates of expenditure on the scheme?

**Mr Brine:** All the government's policies would be included.

**Senator KETTER:** I think that some stakeholders think the government might be reconsidering its position on some of these measures from 2018-19. Are these stakeholders not correct?

**Ms Purvis-Smith:** To make a change there would need to be a government decision that is a different government decision, and there is no different government decision that's different to what's in parliament at the moment.

**Senator KETTER:** Can you tell me whether there's any chance we'll get clarity on the government's position before the election?

**Ms Purvis-Smith:** I think that would be a matter for government.

**Senator KETTER:** Minister, are you able to—

**Senator Seselja:** I've got nothing to add to what the officials have said.

**Senator KETTER:** Mr Brine, can you remind me what was the value of the save that was arising from the measures proposed in last year's budget?

**Mr Brine:** The estimated net impact of the changes announced at the 2018-19 budget over the four years to 2021-22 in underlying cash balance terms were $44 million in 2018-19, $581 million in 2019-20, $693 million in 2020-21 and $648 million in 2021-22.

**Senator KETTER:** Is that adding up to about $2.4 billion?

**Mr Brine:** The 2.4 is adding a different set of numbers. That is adding the fiscal estimates. That's slightly higher. The numbers I read out were the underlying cash. The fiscal figures would be 314 in 2018-19, 641 in 2019-20, 763 in 2020-21 and 718 in 2021-22. The fiscal numbers there are a little bit higher, because they reflect the timing at which the liability is raised and generally the cash amounts trail that.

**Senator KETTER:** So this reduced business expenditure on R&D is making a contribution to the so-called government surplus? Is that correct?

**Mr Brine:** Those figures would all make a contribution to the surplus, that's correct.

**Senator KETTER:** What's the ATO advice to companies who are thinking about research and development and what they might or might not be able to claim? Is anyone able to assist with that?

**Mr Hirschhorn:** In conjunction with AusIndustry, who have responsibility for eligibility criteria, we provide a range of guidance material based on particular industries to help people make good applications for registration and high-quality claims in their tax return.
Senator KETTER: We have got a unanimous committee recommendation that there are some aspects of this measure from last year that need to be looked at. Can you understand why industry might be concerned about not knowing what the government's position is on this matter?

Mr Hirschhorn: I will make two comments. One is that I don't think I'm in a position to speculate as to what industry is thinking. The second is that I administer law as it is, so I leave questions of policy to my Treasury colleagues.

Senator KETTER: Mr Brine, are you in a position to tell us whether you're experiencing some of the concern that industry has in relation to the uncertainty around this area?

Mr Brine: This is probably more a question for Ms Purvis-Smith.

Ms Purvis-Smith: I would have to take that on notice. We did a lot of consultation and we were aware of industry's concerns and we were looking at the report. I'm not sure as to whether we were getting, more recently, further industry representations or concerns. I would have to take that on notice—and I can.

Senator KETTER: You're under no illusions as to what the majority of the sector is concerned about?

Ms Purvis-Smith: We undertook consultations and we're aware of the industry's views.

Senator KETTER: I understand the PBO has released an advice on the budget impact of unlegislated measures that reduced the value of the proposed save that we're talking about here to $1.6 billion. Are you aware of that?

Mr Brine: I am aware of the paper; I'm not aware of that figure.

Senator KETTER: You're not aware of the figure?

Mr Brine: No, sorry.

Senator KETTER: So you couldn't tell me whether or not you agree with the PBO's estimate?

Mr Brine: No, I wouldn't know how they'd approach that. Our general approach in the budget papers is that, if it's possible for the government to enact the legislation, to meet the commencement date that the government's announced, then we wouldn't make an estimates variation; we would leave the policy intent as announced by the government. And our assessment is there's still sufficient time for the government to legislate this measure for a 2018-19 commencement. Given that companies have 10 months following the end of the income year to register for R&D with AusIndustry, that gives them till March 2020.

Senator KETTER: Can you tell me why the PBO might come up with a lower estimate?

Mr Brine: You'd have to ask the PBO, I'm sorry.

Senator KETTER: In last year's budget, in the footnote to table 14.1, Treasury indicated that the expenses of the R&D scheme would increase by 5½ per cent from 2018-19 to 2021-22 because of 'changes in the number and size of expected claims from eligible companies with an annual turnover of less than $20 million'. But this year's budget paper says that the expenses are expected to increase by only 0.4 per cent from 2019-20 to 2022-23. Can you tell me why there is this revision down from 5½ per cent to 0.4 per cent?
**Ms Purvis-Smith:** This is a Finance table, so with that text we'd need to get some advice from the finance department.

**CHAIR:** To follow up the R&D questions, there are a number of senators at the hearing today that were on that committee, but there are some that weren't. I wonder whether you could explain to the committee why there are concerns about the integrity measures around the R&D tax incentive.

**Ms Purvis-Smith:** The government's decisions in relation to the R&D tax incentive came about over a number of years and started in what's colloquially termed the 'three Fs' review, from Messrs Fraser, Finkel and Ferris. They looked at the incentive and came to the conclusion that it wasn't meeting its objective, in particular in relation to incentivising spillover effects and additionality, and in particular additional R&D that wouldn't otherwise have taken place in the absence of the R&D incentive. They undertook quite a lot of consultation, including with not only direct industries and direct companies but also advisers and practitioners who were advising the companies in relation to the R&D tax incentive, and found that it was being used, almost in retrospect, to find things that would be calculated and comprised of R&D but would have been—

**CHAIR:** Which is why the cost had blown out.

**Ms Purvis-Smith:** That's right. So the cost had been increasing over many years for that. So the government's responses weren't directly in line with the three Fs review. The three Fs review recommended some quite stringent, you could say, policy recommendations, including a $2 million cap on the refundable part of the R&D incentive. So there was further consultation undertaken, including with the innovation and science review—I think I have the name wrong, I apologise. That came up with some alternate recommendations and the government eventually decided upon some recommendations that still gave an incentive but tightened the incentive up so it was trying to get at the additional R&D that wouldn't have otherwise taken place in the absence of the incentive.

**CHAIR:** My understanding in that inquiry was that, while business wanted certainty and they wanted the government to act as quickly as possible, the last thing they wanted was the wrong policy implemented or a policy that had unintended consequences. That committee reported only last month?

**Ms Purvis-Smith:** I think it might have been a month-and-a-half ago, so it wasn't very long ago.

**CHAIR:** So the time for the government to respond appropriately is a little limited but you would expect government would respond in as timely a manner as possible. I just want to ask some questions about multinational tax avoidance, which we normally would direct to the commissioner because he loves to talk about it. I specifically want to ask about the result that the ATO has seen since the implementation of the multinational anti-avoidance laws and the diverted profits tax.

**Ms Curtis:** You're quite correct. If he were here, he would definitely like to take that question. Given he's not here, we will give it to Mr Hirschhorn.

**CHAIR:** Mr Hirschhorn knows almost as much.

**Mr Hirschhorn:** Perhaps even more, Senator. I will approach this in two parts. The multinational anti-avoidance law is a law that is really directed at business models where
people had a selling presence in Australia but billed from overseas. So you thought that you were buying a service and dealing with a salesperson in Australia, but, when you finally got the bill, it came from Ireland or somewhere else. The multinational anti-avoidance law said that, where that was a deliberate structure to avoid having a taxable presence in Australia, it would apply to strike out those schemes. The great news about the multinational anti-avoidance law is that 44 companies have restructured or are in the course of restructuring their operations to move to a model where they actually bill from Australia and recognise a taxable presence in Australia. That has brought about $7 billion of sales per annum onshore—so billed by the Australian company instead of being billed from Ireland, say, or somewhere else—with the consequential increases to tax. Obviously, those companies are allowed reasonable expenses against that $7 billion, but that is leading to significant increases in income tax and also in conjunction with some of the GST measures—some significant increases in GST collections.

**CHAIR:** What does that translate to in terms of revenue raised or forecast?

**Mr Hirschhorn:** If possible, I might come back with the numbers.

**CHAIR:** Yes.

**Mr Hirschhorn:** The multinational anti-avoidance law operated as all good anti-avoidance laws should, in that it encouraged companies to come into the fold and proactively address their affairs. That was very significant and it helped us address back years for those companies where we were already in dispute over whether that model was effective. The order of magnitude of liabilities we raised across e-commerce companies in that sort of model was in the order of $1 billion in back-year liabilities as well as the continuing stream of increased future tax.

So it was a fantastic success, and most of the major internet and e-commerce companies have made public disclosures of various sorts that demonstrate their tax has gone up very significantly. If you look at the most recent corporate tax transparency report, you will see that the sales acknowledged by those groups have come up dramatically, with the small proviso that the data is a couple of years old, so you see a couple of the companies mid-course in changing from their old to the new model.

The diverted profits tax, which was more recently introduced, only applies for years of income start after 1 July 2017. It relates to more specific forms of manipulation of the international tax system, usually involving a combination of anti-avoidance or avoidance and transfer mispricing. The first returns that could possibly be subject to the diverted profits tax were lodged in January this year. Again, I would say the effect of that provision has been to encourage people to come to us to talk about their business models. I would say that we have a handful of companies where the application of the diverted profits tax is in contemplation. But the first returns that were potentially subject to the diverted profits tax were only lodged in January this year.

**CHAIR:** Can I ask about the introduction of country-by-country reporting and how that is manifesting. That is part of the tax avoidance taskforce?

**Mr Hirschhorn:** There are two forms of reporting that are new as part of the government's base erosion of profit-shifting suite of measures. One is called the common reporting standard, and that is the sharing of bank information in relation to Australians who
hold bank accounts offshore and vice versa. Country-by-country reporting is a measure that applies more to multinationals, and that is that these companies are required to produce reports and a tiering of reports will provide additional information in relation to their international operations, where they're booking profit and where they're paying tax. It's a multilateral measure. It is starting to bear fruit. I think we have received about 4,000 country-by-country reports so far. So that measure is coming in and we are getting very useful information from those reports.

CHAIR: The anti-avoidance task force, just for my benefit, how many people work in the anti-avoidance task force, or is it something spread about the organisation? Are they just specifically looking at multinationals or are they looking at domestically domiciled organisations and individuals as well?

Mr Hirschhorn: With your indulgence, I might go a little bit into the history of the task force. In 2016-17 the government launched the tax avoidance task force in its current form. That rolled up a few previous task forces and also gave a significant extension—in the order of, I think, 300 to 400 people focused on public groups and multinationals, so both foreign multinationals and large domestic companies. That suite straddles not only public businesses and multinationals but also large private groups and high net-wealth individuals. So the task force has a broader remit than just internationals, although the expansion element was really focused on public groups and multinationals.

To put rough numbers on it, public groups and internationals focuses on—as the name would imply—public groups and multinational companies, and it has about 1,400 people, of whom about half are funded by the task force. Private groups and high net-worth individuals, which we now have a slightly different title for, has about 2,000 people, of whom off-hand I think about 500 are funded through the task force. That might be an understatement, and I'll take that on notice. In the budget the government announced a further extension of the task force. The task force was scheduled to come to an end on 30 June 2020. The government has moved quicker than that and has announced an extension of the task force for another three years after the previous end. That is not only an extension but also an expansion—again, a significant expansion—to focus on the largest private groups and high-net-wealth individuals.

CHAIR: I'm sorry; I could go on about this all day, but I am conscious of time. We did agree to break at a quarter past four, but I think there may be more questions for Revenue from Senator Ketter and Senator Keneally, so I'm afraid we're going to have you back after the break.

Proceedings suspended from 16:15 to 16:30

CHAIR: The committee will now resume with questions from Senator Ketter for the Department of the Treasury Revenue Group and the Australian Taxation office.

Senator KETTER: I have one further question to Mr Brine on the R&D tax incentive, and then I have some questions for Mr O'Halloran on another matter. You've mentioned that that table that we were referring to—table 14.1 is a Department of Finance table, but what's the expectation from Treasury about the number of firms that will access the R&D tax incentive scheme in the future? Are you expecting a reduction in the number of firms accessing the scheme?
Mr Brine: I don't have those figures to hand; sorry. I'll have to take on notice the projections for the number of firms.

Senator KETTER: Okay. I'll go to Mr O'Halloran. These are follow-up questions to an ATO response to question on notice AET45. I have the ATO response. These questions go to the issue of multiple accounts in superannuation. We know that the Productivity Commission has looked at this issue and has found that this is a structural flaw in our system. For an individual member holding just one unintended multiple account through their working life, the projected reduction in their balance at retirement is six per cent, or $51,000, so this is a serious issue. I appreciate you had limited time to answer questions from the last round of estimates, but can the ATO revisit the questions that I asked and supply answers to those questions? I note that many of the responses were that the preparation of a response to this question would cause an unreasonable diversion of the ATO's resources, which I frankly am a little bit surprised about given the level of technology that we've got and the amount of reporting that's going on. Perhaps you could explain, Mr O'Halloran, that response.

Mr O'Halloran: I have in front of me the question that you refer to, AET45. Thank you for the question. The short answer is that what we've put there is in fact correct from the point of view of the time and availability between the question and the nature of the information. I think the short answer I'd give is that, when you look at the increased focus since the Productivity Commission report, a lot of the information that you've asked previously has been less significant for the ATO in its role, and a lot of our systems of monitoring are predominantly built around reuniting of superannuation and the like. A lot of the quotes that you've highlighted are obviously in relation to the growth or otherwise of funds, which is not necessarily a matter of accounts, over the life of a superannuant. That's not necessarily an issue for the ATO up until recently and still would not be a matter for the commissioner. The 16 months and so forth that is referenced in terms of the recent Protecting Your Super package and certainly some of the data in relation to characterisation—

Senator KETTER: Could we go to the multiple accounts issue? If you're saying to me the ATO's not overly interested in that particular problem—

Mr O'Halloran: No, that's not quite right. I apologise if that's the impression you've got. Certainly we've been for nearly five years publishing the nature of APRA fund account members and the incidence of multiple accounts. There's been a reduction over that period predominantly through and partially because of the ATO's investment in seeking and encouraging people, particularly through tax time and myGov, to consolidate accounts. I won't go over that material unless you want me to, but certainly I think that's been mentioned here before.

In relation to some of the stratification as well as some of the breakdown there, I can reiterate that it's not a disinterest; it's just that a lot of our systems really are built around that very objective: facilitating through ATO services or, conversely, providing significant amounts of more-up-to-date information to funds to allow them to, in fact, reunite members with their superannuation. So certainly the whole objective was seeking to encourage consolidation as well as our own campaigns in terms of lost and unclaimed superannuation.

To answer your question, I will take that away and do our best endeavours in light of your question to the ATO today. If we are unable to supply it, I'll certainly, through process or otherwise, give you a time frame for when and if it can be done.
Senator KETTER: I appreciate that.

Mr Hirschhorn: If I might add quickly to Mr O'Halloran's comments to emphasise how seriously we take this: over the past five financial years, about 2.2 million accounts, worth $11.3 billion, have been consolidated or transferred using the ATO online service. That's a very significant reduction and bringing together of superannuation moneys.

Senator KETTER: Perhaps you might elaborate a bit more on that, because I'm interested in what detailed work the ATO has done on the issue of multiple super accounts. In particular, have you completed any internal reports on multiple accounts?

Mr O'Halloran: I'm not sure what you mean by internal reports about multiple accounts. Certainly the analysis has always been to do things like matching the incidence of myGov to reunite people with their superannuation, as I say, enhancing the services. Clearly, since the discussion and the government policy as well as other things over the last few years, without stepping in to give people financial advice, we see the importance of encouraging people to consolidate accounts. We have campaigns with the Indigenous community which I'm happy to unpack if you'd like, but we also have campaigns twice a year in terms of postcode distribution, and a range of information is available there. Of course, we also, particularly since the recent introduction of the APRA fund reporting whereby the visibility of information is now progressively and, in fact, at-will shared with superannuation funds through some improved digital services—if you want the name, it's called the POD process, as you'd appreciate—give funds at-will information that we have that might be a better source of information to allow them to relocate or reunite their members with their account balances or, conversely, to encourage them to consolidate.

Under Single-Touch Payroll there is in fact a process which is called the employee commencement service, which, again, is the beginning of a service to display to employees the active accounts that they have, whether they be default funds or otherwise, and the balances to allow them to make informed choices in terms of their preferences, particularly when they change roles.

Finally, there are the recent improvements to myGov for individuals to be able to see their superannuation account information through a recent 100 million transaction onboarding process which now makes it visible, including for tax agents since 1 April, to see their client's superannuation accounts as well as to see the contributions that have been made to their accounts, all of which are about making members or individuals better informed.

Senator KETTER: But, if we're serious about the issue of inactive multiple accounts, surely there is a public interest purpose in identifying some of the issues that have been set out in those questions—the number of inactive multiple accounts in various sectors that we talked about in question 1(c), the stratified figures that are set out in question 2. Are you saying that you don't think that they're useful datasets for looking at ways of mitigating this particular problem?

Mr O'Halloran: No; they're just not datasets that are readily available in the middle of the reforms that are currently live, including the importance of protecting your superannuation measures—including the somewhat pleasing challenge, if I may say, of reuniting individuals with some $6 million. In terms of that exercise, which will bring into the ATO visibility accounts that have less than $6,000 and have been inactive for up to 16 months: that
onboarding exercise alone will in fact reunite some 300,000 people with accounts that they were perhaps paying too many or unnecessary fees on. That's a major reform. Given that the parliament has given to the ATO the dual obligation to reunite people with their accounts as best as it can within 28 days of receiving that foundation data, that was a key point in some of the prioritisation. I'm not sure I've said that we're not interested. The questions you asked, and the question on notice on where we have it available—we have answered them as best we can. It's not a disinterest; it's purely some of the issues I've made in terms of the diversion of resources.

Senator KETTER: If you're going to look at this issue seriously, surely you want to examine what is the state of play out there? I come back to my question about whether you've done any internal reports that look at the nature of this issue, which might inform future campaigns to address the issue.

