



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

(Public)

WEDNESDAY, 16 FEBRUARY 2022

CANBERRA

CONDITIONS OF DISTRIBUTION

This is an uncorrected proof of evidence taken before the committee.
It is made available under the condition that it is recognised as such.

BY AUTHORITY OF THE SENATE

[PROOF COPY]

ECONOMICS LEGISLATION COMMITTEE

Wednesday, 16 February 2022

Members in attendance: Senators Bragg, Chisholm, Faruqi, Gallagher, Lines, McAllister, McDonald, McKim [by video link], Patrick, Rennick, Roberts, Scarr, Small [by video link], Urquhart, Walsh and Watt

TREASURY PORTFOLIO

In Attendance

Senator Birmingham, Minister for Finance

Senator Hume, Minister for Superannuation, Financial Services and the Digital Economy and Minister for Women's Economic Security

Department of the Treasury

Dr Steven Kennedy, Secretary

Department of the Treasury—Corporate and Foreign Investment Group

Ms Roxanne Kelley, Deputy Secretary, Corporate and Foreign Investment Group

Mrs Elizabeth Williamson, Chief Operating Officer

Ms Cristy England, Assistant Secretary, People and Organisational Strategy Branch

Mr Rob Raether, First Assistant Secretary, Business Liaison Unit

Mr Hamish McDonald, First Assistant Secretary, Strategic Coordination and Communications Division

Ms Shannon Kenna, Assistant Secretary, Communications Branch

Mr Tom Hamilton, First Assistant Secretary, Foreign Investment Division

Ms Amelia Henty, Assistant Secretary, Policy and National Security Branch

Ms Sharon Nyakuengama, Assistant Secretary, Compliance Branch [by video link]

Department of the Treasury—Macroeconomic Group

Mr Trevor Power, Acting Deputy Secretary, Macroeconomic Group

Mr Patrick D'Arcy, Acting First Assistant Secretary, Macroeconomic Conditions Division [by video link]

Ms Ineke Redmond, Assistant Secretary, Domestic Conditions Branch [by video link]

Mr Damian Mullaly, Assistant Secretary, Macroeconomic Forecasting Branch [by video link]

Mr Mark Cully, First Assistant Secretary, Macroeconomic Analysis and Policy Division

Rebecca Cassells, Assistant Secretary, Fiscal and Monetary Policy Branch [by video link]

Riki Polygenis, Assistant Secretary, Structural Analysis Branch [by video link]

Ms Vicki Wilkinson, First Assistant Secretary, International Economics and Security Division

Ms Katherine Tuck, Assistant Secretary, Indo-Pacific and National Security Branch [by video link]

Mr Jim Hagan, Chief Adviser International [by video link]

Department of the Treasury—Fiscal Group

Ms Jenny Wilkinson, Deputy Secretary, Fiscal Group

Mr Brenton Goldsworthy, First Assistant Secretary, Budget Policy Division

Mr Damien White, First Assistant Secretary, Commonwealth-State Population Division

Ms Philippa Brown, First Assistant Secretary, Labour Market, Environment Industry and Infrastructure Division

Ms Marianne Dolman, Assistant Secretary, Labour Market, Environment Industry and Infrastructure Division

Mr Damien Dunn, Assistant Secretary, Labour Market, Environment Industry and Infrastructure Division

Ms Lisa Elliston, First Assistant Secretary, Social Policy Division

Mr David Webster, First Assistant Secretary, IPFA Division [by video link]

Department of the Treasury—Revenue Group

Ms Maryanne Mrakovic, Deputy Secretary, Revenue Group

Mr Simon Writer, First Assistant Secretary and Chief Counsel, Law Division

Ms Katrina Di Marco, First Assistant Secretary, Tax Analysis Division

Mr Paul McCullough, First Assistant Secretary, Individuals and Indirect Tax Division

Mr Martin (Marty) Robinson, Acting First Assistant Secretary, Corporate and International Tax Division

Mr Bede Fraser, Assistant Secretary, Personal and Small Business Tax Branch

Department of the Treasury—Markets Group

Ms Meghan Quinn, Deputy Secretary, Markets Group
Mr James Kelly, First Assistant Secretary, Financial System Division
Ms Katherine (Kate) O'Rourke, First Assistant Secretary, Consumer Data Right Division
Ms Jessica Robinson, Assistant Secretary, Consumer Data Right Policy and Engagement Branch
Ms Belinda Robertson, Assistant Secretary, Data Economy and Consumer Data Right Governance Branch
Mr Robert Jeremenko, First Assistant Secretary, Market Conduct Division [by video link]
Mr Tom Dickson, Assistant Secretary, Corporations Branch
Mr David Pearl, Assistant Secretary, Competition and Consumer Branch
Ms Lynn Kelly, First Assistant Secretary, Retirement Income Policy Division
Ms Melissa Bray, Assistant Secretary, Advice and Investment Branch
Mr Luke Spear, Assistant Secretary, Member Outcomes and Government Branch
Mr Adam Hawkins, Assistant Secretary, Tax and Transfer Branch
Mr Peter Cully, First Assistant Secretary, Small and Family Business Division
Mr Gino Grassia, Assistant Secretary, Small and Family Business Branch [by video link]
Ms Mary Jeffries, Assistant Secretary, Payments Performance Branch [by video link]
Ms Shannon Kenna, Assistant Secretary, Communications Branch

Australian Taxation Office

Mr Chris Jordan, Commissioner of Taxation [by video link]
Ms Jacqui Curtis, Chief Operating Officer [by video link]
Mr Jeremy Hirschhorn, Second Commissioner, Client Engagement Group [by video link]
Ms Melinda Smith, Chief Service Delivery Officer [by video link]
Ms Kirsten Fish, Second Commissioner, Law Design and Practise [by video link]
Mr Matthew Hay, Acting Chief Information Officer [by video link]
Ms Janine Bristow, Chief Finance Officer [by video link]
Mr Bradley Chapman, Deputy Commissioner, ATO People [by video link]
Ms Emma Rosenzweig, Deputy Commissioner, Superannuation and Employer Obligations [by video link]
Mr Vivek Chaudhary, Deputy Commissioner, Debt and Lodgement [by video link]
Mr Nick Shizas, Assistant Commissioner, ATO General Counsel [by video link]

Australian Charities and Not-for-profits Commission

Dr Gary Johns, Commissioner [by video link]
Ms Anna Longley, Assistant Commissioner, General Counsel [by video link]

Inspector General of Taxation

Karen Payne, Inspector-General of Taxation and Taxation Ombudsman [by video link]
Andrew McLoughlin, Deputy Inspector-General of Taxation and Taxation Ombudsman [by video link]
David Pengilley, General Manager [by video link]
Duy Dam, Director, Review and Engagement [by video link]

Reserve Bank of Australia

Dr Guy Debelle, Deputy Governor [by video link]
Ms Michele Bullock, Assistant Governor (Financial System) [by video link]

Australian Prudential Regulation Authority

Mr Wayne Byres, Chairman [by video link]
Mrs Helen Rowell, Deputy Chair [by video link]
Ms Margaret Cole, Executive Board Member [by video link]
Mrs Suzanne Smith, Executive Director, Superannuation [by video link]
Ms Therese McCarthy Hockey, Executive Director, Banking [by video link]

National Housing Finance and Investment Corporation

Mr Nathan Dal Bon, Chief Executive Officer [by audio link]

Mr Stuart Neilson, Chief Financial Officer and Chief Operating Officer [by video link]

Mr Rod Saville, General Counsel and Board Secretary [by video link]

Productivity Commission

Mr Michael Brennan, Chair

Ms Sam Reinhardt, Head of Office

Australian Small Business and Family Enterprise Ombudsman

Mr Bruce Billson, Ombudsman

Dr Craig Latham, Deputy

Miss Alexandra Hordern, Advocacy Director

Committee met at 09:00

CHAIR (Senator Scarr): Good morning, everyone. I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2021-22 and related documents for the Treasury portfolio, the industry, science, energy and resources portfolio and elements of the infrastructure, transport, regional development and communications portfolio. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has set 25 February 2022 as the date by which senators are to submit written questions on notice and 25 March 2022 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. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee. Such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. The Senate, by resolution in 1999, endorsed the following test of relevance of questions at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. The Senate has resolved also that an officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. 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. I will now incorporate it in the *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 the public interest that could result from the disclosure of the information or the document.

I ask members of the media 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 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. Witnesses and senators who are seeking to table documents during the committee's hearing were requested to provide an electronic copy of those documents the day prior to the hearing so that the documents could be circulated electronically during the hearing. Please liaise with the secretariat if you need assistance.

Senators, departments and agencies have been provided with advice on the arrangements in place to ensure the additional budget estimates 2021-22 hearings are conducted in a safe environment. This guidance is also available from the secretariat. I draw your attention to the QR codes available at all wait rooms. Witnesses, observers and staff are encouraged to use the codes before entering rooms to allow a full record of attendance to be kept. The committee appreciates the cooperation of all attendees in adhering to these arrangements.

The committee proceedings today will commence with the Treasury portfolio. It will begin with Treasury's corporate and foreign investment group and macroeconomic group. The hearing will then follow the order as set out in the circulated program.

Department of the Treasury

[09:04]

CHAIR: I now welcome senator the Hon. Simon Birmingham, Minister for Finance. I also welcome the Secretary of the Department of the Treasury, Dr Steven Kennedy, and officers from the Treasury. Minister, Secretary or officers, would you like to make an opening statement?

Senator Birmingham: Good morning, Chair, and good morning, Senators. I don't have an opening statement to make, but, as is customary in this committee, I believe Dr Kennedy does.

CHAIR: Over to you, Dr Kennedy.

Dr Kennedy: Thank you, Chair. I do have an opening statement. Over the summer, the omicron wave impacted the health and welfare of the community and disrupted economic activity. The most significant economic impacts stemmed from increased absenteeism. Many businesses found it difficult to maintain their full operations because of high levels of staff absences. In MYEFO, we recognise that the pandemic would continue to create headwinds for the recovery and we laid out scenarios that reflected this uncertainty. However, we did not foresee the extent of the omicron wave or the extent of the disruption to supply chains. Nonetheless, while the disruption caused by omicron has been significant, its overall economic impact is likely to be less than was foreshadowed in the downside scenario. This is because we have also learned that the underlying economy is stronger than we had recognised. These recent developments reflect a pattern that has emerged following the first wave of the pandemic. The challenging health outlook has persisted while the economy has proved more resilient. This likely reflects both policies being more effective than expected and a more rapid adjustment by the community to the tribulations of COVID.

With widespread community transmission of the virus in most parts of Australia, the community is now familiar with the challenges of living in this new phase of the pandemic. During January, many businesses faced acute staff absences because of the high number of workers infected and many others required to isolate as close contacts. In a range of industries, reports of staff shortages as high as 30 to 40 per cent were widespread in our liaison with business. This created a challenging business environment in industries such as food manufacturing, transport and logistics and retail that led to some temporary shortages of goods. Other high social contact sectors, such as restaurants and entertainment, also saw activity significantly impacted. In January, Treasury undertook analysis of the potential impact of the outbreak on staff absences for national cabinet. We used infection scenarios provided by the Doherty institute for the New South Wales omicron outbreak. This analysis suggested that up to 10 per cent of state workforces could be absent due to COVID illness or the need to self-isolate at the peak of state omicron outbreaks.

Self-isolating rules for close contacts working in essential industries have subsequently been relaxed, case numbers have fallen and we have observed labour pressures lessening in these industries. Notwithstanding the significant impact on labour supply, our current assessment is that the negative impact on aggregate spending has been relatively muted. Spending declined in January relative to a strong December but remains above levels experienced in previous lockdowns. The latest labour market data indicate that, late last year, demand for labour was robust, pushing the unemployment rate down sharply to its lowest level in 13 years. We do not expect the omicron wave to have a large negative impact on employment. It is more likely to have a relatively larger impact on the number of hours worked across the economy rather than employment. Globally, the omicron wave is having a major impact on health systems and is interrupting economic activity. However, as for Australia, the impact on economic activity is expected to be relatively muted and short-lived compared with earlier waves of the virus. The IMF recently revised down its expectations for growth this year but continues to forecast solid global growth of 4.4 per cent. Forecasting the path of the pandemic is difficult. Cases have moderated from the peak in January, but the Chief Medical Officer has indicated that future surges in community transmission are likely, with potentially another wave of omicron in winter and the ongoing emergence of new variants.

Treasury continues to work closely with the Department of Health and the Doherty institute to incorporate health scenarios into our assessment of the economic outlook. Uncertainty surrounding the health outlook will be with us for some time. Business and community could be dealing with an extended period of intermittent disruption and higher absences. That said, the community can be confident that Australia is in a strong position to manage future waves.

I'd now like to turn to many of the challenges facing macroeconomic policy. Usually monetary policy is the primary tool with which to manage economic cycles. Fiscal policy focuses on growth and budget sustainability while being supplementary to monetary policy primarily through automatic stabilisers. Fiscal policy plays a more active role in the face of significant shocks, but the circumstances surrounding the response to COVID is something different again. The relative primacy of monetary policy and responding to the COVID shock has been entirely reversed due to the nature of the shock, interest rates being near the zero lower bound. For example, unconventional monetary policy on its own would have had little impact in the face of lockdowns. Instead, it was most effective through its support of fiscal policy. This is not to underplay the importance of bond purchases, for example. There is little doubt they have lowered longer term yields and the exchange rate, providing important support to the economy. Nonetheless, such impacts are likely to be much less than the effects of \$337 billion in direct spending from the Australian government. Further, it is likely that fiscal multipliers have been larger than normal during this period. Evidence from the literature suggests that, in deep recessions and when monetary policy is constrained by the zero lower bound, this is the case. This unusual episode of macroeconomic policy is now coming to an end.

The fiscal policy impulse is receding, reflecting the temporary and targeted nature of the policy response. After two very strong years of growth in Commonwealth payments, in MYEFO, payments in 2021-22 and 2022-23 were forecast to fall by 6.3 per cent and 4.8 per cent in real terms. As a share of GDP, Commonwealth payments are estimated to fall across each of the budget and forward estimate years from 31.6 per cent in 2020-21 to 26.5 per cent in 2024-25.

Monetary policy is beginning to normalise, with no additional unconventional monetary policy being applied and bond purchases coming to an end. Moreover, in other countries, interest rates have begun to rise slowly from very low levels. Despite these early steps towards normalisation, macroeconomic policy settings are still far from usual. Interest rates are still close to zero and expected to remain historically low for some time. It will not be until we see interest rates rise back towards more usual levels that the risks associated with very low interest rates abate. In these circumstances, it is important that the withdrawal of fiscal policy is tapered, as it currently is, to ensure that monetary policy has an opportunity to normalise.

However, there is an even more compelling reason for fiscal support to sensibly taper, and that is the opportunity to achieve full employment. The unemployment rate averaged 4.7 per cent in the December quarter rather than the 5½ per cent forecast at MYEFO as workers returned to employment more quickly than expected after the delta lockdowns. Surprisingly, the unemployment rate fell to 4.2 per cent in the month of December, the lowest rate since August 2008. We have seen dramatic falls in youth unemployment, an especially welcome sign after some years of underperformance in this area. The young always bear the brunt of an underperforming labour market. The underemployment rate has decreased to the lowest levels since 2008 alongside a steady increase in average hours worked, indicating a genuine reduction in the labour market spare capacity.

Measures of long-term unemployment have fallen to around 16 per cent below pre-pandemic levels. Other countries have seen significant falls in their unemployment rates but few have also experienced an increase in labour supply from the working age population to the extent we have in Australia. More people were in employment as a proportion of the working age population than at any time in Australia's history in December. The employment to population ratio is now higher than in any major advanced economy. Not only has the supply of labour been responsive to demand but dynamism in the labour market has increased. Workers have been switching jobs at increased rates. This is assisting the economy to adjust to shifting demand patterns because of the pandemic and it's facilitating productivity improvements by matching workers with the right jobs. This will support stronger growth in earnings. A tight labour market will mean firms will have to compete harder for labour by increasing wages and improving conditions. Firms will need to focus on lifting productivity, for example, by changing business practices to encourage greater employee engagement and increasing investment in training to upskill and reskill new and existing employees.

The reopening of our international borders will provide some additional supply following the collapse in immigration of the past two years. This will assist in easing the tightness in those industries, such as hospitality, that are more reliant on working holidaymakers and migrant workers. However, the recovery in population growth will also support demand, so the broad based tightness in the labour market is likely to persist. The improving outlook from business investment is adding to the potential for future increases in productivity. If our expectations for non-mining business investment are realised across the next two financial years, non-mining investment will rise to its highest share of the economy since 2011. \

Our assessment is that the role of fiscal and monetary policy and policy more broadly has been instrumental in supporting Australia's strong outcomes. As noted by the OECD, countries that introduced job retention schemes seem to have had more positive labour market responses to COVID than others. In Australia's case, the JobKeeper program, in conjunction with the JobSeeker enhancements, appear to have been especially successful in preserving employment while supporting incomes and encouraging rapid recovery. Both temporary supports were appropriately withdrawn as they were no longer required as confidence in adapting to the pandemic increased, labour markets tightened and substantial income support accumulated on household and business balance sheets.

I have previously noted that following a recession, the NAIRU, the level of unemployment below which inflation would be expected to accelerate, typically drifts up because of labour market scarring, ultimately constraining the ability of the economy to grow strongly out of the recession. At this stage, there is no evidence of any labour market scarring. The debate has shifted to how low the unemployment rate can fall and be maintained without generating rising inflationary pressures. Our experience in the years prior to COVID and recent developments suggest that the NAIRU could be lower than our historical estimate. This suggests a degree of caution is required in framing fiscal and monetary policy, particularly given the large error bounds associated with technical estimates of the NAIRU. To put this another way, overestimating the NAIRU could see policy tighten prematurely and prevent Australia from attaining the goal of full employment.

A further consideration is the likely non-linear relationship between wages or inflation and unemployment. That is, there may be little trade-off between wages and unemployment until we hit an inflection point, at which point wages growth increases more rapidly with further falls in unemployment. This suggests we should approach low levels of unemployment steadily, but it certainly does not outweigh the argument for persistently testing these boundaries. At full employment, and if we can achieve productivity growth of 1.5 per cent, then nominal wages can grow at four per cent and put no pressure on inflation. However, on the other hand, if productivity is only 0.5 per cent, then wages can only grow at three per cent before they begin to put pressure on inflation. This again illustrates the importance of achieving strong productivity growth for our long-term prosperity.

Before I conclude, I would like to mention a few of the other macroeconomic risks that we are continuing to monitor and assess. Most notably, there remains a high level of uncertainty surrounding the ongoing impacts of COVID on the economic outlook. As I noted earlier, our most recent assessment is that the economic impacts are continuing to diminish, even in the face of new waves of infection and some health measures. However, the effects of COVID on inflation, often characterised as a combination of increased demand for goods and supply side shocks, are still passing through the economy. Fortunately, these impacts have been much less pronounced in Australia than in other countries. Nevertheless, the impacts have been felt, and headline inflation is currently at an 11-year high. Geostrategic risks are also increasing. This is leading to shifts in global trading patterns and supply chains as countries seek to build additional economic resilience. There is also a heightened risk of sudden economic disruption, as illustrated by current events in Eastern Europe, which may bear down on global markets and investor confidence.

There are also ongoing and rising risks from climate change and the transition to a lower carbon economy. There's not sufficient time here today to speak to this important issue in detail. Australia will need to continue to adapt and build resilience to the physical impacts of climate change.

Finally, as a result of the response to COVID, many countries have significantly higher levels of public debt that need to be addressed in the coming years. As the pandemic ebbs and begins to become endemic, health responses will still be required. Vaccination and treatments will remain crucial to reducing the economic impacts, and there will always be an ongoing need to protect the most vulnerable, especially as the focus shifts away from transmission. Remarkably, at the same time, Australia may be given an important opportunity—the opportunity to achieve and sustain full employment. These circumstances, with the right policy settings, could entail an unemployment rate with a three in front of it or, at the very least, settling in the low fours, rising productivity back towards 1.5 per cent per year, inflation settling in the middle of the band and nominal wages growing at four per cent. This would be an outcome consistent with the maximum opportunity being afforded to all Australians to enjoy prosperity and the benefits that flow from a highly engaged and well remunerated workforce. Australia has not been this close to this opportunity since 2008 and, before that, prior to the shocks of the 1970s. While nothing is assured, let us hope that we can seize this opportunity in the period ahead and reward younger generations for the significant impost they have taken on through the budget in protecting all Australians from the impacts of COVID. Thank you for the opportunity for the opening statement.

CHAIR: Excellent. Thank you very much, Dr Kennedy. That was very useful.

Senator GALLAGHER: Thank you, Dr Kennedy, for appearing today and for that very long opening statement. It's really useful. Hello, Minister Birmingham.

Senator Birmingham: Good morning again, Senator Gallagher.

Senator GALLAGHER: There is a lot in that. I've highlighted points. I think you made some comments about the tapering of fiscal support. On page 4, you say that it's important that the withdrawal of fiscal support is tapered. Can you expand on that a bit? Your next point is:

However, there is an even more compelling reason for fiscal support to sensibly taper, and that is the opportunity to achieve full employment.

Dr Kennedy: As I said, and as I pointed out on the growth in Commonwealth payment numbers, the fiscal support is naturally withdrawing with the closure of some of the programs. But that impulse that came from that fiscal support is still passing through the economy. It's not complete. It doesn't stop as the spending comes out. Monetary policy is still at unusually low levels. While I think I see a lot of news about the difficulties people would face with rising interest rates, I think, as the Reserve Bank governor has spoken about, over time we would like to see monetary policy moved to more normal levels, which would entail higher interest rates than the zeros that we see or the very low rates at this stage because of the risks that come with them. If we were to withdraw fiscal policy abruptly through very large widespread cuts or something of that order, that would have a negative impact on the economy. Monetary policy may need to remain looser for longer than it otherwise would. That

would bring with it the risks of, once again, very low interest rates being persistent. Those risks include, for example, things like significantly increasing housing prices or other asset prices and all those types of things.

Senator GALLAGHER: Is there a time period for this tapering? I know you have the fiscal plan that has been part of the budget documents. What are you saying when you are tapering? Is it a matter of over the forward estimates, or is it a longer tapering?

Dr Kennedy: The current taper effectively sits in the forward estimates. I sit here comfortable today. I think that gives a real opportunity for monetary policy to normalise, for the economy to remain strong. In fact, the economy has been surprisingly strong. It's hard to see a case for any additional support, so we are tapering less slowly than what we have. If circumstances turn out to be even better than we anticipated, the potential to improve the fiscal position more rapidly may well arise. I think we're still going through waves of the pandemic. As I said in my opening remarks, the Chief Medical Officer is talking about alerting us to the fact that there may well be a subsequent wave in winter with new variants et cetera. I think it's appropriate to be cautious. There are definitely risks to the outlook. We seem very well placed. As I said, in my history, the last time I wrote about full employment was in 2007. It's really a great opportunity. I think the balance is roughly right at the moment, but there's no set and forget.

Senator Birmingham: I think Dr Kennedy puts a lot into his opening statement. Sometimes the figures don't stand out because there's so much there until you go back over them in the line of questioning that you are pursuing. I think the 6.3 per cent fall in Commonwealth payments in the current financial year and the 4.8 per cent reduction in real terms in the next year, 2022-23, are a demonstration of that very clear stepping down occurring. Buffering that, which Dr Kennedy has highlighted in previous estimates hearings, are the elevated savings rates that still exist across households and businesses. They show that, along with some of the other measures government still has in place, the measures we have applied continue to provide extra capacity for households and businesses to work through challenges as they arise.

Senator GALLAGHER: Yes. Dr Kennedy, you spoke about monetary policy returning to more normal settings. Can you expand on that and what you mean by that?

Dr Kennedy: Well, that would involve some form of steady increases in interest rates over time. I'm not going to get into foreshadowing what that might look like. It's a matter for the governor, who talks on behalf of the Reserve Bank board, of which I'm part of, to talk about the future outlook for monetary policy itself. In more broad terms, I don't see interest rates around where they are as something that we expect to see in the longer term. He spoke at length at his House of Representatives appearance on Friday about what interest rates might rise to. I would refer you to his remarks there. That partly depends on some of the things I spoke about—the lift in productivity, the returns on investment and that equilibrium, if you like, where the interest rate increases to. Monetary policy and fiscal policy have both been applied to stimulate growth. They don't stay at that level. They both return to more neutral settings over time. My point around tapering is that you are trying to find a sweet spot—not going too fast and not going too slow. That is what the tapering refers to.

Senator GALLAGHER: I accept that you are being careful in terms of your evidence on interest rates. As a member of the Reserve Bank board, there is an expectation, in line with the comments of the governor, that interest rates will head up?

Dr Kennedy: Yes. It's very unusual for them to be where they are today. I think it will be in the longer term interests of the country for them to return to a higher level when circumstances allow.

Senator GALLAGHER: That is not dependent on a federal election, for example?

Dr Kennedy: The settings of fiscal policy are relevant. I'm going to avoid being drawn into comparisons of different governments' policies. My main point out of this is that fiscal policy settings would be the most relevant other macroeconomic policy setting in terms of the interest rate trajectory.

Senator GALLAGHER: There has been some political commentary, for example, that a change in government would increase interest rates.

Dr Kennedy: I think I will let the minister take that.

Senator Birmingham: Senator, that debate—

Senator GALLAGHER: Well, I'm interested in your views on that, to be fair, Dr Kennedy.

Senator Birmingham: Well, Senator—

Senator GALLAGHER: Well, he is the head of Treasury.

Senator Birmingham: Sure. And, if nothing else changed with a change of government and all policies remained completely static, then of course, I'm sure, Dr Kennedy would be able to address that answer in one

way. But, from what I can see, you're not proposing, as an alternative government, that nothing else would change. I have noted that there seem to be some quite significant but as yet uncosted spending promises being made, be they in terms of the commitments to basically provide for free TAFE or free child care or some of the other costed commitments that have been made. As is clear from Dr Kennedy's statement, one of the challenges to manage moving forward in terms of the budget position is the rate of payments. If we have a situation where fiscal policy is seeing growth in payments and growth in government spending at elevated levels, that would present, then, potential risks in terms of fiscal policy being out of step with monetary policy and would put greater pressure potentially on the Reserve Bank. I don't expect Dr Kennedy to run that sort of commentary here. But the contrast that will be painted at the federal election, dependent upon just how much extra spending your party commits to and how they indicate they're going to pay for it, will be a question that then has consequential impacts for other areas of policy and potentially interest rates.

Senator GALLAGHER: So will all the rorts, waste and mismanagement that you spend on. That doesn't have any impact at all going forward; is that right?

Senator Birmingham: I look forward to your party announcing any savings measures. I haven't seen you suggest any particular programs that you are abolishing at this stage. So whilst you make generalised statements like that, unless you're actually going to take certain programs out of government spending, they still add to the totality of government spending and add to the overall impact of government spending on the economy.

Senator GALLAGHER: Will interest rates rise under your government's fiscal settings?

Senator Birmingham: We said we will do everything we can to keep interest rates as low as possible.

Senator GALLAGHER: You're the minister. Will they rise under your fiscal settings?

Senator Birmingham: Senator, I hope you know and appreciate that the Reserve Bank operates independently.

Senator GALLAGHER: Yes, I do. I do understand that. Thank you for that.

Senator Birmingham: We cannot provide assurances in relation to what the Reserve Bank will or won't do. What we can provide assurances on is that we will be very mindful to ensure that we keep fiscal policy settings as consistent with monetary as possible so that we can keep as much downward pressure on where interest rates sit as is possible. I note, as Dr Kennedy has said—I acknowledge this—that interest rates are at unusually and historically low levels.

Senator GALLAGHER: Will they rise under your government? Will interest rates rise under your government?

Senator Birmingham: Where interest rates go precisely will be a matter for the Reserve Bank. What we can do as a government and what we will do as a government is seek to put in place and maintain policy settings that keep them as low as possible for Australians. That means that we won't be pursuing the type of largesse in spending that is evident in the way your leader speaks.

Senator GALLAGHER: Dr Kennedy, you have spoken before at estimates about inflation. In July last year, you spoke about the gradual strengthening of inflation if there were higher wage growth. Is it true that in Treasury's view the underlying forces influencing inflation build up over some time before there is a visible impact?

Dr Kennedy: Yes. That's usually the case. Persistent inflation we expect to build up over time, reflecting higher wages growth, for example, or those types of things. It is fair to say that we have been surprised by the strength of inflation more recently from some of these sort of shorter term impacts, such as the supply chain disruption effects that have flown through. I think you know that, pre COVID, inflation was below or even at the very bottom of the RBA's target band for quite a number of years. The governor has spoken about how we wouldn't really expect to see inflation to settle persistently in the band until we saw a strengthening in wages growth. I hold the same view.

Senator GALLAGHER: The Reserve Bank has revised their forecast on inflation higher. I think after the December quarter, it was higher than anticipated. Will Treasury similarly revise up your forecasts from the MYEFO as part of the budget?

Dr Kennedy: Well, the government presents the forecasts at the budget. I would be very surprised if we weren't revising up inflation forecasts in line with the way the bank has.

Senator GALLAGHER: So we'll wait and see in the budget?

Dr Kennedy: Yes.

Senator GALLAGHER: The Reserve Bank said in their statement on monetary policy recently that, given the tighter labour market and strong demand conditions anticipated over the coming years, inflation is expected to remain in the upper half of the bank's inflation target range of two to three per cent. Can we draw from that the underlying causes of inflation that are likely over the next few years have already been created?

Dr Kennedy: Well, there are two things that I think will sit behind how inflation evolves over the next two or three years. The first is the extent to which the current shorter term impacts abate. There are increases in prices in some goods that we've seen in other countries but not so much in Australia. There are increasing energy prices. Certainly in Australia there are increase in petrol prices and transport prices. If they either fall or just simply remain at a higher level, they stop adding to inflation in the short term. With the two- to three-year horizon that I think we all think about, it is more the underlying forces that you are talking about. That relies more on the conversation I had about the labour market, with the labour market being tighter and there being a strengthening in wage growth, which we're yet to fully see, I might add. We have seen it in a couple of sectors. It's yet to be broad based. As I said, that led to my conversation about how low the unemployment rate needs to get before we start to see some of those wage pressures come through. I'll quickly add that another point I was trying to make is that we can see wages rise from where they are and not necessarily put these pressures on inflation. It's actually a little unclear to us just how low that unemployment rate can get before we really see pressures on wages that would lead to inflation that wouldn't settle, for example, in the RBA's band. But even in the RBA's own forecast, while it does remain in the band, it remains in the band throughout their forecast period of inflation with wages strengthening.

Senator GALLAGHER: So if we take out the short-term impacts and focus on the second factor—the underlying forces—is it your expectation that will continue its current trajectory over the coming years? I think you said two years. Is it beyond that, or is that the time frame?

Dr Kennedy: The question becomes where they settle. We're coming off some pretty low levels. Underlying inflation has got to the middle of the band through those other shorter term reasons. Effectively what we're trying to get is inflation in the band. That could be consistent with wages growth, depending on productivity, anywhere between three and four per cent, which is well above what it is today. That could be consistent with an unemployment rate that is at least as low as what it is today. What I was trying to point out in my statement is that, with the right policy settings that support productivity growth and continue ongoing stable macroeconomic policy environment, I don't see pressures driving it necessarily outside of that. That is what we would call an equilibrium circumstance that could persist. Of course, things come along and bump you off that all the time. You are rarely sitting at this so-called theoretical equilibrium. There can be other shocks. That is the opportunity that is presenting itself at the moment. Trying to keep the unemployment rate where it is, we will soon observe over time whether that is consistent with inflation and wages at those levels. I think you know very well, Senator, the great power that comes from a very low unemployment rate. My argument is that it is well worth testing how long we can keep it at that level to see if it is consistent with stable inflation and solidly and even quite strongly growing wages. That is the argument I'm putting today.

Senator GALLAGHER: Because things are changing and you're not seeing some of the more, I guess, traditional linkages between the labour market and wages growth and those interactions, are you trying to understand what is going on more? Is it the changing nature of work? Is it the shift to more insecure work and the gig economy? Are all those factors influencing and challenging that traditional nexus?

Dr Kennedy: Probably the most significant challenge to understanding the unemployment trade-off with wages is the fact that underemployment and people seeking additional hours rose at the same time. In some ways, we've been quite surprised by how many additional people are being drawn into the labour force, even from outside the labour force. So even as we're lowering the pool of the unemployed, I think two-thirds of this increase in the employment population ratio—I hope that number is right, Trevor—is coming in from outside the labour force. So we're discovering that there's a pool of workers who want to work who perhaps aren't being recorded as unemployed. In other words, there's more slackness in the labour market than what we anticipated. I think that's the area where we're focusing on whether we've made misjudgements over time. I'm not as convinced by the other factors you raised around the gig economy. It's certainly a new development and we watch it closely. I haven't seen in the statistics any substantial shift in the rate of casualisation, for example, in the workforce. It has been stable for, I think, a couple of decades. I would have to confirm that for you on notice. But, having said that, of course it's a new development that we want to understand carefully so we don't rule these things out. But I'm more inclined to think that, as an institution, we probably underestimated the extent to which we could draw people into work and not put any pressure on wages. We're coming to understand that more fulsomely over time, hence I was drawing out the falls in underemployment and long-term unemployment in this data. I very much welcome it. It's

not just, of course, the unemployment rate that tells you about the health of the labour market. There is a variety of other statistics.

Senator GALLAGHER: I want to finish this section. How much time do I have?

CHAIR: If you finish off this section, I will ask some questions.

Senator GALLAGHER: I will finish off this line. In this inflationary environment, does Treasury consider it inevitable that interest rates will be raised over the next year at some point?

Dr Kennedy: The governor speaks on behalf of the board on the future transition of interest rates. The only comment I will make on interest rates is that they are at usually low levels. I would expect over time that they would normalise. I will leave it to Phil to comment on when they might rise and what they might do.

Senator GALLAGHER: Thank you, Chair.

CHAIR: Thank you, Senator Gallagher. Dr Kennedy, I have some questions to put to you. I would like to walk through a few of the concepts in your opening statement, which I found very helpful. Thank you very much.

Dr Kennedy: A little long, perhaps, I think I heard Senator Gallagher say.

Senator GALLAGHER: I said that. I wasn't passing any negative comment on it at all.

CHAIR: I personally found it very useful.

Senator GALLAGHER: I have done that to others.

CHAIR: I found it very useful. I would have been happy if it were even longer. A reflection on page 1 you made on a pattern that has emerged during the pandemic states, and I quote:

The challenging health outlook has persisted while the economy has proved more resilient.

What do you think are the underlying reasons for that resilience in terms of the economy and that unemployment rate? What is that a result of?

Dr Kennedy: I think one reason is that we've underestimated potentially how quickly the community—I'm not saying it's not difficult—can adapt to the circumstances in front of them. This might include, for example, working from home. A vast proportion of the staff at Treasury are working from home at the moment. These are things we didn't anticipate at the start of the pandemic. People have been able to continue to work in different circumstances and work productively. It's clearly not the case for some industries, where you must be present. We've seen even in industries that have been badly affected, such as hospitality, a really substantial amount of adaptation in the services people are providing. You would have seen the takeaway food that is being provided and a range of other things. People adapt quickly to whatever the health measures are so they can go about their economic activity. Secondly, very substantial support has been provided by the government and the central bank, as I said. People have regained their confidence quickly and then are willing to continue to spend. We've seen quite substantial increases in demand, for example, for durable goods. People haven't been at the stage of being able to enjoy the services they would normally enjoy because they can't go out to things. They've been willing to redirect those moneys. I think that would have been more problematic certainly if that support hadn't been there and if confidence hadn't been retained about, in effect, the management of the pandemic itself and people's economic futures.

CHAIR: Presumably, one feeds into the other?

Dr Kennedy: Absolutely.

CHAIR: Your statement says that this likely reflects both policies being more effective than expected and a more rapid adjustment by the community. If policies are being more effective than expected, presumably that feeds into confidence as well. Yes?

Dr Kennedy: I think that's absolutely the case. We saw, I think from memory, confidence rising again yesterday. This is not at all to suggest that people aren't knocked about by waves that come along. They become concerned about the health circumstances. They particularly become concerned about the pressure on health systems and are concerned about the health circumstances particularly, perhaps, for vulnerable or older people. I'm not downplaying those very significant impacts on the community at all. But it has to be said that the economy is holding up remarkably well through all of this.

CHAIR: Dr Kennedy, what are the particular policies, from your perspective—and hats off to Treasury—in terms of the great assistance provided by your department through the course of the pandemic? What from your perspective are the specific policies that have been more effective than expected?

Dr Kennedy: In the initial waves of the pandemic, I think what the OECD calls the job retention program—the government called it the JobKeeper program—was very effective in that connection between business and employees.

CHAIR: Maintaining that relationship between the business and employees?

Dr Kennedy: What we're seeing in other countries—the US is probably one example—where more support was provided through, say, just an income channel rather than a business-employee channel, is that people often left their jobs or they were put off. In the subsequent recovery, business has to re-engage employees. They have to get things started back up again. What we've seen, for example, in the US is that while their unemployment rate is falling, the proportion of the population they have employed has fallen and it has not fully recovered to nearly the same level. We're at record levels in Australia. I think that aspect of the program was effective. I think the broader income support later in the later waves—the pandemic disaster payments, for example—particularly gave low income people confidence that they could meet their ongoing costs. I think they were very effective in that setting. I think the income support coupled with the type of support for business to maintain business and to adjust has turned out to be now subsequently encouraging the recovery possibly a little stronger than we thought. It all comes back to the health, though. That support would have been much less effective if people didn't have a broad confidence in Australia's ability to manage the pandemic from a health perspective. We would have seen very dramatic withdrawals from economic activity, with people fearful about their outcomes. We saw it at stages, but we would have seen that persistently. That would have had very negative economic consequences. I have always been a proponent of the idea that there hasn't been a trade-off between health measures and economic activity. If health measures aren't used to successfully manage the pandemic, you will get the economic consequences anyway as people lose confidence in the management of the pandemic.

CHAIR: Sure. Minister, do you have something to add?

Senator Birmingham: I was going to add, Senator Scarr, to Dr Kennedy's statement. Dr Kennedy addressed many of those policy areas that have had a direct impact in terms of economic success over the last two years. Look at this period of recovery and our economic recovery plan from the pandemic. Dr Kennedy highlights in his statement that if our expectations for non-mining business investment are realised over the next two financial years, non-mining investment will rise to its highest share of the economy since 2011. The policies that the government has applied over the last two budgets in terms of full expensing measures and the loss carry-back arrangements for Australian businesses were designed to stimulate that activity in terms of non-mining investment. That, as Dr Kennedy's statement identifies, doesn't just have the immediate consequential benefit of increased business spending and economic activity. It also has a productivity dividend in terms of those businesses. It will provide more lasting benefits in terms of increased output and increased productivity across those businesses moving into the medium and longer term. There was very direct and immediate financial assistance at times of crisis in terms of particularly household assistance and business survival assistance, which Dr Kennedy has highlighted. The economic recovery plan has taken shape. Look at measures that were not focused in terms of any spending. Previous stimulus packages around the GFC were criticised in terms of infrastructure that was not productive and was potentially wasteful. Instead, it is about using the levers of government to stimulate investment in productive investment that will underpin growth in the economy and, hopefully, will further sustain those low levels of unemployment, as Dr Kennedy has indicated.

CHAIR: Dr Kennedy, it really is an extraordinary set of numbers, isn't it? Look at the fact that we're still in this pandemic. The unemployment rate fell to 4.2 per cent in the month of December, the lowest rate since August 2008, which presumably was a moment just before the impacts of the GFC flowed through the economy. There are dramatic falls in long-term unemployment. It has fallen to around 16 per cent below pre-pandemic levels. These numbers must be beyond what your expectations were when you were sitting in this room perhaps two years ago. Is that a fair comment?

Dr Kennedy: I certainly didn't anticipate the circumstances of the last two years a couple of years ago. You are right; the labour market outcomes are, frankly, excellent. I will put a note of caution. There is a lot, as Senator Gallagher drew out, going on. We have had very little immigration for two years. When we bring back immigration, it's not our expectation that it will lead to any deterioration, frankly, in the labour market. Nor do I ascribe the excellent outcome to that. But those issues are having an impact. There is no doubt, for example, in the hospitality sector—I'm sure you would hear about it—that people have struggled to source people and subsequently maybe other people have had an opportunity they might not otherwise have had. But it is very broad based. When we look across all the industries at the moment, we see higher vacancy rates in every industry than pre COVID. It is not just those such as ag or hospitality that have, for example, a relatively high proportion of their workforce through immigration. That gives us some confidence that this is predominantly about a broader

macroeconomic strength. Hence there is that opportunity I spoke about both to come back, improve and stabilise our fiscal settings and see our monetary policy settings normalise and sustain these outcomes.

CHAIR: In terms of those future targets, you talk about the importance of making sure we continue to drive productivity growth because it is only then that we can control inflation in that context. Can you expand on that, perhaps?

Dr Kennedy: Productivity growth will lead to the extent to which we can have growth in real wages. If we had no productivity growth at all and inflation was 2½ per cent and put no pressure on inflation. Obviously with inflation and wages growing at the same levels, we would have no growth in people's real spending power. The growth in their real spending power will come, as you are rightly drawing it to, with productivity. That is the place where we will find people's living standards improving over time. Hence my comment about getting back to our 30-year long run average productivity growth rate of 1½ per cent. We have not been at that level in the last decade persistently in recent years, but I see no reason why we can't get back to that level. It will depend in part on government settings, a lot just on the dynamism of the private sector and those sorts of opportunities and, very significantly, on how productivity is improving around the world. Much of our productivity improvement is us adopting advancements that come from outside our country. As you are drawing to, there is a real opportunity there to improve. Most of the improvement in people's living standards that will come over time will come through productivity; let me put it that way.

CHAIR: Presumably, some of the investment in capital that is being triggered through elements of fiscal policy, such as accelerated depreciation and instant asset write-offs, assists in driving productivity. What are the other elements we should be looking at in terms of driving that productivity?

Dr Kennedy: I guess the capability for businesses to come and go. This will sound a bit strange, but insolvency reform is an important element of that. An example is the opportunity for businesses to reorganise themselves and to change to meet their circumstances. Effectively, competition and dynamism in any markets is absolutely crucial. I spoke a little about this. Strong aggregate demand is going to assist us. When businesses are out there competing for labour, they are going to be thinking about how to make what labour they have more effective. They are going to be thinking about the opportunity to put more capital against that labour and all those things are more competitive. There is a stronger demand environment. Very obviously, it is the extent to which people are constrained in going about their activities to generate business. That is about the regulations, effectively. There is the ease it takes to engage resources and the ability to—

CHAIR: The ease of doing business?

Dr Kennedy: Exactly. Or how hard it is to get your investment done. It is how hard it is even to source your worker and how hard it is to get people with the right skills. I would add that business has a very important role to play in skilling its workforce in its own interests.

CHAIR: This is my final question before I give the call to Senator McKim. This is to give you some warning, Senator McKim. I'll then go back to Labor and Senator Rennick. How are we comparing with our major international trading partners in terms of unemployment, inflation and growth? Where are we standing in terms of international comparisons?

Dr Kennedy: Well, at the moment, Australia is doing very well compared to all other developed countries. Some are doing well. Few are doing as well as us on all matters. As I said, while inflation has definitely strengthened by 3½ per cent through the year it is nothing like the 7½ per cent that we are seeing being reported out of the US. As I said earlier, it's very pleasing to see so much of the working age population being engaged in work and people getting their additional hours. I think that is an excellent outcome. We've got this strengthening in growth rates. The government has taken on a very significant increase in public debt through this period to support these outcomes. We can take some comfort from the fact that it's significantly lower than our relative levels of debt in other countries. But it is a significant increase. A very strong growing economy will be the most effective means to address that issue over time and allow us to pay that down.

CHAIR: Excellent.

Senator McKIM: Good morning, Dr Kennedy and your team. Thanks for your attendance and your opening statement, which I also found really useful. As an aside, I thought it was about right in length. Thanks for that. I want to start by raising the issue of wealth inequality in our society. Oxfam released a report in January that found that the wealth of the richest 47 billionaires in Australia doubled over the two years of the pandemic. As you would know, over the same two-year period, wages have gone up in Australia by about four per cent. Do we understand why or how this has happened? Why has the wealth of billionaires increased more than 20 times as

much as the rate of wages on which the majority of Australians are forced to subsist? Is this good for the economy?

Dr Kennedy: I'm going to pass, I think, to my colleague Mark Cully to talk a bit about wealth inequality and what we've been observing. There have been some very large increases in the value of assets, leading to wealth increasing even beyond what you're talking about around housing, for example, which we've spoken about in the past together. Some of that is cyclical. There are other more persistent impacts that you are drawing our attention to. I think this is important. Think through COVID and the application of the government's policies. Income inequality, I would say, is likely to have fallen, though we probably don't have the recent data on that. But there is an excellent paper that was done out of the ANU that I will send to you. It showed that through the middle of the first wave, for example, poverty actually fell in Australia partly because of the application of the income support payments, Senator McKim. So there are some distinct trends going on in income inequality and potentially in wealth inequality. There is this issue that they are linked to growth. Most of the studies that have been done about the impact on inequality I think are predominantly being done about the impact on income inequality on growth. The study I think Mark will probably talk to—the most recent one I've seen in Australia—looking at that impact saw that it actually depended more on the poverty rate than on income inequality per se. So there is this intersection between very much the bottom rather than just the broader distribution of income inequality across the whole income distribution. Mark knows more about these issues than me. If you don't mind, I might pass to him to flesh it out a bit.

Senator McKIM: I find that really helpful, Dr Kennedy. Perhaps given the preliminary response you've just given, before we cross to your colleague—I really appreciate the opportunity to listen to him—I want to ask a supplementary question based on something you've said. Perhaps your colleague could respond. It does go to the issue of asset price speculation and the growth in that in particular in property in Australia. While I accept Governor Lowe's argument that things would have been worse if the RBA hadn't printed \$400 billion-odd during the pandemic, would Treasury agree with Oxfam's findings that essentially central bank money has done a far better job of inflating the value of assets that overwhelmingly already belong to the wealthy of our society than it has in helping the average person get through the pandemic?

Dr Kennedy: I'm not sure I would agree with that. I have to be honest with you and say that I haven't read that report in its entirety, so I will now go and read it since you've raised it with me.

Senator McKIM: Thank you.

Dr Kennedy: Apologies for not having done that.

Senator McKIM: That's okay.

Dr Kennedy: One of the channels of monetary policy is the impact it can have through encouraging investment and wealth in the revaluation of assets. It's just one channel. As to whether it's counterproductive to the extent that you raised, I don't think so, but I'm more than happy to look at that report. I might pass to my colleague Mark now.

Senator McKIM: Thanks, Dr Kennedy.

Mr Cully: Like the secretary, I'm broadly familiar with the kind of debates that are going on around this area but not with the particulars of the Oxfam report. One of the issues we have in trying to understand wealth inequality is there's quite a long lag in getting hold of data that is more broadly representative of the Australian population. We only have data prior to COVID. I think actually the most recent is for 2017-18. That is the last time the ABS reported on its survey of income and housing. So we are yet to see. Obviously, 47 billionaires is a pretty skewed sample. In common discussions around wealth inequality, we talk about the top one per cent of individuals. In Australia, that's 250,000. That is a big difference from 47. So we don't really have a good appreciation of what is going on with wealth inequality. The secretary is accurate that at least from what we know from preliminary data that, if anything, income inequality appears to have lessened through the course of COVID. As he mentioned, that is a function of both welfare payments but also the way incomes are supported through employment. Again, you alluded to this point yourself; the low interest rates contributed to higher levels of employment and higher levels of economic activity than would otherwise be the case. To the extent that increased people's employment opportunities, that probably also acted as a factor in favour of reducing income inequality by lowering unemployment. In terms of the point about asset prices, it is completely true. We've seen extraordinary growth in asset prices over the last couple of years. They have come off since January. We've seen a bit of volatility. I would point out that many Australians are house owners. Almost all working Australians have superannuation accounts. They are ones that have benefited from the rise in asset prices over the past couple of years.

Senator McKIM: Thank you. That is helpful and useful. I appreciate that. I would like to ask a follow-up question. I'm not sure who answers it, obviously. Hopping on financial markets to transmit policy is one of the fundamental principles of the concept of independent central banking. Would you accept the argument that we've just seen the limit of this approach, particularly with interest rates near zero? When you get all this money printing that the central bank has been engaged in in the last couple of years, the majority of the cash gets hoovered up into asset price speculation. Isn't that just what has happened? Again, is that good for the economy, where so much of the new money that is printed is hoovered up into asset price speculation that is not actually a productive part of the economy?

Dr Kennedy: As I said in my opening statement, I think the role of monetary policy through this period has been very supportive. If monetary policy hadn't responded in the way it had, particularly because of what was going on elsewhere in the world, Senator McKim, I think the RBA—these are issues mostly for them to speak to—would have seen a higher exchange rate and higher interest rates, obviously, along the yield curve. I think it has a broader benefit. It's not just all about the impact on asset prices or the types of impacts on asset prices that you are speaking about. I think it is the case, as I also pointed out in my opening statement, that it is a period when fiscal policy, though, has had to take more of a lead than it normally would. I think that is entirely appropriate. That may change back to the more usual circumstances over time. I hope it does. I still have very strong confidence in the existing institutional arrangements. We're not alone in Australia in facing these sort of very low interest rates that have risen all around the world. We've seen central banks instituting unconventional policy elsewhere. I am confident in the current institutional arrangements. I'm on the Reserve Bank board, so it's not for me to comment on its effectiveness. I guess I can only limit my comments to the institutional arrangements, which I think are robust and I think will persist. I think the opportunity for us to move out of these unusual circumstances is appearing now, so I'm more confident about the recovery than you appear to be. But I do accept the part of your argument, I think, which is saying that it's not a great idea to have persistent unconventional monetary policy or very low interest rates persistently. On the other hand, we also need to see fiscal and monetary policy working effectively together to ensure that the macroeconomy is recovering strongly. It is equally a very bad idea to see large numbers of people unemployed, so we must do all that we can to ensure that the economy is growing strongly. I think our monetary policy institution takes that incredibly seriously and does its best to ensure that it happens and has been largely successful.

Senator McKIM: Thanks, Dr Kennedy. These are my last couple of questions. I will preface them by saying, Dr Kennedy, that I'm not expressing a lack of confidence in the recovery. I'm certainly not arguing against the need for QE over the last couple of years. It was more a question based on whether we're approaching the limits of that approach, particularly the fact that a lot of that QE went into asset price speculation and the impacts of that on the economy and on people's lives. I've spoken about rents in the past. Thank you for responding to me on that. If I have some time, I will explore that issue with you again today. Before that, you raised in your last answer and in your opening statement the approach to full employment. Obviously, it would be a good thing for more people to have more work. It is also, I note, one of the central functions of the RBA—the maintenance of full employment in Australia. I think you said in your opening statement that you have not been this close to full employment since 2008 and then prior to the shock of the 1970s. In other words, in the last 50 years, for two full generations of Australians, three primary goals of the RBA have not been achieved. Doesn't this indicate somewhat of a failure of fiscal and monetary policy over the last 50 years, which is, I note, a period that corresponds directly to the rise of neoliberalism in Australia? Doesn't it suggest that critics of neoliberalism are right—that the last 50 years of fiscal and monetary policy has assisted wealth accumulation for the few far more than it's helped support lives and incomes for the many?

Senator Birmingham: Senator McKim, I think the breadth of that question—

Senator McKIM: I thought that might attract you, Minister.

Senator Birmingham: Indeed, Senator. There is an acceptance at this committee when Dr Kennedy is at the table that the approach to seeking opinion is applied a little more liberally in seeking Dr Kennedy's analysis. It can sometimes stretch into where others will debate opinion. But your question and the breadth of that question, Senator McKim, really is seeking to have a philosophical debate rather than asking a precise question for the current context and environment.

Senator McKIM: That is a fair comment, Minister, so I'll direct the question to you.

Senator Birmingham: Well, Senator, we would certainly contend that the policy settings that have been applied both pre-pandemic, which saw record levels of employment and record levels of workforce participation achieved in the country, and through the pandemic have not only maintained but enhanced outcomes such as those Dr Kennedy highlighted in his opening statement. We now have employment as a proportion of the working

age population at the highest level of any time in Australia's history and an employment to population ratio higher than any major advanced economy. The importance of those outcomes is demonstrated when you look at the evidence the RBA governor gave where, in terms of questions about inequality, he said very clearly and quite accurately that getting people into jobs is the best way of solving inequality problems. The worst thing for many people is that if they don't have a job, they don't have an income. It's not just the mere measure of a job, as Dr Kennedy has indicated. Of course, the hours worked and the rates around those employment measures are important contributors as well. Again, seeing the elevated rates of mobility across the workforce in recent times is another function of demonstrating the strength there. The fact that we have those strong demand factors for employees across all sectors of the economy right now demonstrates the opportunities that exist to maintain that very optimistic outlook. The policy settings we have applied are achieving positive outcomes for people getting into work and into jobs. From that comes the potential for us to achieve stronger outcomes in productivity that can sustain wages outcomes.

CHAIR: Senator McKim, can I share the call? Are you okay now?

Senator McKIM: Thanks, Chair. If there is an opportunity for another couple of minutes towards the end of Dr Kennedy's evidence, I would appreciate it.

CHAIR: We'll see how we go. You've had a pretty good go, though.

Senator McKIM: I accept that, Chair. Thank you.

Senator McALLISTER: Thanks, Dr Kennedy, for your remarks this morning. I want to ask you about your passing comments about productivity and the role of firms in lifting productivity. You talk about changing business practices to encourage greater employee engagements and increasing investment in training to upskill and reskill new and existing employees. I don't disagree with any of that. I wonder what your view is about government's role, though? It's a very deliberately focused set of remarks on firms.

Dr Kennedy: It was deliberate because I think the role of business in this area is sometimes underappreciated. There is no doubt that governments have a very important role in the foundational skills that people need—literacy and numeracy and then, well beyond that, the training that would come from technical training or any post school qualification. The quality and scope of that being delivered by government is very important. It should attract a lot of policy attention. I don't pretend to be an expert on that area, but I absolutely accept that it's a crucial part of the productivity story and is very supportive of firms and individual outcomes. I want to take the opportunity to draw out that it is not all about government making everyone perfectly formed for a business to take and then put into a job. I'm not saying that businesses necessarily think that way. Certainly, it has been my life experience that businesses play a very important role in how they provide on-the-job training and how they improve the skills of individuals. I chose today to try to draw that out. I think it gets a little harder for businesses when they are competing for people. Maybe they can't readily find the skilled person they normally can in a looser labour market. Things get a little harder. I personally think that's a good thing. It's going to lead to better wage outcomes. It's tough for business but it's going to lead to more competition and better outcomes. Many businesses will thrive in that setting and welcome it. Others will find it tough. But it is, frankly, the nature of our economy. Just occasionally—that's why I chose to speak about it today—it is an underappreciated part of skill formation. I'm hopeful that effectively a stronger and tighter labour market will actually see it improve.

Senator McALLISTER: On that, it's not just skill formation, is it? There's a quite deep literature around management capability and integration of technology in business for productivity enhancement as well.

Dr Kennedy: Yes. You are absolutely right. I'm a little out of date on this now. I'm probably 10 years out of date on this. There was an interesting literature on management capability in Australia and whether we lagged in those areas. Previous OECD studies looked at those areas. There was a lot of interest in whether the capabilities and opportunities around small business in other areas were what they could be. Frankly, I am a bit out of date in that area. There's no doubt contemporary modern management practices can lead to significant improvement in productivity through skills.

Senator McALLISTER: On the question of government, though, in addition to skill formation, when the Productivity Commission did its last report, it highlighted a range of areas. Skill formation was one of them. Structural incentives and institutional arrangements around the health care sector was another. There is urban planning in towns and cities and fixing up what the Productivity Commission at the time described as the energy mess. They are all key areas for government in addressing lagging productivity, aren't they?

Dr Kennedy: They are.

Senator McALLISTER: I do observe your, in the end, quite sensible observations around wage growth. You discuss the possibility of achieving productivity growth at 1.5 per cent. That is considerably more than where we are at the moment. In the decade, it has been much lower than that.

Dr Kennedy: It's higher than what we've achieved in the last decade, which I think is closer to 1.2 per cent, from memory. I will confirm that for you anyway. It's certainly higher than what we've observed and achieved in the last decade.

Mr Cully: I will clarify that point. We tend to talk about these things in terms of cycles. Over the two most recent cycles, which are the period from 2004 to 2018, it was 1.1 per cent.

Senator McALLISTER: The government has indicated an intention to initiate a second round of policy work from the Productivity Commission. I note that the website seems to indicate that the government is yet to respond to the last Productivity Commission report entitled *Shifting the dial*. Is that correct?

Senator Birmingham: I'm not sure whether your question relates to the formal paperwork response or policy responses. In some of the areas you just identified in terms of policy responses, the government—

Senator McALLISTER: No. It is a formal response. The government has failed to respond to the Productivity Commission report. That is what the website says.

Senator Birmingham: The government is quite conscious of the desire to achieve productivity enhancing outcomes across the economy. I have already touched, in response to previous questions, on the role and focus on driving business investment. That is consistent in some ways with an element of what Dr Kennedy's focused on regarding the role of business. It also about the complementary role government tax policy can play in driving that business investment, which can lift productivity. Of course, our response in terms of skills sees the highest number of people in trade training in Australia's history since records began in 1963, with a doubling of pre-COVID level investment in, and support for, skills investment. The outcome of our policies in energy have actually seen energy prices, particularly electricity prices, reducing over a period of time.

Senator McALLISTER: Is that policy No. 17, 18, 19 or 20?

Senator Birmingham: Well, the outcome, Senator McAllister, is that electricity prices were consistently rising when you were last in government and they've been falling under our policies.

Senator McALLISTER: Actually, the renewable energy target was established by Labor while the state and territory policies were through actual investment.

Senator Birmingham: The outcome is that we have achieved reductions in electricity prices.

CHAIR: Order!

Senator McALLISTER: It's all under water.

CHAIR: Just for the benefit of Broadcasting, can we try to keep a delineation between answers and questions.

Senator McALLISTER: Well, I asked a question and—

Senator Birmingham: I would highlight the economy strategy part of it, infrastructure investment—

Senator McALLISTER: Point of order, Chair. I would like to make a point of order. I did ask a really specific question, which is for officials to confirm. It is whether the government is yet to respond in a formal sense to the last report from the Productivity Commission. The answer being provided by Senator Birmingham, the minister, is not actually an answer to that question. It is the answer to a different question that I didn't ask. I would ask you to draw him back to the question, which was: is it correct that the government is yet to respond to the last report from the Productivity Commission?

CHAIR: Senator Birmingham, do you have anything to add to the answer you've given?

Senator Birmingham: I could add plenty, Senator Scarr, but it is purely to highlight the importance of what the government is doing and achieving and the outcomes being realised in heeding advice and recommendations around productivity.

CHAIR: Senator McAllister, do you have a follow-up question?

Senator McALLISTER: I do. The reason I ask is that sometimes the website is incorrect. I get that. I don't wish to make assumptions. It seems incredible to me that the government would have the hide to commission the Productivity Commission to do another report when they haven't actually answered or provided any formal response to the last one. I am really seeking to confirm whether or not it is true. It may not be true. You may have responded to it and they just haven't updated the website.

Senator Birmingham: I am advised that, of the 28 recommendations from that first five-yearly review by the PC, 21 of them are wholly or partially the responsibility of state and territory governments. I have identified there, of course, what we have been doing in relation to productivity as a Commonwealth government in terms of those sorts of tax reforms, not just those for business tax but also the abolition in relation to an entire tax bracket of personal income tax and the reforms element there. I've outlined it in terms of electricity and skills. I didn't get to infrastructure investment and productivity enhancing infrastructure across the country. I can take you through the digital economy strategy and the benefits to productivity that can flow from the consumer data rights, if you like. There are red tape reduction elements around the environment.

Senator McALLISTER: Chair, could you call him back to the question, please, because it's a really—

CHAIR: I can't direct the minister to answer the question.

Senator Birmingham: If you want to know what the government is doing in terms of productivity, there is a lot.

Senator GALLAGHER: We have limited time with Dr Kennedy, Minister Birmingham. You've got plenty of time with us, which I know you'll enjoy.

CHAIR: Senator McAllister, you've got the call.

Senator McALLISTER: Thanks very much. Dr Kennedy, you touched in passing at the end of your remarks on the significance of the climate change transition and the risks opposed to the outlook associated with climate change itself and the policy response to climate change. Can I invite you to add a little more to the brief comments you made in your opening statement? What is it that we need to do to mitigate those risks you refer to?

Dr Kennedy: In broad terms, I see two sources of risks. One is the risks that come from the changing climate itself that is already in play. We've seen those evident in Australia, whether it's through our insurance markets working or whether people are living safely in the environment, for example. There is the risk itself to our environmental assets. I spoke a couple of years ago about the very substantial loss of flora and fauna in the bushfires. There's a set of risks there. They are often called adaptation. Secondly, there are the risks with sensibly transitioning the economy such that it's productive with far lower emissions. That goes to the issue of how the energy sector will transform itself and how the transport sector will transform itself. Any transition of any form will entail risk as you change assets over and as you change the nature in which you go about businesses. Obviously, the most positive contribution governments can have there are stable and predictable policies that allow that transition to unfold in a sensible way. In two broad terms, they are the two areas of risks I see.

Senator McALLISTER: When the Productivity Commission referred to fixing the energy mess, they presumably didn't assess that the energy policy settings at that time were stable and predictable and sufficient to address the risks that you refer to?

Senator Birmingham: I am conscious and cautious when it comes to paraphrasing different quotes or otherwise. A very important point in terms of the energy sector and electricity that this government has been focused on is how we support the transition to a low emissions and ultimately net zero pathway and how we ensure reliability and lower prices.

Senator GALLAGHER: It says 'predictable'.

Senator Birmingham: We have been achieving positive outcomes that are having a reduction impact, which means that the contribution of electricity in terms of inflationary pressures is lower and, indeed, downwards sometimes. The contribution of electricity in terms of business productivity is positive in that it is a lesser input cost. The policy settings and trajectory we're on, we believe, will maintain that. Of course, in the present environment, we're particularly conscious of gas markets. Again, the work we've done there sees that, at present, there is a very significant differential in terms of the domestic gas prices compared with international gas prices. Again, this is a very important ability for Australian businesses to compete more effectively.

CHAIR: I want to draw everyone's attention to this: we have Dr Kennedy for another 25 minutes. Can we please keep questions and answers rolling through as quickly as possible.

Senator GALLAGHER: I think the problem here is the answers, Chair. It's not the questions.

CHAIR: Senator McAllister, you still have the call.

Senator McALLISTER: Thanks. Dr Kennedy, you would be aware that there have been comments from the Treasurer about the impact of tax policy settings on women and young women. From a process perspective, the news articles refer to unpublished analysis from the Treasury. Could you explain to me when that analysis was undertaken and when you intend to publish it?

Dr Kennedy: Look, I don't have it immediately to hand. I know the analysis was undertaken by our revenue group. Ms Mrakovic will be appearing in front of you. I can't give you the precise date, but she will have heard the question and she will give you the precise date when the briefing was provided in terms of that Treasury analysis. As to whether we will be publishing that data or publishing that analysis more broadly, I'm not sure where that's up to. I will have to take that on notice as well.

Senator McALLISTER: That's all from me, Chair. I think Senator Gallagher has some questions.

Senator GALLAGHER: I just have a few follow-on questions. So the data in the brief was prepared for the Treasurer through the normal briefing process?

Dr Kennedy: That's my understanding, but I will ask Maryanne to confirm that for you.

Senator GALLAGHER: We will have questions for her. Perhaps this is one for the minister. When there are media articles about unpublished data, is it the government's intention to make that information public, or do we just have to trust you at your word that is what the data said and what was provided?

Senator Birmingham: Well, ministers draw on briefings, information and data points all the time from a range of different sources.

Senator GALLAGHER: Yes. We heard about that yesterday, remember, with your little dodgy costings unit you set up.

Senator Birmingham: Again, I'm more than happy to go through the absence of any Labor Party costings on your policies, if you want to raise that, Senator.

Senator GALLAGHER: Sorry, I shouldn't have invited that.

CHAIR: I did mention we only have Dr Kennedy until 11 o'clock.

Senator GALLAGHER: Yes. So I would like a quick answer from the minister. It follows on from questions to Dr Kennedy. Is unpublished Treasury analysis going to be published so that we can all see what it said? Presumably, it wasn't just about tax rates for women.

Senator Birmingham: I can't speak to precisely what was in the briefings provided to the Treasurer or the scope or breadth or otherwise of them. In terms of the release of information, that's always considered on a case-by-case basis.

Dr Kennedy: I'm happy to take it on notice and raise with the Treasurer the publication of that material.

Senator GALLAGHER: Okay. I have one final question, Dr Kennedy. The long term or average of government spending or payments to GDP, if you take out some of the blips from stimulus years, sits roughly around 26 per cent to 27 per cent of GDP.

Dr Kennedy: That's correct.

Senator GALLAGHER: When you talk about tapering support, is that where you think it would naturally sit going forward? I know they are decisions for government, but you are talking about how fiscal and monetary policy work together to secure the economic recovery, basically, and not cutting things off too soon and ensuring that they are working hand in hand to deliver full employment and prosperity. Is there a figure that the Treasury has that would say this is a normalised level of spending to GDP? What is it?

Dr Kennedy: Well, the IGR laid out the 10-year and then beyond profiles. It's consistent with what you just described—the settling at 26 per cent to 27 per cent as a proportion of GDP on the spending range. You are absolutely right; it is a matter for government. What the spending indicates is the scope of government, and that will be a matter for government for how, at least through spending, it settles the scope. If the government has a decision around the amount of revenue it's prepared to raise, obviously it constrains the amount of spending, to some extent. I will come back to that in a moment. For example, if it wishes to achieve a balanced budget, those two things have to look the same. It doesn't have to cut spending necessarily to see the proportion itself shrink over time. For example, if there's higher productivity and the economy grows more quickly than the rate of spending grows, then spending can grow but the economy will grow more quickly. Revenue will grow proportionally with the economy and the two will close in that way. So there's a range of ways that balance can be brought about. But your general framework I can only agree with. It's what we were pointing out in the IGR. Wherever the spending settles as a proportion of GDP is a relevant consideration for how much revenue it's prepared to raise if you intend, as this government does, to move back towards a balanced budget over time. We have consistently laid that out, I think, in the last five IGRs, showing pretty much the same problem five times around, partly because there are areas of government spending that seem to grow persistently more strongly than the economy. Health spending is one such important area. The two areas that we pointed out in the IGR that have added to that challenge are aged care and the NDIS.

Senator GALLAGHER: So in terms of pressures on the budget going forward, in your view, it would be health, aged care and NDIS in terms of those areas of expenditure growing?

Dr Kennedy: Yes.

Senator Birmingham: I have expressed publicly, of course, the priority and the challenges in terms of defence spending as well, which is a significant area of government priority and commitment. We've seen the pressures of the NDIS realised in the last couple of budget updates. They have seen very significant adjustments to the profile of the NDIS in the forward estimates. It now has the NDIS clearly overtaking Medicare as a payments line for government. The government has again banked and realised much of the pressure in aged care. The crucial impact is how we make sure that, in achieving new models for the delivery of aged care payments in the future, they are designed in careful ways to work as much as possible within that additional \$18 billion or \$19 billion over the forwards that we've provided for. Of course, meeting the additional equipment and requirements for the Australian Defence Force will be a longer term commitment profile.

CHAIR: Senator Walsh, we've got 17 minutes left.

Senator WALSH: I will be quick and then we will go to Senator Rennick.

CHAIR: We will go to you. I promised Senator Patrick the call at 10.45 am, so you can go a bit longer than that. Senator Rennick has some questions.

Senator WALSH: I will be quick. I have a couple of questions, Dr Kennedy, about wage growth. You've given us a view that people might be able to expect over time their nominal wages to rise by four per cent a year.

Dr Kennedy: If productivity growth is 1 ½ per cent, yes.

Senator WALSH: Could you reflect on how that sort of scenario applies to the group of people that we have been referring to across the pandemic as essential workers? That is people from aged care to nurses to cleaners and early childhood educators, logistics workers and drivers.

Dr Kennedy: Public sector wages, do you mean, more broadly?

Senator WALSH: Well, I've mentioned some private sector industries there as well in sectors such as logistics—delivery drivers and so on. The main message to those sorts of low and moderate income earners is that they can take advantage of the switching opportunities that you've referenced in your opening statement in a tight labour market. Does theory really apply to those groups of workers? For a start, obviously, we don't want aged care workers to leave their jobs. We don't want logistics workers who are dealing with supply chain issues to leave their jobs. Is there a potential sectoral difference here? You're pointing to four per cent nominal wage rises. How does that theory really apply to those large groups of people who are on the low and medium wages doing jobs that we need them to stay in and do?

Dr Kennedy: I think you are pointing out a really important point. I'm only talking in very broad aggregate terms. There is a lot of heterogeneity or difference in the labour market at any given time. Some workers are doing extremely well in some sectors and other workers are not doing so well. Some have their wages set outside private sector arrangements through Commonwealth or state governments, for example. I really do appreciate the point you are drawing out. One has to be very careful to take these broad characteristics of the aggregate economy and then suggest everybody is now on average doing exactly that. That has long been a comment around how well will unskilled people do, even in these better labour markets. Hence the focus is often on skilling people to give them a better opportunity to improve the job that they go to to earn more et cetera rather than necessarily stay in the position they are in. The main comment I can make is that there will be substantial difference within the labour market in terms of wage outcomes at any given time, including even when they are growing at a level that we're more comfortable with and we think is consistent with productivity. They won't be the same. There will still be specific circumstances that apply to health sector workers. I would say that generally wage arrangements will spill more broadly around the economy if the general economy is tighter. But it is true. As a former nurse, you don't think: 'I'm just going to substitute now and become a completely different worker. I've trained to work in an area'—

Senator WALSH: It would be a problem for us if they did.

Dr Kennedy: 'and I want to continue to work in that area.' Over time, as people compete to get more people to go into that sector and people do see other opportunities and can change—as you know, the characteristics of nurses mean that they are a highly valuable employee in a range of settings—it does put pressure on wages in those sectors to rise. I appreciate you raising the point. I don't want to leave the committee with the impression that somehow or other this all just settles down and there's no difference, there's no bumpiness and there are no specific issues in some sectors, for example, to either improve conditions or to address issues around not only

wage issues but the conditions that some workers might face to ensure that is an attractive sector to work in. I accept that argument. As I said, I don't want to leave you with the impression that those broad macroeconomic circumstances we are all trying to work towards means that we don't have much work to do in the detail of the labour market to ensure that it works effectively.

Senator WALSH: Thank you. This is for either you or the minister, if he wants to answer. Apart from pointing to a general labour market tightening, what government policies can we point to that would get wages moving for those groups of people on low and moderate and below median wages? Is there a government policy to get wages moving for low and moderate income people?

Senator Birmingham: It is the focus of the government to have the economy growing as strongly as possible and to have jobs growth as strong as possible within that. From that, we will see the avenues for businesses. Some of the different productivity measures that we talked about before have the capacity to support more a competitive environment for wages growth. So there are the types of things we were discussing before in terms of lower pressure on businesses from electricity prices, enhanced support in relation to skills and productivity or the digital economy and data reforms. They all add to an equation that seeks to lift business conditions alongside the type of investment that businesses are making to generate higher wage jobs in areas of advanced manufacturing or the like.

Senator WALSH: So not a specific wages policy that you can point to?

Senator Birmingham: Well, Senator, they are very much integrated policy measures to drive that type of growth. The last wage price index outcome for 2021 was higher than had been forecast. We've seen an upgrading in terms of some of those wages forecasts moving forward. Of course, we've got to continue that focus on those contributory policies that help achieve a stronger outcome overall.

Senator WALSH: I want to ask Dr Kennedy, if I can—

CHAIR: Your final question.

Senator WALSH: Yes, my final question. It is about your assessment of the impact on unemployment and wages of reopening temporary migration. You pointed in your opening statement to sectors such as hospitality, where there are some above award wages for the first time possibly ever. You also point to that pressure easing with temporary migration starting again. I take it to mean—

Dr Kennedy: Students as well.

Senator WALSH: Students, working holidaymakers and so on. What do you see as the impact of temporary migration on wages as we open up again in some of those sectors that we've been talking about?

Dr Kennedy: I will distinguish between short term and long term. When you have short-term changes in the supply of a particular type of worker into a market, you change the supply and demand balance. You've pointed out that there are bonuses being paid in hospitality to employ people at the moment. Conditions are very strong. Existing workers are probably benefitting from that. That might moderate somewhat. Our best assessment around the longer term impacts of these migration flows on wages, frankly, is that they are roughly a wash. There's quite a lot of literature that has looked at this over a long period of time, including for skilled and unskilled workers. We just tend to find that the wage impacts are very hard to identify. So I don't personally tend to focus on what is the optimal size of the migration program or particularly its composition in some ways from a wage perspective. The optimal size and composition of the program, however, are incredibly important decisions for the government to make. It is about how fast we can run, for example, including the temporary program, and how fast our cities can cope with population growth, particularly in the impact it has on people around us. I think often a lazy way to think about this issue is more people just means a larger economy. Frankly, we have to be much clearer in our assessment of that. What we're really interested in for Australia is how GDP per capita grows as migration grows. In other words, that is how income grows for all of us person. Of course, business would like to see more people come because it is a larger market. But there are many more considerations for a government to make when it sets the migration program. Wages aren't irrelevant, but they are not topmost in my mind. It's more around the skills the country needs, the benefits that flow from being open to many ideas from having people coming from many parts of the country and then, frankly, how sensibly state governments and Commonwealth governments can absorb whatever the population growth turns out to be as a result of that migration program.

CHAIR: Thank you, Senator Walsh. Senator Patrick, thank you for your patience. I have some questions from Senator Rennick, if we can keep it moving, please.

Senator PATRICK: Thank you very much. Good morning. What assessment has Treasury undertaken with regard to the current sharp rises in energy prices for gas and oil, particularly exacerbated by the situation in the Ukraine?

Dr Kennedy: The minister was speaking just a moment ago about watching closely how domestic gas prices on the east coast have actually remained at quite a stable level and have not risen to the same extent that we've seen in other countries. In some ways, they've disconnected from the very rapid increases we've seen in the UK, the US and other places. We're watching it closely because of the potential shock around developments in Eastern Europe that you would be very well aware of. So we're watching that because of its impact on inflation. More broadly, energy prices have not had anywhere near the impact on inflation in Australia that they have had in the US and other countries with the exception of petrol, of course, which has increased significantly off very low levels.