Mr O'Halloran: Perhaps I am misunderstanding your question. Certainly, we are constantly looking at ways in which we can reunite people with their superannuation or inform people of multiple accounts. Ultimately, under most of the current legislative parameters, perhaps up until the 'protecting your super' bill, people are perhaps entitled to or view that they want multiple accounts for different reasons. I'm not sure we're not taking these things seriously. I think our track record on working with funds, working with individuals and working with campaigns to bring it to people's attention, as well as to encourage reuniting or merging of funds, has been a priority for some time.

Senator KETTER: Just to clarify what I mean by 'reports': I'm talking about any sorts of internal written reports that are systemic, that are internal analysis and that are assessment on the scale of the issue and the strategies to address it.

Mr O'Halloran: On multiple accounts?

Senator KETTER: On the issue of multiple accounts.

Mr O'Halloran: Since this was responded to, certainly on the completion as of the last week or so, the major onboarding that I mentioned in terms of information on accounts—both balances and member information, which previously we would get in a 12-month annual cycle; some 30 million reports—is now completed for all APRA funds. That is a wealth of information that we are now mining for some of these things. We haven't reached a point of doing that as yet, as we've only completed all of the funds in the last couple of weeks. If your question is also—and I'm happy to take it on notice—about what sort of analysis we have done on the characteristics of people who hold multiple accounts, whether it be gender or whether it be distribution: we publish a lot of that information anyway, from memory, on ato.gov. I'm happy to take that on notice. We constantly look for opportunities to identify people who hold multiple accounts, and, where we can, draw that to their attention.

If I could comment: even in the last two years, since we've all been on perhaps a bit of a superannuation journey across a range of forums, one of the key mechanisms, which I think was universally agreed, was the importance of getting visibility on two things. One was the system in operation; that is, whether you be a fund member or whether you be an employer, could you in fact see, and where would you go to see, your total superannuation portfolio? Up until these recent events, funds themselves had no visibility of other fund members' accounts that were held by another major fund. So we are now becoming a central point where we are
making available to individuals their total multiple portfolios, for the 40 per cent of APRA fund members who have multiple accounts.

Senator KETTER: Mr O'Halloran, with respect, from your answers I'm getting the impression that you haven't done any analysis of the scale of the problem to the detail that I've set out in my questions.

Mr O'Halloran: I think I said I'd take on notice the question you asked me in reference to internal reports. Obviously, without trying to answer the question, without exactly doing what you've asked me to do, I'm certainly not trying to avoid that issue at all in terms of the types of analysis. Can I sit here and specify whether it exactly matches your questions? No.

Mr Hirschhorn: If I can add to Mr O'Halloran's comments: we have a sense of the scale of the problem, which is that at 30 June 2017, based on fund reporting, we identified over six million individuals with multiple accounts. The combined value of those accounts was $735 billion—so we know it's a big problem. Mr O'Halloran has, I think, sold short some of the work that has been done. This is a breaking story—the onboarding of 120 million records from APRA funds and making them available both to the funds and individuals. Any individual can now go on myGov, go to the tax site, and see their superannuation balances. On a different thing that I know you're very interested in, Senator Ketter, which is the superannuation guarantee: they can see that their employer is paying super on their behalf. This is a breaking story, and I'm sure we will go away—and we understand your interest. This new information gives us more information than we have ever had before. We will see what we can do, but I can assure you that this is a very, very positive and fast-moving area where Mr O'Halloran and his team, in conjunction with Mr Katf and his computer team, have done an extraordinary job on behalf of the superannuation holders of Australia. It's an extraordinary story.

Senator KETTER: I just have a couple more questions, if I can finish those?

CHAIR: I'm happy for you to do that. Then we will go to Senator Patrick, and then we can let these guys go home.

Senator KETTER: Can you tell me what quantum of multiple accounts are unavoidable? You might have a situation where workers have the old defined benefit schemes. There are public servants out there, people in transition to retirement—so these are unavoidable multiple accounts. Do you have a handle on—

Mr O'Halloran: Not that I would be comfortable commenting on, to be quite candid. It would be pure speculation. I don't think I'd be comfortable giving a response to that.

Senator KETTER: Is that something you could take on notice?

Mr O'Halloran: Yes.

CHAIR: May I clarify that. I don't know whether 'unavoidable' is the right expression, but there are some multiple accounts that are there by choice, aren't there?

Mr O'Halloran: Yes.

CHAIR: I have two; I have a retail fund and an industry fund so that I can compare the pair and keep them honest. How do you distinguish whether they are there by choice or whether they are there accidentally?
Mr O'Halloran: I can't control who holds accounts and on what basis they decide to hold them, whether it be people who have an SMSF—some people have multiple accounts there—or whether it be an APRA fund member. I wasn't going to comment on this, but you're quite right; we can draw people's attention to the fact that they have multiple accounts. Following Mr Hirschhorn's comments: we are not here to control the decisions that people might make for a particular reason. There is enough evidence in the superannuation industry to highlight that the interest in accounts and the number of accounts—particularly if you have your own children, hypothetically—vary as people get older. They are also subject to some decisions which aren't necessarily about an investment choice or logic.

Conscious of the importance of this question: some of the things are choice because of the nature of the different investment choices that people make. Some of them clearly are interest in superannuation. The nature of having a defined benefit fund has some different life choices, if I can put it that way. Also, advisers play a part in these things as to what might be some of the choices at different stages of life or, perhaps, the employment that people choose to take or leave particular accounts. There has been an eight per cent drop, from memory, of people who have multiple accounts. We're happy to bring some of that, as well as some statistical analysis. My caution is probably that we are not the custodian police of the choices that people make, but I do accept that anything we can do to bring light to your questions we will do. Ultimately, fund members and individuals make choices.

CHAIR: I should clarify: some of the unavoidable multiple accounts are because people are on EBAs, which means that they have to default to a particular account.

Mr O'Halloran: Yes, that's right. Some are the nature of—

CHAIR: Our industrial relations system, which is what the Productivity Commission has said we should consider.

Mr O'Halloran: Or the employment relationships et cetera and some other issues in terms of awards and the like.

Senator KETTER: We know that not all multiple accounts are inactive, because the chair has just confessed to having two funds.

Senator KENEALLY: Which she declared, to be fair.

Senator KETTER: Would there be members who might be making active contributions to more than one account? Do you have a handle on that?

Mr O'Halloran: The short answer is that I think that would be the case if I could answer some of these questions, perhaps I would have answered these. Intuitively, that would be right, but obviously I will go away, and I'm happy to explore that to see at least what the trend is or the incidence where we can determine that.

Senator SPENDER: Do you contribute to both of yours?

CHAIR: I do, but only so that they're not inactive, because I know that the plan is that protecting your super package will help you identify inactive accounts so that you can combine those inactive accounts. I make sure both of mine are active for that very reason.

Senator KETTER: Mr O'Halloran, do you have any estimate of the number of multiple accounts established for insurance purposes?

Mr O'Halloran: No.
Senator KETTER: There's no point in your taking that one on notice?

Mr O'Halloran: Obviously I'll take it if you ask me, but, sitting here, I can't reconcile how we would even determine that. Clearly, with the protecting your super measure there is a lot of analysis that is happening within the funds themselves in terms of the low-value amounts. We have met with them something like 12 times to work through some of these things now that the legislation has passed. Obviously there's a whole range of data that they are finding it challenging to identify in terms of the changes to the parameters in relation to the opt out for insurance and other things.

Senator KETTER: Thank you.

Senator PATRICK: Going back to the important line of questioning earlier to do with the way in which you deal with public interest disclosures. It is something this government has been very good with in the corporate sector. We've just passed some laws in that space. The government recognises how important this is, but I have a job to ensure that the government's policies and views are filtering down and being executed by agencies. That's the context in which I'm asking these questions. I'm not trying to ambush anyone here. I'm just trying to understand whether or not Mr Boyle—well, it's clear that he wrote to the ATO with a PID. I'm just trying to understand what happened thereafter. When he wrote to the ATO—this will be brief and high level—he said that the directives given to debt staff to issue standard garnishees on every case, including trading accounts, on all cases without proper care of consideration for taxpayers' personal circumstances of the viability of businesses were unethical, unprofessional and against the Public Service code of conduct in the Public Service Act.

Flowing from that we've had an IGT investigation into that. I think that's well covered. I might ask a couple of questions about that. I'm claiming privilege over my conversations with Mr Boyle; they were for the purposes of these proceedings. From my reading of what he has written one of the disclosable contacts is 'conduct that contravenes a law of the Commonwealth, a state or a territory'. He alleges that in the context of the Public Service Act. There is another form of disclosable conduct, which is in the table of disclosable conducts—that is, 'conduct that is unreasonable, unjust or oppressive'. There are some things in his disclosure that in my view are not disclosable conducts, but in my view what he wrote about garnishing fits well within the scope of disclosable conduct and, indeed, caused some investigations to flow from other activities he may have engaged in. I want to understand just the status. When he lodged his PID did you return it as, 'Rejected; not a PID,' 'This is a PID but we don't agree that there is disclosable conduct,' or, after investigation, 'We accept your PID and we have found there has been some conduct'? Which one of those three options is it?

Ms Curtis: Mr Todd is going to answer that question for you.

Mr Todd: It was looked at in accordance with the PID Act, and it was considered to be a disagreement with government policy and not further investigated as a PID.

Senator PATRICK: So you didn't think it constituted a PID. Does the tax office then say that he doesn't get a protection at all, or do we accept that in good faith he's made a disclosure, it hasn't met the bar, but protection still applies in the context that—

Mr Todd: What I would, first of all, say about this matter is, in terms of the overall way it was handled, we gave very careful consideration to the PID Act, the taxation secrecy laws and
the Privacy Act and their interactions. I really can't go further than that without being concerned about issues in the trial.

**Senator PATRICK:** Okay, let's keep it general. I'm really talking about anyone. If someone makes a PID and a disclosure to the tax office and you reject that it is a PID—you process it and go, 'Nup, it's not a PID'—do you afford that person a protection from anything that is written in that PID in the context, in good faith, that he made a PID but it's clearly a mistake?

**Mr Todd:** It would be kept highly confidential. And, yes, we would—

**Senator PATRICK:** The PID's not about confidentiality, it is about protecting someone from adverse action.

**Mr Todd:** Yes. One of the ways you protect people is by keeping the PID as confidential as possible. And, yes, we would try to avoid any disclosure—

**Senator PATRICK:** But if someone, a supervisor, says, 'Well, I don't like the guy because he's a troublemaker,' and then fires the person, surely—he's made a PID; it wasn't accepted—he'd be entitled to at least a protection, in those circumstances?

**Mr Todd:** You've got to have a limit on that; otherwise, people will just make a PID just to avail themselves of a protection that has no basis. Where it's appropriate we would try to provide protections, but you can't just make it that you simply make a PID and then you're forever protected from anything, even if—

**Senator PATRICK:** No, of conduct related to that. For example, under the corporations laws that have just passed, if I make a PID and there is adverse conduct, under the law I only have to show the fact of adverse conduct, and all the burden then switches across to the employer to prove that it wasn't related. So the protections are getting stronger. That's not the case with the PID Act for the public sector.

**Mr Todd:** The PID Act is very complicated and I'd probably want to take the details of it on notice.

**Senator PATRICK:** Okay. That's the space I'm trying to explore, not just in relation to Richard Boyle but also in relation to anyone who makes a disclosure. You can understand people will then be reluctant to come forward, because they now have to establish a particular bar, perhaps go to a lawyer or something, to work out whether—

**Mr Todd:** And certainly, if they make a disclosure and in good faith, they will be protected in respect of that disclosure.

**Senator PATRICK:** Okay.

**Ms Smith:** If I may try and clarify, the PID you're particularly talking about—

**Senator PATRICK:** I'm being very generic, at this point.

**Ms Smith:** I understand but I can answer in a generic term. The management team responsible for that particular area would have zero insight into the fact that one of the staff has submitted a PID. It's kept totally confidential. Whoever may submit a PID, their managers, the team, the leadership team, would not be involved in understanding, No. 1, that the employee had actually submitted something, whether it was successful or not. It would be investigated entirely independently.
Senator PATRICK: Sure, that's good, but I'll put a proposition to you—because it happens around here; things seem to leak like a sieve around here—that if someone does get wind of it and then they were to cause an adverse action against that person, that's once again when a protection ought to apply.

Mr Todd: Yes.

Senator PATRICK: And under the corporations law—

Ms Smith: And as management we would take that very seriously, because they're the rights that individuals have got. If we felt that that wasn't the right behaviour from the leaders, we would take action around that.

Mr Todd: And if we're aware of reprisals being taken, we would investigate it and take action, but we're not aware of any case where that has happened.

Ms Curtis: The other thing is that, when you look at our stats on PIDs that have been put in to us over the last few years, not only have we had numbers around 24 or 25 each year but also, in the last year, we've actually had more PIDs, which I know doesn't sound like a great thing, but it does demonstrate that staff within the organisation do feel confident that they can lodge a PID with us and that that is treated properly under those requirements of the ombudsman's guidelines.

Senator PATRICK: Quite separately, going to the IGT report, I just want to make—

CHAIR: Senator Patrick, just before you move onto a different issue—

Senator PATRICK: No, it's the same issue. I just have two more questions.

CHAIR: All right.

Senator PATRICK: Mr Boyle was in Adelaide. The IGT said:

Problems did arise in ... localised pockets with the issuing of enduring garnishee notices for a limited period, particularly so at the ATO's Adelaide local site, but these problems were anticipated and addressed by management once they became aware of them. Does the ATO accept that assertion?

Ms Curtis: Yes, we do accept that. There were problems identified in Adelaide in one debt team. My understanding is that they were identified by management looking at data which signalled that perhaps there were more garnishees being applied than perhaps we had anticipated, but my colleague—

Senator PATRICK: I just wanted to know whether or not you accepted that.

Ms Smith: One point I'd like to raise, if I may, is that that issue was raised by us with the IGT, so we highlighted that to the IGT. That had been picked up and rectified some six months prior to the IGT—

Senator PATRICK: Everyone's being really defensive here. I'm just simply asking: does the commissioner accept that? I think the answer is yes. This is my last question—the chair gave me two. When the IGT conducted his investigation, he went to various sites around the country. You may have to take this on notice, but I want to know whether, in any of those locations, when he was interviewing staff, those staff were accompanied by another ATO officer?
Ms Curtis: We might have to take that on notice, because it may have varied from site to site. But certainly we always say to staff that if they're answering questions or are in situations that might be difficult for them they can have another officer present with them.

Senator PATRICK: If people requested some assistance, that's fine. I'm just wondering whether the ATO had said, 'Well, IGT, if you're going to question our employee, we'd like to have another member of the ATO present'?

Mr Todd: We'll confirm this on notice, but I'm pretty sure they only had someone there if they wanted someone there for support.

Senator PATRICK: Sure. I'm going to ask the IGT that if we get to next week, which I'm hopeful we will.

Senator SPENDER: Just on the garnishee issue, is it ever the case that issuing a garnishee notice could contribute to an officer's achievement of a KPI?

Ms Smith: The IGT report actually clearly identified the fact that that was not the case—that there was no evidence to suggest that there was, in any way, a target set for debt collection by employees or in any way a cash grab.

Senator SPENDER: But I wasn't asking specifically about the matters raised in the IGT. In the entire ATO, can it ever be the case that issuing a garnishee notice, even indirectly, contributes to the achievement of a KPI?

Mr Todd: No.

Ms Smith: The answer is no.

Mr Todd: Also, in relation to that, there are a series of steps that are taken before a garnishee is issued, and so the area in which people like Mr Boyle work are at the end of that process. There's been a series of discretions and decisions made, and they're in a processing area issuing the garnishees.

Senator SPENDER: In previous estimates, my predecessor asked about this and was generally told, 'You don't have a general rule for applying garnishee notices—only in the essentially exceptional circumstances where you fear flight, really.' Basically you still hold the view that that is only an exceptional basis based on flight?

Mr Todd: We didn't say that last time. I don't think that's accurate.

Ms Curtis: I think it's best if Ms Smith takes you through the actual process for issuing garnishees, because it is a very long process with lots of steps that people are taken through before it ever gets to the garnishee. That is, really, a last-resort action—one of our firmer actions—and it is used very sparingly, particularly in debt cases.

Senator SPENDER: On that issue we got an answer to Senator Leyonhjelm's question No. 42 of 24 October and the relevant provision was saying: 'We will generally not enforce payment of a disputed debt while it is subject to a review. In some instances, based on a risk assessment primarily focused on our confidence that any outstanding tax can and will be paid when the dispute is finalised, we may undertake recovery action.' That is what we were previously told—that it is generally not the case; only if there is a question of confidence as to the ability to pay at the end of the day would you apply a garnishee notice.

Ms Smith: That is correct. There are two reasons that we would apply a garnishee notice. The average number of times we attempt to contact the taxpayer, through various methods—
email, SMS—is 19. If we have been unable to make contact to get the taxpayer to engage with us, on some occasions an employee will look at the circumstances of the case and determine whether they believe the correct thing to do is to put in a garnishee notice. That is where the taxpayer has flatly refused to engage with us. Interestingly, 50 per cent of the time that that occurs, the taxpayer does engage with us. The second way that a garnishee would be applied is if we believe the taxpayer is particularly high risk. In fact, we have just been working with the Australian Small Business and Family Enterprise Ombudsman. I wonder if I can table our response. They were specifically asking us, ‘Where the taxpayer has disputed a debt, do we take action?’ Can I table this? I think it might be helpful for you to understand. The taxpayers that we have actually issued a garnishee on during the dispute are examples where they are incredibly high at risk. For example, there is one case that was linked to criminal activity. The case was referred to us by the Australian Customs and Border Protection Service. There was another case where there was evidence of fraud and a significant history of tax—

Senator SPENDER: I don't think we have any concern about that second reason—the issues of flight. That is fine. But the reason you mentioned first I don't think we picked up from our replies to our questions—and that is that a taxpayer not engaging would be a reason for you to impose a garnishee notice. There are plenty of taxpayers not wanting to engage with you. But whilst the review is going on, and there is a dispute, their not responding to you doesn't seem like a very strong reason to impose a garnishee notice.

Ms Smith: They are two separate things. In the second example where they were engaging with us, the reason we pursued the garnishee was because they were very high risk.