Senator PATRICK: I will come to that. In some sense, that is what I'm leading to.

Dr Kennedy: So that's probably the main place that those things are coming through at. This is my last comment on that. Not only is petrol a predominantly imported good; these sorts of things contribute to inflation. People forget that they also reduce demand, because it's hard to substitute away from petrol, particularly in the short term, so they reduce your income. So we're watching those impacts not only on inflation but also on growth.

Senator Birmingham: Very quickly, on the gas prices front: we've worked closely with producers to seek to maximise rates of production in Australia and to ensure that surplus production is available in the domestic market in ways that keep downwards pressure on prices. I acknowledge the work of Australia's producers in terms of working in a supportive way with government, industry and for the Australian economy. I see plenty of speculation about whether there could be further opportunities in terms of gas exports created by challenges emerging out of the terrible situation along the Ukrainian border. In practical terms, there are constraints in terms of the capacity of Australia's LNG plants. There are constraints in terms of shipping and the trains necessary to export those goods. Of course, most of our export production is contracted for existing markets and existing clients that companies would seek to honour and respect those contracts. So we're monitoring that, of course, very closely, as Dr Kennedy said, but also continuing with our strategies of seeking to ensure production levels in Australia remain and grow wherever possible to support that domestic environment.

Senator PATRICK: You use the word 'gas companies' in a kind of nice way. I use the word 'cartel'. I think Rod Sims uses something in between. I will see what he says when he comes on later. I noted the controversy yesterday. I will read out what you said yesterday. You said:

There have certainly been some discussions and briefings in Treasury and in Resources and Energy and, in particular, looking at some of the potential consequential impacts of different scenarios that could occur in the environment in the Ukraine.

I look to the Treasury and ask: what are the range of scenarios that you have been considering? What are the price ranges of gas and petrol? What is the inflationary impact, notwithstanding what you've just said about gas? What are you expecting in relation to the Australian economy? What are the boundaries that you've looked at?

Dr Kennedy: To be frank, there's a certain amount of uncertainty there. We're just, frankly, settling around views and looking at what the market anticipates, particularly on petrol or oil, if there were to be a significant increase. To be honest, I don't have those numbers in front of me. We've worked with my colleagues in DISER on it. I will take it on notice. I won't hold you up on it. I will get you back those market numbers quickly.

Senator PATRICK: Sure. I am going to speak to DISER about it tomorrow as well.

Dr Kennedy: I think my guidance to you would be—and we'll try and provide it—frankly, to get a sense of what people think the current US-dollar-per-barrel price would go to if there were a very significant shock. We haven't run it formally through inflation models yet, because the other part of it is how long it's up there for. If it spikes for a week or two, then—I'm not saying it has no impact, but it's in and out. But if there were some other form of deterioration and it stayed up higher, then it still might persistently lift the level for a longer period of time and have longer and more consequential flow-ons. We've talked to the government about it through that framework, but we haven't, as I'm aware, put a number through an inflation model as yet. We will, in preparations for the budget—and it will be up to the government what it puts in the budget material—talk to those scenarios, and we'll know more by then about what that would look like. In summary, there's no doubt it would lead to an increase, but I can't quantify it for you.

CHAIR: Senator Patrick, I can give you time for just one more question because Senator Rennick has a few questions, and then we lose Dr Kennedy.

Senator PATRICK: Sure. This goes to the price of petrol at the bowser, which is starting to hurt people and no doubt will have a flow-on for the economy. This is in the spirit of the philosopher Seneca, which is to 'hope for the best but plan for the worst': Have you modelled the impact of any reduction in excise duty rates for petroleum and diesel products, perhaps in preparation for consideration of the budget? Have you looked at that?

Dr Kennedy: Not that I am aware of. I'll double-check for you, but not that I'm aware of.

Senator PATRICK: Okay, thank you.

CHAIR: Thank you, Dr Kennedy. Senator Rennick.

Senator RENNICK: Hi, guys. I have just a couple of questions here. How are the RBA and Treasury going to deal with rising interest rates, given the record housing debt and government debt, without crashing the economy?

Dr Kennedy: Is the RBA appearing in front of the committee?

Senator RENNICK: Yes, it is, later tonight. But it's a fiscal measure as well as a monetary measure.

Dr Kennedy: Yes. It goes a little bit back to the earlier comments I made around how fiscal policy should and needs to sensibly taper. One of the reasons you want that withdrawal to happen sensibly is that, if you were, for example, overstimulating the economy and the bank and monetary policy authorities felt they had to respond more quickly, then you'd be raising the risks that you're talking about of an error. So I think that would be a relevant consideration in fiscal policy—the risk that it puts on monetary policy. Within monetary policy—I presume Guy Debelle's appearing for you tonight?

Senator RENNICK: Yes.

Dr Kennedy: I'll let him talk to these issues, but I'll just state it because it's obvious: a very relevant consideration is the extent of leverage in the economy and the extent of debt—I think you raised that. We have to be cautious in how we do that now because it's just a fact that households carry higher levels of debt. They do have very substantial buffers as a result of the income support that's being given to them, but, regardless, they carry higher leverage, and that means that increases in interest rates now have a larger impact through that leverage.

Senator RENNICK: Exactly. How is Treasury going to deal with—because, yet again, it's a fiscal stimulus—the RBA stopping the bond buying? I would have thought it would make more sense to keep an accommodative quantitative easing policy whilst tightening qualitative measures.

Dr Kennedy: Again, I'll leave a bit of that to Guy. I suspect you'll ask the same question of Guy. I will say I am comfortable with the trajectory of normalisation. When I look at the strength of the economy at the moment, I think it's a pleasing outcome. I'm not saying there aren't risks, but there's plenty of opportunity to respond should they arise.

Senator RENNICK: That's my question. There are risks, and one risk will be a higher interest rate. We're running at 2½ to three per cent for housing loans now, which, if it goes back to normalisation, will be five to six per cent. That's going to double interest on record debt levels. House prices have gone up 20 per cent across the country on average in the last 18 months. So there are risks, but that's my question: how are you going to manage those risks?

Dr Kennedy: Very carefully.

Senator RENNICK: Wouldn't the best way to do that be to stimulate productive measures via an infrastructure bank funded by quantitative measures rather than to just raise interest rates on their own? For too long, when the RBA has dealt with monetary policy, it has only used qualitative measures—that is, manipulating the interest rate—which just fiddles around the edges with housing bubbles and destroys fixed income for pensioners, instead of actually looking at funding ways to build genuine nation-building infrastructure.

Dr Kennedy: We've talked about this a bit before.

Senator RENNICK: Yes, we have.

Dr Kennedy: Frankly, I'm more in the camp that thinks the risks will be lower if we see what I describe as a normalisation of monetary policy and fiscal policy. I accept the increased debt servicing costs and things that you're talking about that come with that, but my last comment would be that I do still think the risks are best managed in that arrangement.

CHAIR: Thank you very much, Dr Kennedy. Thank you for joining us today. The length of your opening statement was absolutely perfect—that's the consensus view of the committee! Thank you for that. We will suspend now.

Proceedings suspended from 11:06 to 11:16

CHAIR: We're still in the Macro Group. Senator Patrick, you've got a follow-up question from before morning tea that you'd like to ask the minister?

Senator PATRICK: Yes, I do, and I just want to put on the record some background stuff in estimates. Yesterday LinkedIn suggested to Senator Birmingham that I be connected to him. We have both undertaken to write to LinkedIn to tell them their algorithm is all wrong!

Senator Birmingham: It could be highly accurate, Senator! I haven't checked to see whether you've accepted the request from LinkedIn that I happily accommodated.

Senator PATRICK: Did you? I'll have to run that by my advisers.

Senator Birmingham: The ball's in your court.

Senator PATRICK: I'll have to give it serious consideration.

Senator Birmingham: Better than WeChat!

Senator PATRICK: I just want to follow up what I was talking to the secretary about, and that is a consideration of pausing or reducing in some way the fuel excise. It's a move that John Howard made in 2001 in response to high petrol prices. Is that on the table in respect of relieving consumers and businesses if the circumstances are that prices remain high?

Senator Birmingham: It's not going to surprise you to know that I'm not going to entertain budget speculation. The budget is not far off now in terms of contemplation of all of the different measures that we would look at in the budget.

Senator PATRICK: You could rule it out.

Senator Birmingham: I'm not really in the business, in the lead-up to the budget, of ruling in or ruling out different potential measures. It's easier to apply that consistently in terms of speculative pieces like that. As Dr Kennedy made clear, there is enormous uncertainty in terms of what could evolve in this space given the uncertainty that exists in terms of what will occur along the Ukrainian border, the consequential impacts of that and, if something dramatic does occur, how long impacts of that are felt for as well, as to whether they are short in terms of disruptions to energy markets or the like, or whether they have longer-term impacts. We are monitoring all of those factors very closely. At present, in terms of households dealing with some of those pressures from fuel price rises, we would always highlight what has been done to assist in household income by way of the income tax cuts that have been delivered to date. They're currently putting around \$1½ billion a month extra into household bank accounts alongside the current unusually, abnormally and historically low interest rates that households are benefitting from as well. Whilst the impacts of fuel prices are real at the bowser, and I don't discount that right now, the government, in terms of what we can do, already have policies in place that, from our perspective—as well as what the bank's policies are—are helping households deal with some of those pressures.

Senator PATRICK: If I decoupled it from the budget, is it something the government would ever consider in respect of higher petrol prices?

Senator Birmingham: Of course we look at all levers that are at government disposal in response to different pressures across the economy. In the context of something like this, you would also want to be mindful of whether what was within government's control was meaningful relative to what's occurring in terms of global markets and whether the proposal you've suggested is a realistic, proportionate or meaningful response to any such pressures relative to what else you can pursue across other economic policy settings to assist households and businesses.

Senator PATRICK: Thank you, Minister.

Senator GALLAGHER: Can Treasury outline what work they've done around the use of rapid antigen tests in the reopening plan agreed to at national cabinet—whether you did any work or have done any work since the national plan was agreed?

Mr Power: From a macroeconomic perspective? Perhaps your question is not necessarily an economic one. Perhaps you're talking about the supply of rapid antigen tests.

Senator GALLAGHER: No. From a macro level I'm asking about the safe opening, and the arrangements put in place to facilitate a safe opening would fall under the macro group, I would have thought. No?

Mr Power: They do. In relation to the actual supply of tests Mr McDonald might like to comment.

Senator GALLAGHER: Maybe there are two bits here, which are: what involvement Treasury had in ensuring we reopen safely and the economic consequences of having a safe opening plan in place, and the analysis around RATs?

Senator Birmingham: On the first issue, Treasury worked quite closely in providing analysis and information that sat alongside the work of the Doherty institute to inform those arrangements in relation to opening.

Senator GALLAGHER: Okay.

Senator Birmingham: It's no secret that, subsequent to that analysis being undertaken by Doherty and by Treasury informing the pathway that the Commonwealth and national cabinet were taking, the emergence of omicron had a massive impact in terms of many of those assumptions. Treasury has subsequently informed governments—ourselves and state and territory governments—in terms of analysis about particularly the workforce implications of omicron. Those workforce implications are a result of people having to isolate. Together with the health advice—Dr Kennedy's clear advice earlier today about the importance of the two working together—governments have taken steps to alleviate some of those workforce pressures by making adjustments consistent with health advice to some of those isolation requirements that were in place. There are probably a number of areas from the initial advice around the reopening to then the advice in response to those omicron related pressures that Treasury can provide information on.

Mr McDonald: As the minister was saying, we're closely involved with the Doherty institute, the Department of Health and the Department of the Prime Minister and Cabinet in the work on the national transition plan that happened from the middle of last year through to the end of last year.

Senator GALLAGHER: Is this the one that was agreed in August?

Mr McDonald: That's correct. As part of that, we worked with those other institutions, and we provided some economic analysis that supported those decisions. RATs have been discussed a few times in the context of how the plans have evolved.

Senator GALLAGHER: Or testing in general, I presume.

Mr McDonald: The approach to testing in general—

Senator GALLAGHER: In August, it was test, trace, isolate and quarantine. They were the key components of the safe reopening plan. That was pre omicron. Did Treasury provide advice, or did Doherty provide the advice that you then utilised around the testing arrangements that should be in place for a safe reopening?

Mr McDonald: There was Doherty advice around rapid tests in the context of schools, which was around the impact of rapid tests as a screening device for schools as a way to both reduce infections and increase attendance through schools, and that is something that is available on national cabinet websites. Further to that, there was a national cabinet conversation around the roles and responsibilities for rapid testing—the roles and responsibilities in terms of testing—and that was in November last year. The outcomes of that were—

Senator GALLAGHER: So 'roles and responsibilities for rapid testing'—that was in November. Was that post awareness around omicron or just prior to that? Because that was early November.

Mr McDonald: I can't remember for certain. I feel as though it could have been prior to the emergence of omicron, because omicron was quite late in November.

Senator GALLAGHER: Yes. So there was agreement around the roles and responsibilities for testing in general, and you're saying that included the use of rapid tests. At any point did Treasury have a view of the role of rapid tests more broadly, outside of schools? The experience in the UK and the Northern Hemisphere before omicron had been quite a widespread use of rapid tests; they had higher community transmission at the time—and I've been through this with the COVID committee. Was there any view from Treasury around the more widespread use of rapid tests as a way of further bolstering some of the protections against COVID?

Mr McDonald: Yes. As you say, in the UK they were using rapid tests a bit earlier, but they also had a different context: as you say, they had higher case rates. In the context of Australia's low case rates, I guess it probably affects where you'd hit the balance between the certainty of testing and the breadth of testing that you can conduct. So I think the circumstances are different. I would probably defer to my health colleagues about the exact balance between the use of rapid tests and PCR tests, because it's more their responsibility.

Senator GALLAGHER: Again, I'm just trying to understand it from your policy area. In the Northern Hemisphere there was widespread use of rapid tests; also, large companies had started utilising rapid tests as a way of ensuring they could keep operating and manage the risks presented by the transmission of COVID. Was the Treasury conscious of that? Had you been monitoring what had been happening in terms of how people were keeping their economies open and working, based on what had happened in the Northern Hemisphere?

Mr McDonald: Yes. We were aware of what was happening in the Northern Hemisphere.

Senator Birmingham: It goes to the role of testing for diagnostic purposes versus the role of testing for screening purposes. Alongside that, of course, there is how that balance, in terms of the role of testing, changes with different variants of COVID and with a variant, in omicron, that's now dominant and has much lesser health outcomes in terms of the severity of impact there. As Mr McDonald said, it's the health advice that informs those

decisions, but, from a government perspective, we've pursued and followed that health advice in relation to testing for screening purposes in high-risk settings and have supported, in certain cases, the states using testing for screening purposes in settings such as schools where it has direct and flow-on impact to workforce availability. But for businesses, a decision in terms of that type of screening is really a matter for businesses depending on their different circumstances.

Senator GALLAGHER: Yes, sure. I was using it more to illustrate that private firms were seeing the benefits of rapid testing as a way of keeping their businesses running. In late 2020, this was occurring in the northern hemisphere. It's slightly different. I accept that we've been following the health advice, but this department comes at things from a slightly different angle, because, presumably, the Treasurer is seeking advice about how to ensure that the economy is in as good a shape as it possibly can be with the overlay of a health pandemic. I'm trying to understand whether there was a request from the Treasurer around the optimum use of testing to ensure that large parts of the economy could keep going and didn't have the supply shortages and staff shortages that we saw. At what point did that feature in front of Treasury? When did it happen? Was it during the Christmas-January period with the staff shortages, supply chain disruptions and then a lack of access to rapid testing when people clocked that this was a problem? Was that the point when the Treasury understood there was a problem, or had there been some foresight and thinking done on this earlier?

Mr McDonald: I might be repeating what I said before, but we were aware of rapid tests being used overseas and their role overseas in a different context of higher case numbers. The health advice at the time was that, in the context of low case numbers, the PCR tests were the more appropriate tests for Australia to be using. The approval for rapid test use at home came around October last year, I think it was—

Senator GALLAGHER: It was November when they were first approved.

Mr McDonald: Before that point, there wasn't health system approval for their use in home settings. At that time in November there was a national conversation which went to a number of aspects, including the use in schools and the broader issue of roles and responsibilities in testing.

Senator GALLAGHER: Is it your evidence that, prior to the situation we saw emerge in December–January, Treasury hadn't advised about the use of rapid antigen tests to ensure that the opening up that was occurring at that time was happening as smoothly as it could, or that people could be as protected as they could? Regardless of TGA approval, I'm trying to understand: did you provide advice to the Treasurer that we needed effective testing arrangements including the use of rapid tests as part of opening up?

Mr McDonald: Certainly, as part of opening up our advice would have included the issue of effective testing arrangements. We would have provided advice—I can take on notice exactly what—about the importance of RATs, certainly prior to December.

Senator GALLAGHER: Did you say, 'prior to December'?

Mr McDonald: Yes, I did say that. As I said, there have been conversations about the use of RATs in schools, for example.

Senator GALLAGHER: Did Treasury have any concerns or raise any concerns about the availability of the product for broader community use?

Mr McDonald: As I said, the agreement on the roles and responsibilities set out different parts of the system: the Commonwealth having some responsibility, the states having some responsibility and businesses having some responsibility. So that set out some roles and responsibilities with regard to that. Within that framework, we were not the purchasers of RATs for Commonwealth purposes and we weren't the people buying RATs for business purposes, either.

Senator GALLAGHER: But had the Treasury raised any issue around availability? Had you seen this coming? Did you provide any advice that there could be a shortage of RATs if transmission rates increased?

Mr McDonald: I'd need to take on notice when we first received advice from businesses that they were having trouble purchasing RATs.

Senator GALLAGHER: So you don't know exactly when that was?

Mr McDonald: I don't have that.

Senator GALLAGHER: So am I led to believe that the shortage of rapid tests and the consequences of that was a surprise to the Treasury? Were you learning in real time as that unfolded?

Senator Birmingham: I do think it's important to remember that, through those months—and there's still pressure in certain parts of supply chains there, but particularly through those couple of months—it was a global shortage of rapid antigen tests. You can find stories and reports from other parts of the world—the UK, Canada

and the US—in terms of challenges that they were facing as well because of the impact of omicron and the surge that that was causing not just in case numbers but in testing numbers. Whilst that surge put real pressure on Australian systems, and that was evident and clear—

Senator GALLAGHER: That's an understatement.

Senator Birmingham: Australia did also maintain throughout that time some of the highest testing rates in the world.

Senator GALLAGHER: Yes, because we were having the highest transmission of the virus in the world as well at that point in time, which correlates.

Senator Birmingham: There were huge spikes in transmission in many other countries as well. In terms of pressure, there were certainly time delays and there were challenges in terms of availability for people wanting to buy a RAT at a given point in time, but our testing rates remained amongst the highest in the world, notwithstanding all of those pressures.

Senator GALLAGHER: When you say there was a global shortage, are we talking about the same time period? Are we talking about December-January? Is that when you say—

Senator Birmingham: That there were global shortages realised? Yes.

Senator GALLAGHER: I'm trying to pinpoint when the government knew there were global shortages. My earlier question was: what happened in December and January in terms of the impact on the economy from the increased rates of transmission of COVID? Did that come as a complete surprise to the Treasury?

Senator Birmingham: I think Dr Kennedy acknowledged earlier that he didn't predict or foresee omicron and, therefore, in that sense, the consequential impacts of that. It has always been acknowledged that there could be, and would be, different variants of COVID-19, but how they manifest themselves becomes the more unpredictable nature of handling the virus, in that regard.

Senator GALLAGHER: Again, I'm trying to understand this. Surely, under some of the modelling and the scenario work that was done with other experts, including the Doherty institute, and even on this question around the economic impacts of the pandemic, increased community transmission would have been part of the thinking for the past 18 months or so. Having an understanding of the economic consequences of an increased rate of positive cases across the economy would have been part of the scenario planning by Treasury, and then some of the risk management of those scenarios would have been considered.

Senator Birmingham: Well—

Senator GALLAGHER: Yes?

Senator Birmingham: Senator—

Senator GALLAGHER: I'd really like to know that this didn't come as a complete shock to people, just because omicron arrived.

Senator Birmingham: Yes, but Health, who I know are appearing concurrently with us today, are better placed to say this with accuracy than I am. But essentially the impact of omicron saw case numbers far exceed the upper-end bounds of the Doherty institute modelling and analysis that had been done. However, the impact of omicron has not necessarily exceeded those upper-end bounds in terms of the health outcomes in the work that Doherty has done.

Senator GALLAGHER: Yes. That's why I am asking, on the economic side of government, what impact those scenarios of high levels of community transmission would have on keeping businesses open, essential services functioning and staff at work—all of those. Surely that had been considered by Treasury. Mr Power, you're sort of nodding. Were you doing that work so that you could respond quickly in the event that the worst-case scenario happened?

Mr Power: The reason I'm nodding is that we have been considering various scenarios and have published various scenarios in varying budgets over time.

Senator GALLAGHER: Good.

Mr Power: Where Senator Birmingham started, we've also done quite a lot of work on absenteeism in different sectors of the economy and, for example, been able to provide advice into the government, in conjunction with health professionals, about which sectors of the economy are really quite important—for example, child care and schools—and how that flows into worker availability and absenteeism. So we have done a lot of that work very closely with Doherty and provided that into government. As, again, Senator Birmingham

pointed out, there is a question then about the suitability of different types of tests, which is really a Health question.

Senator GALLAGHER: Yes.

Mr Power: Then there are questions of availability and supply chains for those. I think our role, from a Macro point of view, has been to provide advice on how cases might move, for example, into absenteeism and affect overall spending and availability of workers in the economy. I think that's how we've partnered with Doherty over time. As I said, the question about the suitability and reliability of different tests is obviously a Health question, and it's certainly not something that that we are an expert on.

Senator GALLAGHER: Okay. So you were involved in various scenarios. From your point of view, then, in relation to empty supermarket shelves, the transport system and logistics being under pressure, the testing regime essentially collapsing in the eastern states of the country and high levels of community transmission, is the answer to all of that, 'It was omicron, and there was nothing else we could have done about it'?

Senator Birmingham: Omicron did change the circumstances, and we've had to change in response to omicron too.

Senator GALLAGHER: Yes, but it's as if we were caught short on it on a number of fronts, and I'm trying to understand whether there was something that could have been done to mitigate that. Why were we not better prepared?

Senator Birmingham: For example, the point I made before was that case numbers exceeded what Doherty had modelled but the consequential health outcomes did not necessarily exceed the upper boundaries of what Doherty had modelled. That, of course, then provides the basis to inform the decisions made by government and through national cabinet to change some of those isolation rules and settings, because you have a changed paradigm of the health outcomes versus the case numbers that you're dealing with. Ultimately, the function of absenteeism and the worker shortages that created a number of those pressures there was a function of isolation requirements, broadly, as they relate to how many people were captured by each individual case across the economy and how long people were captured by those isolation requirements. The isolation requirements that we had in place were appropriate, as advised by Health, to deal with the health impacts of delta. They were adjusted as we got the updated medical advice around the health impacts of omicron. You couldn't have updated those in advance of that until you actually had the advice around what the actual impacts of omicron were.

Senator GALLAGHER: My question is: in a global pandemic where we've seen waves and variants, the scenario that we all lived through in December and January could have been foreseen in some of the planning. Your answer is: no, because omicron was different. But a scenario, regardless of the variant, where you had high levels of community transmission, testing regimes under pressure, high levels of absenteeism, supply chain impacts—surely that would have been a scenario that had been considered by the government over the past 2½ years and therefore some planning around how you deal with that scenario to mitigate some of the economic consequences of that would also have been considered. Are you saying, no, that wasn't possible?

Senator Birmingham: I think there are limits to mitigations that can apply when you are looking at a scenario of a very, very high level of workforce unavailability and absenteeism. Ultimately, the rules that we were applying appropriately from the earlier days of COVID and from the delta outbreak—delta being the dominant variant the rules had been set for—had a consequential impact of huge levels of absenteeism. That would always result in disruptions, and there were limits to the extent to which you could mitigate those disruptions. Thankfully, the health advice was able to be varied because the health impacts of omicron proved to be so much less severe than was the case previously and the speed of likely transmission from omicron appeared to be most likely within a compressed number of days, which enabled the shortening of the number of days for close contacts to have to isolate.

Senator GALLAGHER: I think I keep going around and around, but what I can take from this evidence is that what happened here in December and January wasn't foreseen by the Treasury and that Treasury responded once it was unfolding.

Senator Birmingham: As Dr Kennedy acknowledged, they didn't predict omicron. But if you look at systems around the world, I'm not sure anybody else did either.

Senator GALLAGHER: It's more about planning for a range of different scenarios coming from a global pandemic. But I'm going around and around in circles.

Senator Birmingham: We did look at scenarios. As I said it turned out that we had a scenario where case numbers were far higher than had been modelled on the upper boundaries of that modelling, but where the health outcomes actually came within those upper bounds of modelling. Health systems have faced pressures as a result

of workforce shortages, but they haven't faced the types of pressures that would have been the worst-case scenario as a result of admission numbers of very seriously ill individuals.

Senator GALLAGHER: My final question on this is: when did the Treasurer ask the Treasury to provide advice about the viability of using rapid antigen tests in an Australian context? Do you need to take that on notice, or do you have an answer?

Mr McDonald: I think I'll need to take it on notice. It's a very broad question that you've asked.

Senator GALLAGHER: It's when the Treasurer asked, so not necessarily when Treasury advised on the national plan. I know you've indicated that you did. I am asking whether the Treasurer asked the Treasury to provide advice on the viability of using rapid tests in an Australian context. Does that narrow it for you?

Senator Birmingham: Mr McDonald has taken it on notice. There have been long discussions, overwhelmingly informed by the health advice, about the role that rapid antigen tests would or could play in Australia, so I'm not really sure that your narrow framing of that question is a reflective of the reality that the Treasurer would have been in as part of meetings hearing those health opinions in terms of the preference for PCR tests and engaged in all of the consequential discussions.

Senator GALLAGHER: Well let's see what—

CHAIR: Mr McDonald, do you understand the question that you've taken on notice?

Mr McDonald: I think so, yes.

CHAIR: Thank you.

Senator GALLAGHER: And I don't imagine that I'll get an answer this side of the election, but anyway we'll see. So I'll keep going, shall I?

CHAIR: Yes, absolutely.

Senator GALLAGHER: I have questions around the advertising campaign for the Our Come Back campaign. Can you tell me how much the department has spent on advertising contracts in the previous financial year and in this year to date—I'd like whatever information you have with you?

Ms Kelley: Are you specifically after the Economic Recovery Plan campaign?

Senator GALLAGHER: I will come to that. Sorry, I got ahead of myself. I want to start with the cost of all of the campaigns if you have that.

Ms Kenna: We don't have the figures compiled, but we can give you individual spends on campaigns if you want to go through it that way.

Senator GALLAGHER: Yes, thank you.

Ms Kenna: We'll start with the Economic Recovery Plan campaign. Do you want total expenditure or expenditure by contract?

Senator GALLAGHER: I'll have total expenditure.

Ms Kenna: Total expenditure for the 2020-21 financial year was \$2,883,492.18. The spend in the 2021-22 financial year as at 31 December was \$649,545.32.

CHAIR: It gives us confidence when you have the cents.

Senator GALLAGHER: So for the Economic Recovery Plan the first figure—the \$2.8 million figure—was for the previous financial year, was it?

Ms Kenna: That's correct.

Senator GALLAGHER: And this year to date, so 2021-22, was \$650,000 essentially. That campaign is continuing, is it? How much is it expected to cost?

Ms Kenna: The campaign isn't live at the moment. We had to pause it in I think July last year because of the COVID outbreaks.

Senator GALLAGHER: It started just before I think. Can you tell me when it started?

Ms Kenna: Yes. The first phase of the campaign was launched on 14 October 2020 and ran through till 19 December 2020. The second phase of the campaign was launched on 6 June 2021 and was then paused on 1 July 2021.

Senator GALLAGHER: And that was essentially when we all went back into lockdown.

Ms Kenna: That's correct.

Senator GALLAGHER: And who made the decision to stop that?

Ms Kenna: It was a decision of government at that point.

Senator GALLAGHER: So the Treasurer or the cabinet made the decision to pause that campaign?

Ms Kenna: Correct. Treasury was the one that instructed the media buyer to pause the campaign, but it was—

Senator GALLAGHER: Yes, but someone instructed you.

Ms Kenna: Correct.

Senator GALLAGHER: So was it the Treasurer? Was it just a decision of the Treasurer or was it a decision of the cabinet?

Ms Kenna: I'm not sure how you characterise it, because it was sort of a joint decision of government at that point.

Senator GALLAGHER: Did you brief the government that you thought this should pause?

Ms Kenna: No, we didn't provide a briefing at that point.

Senator GALLAGHER: So that's the Our Come Back campaign effectively. That's currently sitting at around \$3.3 million. It hasn't recommenced then?

Ms Kenna: No.

Senator GALLAGHER: So that \$650,000 was essentially the June to—how did that work? I think you said you've spent \$649,000 in the 2021-22 year to date, but then you said you paused it on 1 July.

Ms Kenna: That's correct. That's because some of the costs flow into the next year anyway, once we get invoiced.

Senator GALLAGHER: So it's more of a payment process?

Ms Kenna: Correct.

Senator GALLAGHER: So the \$3.3 million was really for costs of the campaign in the previous financial year, but you paid for some of that in the next financial year?

Ms Kenna: That's correct.

Senator GALLAGHER: What about the other campaigns? You said you could quickly tell me some of the other ones.

Ms Kenna: Yes, there was some expenditure on the Your Future, Your Super campaign as well, which I can give you a quick summary of. Your Future, Your Super campaign spend as at 31 December for the 2021-22 financial year—sorry, I've just realised I don't have that total. I can run through the contract costs for you if you want.

Senator GALLAGHER: Yes.

Ms Kenna: Research with Fiftyfive5 is \$584,689.60. Evaluation research with Hall & Partners is \$105,788.94. Ogilvy, the creative agency, is \$1,127,362.25. Fenton, public relations, is \$260,529.50. Cultural Perspectives is \$147,895.01.

Senator GALLAGHER: I don't know how you bill for that! They will take every last cent, won't they?

CHAIR: Literally!

Senator GALLAGHER: 'A government contract? Let's add in another cent!'

Ms Kenna: Carbon, an Indigenous specialist agency, \$248,328.52.

Senator GALLAGHER: Was that a specific targeting of communication about—

Ms Kenna: Indigenous audiences.

Senator GALLAGHER: the Your Future, Your Super?

Ms Kenna: Correct. And Cultural Perspectives, the one before that, was for culturally and linguistically diverse audiences. Then Universal McCann, the media buy, is \$2,827,706.10.

Senator GALLAGHER: So it's a much smaller campaign for Your Future, Your Super. I think the Our Come Back campaign was TV, newspapers, social media—Facebook, things like that—was it?

Ms Kenna: Let me just confirm that for you. It would have been TV, radio, print, out of home, digital and social. And cinema was in there as well.

Senator GALLAGHER: In the movies as well! Do you have the other campaigns? We don't have to break—unless you have the global costs, I don't want to take up too much time.

Ms Kenna: No, they were the only two—

Senator GALLAGHER: They were the only two campaigns you've been running?

Ms Kenna: Yes.

Senator GALLAGHER: When is the Our Come Back campaign due to kick off again?

Ms Kenna: That hasn't been determined.

Senator GALLAGHER: Has it been updated, that campaign?

Ms Kenna: No, the government is still considering what we do with that one at the moment. There hasn't been a formal decision made about a relaunch.

Senator GALLAGHER: Do you know, Minister, what's happening with the Our Come Back. Is there going to be an Our Come Back mark 2?

Senator Birmingham: No. I'll have to take that on notice.

Senator GALLAGHER: You don't know?

Senator Birmingham: No. Obviously officials have covered the suspension of that campaign.

Senator CHISHOLM: 'Suspension' indicates it will start again, doesn't it?

Senator Birmingham: The campaign was ceased, suspended—put whatever word you like on it there—in terms of where it was at that point in time. In terms of intentions around that campaign, as I said, I'll take it on notice. I haven't got any information on that.

Senator GALLAGHER: Will we see Our Come Back before caretaker? It's only a short amount of time—

Senator Birmingham: I've taken that on notice.

Senator GALLAGHER: How long does it take to get one going again? Could you just ring up the contractors you have in place and say, 'We want to get this moving again,' and that would happen reasonably quickly?

Ms Kenna: No. It takes several weeks, if not months, because there's quite a bit of development work that needs to be done. We still need to make sure campaign material is suitable to be used in the current environment. It might need to be updated. We would need to do research. We would need to go through the government approval processes as well as internal approval processes in the department. So it's not a quick turnaround.

Senator GALLAGHER: So you couldn't just get a call from the Treasurer's office and then press the green button?

Ms Kenna: No.

Senator GALLAGHER: We've got six weeks to budget day. Minister, is there going to be a budget advertising campaign?

Senator Birmingham: As I said to Senator Patrick before, I'm not about to speculate around budget measures. If there's a budget measure in relation to something like that, that would be identified in the budget.

Senator GALLAGHER: But this government quite often gets the ads out pretty early on. I think the ads around rapid testing came out before there were rapid tests to test yourself with. Has the government made a decision about a budget advertising campaign?

Senator Birmingham: As I said to Senator Patrick before, I'm not going to do what is or isn't in the budget—

Senator GALLAGHER: I'm not asking that.

Senator Birmingham: and that includes the communication elements to the budget.

Senator GALLAGHER: Really? This committee is able to ask any question relating to expenditure across government, and we've just had evidence that it takes some time to build in a campaign. It's a legitimate question to ask at the estimates committee. I'm not asking what's in the budget; I'm asking if you're going to advertise the budget.

Senator Birmingham: To do that would require a budget decision in relation to funds for that, and, as I said, I am not going to go to what decisions may or may not be taken in—

Senator GALLAGHER: So will you rule out a budget advertising campaign, because you'll probably have a few days, won't you?

Senator Birmingham: As I said to Senator Patrick before, I'm not going to do the rule in, rule out when it comes to decisions to be taken in the lead up to the budget.

Senator GALLAGHER: But those decisions would have to have been made now, in terms of whether you're going to have an advertising campaign for the budget.

Senator Birmingham: Senator—

Senator GALLAGHER: So you're just not telling us. You know the answer, but you're not telling us.

Senator Birmingham: I'm not engaging in any of the various forms of budget speculation.

Senator GALLAGHER: When would you have to buy the advertising spots for early April? Would you have to be doing that now, Ms Kenna?

Ms Kenna: It's really dependent on what the media placement situation is like at that time. I'm not sure what the media landscape is like at the moment, but the preference is normally that you buy a few weeks in advance of going to air. That's normally quite late. If it's busy, you might not be able to get spots. So it can be very dependent, but you'd want at least a couple of weeks beforehand.

Senator GALLAGHER: Has Treasury bought any advertising space in preparation for early April or late March?

Ms Kenna: No.

Senator GALLAGHER: And you haven't been asked to?

Ms Kenna: Not at this stage.

Senator GALLAGHER: Minister, considering that the Our Come Back campaign had to be pulled, do you think that you got ahead of yourselves with the ad campaign and prioritised that above actually ensuring that Australians were kept safe from COVID outbreaks?

Senator Birmingham: No. The campaign, as part of the overall strategy to drive confidence across the economy—consumer and business confidence—was yielding results before the delta-induced lockdowns of the second half of last year. With that lift in confidence, we were seeing a very strong, ahead-of-expectations comeback of the Australian economy, including jobs numbers, that was quite world-leading amongst other developed nations at the time. So it was all playing its role. Obviously, as we've seen through COVID-19, circumstances can change quite quickly.

Senator GALLAGHER: 'Our economy is on track to come back' had to be pulled because we weren't on track to come back, because we went into lockdown for months.

Senator Birmingham: We were ahead of most other developed nations in terms of our economic recovery—

Senator GALLAGHER: You were ahead of yourselves.

Senator Birmingham: for much of that time, and the strength of the economy and its resilience to those shocks has been evident post delta in the rate of quick recovery. Even with the omicron shock, we're now seeing strong resilience across the economy and we have an unemployment rate sitting at 4.2 per cent. The Treasury secretary was sitting here earlier today talking about the possibility for optimal scenarios for essentially full employment and strong growth and the potential for areas of wages growth in an environment with possibilities the likes of which he's seen on very few occasions that he can cite.

Senator GALLAGHER: Do you say that the \$3.3 million spent on the Our Come Back campaign, which was suspended as Australia went into five months of lockdown, was efficient, effective, quality spending by the government?

Senator Birmingham: We don't make any apologies for trying to ensure that confidence across consumers and businesses around Australia is optimised. That sort of confidence helps to achieve stronger economic outcomes. We all have to adjust to the shocks, uncertainties and unpredictabilities that come from COVID, and that means changing and altering policy settings in response to those impacts.

Senator GALLAGHER: Do you think it was money well spent?

Senator Birmingham: I know that the opposition likes to try to find every opportunity to talk down aspects of the Australian economy and to try to weaken consumer and business sentiment or confidence.

Senator GALLAGHER: The campaign got pulled because we went into lockdown.

Senator Birmingham: We want to try to bolster that at every avenue, because that confidence is important.

Senator GALLAGHER: No, my question is about whether it was money well spent. Do you think the Our Come Back campaign, which got suspended because we went into five months of lockdown, wasn't maybe a bit premature? Do you think it was money well spent?