Senator SPENDER: That's fine, but not engaging with you is not an indication of a risk of flight.

Ms Smith: I think you might be confusing it with a departure prohibition order. The risk of flight—

Senator SPENDER: I don't mean flight from the country; I mean inability to pay at the end of the day. Non-engagement with the ATO does not indicate that at the end of the day, when the dispute is finalised, there is a greater risk that they won't be able to pay.

Mr Mills: I want to help clarify the question that Ms Smith is answering. The questions that were put to us previously by your predecessor had to do with the collection of debts where there was a dispute on foot. Ms Smith is answering the question more generally than that, about the garnishee processes. Your question was more general than that; it was across the board. The answers we previously gave to Senator Leyonhjelm about where a dispute is on foot are still valid.

Senator SPENDER: Is that because, when a dispute is on foot, that means the ATO is engaging with them?

Mr Mills: They're engaging with us.


Mr Mills: So this is quite a separate, different set of circumstances. The kind of circumstance that Ms Smith is referring to is where the debt is past due, we've written to them, we've called them, we've SMSed them—19 different actions on average—to the point where we're left with—
Senator SPENDER: But you're still garnisheeing before you finalise that—

Ms Smith: No.

Mr Mills: This is separate to any dispute. This isn't a case of where there's a dispute on foot.

Mr Todd: And the debt may be self-assessed.

Mr Mills: The only times that we would use a garnishee in dispute cases are those very exceptional kinds of circumstances.

Senator SPENDER: That's fine. The rest of my questions follow on from the Chair's previous questions on multinational tax avoidance. The previous officer was talking about the success of it, in terms of more companies who sell to Australians paying more Australian income tax. But the other side of the equation wasn't mentioned. What has been the impact of that multinational tax avoidance task force on the quantity of sales to Australians? You were talking about how a greater proportion of sales to Australians are leading to Australian income tax, but what's the impact on sales? What's your behavioural impact? How many businesses are no longer selling to Australians. How many businesses are not expanding their efforts to make sales to Australians because of the threat that you pose?

Mr Hirschhorn: This is a very hard question to answer forensically, but what I can say is that we monitor the sales of those companies who have engaged with us in relation to the Multinational Anti-Avoidance Law and changed their selling model. What we do see is that their revenue continues to grow very significantly year on year. We spoke about the $7 billion of sales. Our expectation this year is that the number will be significantly above $7 billion in sales from those companies. In terms of other companies, I would be surprised if there was any impact on their willingness to sell to Australia, because Australia only taxes profits. So, by definition, if you're not planning to make a profit in Australia, this doesn't affect you; if you're planning to make a profit, you're paying tax, but you're paying tax on the percentage of your profit which fairly relates to your selling activities in Australia. We don't tax the entire profit; we tax the profit attributable to selling activities. In terms of direct evidence on the companies that we can see, we see their sales continuing to grow, and they're continuing to be very healthy businesses.

Senator SPENDER: But do you recognise any behavioural change? Do you think this is a perfect tax? Is there no impact on the margins, no reduction in activity at all?

Mr Hirschhorn: All I can say is: I see the sales of these companies, and they're growing year on year, and I don't see them retreating from the Australian market.

CHAIR: Senator Spender is essentially asking: have there been companies that have said, 'Well, I was only selling in Australia because I was avoiding tax, and now I can't avoid tax, so, therefore, I'll stop selling in Australia'?

Mr Hirschhorn: We've seen no companies of that nature.

Senator SPENDER: It's not as discreet as that—but, anyway. The question might broaden a bit more into the world of Revenue Group. I'm just looking at the measure where tax integrity extension and expansion of the task force, in the last three years of the forecast period, get one-point-something billion dollars worth of additional revenue. You're not changing tax rates with that measure but, nonetheless, you are generating substantial revenue.
What is the cost of that measure, estimated in terms of behavioural change and in terms of compliance costs? Is that more for Revenue Group or for you guys? I'm not too sure whether you have estimates by measure of behavioural change costs and compliance costs.

Mr Hirschhorn: I might have a first stab at what's in those numbers and then pass over to my Treasury colleagues. This measure is not a tax rate change. It is a compliance effect, where we consider companies are not currently complying with existing Australian law. This is a measure to encourage increased compliance with existing Australian tax law. The measure, of course, includes the additional investment in the taskforce, both the extension and the expansion of the taskforce—so, that is in a sense the cost to the tax office of increasing that. In terms of modelling additional compliance costs and modelling behavioural effects, I would be surprised if those numbers included that, because, generally, behavioural responses are not costed. But that said, I would say that in my experience most companies are paying the correct amount of tax on their Australian profits, according to law. If they choose not to participate in the Australian economy because they choose not to pay Australian tax on the fair share of profits they earn in Australia—

Senator SPENDER: It is still an economic cost. Australians still miss out. You might not think it's right, but—

Mr Hirschhorn: I would say, Senator, that the government makes the laws—we say it's not right—and I simply enforce those laws.

CHAIR: I think we are getting into a philosophical argument here. I am conscious of the fact we have to move onto Markets Group. If you have any questions for Revenue Group, can you put them on notice?

Mr Mills: If I could add to the comments my colleague has just made. In terms of behavioural impact one thing we're very conscious of is the impact of other markets, not just the large market. Where there's clear evidence that the large market is now paying its appropriate amount of tax in Australia, there is a flow-on effect to other markets—small business, individuals—as to their behaviour, in terms of paying the correct amount of tax, as well.

Senator SPENDER: Are there any Treasury comments on any behavioural or compliance cost aspects for that measure?

Ms Mrakovcic: Just to note that, as the ATO pointed out, it is a compliance measure. Essentially, it is looking at compliance with current tax laws. We are guided by the ATO's estimates themselves of the amount of activity needed and the types of resulting increases in tax revenues. As Mr Hirschhorn has pointed out, it is tax that, according to Australian tax laws, should be appropriately paid in Australia. The broader question around the competitiveness of the corporate tax rate and value creation and where it's attributed goes well beyond the compliance measure that the ATO is undertaking at this point.

Senator SPENDER: Is there a RIS for this measure?

Mr Brine: I wouldn't have thought so, because we are not imposing any new obligations on taxpayers.

Senator SPENDER: But there will be taxpayers, or people who should be taxpayers, who will incur some compliance cost to try to minimise their additional tax under your efforts. So, there will be compliance costs, but you may or may not produce a RIS on it.
Ms Mrakovcic: We're happy to take that on notice.

Senator SPENDER: Turning to the admin cost side of things, looking at the measure, in the last three years $1.2, $1.5 and $1.6 billion of revenue was generated but in those three years the related expense to the ATO is $300 million—something in each of those years. So, for this revenue collection, you're losing a quarter of the revenue in admin costs. Isn't that a worse admin cost ratio than the rest of the tax system, where, basically, you get $4 and you lose it in $1 of admin costs. Isn't that worse than everything else in the tax system?

Mr Hirschhorn: The tax office collects each year about $500 billion in tax and, net of expenditure, obviously a bit less than that. Our appropriation is about $3 billion. There's an element of: we administer a system, and most Australians are honest and the tax comes in. That's the beauty of the self-assessment system in a country like Australia. And there are things like our pay-as-you-go system and various structures. So most tax comes in. In terms of our compliance programs, there is no official rule of thumb, but for an integrity measure—integrity compliance work—a ratio of four to one would be somewhat typical.

Senator SPENDER: Okay. It's not necessarily a number I'm happy with, but it's information Thank you.

Mr Hirschhorn: Chair, perhaps before we move on I can provide further clarification on two questions you asked me.

CHAIR: Certainly.

Mr Hirschhorn: In terms of the multinational anti-avoidance law, our estimate of just the four-year effect—this is, of course, an ongoing effect beyond the four years—is $580 million extra revenue collected, in addition to the billion dollars of legacy tax that we collected from large ecommerce companies; and, in terms of the number of people within the tax office funded through the taskforce, in 2018-19 we have, combined, about 1,300 people funded directly through the taskforce, about half focused on multinationals and large public groups and the other half on private groups and high-net-wealth individuals.

CHAIR: Thank you very, Mr Hirschhorn. We might let the ATO and the Revenue Group go. Thank you very much for staying over time.

We'll move on to Markets Group. Thank you for your patience and for joining us this afternoon. Does anybody have an opening statement for the committee, or shall we move straight to questions?

Ms D Brown: We can progress straight to questions.

CHAIR: All right. Thank you. I will turn questions over to Senator Ketter.

Senator KETTER: Thank you very much. I'll take you firstly to Budget Paper No. 2, the start of page 167. These questions go to resourcing for responses to the royal commission, and the historical redress scheme. If you go to Budget Paper No. 2 you'll see the table on that page. Can you tell me why there is a $7.8 million cut to Treasury department resourcing in 2019-20 attributable to royal commission implementation?

Ms D Brown: Certainly. Mr Kelly will answer that question.

Mr Kelly: There's no cut in funding for Treasury in that year. The issue arises from a provision of $50 million that had been made in the contingency reverse in a previous period. The way the Department of Finance constructs the table is, where a contingency reserve
provision held is against those amounts, it's subtracted or netted out at some point, so underlying that number is a positive number of $42.2 million for the Treasury, but it shows up as minus $7.8 million because of the $50 million in the contingency reserve.

Senator KETTER: The second dot point on page 167 refers to:

- providing the Australian Financial Complaints Authority with additional funding to help establish a historical redress scheme to consider eligible financial complaints dating back to 1 January 2008 ($2.8 million in 2018-19);

How did Treasury arrive at that amount of government funding for AFCA to establish and operate this scheme?

Mr Kelly: I would have to provide a detailed answer on notice, but we had discussions with AFCA, received information from and worked with them. The judgement was reached that $2.8 million was an appropriate amount to help establish the scheme. The scheme will have other costs, which their members will bear, going forward.

Senator KETTER: Can you tell me what the overall cost of the scheme will be.

Mr Kelly: There is no overall cost of the scheme to the government, because it will be a member funded scheme, other than the $2.8 million to help establish it.

Senator KETTER: You're saying that the $2.8 million is the taxpayer contribution to this redress scheme.

Mr Kelly: Yes.

Senator KENEALLY: Is the $2.8 million a contribution to the redress scheme or for administrative funding?

Mr Kelly: It's more for their systems and set-up. To run the scheme, they have to change their systems and processes and have to start hiring new staff. They are establishing the scheme following, effectively, a direction from the government. They've been asked to do it quickly and not slowly.

Senator KENEALLY: $2.8 million is for establishing and operating, not a contribution to the redress fund?

Mr Kelly: No.

Senator KENEALLY: Other than that, it's an entirely industry funded scheme. You've undertaken no other modelling about the likely cost of this scheme to AFCA?

Mr Kelly: We haven't undertaken formal modelling as such. We certainly thought about the level of additional applications that might flow to AFCA arising from the direction for them to go back to 1 January 2008 and hear disputes under their current thresholds. When AFCA was established, the rules already allowed certain cases going back up to six years and in some cases two years to be considered under the new thresholds. This scheme asked them to now go back to 1 January 2008.

Senator KETTER: $2.8 million is to assist with systems to enable them to go back in time to address this.

Mr Kelly: That's my understanding.

Senator KETTER: On what basis was it decided that the taxpayer should contribute to the establishment of the scheme rather than it being entirely industry funded?
Mr Kelly: In some ways that's a question for government. Ultimately it's a decision of the government to pay that amount. Payment had been made previously to assist with the establishment of AFCA, so it's not unprecedented. The other relevant consideration is AFCA is doing this following a direction from government.

Senator KENEALLLY: I think you said earlier it was because there was a direction that this get up and running quickly, that they would need funding to do that and that, as the scheme is not up, obviously that funding needs to come from government. Two questions flow from that. Is there any anticipation that the $2.8 million will be somehow recovered once industry starts to contribute to the redress scheme?

Mr Kelly: There's no decision to that effect.

Senator KENEALLLY: Is there any projection of the ongoing administration costs for this scheme and whether those will be covered by the taxpayer or by industry?

Mr Kelly: The expectation is that they will be covered by industry as members of AFCA. Those who are members of AFCA will pay that cost.

Senator KETTER: Okay, moving to the—

Senator KENEALLLY: Before we move on, Senator Ketter, can we also go back to that $7.8 million figure you asked about in your first question, what appeared to be a cut. I think it was explained by Mr Kelly as an underspend, if that would be a fair way to assess your answer, Mr Kelly?

Mr Kelly: I would not describe it as an underspend. The money was in the contingency reserve for $50 million. If you look at the total amount in this measure, it's $606 million. Finance had to decide on one agency to put that money against. They could have made a decision to apportion it amongst all the measures you see in that table, but they just thought it was simpler to park it against Treasury.

Senator KENEALLLY: So it's not an underspend, compared to what the government anticipated the royal commission implementation would cost?

Mr Kelly: No.

Senator KENEALLLY: Just so we're clear.

Mr Kelly: I wouldn't describe it as such, no.

Senator KETTER: Moving to the royal commission implementation taskforce, which is made up of Treasury officials, can you tell us what the time line is for seeing the banking royal commission recommendations implemented?

Mr Kelly: We are currently considering the recommendations of the royal commission that concern government. Depending on how you want to count these things, I think there are probably around 50 to 60 separate measures. A number of them have already been implemented, but most of them are still to be done. It's not something that we're expecting to happen in the first year. The funding we've received as a department is to get that work starting. It will certainly allow us to progress a very large number of those measures. Once we've done the detailed planning about how that program will evolve over time, we might need to think about whether we come back in a future budget to government.
Senator KETTER: So you're still considering your implementation plan? We've had the royal commission report since the beginning of February. How much longer before you finalise your implementation plan?

Mr Kelly: An implementation plan will always be an evolving document. As we start consideration of certain measures, such as whether to use consultations or exposure drafts, we will learn more about the measures. It will sometimes affect the timetable in which they will be achieved. Sometimes they may be faster than we expect; sometimes they'll be slower. So the plan, to some extent, will be an evolving plan. I understand the taskforce has a plan that I can look at and that can guide me. But it's a decision for government as to whether they wish to publish the plan. It's not something the Treasury would do.

Senator KETTER: What's your estimate as to how long it will take to implement the recommendations, acknowledging that the government hasn't accepted all of them?

Mr Kelly: It's a difficult question to answer in the sense that, if you actually look at some of the recommendations, they require things to happen in three years time. The commissioner himself was explicit that certain things should happen after other things. For example, in the case of mortgage brokers, he made certain recommendations around remuneration and, where there's misconduct by brokers, that they're reported to customers, to the regulators and so on. He then had a more general recommendation—that is: 'Once you've done all those things, you should take the further steps you need to to made sure that mortgage brokers are treated like financial advisers in general.'

Senator KETTER: Taking all those factors into account, you've considered them all with your implementation plan—

Mr Kelly: If you're starting from a base on which reviews are happening in three years time, then it's going to take at least three years, and a review will probably take a year, so now we're up to four years.

Senator KETTER: Okay. Do you have a work plan for the next 12 months in relation to the task force?

Mr Kelly: The division which has that task force certainly has a work plan. Within Treasury, the majority of the policy work on the measures will be undertaken by my division. Ms Brown's division will lead on those relating to insurance, and it will be the Retirement Income Policy Division and the Fiscal Group working on the superannuation ones. And the Law Design Office also has heavy involvement. We're up to the stage where we have a plan and we're working to it, but we're also facing a break in work.

Senator KETTER: Can the committee be provided with a copy of the work plan?

Mr Kelly: I think the issue whether there's a plan for implementation of the royal commission recommendations and whether it can be published is a matter for government and the ministers to decide.

Senator KETTER: Perhaps we could ask—

Senator Seselja: I'm happy to take that question on notice and take it to the Treasurer.

Senator KETTER: What are the task force priorities for the next 12 months? Are all the recommendations being worked on at the same time?
Mr Kelly: Scoping work of nearly all the recommendations has been done. That is one of the first things as a department we did. We actually stepped back and worked through, at a very preliminary level, what we expected to be involved in the measures. For example, would they involve primary legislation? Would they involve secondary? Could they be done by other means? That's largely been completed. As you would be aware, the government has released a number of consultation papers in relation to direct recommendations of the royal commission or other elements of the government's response. It's also released exposure draft legislation and regulation in some areas, in particular grandfathering of conflicted remuneration financial advice. To some extent, they're obvious candidates for areas that we will continue to work on. I think the government has also flagged consultation papers in other areas.

Senator KETTER: So those are your priorities?

Mr Kelly: They're some of our priorities.

Senator KETTER: But my question goes to the recommendations. I think there are 76 recommendations. The government hasn't accepted all of them, but are you looking at all the recommendations simultaneously or do you have a phased approach?

Mr Kelly: As I said, we've had a look at all the recommendations at one level. Inevitably, when you have 50 to 60 measures to progress, we need to progress some ahead of others. Some have been implemented. There are two superannuation recommendations that have been implemented this week, following passage in the House. There's a recommendation on cooperation with the AFCA that's been implemented following a regulation that was made by the Governor-General yesterday. And there are other examples. To that extent, we have prioritised a first batch. We have, through the consultation process and the exposure draft, prioritised others. We are certainly expecting that it will be phased in the sense that there will be some that we're not immediately working on or taking much further at this stage.

CHAIR: To clarify, Mr Kelly, do you include the design and distribution obligations and the product intervention powers in those recommendations? Obviously they were already a recommendation but they were endorsed by Hayne?

Mr Kelly: They were endorsed by Commissioner Hayne and are part of the government's response as their commitment to pick up Commissioner Hayne's comments. In terms of the government's response and the implementation of that, that's one of those early—

CHAIR: They were progressed in the House this week too, weren't they?

Mr Kelly: Yes.

CHAIR: But they weren't the two superannuation—

Mr Kelly: There were two superannuation measures, relating to treating and penalties.

Senator KETTER: I have other questions but I'm conscious of—

CHAIR: I might just continue for a couple of minutes, because you covered a lot of my questions there, Senator Ketter. The other recommendation obviously came about around the BEAR regime and extending the BEAR regime. Can you tell me what the timing is for that? Obviously the BEAR was initiated and implemented before the banking royal commission. What's the timing around extending that regime?
Mr Kelly: I'll probably have to take that on notice. It's not something that I believe the government has published or made a statement on.