Senator Birmingham: As I said, it was—until those lockdowns had to occur—working very clearly in tandem with what was a very strong recovery and comeback by the Australian economy at that time.

Senator GALLAGHER: And you won't tell the committee whether there will be a budget ad campaign?

Senator Birmingham: I'm not going to speculate on budget decisions, including on what communications may or may not be funded in the budget.

Senator GALLAGHER: So we'll just have to wait and see when the ads come and run alongside for a few days before the Liberal Party actually has to start paying for them.

Senator Birmingham: Customarily, when we gather together for portfolio additional estimates each and every year, ministers sitting here at Treasury or Finance find themselves answering questions where they say, 'Yes, you will have to wait for the budget to find out what is in the budget.'

Senator GALLAGHER: Thank you, Chair.

CHAIR: Senator Walsh, you're seeking the call. Senator Patrick had some questions. Are your questions in macro, Senator Walsh?

Senator WALSH: No; they're in corporate.

CHAIR: Anyone have any questions in macro?

Senator McKIM: I do.

Senator Birmingham: We've still got corporate at the table.

CHAIR: We still have corporate at the table, Senator Walsh. I'll go to Senator McKim on macro, then to Senator Walsh, and we will take it from there.

Senator McKIM: These questions are in regard to the Treasurer's view that the \$424 billion-odd in private savings that has been accumulated will sustain the economy now that fiscal support has been withdrawn. The last national accounts for 2019-20 showed that on a household basis the top 20 per cent, by income, had about \$90,000 in savings and the bottom 20 per cent had -\$8,000 in savings; I assume that means they're carrying on average about \$8,000 in nonmortgage debt. Is there any reason to expect this ratio has changed drastically since the 2019-20 national accounts?

Mr Power: One reason, which we referred to a little bit earlier, is where some of the payments during the pandemic were directed—so we know that some of the economic support payments that were made did boost incomes at the lower end of the spectrum rather than at the higher end of the spectrum. As we talked about this morning: particularly as it relates to asset prices, they improved across the spectrum. In relation to actual household balance sheets, incomes at the lower end increasing slightly more than incomes at the higher end may change that. I don't have a renewed breakdown for the one you just mentioned.

Senator McKIM: Greg Jericho, in the *Guardian*, has done a little bit of work tracking inflation by discretionary and nondiscretionary items. He has found that over the last three quarters discretionary items have been growing at an annualised rate of about four per cent, whereas nondiscretionary items are growing at an annualised rate of about two per cent. Does that sound about right, and does Treasury do any work in terms of differences between inflation rates for discretionary and nondiscretionary items?

Mr Power: You can break down the rates of growth in the CPI. There are a lot of categories in there. I can tell you that in the most recent CPI outcomes things like, as we talked about earlier, automotive fuel, as we noted in relation to oil prices, did rise. But other items, like household energy, here in Australia haven't been rising to the same degree as they have overseas. That's probably a matter of going through the detail of the components. Discretionary items on the goods side have risen significantly due to supply chain pressures and prices coming through the global channels.

Senator McKIM: Is that work Treasury does when CPI figures come out—to put goods and services into baskets around discretionary and nondiscretionary spending?

Mr Power: We look at different cost-of-living indices. You'll be aware there is the CPI, employee household indices, pensioner indices and transfer recipient indices. We keep a close eye on how those indices are all tracking, and they pick up the different compositional issues you're talking about. I can tell you the employee household indices grew slightly below CPI through to the December quarter 2021; whilst the CPI more broadly grew 3.5 per cent through the year, the employee household indices grew in the order of 2.6 per cent. So, yes, we do, and we take note of how those different weights impact cost of living for different households.

Senator McKIM: Can I ask: domain.com.au has reported a 7.4 per cent increase in rents across the country on average over the last year, which is the highest rise in rents since 2009. Does that sound about right?

Mr Power: There are two ways you can look at rents. One is the advertised rents. If you look at Domain or other websites, those advertised rents have been growing quite strongly through the year to January 2022 across capitals. The other way that rents are measured is in the CPI. That doesn't just take into account advertised rents;

it takes into account all rents across all households. Of course, not all rents are advertised; people are on contracts that won't be changing. Advertised rents across the capitals grew about eight per cent to January 2022. If you look at CPI rents, which takes into account the whole rental basket: that grew around 0.4 per cent to December 2021. There are two ways to look at rents; I just wanted to draw that out for you.

Senator McKIM: Thanks, I appreciate that. Would you attribute the significant discrepancy in those two figures to the fact that it's measuring different time periods? Or is there something else at play there?

Mr Power: I would attribute that to, effectively, the time it takes for the rental contracts to come up for renegotiation or for people to move. The stock of rents across the whole economy and rents people are paying don't change as frequently, but when rents are advertised that's an opportunity for landlords and others to reprice rentals.

Senator McKIM: Is it reasonable to say that, looking at the measure of advertised rents—which you said have, on your numbers, grown eight per cent in the 12 months to January this year—that's a significant increase in the cost of renting a home?

Mr Power: Those numbers are significant increases. As you've pointed out, that's fair to say.

Senator McKIM: In any event, it is well above wages growth in the corresponding period. Just a back-of-the-envelope sum: it would be about four times what wages grew in that period. Is that fair?

Mr Power: I think that's an interesting question. What is probably important to look at, from that point of view, is how incomes have changed over two years. Wages are one measure of that. Households' gross disposable income is an important measure, partly because that takes into account some of the payments that have been made to support households through the pandemic. Incomes have grown significantly ahead of wages partly due to those social assistance payments; they've grown just over 11 per cent over the two years to the start of the pandemic. It's important to take into account some of those other factors in addition to wages; that is the only comment I would make in response to you.

Senator McKIM: What is the increase in gross disposable incomes for the same period—the 12 months to January this year?

Mr Power: I have the number for two years, which is around 11 per cent over those two years—

Senator McKIM: Sorry to interrupt; I thought you said that was the two years up until the start of the pandemic. Was that the two years from the start of the pandemic?

Mr Power: Sorry—that's from the start of the pandemic. I'm happy to try and break that down for you for the last year, and try and split that 11 per cent across individual years, if that's helpful.

Senator McKIM: If you could do that on notice, that would be appreciated.

So we've got the stage 3 tax cuts coming up, which will deliver a \$9,000-plus tax cut to those earning more than \$200,000; does that sound about right?

Mr Power: I might need to pass that question to my Revenue Group colleagues for the details of how it interacts with the exact tax brackets. I can tell you, though, that from a macro point of view we have all of those dynamics built into our outlook and have had for quite a while.

Senator McKIM: Are you suggesting it would be better for me to park any questions on stage 3 tax cuts for now?

Mr Power: As your questions relate to different income groups, I don't think I'd be able to help them with you here now. Perhaps, later on, my colleagues might be able to help you there.

Senator McKIM: Alright. I guess I'll just put something to you and ask for a response. If you feel it is an unreasonable question, I'll put it to the minister. We've got a situation where the fiscal support we've seen during the pandemic is being withdrawn—and, to a large degree, has been withdrawn. Inflation in non-discretionary items is on the rise. Obviously, people at the low end of the economic spectrum spend a lot more of their income on non-discretionary items. Rents are going up, as we've discussed. Wages growth is still stubbornly low despite repeated forecast to the contrary by Treasury over quite a number of years. I will ask the minister this question. Minister, what does your so-called economic recovery look like for someone who is on a low wage, has little to no savings, can't afford to buy their own home, can't even afford a deposit to get into the housing market, doesn't have wealthy parents to help them, doesn't really have much choice about where they spend their wage because they are spending an awful lot of it on non-discretionary items, and is run off their feet at work, stuck on the hamster wheel? What does the economic recovery look like for someone like that?

Senator Birmingham: It is an environment in which the first two stages of the government's income tax cuts have been delivered and are providing significant additional take-home pay into the pockets of many low- and middle-income Australians in terms of assistance in a direct and ongoing way from those reforms out of the first two stages of those income tax cuts. The current economic recovery is an environment in which we've seen the availability and take-up of jobs at record levels. As Dr Kennedy highlighted today, the proportion of the Australian workforce in employment is sitting at record highs and at highs relative to other developed economies. It's an environment where, because of those higher levels of workforce participation and job availability across all sectors of the economy, we are seeing people moving more dynamically and at greater speed between jobs and seizing opportunities from doing so. In the last full financial year, wages growth exceeded forecasts. We have seen an upgrade to forecasts in terms of recent wages growth and the potential that we can, as Dr Kennedy outlined in his remarks today, in some of the most positive circumstances Australia has seen in a long time, in circumstances he cites as having only occurred a couple of times before in his lifetime, strive to achieve essentially full employment with stronger wages outcomes driven from that full employment. I appreciate that there are challenges in terms of parts of the economy, as there always are. But the strength of the recovery, and the potential from the recovery, is great and the government is focused on maximising that potential as much as possible.

Senator McKIM: Minister, as I mentioned a few moments ago, the Treasurer has basically been saying the \$460 billion in private savings will help drive the economic recovery now that the federal government stimulus has been removed. And I would remind you again of my comment earlier about accounts that the top 20 per cent by income have, on average, about \$90,000 in savings and the bottom 20 per cent are carrying, on average, about \$8,000 in non-mortgage debt. Isn't an economic recovery built around people spending their savings just another version of trickle-down economics? Isn't it just saying that the nation's future and our economic recovery is dependent on high-income earners spending on the things they enjoy, using the savings they've got, while everyone else, as I said earlier, is stuck on the hamster wheel?

Senator Birmingham: The elevated rate of savings can be seen across wide parts of the Australian population, and wide parts of Australian businesses, where people have saved by different means—some in terms of getting ahead of their mortgage payments and others in terms of savings that are held in different ways. There are businesses that have banked additional savings that provide additional capacity for them to invest. We're seeing positive outcomes in areas of business investment that will create greater potential for growth and productivity dividends for those businesses. I don't accept the premise you're putting there. When savings are as elevated as they are, you would expect to see people potentially utilising some of those savings. One of the other functions as to where I expect to see some of that utilisation is that people's ability to spend on services has been particularly suppressed by virtue of the types of restrictions that have been in place through the COVID-19 pandemic. People have saved in some parts out of caution, in some parts because of the scale of support that has provided across the economy, and in some parts because the areas they actually want to be able to spend on, which are also valuable areas of our economy, have been suppressed by virtue of health orders and regulations and changes of behaviour as people take a cautious approach to the health implications of COVID. As the economy continues to reopen, I think we will see particular benefits in the services sector, which is the dominant employer of Australians. That is really where people will take those opportunities of a greater normalisation that will hopefully flow in the months and years ahead.

CHAIR: Thank you, Minister. Thank you, Senator McKim. I commend to you the work of the great Dr Thomas Sowell, the leading economist in the United States on so-called trickle-down theory. Senator Walsh.

Senator WALSH: I have a bit of housekeeping. I have a couple of follow-up questions for Ms Kenna and then I think we might be done with Macro. Ms Kenna, I want to follow up on some of the information you gave to Senator Gallagher on the Your Future, Your Super advertising spend. I think you said the advertising component of that spend was \$2.8 million. When were those ads up and about?

Ms Kenna: The campaign launched on 10 October in an initial round. We had radio, press and online, which included search, digital and social. Then, on 1 November, another round of small-business and Indigenous communications launched across radio, press and online.

Senator WALSH: So the 10 October advertising spend was to the general population?

Ms Kenna: It was probably a bit more employer focused, but yes. There was a further round of the small-business advertising that was put out on 1 November.

Senator WALSH: This was broadly about the benchmark test and the opportunity to have a look at your fund and change funds, was it?

Ms Kenna: Yes. It was related to the Your Future, Your Super reforms—about Australians' ability to choose a better super fund, the comparison tool YourSuper, the underperformance letters that were being issued by funds and the stapling measure for employers to be aware of.

Senator WALSH: So the advertising spend on stapling was directed to employers?

Ms Kenna: Correct.

Senator WALSH: Was there any advertising spend by government to inform the community, broadly, that they were about to be stapled to a super fund?

Ms Kenna: The material that we put out was also able to communicate to the public about the fact that this was something that was coming into play. There was a lot of other work that was done by the Australian Taxation Office to communicate more broadly about this as well. We were responsible for the higher-level media advertising, but the ATO did a lot of what we refer to as below-the-line work, directly through their networks and through their channels.

Senator WALSH: Was the theory that both you and, it sounds like, the ATO would engage employers, who would then engage employees, about opportunities to look at the performance of their fund? Was the strategy largely or entirely to provide the information to employers?

Ms Kenna: The strategy was largely to provide information to employers about the stapling measure and the fact that they had different obligations they needed to be aware of for any new employees. As to the information that was being put out to employees or potential new employees about the performance of their funds, they were all being communicated with directly by their funds. There was material being put out by the ATO and, I believe, APRA as well. To talk about the fund performance wasn't the intent of the material that we had. To be clear, I think there was one ad that did mention it, but the bulk of the work was done by the ATO in that regard.

Senator WALSH: So your focus was on educating employers about their obligations and about stapling, and the information that they were provided was also potentially in a format where they could provide that to their employees?

Ms Kenna: That's correct.

Senator WALSH: That was your main focus?

Ms Kenna: Yes, that was the main focus of that advertising.

Senator WALSH: And with the benchmarking issue, which is a bit related but separate, you didn't have a particular focus on that? That was the ATO?

Ms Kenna: That's correct. I think we had one ad—it might have been a radio ad—that said: 'You may be receiving a letter from your super fund because they haven't done as well as they could have. Visit the ATO to find out more.'

Senator WALSH: Any questions about ads that the ATO ran go to the ATO.

Ms Kenna: That's correct.

Senator WALSH: So government ran one radio ad, telling people that they might get a letter which said that they might want to change their funds based on the information in that letter.

Ms Kenna: As part of that round of advertising that we did at the end of last year, there was one execution. I can come back to you on whether it was radio or print. I'm not sure; I can't remember.

Senator WALSH: Sorry; I thought you said radio.

Ms Kenna: I think it was radio. There was one ad in that round that spoke to that, and the other stuff that was being done by the ATO would have to be discussed with them.

Senator WALSH: Yes. Do you have a further spend planned for this financial year around either a stapling or the benchmark test?

Ms Kenna: We have nothing planned at this stage, Senator.

Senator WALSH: That is all my questions. Thank you, Ms Kenna.

CHAIR: Excellent. That's the end of Macroeconomic Group, if that assists officers. We will move to Corporate and Foreign Investment Group. Senator Patrick has the call.

Senator PATRICK: New South Wales is about to issue a whole bunch of free flood plain harvesting licences, estimated in value between \$1 billion and \$2 billion. A fair chunk of that entitlement will go to foreign companies or companies that have large foreign ownership. Foreign ownership is a concern that is raised with me all the

time, particularly around water. I also understand that there are water licences about to be handed out across WA, NT and northern Queensland. Do you review the issuing or the gifting of water licences to foreign companies?

Mr Hamilton: At the moment, water entitlements are not specifically screened under the FATA. They are screened should they be associated with an agricultural land acquisition, for example. But, as you would know, the FATA has a range of specific sectors and assets that it screens. At the moment, water is not one of those. The acquisition of water entitlements, though, as a matter of policy by the government, is required to be notified to the ATO for inclusion in the register of foreign ownership of water entitlements. We do know that there is community interest in this aspect of the screening regime under the FATA, and we are seeking the community's views at the moment about the screening of water entitlements.

Senator PATRICK: That's good news. Minister, I'll direct my question to you, then. There is a general concern about foreign ownership of water in the country, and we now have a situation where, potentially, \$1 billion to \$2 billion of water is to be gifted to foreign entities. Is the government in consultation with the NSW government in relation to this?

Senator Birmingham: Certainly, the sensitivity of community sentiment around water licences and holdings of water licences is something the government has been, and is, very conscious of. It was our government that established the register of ownership in relation to water licences, as Mr Hamilton indicated, and the ATO plays a role in regard to the maintenance of that register and the information that is provided there, so that there is transparency. As is often the case when it comes to foreign ownership questions generally, whether it be in regard to land or assets such as water licences, sometimes, once you have that degree of transparency, it becomes more evident that the degree of sensitivity and concern does not always match up with actually the share of holdings that are held by different foreign entities or by foreign entities from particular nations that are identified as causes of concern. Obviously, we may, at the appropriate time, be able to go to what the current ratios of water licence holdings look like right now. But, in terms of further potential reforms around those areas, as Mr Hamilton indicated, there are consultation arrangements underway and happening in that regard. In fact, I gather that submissions on that are due within four weeks.

Ms Kelly: It's on 25 February.

Senator PATRICK: If you accommodate what the minister was proposing, just to give perhaps the top five foreign jurisdictions that own our water, and the percentages—do you have that information available?

Mr Hamilton: I don't have that information to hand at the moment. We can take that on notice for you and we'll look at the register of assets and see if that can provide some information for you.

Senator PATRICK: I think it's in the public domain. I want people who might be watching to get an understanding of who the top owners are.

Senator Birmingham: The point is that it's a public register.

Senator PATRICK: Sure, I get that. AAM investment group has just been awarded 65,000 hectares of land in the Northern Territory as part of the Ord irrigation scheme, Ord 3. Does that invoke anything in respect of the FIRB—because it's in effect an asset transfer that, on the face of it, would appear to be free. I think that that investment group is Australian or registered in Australia, but I don't know whether its shareholdings are foreign or Australian. Has that come across your radar?

Mr Hamilton: It sounds right. It doesn't ring an immediate bell to me. It could well be in media reports. As the committee knows, we are constrained in what we can comment on, even if we were aware of it.

Senator PATRICK: Maybe you can have a look at that, and come back and generically advise the committee whether those sorts of transactions would normally invoke some sort of consideration by the FIRB—not necessarily this one but similar sorts of transactions.

Mr Hamilton: As I said, Senator, there are a range of thresholds within the FATA that will trigger the attention of the FATA and obligations under it. We can provide the committee with some information in relation to how that translates to a range of sectors, which could provide the information you're seeking.

CHAIR: Senator Patrick, what was the actual asset transfer?

Senator PATRICK: What's the actual asset?

Mr Hamilton: It's land.

CHAIR: Right.

Senator PATRICK: It's a transfer of land.

Mr Hamilton: It's a transfer of ownership of that land. At face value, we would be interested in that. As I said, there are a range of thresholds in the FATA. They are lower for agricultural land than they are for some other asset classes. It's hypothetical. Of course, it depends on the value of the transaction.

Ms Kelly: I'd note too that we now have a very active market-scanning function within the division. So we're actively looking at those sorts of transactions and what's reported in the media around things, and we're making sure that we're monitoring if they do need to apply, and when and if they do apply. We are trying to address those concerns which have been raised by people.

Senator PATRICK: Thank you.

CHAIR: With your indulgence, Senator Patrick. Mr Hamilton, when you're looking at the value thresholds, are you looking at the market value or the price paid?

Mr Hamilton: It's a complicated question. There are a number of thresholds. There are monetary thresholds that are reported to us. There are also thresholds around the level of control, and they differ between sectors. Unfortunately, I would need to take that on notice to make sure I get a good answer.

CHAIR: You don't need to take that on notice. I was just interested [inaudible]. Senator Patrick.

Senator PATRICK: Actually, that was it, Chair. Thank you, and I thank Labor for their indulgence in respect of the plight of the crossbench!

CHAIR: You don't have to thank them. They didn't raise it with me; I did it off my own bat! I've got one question in foreign investment. Mr Hamilton and Ms Kelley, are there any recent trends that you can identify over the last 12 months in terms of the origin of new foreign investment into Australia? Have the sources of foreign investment undergone some sort of change over the last, say, five-year period?

Mr Hamilton: I can answer that. I can certainly give you a very high-level view of it. Over the course of the last five years or so, the big change and trend internationally has been an adjustment in the nature of outbound Chinese investment. That's a global trend that we've seen since around 2016 and 2017, when Chinese outbound investment flows dropped by around 49 per cent globally. Australia experienced a very similar drop in Chinese investment, which saw Chinese investment through the foreign investment process drop from being the highest in our list of foreign investors down to, in our most recently published information, being the sixth highest—below a range of other countries, with the top being the United States at the moment. That said, over the course of the last couple of years, we've continued to see investment from China, and we've continued to approve those investments.

In the course of the last six months or so, the biggest change for us in terms of general trends has been an international boom in mergers and acquisitions activity, particularly around infrastructure, where conditions have been right for a significant number of very large transactions and a significant number in terms of the volume of cases coming through. That's been translated into our data, in terms of seeing a very large quantity of individual applications as well as some very big individual transactions. That boom in mergers and acquisitions is a global trend.

CHAIR: In the infrastructure space?

Mr Hamilton: Particularly in infrastructure, but I think that's probably a general—

CHAIR: When you say infrastructure, can you give us a bit more granularity?

Mr Hamilton: Everything from energy infrastructure through to transport infrastructure—we see a large number of transactions involving infrastructure, yes.

CHAIR: Sydney Airport, as an example?

Mr Hamilton: Sydney Airport would be an example of transport.

Senator PATRICK: Just a supplementary on that: the instrument that was brought in just after COVID to lower the thresholds has expired now, hasn't it? We've gone back to ops normal.

Ms Kelley: That's right.

Mr Hamilton: There was a temporary zero-dollar threshold, which reduced the threshold to \$0 for—we screened everything. It's important to note, though, that when we reverted to the pre-existing thresholds—and there are a range of those—we retained a new zero-dollar threshold for anything relating to national security. That was a new step that the government introduced from 1 January last year.

Senator PATRICK: How does that distinguish between critical infrastructure and national security? Are they one in the same or somehow related?

Mr Hamilton: That's the way that we treat it. On critical infrastructure, the way the act and the regulations work is that, if you're covered by the Security of Critical Infrastructure Act, it's national security for our purposes.

Senator PATRICK: Thank you. That was very helpful.

CHAIR: You talked about inbound foreign investment. Do you track disposals of foreign owned assets within Australia? You're talking about the evolution in foreign investment in terms of inbound investment. Presumably there's also some sort of data in relation to which foreign owners are disposing of their interests in Australia and exiting Australia?

Mr Hamilton: That data is tracked. It's not tracked by us, as the regulator of foreign investment, but it is included in some data, including from the bureau of stats, which looks at the net movement of capital—the inbound foreign investment minus the outbound flow. But that's not tracked by us, so unfortunately I can't help you with any data on that right now.

Proceedings suspended 12:49 to 14:01

CHAIR: We'll recommence. We are now in the Fiscal Group. Welcome, Ms Wilkinson. Senator Faruqi, you've got the call.

Senator FARUQI: Good afternoon. Does the department have a full list of which private schools received JobKeeper payments, and the amounts that were handed over to them?

Ms J Wilkinson: No, Senator. We don't have the details of anyone who received JobKeeper. JobKeeper was implemented by the ATO. The ATO will be appearing alongside Revenue Group later this afternoon, but that information is confidential. We don't have the list of entities that received JobKeeper.

Senator FARUQI: The stated purpose of JobKeeper payments, as I understand—because your department were the architects of this—has been to keep struggling businesses afloat and to keep people employed during the COVID-19 pandemic. Is that what the purpose was?

Senator Birmingham: Yes, they were the purposes of JobKeeper, but JobKeeper was also extended to not-for-profits across the economy, recognising both the employment function and the service provision of those not-for-profits.

Senator FARUQI: So, as the architect of this program, Ms Wilkinson, would you then accept that the effect of JobKeeper payments really, at the end of the day, didn't pan out the way it was intended to for many organisations, and especially for private schools? They have actually reported surpluses to the effect, in New South Wales, of almost the exact amount of JobKeeper that they received.

Ms J Wilkinson: I guess all I can say is that the government's policy in designing JobKeeper, which was designed to be an economy-wide support program, was to design a program that would provide support to businesses in particular situations and to not-for-profits in particular situations. The rules were made and made clearly, and it was implemented by the ATO. In thinking about the design of JobKeeper—we had quite a long discussion about this towards the end of last year—there is no question there was an element of it which was about providing confidence to businesses and not-for-profits in an environment where they were really uncertain about how they were going to survive the next six months, when it was just very unclear what was going to happen. In that case it was unclear whether schools were going to be opened or closed; it was unclear as to whether not-for-profits would be able to raise the normal sorts of funds they could raise through fundraising. There were lots of different things that were very uncertain at the time.

Senator FARUQI: Private schools have reported surpluses during 2020 of millions of dollars, and they received millions of dollars in JobKeeper as well. Is that not misspending of public money? And will you ask those private schools to return those JobKeeper payments, which are pretty much ballooning their surplus profits?

Senator Birmingham: The answer to your second question is no, as is consistent with the response the government has provided right across the board in relation to JobKeeper—that we are not going to retrospectively change the eligibility criteria for JobKeeper for those who received it across any sector of the economy. We have acknowledged previously, as Ms Wilkinson said, that JobKeeper was established at a time of enormous uncertainty for many aspects of the Australian economy and for many entities involved in different areas of service provision. It was established in a way to ensure that we could quickly end that uncertainty by providing entities with the confidence that the funding stream was there to get them through the period of great uncertainty. That's what JobKeeper did. As has been acknowledged, a number of entities who received JobKeeper, some not-for-profit, such as those you're raising—and, indeed, some for-profit entities as well—did better than they had expected to when JobKeeper was established. That didn't change their eligibility, because of the way JobKeeper was structured in phase 1. It was structured in that way deliberately to ensure ease of access for businesses and

other not-for-profit entities, and to provide that underpinning of confidence that they would get through that period of enormous uncertainty.

For those who ended up not facing the significant economic or revenue hits that had been anticipated or feared by them at the time, they have often been in positions to reinvest and to create more jobs in different ways, and those things have helped parts of the economic recovery.

Senator FARUQI: So private schools will just pocket that profit. Okay, I will move on. Senator Birmingham, not long ago you held the education portfolio.

Senator Birmingham: It's a little while ago now, but, yes. I saw an outstanding story on the front page of *The Age* that took me back to my education portfolio—

Senator FARUQI: I have you captive for a few minutes! Today, we found out the government funding for private schools in Australia has increased at nearly five times the rate of public schools. I'm asking this in the context of JobKeeper and the millions that went to private schools. Just yesterday, it was reported that some of Sydney's newest public schools, built just a few years ago, are bursting at the seams, while older public schools in high-growth areas of the city are at double or triple their enrolment caps and have more than 40 demountables. At the same time, private schools like Moriah College received \$6.7 million in JobKeeper. Do you think it's fair for public school students to be studying in demountables—

Senator Birmingham: I spent a decent chunk of my schooling studying in a demountable at a public school—

Senator FARUQI: while private schools build orchestra pits and swimming pools?

Senator Birmingham: And, indeed, I've also visited plenty of private schools that also use demountables. But, regardless of the structure of the building, I'm not sure over what time line you're giving your 'five times the growth' figure. Certainly, my—

Senator FARUQI: That's over ten years.

Senator Birmingham: Certainly, my recollection—

Senator FARUQI: It doesn't really matter, does it?

Senator Birmingham: Certainly my recognition of the funding profiles and growth rates from school funding reforms that were implemented when I was minister is that some of the growth rates and trajectories of growth for much of the public sector, for funding to the states and territories for their schools, was, over the remainder of this decade, at a faster rate than for independents or the Catholic sector.

Senator FARUQI: Minister, JobKeeper for wealthy private schools has really compounded the vast inequality of public funding for schools. As the Leader of the Government in the Senate, what are you going to do about it?

Senator Birmingham: We addressed the JobKeeper equation specifically before. We've also, during the course of the pandemic, provided enormous additional assistance through to the states and territories in a range of ways—usually targeted, but, nonetheless, helping their balance sheet equations in responding and helping their ability to support other services that they provide, including in education.

Senator FARUQI: You have inequalities entrenching in public schools. Thank you, Chair.

Senator GALLAGHER: Hello, Ms Wilkinson, thank you for coming—not that you had a choice, but we appreciate it anyway! When was the department made aware that the budget was going to be brought forward to 29 March?

Ms J Wilkinson: I think I became aware of that roughly when the parliamentary calendar was published. I can take on notice exactly when that was, but that's when I was made aware.

Senator Birmingham: I would have thought that for Ms Wilkinson and many that would have been the final point of awareness. In my department certainly some scenario options came through so that, as the government made decisions, the department was ensuring that all things around the need for appropriation, supply et cetera were contemplated through the scheduling of those arrangements. But that was the department being prudent in providing advice and information that could inform government to make sure that whatever decision we made about the sitting program and the date for the budget was informed by the consequential impacts of those decisions.

Senator GALLAGHER: I think that's a long way for you to say the department was ready for an early budget, but it wasn't confirmed until the sitting calendar was tabled. Is that correct?

Senator Birmingham: The departments are always very good at being ready for whatever circumstances come along, and yes.

Senator GALLAGHER: But what you're saying is that, essentially, whilst the government had not confirmed the date, an early budget was on the table as far as departments were concerned.

Senator Birmingham: Yes, as had been publicly said by the Prime Minister, the Treasurer and me.

Senator GALLAGHER: Whilst the option was there, your evidence is that you found out when the sitting calendar was tabled at the end of November.

Ms J Wilkinson: Absolutely.

Senator GALLAGHER: At the end of November you found out that the budget is going to be at the end of March. How does that affect the budget schedule, how you manage to line up all the ducks to get a budget ready for delivery?

Ms J Wilkinson: The main thing it affects is the timetabling of the decision-making process within government, so ERC meetings and the planning that we do around the production of the document. When the date of MYEFO is confirmed, when the dates of budgets are confirmed, we then do all of our planning around what that means for when decisions have to be taken, forecasts have to be finalised and all those sorts of things that feed into the budget process.

Senator GALLAGHER: It essentially shortened it by about five weeks or so. It's usually in the first or second week of May, and it was brought forward to the end of March.

Ms J Wilkinson: Yes.

Senator GALLAGHER: So the series of meetings, productions of documents, decision trees and things like that all get compressed.

Ms J Wilkinson: They're brought forward. There's probably a little bit of compression in there, but mainly these processes just start a bit earlier.

Senator GALLAGHER: Basically, you're actively putting together the budget over December and January, are you?

Ms J Wilkinson: It's a bit of a rolling process, so we're always doing macroeconomic forecasts over January in particular, once we have the national accounts. We get the September quarter national accounts at the beginning of December. That flows through into MYEFO. To be honest, it's not like it really stops a lot between one cycle and the next. At the beginning of every budget cycle we have a new set of parameters that we have to provide to the Department of Finance, so that process just kind of continued. Was there a bit more work in January as a consequence? Yes, probably, though at the same time we were also dealing with omicron and the sorts of policy decisions around that.

Senator GALLAGHER: When are final decisions taken for this year's budget? Do you have a deadline for when that has to be, to work it through all your systems? What is the cut-off? There must be a budget cut-off.

Senator Birmingham: There are a series of budget cut-offs. Depending upon the pressures at the time, there is also certain—

Senator GALLAGHER: Flexibility.

Senator Birmingham: You can apply some flexibility to it.

Senator GALLAGHER: So what are the cut-offs?

Senator Birmingham: Obviously there are practical things like the actual printing of the budget papers that need to occur before the day, and the proofing and so on that goes into the days leading up to that. Barring unforeseen circumstances, you try to minimise decisions needing to be made close to that time line.

Senator GALLAGHER: Is it mid-March that things have to be completed by?

Senator Birmingham: Well—

Senator GALLAGHER: You said there are a series of cut-offs. Can you explain to me?

Senator Birmingham: There are, but I also indicated that there is a degree of flexibility depending on what pressures you're responding to at the time. Agencies, not unreasonably, want everything settled as early as possible, but sometimes there will be circumstances that necessitate later ERC meetings or considerations in the process.

Senator GALLAGHER: So I'm not going to get any dates out of you?

Senator Birmingham: I'm not going to say: this is the date, and, from this date, you can have the opposition or journalists quiz us and say, 'You've already made all the decisions,' because that may not actually prove to be the case.

Senator GALLAGHER: Alright. Under your fiscal strategy you say that your fiscal strategy will move into the next stage when the economic recovery is secure and the unemployment rate is back to pre-crisis levels or lower. Can you tell the committee when you will meet the criteria that 'the economic recovery is secure'. Can you define that?

Senator Birmingham: I think last time I was sitting here we canvassed the fact that there is not going to be a simple switch-flick from one stage to the other stage in terms of the fiscal strategy, that there is a gradual approach of increasing confidence about the economic recovery, increasing confidence about where we in the world sit in relation to the management of COVID-19 and the ongoing assessment of the economic outcomes that have been achieved. Australia's economic recovery looks very strong right now, and our employment circumstances are incredibly strong, as Dr Kennedy went through this morning. The uncertainty around COVID remains, and the omicron experience, not all of which has been reflected in economic indicators to date, is a reminder of the uncertainty that we're dealing with there. But, in terms of the transition to a more stable fiscal policy setting compared with where we were, that is evidenced by the type of significant step-downs in spending that Dr Kennedy highlighted in his opening statement this morning.

Senator GALLAGHER: Will you update your fiscal strategy in the budget to be more clear around when you move to the medium-term fiscal strategy?

Senator Birmingham: We obviously review all of those statements and settings in the context of the budget and would be continuing, no doubt, to highlight and to talk about the areas of the economic recovery plan but also how that intersects with the fiscal strategy.

Senator GALLAGHER: So you will be updating it?

Senator Birmingham: We review all of the text in the budget papers before a new set of budget papers comes out. Whether that text changes is a decision the government takes through the budget process.

Senator GALLAGHER: I don't know why it would be so difficult to say whether you were going to update your fiscal strategy, though.

Senator Birmingham: Because I'm always conscious as to how the words I use at these committees are then interpreted or portrayed by others. I wouldn't want to create the expectation that the government was going to change its fiscal strategy by responding to a question from you of, 'Will the government review its fiscal strategy?' and then, if I say yes, somebody takes that—

Senator GALLAGHER: You did say yes, effectively.

Senator Birmingham: I said of course we review everything that's in the budget papers—

Senator GALLAGHER: Yes. So you did say yes to that. You didn't tell me if it was going to be updated.

Senator Birmingham: but I put it in the context, very clearly, that that's not necessarily to say that the fiscal strategy changes.

Senator GALLAGHER: Will you be upfront in the budget about where your spending restraint—which seems to be something you are pursuing, in terms of what I've picked up over the last two days—will be coming from and when?

Senator Birmingham: Yes. The budget will be a transparent reflection of the government's intent in relation to both payments and receipts. In that regard, the budget will update those figures that Dr Kennedy gave about the scale of step-down in payments and spending through this year and next year, and then, of course, what it looks like across the forward estimates. We'll identify if and where we are pursuing any savings, just as it will identify if and where we are having to address any additional expenditure.

Senator GALLAGHER: I think under your fiscal strategy you talk of 'continued support at crisis levels'. Is that what you would describe as that 31.6 per cent of payments per share of GDP? I think that's where it peaked, isn't it, so is that the crisis level of spending?

Senator Birmingham: That peak in 2020-21, yes, certainly is a reflection of the crisis level of spending.

Senator GALLAGHER: Then it goes to 26.5 per cent in 2024-25. So, as you bring in the new fiscal year, will that continue that trajectory down? You're going to go below 26.5?

Senator Birmingham: I'm always eager to see us reduce payments as a share of the economy as much as we possibly can, and the efforts made in MYEFO and in the previous budget have shown an improved trajectory in terms of the budget outlook, and, from that, improved trajectories for gross and net debt, which are highlighted at pages 64 and 65 of the MYEFO papers. If we can build further on that in this budget, yes, we will be looking to do that, in terms of the implementation of that second phase of the fiscal strategy, which, as I emphasised before,

isn't something that will be a sudden consolidation that in any way could jeopardise or harm economic growth. It is a fact that our pursuit of maximising economic growth remains a priority, consistent with that stated budget strategy to reduce the share of the deficit as a proportion of the size of the economy over time.

Senator GALLAGHER: Do you have a target there for where you would like payments to get to, noting that you haven't really been able to—I'm just looking at your payments as a share of GDP. In 2019 they were 27.7 per cent. That was pre-COVID, or there were six months of COVID in that.

Senator Birmingham: You quizzed on that a little bit earlier today, in terms of the likely range there for the operation of payments.

Senator GALLAGHER: Yes.

Senator Birmingham: This of course is as a share of GDP, so there are two factors that influence that. There's the quantum of actual payments and then there's the size of the economy, and we've indicated that, whilst we will look for savings where savings can reasonably be pursued—and we will be transparent about that in the budget if there are any savings that are being pursued—we don't see that there will be abrupt or sudden shocks or adjustments in relation to those payments. Bringing them down off the elevated peaks is the priority—back to a normalised level representing the normal and core functions of government. But our priority is maximising economic growth and the size of the economy, and the more successful we can be in that then the lower those payments will be as share of the economy.

Senator GALLAGHER: So, if you've got savings, you will be upfront about it?

Senator Birmingham: Yes.

Senator GALLAGHER: I think in the 2019 campaign, which is a similar situation, you released additional savings that weren't in your budget, as part of your costings two days out from the election. Is that an approach you would take again, considering the budget is so close to when the election will be called?

Senator Birmingham: I would expect that we will overwhelmingly—well, we will reflect the position of the government at the time the budget is handed down, in the budget. Now, if there is an election campaign to follow, I'm sure we will both have things to say during that election campaign. It won't be the case that the government has nothing to say from budget day to election day—

Senator GALLAGHER: I'm not suggesting that.

Senator Birmingham: in terms of other policy proposals or the like. So, if there are other things we have to say, we will account for those through the campaign.

Senator GALLAGHER: You said you were going to be upfront about savings, but in 2019 you weren't upfront; you put the savings that you were going to seek in your election costings that were released a day or two days before polling day. They didn't feature in the budget.

Senator Birmingham: Senator—

Senator GALLAGHER: Well, not all of them did. The \$1½ billion efficiency dividend—

Senator BIRMINGHAM: There were savings in the budget. Insofar as there were additional commitments made during the campaign, it was then identified how they'd be paid for.

Senator GALLAGHER: Okay. It's sort of a commitment that, if there are savings, they'll be in the budget, but you reserve your right to have additional savings announced as part of the election campaign. You will be trying to reduce your spending further, but we'll have to wait till the budget for that and we'll have to wait to see whether you revise your fiscal plan at budget time, too. Summary?

Senator Birmingham: Not for the first time today, Senator, yes, you will have to wait for the budget to see what's in the budget.

CHAIR: Is that reasonable, Senator?

Senator GALLAGHER: Just trying to get a steer. I have some other questions, about the ACT housing debt, which I pursued here, I think, a couple of times. I just want to see if there's any further progress around that. The ACT's major housing debt to the Commonwealth is in the order of \$98.3 million. They're paying an interest rate at the moment of 4½ per cent on that. At the last estimates we discussed various requests from the ACT government to refinance this loan, and, Minister, you said you'd look into it and come back to the committee. I'm not sure I've heard back. In fact, I'm pretty definite about not having heard back. This was at the end of October. You said, 'I'll look into it and come back to you.' The short version is the ACT government has written, I think, six times to the Commonwealth, seeking to refinance its loan, and it has yet to get a response.

Mr White: After you asked that question at the last estimates, we talked to the ACT Treasury. The last of those six letters was, I think, 18 months ago; it might be a bit longer now. So I think 2020 was the last time there was a letter written—I think, by the Chief Minister. As I said last time, as a result of those we forgave or allowed an early repayment, I think, of a small amount of housing debt—only a few million dollars. There's about \$100 million remaining.

Senator GALLAGHER: So you've forgiven one of their other loans?

Mr White: I think there are a number of loans.

Senator GALLAGHER: There are, yes.

Mr White: We allowed early repayment, I think, of two of them. As I said, it's about \$4 million or \$5 million. It was a small amount, and the rest of the loans add up to just short of \$100 million. Our Treasurer agreed to allow that early repayment of those small amounts. I think he's made it quite clear to the ACT that he is not looking at the other \$100 million at the moment. I accept, though, that I don't think he's actually written back formally in response to those letters.

Senator GALLAGHER: How has he relayed that to the ACT government?

Mr White: I suspect our Treasurer and the ACT Chief Minister have had a number of conversations over time about this issue. Since we raised the state of play with the ACT Treasury after Senate estimates, we've seen nothing from the ACT Treasury or the Chief Minister.

Senator GALLAGHER: So there are six letters. None of them have been replied to, so we've got that on the record. Because the ACT government haven't pursued a seventh letter in the last 18 months, the ball's in their court, is it?

Mr White: But, as I said, we did actually forgive part of the debt. I think that, as a result of that transaction and the fact that we didn't do anything about the rest of the debt, yes, it is in their court to come back again if they wish to pursue it.

Senator GALLAGHER: Was it Treasury's advice to the Treasurer that those smaller loans be allowed to be paid out early? What did doing that cost the Commonwealth?

Mr White: I would have to go back and look. I will take that on notice about what exactly we suggested. Because it was only a few million dollars and because the term of those loans only had, I think, about 18 months to run, it did not cost the Commonwealth very much. I think those ones had about 12 per cent interest rates that were being paid out, and we let them out, as I said, about 18 months early. So I'd have to go back and check, but I think it was less than \$1 million.

Senator GALLAGHER: That is what it would have cost you in forgone interest payments?

Mr White: Yes, exactly right.

Senator GALLAGHER: If you could take that on notice, that would be useful.

Mr White: Yes.

Senator GALLAGHER: So was that your advice to the Treasurer? Sorry, I didn't catch that if you answered it.

Mr White: I'd have to go back and check—it was a while back—about exactly what we provided. So I can take that on notice along with the other question.

Senator GALLAGHER: Okay. So did the Treasurer say to you, 'Look, I'm not going to waive the \$100 million, but, if we can give them something, work up an alternative plan to toss them some crumbs'?

Mr White: No, I wouldn't quite characterise it like that. I think he looked at—

Senator GALLAGHER: It is compared to the Tasmanian deal.

Mr White: Yes, there was a different Tasmanian deal. I agree.

Senator GALLAGHER: Yes. That one was the price of a vote in the Senate.

Mr White: My recollection is that he basically agreed—I think along with the finance minister, who I think has the actual decision in making these arrangements to forgive debts—that they would forgive that small number of millions of dollars and that the other \$100 million or so would be left as it was.

Senator GALLAGHER: So you don't see the request to refinance that \$100 million loan as a matter under active consideration at the moment? That is your evidence, I think.

Mr White: No, and I made that clear to the ACT Treasury.

Senator GALLAGHER: To the head of the Treasury there?

Mr White: Not to the head of the Treasury.

Senator GALLAGHER: What kind of seniority?

Mr White: Basically a person at a level equivalent to mine.

Senator GALLAGHER: Okay. So you've said to them, 'That's all you're getting'?

Mr White: I said that we'd made the decision about the \$4 million. If they want to re prosecute the \$100 million, we think it's in their court. We're not actively considering it.

Senator GALLAGHER: Okay. Were you of the understanding that the position the ACT put was a commitment that, if the loan could be refinanced or waived, the ACT's commitment would be to reinvest the money gained through that arrangement into further housing programs, including social housing, in the ACT?

Mr White: Yes, there was a promise by the ACT government to do something like that. I wouldn't know the exact specifics, but it was a thing along those lines, yes.

Senator GALLAGHER: So did the Treasurer at any stage consider the value in entering into an agreement where, instead of just paying the Commonwealth back, the ACT would actually spend that money on improving social housing in the ACT? Do you know if he considered that?

Mr White: I don't know exactly, but I would assume he knew the contents of the letter which spelt out the what the ACT was offering.

Senator GALLAGHER: So, even though there's a housing crisis right across the country, the Commonwealth would still prefer that the ACT just keeps paying back its loan in the way that it was originally designed—what, 20, 40 years ago? How long ago? When was that line from?

Mr White: I don't know. It was quite a while ago. But, as we talked about at the last estimates, the interest rates on those loans were set when the loans were given, and reflected market rates at that time. So we're not making a profit on them, given we borrowed then.

Senator GALLAGHER: No, I'm not—

Mr White: And there is a cost to us forgiving those loans as well.

Senator GALLAGHER: What's the cost of that?

Mr White: We would forgo the interest that we would have otherwise received.

Senator GALLAGHER: For waiving those or allowing the refinancing?

Mr White: Yes. Exactly.

Senator GALLAGHER: What would that be on a \$100 million loan over—I don't know how long that one has to go but—

Mr White: I'm not about to have a guess. I don't have that number with me.

Senator GALLAGHER: In the context of the Commonwealth budget it wouldn't be a very large number, would it?

Mr White: I would suspect it would be a smallish number of millions. But, as I said, I don't have the number.

Senator GALLAGHER: Okay. Minister, has this crossed your desk at all? Have you considered this?

Senator Birmingham: I'm mindful of Mr White's observation insofar as any element of waiver may have occurred. It might have crossed my desk. I'm not actually remembering that. So I would have to double-check in that regard. Whilst Finance has the technical responsibility as it relates to debt waivers and so on, we would in matters like this refer to the advice and so on of the relevant portfolio department in terms of the handling of it. Obviously, those decisions have been made, as Mr White has outlined. If we were to waive that debt altogether, that would obviously continue to sit indefinitely there on our debt books. It's not like the Commonwealth is riding high with significant surplus positions at present.

Senator GALLAGHER: I understand that. But you have an offer here from a government to refinance, waive and enter into some discussion about how to manage this and a promise to reinvest it in improving social housing stock. I would have thought the Commonwealth would have an interest in that too.

Senator Birmingham: The issues as put by the ACT are obviously being considered. Through the work of NHFIC, we are supporting investment in housing stock right around the country. I forget whose question it was—I think it might have been one of Senator McKim's ideological rants earlier—where I didn't quite get in—in terms of the response I provided around the increasing rates of first home ownership that our policies are achieving too.

Senator GALLAGHER: Senator Lambie managed to get a \$157 million housing debt waived in Tasmania for her vote on a particular bill. Do I have to become an Independent in order to get the ACT's housing debt waived? Is that what has to happen?

Senator Birmingham: I would always welcome the opportunity to discuss with you the passage of legislation—

Senator GALLAGHER: Isn't that the problem here?

Senator Birmingham: I wasn't party to discussions with Senator Lambie or the Tasmanian government—

Senator GALLAGHER: But you know that's what happened?

Senator Birmingham: in relation to previous matters around Tasmania.

Senator GALLAGHER: But you know that's what happened. You were in the Senate. She voted with you—I think it was medevac or some aspect of medevac—you waived \$157 million worth of housing debt, yet the ACT government has engaged since that time to see if we could have theirs waived or refinanced and reinvested back into social housing. But I'm a Labor senator so that doesn't float with the government.

Senator Birmingham: No—

Senator GALLAGHER: It's exactly the truth.

Senator Birmingham: There are, I think, in terms of housing policy or housing challenges and the like, some fairly significant differences in terms of Tasmania and the ACT.

Senator GALLAGHER: Come on! It wasn't done on a policy analysis. Come on!

Senator Birmingham: I wasn't part of the deliberations or decision at the time—but I think that's fairly self-evident.

Senator GALLAGHER: Okay. So if you're an Independent you have a much better chance of getting your state's housing debt waived than if you're in the opposition. I think that's the answer. It's not policy based and it's not fair.

Senator Birmingham: The issues have been considered at different times in relation to the merits surrounding them and obviously the decision is made.

Senator GALLAGHER: Okay. So it's over to the ACT government to re-agitate on that front, Mr White, if it's to reopen that chestnut and bring it back to your desk?

Mr White: States can raise issues at any point with us.

Senator GALLAGHER: Because you don't have an active file. You consider it closed; it has been stamped 'closed'.

Mr White: Exactly. Yes. It's in their court.

Senator GALLAGHER: Do you have a 'closed' stamp that you—

Mr White: No.

Senator GALLAGHER: Okay. It's in the 'closed' file in the filing cabinet. I'm showing my age there. I have some questions about the final numbers for JobMaker—or as up to date as you have.

Ms Brown: As of 31 January we had 3,911 entities with payments disbursed in respect of 7,357 newly eligible employees.

Senator GALLAGHER: 'Newly eligible', did you say?

Ms Brown: Sorry. 'Newly hired' eligible employees. That is the total number for the program as at 31 January.

Senator GALLAGHER: My recollection is that that is from October 2020? Is that right?

Ms J Wilkinson: Correct.

Senator GALLAGHER: Okay. I think the last time we met there had been 5,278 employees. I think that was at last estimates. So, that 7,357 is a cumulative total of that figure.

Ms Brown: That's right.

Ms J Wilkinson: That's the number of new hires who have been supported through this program. That's right.

Senator GALLAGHER: From the beginning to 31 January.

Ms J Wilkinson: Yes. That's correct.

Senator GALLAGHER: So it has fallen well short, I think, of expectations. In the budget it said, 'This will support around 450,000 jobs for young people'. Has there been a review? Or have you reviewed this program? Or is it Education's job to do that?

Ms J Wilkinson: This is a program that we're responsible for. We certainly looked at it—I'm trying to remember; I think it was in the lead-up to budget last year. By that stage, it was clear that the take-up had been much less than we had expected. I think we've had discussions at estimates over time about the different reasons it was very much lower than expected. There were a range of different factors—including, for example, very early on, some of the very large employers said they didn't feel like they needed to participate in the program. There are lots of new hires in places like supermarkets, and the supermarkets decided they didn't want to participate.

We have also talked about the fact that at the same time there have been a range of other supports for employment—in particular, the apprenticeship programs. I would suggest that some of the demand that could have gone to this program has probably gone into apprenticeships instead. We had discussions again in these estimates around the fact that the program was very clearly designed to make sure that it only supported additional employees and it wasn't used to churn employees by employers. We certainly received some feedback from small businesses. For example, they felt it placed some onerous requirements upon them to work out how to engage with the program. We talked before about integrity concerns around any of these sorts of programs and that it's hard getting the balance right. A range of those things and, of course, the fact that the economy has grown very much more strongly than we expected meant that the take-up has been much less, in the sense that the need for a subsidy in order to bring on new hires has been much, much less than—

Senator GALLAGHER: Less than you'd thought. I think it was costed at \$4 billion.

Ms J Wilkinson: Last budget, it was revised down—

Ms Brown: To \$93 million.

Senator GALLAGHER: Are you revising it down any further?

Ms Brown: We'll certainly be looking at the estimate as we feed into this year's budget.

Senator GALLAGHER: It's lower than you thought, again?

Ms J Wilkinson: I think it's reasonable to say that, again—

Senator GALLAGHER: So it will be revised down further. It's certainly not being revised up, is it?

Ms J Wilkinson: There has been lower take-up, but one of the things we've observed through the program is that some employees who came on and we expected them to stay for the full four quarters that they could get support for, have moved onto other jobs. The amount of turnover in the labour market has also meant that we're not getting the same cumulative impact of new hires on the cost of the program.

Senator Birmingham: I just observe, in terms of the program not meeting its projections and forecasts, this is an area the government would say is a very good outcome. We're happy not to have to spend the money and still see youth unemployment not only not having worsened from a recession but actually having improved straight off the back of a recession.

Senator GALLAGHER: We'll see in the budget what you reconcile at for the final—

Senator Birmingham: There'll be an updated forecast—

Senator GALLAGHER: Yes, for the final year of the program.

CHAIR: Senator Chisholm?

Senator CHISHOLM: I have some questions about small business support specifically focused on the January proposal by the New South Wales state government. It was reported that they asked the Morrison government to help fund a small business support package. Was Treasury made aware of this request?

Ms J Wilkinson: The government shared fifty-fifty in the support packages that were rolled out by state governments through the delta wave last year, through that first lockdown. Are you talking about a more recent request?

Senator CHISHOLM: Yes. In January this year it was reported that the New South Wales government had asked the Morrison government to help fund more small business support.

Ms J Wilkinson: I think I was aware of that.

Senator CHISHOLM: Were you asked to do any work on what that proposal would look like?

Ms J Wilkinson: No, I don't recall being asked to do any specific work on it.

Senator CHISHOLM: So there was never a request from, I presume, the minister's office to say: 'Can you have a look at what this proposal would look like?'

Ms J Wilkinson: I don't recall so, no.

Senator CHISHOLM: You've got no idea what the Commonwealth share of that New South Wales proposal would be?

Ms J Wilkinson: No, I don't; sorry, Senator.

Senator CHISHOLM: On 26 January, it was reported that the federal government had directly rejected a request by the New South Wales Premier to help with a revised assistance scheme. On 31 January, Matt Keane wrote to the federal Treasurer Josh Frydenberg calling for more support. Did Treasury provide any advice on the request made by the New South Wales government before this?

Ms J Wilkinson: Before the letters were received?

Senator CHISHOLM: Yes.

Ms J Wilkinson: Treasury has, of course, provided advice to the Treasurer through the last six months. There have been a number of different discussions around assistance, whether for individuals or for households or for businesses. But, no, there wasn't a specific discussion around this particular request.

Senator CHISHOLM: So the letter from the New South Wales Treasurer never made it to the department.

Ms J Wilkinson: Can I just check?

Mr White: No, I think the letter did make it to the department.

Senator CHISHOLM: But it wasn't given to the department, saying, 'Can you guys have a look at this and how much we would have to contribute,' or something along those lines.

Mr White: No, that's right. Letters that come in that relate to, in that case, my division get sent down to us as a matter of course. Sometimes they come with instructions; sometimes they just turn up.

Senator CHISHOLM: The federal government rejected the request. Would that be accurate, Minister?

Senator Birmingham: Yes. The government did decline that request from New South Wales. We have provided enormous support, more than \$300 billion—and more than \$360 billion to the latest estimate—across the economy, the vast bulk of that in terms of economic support that can then underpin the health responses across the economy. We have done far more in that space in our total COVID support than states and territories. As Ms Wilkinson said, we did targeted packages on a fifty-fifty basis with different states and territories, including New South Wales, during the lockdowns that occurred last year and in response to those. But it was our view that, in relation to proposals at this time, if different states felt there were targeted areas of assistance that they should provide in their states, that was to be welcomed and they might do that and provide some support, given the scale that we have provided and are continuing to provide through various supports for the economy, be it the type of loss carry-back or investment incentive arrangements I spoke about earlier or the ongoing flow-through of support to the construction sector or the support for apprenticeship programs and people in training or a range of other measures that are providing assistance to states and territories, and we didn't see a need for the Commonwealth to partner on that particular proposal.

Senator CHISHOLM: But the decision to reject the proposal wasn't based on specific advice in relation to the proposal from Treasury. Is that correct, Minister?

Senator Birmingham: The Treasurer has—and the PM and I are privy to—discussions with Dr Kennedy from time to time about the degree of support or stimulus or assistance that he believes may be necessary across the economy, and we have those opinions and that analysis, including the analysis provided by the Reserve Bank and other agencies, to inform our opinions on these sorts of matters. But, since the start of the pandemic, we have delivered more than \$63 billion in direct economic and health support to New South Wales activity alone, including jointly funding a range of measures with the New South Wales government, and it's crucial not just in the areas of business and economic support that I spoke about before. But it's crucial to remember that we have also been paying, and still are, the \$750 pandemic leave disaster payment to people in New South Wales and around the country. That was part of a discussion had by national cabinet quite some time ago, where it was agreed the Commonwealth would provide direct income support and states would provide more targeted business support. Yes, for the lockdown periods, we went fifty-fifty with the states on that, but we don't see the need for us to do that in the current environment.

Senator CHISHOLM: On 30 January this year, the New South Wales Treasurer said, when announcing their package:

... I was hoping to make this announcement today standing beside the Prime Minister and Treasurer Frydenberg, but they're not to be found.

In terms of the decision by the federal government not to provide support to the New South Wales state government, it wouldn't have mattered what their proposal was; a blanket decision was made that we're no longer going to provide support to state governments along these lines, no matter what the persuasion or what the proposal was.

Senator Birmingham: To paraphrase former Prime Minister Paul Keating, never stand between a state premier or a state treasurer and a bucket of money. There's never a shortage of desire from the states and territories for the Commonwealth to pay for things. The Commonwealth budget, as we were discussing before, is in significant deficit. Indeed, we've recorded the largest deficits in the nation's peace-time history to get us through the global COVID-19 pandemic, so there can be no questioning the scale of economic response that the Commonwealth government has applied to support health, business and household outcomes to get through the pandemic. We have always weighed carefully the types of responses necessary at different points in time. Our judgement in relation to, essentially, the current point in time and the request that came from New South Wales was we still had significant support flowing from the Commonwealth for businesses—for small businesses, as well, through things like our SME recovery loan scheme—through other areas of economic support and stimulus across the economy and for households. We've seen more than \$221 million distributed in New South Wales alone through the pandemic leave disaster payment. We're also mindful, as I said, of the fact that although omicron was causing a pressurised situation for certain businesses, we need also to be mindful of the extent to which we continue to stimulate aspects of the economy and to balance those considerations too. If there were really targeted areas for support, we welcome the fact that New South Wales or any other state government steps up to the plate, given the scale of support that we've provided relative to what they've done to date.

Senator CHISHOLM: On other states and territories: are you aware if any other states or territories have approached the federal government in a similar way that the New South Wales government have this year?

Senator Birmingham: I don't think there's been anything like what New South Wales necessarily proposed. Have other states and territories asked for Commonwealth funding or support in different ways? Does the sun rise each morning!

CHAIR: Thank you, Ms Wilkinson and your officers, for joining us today.

**Department of the Treasury
Australian Taxation Office
Australian Charities and Not-for-profits Commission**

[14:57]

CHAIR: We'll ask the Revenue Group to come forward to the table. I'm waiting for our next witnesses from Treasury to join us. While I'm waiting, Commissioner Jordan, do you have an opening statement?

Mr Jordan: I do not have an opening statement. I want to comment that I had been very much looking forward to being there in person, but, yet again, interstate people were suggested not to come and to do it virtually. Maybe one day this year at least we can all be there in person.

CHAIR: Absolutely.

Mr Jordan: I want to say too that, obviously, we have had a very productive period at the ATO since the last estimates. In December we published our seventh annual report on corporate tax transparency, which demonstrated quite an encouraging trend towards improved voluntary compliance among large corporates. We had another record tax time in 2020-21 and facilitated more than \$20 billion in refunds to millions of taxpayers, and we continue to oversee measures and provide assistance to those who are still experiencing some pressure or hardship as the pandemic enters its third year. Those are just a couple of little snapshots, and I'm happy to go straight to questions from the committee.

CHAIR: Excellent, Commissioner Jordan. Before we introduce the other witnesses, can I pay my compliments to your team. I've actually gotten feedback from small businesses in my patch who have been dealing with the ATO, and they greatly appreciate the practical assistance that's been provided. If I could also, wearing my chair-of-the-Economics-Legislation-Committee hat, compliment the members of your staff who have been working on the collective investments corporation, the new vehicle that's been established, which is a very complicated area. I think, again, an outstanding job was done in that regard. Thank you very much.

Mr Jordan: Thank you, Senator. You wouldn't want to stand on rooftops and shout that or something about our—

CHAIR: I thought I just did, Commissioner Jordan, but happy to do so again! Feel free to send a megaphone through to my suite; I'll use it! Commissioner Johns, do you have any opening statement to make?

Dr Johns: On this occasion, no, thank you.

CHAIR: Thank you very much. We'll go to questions. Senator McAllister.

Senator McALLISTER: I asked the secretary about this, Ms Mrakovic, and he referred me to you. Newspapers on Monday carried a story saying that Treasury analysis suggested that women have been the big beneficiaries of our tax cuts. I wanted to understand the origins of that analysis. When was that requested and what was it that Treasury actually produced?

Ms Mrakovic: I'm aware of the newspaper articles. The only gender analysis that I'm aware of that Treasury has done has been in respect of the low- and middle-income tax offset, and that information that was provided in the Women's Budget Statement last year. We have not provided any gender analysis of the tax system or the entirety of the personal income tax plan or anything like that. We have provided some cameos that illustrate hypothetically the interactions of the tax system with the benefits of the childcare subsidy. Those were not gender specific. You might be aware of the kind of cameo analysis that we do, which essentially goes to trying to illustrate, for taxpayers generally, the interaction of a hypothetical taxpayer and how, on a certain wage, the interaction of the personal tax rates and, as I said, welfare payments might impact on them. So we did provide some cameos.

Senator McALLISTER: When the journalist described this as unpublished Treasury analysis, your evidence is that there is in fact no unpublished gender analysis overall on the tax system, subsequent to what was provided back in the Women's Budget Statement.

Ms Mrakovic: I think that the news reports referred to both Treasury and ATO analysis—and I might also defer to my ATO colleagues—but the analysis that we provided was, as I mentioned, the LMITO analysis in last year's budget statement and the cameos that I've referenced.

Senator McALLISTER: I might ask colleagues at the ATO. Commissioner, are you aware of any unpublished analysis in relation to the tax system and women?

Dr Johns: I am not, but I'll pass over to second commissioner Kirsten Fish.

Ms Fish: It's not unpublished analysis as such, but the ATO obviously provides a considerable amount of anonymised tax and super data generally to stakeholders. The ATO has regularly reported and provided the Treasurer's office with data on LMITO and personal tax cuts. That regular reporting was on a fortnightly basis. During January, the Treasurer's office did ask for more detail on the data we were already providing. In particular, the Treasurer's office requested that the LMITO and personal tax cut data be split by gender and age cohort, and that was provided to the Treasurer's office in February.

Senator McALLISTER: So, when the Treasurer tweeted that 'young women have been big beneficiaries of our tax cuts', what was he referring to—relative to whom, and over what period?

Senator Birmingham: In terms of a statement like that, I think he's referring to the facts about the reduction in tax rates that our government has delivered.

Senator McALLISTER: So if lots of women are, for example, on low incomes and there is a low- and middle-income tax offset, women will benefit from it as a consequence of being on low incomes—is that what you're saying?

Senator Birmingham: From different components of stage 1 and stage 2 of the tax reforms.

Senator McALLISTER: The Treasurer said that, on average, \$3,130 less tax is being paid by more than five million women. Using that same measure, how many men would be paying less tax?

Senator Birmingham: Unless somebody has that figure to hand, I'll have to take it on notice.

Senator McALLISTER: What's the average amount less tax that men are paying?

Senator Birmingham: Again, unless somebody at the table has that figure to hand, I'll have to take it on notice.

Senator GALLAGHER: Did you publish the data that the Treasurer was relying on for these claims?

Senator Birmingham: It sounds like the Treasurer has drawn upon information from the agencies across his portfolio—

Senator McALLISTER: It certainly does!

Senator Birmingham: to be able to identify what has been delivered. The simple reality is that, if you lower the tax rates, people are going to be paying less tax.

Senator McALLISTER: Yes. Occasionally, though, journalists get confused, don't they? But, when the newspapers published information suggesting that there was unpublished Treasury analysis, where did they get that impression? Do you think the Treasurer told them that the work done in his office was Treasury analysis? Do you think he accurately represented it?

Senator Birmingham: I think you've just heard from both Treasury and ATO that, in different ways, they do provide analysis and information to the Treasurer.

Senator McALLISTER: Cameos, which provide a hypothetical exploration of an individual. These cameos wouldn't produce any of these numbers, would they, Ms Mrakovcic? Your cameo doesn't demonstrate that, on average, \$3,130 less tax is being paid by more than five million women. That's not what a cameo does, is it?

Ms Mrakovcic: Correct.

Senator Birmingham: No, but I don't think we're talking purely about cameos there, from what I heard Ms Fish say in terms of the ATO providing overall—

Senator McALLISTER: No, but the article refers to unpublished Treasury analysis, and no such analysis exists.

Senator Birmingham: From the ATO, you have the breadth of anonymised tax data that they indicate they publish and provide to stakeholders.

Senator McALLISTER: I'll direct the questions to the ATO then. Minister, your evidence seems to be that this is in fact ATO analysis, not Treasury analysis, that was relied upon when speaking to the journalist.

Senator Birmingham: What I've said very clearly is that the Treasurer receives analysis data and information from all of the agencies across his portfolio, including Treasury and the ATO.

Senator McALLISTER: The Treasurer stated that women aged 24 years and under paid 20 per cent less tax under the coalition compared to under Labor. Can the ATO explain what the decline in the tax rate is, by gender, for each age cohort?

Ms Fish: I would have to take that question on notice. I don't have the data with me today, but I can take that question on notice.

Senator McALLISTER: What's the average reduction in tax by gender for each age cohort?

Ms Fish: Again, I don't have that information in front of me. I don't have all of the data with me today, so I can take that on notice as well. Any questions that you have that go to the specifics of the data provided to the Treasurer's office and what it shows, I can take on notice in that space.

Senator Birmingham: The good news is we're asking questions about a reduction in tax.

Senator McALLISTER: So, on Monday, the Treasurer provides information to a newspaper in relation to tax cuts, but on Wednesday the agency which allegedly provided the data that supported those public remarks can't answer any questions about it at all. Is that the situation?

Ms Fish: What I can say is that I have had my team confirm that the data that we provided to the Treasurer's office showed estimates of the total amount and average amount of tax cuts in LMITO by cohort and also the proportion of the taxable income that that represents. The data that the ATO provided didn't include childcare subsidies or things that we don't hold data on. The data does support the statements that were attributed to the Treasurer in the media on Monday, which relate to the three years of 2018-19 through to 2020-21. And, in particular, the statements attributed to the Treasurer in relation to female workers are supported by the data provided.

Senator GALLAGHER: Let's get the data, Chair. We'd like this data—

Senator McALLISTER: Tabled.

CHAIR: It's been taken on notice, Ms Fish, in relation to the data? Correct?

Ms Fish: Yes.

Senator GALLAGHER: With respect, Chair—and I don't know if the tax commissioner has a view here—there is data that has appeared in a newspaper article making claims. We've now had the officer say, 'Yes, those claims are supported.' I can't see any reason why the data that both the minister and now the officer are relying on cannot be provided to this committee now. It is available. You're getting contact from your team. Why can't it be provided now?

Senator Birmingham: Data can be presented in a range of ways in terms of how much has been provided and what else accompanied it when briefings were provided to the Treasurer's office or the like. You've had specific requests for particular information. In order to be able to tabulate that information in a way that responds to the request, it's not unreasonable that Ms Fish has taken that on notice.

Senator GALLAGHER: Seriously, it looks to me like you are making a decision to delay providing this to the committee, when it is readily available. We heard that you were making it available to the Treasurer every fortnight. I don't want the covering briefs, I don't want anything else. I think it's reasonable we have access to the data.

Mr Jordan: If I could just comment, I would like the opportunity to look at the way that was presented to the Treasurer's office to see if we can provide it. If so, we could provide it fairly quickly. I just need to take on notice how that was presented and what categorisation it had, because a request for such documents hasn't really arisen.

Senator GALLAGHER: You don't see documents that go to the Treasurer's office?

Mr Jordan: Not always, no.

Senator GALLAGHER: You haven't seen this data, Commissioner?

Mr Jordan: No, I haven't.

Senator GALLAGHER: Okay, but I presume you would have read the article in the paper.

Mr Jordan: Yes, I did.

Senator GALLAGHER: Yes, because it attributed it to you. We sit till 11 o'clock tonight, Commissioner—

Mr Jordan: And I did make inquiries around that. I was on leave last week.

Senator GALLAGHER: Fair enough. We do sit until 11 o'clock tonight. My concern is—and this is an issue around timing—we take things on notice, which we always agree with. Then, between a month and two months, and sometimes, if you're PM&C, a year later, you might get an answer. Often, taking on notice is used as a delaying tactic for providing information and allowing transparency. I'll put that on the record. I'm not saying that the tax office exercises that. I'm just saying that that is what it looks like to me when that information is clearly available.

CHAIR: But, in this particular case, Commissioner Jordan has given an explanation as to the process he would like to go through, and presumably, Commissioner Jordan, you can undertake that process as soon as you reasonably can. Is that correct?

Mr Jordan: Yes. If possible, we'll do all we can to provide information, if necessary, by tonight.

Senator McALLISTER: I'd like to ask a couple of methodological questions of the officer who was involved in preparing the data. You indicated that it was in relation to the LMITO and the personal income tax cut—is that correct?

Ms Fish: Yes, that's correct.

Senator McALLISTER: And it's for all age cohorts?

Ms Fish: Yes, that's what I understand.

Senator McALLISTER: And then it's broken down by gender?

Ms Fish: Yes.

Senator McALLISTER: Is it based on actuals—by which I mean the actual tax paid by individuals interacting with the tax system?

Ms Fish: On the actual methodology, I would have to take questions on notice. I've got a team that works for me that pulled the data together, but I would have to check in with them as to exactly the methodology that they used—

Senator McALLISTER: But it's not a model; it's about the actual exchange of moneys between individuals and the tax office?

Ms Fish: It will be based on data that we have in the system in operation, yes, but there will likely have been some assumptions made in there as well. I cannot give testimony as to what assumptions were made in preparing the data. It's based on lodged returns and the data we have.

Senator McALLISTER: So if, for example, a large cohort of women had their economic circumstances change—for example, many of them moved from one income bracket to another—that would show up in your data, wouldn't it?

Ms Fish: I assume that would be the case, because we would be able to see the numbers in the population from year to year.

Senator McALLISTER: Yes. So, if a lot of women lost hours, or, indeed, moved to zero hours, during shutdowns and lockdowns in the pandemic, that would show up in your data, wouldn't it? Women would be earning less.

Ms Fish: The data, I assume, would show the average earnings—or the earnings of women who were lodging returns—and it's aggregated data, so the aggregate population in each income tax bracket, yes.

Senator McALLISTER: So it's by income tax bracket and age and gender?

Ms Fish: That is how it will have been calculated. The primary data provided in February was by age and gender, but the calculation will have incorporated income tax rates, which would have taken into account tax brackets.

Senator McALLISTER: So the average tax paid and the average income earned would incorporate any changes in the labour market in the period in question, and women's position in the labour market?

Ms Fish: Any questions as to methodology I really would need my revenue analysis person to answer accurately for you, I'm sorry. It's not my area of expertise; I wasn't involved in pulling the data together. But any questions that you do have about methodology I can have my team answer on notice.

Senator McALLISTER: I understand that you and Mr Jordan are going to have a look at the material that was provided to the Treasurer's office, to assess whether it can be provided to the committee today. Can I also ask formally that, in doing so, you consider whether you can provide the assumptions that were used in bringing the data together and any other material that describes the methodology that was used to bring this data together.

Mr Jordan: We undertake to do that for the committee.

Senator McALLISTER: Thanks, Chair.

Senator Birmingham: And, Chair, I do think it's worth noting: there are no ATO questions on notice outstanding, so the ATO does have a good record in terms of response to questions—

Senator GALLAGHER: Yes, that's an excellent record.

Senator Birmingham: And obviously Mr Jordan has given a commitment to try to get what information he can.

CHAIR: So, Commissioner Jordan, you're getting many compliments during the course of this appearance, both from the chair and in relation to your record on questions on notice.

Mr Jordan: It's still early in the session, Chair.

Senator PATRICK: And I haven't had the call yet.

CHAIR: Senator Patrick's going to ask some questions after me, Commissioner Jordan, so I just put you on notice to brace yourself. There are two areas I want to cover. The first is in relation to the ATO's anti-avoidance work. Could you give us an update on the progress of that work? In particular, could you provide us with an estimate of the revenue that would have been forgone but has actually been clawed back through the work of that group?

Mr Jordan: Yes, Chair. I'll pass to Jeremy Hirschhorn. We have been very pleased with the results of the Tax Avoidance Taskforce that the government has done with us over a number of years. We've exceeded the predicted revenue for that. But a fundamental aspect of this is that not only are we now agreeing on the past with the large corporates in relation to transfer mispricing and whatever else but we will only come to some settlement or arrangement where we lock in the future treatment. That is a really big difference from the past. We used to do an audit, go to court, settle and whatever. Three years later you'd come back and do it all over again. It's been a very strong feature of the way Mr Hirschhorn has run this task force. It is very important to lock in the future so that a dollar in a tax return is very much the best dollar we can collect.

CHAIR: Excellent.

Mr Jordan: I'll pass over to Mr Hirschhorn.

Mr Hirschhorn: Thank you, Commissioner, and thank you, Chair. Focusing on our work at the Tax Avoidance Taskforce, which is the largest public groups and private companies, I would like to report that the state of large corporate tax is very healthy in Australia. We currently estimate that we collect 92 per cent of the full tax payable at lodgement and 96 per cent after compliance activity, which is world-leading in terms of compliance at the large corporate end. That has been enabled by the Tax Avoidance Taskforce funding and also a series of very important laws which have been implemented in Australia, which are world class. We have the

most modern anti-transfer-mispricing laws and two other very important laws: the multinational anti-avoidance law and the diverted profits tax. I know there has been a lot of focus on those. There's been a lot of focus on the rise of ecommerce and its taxation. I am very happy to report—I'm not adding anything which is not already in the public domain from the companies themselves—that pretty much every large brand-name multinational that used to promote itself here but bill from overseas is now billing from Australia, so the revenue is hitting Australian tax returns. We have collected \$1.25 billion in tax from a range of ecommerce multinationals and, as the commissioner said, locked in future tax performance.

I have just a couple of other comments. On diverted profits tax, we have issued some diverted profits tax assessments. One is being disputed and will shortly hit the public domain. That is a very important provision to deal with particular sorts of multinational tax avoidance.

To the commissioner's point about locking in the future, I will just talk about one area that's been around: the pricing or mispricing of related-party debt. That is where the Australian arm of a multinational borrows from its offshore parent. Our estimate is that we have denied—well, it's not an estimate. We have denied \$14 billion of interest deductions that companies claim, and our estimate is that, over the next decade, companies will not claim \$26 billion of interest deductions that they would otherwise have claimed.

CHAIR: Can you just give those figures again, because I think they're extraordinarily significant. The first figure was past claims for interest expense which have been denied, and the second figure was an estimate with respect to the future. Can you just set out those figures again, please?

Mr Hirschhorn: Of course, Chair. In terms of interest deductions which we have denied, it is \$14 billion since the establishment of the task force. In terms of interest deductions which companies have changed their position on and so will never claim, our estimate is that that's \$26 billion over the next 10 years.

CHAIR: Is it correct to observe that that dovetails with Commissioner Jordan's point about the way you're looking at these issues? It's not just looking at past claims; it's also looking at the future, to make sure there's an agreed pathway forward so you don't have to re-prosecute or re-argue the same issue at medium intervals?

Mr Hirschhorn: Absolutely. It gets us off this merry-go-round of auditing the same company on the same issue every four years. This is a way of locking in future compliance. And, as the commissioner said, a dollar in a tax return is the best dollar for the tax system as far as all are concerned. I would also say that we are moving perhaps to a path that can give the community confidence. The task force funding allows us to deal one-on-one every year, to do what we call a 'justified trust review' of every one of Australia's 100 largest companies. Those 100 companies pay about one-third of all corporate tax in Australia. That's not insignificant. And it allows us to review the next 1,000 public companies over a four-year cycle.