CHAIR: That's fine. In a similar vein, is the enforcement regime for corporate and financial misconduct that came out of the ASIC review task force in 2016 considered a Hayne recommendation as well? Is that considered a banking royal commission recommendation? That's already been implemented too, hasn't it?

Mr Kelly: Recommendations relating to increased penalties for ASIC have now been implemented—in some ways more than implemented—following passage through the parliament. Given its status, it was not something that Commissioner Hayne directly made comment on or made a recommendation on to a large extent. I think he just took it as a given. He did make a recommendation relating to the investment review task force recommendations on, I think, breach reporting. That was an explicit recommendation. The government has agreed to do that, and a certain amount of work has happened on that. The government, in its response—it had previously agreed to other recommendations of the enforcement review task force, but it also made clear that issues relating to the ability of ASIC to give directions would also now be progressed.

CHAIR: You mentioned the two pieces of superannuation legislation and the regulation that was signed off by the Governor-General yesterday. There were a number of recommendations that had consultation papers issued. What's been the progress there?

Mr Kelly: My latest count is that four consultation papers have been released. There's been a consultation paper relating to the enforceability of financial services industry codes, which is recommendation 1.15 of the final report, and relating to regulating insurance claims-handling by ASIC, and that is recommendation 4.8. There's been another paper on the practicability of universal terms for a default insurance cover with MySuper products, which is recommendation 4.13. That wasn't a recommendation necessarily to have universal terms but to consult on whether that would be appropriate. Finally there's been a consultation paper on what was an additional measure that the government announced based on comments from Commissioner Hayne on superannuation binding death benefit nominations and kinship structures for Indigenous people.

CHAIR: So it's safe to say that, even if you exclude those measures that were initiated and implemented before the Hayne recommendations, like the BEAR, like the enforcement regime, there has been considerable progress made on the 76 Hayne recommendations?

Mr Kelly: There's certainly been progress made around 15 of the recommendations and measures announced by the government, a number of which represent, in terms of what the government then has to do, full implementation.

CHAIR: Thank you. Senator Patrick, you had some questions. I'm just conscious of the fact that we have 16 minutes and we are hitting a hard marker at six o'clock, after which we're going to let these guys go home, and Senator Ketter has a number more questions. So just keep it to five minutes. Thank you.

Senator PATRICK: Mr Brake, ASIC records indicate the Chinese company Ruyi, via a Singapore company, still owns 80 per cent of the stake in Cubbie Station. I presume you are aware of this issue.

Mr Brake: I'm aware of the Cubbie Station issue, yes.
Senator PATRICK: My understanding is there was a condition applied, when Wayne Swan approved the sale, that they must sell down their interest in the station to 51 per cent within three years. Is that correct?

Mr Brake: Treasurer Wayne Swan approved the transaction subject to a number of undertakings, including a requirement that Shandong Ruyi sell down its interests from 80 per cent to 51 per cent within three years, yes.

Senator PATRICK: Then that got extended in 2016 by Treasurer Scott Morrison?

Mr Brake: It was reported in June 2016 that the Treasurer had extended that.

Senator PATRICK: By three years?

Mr Brake: Yes.

Senator PATRICK: So, on your evidence, it's reasonable to presume that that extension runs out by June this year?

Mr Brake: As you know, we had some conversations late last year on these matters. I do know that Treasurer Frydenberg was asked some questions along those lines—

Senator PATRICK: From a senator or the media?

Mr Brake: From the media.

Senator PATRICK: A different standard is applied there.

Mr Brake: Yes. I'll just read out what the Treasurer said in response to those queries. He said that 'it is longstanding practice that the Foreign Investment Review Board and the Treasurer do not comment on the details of foreign investment screening and subsequent processes as they apply or could apply to particular cases'.

Senator PATRICK: Sure. I understand that in the context of the media asking a question. It's a different case when the Senate does. I'm asking you the question: when does it expire?

Mr Brake: I think, as we did last time, I'd like to take—or the minister might like to—that on notice and check whether the Treasurer wishes to make a public interest immunity claim.

Senator PATRICK: There is a lot of public interest in this. I can't imagine why we would keep those sorts of details secret, in terms of any harm that it would cause any particular entity.

Mr Brake: The general proposition—

Senator PATRICK: The problem is that he made that decision on behalf of the Australian people, as are all decisions made by Treasurers. I'm presuming it wasn't a cabinet decision, because the Treasurer has the power under the act. There's no cabinet in confidence involved here.

Senator Seselja: Obviously I'm not aware of the details personally, so what I will do is take it on notice. That will allow the Treasurer to give a fuller answer.

Senator PATRICK: Sure.

Senator Seselja: As has been suggested, if there's a need for a public interest immunity claim, it will be considered. It may not be, but the question can be considered by the Treasurer.
Senator Patrick: When the decision was made to extend the time frame—clearly, you do a review, you place some conditions on an arrangement. It's a binding condition. There would be reasons for making a variation to that. There must be good reasons. You've come to some decision. Now you've decided to change that. What were the reasons for the extension of that condition? Was it at the request of the company, or was it that the Treasurer decided unilaterally to grant it? I presume the company made a request, or is it that the FIRB didn't follow-up and then it got a response with a request?

Mr Brake: For this particular case, I'd have to take it on notice.

Senator Patrick: Because you don't know?

Mr Brake: It was two or three years ago. As a general proposition, companies or applicants can come to us and seek changes to various conditions that have been put in place. But I'd have to take the particular details of that one on notice.

Senator Patrick: The process you go through to that point of making those decisions: the FIRB then conducts another analysis and provides advice to the Treasurer?

Mr Brake: As a general proposition, regarding our advice to the Treasurer on cases, we would discuss those with the Foreign Investment Review Board as a matter of course.

Senator Patrick: So, you'd form that up and run through—and in terms of weightings, obviously the requirement was placed on that for some good reason. You would have come to some conclusion that that was a good condition to have, for national interest reasons. Would a commercial reason override that? I presume that if the decision was made properly then it should be three years, but the company says, 'Well, look, if I sell it now I'm not going to make anything near what I paid for it'—and I'm just making that up, but is that something the FIRB would weight heavily in its decision-making? Or is it just not a factor?

Mr Brake: I don't want to go into this case, but as a general principle the act talks about the national interest, which is a very broad concept. The Foreign Investment Review Board and the Treasurer can take into account a wide range of factors in thinking what would be in the national interest in that particular circumstance.

Chair: Senator Patrick, we're a little over time.

Senator Patrick: I'm happy to leave it there for the moment, but I do have other questions. So, if we spill over into next week, maybe we can bring them back—if the writs are not issued.

Senator Ketter: I refer to the ASIC expense measures that are in budget paper No. 2, on the bottom of page 167. This says that the cost of the measure will be partially offset by revenue received through ASIC’s industry funding model. Will this involve an increase to ASIC’s cost recovery levies?

Ms Brown: To the extent that it can be cost recovered—these are increases that will be paid by industry, recovered through ASIC cost-recovery levies.

Senator Ketter: Well, it says it will be 'partially offset' by revenue received through ASIC's industry funding model.

Ms Brown: I might ask Ms Vincent whether she could go into the particulars.

Ms Vincent: In relation to the industry funding model, the reason there was a reference to the partial recovery is that the figures given were across the forwards and because the way the
recovery happens—I guess you could say that the levies are collected on an ex-post basis—a portion of it does not sit within that forward period. But in reality they will be recovered.

Senator KETTER: So, is all of the $291.2 million in new related revenue that's noted on the table on page 167 referrable to increases in ASIC's cost-recovery levies?

Ms Vincent: Sorry, Senator—I'm just finding where you're talking about.

Senator KETTER: If you add up those figures—40.5, 122.2, 128.5—

Ms Vincent: I guess what I would say is that the amount that was recoverable—and I don't have the specifics here in front of me—the proposal was that it would be cost recovered. I don't have the specific details but that it would go out across the forwards and then in the additional year.

Senator KETTER: I guess I'm looking for what the rationale is behind those figures in that table.

Ms Vincent: I'd have to take that on notice.

Senator KETTER: Okay.

Ms Vincent: Sorry; I've got it now. In relation to the $40.5 million and then the $122.2 million et cetera, the total amount recoverable will rise each year. At the moment, there's an estimated $259.5 million that is recovered under existing IFM measures. As a result of the additional funding package, that would rise each year by the amount listed. So, for instance, $259 million in 2018-19 would then rise by $40.5 million to then be $299.5 million and then the baseline of the $259 million would then rise by the $122.2 million and so on.

Senator KETTER: I guess I'm looking for what the rationale is behind those figures in that table.

Mr Kelly: I might be able to add to that answer. If you look at the $40.5 million in 2020-21, as Lucy said, it lags a year. It's equal to the $38.5 million for ASIC in 2019-20 as an expense plus the capital amount for ASIC in that year, which gives you $40.5 million. So you can see how the previous year's numbers for ASIC, in terms of resourcing, flow into the subsequent year's revenue raising.

Senator KETTER: Let me turn to the first measure on page 168, which is the increase to the resourcing of APRA. This increase in revenue is described as being $145 million over four years from 2019-20. I might be comparing apples with oranges, but, if you go back to the table at the top of page 167 and you look at the figures attributable to APRA, including the $3 million in capital for 2019-20, it appears to be $79.7 million. Can you tell me where the remaining $65.3 million in increased expenditure on APRA is shown in the budget papers?

Mr Kelly: This is a very similar issue to the first question you raised around the minus $7.8 million for Treasury. There had been a previous provision made in the contingency reserve. What you see there are the net figures, net of that previous provision. But the gross amount, in terms of underlying catch balance impact, which is what this focuses on, is the $145 million.

Senator KETTER: Sorry; which figure are you talking about?

Ms D Brown: In relation to earlier questions this evening about the minus $7.8 million, that was affected by an amount in the contingency reserve.

Senator KETTER: So the $145 million is affected by—
Ms D Brown: An amount that was in the contingency reserve, yes.

Mr Kelly: An additional amount in relation to just APRA. For the purposes of this table, again, it was netted off against the amounts for APRA that it received.

Ms D Brown: If you want to see the APRA figures more clearly, you might want to go to the budget portfolio statement for Treasury, table 1.2 under on page 127. It breaks down the figures.

Senator KETTER: Thank you; that's helpful. Finally, on page 168, it says that the cost of this measure will be partially off-set by increases in the APRA financial institutions supervisory levies. The table on page 167 shows $84.5 million in new revenue for APRA. Will that figure be raised entirely through increases to the APRA financial institutions supervisory levies?

Ms D Brown: Yes, it will. I think the partial reference in that sentence is in relation to the ASIC industry model. Again, if you look at the budget portfolio statement it is clearer that the amount being raised in revenue exceeds the amount being spent in expense.

Senator KETTER: Okay.

Ms D Brown: It offsets the additional funding plus an amount for capital and a contingency enforcement amount as well. Is that more clearly set out in the portfolio budget statement?

Ms D Brown: It is more clearly set out in the budget portfolio statement—pages 127 and 128.

Senator KETTER: Thank you very much.

CHAIR: Thank you very much, Markets Group. We will get you go. The committee will now break for dinner and return with the Industry portfolio.

Proceedings suspended from 17:59 to 19:01
INDUSTRY, INNOVATION AND SCIENCE PORTFOLIO

CHAIR: The committee will now resume and we'll examine the Industry, Innovation and Science portfolio with questions for the department. The hearing will follow the order as set out in the circulated program. I welcome the Minister for Resources and Northern Australia, Senator the Hon. Matt Canavan and the Secretary, Heather Smith, and officers of the department. Minister or Secretary, would you like to make an opening statement?

Senator Canavan: I'm okay.

Dr Smith: I don't have an opening statement, but can I perhaps just announce a staffing change within the department?

CHAIR: Certainly.

Dr Smith: I want to note, for the record, that Ms Sue Weston was today appointed as the Chief Executive Officer of CommCare, which is a promotion for Ms Weston. I want to acknowledge in this committee that she has given many years of service to the portfolio. She joined in 2001. This portfolio has had many iterations in terms of its titles, but she's been a deputy for nearly 10 years and has made enormous contributions to science and innovation policy and research across the public service and in serving governments. I want to acknowledge her enormous contribution and wish her the best in her new role.

CHAIR: Thank you for that, Dr Smith. On behalf of the committee, I acknowledge the extraordinary contribution that Ms Weston has made.

Senator KIM CARR: Can I reiterate those remarks? I worked with Ms Weston and I think she's an outstanding officer. In my time she has been entirely dependable and reliable—a really outstanding officer. I wish her well.

CHAIR: As do we all. Senator Carr, why don't you start us off?

Senator KIM CARR: Minister, I'll start with you. I'd like to give you an opportunity to deal with a matter that's of some interest and public tension today. I'm reading in the social media that you've threatened to resign. Is that the case?

Senator Canavan: Those reports are incorrect. As a general rule you shouldn't believe what you read on social media.

Senator KIM CARR: I see. So it's not true that the government is in disarray over the mining question?

Senator Canavan: The government fully supports mining, Senator Carr. Unlike your own party, who often fails to defend the interests of coalmining workers and jobs in my region in Central Queensland.

Senator KIM CARR: So you've made no threat to resign today over the Adani mine?

Senator Canavan: As I've said, those reports are incorrect. No.

Senator KIM CARR: I'm hoping that we can conclude this, from my end.

CHAIR: I only have a few questions, Senator Carr, so let's see how we do.

Senator KIM CARR: I'm hoping we can conclude this in about an hour, if the officers will keep that in mind.

Senator Canavan: Let's check if there's any dissent on that matter!
Senator KIM CARR: That's right. I just thought I'd offer that advice from my end of the table.

CHAIR: I think we can do that, just so long as we don't need a breather in the middle. We can work through.

Senator KIM CARR: Can I deal, first of all, with the issue of the complementary medicines that the minister has put a release out today on. Minister, you may wish to answer this, because it's not directly your portfolio responsibility. In the press release that has been issued today there's discussion of a mechanism to deal with the issue of complementary medicines. Can I get an explanation of what that mechanism is?

Senator Canavan: I will pass over to officials. As you say, it is not my portfolio responsibility, but my understanding is that the government will seek to ensure that the complementary medicines sector continues to have access to the Australian made logo and that it will move away from the substantially transformed definition that has been of contention here. We will develop a mechanism, as you say, to ensure that those products that have manufacturing here continue to have access to that logo. I'm going to hand over to Mr Squire to discuss further.

Mr Squire: The government proposes to make regulations, under the Australian consumer law, to define particular processes as essentially meeting the test for substantial transformation.

Senator KIM CARR: Which is the act that you are using? You say 'consumer law'. Which act is it in particular?

Mr Squire: It is the Australian consumer law. It is the Competition and Consumer Act 2010, section 255.

Senator KIM CARR: It's section 255(3), I take it. Is that right?

Mr Squire: That's correct.

Senator KIM CARR: Have the regulations actually been prepared?

Mr Squire: The regulations are in the process of being prepared. That work is not yet concluded.

Senator KIM CARR: Can you tell me why that is the case?

Mr Squire: Certainly. You might recall that the Australian consumer law is a single law administered by both the Commonwealth and the state and territory governments. To amend that law, there is an intergovernmental agreement that requires the support of the Commonwealth and three of the state and territory governments. To make regulations or to change the law, the government is required to consult with the Ministerial Council on Consumer Affairs.

Senator KIM CARR: It's just I've been hearing about this now for three weeks. When was the decision made?

Mr Squire: Which particular decision?

Senator KIM CARR: To actually regulate under these provisions.

Mr Squire: So the exact date that the Prime Minister agreed to the changes?

Senator KIM CARR: Yes, please. That would do.
Mr Squire: It was 2 April.

Senator KIM CARR: The letter was actually signed off by 2 April, but there would have been a decision made prior to that. Was that the case? The letter would have been sent to the Prime Minister earlier than that.

Mr Squire: That's correct.

Senator KIM CARR: What was the date on which the letter was sent from the minister to the Prime Minister?

Mr Squire: It was 22 March, from memory.

Senator KIM CARR: I presume there was a meeting of the task force that recommended these?

Mr Squire: There were three meetings of the task force, which was established in December. The task force met in December last year and again in January as well. The task force provided its report to Minister Andrews in late February.

Senator KIM CARR: And that recommended the changes?

Mr Squire: The task force report provided a series of options for the government to consider.

Senator KIM CARR: This was one of the options, I presume?

Mr Squire: That's correct.

Senator KIM CARR: I'm just wondering, if you've had this in the works for this length of time, why there hasn't been drafting undertaken?

Mr Squire: My answer indicated that to make these changes—

Senator KIM CARR: I understand what you're saying, but you would have surely prepared the drafting to show to the states?

Mr Squire: In addition, we need to consult with the agencies that were in the task force—including, in particular, with the Department of Foreign Affairs and Trade—to ensure the proposed regulations are consistent with our WTO commitments.

Senator KIM CARR: I recall that we discussed this proposal 18 months ago at this committee.

Mr Squire: Yes, that's correct.

Senator KIM CARR: It's taken a while to get to this point, hasn't it?

Mr Squire: As my evidence indicated at previous hearings, this has been a complicated matter. The proposed solution is not straightforward. We have been required to undertake research and seek legal advice to ensure that the proposed solution is effective in terms of meeting industry's desire to have access to the Australian made logo for export markets.

Senator KIM CARR: Do these regulations have to go to the executive council?

Mr Squire: Yes, though that process I indicated before around consulting through the Ministerial Council on Consumer Affairs. Once that council has endorsed the proposed changes, the government is then in a position to progress and make the regulations.

Senator KIM CARR: If an election is called on Sunday, when will the executive council meeting be heard?
Mr Squire: I presume from your question that you're asking around when the executive council would meet to consider those—

Senator Canavan: That's not a matter for this department, sorry.

Senator KIM CARR: Minister, you can tell me then: when will the executive council meet to actually put these regulations forward?

Senator Canavan: I don't have that information, sorry.

Senator KIM CARR: It is part of the process. To get a regulation in to force, it needs to go to the executive council. We agree with that?

Mr Squire: Yes.

Senator KIM CARR: We have a caretaker period looming.

Mr Squire: It will take a number of months to progress these changes.

Senator KIM CARR: A number of months?

Mr Squire: Yes.

Senator KIM CARR: What's the ACCC doing while all of this is going on?

Mr Squire: The ACCC is scheduled to appear at estimates hearings next Thursday.

Senator KIM CARR: Yes, I got that.

Mr Squire: The ACCC provided evidence at the last set of hearings. Mr Sims, in particular, indicated that they would take into account signals of government policy change in terms of their prioritisation of compliance and enforcement.

Senator KIM CARR: What I'm trying to put to you is that these regulations need to come into force, presumably, for the ACCC to act on them. Is that the case or not?

Mr Squire: I'm not sure I understand what you mean by 'acting'.

Senator KIM CARR: The ACCC has embarked upon a course of action, which I presume these regulations are designed to stop?

Mr Squire: I would put it somewhat differently to that.

Senator KIM CARR: How would you put it?

Mr Squire: The regulations—as the government is proposing to make them, obviously subject to an endorsement and agreement from the states and territories—are to define a broader range of manufacturing processes as meeting the substantial transformation test. If that is the case, then would allow Australian Made Campaign Limited to issue licences for particular classes of products.

Senator KIM CARR: I don't think that's inconsistent with what I've said. It would certainly be contrary to the way the ACCC is currently acting. Would the ACCC undertake to suspend compliance activity, pending the change of circumstances that you've just outlined, in regard to these regulations?

Mr Squire: Senator, the ACCC is an independent regulator, and I can't speak for them.

Senator KIM CARR: Have you had any discussions about the nature of these regulations?

Mr Squire: Yes. The ACCC was part of the complementary medicine task force and was involved in the development of those options that were put to the minister.
Senator KIM CARR: For instance, the ACCC's currently pursuing action against the company Nature's Way. Is that action being pursued?

Mr Squire: I can't speak for the ACCC.

Senator KIM CARR: What capacity does the department have to encourage the ACCC to cease compliance activity now that a decision in regard to these regulations is pending?

Mr Squire: As I indicated previously, the ACCC is an independent regulator which sets its particular compliance activities and its priorities. The ACCC, in seeing that the government has proposed a significant change, would take that into account in determining their compliance activities.

Senator Canavan: I will just add that in terms of the Nature's Way case, the information I have is that the ACCC action resulted in a Federal Court decision. I think it was—what I've got here—late last year, and now I believe Nature's Way is seeking to challenge that decision. So, in that particular case at least, I don't believe the ACCC is proactively taking further action, but it may have to defend a previous decision made under the guidelines but that's just in that case.

Senator KIM CARR: I see your point, Minister. The department has had no direct talks with the ACCC on this matter outside of the task force's deliberations?

Mr Squire: Sorry, Senator, could you be more specific in terms of which particular matter?

Senator KIM CARR: In regard to these regulations and the effect of these regulations?

Mr Squire: That has been the work of the task force.

Senator KIM CARR: I understand that. I'm asking you have you had any direct contact with the ACCC outside of the task force meetings?

Mr Squire: Concerning any particular matter?

Senator KIM CARR: Regarding the operation of these proposed regulations.

Mr Squire: The ACCC was part of the task force and helped develop those—

Senator KIM CARR: But the task force proposed a series of options for which the Minister has now determined a course of action.

Mr Squire: Correct.

Senator KIM CARR: The Prime Minister has signed off on that course of action. You're now consulting with the states about that course of action. You have yet to draft the regulations, that's correct?

Mr Squire: With part of the process of amending the consumer law, where the department has to prepare effectively a COAG regulation impact statement, we're using the task force report and repurposing that report to form the basis of the regulation impact statement. We have in mind a form of words for the regulation. We're consulting with task force members, to date Treasury but also Foreign Affairs and Trade. We will consult, but we haven't yet consulted, with the ACCC on the specific words.

Senator KIM CARR: What happens if a caretaker period is commenced? What do you do then?

Mr Squire: Sorry, Senator?
Senator KIM CARR: What's the effect of the caretaker period commencing in terms of your operations on this matter?

Senator Cormann: I have sought clarification on this particular matter. The government does not expect the proposed regulations to be in effect before caretaker, given the consultation has to occur with the states and territories. We announced an intention to make these changes. That intention will be relayed, as has been described, to the ACCC and I'll ask them to take that into consideration. But as has been also described the ACCC is an independent regulator. We'll seek to make these changes as quickly as we can, but we have to go through the appropriate process to change the Australian Consumer Law. We're not envisaging that the question—

Senator KIM CARR: I understand that you don't intend to act on this presumably before Sunday?

Senator Canavan: Whenever that may be.

Senator KIM CARR: I don't expect you to agree with my timetable—and there's every expectation that the caretaker period may well commence on Sunday—I want to know what do you do after the caretaker period has commenced? Do your actions stop? What is the effect of the caretaker period?

Senator Canavan: It's up to you guys I would've thought, the development of regulations—

Mr Lawson: There's no reason for us to stop working with the states during the caretaker period. We've made contact to arrange to appear at the next Consumer Affairs Forum meeting. Those arrangements are in play.

Senator KIM CARR: When is that meeting?

Mr Lawson: We haven't got the date, but we've engaged about making sure that this process continues. It's the ordinary business of government. It appears to have bipartisan support, so, therefore, we would—

Senator KIM CARR: We don't know what it is. We haven't seen a copy of these proposed words. When do we get to see the copy of these words?

Mr Lawson: We have had press releases from the two industry associations that are relevant supporting the—

Senator KIM CARR: The industry associations are not the opposition.

Mr Lawson: Indeed. But they've indicated that they think this is an appropriate solution.

Senator KIM CARR: That's not what I'm asking. I proposed this course of action to you 18 months ago, and I have expressed my frustration that it has taken you this long. What I'd like to know is, in the caretaker period, do you intend to consult the opposition about the form of words that you intend to put into this regulation?

Senator Canavan: In fairness, can I just say that my experience is that, of course, the department itself won't be in a position to finalise any such proposal. Obviously, they'll seek to draft proposals that would then go to any government. As I've already outlined, the government does not believe it will be in a position to finalise these regulations before caretaker—and just to clarify: it is my understanding—before the election. I don't think we'll be at that point where potentially such consultation will be necessary. Obviously, post the
election, any government would presumably receive advice from the department on its development of the announced policy, and it will be up to that government in the future to decide what to do.

Senator KIM CARR: That's your view. I expect that it's your view.

Senator Canavan: It's based on the information that I've received from the minister's office.

Senator KIM CARR: Your view is that it won't be necessary to consult with the opposition?

Senator Canavan: Yes.

Senator KIM CARR: You say the Prime Minister signed off on this matter on 2 April. Is there any pressure from the Prime Minister's office on the minister to announce this today?

Mr Squire: I can't comment on that, Senator.

Senator KIM CARR: Minister?

Senator Canavan: No information to that effect.

Senator KIM CARR: Can I turn then to the business research, development and commercialisation section. Section 1 on page 14 of the budget statement discusses the flagship programs for the department: the Industry Growth Centres initiative and the CRCs, the Entrepreneurs' Programme, and the Research and Development Tax Incentive and so on. It talks about them in terms of making Australia a leader in a global innovation race. Minister, does the government stand by the proposition that's outlined on page 14 of the budget statement?

Senator Canavan: Can you maybe repeat that reference?

Senator KIM CARR: It's section 1 on page 14 of the budget statement.

Senator Canavan: You're referring to the PBS?

Senator KIM CARR: Yes, it's the budget statement. I hope I've got the right one here.

Senator Canavan: Just the first paragraph on page 14?

Senator KIM CARR: That's right.

Senator Canavan: I certainly support that statement in terms of the department's focus.

Senator KIM CARR: I noticed there have been a few changes. Can you perhaps tell me why it is that the government is seeking an efficiency of $48.9 million over five years from the Entrepreneurs' Programme and the industrial growth initiatives? For a start, what's the breakdown between those two programs? How do you reach the $48.9 million? How does that work? Can anyone help me with that?

Dr Smith: Senator, Mr Medland will take you through those.

Mr Medland: As part of the budget, there was a saving listed there of $13.9 million, and $9.9 million of that relates to the Entrepreneurs' Programme and $4 million relates to the Industry Growth Centres.

Senator KIM CARR: Have you got a profile on that?

Mr Medland: I do.

Senator KIM CARR: Have you got that there with you?
Mr Medland: For the Industry Growth Centres, I have $1.2 million in 2021-22 and $2.8 million in 2022-23. That comes to $4 million. For the Entrepreneurs' Program, in 2021 it is $1 million, in 2021-22 it is $1 million and in 2022-23 it is $2.9 million. It comes to the $9.9 million.

Senator KIM CARR: Thank you. I notice that there's a saving of $35 million over five years from 2018-19 for this measure. It's already been provided by the government. When were these savings provided?

Mr Medland: That was provided at MYEFO.

Senator KIM CARR: How are they being distributed? What's the profile on that?

Mr Medland: With the Industry Growth Centres, the saving is over four years in that instance. 2019-20 is $3 million, 2020-21 is $3 million, 2021-22 is $3 million and 2022-23 is $2 million, to come to the $11 million. For the Entrepreneurs' Program, in 2018-19, the saving is $2 million, in 2019-20 it is $6 million, in 2020-21 it's $6 million, in 2021-22 it's $6 million, and in 2022-23 it's $6 million.

Senator KIM CARR: Thank you. That's the $35 million, is it?

Mr Medland: Correct.

Senator KIM CARR: This has all gone back into consolidated revenue, has it?

Senator Canavan: Like any efficiency, it obviously provides the government with more resources, which you would also note, presumably on the same pages of Budget Paper No. 2 that you're looking at, the government's made a range of investments in this portfolio, particularly to do with space, with enhancing the outreach of Questacon et cetera.

Senator KIM CARR: So this has funded the new initiatives for Questacon. What else?

Senator Canavan: As I say, they're not directly linked, but I think it's important to take the government's budget strategy in its totality, rather than just individual measures.

Senator KIM CARR: It's just that if we add them up it's nearly $90 million there. There are nowhere near $90 million worth of new initiatives, are there?

Senator Canavan: As we've just outlined—I believe Mr Medland will pick me up—the efficiencies in the budget are $18.9—

Senator KIM CARR: Well, it's $48 million plus $35 million—sorry, $49 million.

Senator Canavan: And the $35 million was from MYEFO, I believe.

Senator KIM CARR: That's right. I'm just saying it's $49 million plus $35 million—that's the effect of the changes. There's nowhere near that amount in terms of new initiatives.

Senator Canavan: I'm just describing how I'm happy for Mr Medland to run through the other initiatives and changed programs. Here, I've got $15 million for expanding Questacon, $3.4 million for promoting women in STEM, a very important initiative, and another $20 million for the Space Infrastructure Fund, and also some funding for ANSTO as well.

Mr Medland: If I could just clarify, the saving in budget was $13.9 million. The MYEFO saving was $35 million. Combined, that's the $48 million. So that's the impact of the saving.

Senator KIM CARR: So it wasn't $48.9 million?

Mr Medland: Combined, it's $48.9 million.
Senator KIM CARR: Combined with the two effects?
Mr Medland: Correct.
Senator KIM CARR: Oh, so I'm double counting. I see what you're saying. Okay. There was a review of the growth centres by the Nous consulting group, is that right?
Mr Medland: Yes.
Senator KIM CARR: Did Nous Group recommend that you cut the growth centres?
Mr Lawson: Nous Group reviewed, I believe, the growth centres that existed. The reduction in the program isn't a reduction of the existing growth centres. As a result of the Nous review, those growth centres were found to be doing well and their funding was extended for two years. The savings have been taken out of uncommitted funding in the program.
Senator KIM CARR: Can we get a copy of this review?
Mr Lawrence: The review undertaken by Nous was used to inform the minister's decision to extend them—
Senator KIM CARR: Sorry, Mr Lawrence, but does that mean yes or no?
Mr Lawrence: and a decision to release that is up to the minister.
Senator KIM CARR: I see. Minister, can we get a copy of this review?
Senator Canavan: We'll have to take that on notice, Senator. It's not my report, sorry.
Senator KIM CARR: There was a letter that my colleague put in on behalf of the opposition. I'm just wondering: do we have the matters contained in that, Madam Secretary?
Dr Smith: Yes, we do.
Senator KIM CARR: Can I get a copy of those?
Dr Smith: I'm happy to table those. Could I clarify: in the answers to one of the questions, Senator Ketter asked for information around funding and staffing for NISA. We interpreted that as you were perhaps the Office of Innovation and Science rather than NISA itself, because you were looking for funding and staffing numbers.
Senator KIM CARR: This department.
Dr Smith: That's right, not NISA itself because that's scattered across. We've assumed that's what you've asked for. We're happy to table those answers.
Senator KIM CARR: Thank you very much. You've covered all of those?
Dr Smith: Yes—
Senator KIM CARR: Thank you very much, Madam Secretary.
Dr Smith: except to note two questions around forecast of expenditure, R&D, the tax incentive and the current value of revenue. That's something that I need to go to the Treasury for. Similarly, there was a question about water infrastructure programs, which we don't have carriage for. That's for infrastructure. We have attempted to answer everything else.
Senator KIM CARR: There is the last one on questions on notice. Are there any outstanding?
Dr Smith: No, Senator.
Senator KIM CARR: Thank you. I will press on, then. With regard to the R&D tax incentive, the performance criteria in outcome 1, table 2.13 on page 35, refers to business research development. The note there indicates: 'The intended result was to increase research and development for business.' Is that what's actually happened?

Mr Calder: Could I ask you to repeat the question?

Senator KIM CARR: Yes. I'm referring to the criteria in outcome 1, the table at 2.113, which is on page 35, and the performance criteria for outcome 1 specifies that the intended result of this program was to increase research and development in business. Is that what's happened?

Mr Calder: Senator, as you know, the only tax incentive is a demand-driven program. The amount registered in any given year will depend on how many companies decide to register for the R&D tax incentive and what types of activities they're actually undertaking as part of that program. So, year on year, it is simply based on what the demand from individual companies would be for accessing that program.

Senator KIM CARR: You would be able to claim that you've met your performance criteria?

Mr Calder: I note that, in that table, that is the actual estimate from the registration data of what the actual amount of R&D activity under the program is. So it's not a target; it's a simple estimate of what has been registered to date in the program for the current year.

Senator KIM CARR: On page 38, it actually does refer to a target, doesn't it? Is that the case? On page 38, the portfolio, on 1.2: the 2018-19 target for R&D expended for business was $13.9 billion.

Mr Calder: What I'm saying, Senator, is that that is the estimate, in an incomplete year, of the actual R&D claims through the R&D tax incentive. It's not a target.

Senator KIM CARR: It's not a target. That's what the table actually says, though, isn't it?

Mr Calder: I think it does earlier in the table. But what I'm saying is that simply is just the estimate of the amount of R&D registered.

Senator KIM CARR: It should say 'estimate', not 'target'?

Mr Calder: It's the estimate of the amount of R&D registered in the program.

Senator KIM CARR: That's not what has happened, is it? We're down on those figures, aren't we?

Ms Mulder: The most recent income year we have is the 2016-17 income year, and as we've reported, it's $13.9 billion in terms of R&D expenditure. So that's the figure that's been translated over to the estimate of the next income year, which would be 2017-18.

Senator KIM CARR: So the figure in 2017-18 was 9.2, wasn't it?

Ms Mulder: You're referring to the 2017-18 PBS?

Senator KIM CARR: Yes, the previous PBS.

Ms Mulder: I understand that was the figure, yes.

Senator KIM CARR: And what was actually achieved?
Ms Mulder: That was in reference to a different income year. In the 2014-15 income year, the registered R&D expenditure—noting this is through registration, Senator, as you would know—was $18.3 billion. That was the actual figure.

Senator KIM CARR: What have we got for the next year after that?

Ms Mulder: The next year after that was $16.1 billion?

Senator KIM CARR: That's down, is it?

Ms Mulder: From 18.3, yes.

Senator KIM CARR: And what have we got for the year after that?

Ms Mulder: That was the most recent income year, and, as I said, that was $13.9 billion.

Senator KIM CARR: So it would be fair to say that, on the available evidence, business R&D is going down?

Mr Calder: Business R&D has been trending down since 2008-09.

Senator KIM CARR: I see.

Mr Calder: This would be based on some broad economic factors in the economy. We've seen the mining investment boom move through the economy—

Senator KIM CARR: And you don't think it's got anything to do with reductions in support from the government? Would it have anything to do with the support from the government being reduced?

Mr Calder: I wouldn't be able to talk to what individual companies would react to, in terms of changes within the program. I note the changes announced at the 2018-19 budget currently legislated them before parliament. The changes that happened earlier were a cap of $100 million on the total claims that companies could make and a 1½ percentage point reduction in the offset rate itself.

Senator KIM CARR: Those changes have gone off to a consultation committee, now, haven't they?

Mr Calder: The legislation went to the Senate Economics Committee.

Senator KIM CARR: We are members. This is the same committee. It went off to a further consultation, because it didn't actually proceed in the parliament, did it, in the Senate?

Mr Calder: We issued the draft legislation for consultation—

Senator KIM CARR: There's been a further round of consultations. The government has set up a further consultative committee, has it not?

Senator Canavan: I think that's a matter for Treasury.

Senator KIM CARR: I thought it was this department, too.

Senator Canavan: That's right.

Senator KIM CARR: Because this department's part of that consultation, as well.

Senator Canavan: I think the legislation is a matter for Treasury, but I'll just ask my officials to add what they can on that.

Mr Lawson: As our colleagues from Treasury talked about in the estimates earlier today, the committee made some specific proposals that the government should consider, and the government is currently considering those, and we are with Treasury in doing that.
Senator KIM CARR: Mr Lawson, I'm aware of what the committee has recommended. I'm aware that the government is considering the committee's recommendations, but it is my understanding there has been a consultation group set up which this department has been part of; is that the case or not?