What I am very happy to report to this committee is that the vast bulk of Australia's largest companies—particularly Australian owned companies but also some multinationals—have improved their tax governance and tax compliance and increasingly are achieving what we describe as a high assurance rating, which we provide to the company through [inaudible] report on their performance, like a due diligence report. Any senator can find it on our website; we report on those programs. We're very transparent around those programs. But also, if you are a shareholder in a company, you can ask your company. Many companies are actually now publishing their assurance rating from the tax office and really quite proudly representing to the community and their shareholders that they are contributing to the tax system.

I could speak on this for hours, but I just want to wrap up with that first comment, which is that the committee should have confidence that, through the work of the tax avoidance task force, the performance of large corporates in Australia is extraordinarily high on a global scale—probably world-leading—and improving. So it's on an improving trajectory. Thank you.

CHAIR: Excellent. Commissioner Jordan, I want to ask about this new service that was established on 1 July 2021, the new investment engagement service. In a previous life I was part of a team that visited different jurisdictions and looked at potential investments—whether or not to invest in those jurisdictions—and I can tell you the notion of a new investment engagement service being able to actually engage with the revenue authority in a jurisdiction if you're looking to make an investment seems a profoundly positive initiative. Can you tell us what the experience has been since it was announced? Is it up and running now?

Mr Jordan: I'll make some preliminary comments then I'll pass to Mr Hirschhorn. We very much try to have a very transparent open relationship with both new investors into Australia—and we encourage advisers here to say, 'If you want a risk-free investment'—and a lot of new foreign investors don't want to co-invest. They actually don't. So to have the ATO effectively sign off on the tax treatment of new investments is quite a lot for foreign [inaudible] can eliminate what sometimes can be a significant risk. We also encourage large Australian companies

that do big mergers or divestments or whatever to come with us—'You trust us'—in a confidential way—we realise it's extremely market sensitive. But we will give assurance as to the shareholder tax treatment so that when they do release their proposals they can say, 'This is the tax treatment that will happen.' Any time you can de-risk M&A activities or new investments into Australia, it is hugely important to encourage that investment, to encourage M&A activities, if that's of benefit to shareholders and the economy. But—

CHAIR: Commissioner—

Mr Jordan: I was going to pass over to Jeremy to give you more detail.

CHAIR: Alright. I have a follow-up question, but could we hear from Jeremy.

Mr Hirschhorn: Thanks, Chair. Yes, the New Investment Engagement Service is in force. To date, nine investments have been brought to it for the choice of investors. Three engagements have been finished to date. There was \$26 billion of deals value that was facilitated through this service. Again, it's very much tailored around the individual transaction, what the investor is looking for and their time frames, and I can report that on two of those transactions that were extremely time critical the engagement was completed within 10 days. So we bring some of our best people to bear on the problems to help facilitate investment into Australia.

CHAIR: Can I say that time criticality is a pertinent point. Overseas investors might be going through very aggressive due diligence timetables, and being able to get that quick turnaround in terms of comfort could enable them to participate in an investment process when otherwise they wouldn't be able to because of the risk. It could also mean that they can bid more for an investment in this country—and that's to the benefit of the whole economy—than they might otherwise be able to, because they have that tax comfort. Isn't that correct?

Mr Hirschhorn: Yes. So, Chair, the worst thing that could happen is that a bidder paid less for an Australian asset because of a fear around Australian tax risk which was not warranted.

CHAIR: Exactly.

Mr Hirschhorn: We can provide tax certainty that allows people to invest and bid with confidence. What I would say is that we're getting referrals through the Global Business and Talent Attraction Taskforce, we've had a referral through Austrade, and we have also had referrals through the more traditional intermediary channels of the advisory firms. So it's a very promising start for this program.

CHAIR: Excellent. Good to hear. With that, I will pass to Senator Patrick.

Senator PATRICK: Good afternoon to the tax office. I want to go to either Commissioner Hirschhorn or Ms Fish. Is Ms Fish here?

Ms Fish: Yes, I'm here.

Senator PATRICK: Fantastic! Do you recall the conversation we had at estimates last year in relation to tax determination 2019/D11? I asked you about the status of that. You said you were 'actively working on finalising that'. I put the question, 'Before next estimates?' and you said, 'We will have a resolution before next estimates, yes.' I said: 'I'll hold you to that. Thank you very much.' I'm just wondering what the status of that might be.

Ms Fish: We have progressed this matter. Since last Senate estimates we've received further legal advice, which we are considering. Based on that legal advice and also submissions on the draft, we intend to revise the draft, and we have updated our Advice under Development program to reflect this. But, based on the feedback to date, including the more recent legal advice, we intend to revise the draft. We stand firmly by the position that I stated last time, which is that a taxpayer does not get both cost base and a deduction for the same outgoing—that hasn't changed—but the revision may require us to go back and do more targeted consultation before it's released publicly. All of that information has been updated on our Advice under Development program on our website, and we're targeting a midyear release publicly.

Senator PATRICK: My problem is that this has been going on for some considerable period of time—since 2019. All of this is within your control. We have a situation where taxpayers are jumped on relatively quickly if they're not paying the right amount of tax. And I don't mind that as long as it's done fairly but, nonetheless, it's done quickly. Here we've got a large entity, and my understanding is that this flowed from Lendlease double-dipping. They're a multibillion dollar company—in fact, if I look at your tax transparency data, they're a company that has had an income of something like \$50 billion over seven tax transparency years, and have paid no tax in that time frame. There's an issue with a question over the manner in which they've conducted their business, and this stretches on for four years.

This is completely within the control of the tax office; is it a case that you don't have the right resources? I understand you need to ground this properly in law, but I'm struggling to work out how it is you can't get the right

lawyers in the room, get the right accountants in the room, come to the right conclusion and issue the determination.

Mr Hirschhorn: Before Ms Fish answers about the timing on the ruling process—and, of course, I cannot comment on individual taxpayer compliance matters —

Senator PATRICK: I understand that; but I can.

Mr Hirschhorn: Lendlease works in the public domain. My understanding is that Lendlease has disclosed that it is in some form of dispute with us on this issue, and perhaps I'll reiterate previous testimony to this committee, which is that it should not be assumed that the audit and the draft ruling are co-dependent. The audit of the taxpayer will progress on its pace; the timing of a determination is independent. I want to make that comment, and then pass back to Ms Fish.

Senator PATRICK: I understand.

Ms Fish: I would reiterate that, as Second Commissioner Hirschhorn has just said, our compliance programs and our public advice and guidance programs are independent. Our public advice and guidance programs provide advice and guidance to the public so they can comply with their obligations. When we publish a position in draft, that represents our considered, although not finalised, view. While that is in the public domain, and not withdrawn, the public can see that that's our continued and considered, but not finalised, view. During the course of consideration of this particular issue, we have had to consider a number of elements and how they interact with other parts of the tax law, as well as other public advice and guidance products.

We have also received comments on the draft in feedback that, while this is a public ruling of general application, the circumstances in which it can apply do not arise very often. So it is, I guess, not a ruling of broad application in that sense, that it needs to be applied by the public in many circumstances. Nonetheless, the advice is out there in draft and, as I've said, we stand by the position that taxpayers can't claim twice for the same outgoing.

Senator PATRICK: I absolutely support you in that, just not with any solid legal base, but—

CHAIR: It doesn't stop you, Senator.

Senator PATRICK: on principle, you shouldn't double dip!

Going back to comments made about the audit: I appreciate that you're able to deal with individual taxpayers in the absence of the public determination. Does that mean that you can apply the draft to their audit? Where do you stand in circumstances where you haven't got a final determination, you're auditing a company and you identify the problem that's the subject of the determination? Where does that leave you, legally? Does that mean it's an individual test case, or do you apply your draft determination and leave yourself potentially open to litigation? How does that work?

Mr Hirschhorn: In any audit, we come to our view of how the tax law applies, which almost by definition is different from the way the taxpayer thinks the tax law applies to them. We come to a view, and we prosecute our audit and then, potentially, litigation with that view. If we have a public view, we will conduct our audit consistent with our public view. If we do not have a public view—and that sometimes happens because you can't have a ruling on every possible issue in the tax system—of course we'll have an internal view which we prosecute through the audit and, potentially, litigation. I think Ms Fish has said that, where we've got a draft ruling out, that remains our considered view. So any audit which interacts with that issue will continue to be conducted on that view of the law, whether or not it's draft or final.

CHAIR: Senator Patrick, are we getting to the end?

Senator PATRICK: I've got a few more. Can I just do one on tax transparency. I want to correct the record. I made a guess at what Lendlease has paid, so I just want to be accurate. Based on your tax transparency data, it's \$53 billion, \$446 million and \$82,000, and the company has paid no tax. When I look at the tax transparency data—and I look forward to it coming out every November or December or whenever it is—I go through the process of adding up the revenues of all the companies that have paid no tax. Sadly, this year we've got a situation where 150 companies have revenues totalling \$970 billion, almost a trillion dollars, and not a cent of tax paid. I used to watch this data come out and think, 'This is good; it'll cause people to maybe do the right thing.' It's a trillion dollars worth of revenue, with no tax paid. A barista pays more tax than Lendlease—or ExxonMobil, with \$71 billion in revenue and no tax paid. How do we address this? It's almost unbelievable.

Mr Hirschhorn: Can I maybe make a few comments about that. The first is that sometimes that transparency data includes some companies in a group but not all companies in a group, and other companies are paying tax. It also does not include the tax which is paid as a result of ATO enforcement action. So some of these groups will

be paying tax as a result of ATO enforcement action. Some groups, and the oil and gas industry is an example of this, have spent an extraordinary amount of money, and they have to effectively recoup their startup costs before they start moving into tax profit. Referring back to a line of questioning from the chair and bringing those together, we are anticipating that several large participants in the gas industry will start paying income tax this year, and that is due to a combination of three things. One is that they've been in operation for a while and so are recouping their startup costs; the second is that there have been some good gas prices; and the third, which is also important, is that we have taken very firm action to make sure that they do not participate in inappropriate, aggressive tax structures.

What I would say as well is that there are situations where companies have historically made extraordinarily large losses. It takes a long time for them to recoup those losses, and, during that period of recoupment, they come up as zero tax payable. That limited data that we produce does not show the recoupment of losses. What we also look forward to in the next couple of years is many of those companies being tax payable.

Senator PATRICK: You don't want to get me started on oil and gas companies, I can assure you of that.

CHAIR: No, we don't, Senator Patrick!

Senator PATRICK: Let's look at a company like the Ford Motor Company: \$20.5 billion in revenue, zero tax paid. I just can't comprehend a car company earning that sort of revenue. I ran a small business, and one of the fundamental things you try to do as a business is make money—make some profit. I put it to you: if you've got a company like Ford and they earn \$20 billion of revenue over seven years, and don't make a profit, you're being fleeced. Business exists to make a profit, to return something to the shareholders. There's something really going wrong here with a lot of these companies just fleecing the Australian taxpayer.

We have the Australian taxpayers doing their bit to ensure that our infrastructure, our education and our health systems are operating properly. We have all these other companies that come here and enjoy the benefits of our system, and don't contribute at all!

CHAIR: Senator Patrick, do you have a particular question, or is that a statement?

Senator PATRICK: What are you doing about it, is the fundamental question. This is unacceptable.

Mr Hirschhorn: Of course I can't comment about particular companies but, referring back to the previous line: through the Tax Avoidance Taskforce we deal with all of the very large companies either yearly or four-yearly. I think the Australian community should have confidence that we are in active live review of pretty much every brand name company that they recognise. I would say it's important that we tax profit, not revenue, and I absolutely take your point that companies are in existence to earn a profit.

The car industry is one of the classic industries for transfer mispricing risk around importing cars; we're very well aware of that. But if you're looking at a particular company, it's worth thinking about their history over the last decade and whether they have necessarily performed very well in this country. In some cases they have performed very poorly, economically, in this country, notwithstanding that they have a big brand name and that they potentially sell lots of cars.

The car industry, for example: if we look at who's selling cars now in Australia, it's not the same people who were selling cars 10 or 20 years ago. Sometimes even the biggest companies are not successful in achieving their goals at making a profit.

CHAIR: Senator Patrick, I need to share the call with Senator Roberts.

Senator PATRICK: I might cut it short, then. Thank you.

Senator ROBERTS: Thank you, Chair, and thank you all for attending. Minister, when are all the COVID protections ending for businesses: for example, the Australian Taxation Office pause on debt collection activities? And what have you provided to ensure businesses are supported and not thrown to the wolves?

Senator Birmingham: To answer the second part of your question, the types of measures that we outlined in the last couple of budgets, such as the loss carry back arrangements and the small business loans program, are the types of support that have been embedded for businesses to help with the economic recovery coming out of COVID.

In terms of the dates of when: in some cases they have already occurred or are to occur in the future. Certain protections around insolvency arrangements or ATO debt recovery practices are coming to an end; I will let agencies, where they can, speak to the details of those, if they're the right ones for that.

Ms Mrakovcic: There's a range of support measures that have been provided. The minister referred to the loss carry back, and there's also the temporary full expensing measures that go to June 2023; they're the support stimulus measures that I'm aware of in the tax space. I'll pass to the ATO to talk about the administrative actions

they've been taking to support business. I think that some of the aspects of that support in the space of insolvencies or market features, are probably best put to the markets group later this evening. I don't know if the ATO want to add anything on the administrative actions.

Mr Jordan: Yes. We have recommenced a very measured approach to debt collection. We are concerned that the longer businesses stay out of engagement with us, the more problematic the collection of those debts is. The fact of the matter is that our total collectable debt, as at 31 December 2021, has increased by nearly \$5 billion. That is collectable debt, which is largely, I understand, undisputed debt: they've put in a BAS statement, they've said they've earned this amount, they've withheld pay as you go, they've collected GST, and for one reason or another they haven't remitted amounts they've acknowledged they're responsible for.

We are instituting a process of contacting businesses individually to make sure they're aware of the debt and trying to come to an acceptable payment arrangement at least. But it is something we cannot just ignore, because the debt stock has gone up about 14 per cent from the same time last year and is now around \$40 billion. We have to focus in as empathetic way as we can, but it is something we just have to get on with, without jumping out there too quickly. It's very well-known in the advisory community that we're doing this now, and in some cases they're saying 'you should', because the longer we leave it the more likely it is that some of these amounts just won't be paid. If our chief service delivery officer wants to add anything to that, I will pass over to Melinda Smith.

Ms Smith: I just echo the commissioner's comments. Last year we had over eight million engagement activities that we put in place to help small business and individuals—the growth tends to be the small business debt—to help them and assist them to understand what their liability is and how we help them to get back on their feet. We're seeing some positive signs. Payment plans are being set up. We have a very high collect rate in terms of the effectiveness of those payment plans, and as the commissioner commented, we're getting some terrific feedback from community about the balance we're having to take very empathetically, based on quite unique circumstances.

Senator ROBERTS: This is not a criticism of you; it's a comment about the situation. It's fairly vague, and I understand that. What does your research indicate will be the likely business insolvency rates for the next two years and across what industries and regions?

Senator Birmingham: The ATO can obviously speak for themselves, but I don't know that the ATO undertakes its own modelling or research in relation to business insolvency rates. Again, revenue group of Treasury wouldn't be the right agency to provide analysis in that regard. To just add, at least to answer your first question, I just wanted to check, but the relief for directors against personal liability for insolvent trading that was part of the initial package of measures has also expired. So in that sense some of those initial early extreme COVID protection measures that were put in place at the depths of uncertainty have come to an end. The ATO has indicated that from their perspective they now manage debt recovery in the cautious and targeted ways that they've indicated and they are very conscious of the impact of their activities and seeking to maintain business viability while doing so. The government did outline some other insolvency reforms, which I can get some information on tabled if you like. I'd note that insolvency rates have been down quite significantly as a result of both some of those temporary measures but also the additional financial support government has provided to businesses during the pandemic. I'm not aware of there being any spike in those insolvency rates since any of these measures have come to an end, but we would expect to see at least a normalisation of those rates.

Senator ROBERTS: Minister, thank you. The first and second day of sitting single day sessions on this coronavirus issue were on Monday 23 March 2020 and then Wednesday 8 April 2020. I pointed the government to Taiwan, which has had a far superior performance to ours. Despite having a population similar to ours, they have had one-quarter the casualties per million population that we have had. They did it without locking down. In the previous Senate estimates sessions, I confirmed with the Chief Medical Officer and the federal Department of Health secretary the seven strategies that would be suitable for managing the virus comprehensively and properly. The federal government has missed the two key ones, never even looked at it, even though they were mentioned months ago—as I said, on the first single day sessions back in 2020. I believe the federal government has mismanaged COVID. You probably won't agree—

Senator Birmingham: No, I won't!

Senator ROBERTS: but the facts are there. What's happening is that the federal government has not protected people and at the same time has decimated our economy and we are losing a lot of revenue.

CHAIR: Senator Roberts, do you have a question?

Senator ROBERTS: Yes. I would like to know when the government is going to come up with a proper comprehensive plan.

Senator Birmingham: As you noted on the way through, I don't agree with your assessment there. Australia has some of the lowest fatality rates in the world, some of the strongest economic outcomes, a jobs market that is booming and is seeing levels of participation that are at record points for Australia and are above the performance of other developed economies. I think we have a very strong record there. As the Prime Minister has indicated, has every decision that we have made right throughout the course of the pandemic been the one that we would make with the benefit of hindsight? No, of course not. If we could have foreseen every potential twist and turn along the way, you would navigate the route differently. We have been dealing with a global pandemic with different variants of the COVID-19 virus that have come along. We have responded accordingly. We have applied in the last two budgets an economic recovery plan that has stimulated business investment, that has seen the jobs market recover very strongly in Australia, that has seen the budget improve in ways beyond what had been forecast, and we're obviously committed to continuing to implement that plan.

Senator ROBERTS: Thank you for that, Minister. I just quote some figures from Adam Creighton, who is a well respected, clear-thinking economist who relies on data. He's pointed out 'Australia overtakes Japan in COVID deaths, a densely populated nation with many old people that never once locked down, never mandated vaccines and barely tested anyone. No riots, no tear gas. The lockdown argument has become a sad joke.' You didn't implement lockdown, but you enabled the states to. Taiwan has a similar population to ours. We have 4.4 times higher death rate per million population. Taiwan never locked down. They properly tested, traced and quarantined. I have checked with the Chief Medical Officer. There are seven strategies that he confirms. I have omitted none, and I have none in there that shouldn't be there. Seven strategies, and the government is not doing the two most important ones. When will you come together with a plan?

Senator Birmingham: We have applied a plan throughout the pandemic and responded to circumstances, and we have the clear economic recovery plan. I would also just make the point, in terms of your comparisons there, that 'lockdown' is used as a single word or phrase to encompass what different people have in mind. There have been, in the countries you referenced, some very tight restrictions on human movement and activity in response to COVID-19 and limitations in terms of areas of activity, which have had, in terms of economic impacts and impacts on different businesses, very significant impacts in parts of their economy. They are circumstances that every country has grappled with. I don't say that in any way as a criticism. We have engaged quite closely at different times with Japan and Taiwan during the pandemic, in terms of sharing information and assistance between one and another, where possible, for things like PPE or the like. There is much that we admire and respect about their responses, but I think to characterise it as you have, which makes it sound like they've managed in a way where there haven't been some very tight restrictions that are analogous in parts to the way some of the states have applied lockdowns or ongoing restrictions, is not accurate in terms of what they have actually done in those countries—in the country of Japan and, of course, the economy of Taiwan.

Senator ROBERTS: Taiwan, which is way in front of us in terms of performance on COVID, has not locked down. Their economy has basically suffered just a minor blip. I think 0.6 per cent—

CHAIR: Senator Roberts, I need to share the call.

Senator ROBERTS: Thank you, Chair. I'm finished.

CHAIR: Senator Urquhart—

Senator McKIM: Could I just let you know that I've got some questions for Revenue Group as well.

CHAIR: Okay. I'm going to give the call to Senator Urquhart, who's been extraordinarily patient and courteous.

Senator URQUHART: I haven't been here very long, so I do appreciate it. I do only have about five or six questions. I've got some specific questions about the ATO in Tasmania. Can you tell me how many current APS positions there are in the tax office in Tasmania, how many of them are ongoing, FTEs, non-ongoing and labour hire? Could you break that down for me.

Mr Jordan: We do have a relatively significant office in Hobart and another in Burnie. I'll pass to our head of people, Deputy Commissioner Bradley Chapman, to see if he has that geographic breakdown available.

Mr Chapman: We have two offices in Tasmania. The first is our Burnie office, which currently has one non-ongoing staff member, 61 ongoing staff members and 11 casuals, so that's a total of 73 APS employees. In Hobart we have a total of 584 employees, which is made up of 488 ongoing staff, 22 non-ongoing staff and 74 casuals. In terms of labour hire, I will just check whether I have figures by city. I'm not sure I have those figures broken up in that way, so I may have to take that on notice.

Senator URQUHART: Do you have a Tasmanian figure? Then you can provide the breakdown on notice.

Mr Chapman: I don't have that information broken up by location or state, so I'm happy to take that on notice and come back to you.

Senator URQUHART: Are you able to come back during the course of the hearing?

Mr Chapman: Yes, I'm sure we can.

Senator URQUHART: Great.

Mr Chapman: What I can tell you is that we have been decreasing our use of labour hire and also of casual and non-ongoing employees and rebalancing our workforce more and more towards ongoing employees.

Senator URQUHART: Can you tell me what is spent on salaries for the APS employees in Tasmania, and can you provide that breakdown for each financial year from 2018?

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

Senator URQUHART: Sure. Can you tell me what was spent on labour hire for the various offices—if you can break this down between Burnie and Hobart, that would be helpful—and, again, for the financial years from 2018? Basically, I want those figures separated out into what you spent on your direct, your own, staff over that period, broken down for each year, and what was spent on labour hire for each of those years in both those locations.

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

Senator URQUHART: Okay. Thank you. Can you tell me what the average cost difference between the hourly rate of a labour hire worker and an ongoing APS employee in Tasmania is?

Mr Chapman: Again, that's not information I have to hand. I'd have to take that on notice. What I would say is that a lot of our labour hire employees are generally specialist employees with scarce skill sets that are in highly competitive markets. The bulk of our labour hire employees—or not employees, but labour hire officers—who we've engaged are in IT and data analytics. They're highly technical fields.

Senator URQUHART: So maybe when you provide me with how many labour hire there are in each location, could you provide me with the skill level as well, the classification.

Mr Chapman: An indication of the type of expertise?

Senator URQUHART: Yes.

Mr Chapman: Yes.

Senator URQUHART: And you'll provide me with the details from 2018 on notice. I think that's all I really need. If you can take those on notice, that would be really appreciated.

Mr Chapman: We'll see what we can provide there, Senator.

Senator URQUHART: Thank you. Thank you, Chair.

CHAIR: Senator Walsh, you have the call.

Senator WALSH: Thank you, Chair. I just want to go back to Ms Fish for a moment around the unpublished ATO data that was released by the government which is said to show that women under 35 have benefited by more than \$5 billion due to the government's tax cuts. My question is whether it's likely that a significant proportion of that \$5 billion could be accounted for by the loss of jobs among women workers during COVID and by the loss of hours, which is well documented, to have hit women workers hard during COVID, as they left the labour market in higher numbers to be on home duties.

Senator Birmingham: I'm going to have Macro Group to the table to help me have some of the data at my fingertips. But I think your generalisations about women in the workforce, the number of Australian women in jobs and the recovery of those jobs from the initial hit of COVID are not backed up by the data and the evidence from employment statistics, which show a very strong recovery right across the labour market and right across the number of Australians in jobs—and, indeed, of hours worked—notwithstanding disruptions that have been caused from periods of lockdown, and that there have been very strong outcomes for women as well, in achieving some of the highest workforce participation rates that we have seen for Australian women. I'm happy for the ATO to seek to answer as much of the question as they can, but I don't think the general statements you've made are matched by the economic outcomes that have been reported by the ABS.

Senator WALSH: Sure. I was really attempting a more simple question than that, which is, if it's the case that 1.8 million young Australian women under 35 did pay \$5 billion less in tax, could it be the case that that is because they lost their jobs and hours of work in addition to the tax cuts?

Senator Birmingham: I don't think there's a scenario where that is likely to have been the case, given the extent of JobKeeper payments, payments of different pandemic leave, and payments that were made through state and territory schemes during the lockdowns. But, as we've heard in other evidence, if anything, household savings are higher at present because of the extent of additional payments that have been made, notwithstanding—

Senator WALSH: Minister, I notice that you're taking these questions instead of Ms Fish. If that's how you want to handle it, that's fine.

Senator Birmingham: No, I'm happy for—

Senator WALSH: But can you rule out that a significant proportion of this \$5 billion could be accounted for by people losing their jobs in the study period, which was in the last couple of years?

Senator Birmingham: I am actually quite happy, with a fair degree of confidence, to rule that out, but I'm also happy for Ms Fish or other officials to add anything they want to and can. I jumped in because the breadth of your question in the way you framed it wasn't specific to the ATO's datasets. But insofar as they can provide any extra information, I'm happy for any official to add to my response.

Senator WALSH: I think we'll see the data at some point, but I'll have one last go at asking Ms Fish about whether we can rule out that some significant proportion of the \$5 billion in lower tax receipts could be accounted for by lost hours and lost jobs amongst women.

Ms Fish: I can't speculate on the drivers of the outcomes. I guess the data is based on returns and the inputs into it, not speculation as to what drove the outcome. It is based on population and returned income as well as the cut by gender and age. We are working on providing that data, including the assumptions and the methodology that went into preparing the data, so you'll be able to see, based on the assumptions and methodology, what was taken into account.

Senator WALSH: Thank you. I'll go to some questions for the ATO about the answer that you provided to my question on notice 128, which is about the work that you've done on 19,600 reviews of employers and whether they were paying the appropriate amount of superannuation. You said that out of the 19,600 unpaid super reviews that you conducted in financial year 2020-21, 14,500 of those employers had been found to be owing superannuation. Can you, first of all, tell me whether you have another number for how many employers you might suspect owe superannuation? What I'm trying to understand is whether the 19,600 is a small subset and the size of the larger group.

Mr Jordan: Deputy Commissioner Emma Rosenzweig is in charge of our superannuation area, so I'm presuming she will be able to assist in that question.

Ms Rosenzweig: We don't have a figure for exactly how many employers have not paid. We measure our super guarantee gap like we measure the taxes. For our most recent measurement of the gap, it is at 3.8 per cent as the net gap or 5.4 per cent as the gross gap. The gross gap is the gap before we intervene, and the net gap is the amount that's still outstanding after we have taken action, which is equivalent to \$2.45 billion in the year. We don't have a number of employers, but that gives you a sense. From those 19,600 compliance activities we undertook, we raised \$880 million in liability, so that gives you a bit of a sense of scale for comparison.

Senator WALSH: In your answer to the question on notice, you said that \$300 million of that was in penalties and \$560 million of it, I think, was in actual unpaid super. I note that you've repeated your assessment of what the super gap is, \$2.45 billion, which you told us last time we were here as well. I note for the record that there are larger numbers than that that are estimated by others, but your estimate is \$2.45 billion. Where's the other \$2 billion in unpaid super? You recovered \$560 million in the last financial year. You estimate the gap to be \$2.45 billion. Where's the rest?

Ms Rosenzweig: I think that goes to the nature of a gap. That is the amount that we have not collected and that has not gone to superannuation funds for employees.

Mr Hirschhorn: Senator, superannuation, first, is a matter between an employer and the employee. We take action every time, when an employee comes to us and says they're worried that they haven't been paid their super. We action every one of those complaints. We also do work to try to find, proactively, other employers who are not paying their super, even where the employee has not complained.

We produce, now, on our website—it's possible for any Australian to go in and see their super balance and see that they're being paid super, in real time. They can check up on their employer to make sure that super is going into their bank account. We are also actively exploring how we can use things like Single Touch Payroll System data to better identify employers who are not paying their super.

To go to Ms Rosenzweig's answer of 'Where's the rest?' by extrapolating from the part that we know about, there are, potentially, lots of little bits of nonpayment which, when an employee comes to us, we try to ferret out with our best efforts. We are trying to identify other examples, even where the employee does not realise. Indeed, we try to give every tool to employees to identify whether their employer is meeting their obligations.

There are, I think, 12½ million Australians in jobs. We don't audit every employee's super balance. Super money doesn't come via the tax office, I think is important. The super money goes from the employer to the super fund. We are using our data as best we can, to try to identify where it's not paid, but we can't audit every employment relationship.

Mr Jordan: Also, if I could just add to that, and I have said this once before, the reality is that a relatively significant amount of the unpaid is in small to medium businesses that become insolvent, and there is no money to recover. We have certain powers, to deal with directors of companies that may be employing people, that are significant and we do use those. It is an ongoing policy issue around the timing of the payments from the employer to the super fund.

Second Commissioner Hirschhorn mentioned our Single Touch Payroll System that is a payday reporting of salaries and tax withheld. As I recall, it also discloses the promise to pay an amount of superannuation. A significant number of employers have up to three months to meet that promise. It's only after that period that, when we get the amounts received, it's very clear that this is a relationship between an employer, an employee and a super fund—not us.

However, we have a lag in being able to use the information that super funds give us about amounts received from employees—and this is a big deal, just to be able to do that, in itself—versus the promise to pay reported under the Single Touch Payroll System. And therein lies some of the problems that we have identified. If amounts are not paid, we follow that up—the business is insolvent or whatever. So it's sort of a structural issue here that we're dealing with, and we're using our data through STP and the data we get from the super funds as best as we can. This is a terrible situation, no doubt in the world. This is money that employees lose. The pay-as-you-go I referred to that doesn't get paid, the government stand behind that; they credit that to you in your tax return if it's not paid first. The same is not for super contributions, so it's a real loss for the employee, and that's why we prioritise it hugely in the ATO, because of that real loss to the employee.

Senator WALSH: This just under \$2 billion that we're talking about in the 2020-21 financial year, the gap between what you recovered and what you estimate the super gap to be, that is an extraordinary amount of people's retirement savings that we're talking about—\$2 billion.

Mr Jordan: And we're trying to be very transparent in publishing tax—

Senator WALSH: It's a much lower estimate than other industry experts would put it at. But your evidence and your message seem to be to both workers and employers that the ATO is not well placed to do anything about it.

Mr Jordan: We are well placed and we do a lot about it, but there are some structural issues around timing of payments and timing of reporting of information that inevitably go towards contributing to that tax gap figure. We are incredibly transparent by publishing all this. It never used to happen. We put it all out there, so the size of the problem can be dealt with. It's not ideal. I absolutely agree, and that's why a personal loss to the employee is something we are very concerned about and follow up very diligently.

Senator Birmingham: It's why the government's strengthened the ATO's powers and supported them in the development of their tools and resources to monitor employer compliance. Whilst this is an ongoing challenge, as Commissioner Jordan has made very clear, the ATO has conducted more than 19,000 reviews, informed by its data and its analysis, and the targeting. It's raised more than \$860 million in liabilities in doing so. Whilst the vast majority of employers do the right thing, we do wish to make sure that there is no tolerance for those who do the wrong thing, that employees receive the entitlements, including the superannuation entitlements, that they are entitled to. Single touch payroll and more regular super fund reporting and employer contributions have, as the ATO's identified, improved its visibility of employer compliance and that enables the ATO to then better target its audit and compliance activities.

Senator WALSH: The data that's come back in the answer that we're all talking about confirms that there's almost \$2 billion of peoples' super missing from the \$2.5 billion gap that we know of. How is government being successful in getting people paid what is owed to them? How could you consider that to be success—the \$2.5 billion gap in one year, of which almost \$2 billion remains lost?

Senator Birmingham: It's a question of continuity of effort of providing the additional resources and technical capabilities for better targeting to achieve even greater outcomes for even greater compliance. As I said,

we should first and foremost in this space acknowledge that the overwhelming majority of employers do the right thing but there's no tolerance where any do the wrong thing. The ATO works to address those who may have inadvertently done so, but we have even less tolerance for those who have deliberately done so. Both gross levels and net levels of unpaid superannuation gaps have trended down in recent years and that's a function of the fact that the compliance activities are evident to all, that the system—the technology and the ability for businesses to ensure compliance—has continued to be enhanced, and we'll keep doing that and pursue further closing of those gaps.

Mr Jordan: That's a very important point—that the better data feeds now available to us, which have resulted by investment by government in these systems, have enabled us to in real time, but not quite real time yet, match the promise to pay under STP with the actual receipt by the super funds. That's going to get better and better. It is trending down. We do shift resources into superannuation when we can to ensure that the turn around times of receiving a query or a complaint are less. There were some issues a while back with COVID and all that. We had to move on with other pressing needs. Believe me, this is top of mind of the executive of the ATO because of the reasons that I've said. It is something we will continue to focus on and we will benefit from investment that government has made in us to enable better matching of the data from the fund receipt to what we've been told through STP.

Senator Birmingham: In the closing of that gap and that trending down that Commissioner Jordan and I have both referenced, my understanding is that the gross gap in unpaid super has closed from 6.5 per cent in 2013 to 5.4 per cent in the latest data, and the net gap closing from 5.5 per cent 3.8 per cent in the latest data. Success is evident, in terms of the work the ATO and the government have pursued to seek to close that and ensure that Australians receive the superannuation to which they are entitled, but the work is ongoing. As Commissioner Jordan has indicated, there will always be a role for compliance but the ability to better target and monitor using the enhanced data flows will be a very important and powerful tool to close that gap further.

Senator WALSH: I obviously find it extraordinary that you would claim that \$2 billion in missing super in the last financial year is success. If that is success, I wouldn't want to see what failure looked like.

Senator Birmingham: There was a greater rate of failure when we came to office and there is a lesser rate now. The gap is closing and the data indicates and demonstrates that's the case.

Senator WALSH: Even if it was \$2 billion, what you claim to be a smaller figure, for every year of the last nine years of your government, we're talking about \$18 billion on a low estimate of missing superannuation, and you're claiming success for the system that you have in place to find it.

Senator Birmingham: What we are claiming is that the methods we've put in place have been addressing this problem over time, that the scale of the problem is less today than it was when we came to office, in terms of what we are achieving in addressing it, and the increased use of data and technology is going to enhance those outcomes even further from the ATO. We don't shy away from the fact that there is an issue and the work is ongoing in addressing that issue, but I think some acknowledgement can go a long way to the fact that that work is real, it's yielding results and it's yielded improvements, compared with what we inherited.

Senator WALSH: We spoke to Treasury corporate earlier today, who referred us to the ATO on some questions about advertising and outreach regarding the Your Future, Your Super changes. What advertising and outreach did the ATO do regarding the stapling changes that came into effect last year?

Mr Jordan: I think this might be for chief operating officer, Jacqui Curtis, within her area, so I'll pass that on, but I will say that any of the advertising we do goes through a rigorous process of committees and approvals et cetera. I would refer this to our chief operating officer.

Ms Curtis: I don't have the detail of the campaign with me. I have lots of detail on upcoming campaigns, but I will have to take that on notice today. I apologise for that.

Senator WALSH: Does anyone at the ATO know today whether you directed those outreach activities—I'm sure you did—primarily to employers, or did you also direct them to target employees as well?

Mr Jordan: I might pass to Emma Rosenzweig, who says she might be able to answer some of these questions.

Ms Rosenzweig: We did not undertake any paid above-the-line advertising campaigns for Your Future, Your Super. I know you had some questions for Treasury earlier on that. We didn't have any above-the-line advertising for that. But we did use our existing methods of communicating. We looked at both messages to employers to understand what they needed to do in terms of their obligations to use the stapling service. We ended up writing to or emailing all employers, 800,000 of them, to inform them of this. We also worked through our usual stakeholder groups; we had social media posts; we had fairly comprehensive material about these obligations.

In terms of questions about how much information we gave to employees about the impact of the stapling service for them, but also their ability to use the comparison tool, we made some very prominent changes to the choice form, both with the online version and the paper version that they get. Right on the front page there was a big alert about the new stapling obligations for their employers, so they would understand that. Again, we used social media, and we have a really prominent web banner and those sorts of things. But all our activities were what they call below-the-line activities on that program. We did not have any above the line that were our responsibility.

Senator WALSH: So in relation to employees, in order to access information that stapling was going to occur and what it might mean for them, they would have needed to go to your website and go to your Facebook?

Ms Rosenzweig: The stapling only applied to new employees. An employer didn't have to go back and request stapling for existing employees. So a new employee is required to be provided with a choice form or access to choice by their employer. The most targeted way that we had to make sure that employees understood the impacts of stapling was to make it very prominent in that choice process that if they did not select a fund their employer would use the stapling service and receive a stapled fund for them.

Senator WALSH: I will just clarify at the end that there was no information campaign from the ATO to employees in general about stapling, apart from them going to your website or seeking out information on your Facebook page, or as a new starter filling out a form?

Ms Rosenzweig: There was no above-the-line campaigning from the ATO, no, but we used our existing mechanisms to communicate.

Senator CHISHOLM: I have some questions for the Charities and Not-for-profits Commission. Obviously it's an election year, Mr Johns. We know that charities can't support, or oppose, particular parties or candidates, but excluding that kind of activity, would you encourage charities to advocate and campaign robustly on issues essential to their purpose in the lead up to the federal election?

Dr Johns: I can neither encourage nor discourage charities' advocacy. Rest assured [inaudible] to advocate whether or not [inaudible].

Senator CHISHOLM: You wrote in your 10 February *Commissioner's Column* that it's an important part of this democracy for charities to play this role. What did you mean by that?