Mr Lawson: Senator, I think we will talk about that consultation process, but that's not specifically about the policy matters; that's a matter of implementation—Joanne Mulder?

Senator KIM CARR: It goes to the matters covered by the policy matters.

Ms Mulder: You are correct, Senator. The co-administrators—the ATO and AusIndustry—have established the Research and Development Tax Incentive Roundtable. The first meeting—

Senator KIM CARR: We're on the same wavelength.

Ms Mulder: I think so, now. Yes, Senator. That first meeting was held on 7 March, but, as we discussed last time, it's not a policy forum; it's a co-administrators forum.

Senator KIM CARR: And it has had one meeting since this Economics Committee has reported?

Ms Mulder: The first meeting was on 7 March, Senator.

Senator KIM CARR: What was considered at that meeting?

Ms Mulder: A range of topics were discussed at that meeting, including an update on where the draft legislation was up to, as well as administrative matters such as software guidance, program integrity and program performance, and some ATO matters as well.

Senator KIM CARR: Were there any conclusions reached at the meeting?

Ms Mulder: We have made the minutes of the meeting available on our BGA website.

Senator KIM CARR: Of course.

Ms Mulder: But, in terms of conclusions, we certainly do have actions for next time.

Senator KIM CARR: Can you refresh my memory: what are they?

Ms Mulder: Yes, I can. We were asked to look at the type of information that we can provide to the round table. We'll be providing some more numbers on various aspects next time. We've sought feedback on the draft terms of reference, and we're receiving some of that at the moment. We agreed to have a further discussion on the software development. We agreed to have a discussion about the revised registration form for the program. And there were also some administrative matters around co-chair arrangements.

Senator KIM CARR: Thank you for that. I might turn quickly to the CRC Program. I see there was a target listed in the budget last year. The number of commercialisation agreements was estimated to be at 306 in 2018. This year the number is 2,558. Can you tell me how we get such a disparity?

Mr McIntyre: One of the CRCs, the autism CRC, had a very large number and, as a consequence, that's inflated that figure when compared to the trend that goes before and after that year.

Senator KIM CARR: Can you repeat the CRC that had this massive number of agreements.
Mr McIntyre: I'll get the precise title, Senator. It is the CRC for living with autism spectrum disorders.

Senator KIM CARR: How many agreements did they manage to have?

Mr McIntyre: I don't have a breakdown of that figure, but basically the reason for the increase is because of a very large—

Senator KIM CARR: For one CRC?

Mr McIntyre: That's correct. We've changed the way in which we tend to attribute those matters between companies involved in CRCs and—

Senator KIM CARR: Thank you for that. We're going so well, Madam Chair, that I have one final question. I thank the officers for their assistance with this. I apologise, there are two questions. My office will be cranky with me if they see I've missed two questions. I will come back to the R&D matter. Do we have a final number on the estimated save from the intensity measure, included in this budget?

Mr Lawson: You will remember that was a matter that was announced in the previous budget, and an aggregate figure for the save from changes to the R&D tax incentive was provided, but not a breakdown of individual measures—

Senator KIM CARR: That's why I was interested to know: do you have one?

Mr Lawson: because those measures are interactive, so any change to them depends on what other measures are taken or not taken.

Senator KIM CARR: So there's been no policy change and you can't help me with a number on that specific measure.

Mr Lawson: Precisely. As you said, the committee made some recommendations. We are looking, with Treasury, at the analysis of those recommendations and their implications. That work has not been finalised.

Senator KIM CARR: So you don't have it—that's the nub of it.

Mr Lawson: Correct.

Senator KIM CARR: This is another one for you, Mr Lawson. What is the budget for the ARP Authority?

Mr Lawson: You'll find an answer on—

Senator KIM CARR: In the stuff we have got there. So what is the staffing?

Mr Lawson: That answer is—

Senator KIM CARR: In there as well?

Mr Lawson: Yes.

Senator KIM CARR: Thank you. That concludes my question.

CHAIR: I have a couple of questions which follow up on questions I've asked in previous estimates about the budget initiatives for women in STEM. What is the allocation in the 2019-20 budget for women in STEM and what initiatives will that funding support?

Ms Forsyth: The 2019-20 budget has announced $3.4 million over four years to increase girls' and women's participation in STEM study and careers. That's made up of two specific measures. One is $1.8 million over three years to continue support for the Science In
Australia Gender Equity initiative, SAGE, to enable the higher education and research sector to continue to improve gender equity policies and practices. The second initiative is $1.5 million over three years for a national digital awareness-raising campaign to increase the visibility of girls and women in STEM.

CHAIR: To increase the visibility. What does that involve?

Ms Forsyth: To increase visibility of girls and women in STEM, a digital awareness-raising initiative. It'll be led by our Women in STEM ambassador, Professor Lisa Harvey-Smith.

CHAIR: This is something I have asked about in estimates after estimates. The coalition is obviously quite dedicated to this initiative. What do you have before you—I know it's a bit retrospective—as to the total amount that has been committed over the past six years to addressing this issue?

Senator Canavan: I have a figure in front of me that the funding in this budget builds on the $4½ million over four years we've invested for women in STEM. There might be additional figures.

Ms Forsyth: That's correct, and we also invested over $13 million from 2016-17 to 2019-20 through the National Innovation and Science Agenda. So that is $4.48 million plus over $13 million.

Mrs Urquhart: Plus the $3.4 million in this budget.

CHAIR: So over $20 million. Thank you. That's very encouraging.

Senator KIM CARR: I just want to double-check something. I apologise if I've misled here. Does the material you've given me on notice provide details of the Questacon funding and the Innovation Games and the digital awareness funding?

Dr Smith: No, not the material that Senator Ketter asked for.

Senator KIM CARR: Have you got a profile on that funding, please?

Dr Smith: I should have; I think so, Senator.

CHAIR: While we're waiting, can someone explain to me exactly what the national Innovation Games involve?

Mr Medland: Senator, Carr, what were those programs?

Senator KIM CARR: Questacon funding, the Innovation Games and the digital awareness funding. Can we get the profile on those, please.

Mr Medland: Certainly. If you look at the PBS in the budget measures table on page 18, that outlines it. Expanding Questacon's education outreach in 2019-20 is $4.9 million; in 2020-21 it's $5.1 million; and in 2021-22 it's $5.1 million.

Senator KIM CARR: And what is the profile on the Innovation Games?

Mr Medland: Making the Innovation Games national: in 2019-20 it's $1.8 million; in 2020-21 it's $1.8 million.

Senator KIM CARR: Thank you. So it's just two years?

Mr Medland: Correct.

Senator KIM CARR: And the digital awareness funding?
Mrs Urquhart: I assume, by 'digital awareness-raising initiative' you're referring to the component of the women in STEM measure. That is profiled at 0.5 per year over three years from 2019-20.

Senator KIM CARR: What is the purpose of the funding for the Questacon outreach? What is the intention?

Prof. Durant: The funding will give us the opportunity to extend our outreach programs into regional Australia. I'm pleased that it's recognition by the government of the quality and the impact of our various programs.

Senator KIM CARR: But your standard outreach programs?

Prof. Durant: They are standard. We'll be doing a little bit more experimental work, going a little bit deeper in some of the communities. So, we'll be not only looking at breadth—and we've got great coverage across the country—but also going into some communities, such as one or two Indigenous communities, in a little bit more depth, to build pathways between programs and to connect other STEM initiatives in those areas.

Senator KIM CARR: How far out in the community are you going?

Prof. Durant: It varies from location to location. Each location is very specific. For example, the last tour of the Science Circus, the first one of this year, travelled from Canberra to Young and across to Goulburn and Cowra and interacted with 48 schools in that time.

Senator KIM CARR: This is stuff that you've done for a very long time, though, isn't it?

Prof. Durant: It is—34 years now.

Senator KIM CARR: Still through the ANU?

Prof. Durant: It's still in partnership with the ANU. The advantage of the new measure is that we will be able to use the resources at times when the students are undertaking other activities as part of their training.

Senator KIM CARR: Fair enough. And the Innovation Games—what's that about?

Ms Kelly: It relates to a program that really amounts to a hackathon, where businesses respond to an innovation challenge, and it's conducted in a hackathon. It's been run very successfully by the Victorian government, and it's a further application of that model.

Senator KIM CARR: How much did you say that was—the total?

Ms Kelly: It's 1.8 for two years.

Mr Medland: It's 3.5 in total.

Senator KIM CARR: And this is the first time it's been run here?

Ms Kelly: It's the first time that the Commonwealth has—

Senator KIM CARR: So, no contracts have been issued yet?

Ms Kelly: That's correct.

Senator KIM CARR: It's still discretionary funding, then?

Ms Kelly: That's my understanding. I'll confirm it, but that's my understanding.

Senator KIM CARR: And the digital awareness funding—what's that for?

Mrs Urquhart: I referred to that earlier. That relates to the Women in STEM measure.
Senator KIM CARR: Yes, you did say that. Sorry. Is this the first time you've run that?

Mrs Urquhart: Yes. It's intended that the Women in STEM Ambassador, Lisa Harvey-Smith, will lead that initiative.

Senator KIM CARR: What exactly are you intending for her to do with that?

Mrs Urquhart: We'll be investigating options together with her, in close consultation with her. The intention of the initiative is to use audiovisual and video material to extend outreach to girls and women about opportunities in STEM careers.

Senator KIM CARR: Thank you for that. I want to turn to the ANSTO moneys. This is a departmental expense, presumably, is it? It's $56 million over three years and includes $31 million for the capital funding. And there's a $56 million equity injection. Can you tell me what that's for?

Ms O'Loughlin: The money isn't departmental money; it's money for ANSTO. It's a total of $112 million, of which $38.4 million is for high-priority activities focused on short-term safety and operational requirements. It includes $13.9 million for proactive maintenance work for the nuclear medicine processing and distribution facility. It includes $12.6 million to address recommendations from the ARPANSA review, $5.9 million for managing radioactive waste, $1.2 million for managing spent fuel and $4.9 million for decommissioning and demolishing a contaminated building.

Senator KIM CARR: Is it your intention, though, that this money will—you said the ARPANSA report, so it's dealing with those safety issues?

Ms O'Loughlin: Yes.

Senator KIM CARR: So, is it the intention of the department that this emergency funding will prevent further interruption of supply?

Ms O'Loughlin: It addresses the issues that ANSTO has been facing, and it does have money for capital funding for upgrading of infrastructure.

Senator KIM CARR: I thought they needed a fair bit more than that, though, didn't they?

Senator Canavan: Perhaps you could be more specific.

Senator KIM CARR: My understanding was that, regarding the figure to upgrade the facilities, there was a requirement for a lot more than the amount that you've just indicated as part of this package to deal with the safety questions.

Senator Canavan: My understanding is that these funds are for an imminent or immediate benefit to improve safety. There is also $12.6 million, as I think was outlined by Ms O'Loughlin, to put together a business case that would potentially support more significant investments in upgrading facilities at ANSTO. So that might be what you're referring to.

Senator KIM CARR: I thought the director mentioned a figure of over $200 million.

Senator Canavan: My understanding is that we don't have a costed amount for the infrastructure he may have been referring to at that point, and the funding for the business case will provide government with more detail.

Senator KIM CARR: Minister, you have a brief there. What's the additional equity for $56 million for, then?
Senator Canavan: My understanding is that is just a normal equity injection to support ANSTO's balance sheet, but I'll ask the officials.

Mrs Urquhart: The equity support recognised the unforeseen expenses that ANSTO experienced last year in responding to nuclear medicine supply disruptions, as well as the desirability of a buffer for ANSTO whilst it works through responding to recommendations from that ARPANSA directed review.

Senator KIM CARR: So there's no need for the redundancies now?

Senator Canavan: I'm not aware of any redundancies.

Senator KIM CARR: I understand there have been some discussions about redundancies at ANSTO.

Senator Canavan: I'm not aware, unless the officials—

Senator KIM CARR: The department's not aware of that?

Mrs Urquhart: ANSTO is scheduled to appear next Thursday. It would be a question you would need to ask ANSTO.

Senator KIM CARR: We all trust that that won't be necessary, but—

Senator Canavan: You never know your luck.

Senator KIM CARR: It's not part of the budget measure to deal with the redundancy issue?

Mrs Urquhart: No.

Senator KIM CARR: There has been a suggestion that there has effectively been underinvestment in ANSTO for the last few years now. Is this a response to that underinvestment?

Senator Canavan: A suggestion from whom?

Senator KIM CARR: ARPANSA reports did specifically refer to this question of the underinvestment in capital in ANSTO.

Mrs Urquhart: That's correct. The ARPANSA directed review made clear the urgency of replacement of building 23.

Senator KIM CARR: But this doesn't replace building 23, does it?

Mrs Urquhart: No, it doesn't, but, as outlined, it includes the $12.6 million which covers developing a business case, which would seem appropriate when scoping an expenditure of that magnitude.

Senator KIM CARR: So it's a business case for the replacement. It doesn't actually go to capital work.

Mrs Urquhart: There is provision, though, of $18 million in capital funding for upgrading of infrastructure in the meantime. So it is intended to assist ANSTO with meeting the recommendations of the ARPANSA directed review and to ensure that the workplace is safe in the meantime.

Senator KIM CARR: You're not just putting them on the long finger in this measure, are you?
Senator Canavan: That's certainly not my perspective or the government's perspective. We remain very committed to ensuring that the Lucas Heights facility is a world-class facility. While it's not in my portfolio, I catch up with Adi regularly about that. The government fully supports ensuring that ANSTO is sufficiently resourced to maintain that capability. As has been outlined, we don't have a properly costed proposal before us to replace building 23 or to do other infrastructure works that would meet the issues raised by the ARPANSA directed review, but the funding we're providing here does respond in part to those issues and we are also progressing a plan to get those proper costings so we can make further decisions.

Senator KIM CARR: Regarding the Space Agency infrastructure fund, is there a $19 million fund—or $19½ million, rather? How much of that has been announced so far? Has the $19½ million been allocated yet?

Mr Murfett: In the budget, $19.5 million has been announced for the Space Infrastructure Fund. Two projects have been announced under that fund: $6 million for a mission control facility; and $2 million allocated to support future space manufacturing capability.

Senator KIM CARR: That's $8 million altogether. So, what's happening with the rest of the money?

Mr Murfett: Two projects were announced under the $19.5 million and it's a matter for and a decision of government to make decisions on further projects under that fund.

Senator KIM CARR: Have decisions been made but are yet to be announced or are there decisions yet to be made?

Mr Murfett: Those decisions are a matter for government. They're responsible for making decisions on the fund.

Senator KIM CARR: I'm asking you a different question. Yes, I know they're decisions for government. I'm asking if the decisions been made but are yet to be announced? Therefore, has the $19.5 million been allocated?

Mr Murfett: In the budget, $19.5 million is announced as a commitment of the government for the fund. Two projects have been announced. There have been no further decisions on the fund.

Senator KIM CARR: I'll repeat that. There have been no further decisions. So, there still remains in the fund, unallocated, the balance of the fund beyond those two decisions?

Mr Murfett: I would say there's $19.5 million for the fund. Two projects are announced at a total of $8 million and the government has not made a decision on the remaining projects under that fund.

Senator KIM CARR: There was a reference in the statement of 194 on the Building Strong Regions—a total of seven projects. Is that something to do with the space program?

Mr Murfett: Which program was that?

Senator KIM CARR: A ministerial statement, Building Strong Regions 2019-20—an intention to fund a total of seven projects. Are any of those projects space projects?

Mr Murfett: Do you have the page?
Senator KIM CARR: I'm told it's on page 194—Building Strong Regions, page 194. Where it says 'to locate the Australian Space Agency'. It is the Space Infrastructure Fund. It talks about the $19.5 million and it talks about the first of the project funds, the $6 million and the $2 million.

Mr Murfett: I've got the reference.

Senator KIM CARR: You see there are seven priority infrastructure projects and in my copy the seven has a line through it.

Mr Murfett: I see that.

Senator KIM CARR: Is that an editing error that's not been corrected by the Treasury boffins? What's happening there? What does the seven relate to?

Mr Murfett: I think that with the infrastructure fund that we have, there is $19.5 million and two projects have been announced.

Senator KIM CARR: I've got that.

Mr Murfett: The number of projects hasn't been decided. There could be seven.

Senator KIM CARR: I'm not making myself clear, perhaps. I read the document and it talks about seven priority projects. You've told me about two. Where are the other five?

Mr Murfett: As I said, $19.5 million under the Space Infrastructure Fund. Two projects have been announced. No announcements have been made about other projects. It's a large fund of $19.5 million and the objective of the fund is to grow and transform our space industry. What the future projects will be have not been announced.

Senator KIM CARR: Minister, can you help me? What are the seven priority infrastructure projects referred to in this statement?

Senator Canavan: I'll have to take that on notice. Sorry.

Senator KIM CARR: Mr Lawson, can you help me?

Mr Lawson: I'm discovering this as we speak.

Senator Canavan: We'll take it on notice.

Senator KIM CARR: It's amazing what people can draw your attention to? It is just a joy in the estimates.

Mr Lawson: As you say, it does appear to have been crossed out.

Senator KIM CARR: Yes, it has.

Senator Canavan: I'm informed, from the minister's office, that it is a mistake. It should have been removed from the budget. That's why it's struck through.

Senator KIM CARR: I see, it's a mistake. Who does the editing on this?

Senator Canavan: Not this department, I don't think—I'm not trying to flick the buck.

Senator KIM CARR: The performance bonus should be looked at, there, I would have thought.

Senator Canavan: We all make mistakes, Senator.

Senator KIM CARR: We'd make mistakes, all right. Thank you very much. But there's no more to be announced, is what you're telling me. Is that right?
Mr Murfett: As I said, they're a decision for government, and that's a question you'll have to put to government.

Senator KIM CARR: Yes, I got that. But we go into caretaker in a couple of days. I'm must saying, you're not aware that there are no more decisions made yet to be announced. You're deputy head of the agency, aren't you?

Mr Murfett: I am deputy head of the agency.

Senator KIM CARR: And you've not been aware of any other decisions yet to be announced.

Mr Murfett: I think the correct way to characterise it is that the agency is responsible for providing advice to government on matters relating to civil space policy. It is a matter for government to make decisions on those projects and that is a question that needs to be directed to government, on what those decisions are.

Senator KIM CARR: All right. Minister, can you tell me, are there any other decisions that have been made in regard to the allocations of money from this fund yet to be announced?

Senator Canavan: I'll have to take it on notice.

Senator KIM CARR: Given that's a mistake.

Senator Canavan: I've clarified that, but I'll take that question on notice.

Senator KIM CARR: Thank you. Do you have a profile on the fund? How does that work?

Mr Murfett: I can read through the profile of the fund. In our PBS, on page—

Senator KIM CARR: It's in the PBS?

Mr Murfett: It's in the PBS, page 19.

Senator KIM CARR: Thank you, that'll do, if it's in the PBS. In terms of the particular projects that you have announced, is there a profile on the allocation of money for those?

Mr Murfett: Which projects, sorry?

Senator KIM CARR: The projects that you have announced, the $6 million and the $2 million. Is there a profile on the distribution of funds for that?

Mr Murfett: There is a profile.

Senator KIM CARR: May I have that, please?

Mr Murfett: For the mission control centre, which has been announced, 1920 has $3 million, 2020-21 has $2 million and 2021-22 has $3 million.

Senator KIM CARR: Thank you. And the other one?

Mr Murfett: For the $2 million project, there is a profile in 2020-21 of $0.7 million and in 2021-22 of $1.3 million.

Senator KIM CARR: Both those projects will start this year, will they, if you've got a funding profile of 2019-20?

Mr Murfett: For the second project that I just discussed there isn't a funding allocated in 2019-20, but that wouldn't stop, for example, undertaking some feasibility work to support that project.
Senator KIM CARR: In regard to the Adelaide City Deal, which has an allocation of 0.5, 0.3 and 0.4 for forward estimates and a capital measure of 0.5 in year 4, what's that for?

Mr Murfett: That's in relation to the announcement of the Australian Space Discovery Centre as part of the Adelaide City Deal. Those funds are part of us partnering with Questacon to create a public face for the activities relating to space so that we can engage with the community, get the kids to touch, feel and play with space activities.

Senator KIM CARR: In any of these projects what's the state government involvement, the funding commitment from state governments?

Mr Murfett: In some of these projects we're still undergoing negotiations with those projects that are not available. But for the mission control facility it was announced that the South Australian government's allocating $2.5 million.

Senator KIM CARR: And the others, you're still talking about?

Mr Murfett: We're still under negotiations.

Senator KIM CARR: I'm sorry to go back to Questacon but I want to clarify something. You've allocated $15.1 million for three years for Questacon. You've said that's the outreach programs. Is there any revenue from ticket sales in there?

Prof. Durant: There is a charge for the Science Circus when it goes into various communities, so there is an element of cost recovery.

Senator KIM CARR: What's the charge?

Prof. Durant: I believe it's $15 per student.

Senator KIM CARR: What's your total revenue from ticket sales?

Prof. Durant: Total revenue from ticket sales last year—the actuals for 2017-18 were $5.9 million, and for 2018-19 they were $6.4 million.

Senator KIM CARR: Across the forward estimates, do you have any sense of it?

Prof. Durant: I can do a back-of-envelope calculation, by which it's coming in at around $6 million a year. So, over four years, we're talking—

Senator KIM CARR: Six by four. Can you give me a breakdown on adults, children, concessions and family tickets?

Prof. Durant: Yes, I can.

Senator KIM CARR: Do you have that on the table and could you table it?

Prof. Durant: Yes.

Senator KIM CARR: Is that all right, Madam Chair?

Prof. Durant: The admission prices have been static since 2012. The current price for an adult is $23 and for a child it is $17.50. Family tickets are $70. Family memberships are $160, and there's a discount if you take on a two-year family membership.

Senator CANAVAN: My wife and kids visited this week. I thought it was quite reasonable. They had a good time. I couldn't make it.

Senator KIM CARR: I do remember the figures from 2012. Your prices—that revenue figure includes the Science Circus for outreach.

Prof. Durant: No, that's a separate line.
Senator KIM CARR: If you include the Science Circus for outreach, how much is the total revenue?

Prof. Durant: Perhaps I have misled you. I think that figure does actually include some circus revenue.

Senator KIM CARR: So the total revenue for ticket sales is about $6 million a year.

Senator KIM CARR: It's about $6 million a year. There's $2.5 million for sponsorship, $2.6 million for the sale of goods, half a million or thereabouts for program income, $775,000 for memberships, $289,000 for lease and car parks, other revenue is $24,000, and exhibition hire is over $500,000. They're all ballpark figures. I have the exact figures if you'd like them.

Senator KIM CARR: If you could. If you've got that table, that'd be very handy.

Prof. Durant: The total for 2018-19 revenue is $13.567 million.

Senator KIM CARR: The money on the SAGE initiative provides three years extension, doesn't it? Can I just confirm that that's three years?

Ms Forsyth: Yes, that's correct.

Senator KIM CARR: That's about $600,000 a year, is that right?

Ms Forsyth: I'd have to check how much it is each year.

Mrs Urquhart: Just bear with us, Senator. We do have a profile.

Ms Forsyth: It's $500,000 in the 2019-20 financial year, $600,000 in the 2020-21 financial year and $700,000 in the 2021—

Senator KIM CARR: So it averages out.

Ms Forsyth: It does.

Senator KIM CARR: Is that less than the previous funding?

Ms Forsyth: We're just trying to find the information.

Mrs Urquhart: It might be most helpful if my colleague gives you the profile for the previous funding, because it's not quite the same.

Senator KIM CARR: But is it less?

Ms Forsyth: In the 2016-17 financial year it was $1 million.

Senator KIM CARR: So $1 million for the previous three years?

Mrs Urquhart: No. It then goes on over 2017-18.

Ms Forsyth: Then 2017-18 is $500,000 and 2018-19 is $500,000.

Senator KIM CARR: Okay, but there is $1 million in there somewhere, right?

Mrs Urquhart: In the first year.

Senator KIM CARR: What I'm interested to know is if the aggregate on those three years is less. Would that be right?

Ms Forsyth: Yes.

Senator KIM CARR: Okay. What's put to me is that there's less money available. The SAGE people asked for more money, presumably.

Mrs Urquhart: We would have to take on notice what figures, if any, were given to us by the Academy of Science.
Senator KIM CARR: Okay. I'm just wondering: are they expected to do more with less? As the business model changed, is there a—

Mrs Urquhart: No, the funding is a contribution to the base of the SAGE initiative, so it's not held against particular activities.

Senator KIM CARR: So there's no expectation of efficiencies required?

Mrs Urquhart: No.

Senator KIM CARR: Is there an expectation that participants are to pay a higher share of costs?

Mrs Urquhart: I'm not sure I understand the question.

Senator KIM CARR: Has there been a change in the modelling for the way in which the costs are distributed for the running of the program? I'm just trying to work out how they're supposed to do the job with less money. What's the effect?

Mrs Urquhart: As I mentioned before, it's a government contribution to the base of the SAGE initiative, so it's intended to help support the SAGE initiative as it's becoming established and as it's bringing on more members. So, in a way, it's not possible to answer your question, because it's not structured in that way.

Senator KIM CARR: Thank you very much. I'll leave it there.

Senator Canavan: Sorry, there's just a clarification.

Mr Murfett: I just want to make a clarification to my earlier statements around the projects. When considering the question and the answer, one thing I want to clarify is that the government has made up to seven projects but they're still subject to negotiation. I think in my answer I was trying to make a distinction with the agency providing advice on what they are. It is a matter for government to make a decision, but they are still subject—

Senator KIM CARR: What I'm trying to establish is how much of the money is unallocated.

Mr Murfett: Decisions have been made against the full quantum of the dollars.

Senator KIM CARR: The whole lot has been allocated?

Mr Murfett: The government has made a decision against the full $19.5 million.

Senator KIM CARR: Yes, that's fine, but I'm trying to establish: is there any money yet to be allocated?

Mr Murfett: There are decisions against the full $19.5 million.

Senator KIM CARR: That was the point of my question. Thank you very much.

Mr Murfett: Thank you for the opportunity to clarify.

Senator KIM CARR: Thanks for correcting the record too.

CHAIR: No-one move and no-one make eye contact, just in case Senator Carr still has another question!

Senator KIM CARR: That's right.

CHAIR: You'll get another involuntary colonoscopy if you're not careful! I have just a couple of questions, and then I will genuinely let you go. In particular, I had a question about
the National Innovation Games, but Senator Carr got in before me. What are the National Innovation Games exactly? I heard about the funding.

Ms Kelly: It is in effect a hackathon where there's an innovation challenge set and businesses compete with—

CHAIR: I know what a hackathon is.

Ms Kelly: A hackathon is where there is a problem put out and then, usually over a concentrated period of time, people get together in teams to come up with solutions to the challenge that's put out. In this case, it's businesses competing to provide a solution to an innovation challenge. It has been used very successfully in Victoria by the Victorian government to foster innovation in small business in particular.

CHAIR: Thank you. In the same vein, I want to ask you about the commercialisation Incubator Support initiatives. I understand there's been some research done about increased commercialisation recently. Is that in the same vein, the same group, or am I barking up the wrong tree?

Ms Kelly: The Incubator Support initiative is still very much in its early stages, but there has been very positive feedback about the early stages of the program. I'm not quite sure of the research that you might be referring to, but certainly the program is only—

CHAIR: It's the National Survey of Research Commercialisation—is that something that rings a bell?

Mr Tonkin: That is an annual survey that is undertaken by the department.

CHAIR: So the department undertakes the research on its own initiative?

Mr Tonkin: We undertake that research through a survey mechanism through the relevant agencies. We ask 18 questions around key indicators around commercialisation within publicly funded research bodies. That covers things such as resourcing, licence options, assignments, start-ups, spin-out companies, consultancies and collaborations as well as skills development in the technology transfer and the ecosystem they're building to try to foster that commercialisation of publicly funded research into the ecosystem.

CHAIR: Has there been a suggestion that the commercialisation has improved in the last period? I don't know what period you measure that over.

Mrs Urquhart: The results from the 37 universities, 20 medical research institutes and the six publicly funded research agencies that responded indicated increased commercialisation and collaboration activities over the life of the survey. The survey data shows positive trends across metrics, including continued growth in start-up creation, increased technology licences executed and consultancies, contracts and collaborations with end users, including industry partners.

CHAIR: Does that include the Biomedical Translation Fund?

Mrs Urquhart: No. It includes medical research institutes but not the Biotechnology Translation Fund. It may be, however, that the biomedical technology—or BTF, as we call it—would have contributed to the results reported in the survey. They are reported through the institutions. It is the institutions that respond to the survey, as opposed to a fund.

CHAIR: My very last question is on program 3, so I'm afraid I'm dragging different groups of people up. It is about the National Measurement Institute, which is not something I
know an awful lot about but which I wanted to ask about. I probably should have saved this for when we do the agencies next week, which might be a little ambitious. But there was a recently announced fuel pump blitz, and I'm just wondering whether you can explain to me what a fuel pump blitz is?

Dr Warrington: The fuel blitz is a targeted compliance program. We have trade measurement inspectors in the field. Normally we have a range of businesses that they visit. What we have trialled twice now is a concentrated effort where we focus on a particular trade sector. We ran one last year on supermarkets and we have run one this year on fuel. It was just completed today, in fact. It's a national program with all the inspectors visiting stations across the country.

CHAIR: If you finished it today, when will you get the results?

Dr Warrington: It takes some time to pull those together and analyse them. It's a very rich dataset for us in terms of individual instruments and the businesses that are visited. I would expect it would take some weeks to months to pull that data together to extract the full set of results. Just to make clear, what the inspectors do when they visit a petrol station is simply check that the fuel pumps give you a fair measure such that when they say they're dispensing a certain volume that's actually the volume the consumer gets.

CHAIR: I never suspected otherwise, but I'm very glad somebody has an eye on that. That's all we've got for now. We have no more. Thank you very much to the department for appearing tonight. We will let you go.

Proceedings suspended from 20:25 to 20:40

CHAIR: The committee will now resume. Senator Patrick has the floor. Senator Patrick, you were going to let the committee know which agencies can go home.

Senator PATRICK: Can I just ask for the ones I want?

CHAIR: Yes; that's probably better.

Senator PATRICK: The Australian Space Agency and manufacturing and radioactive waste.

Senator Canavan: Which one do you want to start with?

Senator PATRICK: Whichever is convenient.

Senator Canavan: Space is right here.

Senator PATRICK: I love space.

CHAIR: Everyone else can go home, if they are not the Space Agency, advanced manufacturing or radioactive waste.

Senator PATRICK: Mr Murfett, I would like to get a status update, as to where things are up to, maybe by way of an opening statement or just telling me what has happened since we last met here.

Mr Murfett: I might reflect on the 10 months since the establishment of the Space Agency. It has been a pretty busy time. The government has invested over $300 million in space activities broadly since 2018 and, following the recent budget, the commitment since 2018 to the Space Agency and its activities is in the order of $73.2 million. That includes a

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new program called the Space Infrastructure Fund, of $19.5 million, designed to accelerate the growth of industry through targeted infrastructure investments.

Over the 10-month period, we've done the governance arrangements, which means that we have our charter up and running. In December, the government announced that the agency was to be located in Adelaide. Other activities we've undertaken include supporting amendments to legislation. One of the interesting statistics we've had is that the reach of the agency, the accumulative reach of audiences, is in excess of 73 million people. Some science agencies in Australia might aim for around five in a year, and in 10 months we've hit 73 million. It would be nice to say that every Australian has read that about us three times. The cumulative reach doesn't quite work that way, but it does show that there's an appetite in Australia for space. We've also worked with all states and territories to understand investment opportunities. We've worked with industry and we've worked with international counterparts. It all comes back to our purpose, which is to grow and transform a globally respected space industry.

Also this week there's been the announcement of a 10-year strategy for the Australian space sector. It outlines a path to grow Australia's space industry to become a greater part of the $350 billion global market. The way that that will be achieved is by focusing on an international dimension. A premise of the agency is to open doors internationally, and I can say that we've done that. We've signed four MOUs with the likes of the Canadian Space Agency, the UK space agency, the French space agency and, most recently, the UAE.

Importantly, the agency's role is around growing and transforming the industry. We have a target of growing and creating up to another 20,000 jobs by 2030 and tripling the size of the space sector, which is currently $3.9 billion. We have a goal by 2030 to get it to $12 billion. As part of that, we've been working with industry and we've been signing statements of intent which outline where industry and partners can see investments in Australia. They are with companies such as Airbus, Lockheed and, interestingly, a non-traditional space sector, Woodside Energy. What it's doing is using robotics that are in space but using them in the mining sector. The opportunity in front of us is to actually use mining technology robotics, automation, in space. Those are some of the achievements with our strategy that has been announced by the government.

The other pillars include the international pillar and the national pillar, which is about working across the nation. Importantly we're a regulator as well, so we need to ensure that our space activities are safe and we're globally responsible. The last part is that we need to inspire the nation. The way that we'll do that and achieve that broader goal of tripling the size of the economy is by focusing on seven priority areas in the Australian economy. That is around areas such as communication technologies, how we communicate from the ground to space and back down and how we use earth observations or images from satellites. I talked about robotics, and that's a very important part. There are a couple of others, but the last one I'll mention that's outlined in the strategy is called access to space. One thing that we have seen with the announcement of the agency is that the sector is looking at opportunities for small launch, and we're looking at the regulatory components of that.

I would say that it's been a pretty busy 10 months, but I think we've got the momentum of the sector behind us. I think that our strategy that the government has announced sets a strong
path forward over 10 years, and, with the new Space Infrastructure Fund, we've got the foundation to accelerate the growth of the industry.

**Senator PATRICK**: Thank you. That's a pretty good, informative summary. What exactly will the budget for the targeted infrastructure cover? Is that just government assets?

**Mr Murfett**: For the infrastructure, one of the things that was identified when we spoke to companies and other states and territories was that, compared to some other countries, there wasn't particular infrastructure that was available. So one of the projects that we've announced is a mission control—$6 million—in Adelaide. The mission control allows companies to focus on building small satellites or nanosatellites. I think in a previous hearing I've described that nanosatellites can be 10 centimetres by 10 centimetres by 10 centimetres, so quite small. The gap that can be filled is providing the ability to control and receive data from those satellites and ensure they're operating as they fly overhead. So the mission control that was announced is very much part of providing a capability industry so they can focus on doing the design of satellites, the looking at new sensors that can help farmers, and they can go to a facility that means that, once they're launched, they can actually control those satellites.

**Senator PATRICK**: That's going to be at lot 14, is it?

**Mr Murfett**: That's correct.

**Senator PATRICK**: How long until the lot 14 site—bear in mind that you've got to be very truthful here because it's about 150 metres from my office!—is going to be ready to receive your headquarters and then commence the mission control?

**Mr Murfett**: We were factoring on moving in by mid-2019 but we have recently received a letter that said that, because of the construction, it will just take time. It's a beautiful site, the Royal Adelaide Hospital, but it does take time to do the construction and build the facilities. I think that may push out a little bit later on this year, but that hasn't stopped the momentum of us operating from Adelaide.

**Senator PATRICK**: I'm sure that letter would have indicated a time frame, being in the commercial world.

**Mr Murfett**: That's right. I think we've been told that the end of October is what we're now aiming towards.

**Senator PATRICK**: It's at that point you move into lot 14. My understanding is you've got three FTE down in Adelaide now. Is that correct?

**Mr Murfett**: Three people. We've got the head, a support staff and a part-time officer. As Dr Clark outlined in Melbourne, she works out of the Adelaide office, and she commenced those operations on announcement that the agency would be in Adelaide. We have a staff member located in Adelaide and another part-time officer. So there are those three.

**Senator PATRICK**: Where are they operating out of at the moment?

**Mr Murfett**: They're in the AusIndustry facilities on Franklin Street. We've got a sign out as you come out of the foyer. We operate out of there, because I think one thing we're very keen to do is have that presence in Adelaide and leverage on the facilities and opportunities that are there.