Dr Johns: That there is no impediment to charities having a voice in the political arena, but the limit of that [inaudible] candidate for political office. We want to make it as clear as we possibly can. There are very few limits to advocacy by charities in this country by law, but there is a limit, which is about having a purpose which is opposing or supporting a candidate for office [inaudible] charities approaching that point.

Senator CHISHOLM: So, for example, would you encourage charities to play an important part in democracy by sharing their public policy expertise with voters in the lead up to the election?

Dr Johns: Again, it's not my role as a regulator to encourage or discourage. The fact is that they do and they are free to.

Senator CHISHOLM: I want to go into a bit more depth the column that you wrote. Could you just indicate whether you agree or not. You wrote that advocacy and campaigning are important to the work that many of Australia's registered charities undertake. You agree with that, I take it?

Dr Johns: Yes.

Senator CHISHOLM: You wrote that advocacy and campaigning are legitimate and effective ways of furthering the charitable purposes of a charity. I take it you agree with that?

Dr Johns: Yes.

Senator CHISHOLM: And you wrote that the ability for charities to advocate and campaign robustly on issues central to their purpose remains an important part of this country's democracy. I gather you agree with that?

Dr Johns: Yes.

Senator CHISHOLM: What did you mean by the advocacy and campaigning role being an important part of this country's democracy?

Dr Johns: It's part of the notion that a country that clearly debates is more likely to be well governed. As I say, there is simply no [inaudible] in charities in being engaged in that debate.

Senator CHISHOLM: Still on your column, you wrote:

Charities are allowed to engage in advocacy or campaigning if these efforts ... are allowed under their governing document. For example – constitution or rules.

That's slightly different from what your website advises, which is:

This means that a charity can campaign if it is satisfied that ... its governing document (its constitution or rules) does not prevent the activity

You say charities can advocate or campaign if their rules allow it. The website says they can advocate or campaign if their rules don't prevent it. Can you confirm whether your column and the website advice are drawing on the same regulatory guidelines and are intended to make the same point?

Dr Johns: I think they are. Charity is free to advocate. What's in their constitution might restrict the areas in which they advocate, as in the field that the charity deals with, because, always, a charity needs to pursue activities that are in line with the charitable purpose.

Senator CHISHOLM: Would you accept that the formulation used in your *Commissioner's Column* gives the impression that a charity's constitution needs to actively allow a charity to do advocacy, whereas the website advice sets out a more open and permissive frame—that is, that the constitution does not prevent the activity?

Dr Johns: Either statement is consistent with what we've said any number of times, which is that a charity is free to advocate and be involved in public debate, including during a campaign period, up until the point where you are seen to be opposing or supporting a political candidate.

Senator CHISHOLM: Is there a reason that you deviated from the wording of the website?

Dr Johns: I don't think so, no. It's just a different statement, a difference of elaboration of the message.

Senator CHISHOLM: To try to confirm what is on the website: unless a charity's constitution says it can't do advocacy, then it can do advocacy—as long as it furthers their charitable purpose?

Dr Johns: That's correct.

Senator CHISHOLM: So the ACNC does not require charities who engage in advocacy or campaigning to have an explicit provision in their constitution allowing those activities?

Dr Johns: That's correct.

Senator CHISHOLM: Moving onto political purpose letters, in that recent column you mentioned:

Just this week we wrote to a charity over some material they were distributing which was likely to be construed as opposing a political candidate or party.

Could you give us a sense in general terms of the material and distribution that prompted this letter you wrote?

Dr Johns: I can—in a general sense, or course; I can't tell you the specific example. If material is distributed which names a person or office or candidate, and it's quite clear from the material that they want that person either supported or opposed, then we think it is a signal towards a purpose they might have, so we would advise a charity to be careful of being so explicit.

Senator CHISHOLM: Have you been writing an increasing number of those letters in recent months?

Dr Johns: No.

Senator CHISHOLM: In the past, we've heard the ACNC has initiated a rapid response to political purpose concerns during election periods. Will that be the case again for this coming election, what will that look like and for what period will that approach be in place?

Dr Johns: We will be responding to things we observe or complaints which we feel [inaudible] We stand ready to consider the matter and will advise a charity where we believe that it's advisable to educate them on a matter, or we may simply do nothing because there is no issue.

Senator CHISHOLM: I've just seen a statement put out by the Smart Energy Council saying that the commission has advised them that if they continue to tell people 'to chuck them out' or 'put him in the bin', which they have been providing on stickers, apparently, they could be in breach of the charity laws and lose their registration as a charity. Are they one of the organisations that you wrote to recently?

Dr Johns: [inaudible] so I don't need to confirm that. The point is well made that we give advice to charities if we believe that it could be construed as a purpose of opposing or supporting a candidate [inaudible] say that they have. We prefer to educate and give advice, and that advice is generally very well received.

Senator CHISHOLM: Can I ask what the specific problem was with the material that they were distributing?

Dr Johns: I won't go to that particular one, but the issue here is when you name a candidate. When it becomes obvious that it is to do with a person, then you're moving away from, for instance, just policy—advocating for or against a policy. That's an important distinction to make.

Senator CHISHOLM: The charities commissioner previously provided a table of the commissioner's travel and accommodation expenses accrued in the course of office holder travel. Could you please update that table.

Dr Johns: Yes, but it will be pretty thin. I am in Brisbane and unable to move very far. But, yes, we can update that.

Senator McKIM: I have some questions for the Treasury revenue folk about the proposed patent box for medical and biotechnological research. What analysis did Treasury do of the policy options to stimulate R&D investment and commercialisation of medical and biotechnological research? And, ultimately, perfect it with the Treasury Laws Amendment (Tax Concession for Australian Medical Innovations) Bill that's currently before the parliament? But I am just asking about what sort of analysis you undertook of the different policy approaches there.

Ms Mrakovic: I might ask my colleague Marty Robinson to speak to this issue.

Mr Robinson: The patent box, as you would be aware, was first announced by the government in the 2021-22 budget. At that time, it was announced that the scope of the patent box would be for medical and biotechnology related patents and innovations. It was also announced that the government would also undertake some consultation around the proposed measure and, at the same time, consult on the possibility of expanding into other areas around clean energy and low-emissions technology. That was subsequently followed up by a consultation process. In July, I think, Treasury issued a consultation paper, and we received a number of submissions. There were about 48 in total in relation to that consultation. We'd set out a number of questions to stakeholders, asking about their views on the scope of the proposed policy, how it might be implemented in practice, what sorts of benefits it could deliver and so forth. As I said, we got quite a large response in the 48 submissions. They set out views on a range of factors that went to some of the detail around the implementation of the patent box; there were a number of views in that sort of way. In going through and assessing those responses, we made some changes to the proposed framework, which was obviously reflected in the final legislation that was introduced.

Senator McKIM: But pre the announcement, was there any analysis taken? You've been very open—thank you—taking us through the process post the announcement and post the decision somewhere in government that a patent box was going to be the approach here; but pre the announcement, did Treasury undertake an analysis or differing policy options in order to stimulate R&D investment and commercial observation in the medical and biotechnological research sectors?

Mr Robinson: It's probably fair to say that in the course of advising government on policy in the lead-up to any sort of budget type process, we generally consider a range of options to achieve policy outcomes and advise government on those options. That's then a matter for government deliberation through the standard sort of cabinet process to decide policy that it wants to implement.

Ms Mrakovic: If I could just add to that. I'd just note that certainly we were aware of quite a number of views expressed in the academic literature around patent boxes. We had also had the benefit of having some discussions with other countries that have patent boxes. There are around 20 countries at the moment that do have them.

Another thing that I would note is that obviously the competitive nature of the tax rates applying to those patent boxes were raised with us, and I'm sure it must have been raised with the government. Certainly there were a lot of conversations around, particularly with different sectors, the medical and biotech sector. The existence of patent boxes and their implications for different sectors have been actively under conversation for some time. Those were certainly the broad range of considerations.

I will also note that there have been references to the academic literature. One of the key features of the patent box in an Australian situation was the link to the research and development being undertaken in Australia as well. That was one of the learnings, through various investigations that the OECD has done in highlighting, or reinforcing, the benefits of patent boxes and ensuring that they certainly don't contain harmful tax practice type considerations.

Senator McKIM: It's my submission that the patent box is basically a tax avoidance framework for big multinational [inaudible] companies. Was the ATO consulted either before the announcement that a patent box in these areas would be delivered, or as part of the consultations that we've heard of post the announcement?

Ms Mrakovic: I will take on notice answering the question. I will answer it by saying that I am fairly confident that we would have consulted the ATO, because we do, as a general practice, consult the ATO, particularly in relation to new policy measures. It's basically, I would say, the general business-as-usual approach. So I would be fairly confident that we had consulted with them, but, if I am incorrect in this particular instance, I will get back to you.

Senator McKIM: Sure. On notice, please, could you lay out for the committee the nature of that consultation—whether it was pre the announcement, in terms of an analysis of all the different options available to stimulate R&D investment and commercialisation in these areas, whether it was post the announcement and whether they were simply consulted on how a patent box might look?

Ms Mrakovcic: We'll see what we can provide on notice.

Senator McKIM: Thank you; I appreciate that. As you can probably tell from my [inaudible] comments, I've had some pretty rigorous critiques of patent boxes put to me. I can reference any of these, if you're interested. I want to put them to Treasury or the ATO and see what you think. The first things that's been put—

CHAIR: Senator McKim, how long do you think this might take? We're running over time, and I'm looking to get a break. I have two other senators who have questions before we move onto the next section.

Senator McKIM: I'll be as quick as I can, Chair.

CHAIR: If you could.

Senator McKIM: I'll do that. I'll stop making comments and just confine myself to questions. Would you agree with this statement: lost government revenue from patent box regimes that exist internationally is greater than the increased R&D spending that those regimes have delivered? Would you agree with that?

Ms Mrakovcic: We're not in a position to agree or disagree with statements with respect to other countries and what might be occurring there. The only thing that I would note, referencing the earlier comment you made—and this was also something I tried to address in my answer to your question—is that a lot of the literature has been done on pre 2015-16 changes. Most of the patent boxes now are actually linked to the research and development being undertaken in the country, and I think that does have implications for some of the findings in the earlier literature and critiques around patent boxes.

Obviously there are challenges, but, as I pointed out, the reality is that there are now over 20 countries that have patent boxes. The OECD has their base-erosion and profit-shifting process that they manage. Patent boxes have been considered in the context of the BEPS range of actions, and they are actually consistent with the BEPS initiative, as long as that link to the research and development is there. I will just ask my colleague to make sure that I have been correct in that set of statements.

Mr Robinson: I completely agree with what Ms Mrakovcic just said. As she indicated, prior to 2015 there was quite a strong practice amongst countries that were introducing patent box regimes to really try and attract mobile intellectual property to those countries. What was happening was that IP was shifting so that income could be claimed and taxed at a concessional rate where there had been no link to the research and development in those countries. What the changes forced in 2015 was a stronger relationship between—ensuring that there was a close nexus between where the research and development spending and activity was occurring and where the concessional income could be claimed. I think the issue there is that it's hard to start to draw comparisons around changes in tax revenue and R&D, if you look at pre the regime change in 2015 versus what has happened since then.

Senator McKIM: Even post the regime change, as you've put it, does Treasury have any evidence at all that patent box policies have actually attracted the location for patents traded on the technology market as opposed to asset shifting within multinational corporations? I'm happy for you to take this on notice; I wouldn't expect you to have it here with you. But if you could take it on notice and provide some evidence that patent boxes have actually worked in the way that we all presume they're designed to, rather than simply facilitate asset shifting within big multinational pharma companies. I'm very much afraid that we're proposing to set up a tax avoidance framework for big corporate pharma. If you put that on notice and provide some evidence that'd be appreciated.

Ms Mrakovcic: We'll take your question on notice to provide an answer.

Senator McKIM: Thank you; I appreciate that. Because we're under time pressure, I'll put a couple of other questions in on notice. I want to refer you to the 2018 Oxfam report that found that big pharma was avoiding about \$215 million in tax per annum by shifting profits out of Australia and into tax havens. Have we got any idea what the value of profits would be that are artificially shifted offshore by companies that would benefit from the proposed patent box? If you want to take that on notice and provide any response that you're able to, I'd appreciate that.

Ms Mrakovcic: I'm not aware of the report, so we will look into understanding what it says and see if we can provide any information.

Mr Robinson: In addition to that and given that that would start to come down to narrowing in on particular companies in a sector, we'd probably need to consult with the ATO on whether there were any taxpayer confidentiality considerations around that sort of reporting as well.

Senator McKIM: Thanks. This question is potentially one for the minister, but it's on the same topic so I'm happy for the folks from Treasury to buy into this. On a policy level, why does big pharma need a tax break? It's part of their business case to develop intellectual property; it's what they do as companies. What's the policy intent behind offering them a tax break?

Senator Hume: From overseas experience we've seen in the UK, they did a report in 2019 that suggested that firms that used the patent box there displayed an approximate 10 per cent increase in investment. Obviously, the overriding objective of this government is not just for the economy to recover but for more jobs, better jobs, higher paying jobs and cutting edge innovations to be housed in Australia.

Senator McKIM: Thanks. I'll put some other questions on notice.

CHAIR: Thank you, Senator McKim. Senator McAllister.

Senator McALLISTER: I just want to get an update on the Pillar Two Model Rules and Australia's progress in implementing a global minimum tax rate. Are we on target to be ready for 2023 in that implementation?

Ms Mrakovic: Discussions are continuing at the OECD level in terms of making progress on both pillar one and pillar two. In December 2021 the OECD did release the model rules, which is an important step forward in terms of pillar two. That set out quite a lot of information with respect to pillar two. There is still some technical work and clarification that needs to be done, and we are still continuing to work on that. There are meetings between Australian officials and the officials of all countries involved in the process with the OECD. We are also undertaking consultations in Australia with stakeholders to get their reactions and insights into what's being proposed. As you can imagine, there is also quite a bit of work involved in terms of still thinking about some of the interactions with the Australian specific situation. Nonetheless, we are making quite substantial progress and we continue to work towards the time line that has been set for implementation.

Senator McALLISTER: Do you have any interim milestones? I appreciate that you are engaged in both an international process of consultation and discussion and also a domestic one. Do you anticipate, for example, a formal consultation attracting submissions or something of that kind? Do you anticipate releasing an exposure draft? Have you given thought to the process you might step through to implement this for 2023?

Ms Mrakovic: I will ask my colleague Mr Robinson to speak to some of the issues in more detail. But I should've noted that we're also still having discussions around pillar 1 as well. Again, the intention is that that would be addressed through a multilateral instrument and the timing for that is around mid-2022. That still remains the timetable that we are working towards. I will say just generally that there is a lot of activity going on and people very conscious of the time lines, but there are still a lot of issues to work through. But in terms of the formal milestones timing or planning that we might have with respect to pillar 2, specifically in this instance, Mr Robinson, did you want to add anything?

Mr Robinson: I would add, as Ms Mrakovic has just said, we have been undertaking some consultation on this already. We have been engaging with business in particular through our digital tax working group which covers both pillar 1 and pillar 2. We undertook some engagement, I think, towards the end of 2020. We met again, I think, in about May of 2021 with that working group and that was just prior to the endorsement of the framework for pillar 1 and pillar 2 in both the OECD and G20 in July and again in October. I think towards the end of 2021—I can't recall the precise timing; it might have been about August or September—we also undertook some consultation with business around pillar 2 and the model rules that were in development still. In terms of going forward from here, we would anticipate further engagement and consultation on, in particular, pillar 2 model rules.

Senator McALLISTER: Targeted consultation?

Mr Robinson: That would be a public consultation process. As we mentioned before, we have the model rules, but, as Ms Mrakovic said, there's a second compendium part to the model rules which is the model rule commentary, which is still under development in the OECD. We are hoping that will be finalised very shortly and that would then enable us further detail to be able to consult publicly on. Then I would imagine there would be ongoing consultation, again, at a point, for example, where there was draft legislation after government had taken final decisions around implementation. That time frame will basically go on through 2022 in terms of precise dates for those different milestones. It's probably still a little hard to say, given there has been a little bit of slippage in some of the OECD milestones, but we're still working very hard towards that 2023 commencement.

Senator McALLISTER: The outstanding task from global negotiation, from an international negotiation perspective, is the commentary, I think you refer to it?

Ms Mrakovcic: On pillar 2.

Senator McALLISTER: Has the international community established a target for concluding that discussion?

Ms Mrakovcic: The actual discussion around the commentary, you mean?

Senator McALLISTER: Yes. It seems that that's the critical part for Australia to move to implementation and to a proper consultation. I'm trying to understand the timing.

Mr Robinson: The OECD had set out time frames for that work to occur. The intention was that that commentary was going to be finalised by the end of January just past, so that has slipped a little bit, as I mentioned. Even as we speak, teams are still doing many late nights on those negotiations but the view is that it's getting close.

Ms Mrakovcic: It has slipped a few weeks, but we remain focused on the same end date at this point.

Senator McALLISTER: If you are a stakeholder or an interested Australian citizen in this process, your next opportunity will be a public consultation on the rules and commentary at some later point this year?

Ms Mrakovcic: Yes, and we would hope to get out there as soon as possible from our perspective—once we have the commentary. I think the other piece is that we really do want to properly integrate it with the Australian system. There are a certain number of features of the Australian tax system. We're not alone. Every country will have to think about how it integrates its own specific tax system to model rules and commentary. We don't envisage that that is going to take a very long time, and this is exactly a component of what we would seek to benefit from being able to consult on publicly. So, yes, it's in our interests to go out there as early as we possibly can and benefit from the reactions and feedback from stakeholders.

Senator McALLISTER: Have you calculated how much these reforms will return to Australia's tax base?

Ms Mrakovcic: It's a really good question, but it's also incredibly difficult to answer, particularly with regard—

Senator McALLISTER: From a process perspective, have you done his work or not? I am not so much looking for the content but for whether or not this is a process you have undertaken.

Ms Mrakovcic: We have not done it as such. There have been some OECD calculations that were done around the benefit to global turnover. To give you one example: the whole logic behind pillar two is to avoid that rest of the bottom. You might have seen there have been a number of announcements by countries who are increasing their corporate tax rates. The philosophy is that, if another country is going to be able to tax me if my effective corporate tax rate is below 15 per cent, I may as well increase my tax rate of 15 per cent so that I'm the one benefiting from that increase in revenue. Every time another country increases its effective tax rate to 15 per cent, another country thinking, 'Hey, I might be able to impose a top-up tax because they're effective tax rate is below 15 per cent' has to do their own recalculation. I think that is the challenge. We have so much instability and changes occurring that it is difficult for us to do an estimate of this. We hope that, as time progresses and there is a bit more clarity around what countries are doing, we will have a relative degree of stability which will enable us to do those estimates.

Senator McALLISTER: Understood—but not yet. Finally, you mention some of the work that you are doing already in a targeted way with stakeholders. Is it correct that these are these affected stakeholders who are operating within our economy and our jurisdiction? Are they the main organisations you are seeking to speak with?

Mr Robinson: We estimate that there are roughly 5,000 companies in Australia that meet the significant global entity threshold, which is effectively the turnover threshold for multinationals that could be impacted. The actual threshold for applying pillar two, the global minimum tax, is 750 million euros of turnover. That is around \$1.2 billion. There are around 5,000 or so companies that are potentially in scope. Of course, many of those would have effective tax rates above the 15 per cent. It's probably fair to say that our engagement has been pretty broad in terms of the sectors that we've been engaging with. We've also been engaging with tax advisory firms and some of the industry bodies that represent larger groups of business.

Senator McALLISTER: That's very useful. Mr Jordan, how have you gone tracking down these spreadsheets that you have been producing on a fortnightly basis for the Treasurer?

Mr Jordan: We're meeting directly after we finish this. The data is the data that we've provided, and we are compiling all the assumptions and methodologies used to generate that data that won't necessarily all be provided

to the Treasurer's office. It is in-house detail. We will have both the data and the methodologies and assumptions used. We hope to be able to provide that shortly after this.

Senator McALLISTER: Shortly after the dinner break?

Mr Jordan: Yes.

Senator McALLISTER: Thank you. I appreciate it.

CHAIR: Senator Patrick.

Senator PATRICK: I return to my concerns about this big list of non-taxpaying corporates. Deputy Commissioner Hirschhorn indicated there is action potentially behind the scenes being taken in relation to some of these companies in terms of audits and/or enforcement of some kind. The difficulty I have is that you have your job to make sure you collect tax and to do so in a fair way within the law. My job is to make sure you're doing your job. I can't see from the data that I have available that you guys are actually doing that. That's not to say you're not; I'm just saying I can't see that. I'm wondering if there's some way in which you could indicate—it might be by way of some aggregates or some examples. I have talked to the chair about this: I'm going to table my list, which I have just taken from your tax transparency data, of the 150 companies that didn't pay any tax over the entirety of the period of the tax transparency data. I will table that and ask you to look at the companies that I provide you and give me some indication as to how you might have been dealing with this situation. Commissioner, I wonder if we can find a way to deal with this in a way that is not confrontational.

CHAIR: To tease this out and perhaps give the commissioner an opportunity to reflect: as I understand, the document you're proposing to table is a spreadsheet you prepared in your office or that was prepared within your office, based on the transparency information which you've gathered from the ATO. We're going to make sure that, when it is tabled, it's clear that this document has actually been generated by your office. It's not the ATO's document; it's a document which you've compiled from the ATO's data. You're seeking from the commissioner some pathway for there to be the provision of comfort in terms of the companies which haven't paid tax. You gave some examples earlier. There's some action scrutiny undertaken by the ATO in relation to those companies, and I think the second commissioner referred to some of the action and some of the context in that regard. That's what you're seeking through the tabling of the document. Am I correct?

Senator PATRICK: That's correct. It might be just that you say, 'Of the companies we named, we actually audited 28 of them and we took action against 17 of them and recovered this amount of money by way of enforcement'—something along those lines.

CHAIR: So you're seeking a response on an aggregate basis?

Senator PATRICK: Yes, that's right.

CHAIR: You're not seeking a response in relation to particular companies.

Senator PATRICK: Not on any individual company.

CHAIR: Commissioner Jordan, do you see a pathway?

Mr Jordan: Chair and Senator Patrick, I commit to you that we'll do whatever we can to provide assurance to you that we are doing our job effectively. Second Commissioner Hirschhorn mentioned that what is not evident in the tax transparency figures that are published is the work we've done in disallowing losses that are being carried forward because there have been very significant inroads into debt dumping into Australia resulting from the Chevron case that we've been able to apply more broadly. You said not to get you started on oil and gas, but at the risk of poking the bear, here we go! The big expenditure in our economy has been in a lot of those projects, so it would not surprise you to know that there's probably a lot of debt being financed to fund those projects in a way that we now have the power, pursuant to the Chevron case, to revisit. We expect a number of companies in the industries that have had high levels of debt to be paying tax a lot earlier than they otherwise would because of the very, very significant reduction in the carry forward losses that have resulted from our audit activities, our compliance activities, but that does not yet show in those transparency figures. As Mr Hirschhorn mentioned—and the Chair asked for it to be repeated because they were significant—there are \$26 billion of deductions that are not going to happen. A lot of those are a result of our compliance activities, a lot of which do apply to the debt dumping rules.

CHAIR: Second Commissioner Hirschhorn, can you see a pathway in terms of providing the comfort that Senator Patrick's looking for?

Mr Hirschhorn: If I could take it on notice—

CHAIR: Sure.

Mr Hirschhorn: I think what we're taking on notice is what information we can provide around a population of companies that Senator Patrick will provide, and I don't want to tie myself to any specific forms of information, but we'll work out what forms of information about which fields we can provide to Senator Patrick and the committee to provide the confidence that they should have that we are holding these companies to account.

Senator PATRICK: I'm not in any way suggesting you're not doing your job. I'm just saying that all of these things that you've mentioned are not readily visible to the committee. Can you do that in relation to PRRT, the tax transparency data around PRRT? I know you might have gone back and looked at some of those as well to see whether there was pricing at particular points in the processing chain or transfer pricing taking place there.

Mr Hirschhorn: Yes. We'll work out what we can say. PRRT is harder because it is such a small population. Indeed, there are a couple of PRRT disputes which are in the public domain, both historic and current, but we'll see what information we can provide without effecting taxpayer secrecy which will give you this confidence.

Senator PATRICK: I understand with the tax transparency data there was an amendment that listed the data that you needed to disclose—being total revenue, taxable income, tax paid. In some sense, the data is misleading if, in fact, companies have gone back and paid tax. Does that require an amendment of legislation? In some sense it actually is misleading for the company involved if it turns out that they have actually paid some tax or some money has been recovered and that's not recorded in some way.

Mr Hirschhorn: This would, of course, be a great breach of taxpayer secrecy, the corporate tax transparency data, except for the fact that it is legislated that we have to publish each year, as soon as reasonably practicable, those very few limited fields. Ultimately it's a policy and a legislative matter to change the fields that we publish in the corporate tax transparency report. It is a very tightly bound legislative exception to the secrecy laws.

Senator PATRICK: I'm just wondering whether or not—and this is also about being fair to the companies—that needs to be expanded in some way or modified in some way that would provide a more accurate picture?

Mr Hirschhorn: As I've said before in this committee, I'm a bricklayer not the architect. That is a policy matter. We just publish what we're told to publish.

Senator PATRICK: Depending on what data you feed back to me, that may help me propose an amendment or reach some agreement with Minister Hume moving forward to try and be accurate about the data.

Mr Jordan: One other quick thing, Senator Patrick: sometimes the courts don't agree with our position in these matters. There was a full Federal Court decision recently for Shell—a \$2 billion deduction for acquisition of an interest in a mining project that we took issue with, but the full Federal Court disagreed.

Senator PATRICK: Just one final question on notice: noting you are using litigation as a means for recovery or establishing what the law might be, for each of the last five years can you tell me how much has been spent on litigation associated with the recovery of tax? That, in some sense, is a measure of—

Mr Jordan: Across the board or more narrow?

Senator PATRICK: I'm really after what you're doing with the big guys, not the small players.

Mr Jordan: We'll do what we can there. I just don't know how that information is cut and diced. I know for the famous Chevron case \$10 million was our cost over a long period of time for experts and all of that. It's paid itself back hundreds, thousands of times, but these things can cost, particularly when it's around transfer mispricing.

Senator PATRICK: You might take a small company to court and the return is not substantial, but, on principle, you have to do that. Like the Chevron case, you spent a bunch of money on that and the return is significant in the context of not just Chevron but every other player. It's that second category I'm looking at.

CHAIR: Excellent. Thank you, Senator Patrick. I thank all the witnesses, Commissioner Jordan, on your team. Thank you very much for the work leading up to that \$26 billion figure, which we referred to. It's an outstanding achievement, so I congratulate everyone involved in that endeavour. To the officials, thanks for joining us. Sorry we went a bit overtime. Commissioner Johns, thank you very much for joining us today as well. We will now take a 10-minute break.

Mr Jordan: Chair, before you do make a break, Senator Urquhart asked the question about the money spent on labour hire in Tasmania for the ATO. I can confirm that as at 31 December that year it was zero for both Hobart and Burnie. I think she asked for earlier years. We'll have to go back and provide earlier years, but we committed to get what we could in session. It was zero.

CHAIR: Thank you for that, Commissioner Jordan. We'll make sure the secretariat lets Senator Urquhart know that you provided that information in such a timely fashion. Thanks to all of the witnesses. We'll now take a break, and we'll come back with the Markets Group.

Proceedings suspended from 17:29 to 17:40**Department of the Treasury**

CHAIR: Welcome, Ms Quinn and your team from Markets Group. Good to see you, Minister Hume. I will give the call to Senator McAllister.

Senator McALLISTER: Treasury issued a consultation paper on proxy advice in April last year. When did the Treasurer first ask Treasury to review the proxy advice industry?

Ms Quinn: I will check to see whether I have that date. Obviously it was before we issued the release of the consultation report. I don't have that date with me. I will check if my colleague Mr Dickson does.

Senator McALLISTER: I'm really just asking some process issues about the steps that were taken in the lead-up to the release of the consultation paper on proxy advice. My specific question was: when did the Treasurer first ask Treasury to review the proxy advice industry?

Mr Dickson: Looking at the time line, I know that the media release for the consultation being published was on 30 April. I don't have the precise date leading up to when we were asked to prepare advice, but it would have been in advance of that date. Looking back, it would have been before 30 April 2021.

Ms Quinn: We are happy to take it on notice to see if we can find more detailed information. I am aware of advice having gone in previous times, so it wasn't just one set of advice. I have a recollection of a series of discussions around parts of the financial system. I'm happy to take on notice the timing.

Senator McALLISTER: I do have further questions about it, but I'm most interested in understanding the sequence. I wonder if one of my colleagues may wish to ask some questions about other matters, and you could see if you could just let me know. I appreciate ASIC looked at this some years back, in 2018. Obviously there's a process within Treasury that leads to the issuing of a consultation paper. I'd like to understand when that began. Can I ask that you check that now. We can go to another senator and, when that advice is available, we can come back. Would that be alright?

Ms Quinn: Yes.

CHAIR: Mr Dickson, that gives you an opportunity to check whatever you need to check.

Mr Dickson: Sure. It's past closing time for the department, so we might not be able to get back to the team to get an answer, but I will do my best.

CHAIR: Just do your best, and you can come back and we'll see where we're up to, if that's okay. Senator Watt?

Senator WATT: Can I ask a few questions about the proposed North Queensland cyclone and flood damage reinsurance pool. I saw some media last week where the government claimed that it now has modelling that shows the reinsurance pool will deliver savings on insurance premiums of up to 46 per cent for homeowners and 58 per cent for strata policyholders as a result of the pool. Could you tell is a bit more about this modelling that shows this?

Ms Quinn: This is analysis based on a process of refining the arrangements for the scheme and design features of the scheme, working with industry and insurers—both sides of the insurance market—to get extra information. Then there was detailed analysis using consultants to come to expectations about the savings that would be arrived at, given the final design features. And you are right: it is expected that the cost pressures will produce discounts of 46 per cent for households; up to 58 per cent for strata properties to, because it depends on the particular characteristics of properties; and then up to 34 per cent for small and medium-sized enterprises as well.

Senator WATT: Who did the modelling?

Ms Quinn: There were two different steps in the process, but these numbers are drawn from analysis from Fidelity.

Senator WATT: They are drawn from?

Ms Quinn: A consultancy with Fidelity.

Mr Kelly: Just a correction: Finity was the actual consultant.

Ms Quinn: Sorry.

Senator WATT: So Finity are the consultants who were engaged and did the modelling. When was that finalised?

Ms Quinn: I'll pass to my colleague; I don't have that detail.

Mr Kelly: Maybe I'll say a bit more about the modelling to add some context before we get to the date of the answer. Finity was the primary actuary consulting firm that we used. They did initial scoping early in the process in March, and then we entered into a second contract with a few variations as we went along. As part of finalising the final design, they assisted with the design and estimating the impacts on premiums and other elements of the process. We also engaged Risk Management Solutions, which is an internationally recognised catastrophe modelling firm, and they provided supplementary and supporting information as part of the process. We also had the Australian Government Actuary involved in all steps of the process to provide a level of insurance around the modelling.

I don't have the precise date on which we received the final report on the final design as announced or put into legislation by the government. I'd have to take that on notice, but it was near the end of last year.

Senator WATT: Could you please table that modelling.

Senator Hume: No. I'm afraid the government is going to make a public interest immunity claim in relation to the production of modelling on two bases. One is that it informed and was the subject of cabinet deliberations, and for that reason disclosure would then disclose the deliberations of cabinet. The government believes it's not in the public interest to disclose information about cabinet's deliberations as it may impact the government's ability to receive confidential information and make appropriate decisions impacting the Australian community. I advise the committee that the government also claims public interest immunity over the information requested originally by Senator Chisholm a couple of days ago on the basis of commercial confidentiality.

In accordance with the resolution agreed to by the Senate on 30 October 2003 relating to claims of commercial confidentiality, the following statement sets out the basis of the claim and the commercial harm that may result from the disclosure of the information. Parts of the modelling were prepared and provided to the Treasury on the basis that it would be kept confidential as it contains commercially valuable information. To disclose such material would undermine the ability of the Treasurer as well as other government agencies to obtain the benefit of such services in the future as well as provide advice to government.

Senator Chisholm also requested copies of all stakeholder submissions provided to Treasury during the consultation process for the reinsurance pool. A relatively small number of these submissions were provided to Treasury on a confidential basis and marked 'Confidential', so the government also claims public interest immunity in relation to the production of those confidential submissions. To disclose information that Treasury has received on an explicitly confidential basis is likely to erode stakeholder confidence in the consultation process and deter stakeholders from openly engaging with and providing any commercially sensitive information to the government to inform future policy development.

Treasury did, however, receive over 100 submissions that were not provided on a confidential basis so non-confidential stakeholder submissions are currently being processed for publication on the Treasury website shortly.

Senator WATT: Minister, you say you've got some modelling which shows that people in North Queensland will save up to 46 per cent on their insurance premiums if they're a home owner or 58 per cent for strata properties, but no-one can see the modelling that you say you have—is that right?

Senator Hume: It's not in the public interest to disclose that information about cabinet's deliberations, because it may impact the government's ability to receive confidential information and make appropriate decisions impacting the Australian community.

Senator WATT: So North Queenslanders can't be trusted to see the modelling, that you say you have, that shows that they'll save up to 46 per cent on their insurance premiums. What do you reckon, Senator McDonald? Would North Queenslanders like that?

CHAIR: Senator McDonald is not a minister yet, to answer the question.

Senator McDONALD: North Queenslanders are very pleased to—northern Australia reinsurance put in place—

Senator WATT: But they can't be trusted to see the modelling.

Senator McDONALD: They don't want to see the modelling because they're relying on the government to bring in this announcement. I'm not answering questions, I'm sorry.

CHAIR: Just ignore it.

Senator WATT: North Queenslanders should trust this government—that is known for being able to be trusted, that never tells lies—that you'll give them an insurance cut of up to 46 per cent but you've hidden the modelling away, never to be seen.

Senator Hume: Thank you for the compliment, Senator Watt—

Senator WATT: You may have detected a note of irony in what I just said.

Senator Hume: but I think the people of northern Queensland will be particularly pleased to have access to the reinsurance pool.

Senator WATT: What proof, at all, Minister, can you present today that shows that North Queenslanders actually will receive these insurance premium reductions that you claim they will?

Senator Hume: I think the proof of the pudding will be in the eating, Senator Watt.

Senator WATT: People should just go to the next election and make their decision about who they want to be the government based on knowing one day that they might receive a premium reduction, but you can't prove it now?

Senator Hume: I think people will go to the next election and base their vote on many different factors, including how strong the economy is—

Senator WATT: It's a pretty big issue in North Queensland.

Senator Hume: It's a very big issue in northern Queensland, I know that. But they'll also make a decision on whether it's a strong economy, what their employment status is, how much money they've got back in their pockets from our tax cuts. I think they'll base their decision on a lot of factors.

Senator WATT: So you can't produce any proof at all to back up these claims the government's making.

Senator Hume: That's not what I said. I said we will not be producing the modelling that you have requested.

Senator WATT: I don't accept that you can hide the modelling, but I invite you to present any proof at all that backs up these claims that your government has been making in the media.

Senator Hume: I think the people of northern Australia are going to be extremely pleased that they have a reinsurance pool from which they can draw significant reductions in their insurance premiums.

Senator WATT: You just can't prove it.

Senator Hume: I think the people of northern Australia will be very pleased at the government's announcement.

Senator WATT: Your climate policy, if I recall, relies on technology that hasn't yet been invented, and now we've got a reinsurance policy that relies on modelling that no-one can see. You just think people should trust you?

Senator Hume: I think you're drawing such a long bow there, Senator Watt, that you're going to pull a muscle.

Senator WATT: People have been waiting a very long time for your government to do something about this. There have been promises made for the life of the government.

Senator Hume: I'm going to ruin your Twitter clip.

Senator WATT: I'm not thinking about Twitter clips, I'm thinking about insurance premiums.

Senator Hume: Then ask a question.

Senator WATT: All I can do is ask that you give some respect to people in North Queensland and show the modelling that you say backs up these claims. The other thing I noticed in Minister Sukkar's press release, when he made this announcement, was that he said: 'Homeowners in northern Australia with the most acute cost pressures are expected to benefit from up to 46 per cent premium discounts.' What do we mean by 'homeowners with the most acute cost pressures'?

Senator Hume: I would imagine, and I am speculating, that it means those homeowners that have the highest premiums.

Senator WATT: Ms Quinn or Mr Kelly, can you explain to us what we mean by people with the most acute cost pressures?

Ms Quinn: Just to be clear, the legislation that contains the design elements for the reinsurance pool was introduced on 9 February. The regulations that underpin it were also released. The design features of the reinsurance pool are in the public domain, and they set out the principles on which the pool will be created and managed by the Australian Reinsurance Pool Corporation. Those design elements are designed to ensure that the maximum reduction goes to those people who have experienced the highest increases in premiums in recent times.

Senator WATT: Essentially, that's how we define it: the people who've experienced the biggest increases in their premiums?

Ms Quinn: It's around the most risk that they bear in response to the cyclone risk. In the past the insurance premiums have reflected increases in risks. You can characterise it as either those that bear the most risk or those that bear the highest cost depending on which way you wanted to characterise it.

Senator WATT: In layperson's terms, how would you describe the kind of people who will get this premium reduction? The most acute?

Ms Quinn: I'm happy to pass to Mr Kelly.

Mr Kelly: The way the process is, you can think of categories of low-risk areas or low-risk properties, medium-risk properties and high-risk properties. Those higher end savings referred to by the government are at the higher end.