**Senator PATRICK**: So in October, perhaps November, we will see that office shipped out across in lot 14?
Mr Murfett: Based on the advice we have at this point in time, that time frame is now October but we are doing all we can to sort of keep the momentum going, so we are working closely with the South Australian government. We have agreed what the floor structure looks like and that takes a fair bit of time because of the IT arrangements, making sure the walls are the right thickness so we can have IT facilities in place. It takes time to do the design. We have been working closely with the South Australian government. Now the other part of the story is we also have the mission control facilities which we need it factor in as well.

Senator PATRICK: I was going to ask you about that.

Mr Murfett: I reported earlier in the hearing that there is—

Senator PATRICK: Is that going to be on another floor? You have laid out plans already for the agency, and I presume there is another floor that you are now going to occupy and a completely different arrangement? I was going to ask you about the tender process. Are you going to go to tender? Who are the likely candidates? I have no idea in that domain who plays in that space.

Mr Murfett: The mission control centre does change how we think about where we are, and not only the mission control but also the space discovery centre. There needs to be a close connection between the mission control and space discovery centre because we got the mission control to allow businesses to control their space assets but we need to connect with the kids and communities to show space is real to Australians and we want to have that backing on so they can look in and go, 'Wow, space is real in Australia,' so you can touch and feel what space is.

Turning to where it is, we had agreed where the agency will be, which is in one of the buildings. Now we have the mission control, we need to sort of think about where the best place is for that. We don't have an answer. So the consideration could be from: do we put interim facilities in so we can quickly connect and then move it once a new facility happens? We need to have those discussions with the South Australian government, understand the buildings that are around and, as they pull together that innovation precinct, work out how do we make the space agency a landmark presentation in that facility?

Senator PATRICK: So a realistic time frame getting to the point where you have to plan for the mission control centre, and then a target—because I know you like targets in the space industry—

Mr Murfett: I think that's defence, not civil.

Senator PATRICK: When are you likely to launch mission control?

Mr Murfett: Being honest, I think it is hard to give a time frame because we have to wait for the availability of the building.

Senator PATRICK: I know it is early in the piece. Are we talking 10 years, five years, two years?

Mr Murfett: Much sooner. We have a funding profile at the moment that says that we will do some activities within 2019-20 but the first part of that is understanding the requirements. As you mentioned, we have to work out what the businesses need, design the program for grants and go out and approach the market.
Senator PATRICK: Do you mean a grant or a tender?

Mr Murfett: We have to work through those details about how we are going to do the requirements and whether it is probably likely to be a grant, because we want to leverage funding as well, not just from the Commonwealth's investment the South Australian government is putting in but we have to leverage from industry because it goes to the mandate of being a sustainable industry.

Senator PATRICK: If I looked up in the Yellow Pages—not that we have those anymore—or if I looked online for who builds mission control systems, would I find five companies or one company or is it something that NASA would—

Mr Murfett: I think I have a lot of new friends since we announced the mission control centre. There are several companies nationally and internationally that do these types of facilities. So, again, that is why we need to step back, look at the requirements, what do we need—

Senator PATRICK: I'm presuming the start will be the Commonwealth procurement which would say 'open tender' as a first?

Mr Murfett: The reason I'm not saying 'tender' is because our concept was around a grant because we are trying to leverage funding.

Senator PATRICK: But you are going to have to have a prime integrator and that won't be a hotchpotch of industry; they may have some input into it.

Mr Murfett: The reason we want to do a grant is so we can provide it to a company or a group of companies that can lead that facility with the expertise needed for our industry.

Senator PATRICK: I will be very interested as you move forward on that. Those MOUs that are in place—are they public documents?

Mr Murfett: They are, and they should be on the website now. What we are endeavouring to do is to make sure, as we sign those MOUs and our statements of strategic intent—I will take that on notice to make sure they are there, but I know most of them are there.

Senator PATRICK: Yes—even if you put a link in the answer to the question on notice.

Mr Murfett: Yes, we'll just do that.

Senator PATRICK: Finally, when are you likely to be in a position where we're seeding money, perhaps, to assist industries? The big guys you mentioned before, Lockheed Martin and Airbus, have got their own money and research organisations and so forth. Some of the smaller companies that are doing some of the nanotechnology—you were referring to those small satellite systems—may require a bit of a kick-along from government, the sort of fifty-fifty stuff you do with grants and things like that. When in your forward planning do you expect to see that sort of activity being conducted?

Mr Murfett: As I said, I think there are three parts to the story. Last year, in last year's budget, the government announced the international space initiative. That's due to come on line later this year, so it starts in the funding cycle 2019-20. What we're doing at the moment is, following our consultations across the nation, identifying what the gaps in the space sector are that allow them to connect internationally, and that program is designed to get businesses to engage internationally. We've got to now work out how we design that program so we can maximise the benefit of the program. That program will start later this year.
The second part is that we already have a range of programs across the broader portfolio. The space companies cover areas such as advanced manufacturing and others. We have things like the Entrepreneurs’ Program and other programs like the CDIC, which is the Centre for Defence Industry Capability—

**Senator PATRICK:** But they are not Space Agency programs.

**Mr Murfett:** They're not Space Agency, but they are two different programs that the advanced-manufacturing-type space companies can engage, if they're eligible through those rules for those particular programs, and then, in the CDIC context, if there's a defence element to their work. We see a close synergy between the two. There's an opportunity to leverage activities through that program. They're just some examples of programs that exist to help. And then of course we work closely with Austrade to facilitate where government doesn't need to fund. As we build a sustainable industry, sometimes the best connection is the partner facilitator. By doing the connections, we allow the companies to grow.

The third part of the story links back to the strategy that was released this week. One of the things that are flagged in the strategy is doing some road mapping for the priority areas that I mentioned—things like robotics. What does that mean for Australia? What do we do around future leapfrog technology? What the agency now need to do is work with state governments, businesses and international communities; understand the missions that are underway and the capabilities we have; and then detail where we think the pathway to grow those priority areas is. Once we undertake that analysis, that will identify whether that's something that industry can do or there's a case to come back to government.

**Senator PATRICK:** In terms of the time frame of that, what I'm trying to do is get into the public domain some understanding by industry as to when that sort of activity might commence so they can get on and do their business and plan for assistance at a particular point in time. Roughly when will that third element kick in?

**Mr Murfett:** I think the way to answer that question is that businesses can start now. There's a 10-year strategy that says: 'This is the way that we can grow. Here's a role of industry.' There are those other programs. For example, if they need facilitation support to develop their business and they're in advanced manufacturing, they can do that. The road mapping, on a rough estimation—this is not a firm time, because we've got to work through the planning processes—

**Senator PATRICK:** I understand that.

**Mr Murfett:** is going to take us around a year—because that's detailed analysis about what the programs are, what our capabilities are and what the gaps in the market are—to do properly so we can really grow and accelerate.

**Senator PATRICK:** So realistically it's a couple of years by the time you get the rubber on the road on that?

**Mr Murfett:** If we look at our strategy, it's a ramp up. The strategy has a tiered approach over a 10-year period. I think the outcomes of the road mappings will be decisions for the government at that particular time. I think the important point for businesses looking to engage in space is that they should come and talk to the agency now and understand what we're doing because we might be able to facilitate or connect to existing programs. If not, we can understand their capabilities, which will feed into the road mapping that will actually
inform future decisions. We have a team that undertakes that so we can really understand the market. We have to hit that growth. But I would say to businesses looking to be engaged in space: 'Engage with the agency, because we're on a path and, with 10 months behind us with some good frameworks, I think we're on a good trajectory.'

Senator PATRICK: Thank you. That was very informative.

Senator KETTER: I understand that you've met with the Queensland government in relatively recent times to look at how that state can engage in the space industry?

Mr Murfett: That's correct.

Senator KETTER: Can you tell us the outcome of that? Where's that going?

Mr Murfett: Dr Megan Clark and I have engagement across all jurisdictions to understand investment opportunities. In the context of Queensland, their parliament has recently undertaken an inquiry on the opportunities in space. That report looked at a couple of opportunities for Queensland specifically. That included activities such as the development of satellite parks, which is where you can bring ground stations together and create an agglomeration to support the growth of the ground segment that communicates with space assets. They talked about opportunities to better link with Defence, because there are synergies between civil space and Defence activities. They talked about opportunities around launch capability. The Queensland government now need to consider that report and prepare a response. We're looking forward to working closely with the Queensland government on those opportunities.

With other states and territories we are undertaking memorandums of understanding so that we can work with those jurisdictions on clear opportunities that align with the broader vision to grow and transform our space sector.

Senator KETTER: I understand Gilmour Space Technologies has done a study that suggests that the Queensland coast is the best place in Australia for a launch facility. What do you say to that?

Mr Murfett: I'd need to see the report. What I would say about many of the companies that are out there that are looking at launch is that we're seeing growing appetite. Those companies are now really tasked with working out whether it's a commercial opportunity and what would be the right flight paths. They will also need to look through environmental requirements to undertake launch. Our role in that would be the regulatory part of ensuring that the operations are safe. I think the company in question there will need to consider a range of factors as to what those opportunities could look like in a commercial sense.

Senator KETTER: Are they engaging with your agency? I understand Black Sky is another one that is based in Queensland.

Mr Murfett: Yes. Gilmour and Black Sky have engaged closely with us, so we're aware of their operations. They're aware of the regulatory obligations and also the growth of the industry, so they engage closely with us to understand what those requirements are. When it comes to things like the opportunities around launch and where's the appropriate site, our view is that the companies need to determine the right trajectories for the type of orbit they need to achieve and then what the requirements are—for example, local government and environment—to achieve those outcomes.
Senator KETTER: Are these companies at the forefront of launch activities in Australia?

Mr Murfett: For example, Gilmour—and I haven't got the exact figure—have recently attracted around $19 million in venture capital. When venture capital is putting that sort of money on the table it signifies that it is something investors are willing to invest in. I think that shows a lot of promise. I think they are working on unique hybrid rocket technology. They are doing well, particularly in attracting venture capital. There are a range of other companies that are looking at different things. In Australia we absolutely have some great companies. If they are able to attract venture capital, I think that is a good signal.

CHAIR: Senator Patrick, do you have any more questions?

Senator PATRICK: Not for the Space Agency.

CHAIR: We might let the Space Agency go home. Thank you very much, Mr Murfett. You have been very patient. Senator Patrick, who would you like to hear from?

Senator PATRICK: Automotive. I want to go through the capital program, the $47 million fund. From memory, that was done in two rounds.

Dr Richards: Yes.

Senator PATRICK: In terms of the first round, have any of the entities completed the grant cycle—concluded the investment, commissioned?

Ms Ryan: Contracts have all been executed with round 1. I don't believe any are completed. They are still ongoing with their contracts. That's my understanding.

Dr Richards: Many of the projects that came forward were early in their design phase. They were often having six to nine months of design before they started to—

Senator PATRICK: In no way am I criticising anything, I'm just trying to understand their status.

Dr Richards: They are long-run projects. Two to three years was quite typical for that run to implementation.

Ms Ryan: We do have an example of one project that we could tell you about, which is flat glass around one recipient. They upskilled 75 employees to operate and support new advanced manufacturing equipment. That was the first project completed.

Senator PATRICK: Where is that located?

Ms Ryan: I would have to take that on notice.

Senator PATRICK: Wouldn't mind following up with some of these entities. That's part of my question. I know that in the discussions related to this grant arrangement the former Senator Xenophon, with me as an adviser discussing with the department, talked about metrics to be able to work out, when these grants are made, what the return has been—so looking at the success. The critical reason for that, and the reason I might persist in asking for that as we move forward, is that it creates a basis for either doing something similar again or, alternatively, abandoning that sort of approach. Can you assure me that you are keeping these metrics?

Ms Ryan: We have made an estimate that over the two rounds of the program, with the 32 projects, there will be around $129 million worth of induced investment.

Senator PATRICK: And how will you track that?
Dr Richards: The projects will all be subject to formal evaluation.

Senator PATRICK: In the case of this first concluded activity, have we looked at what they suggested in their grant would be achieved and what has actually been achieved?

Ms Ryan: Yes. Throughout the grant process, they are subject to various milestones along the way, and they have achieved all of those milestones.

Senator PATRICK: It is not about milestones in terms of hitting particular dates with particular outcomes. All of these grants would say something like, 'We intend to invest this amount of money and we will think it will create this many FTEs.' Do you check at the conclusion and say, 'How much money did you invest in family full-time employees resulted from it'?

Ms Ryan: That will be part of the evaluation of the program.

Senator PATRICK: So you haven't done that for the first one that has concluded?

Ms Ryan: Not yet.

Senator PATRICK: What about the smaller program for the research projects?

Ms Ryan: I think you're referring to the two final elements. There is the $5 million Automotive Engineering Graduate Program—

Senator PATRICK: No, it's not that one. There was a $47 million capital program, and then there was a smaller one. I think it was $20 million. I'm running blind because—

Dr Richards: The $20 million would have been to the CRC program, and it would be evaluated within the framework of the CRC program.

Senator PATRICK: How many of those programs have been funded, in terms of value?

Ms Ryan: I believe there were 15 successful CRC projects.

Senator PATRICK: Are they listed anywhere?

Dr Richards: They would have been announced as part of the normal grants arrangements. I think that was in December 2017.

Senator PATRICK: Is it possible to provide that list on notice?

Ms Ryan: Yes.

Senator PATRICK: That would be appreciated. The scholarships?

Ms Ryan: That was the one I just mentioned.

Senator PATRICK: I'm just going in the order that I remember they were originally listed.

Ms Ryan: That was the $5 million Automotive Engineering Graduate Program. That one is going through the final stages of the granting process.

Senator PATRICK: How many universities have been involved in that? Have any in South Australia been involved in that?

Ms Ryan: I would have to take on notice the location of the universities. But the applications have been assessed, and 10 projects were recommended for funding to the program delegate. The program delegate agreed to those projects, and those successful applicants will be contacted shortly.

Senator PATRICK: And shortly means?
Ms Ryan: Very soon—within days.

Senator PATRICK: The reason I'm asking is that I want you to provide, on notice, a list of the successful applicants, noting it will take some time for that answer to come back.

Ms Ryan: We can do that.

Senator PATRICK: That would be helpful. There was the tax concession, which really doesn't make much sense to answer—the import tariff reduction. That's just underway. What's the status with the innovation labs?

Ms Ryan: They have a similar status in that assessments were made, a committee recommended the successful grantees to the delegate and the delegate accepted those recommendations. Those applicants will be advised shortly—within days.

Senator PATRICK: My understanding is that there's a Victorian-based innovation lab and that there will be a South Australian-based innovation lab.

Dr Richards: The grant we just referred to with the $7 million element was the access grant. That's companies bringing new design prototyping ideas to facilities, including the ones that were—

Senator PATRICK: I remember it had two parts—

Dr Richards: There was a seven and a three split. $7 million was for the access grants. They will be announced in the time frame that Ms Ryan said. The $3 million—

Senator PATRICK: Isn't there a show on tomorrow in Melbourne? I know there's a show on in Melbourne because I've been invited to it. The MTAA has an automotive show on in Melbourne. Is anyone going to that?

Dr Richards: Maybe our Melbourne office.

Senator PATRICK: Referring to the $3 million, the innovation lab in Victoria and South Australia—what's the status of that?

Ms Ryan: The Victorian lab will be operational by mid-2019. That one's underway.

Senator PATRICK: Being a South Australian senator, the next question is more important: when will the South Australian one be opening its doors?

Ms Ryan: The South Australian shopfront to access the Victorian lab will be operational by 30 September this year, and the South Australian lab will be operational by mid-2020.

Senator PATRICK: Thank you very much.

CHAIR: Thank you very much to the advanced manufacturing group. We've got one last group?

Senator PATRICK: The last group is radioactive waste. This might be very short.

Senator Canavan: There's not much to report.

Senator PATRICK: That's why I think it might be short. In fact, Minister, if you were to simply say to me, 'Senator, there will be nothing that takes place between now and the election'—

Senator Canavan: Senator, there will be nothing that takes place between now and the election. That's exactly right. Would you like to ask a specific question?
Senator PATRICK: That's generally where I wanted to get to. There was a marker, I think a week or so ago, about the Human Rights Commission application by the Adnyamathanha people.

Senator Canavan: We're aware of that. I'm not sure exactly what you mean by marker.

Senator PATRICK: There was going to be a decision.

Senator Canavan: I think I know what you mean.

Ms Chard: The Australian Human Rights Commission had deferred the conciliation process to 31 March and intended to review the timing of the conciliation process, pending the outcome from the BDAC v Kimba council legal case. They have not advised us of a revised time frame, but we understand that their intention is to defer any conciliation hearings until after the outcome of the BDAC v Kimba council case.

Senator PATRICK: That makes a lot of sense. I was in Kimba a week ago, and a comment was made that the contact points the community were used to have now changed significantly. Can you give some detail around that.

Ms Chard: Like any government department, we have staff turnover. There have been some changes. There are still some of the team. There's a level of continuity, but I accept that there has been some staff turnover.

Senator PATRICK: Can you give me some idea of the level of continuity and the level of change in percentage terms. I'm happy for you to take that on notice.

Ms Chard: Sure, I'll take that on notice.

Senator PATRICK: That's appreciated. I think that's it, noting the minister's answer.

Senator Canavan: We're still waiting on the court case but, even if it were to come down on Monday, we don't have time to do anything before the election.

Senator PATRICK: The AEC will be doing something else, I imagine.

Senator Canavan: Yes, they might be otherwise engaged.

CHAIR: We will officially now let program 2 and in fact the entire department go—no, we'll move to resources and the Northern Australia development. Senator Patrick, you are the only senator with questions.

Senator PATRICK: I think those questions—

Senator Canavan: Rad waste was resources.

CHAIR: So we're done?

Senator PATRICK: I think so.

CHAIR: There being no further questions at this time, the committee's consideration of the 2019-20 budget estimates will resume on Wednesday 10 April with further examination of the Treasury portfolio. I thank Minister Cormann, Minister Seselja and Minister Canavan, as
well as officers from Treasury and the industry department who have given evidence to the committee today.

Committee adjourned at 21:18