Senator WATT: What percentage of North Queenslanders are considered to be high risk?

Mr Kelly: You're asking a question that essentially goes to the modelling itself—

Senator WATT: So it doesn't mean, Ms Quinn, that every homeowner in North Queensland will see a premium reduction of up to 46 per cent, it's only the high-risk homeowners?

Ms Quinn: 'Up to' is the expression talking about the largest reductions that people get. How much people will see will depend on their risk and depend on their insurance that they have and other features they co-insure, for example, as well.

Senator WATT: What's the average premium reduction expected for homeowners in North Queensland?

Ms Quinn: That number is not in the public domain.

Senator WATT: Because that's part of the stuff that the government's not prepared to release?

Ms Quinn: Correct.

Senator WATT: Minister, don't you owe it to the average homeowner in North Queensland to tell them what their premium reduction is going to be?

Senator Hume: I know Labor are very upset because they don't have a plan to make insurance more affordable in northern Queensland themselves.

Senator McALLISTER: It's unclear that you do.

Senator Hume: What I can say is that this plan, the legislation which has already been introduced into the parliament, has been welcomed by all stakeholders, including the Real Estate Institute of Australia, who said it's a win for homeowners and for renters; IAG, who said the reinsurance pool will make insurance more affordable for home, strata and small-business policyholders; and the Insurance Council of Australia, who welcomed the reinsurance pool's design.

Senator WATT: Have you seen what RACQ had to say about this? They sent an email to every one of their members in Queensland saying, 'RACQ is currently unable to validate the premium reductions that have been reported in the media.' I understand Suncorp has also had a bit to say, questioning whether these figures can be believed. It's not quite right to say that all stakeholders say this is a great thing, is it?

Senator Hume: Have you found a stakeholder that's said it's a bad thing?

Senator WATT: I've certainly found stakeholders, like the two biggest insurers in Queensland, who say they can't see how people are going to get the premium reductions that the government's claiming.

Senator McDONALD: The insurers who are operating a monopoly in North Queensland.

Senator Hume: The reinsurance pool is expected to increase competition, and it's supposed to put pressure on premiums.

Senator WATT: Does your modelling show that?

Senator Hume: There's around \$2.9 billion in premium reductions that are anticipated for eligible households, strata properties and small businesses.

Senator WATT: Is that what your modelling says?

Senator Hume: Correct.

Senator WATT: So you can tell us about the modelling?

Senator Hume: No. I can tell you the information that's in the public domain, but I can't show you the modelling.

Senator WATT: So you won't tell us what the average householder in North Queensland can expect by way of premium reductions under this pool, Minister?

Senator Hume: It's estimated that for those living in northern Australia and particularly those with the most acute cost pressures they can expect to benefit from premium discounts of up to, as you said, 46 per cent for homeowners, 58 per cent for strata properties and 34 per cent for small and medium enterprises.

Senator WATT: That's all through your press release. I get that. Mr Kelly, can you give us a rough percentage of the number of homeowners in North Queensland who would be considered high risk? Are we talking five per cent, 10 per cent—I'm assuming it's not 50 per cent, if they're high risk. They must be a relatively small group.

Mr Kelly: You're going to the details of the modelling again that was done for these purposes. If I can just take the opportunity to come back to the question I wasn't fully able to answer before on the final report with Finity: we saw a near final copy on 2 November. It was finalised and formally handed over on 29 November last year.

Senator WATT: What we actually now know is that it's only high-risk property owners who might receive premium reductions of up to 48 per cent, or whatever the figure is, but it's not true to say that the average homeowner in North Queensland will get a premium reduction of up to 48 per cent—it's only high-risk, isn't it?

Senator Hume: That's pure speculation, Senator Watt. I don't know where you've pulled that—

Senator WATT: You can put me out of my misery if you tell me what the average homeowner is going to see. That's what people in North Queensland actually want to know.

Senator Hume: For those living in northern Australia with the most acute cost pressures—

Senator WATT: Yep, got it.

Senator Hume: they can expect to benefit from premium discounts of up to 46 per cent for homeowners, 58 per cent for strata properties and 34 per cent for small and medium enterprises.

Senator WATT: The other issue I've heard about this is that what the government's proposing is that the reinsurance—essentially, the damage will only be covered if it occurs within 48 hours of a cyclonic event. Is that how it works? I probably haven't expressed that particularly well.

Mr Kelly: It's 48 hours after the end of the cyclonic event.

Senator WATT: Cyclones tend to be, especially when they cross the coast—it's a relatively quick 24 to 48 hours that it's wreaking havoc before it either dissipates, blows out to sea or blows further inland. So any damage that occurs because of, say, floodwaters that happen beyond 48 hours after the cyclone won't be covered by the pool—is that right?

Mr Kelly: There are elements and wording around this, but my understanding is it relates to damage that commences within the 48-hour period. It commences and some of it can extend out. 48 hours is the baseline.

Senator WATT: To give you an example: Cyclone Debbie, which happened in North Queensland a few years ago, came over the coast, with lots of damage within the first 24 hours in some parts, but it triggered very large flooding across a substantial part of Queensland, and I think even northern New South Wales. Any of that flooding that occurred after the initial 48 hours would not be covered by the reinsurance pool—is that correct?

Mr Kelly: As I said, it's after the cyclone ends that the 48 hours applies. It's whatever the event of the cyclone period is and then you have another 48 hours.

Senator WATT: So if it goes from being a category 4 Cyclone and, say, within two days—I forgot the technical term—stopped being a cyclone—

Senator CHISHOLM: A rain event.

Senator WATT: became a rain event rather than a cyclone, any damage after that initial 48 hours won't be covered?

Mr Kelly: Subject to the caveat I made about the damage commencing, yes.

Senator WATT: If you look back at some of the major cyclones that have happened in Queensland in recent years, a substantial amount of the damage has flowed from flooding that happened days after the cyclone ceased being a cyclone. This reinsurance pool actually won't offer any assistance to people in that situation—is that right?

Mr Kelly: I can't verify the factual statement you've made. I don't have that information with me.

Senator WATT: Does anyone at the table know something of recent cyclones in Queensland and can talk to that?

Ms Quinn: Not in detail. These were matters that were considered as part of the design features in terms of the analysis that was provided, the input from insurance companies and stakeholders. There was comprehensive engagement with the community and with experts on these things. It is a design feature and a decision for government to allow the 48 hours after the finalisation of the cyclone. They're matters of policy taking on board all the information provided to them in the more than 100 submissions.

CHAIR: Senator Watt, I have been giving you quite a bit of latitude.

Senator WATT: Yes.

CHAIR: I want to draw your attention to the estimates rules—the secretary drew my attention to them. There are issues where we do need to be careful in asking questions about the meaning, and I'm quoting from the estimate rules: '... it is not considered appropriate to ask questions about the meaning, purpose, intention or effect of clauses in bills that are the subject of a separate inquiry.' This bill is, of course, the subject of an inquiry by this committee, so I think we do need to tread a bit carefully. I was happy to let your questions go in terms of the modelling.

Senator WATT: Sure.

CHAIR: But in terms of the effect of particular clauses, I think we need to be mindful that the bill itself is the subject of inquiry.

Senator WATT: Understood, and we're going to ask more detailed questions through that inquiry. To keep it general, Minister, don't you think it would have been more honest for the government to advise North Queenslanders of what premium reductions the average householder could expect? Why did you only focus on those at high risk?

Senator Hume: I don't want to speculate on what may or may not be in that modelling. What I can say, though, is that the government listened very carefully to feedback that was received throughout the consultation and design process. It made key changes to ensure that the reinsurance pool delivers on its objectives and that 96 per cent of business property policies in northern Australia will be covered by that reinsurance pool under the \$5 million sum insured threshold. We also expanded the coverage for strata buildings, including for commercial strata properties, which means that the pool will now cover over 6,000 additional strata policies. Coverage will also be expanded to small business marine property insurance. Policyholders will also continue to have freedom to choose their own insurer, and insurers will manage their own claims. Premium savings will then become available as insurers transition to the pool from 1 July 2022. The only thing that would stop the pool from starting on 1 July 2022, precisely when we said it would, is the opposition.

Senator WATT: Can you confirm that the average householder in North Queensland will receive a premium reduction of up to 46 per cent?

Senator Hume: That's not what I said.

Senator WATT: I know. It's a separate question. I'm inviting you to confirm that the average householder in North Queensland will receive a premium reduction of up to 46 per cent.

Senator Hume: Those with the most acute cost pressures can expect to benefit from premium discounts of up to 46 per cent for homeowners.

Senator WATT: Yes, that's high risk, so the average householder cannot expect a premium reduction of up to 46 per cent. You're limiting your statement to high-risk homeowners.

Senator Hume: Insurance normally is for high-risk homeowners, is it not? You'd want the high-risk homeowners to be insured.

Senator CHISHOLM: If you lower premiums then everyone would be insured.

Senator WATT: Exactly. I'm currently renewing my home insurance policy and would quite like to have it paid out but I'm not in a high-risk property. You are saying that high-risk homeowners will get up to a 46 per cent reduction.

Senator Hume: No, I said those with the most acute cost pressures will get up to 46 per cent.

Senator WATT: Let's go with your language: those with the most acute cost pressures will get up to 46 per cent, but that does not mean that the average householder in North Queensland will get up to 46 per cent, does it, Ms Quinn?

Ms Quinn: Depending on the level of risk and how much in premiums they currently pay, they will get different percentage reductions going forward.

Senator WATT: So some will get less.

Ms Quinn: Some will get less than 46 per cent. That's why the statement says 'up to 46 per cent'.

Senator WATT: And the statement is limited to those at the most acute risk.

Ms Quinn: That's the statement, yes.

Senator WATT: Minister, can you guarantee that the average homeowner in North Queensland will get a premium reduction of up to 46 per cent?

Senator Hume: The government has made no statement about the average homeowner, and I will make no comments that refer to the modelling, for which we have taken a public interest immunity claim.

Senator WATT: So you can't give that guarantee.

Senator Hume: It's in the modelling; I cannot talk about it because it's a public interest immunity claim. It is part of cabinet deliberations.

Senator WATT: Can you guarantee that no policy—

Senator Hume: I'm not ruling in and I'm not ruling out. You know I'm not going to play that game.

Senator WATT: Can you guarantee that no policyholder in North Queensland will see their premiums go up?

Senator Hume: No, I'm not going to play that game.

Senator WATT: You've made a lot of claims about premiums going down—

Senator Hume: This is an excellent piece of policy which we know the people of northern Queensland have been crying out for for a long period of time.

Senator WATT: You just won't show them the modelling.

CHAIR: Senator Watt, I have given you some time. Senator McDonald has some questions on this topic, so I would like to give her the call.

Senator WATT: Maybe she can get the modelling!

CHAIR: Let's give Senator McDonald the opportunity to ask some questions.

Senator McDONALD: As probably the only person here who lives in northern Australia, let me tell you how very, very pleased we are by this announcement, because what Senator Watt is failing to acknowledge is the number of people who are not insured at all anymore. They're not insured at all. This policy will stand behind the premium providers of northern Australia.

What I want to ask you is: do you have any data on the number of people who are uninsured, or do they just not show up because they're not a policyholder?

Ms Quinn: I don't have the number in front of me, but I have given evidence before at this committee that there is a sizeable proportion of people who are underinsured. This was canvassed in the ACCC's analysis of the insurance market. And you're correct: it's significantly higher than the underinsurance rate elsewhere in Australia, indicating that the price and the risk that's borne by households is reduced insurance coverage in northern Australia.

Mr Kelly: I can give you the numbers from the ACCC report. About 20 per cent of properties in northern Australia have no building insurance compared with 11 per cent in the rest of Australia.

Senator McDONALD: Wow. The ACCC report talked about premiums in northern Australia being 2½ times the amount that they are in southern Australia. I know that I pay three times per \$100,000 what I would have been quoted in northern Australia. I understand the reason for insurance being so much higher in northern Australia is a collection of factors. Could you talk me through what you understand are the factors affecting higher insurance in northern Australia?

Ms Quinn: This was part of the ACCC's investigation into the insurance market. It found that the main driver was higher natural hazard risk, primarily driven by cyclones and, in some cases, flood risk.

Senator McDONALD: Did they mention the different building codes in Queensland? The Insurance Council of Australia tells me that Queensland building codes are not as high as they are, for example, in Darwin, and that they haven't been policed by the Queensland building authority.

Ms Quinn: The quality of buildings definitely impacts on the assessment of risk and that goes to the underlying standards that are in place. Many households, of course, build above minimum standards and as a result would get a reduction in their insurance premiums.

Senator McDONALD: I understand the federal government has done a strata title unit trial of \$40 million—is that correct? It's to trial improvements to building structures to try and assist them with a reduction in their premiums.

Ms Quinn: There has been a trial, but I'd have to take on notice the \$40 million number. The trial was looking at what mitigations could be done and how they would reduce premiums. It has resulted in clear reductions in premiums when households—strata title—invest in known mitigants.

Senator McDONALD: Are you aware of the amount of stamp duty that's been charged by the Queensland state Labor government on premiums in North Queensland as premiums have escalated?

Ms Quinn: I haven't got the fixed amount, but it is as a percentage, so as premiums go up the dollar amount received goes up as well.

Senator McDONALD: I understand \$65 million was collected the year before last. The Labor government has been putting \$10 million in that same period into resilience projects. It seems strange to have the government putting forward a reinsurance pool to stand behind insurers, to actively try and find a way forward on this catastrophe of insurance in northern Australia, yet the opposition minister doesn't have a plan. They don't have a plan in Queensland; they don't have a plan federally. Are you aware of any plan that the opposition has put forward to address the reinsurance crisis in northern Australia?

Senator Hume: I'm not aware of another plan. I didn't realise that the state Labor government in Queensland was creaming off the top either.

Senator McDONALD: Creaming it.

Senator WATT: I refer you to our disaster emergency plan. There's a lot of interest in mitigation out there.

Senator McDONALD: It's very difficult to hear criticism of a positive, proactive plan that everybody, apart from the two insurance companies who have a monopoly in North Queensland, is critical of, and I look forward to seeing the implementation on 1 July.

CHAIR: Thank you. Senator McKim.

Senator McKIM: I know Senator McAllister was asking some questions about the development of the proxy advice regulations. I've got a few questions on that as well. They're in a slightly different area to Senator McAllister's. Firstly, can I ask Treasury whether any external consultants were engaged to assist in the development or the drafting of the greater transparency of proxy advice regulations?

Ms Quinn: No.

Senator McKIM: Was ASIC shown the final version of the regulations before they were tabled?

Ms Quinn: I will pass to my colleague on that precise point.

Mr Dickson: My involvement at certain stages was more towards the beginning of the process. I don't have information in relation to consultation with ASIC, but I can take that on notice.

Senator McKIM: ASIC is obviously the regulator. It's ASIC's responsibility to issue licences to proxy advisers. I'd expected that they were consulted through this process. I certainly hope they were. Perhaps I could just extend my question out, given you're taking it on notice, and ask for details of consultation with ASIC right through the process of developing and drafting these regulations. Specifically, as I previously asked, were they shown the final version of the regulations before they were tabled. So you're happy to take that on notice?

Mr Dickson: Yes.

Ms Quinn: There definitely were conversations with ASIC through the process. I just don't have whether they saw the very, very final version as released. But they certainly were consulted through the process, as you say, given their implementation role.

Senator McKIM: Thank you. To Treasury's knowledge, did anyone outside Treasury or the Treasurer's office get to see the final version of these regulations before they were tabled?

Ms Quinn: All regulations are a matter for government and are approved for release by a minister. The usual process is that that goes to the minister responsible, and the minister approves them for release. So they would have been signed off by the Treasurer, yes.

Senator McKIM: I understand that. I'm asking whether, to Treasury's knowledge, the final version of these regulations was seen by anyone outside Treasury or the Treasurer's office.

Ms Quinn: I'm happy to take that on notice. Certainly we liaise with regulators, on the basis of them implementing regulation. We have various elements in our processes to consult with them. We acted on behalf of the government. I can't speak to whether the ministers share information with others. I could take that on notice for you, though.

Senator McKIM: I appreciate that. I also want to ask on what basis 7 February was set as the commencement date. Is there anything particularly special about that date? Whose idea was it that 7 February was set as the commencement date?

Ms Quinn: I'm not aware, other than the usual process of considering how long it would take for various parties to adjust—the passing of legislation, the time that it would take for regulators to have arrangements in place et cetera. I'm not aware of any specific considerations other than the usual set of considerations, but I'm happy to take it on notice.

Senator McKIM: Did Treasury consult with a law firm called Arnold Bloch Leibler at any stage during the development and drafting of the regulations?

Mr Dickson: They provided a submission to the process, but we did not have any engagement outside of that submission process.

CHAIR: Sorry to interrupt, Senator McKim; I just want to clarify this. That was a submission in response to the Treasury consultation process that issued a paper for calling for submissions?

Mr Dickson: Yes, that's right.

Senator McKIM: And I think you've just given evidence that, outside the provision by Arnold Bloch Leibler of that submission, there was no further engagement with them on the development of the regulations?

Mr Dickson: That's correct.

Senator McKIM: Thank you.

CHAIR: Mr Dickson, Senator McAllister had a series of questions in relation to process. Did you have the opportunity to find the information you needed to fulsomely address that issue?

Mr Dickson: Not fulsomely; I can answer partially. Unfortunately, I haven't been able to get every detail and date.

CHAIR: We'll see how we go.

Mr Dickson: I can give you a characterisation that might suffice for the time being, and we can take the question on notice and give you more precise dates. In terms of our engagement, we engaged with the issue over a number of months. That culminated in a request that we received on 13 April 2021 to produce and finalise a consultation paper, but leading up to that there would have been conversations and engagement over a lengthy period of time.

Senator McALLISTER: You said 'a number of months'. Does 'a number of months' refer to two or three?

Mr Dickson: To be precise, I don't have a strong recollection dating back that far, but I would say it would be several months. In fact, the issue pre-dates my involvement in it. I think the issues relating to proxy advisers may have even been canvassed by my predecessors.

Senator McALLISTER: When did you commence in the role, Mr Dickson?

Mr Dickson: It's a bit hazy because I was working on a lot of coronavirus things. We were working on a lot of pandemic things, so there was a transition period. My commencement in the role would have been in 2020 sometime.

Senator McALLISTER: However, in the months leading up to the formal request on 13 April for a final consultation paper, you'd been having discussions with the Treasurer or with his staff, I assume?

Mr Dickson: Yes.

Senator McALLISTER: Did the Treasurer initiate these discussions before or after the Australian Council of Superannuation Investors publicly criticised Rio Tinto for their destruction of Juukan Gorge?

Mr Dickson: I haven't drawn a connection between those two things in my work on the issue of proxy advisers, but I can look up the date when that occurred and provide an answer to that.

Senator McALLISTER: Was the request from the Treasurer's office made before or after Ownership Matters released embarrassing information about the JobKeeper rorts caused by the Treasurer's failures?

Mr Dickson: In relation to dates, I'm happy to take on notice those questions about the precise dates that those events occurred and how they related to any work that we did on proxy advice. As I said before, in the work that I've done, I haven't drawn a connection between those things.

Senator McALLISTER: There was a formal request to prepare this consultation paper. When did the Treasurer instruct Treasury to prepare the regulations?

Mr Dickson: In terms of the instruction to prepare regulations, I'm not sure if there was a formal date as such, because we would have had conversations where we would have been anticipating the likely direction of reform in the area. So I'm not sure if there's a clear-cut date, but I could get a date for you.

Senator McALLISTER: Why did Treasury not issue an exposure draft of the regulations for consultation prior to putting them into the parliament?

Ms Quinn: The release of documents for consultation are a matter for the government as opposed to the Treasury per se, so you'd have to put that question to the government.

Senator McALLISTER: In the Westminster system, you're all the same branch of government, so normally I would expect you to answer the question. But perhaps the minister could enlighten us, if you don't know Ms Quinn. Why was there no public consultation on the regulations, Minister?

Senator Hume: There was significant consultation on the regulations ahead of the final package.

Senator McALLISTER: There was no public—there was no exposure draft.

Senator Hume: The final package of regulations differed from the option in the consultation paper, but those changes were made on the basis of stakeholder feedback.

Senator McALLISTER: You're aware that the Office of Best Practice Regulation evaluated their RIS and found them to be not consistent with best practice. Is it common for major pieces of financial regulation to receive a finding from the OBPR as not being consistent with best practice?

Senator Hume: I couldn't answer that.

Senator McALLISTER: You don't know or you don't—

Senator Hume: No.

Senator McALLISTER: Is it common in your policy areas? Do your RISs usually get a big black mark from the OBPR?

Senator Hume: I know that these particular regulations have raised your ire, but they were only there to strengthen transparency and accountability—

Senator McALLISTER: They were there to stifle transparency and accountability, actually, Minister.

Senator Hume: in an industry that is highly concentrated and yet has enormous influence and a significant impact on the way companies operate and the way they're governed. I would imagine that the opposition would be in favour of transparency and accountability in all aspects of governance.

Senator McALLISTER: It's been described as an undergraduate exercise from a Treasurer pursuing the grievances of others.

Ms Quinn: I just want to be clear that the Office of Best Practice Regulation's assessment is that the quality of the regulatory impact analysis in the RIS is adequate and therefore sufficient to inform a decision. That's the formal declaration of the OBPR on the RIS.

Senator McALLISTER: And yet not consistent with best practice. Did Treasury prepare a response for the Treasurer in relation to the letter issued by Senator Fierravanti-Wells on 27 January this year which outlined serious scrutiny concerns with the legislation?

Ms Quinn: We provide advice on all matters that are put to the Treasurer from that committee. This wouldn't have been any different to others.

Senator McALLISTER: I'm not really looking for an explanation of your general protocol; I'm asking a specific question of fact. Did Treasury prepare a response for the Treasurer to sign, or a piece of advice for the Treasurer, in relation to the letter from Senator Fierravanti-Wells?

Ms Quinn: We did provide advice, yes.

Senator McALLISTER: Advice, but no letter?

Ms Quinn: I'd have to check. I don't have in my mind whether there was a letter attached or not, but I know we did provide advice.

Senator McALLISTER: I have a couple of other questions on the reinsurance pool. This is just a question of fact, although so few questions of fact have been able to be answered about this particular proposition. How many insurers will participate in the pool on 1 July 2022?

Ms Quinn: You're asking about a forecast going forward, so it is going to depend a little bit on how the insurers respond. But, given that there's a mandated coverage—I don't have the exact number. Do you have it, James?

Mr Kelly: This is getting to questions about the legislation, which raises the issues that the chair raised. There is a transition period in. You've got a 1 July 2022 start date, but the larger insurers have 18 months to join, and then there's an initial 12-month period for the others.

Senator McALLISTER: Thanks. You're misunderstanding my question. I'm sorry. I'll ask it more clearly. I'm not asking about the terms of the legislation. I will ask it in a different way. How many insurers have advised you that they will join on 1 July 2022?

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

Senator McALLISTER: Do you not know, Mr Kelly?

Mr Kelly: No.

Senator McALLISTER: Have any?

Ms Quinn: It's going to depend on the legislation passing and final design of the scheme being in place. It would be unusual for people to tell us something that isn't yet passed by parliament, but certainly the insurers have been actively involved in the process. The legislation put before parliament has a mandated entry with the phasing in, as Mr Kelly said. It would be a little strange for them to declare or not declare their actual participation at this point in the process.

Senator McALLISTER: It's just, Minister Hume, you've been very enthusiastic about how marvellous this is going to be for people in Queensland. I'm just wondering whether any insurers at all will be participating on 1 July 2022.

Senator Hume: I think Ms Quinn made it very clear that the legislation needs to be passed before we can assess that.

Senator McALLISTER: I see, so you just don't know. You have got no idea?

Senator Hume: I can take it on notice and ask the Assistant Treasurer, but I think Ms Quinn answered your question adequately.

Senator McALLISTER: Alright then.

CHAIR: Do we have any more questions for the Markets Group? Senator Chisholm?

Senator CHISHOLM: I just want to focus on the SME Loan Recovery Scheme, which was extended I think for another six months till the end of July this year. When the SME loan guarantee was introduced in March 2020 it was budgeted to deliver \$40 billion in loans. How many businesses were expected to take up these loans at the time?

Ms Quinn: We didn't make an assessment of how many would take it up. The provisioning was based on a very conservative assessment. We were quite unsure what the pandemic was going to do and what the arrangements were going to be for small- and medium-sized enterprises, so we took a conservative analysis, but we didn't make an estimate of the number of people who would take it up. It was a demand-driven scheme. It's a different way of accounting for it. Given that it's a guarantee, as opposed to an expenditure, we weren't required to try to make a forecast.

Senator CHISHOLM: So how did you reach the \$40 billion figure?

Ms Quinn: We looked at how much lending there was in this sector and the possible different scenarios and we made an assessment on a very conservative number. What happened from that assessment until the final outcome was that a large number of other policies were put in place, including JobKeeper and the deferral arrangements from the banks, so it's not at all surprising that the number is less than that conservative number that was originally put in place.

Senator CHISHOLM: So how much of that \$40 billion that had been budgeted for was delivered by September 2020?

Ms Quinn: I don't have the numbers for September 2020, but we do know that as at 31 December 2021 across both the SME Guarantee Scheme and the SME Recovery Loan Scheme there were 86,000 loans worth around

\$9.3 billion provided. How many of those will call on the guarantee will be a function of how they fare over the life of their loan.

Mr Kelly: Senator, I think the September 2020 date you're referring to is the end of the first phase of the SMEG. That number is \$1.847 billion.

Senator CHISHOLM: Do you know how many businesses there were?

Mr Kelly: The number of loans approved was 20,500.

Senator CHISHOLM: What about for the second period, which I think ended on 3 June 2021?

Mr Kelly: There, the value is \$4.721 billion and 57,000 loans.

Senator CHISHOLM: And December 2021?

Ms Quinn: We have categorisation by the different types of schemes. The next scheme was the recovery loan scheme, and, as at the end of December, there were 9,000 approved loans at \$2.839 billion. Those, plus a few others, add up to the chose data, and then some refinancing adds up to the \$2.3 billion number that I give you at the start.

Senator CHISHOLM: How much is expected to be delivered by 1 July 2022?

Ms Quinn: It is a demand-driven program that depends on the demand for the guarantee through the banking system, so we don't have a forecast.

Senator CHISHOLM: No forecast on the number of businesses that would be expected to take it up, either?

Ms Quinn: No. It would depend on how they are going and what options they assess for themselves in talking to their bank.

Senator CHISHOLM: So, when you were proposing it, you had no sense of the total number of loans that would be budgeted?

Ms Quinn: Not at the time. It was at the height of the peak uncertainty as to what the pandemic was going to do to the Australian economy, and it was before other policies were put in place; it was in the first phase. It was highly uncertain what the outlook was.

Senator CHISHOLM: Have you got any state breakdowns per state for those categories?

Ms Quinn: I don't with me, and I'm not sure that we request that information from the banks. I'm happy to take that on notice.

Senator CHISHOLM: I'd be interested to see what details you've got. I presume there was no work done on whether different states would have a better uptake of these than other states?

Ms Quinn: No, there is no geographical element to the program. It's available to all businesses. The only geographical element was when the impact of particular floods was added into the recovery loan scheme. In general there is no geographical component. It will depend on the impact of the pandemic on business models in different parts, but you can imagine that those areas that were most affected by restrictions or actual outbreaks would have been more affected.

Senator CHISHOLM: Can I ask for some more detail on notice, if you can provide it, about how many there were per state and how much the dollar value was per state?

Ms Quinn: I am happy to take that on notice and see whether we have that data.

Senator CHISHOLM: Given there was a relatively low take-up of the loans—and I understand you provided the context as to why that was—on what basis was the decision taken to extend the scheme to 30 June this year?

Ms Quinn: I wouldn't characterise it as low take-up. If I was talking to you about 86,000 small businesses supported by a guarantee of over \$9 billion in any other time, it would be considered a significant program.

Senator CHISHOLM: It's less than a quarter of the total that was set aside for it, though.

Ms Quinn: As I said, you need to take the package of measures together, and JobKeeper was not in play when we first looked at the number. I really can't emphasise enough how speculative that first number was. It is unfair of the program, in some sense, to characterise it against that element. The extension of the program has occurred as the government has assessed the need for support in the economy in response to the pandemic moving forward. It has changed the parameters of the guarantee to reflect the circumstances. The first phase, for example, was very much focused on cash flow and supporting businesses in the first phase of the pandemic. The recovery loans changed so they could support investments as people came out of lockdowns and into a growing economy. It allowed more investment options with longer terms and higher loans. The scheme has been adapted over time to reflect the economic circumstances and the needs of small business.

Senator CHISHOLM: I'll just move to another subject: small business payment times. The small business ombudsman has observed that the payment time reporting register reveals that more than 30 per cent of invoices are being paid late by big business for what has already been earned by small business. Has Treasury provided advice to the Treasurer or to the minister for small business on the reasons why one in three small businesses are being paid late?

Ms Quinn: As has been said, the government has introduced a mechanism to track what's happening with payment times for small business. There's a reporting scheme which requires big business to report what they're doing. This was a policy outcome from a few years ago and it's taken time to implement in terms of having registrations et cetera. We've provided advice on what's happening in response to the register and the obligations under the scheme going forward.

Mr Cully: I can add to Ms Quinn's answer. In the development of the scheme, a piece of work was done initially which looked at the payment time and small business performance, about the economic impacts of small business being paid late. That work was done with AlphaBeta Advisors, as it then was; it's now part of Accenture. Obviously, that advice was provided to the small business ministers and other ministers in government as a justification for why the scheme was necessary: the economic costs to small business and to the economy of small businesses not being paid on time.

Senator CHISHOLM: How many small businesses have been paid late, according to the register?

Mr Cully: I'm not sure we have that. I might see if Ms Jeffries has that analysis.

Ms Jeffries: I would have to take the specific number on notice and go back through the register to confirm the exact number. What I can tell you, though, based on the first reporting period that we've now published on the register is that, as at 30 November, there were 6,763 reports published for that first reporting period from entities that had a standard or a calendar income year. The average payment terms were just over 37 days.

What we could tell from the reports that were published was that, across all industries, approximately 44 per cent of small business invoices were paid within 20 days. That's based on the number of invoices paid. Based on those figures, we can see that less than three per cent of invoices were paid after 90 days or more.

Senator CHISHOLM: Can you name the top 20 businesses who paid invoices outside the 30-day payment benchmark?

Ms Jeffries: Not off the top of my head, but I can take that on notice and provide that figure for you.

Senator CHISHOLM: Okay.

Ms Quinn: I can tell you that, of the sectors, the manufacturing sector has the longest average and that public administration has the shortest payment times. So there are distinct differences across different sectors in the economy.

Senator CHISHOLM: Yes. Would you be able to provide that list of top 20 businesses relatively soon?

Ms Jeffries: Yes, we can.

Senator CHISHOLM: Just on the 37-day period: what specific mechanisms are in place to ensure payment times are improved?

Mr Cully: The basis of this scheme is to have transparency around the way that big business pays small business and, through that transparency, to drive better performance in payment times. So there's no formal process through that, but the transparency should drive the improvement in those payment times.

Senator CHISHOLM: Okay. Can you provide me with examples of how that has happened—of a business that has made reparations for paying small businesses outside that payment benchmark as a result of the register?

Mr Cully: I don't think we could point to any examples of reparations where a big business may have paid a small business outside of its payment terms. Those payment terms can vary. Thirty-seven is obviously the average, which means there's a number that pay quicker than that and there's a number that pay beyond that. But we can certainly say that what we've observed since the scheme has commenced is some activity by big businesses to look to improve their payment time performance to small business in the knowledge that that will be published and transparent and so wanting to improve their performance in that area.

Ms Bray: Many of the businesses that have submitted their reports have indicated in those reports, that are now publicly available, their commitment and intention to improve their payment times to small business. So, an analysis of early trends will be possible following their second reporting period, which is due 30 March this year and will be published after that.

Senator CHISHOLM: Has Treasury provided any advice to the Treasurer or the minister for small business on further measures to make sure small businesses are paid on time in addition to the current reporting scheme?

Mr Cully: During the course of the parliamentary progress of the bill, there was obviously a committee process and debate. There was a range of other measures that were put forward, including methods of mandating payment times. One outcome of that parliamentary debate was that there is now in the legislation a requirement that the payment time scheme be reviewed, and that review will need to commence in the first half of next year. In part of that there are some quite specific terms of reference enshrined in the legislation which includes options looking at whether the scheme has been successful or whether there may need to be other measures taken.

Senator CHISHOLM: Have there been any mechanisms available to governments to ensure small businesses are paid on time other than this transparency regime?

Mr Cully: There is a suite of measures the government has adopted, so the government has a commitment it will pay within 20 business days.

Senator CHISHOLM: I'm more looking for other things that could be under consideration and not what's done. What else could be under consideration?

Mr Cully: What's under consideration would obviously go to advice to government. Clearly, in terms of the debate around when the scheme was being introduced, there was discussion around mandating payment times, having set payment times for that. That is something that has been adopted in some other jurisdictions and has not been overly successful. That's one area that has been part of this discussion about how to improve payment times for small business.

Senator CHISHOLM: Has Treasury received any feedback on whether small businesses have been able to access meaningful information from the data as it's currently published?

Ms Jeffries: Nothing directly from small businesses to the best of my knowledge. But, as I mentioned before, businesses have submitted their reports. We've only just had their first reporting period published, so the reports are available for small businesses to review, but the first report set a benchmark for subsequent reporting periods.

Ms Quinn: We obviously will look at the number of people who are accessing those reports, and, as part of our new review, we would consider how useful people found them.

Senator CHISHOLM: I think the manufacturing industry was identified as having the longest average payment terms?

Ms Jeffries: That's correct.

Senator CHISHOLM: Of 49 days?

Ms Jeffries: More than 47 days.

Senator CHISHOLM: Has Treasury assessed the potential supply chain impacts in key areas of sovereign national capability like manufacturing when small businesses are paid later than most other small businesses in that industry?

Ms Quinn: The policy responsibility for manufacturing rests with the department of industry. So it's probably a question best put to them, but this information is publicly available—not just within government—and so it would be a factor in terms of the operation of the different sectors how the money flows through those sectors.

Senator CHISHOLM: Credit Watch reports that the construction industry payment times have blown out through COVID-19 and are now at record highs, with 12 per cent of building companies more than 60 days behind on debts owed to suppliers and contractors. Does this data show that the payment time register is not equipped to reflect current market conditions in a timely way that can be acted upon?

Ms Quinn: The reporting periods are with a lag at a specific point in time. They will pick up over time—trends—as Ms Jeffries said. It's not a just-in-time registry, though. It does do points in time.

Senator CHISHOLM: Is there anything that could specifically be done in the construction industry? It's just consistently a problem, and across the country, from what I can observe.

Mr Cully: I know from previous experience this is an issue that's been looked at by other portfolios and particularly around issues around things such as security of payments—ensuring that subcontractors get paid full stop, let alone within time. So I know it is looked at in other parts of government.

Senator CHISHOLM: But there's nothing specifically to do with the construction industry that the government are considering?

Ms Quinn: We're happy to take that on notice and put that to our colleagues that look after the construction industry in detail, which would be in the department of industry.

Senator Hume: Senator Chisholm, if I could just wade into one of my other portfolio responsibilities for a moment: in the Digital Business Plan, which was released in 2020, the government invested \$15.3 billion to support the adoption of e-invoicing by businesses. It's estimated that businesses exchange more than \$1.2 billion invoices every single year, and around 90 per cent of those are still processed manually. That's one of the things that contributes to late payments, but e-invoicing can save businesses up to \$20 per invoice. The government is currently consulting on options to support business adoption of e-invoicing—and that consultation paper was released in December 2021, and it closes at the end of this month—to test a range of potential interventions, including the idea of a 'business e-invoicing right'. And, also, government has really led the way by being an e-invoicer itself.

Senator CHISHOLM: In a recent survey Xero found 24 per cent of small businesses said they delayed payments to themselves, or 23 per cent delayed paying their own creditors or suppliers, because their customers pay them late. Is more action needed from the government to ensure that small businesses are paid on time, than the current reporting regime?

Senator Hume: I think that's exactly the point and purpose of doing consultation on e-invoicing and trying to encourage small and medium-sized enterprises to take up e-invoicing, which can improve payment time so dramatically.

Senator CHISHOLM: Is there anything else the government is considering in this matter with regard to small business?

Senator Hume: I think that officials have said that they'll take that on notice and refer it to the relevant departments.

Ms Quinn: But, more broadly, Senator, in the sequence of events for a company to get paid, as the minister has talked about, there is the issuing of the invoice, in order to get the payment back; and there's also the digital adoption by small business more generally, outside invoicing, to be able to get payments electronically. In the banking space we've got the Consumer Data Right, which extends to small businesses as customers for them to be able to get better deals from the financing system for their business. There are quite a few different components of the financial system regulation. It's all moving towards getting faster transaction. The New Payments Platform, underpinning the entire payments platform, makes it possible for payments to happen more quickly, and you will have experienced that as a customer, I'm sure, Senator, with the ability to do online banking much quicker and real-time payments. So there's a whole sequence of things that are happening to digitise and improve the payments system which will go to helping small business.

Senator CHISHOLM: I'm sure the minister will be able to breeze through these next questions, because it's her favourite subject, which is around the self-managed super fund reforms. I think the government promised to fix up some of those legacy issues in the 2021-22 budget. Is that correct?

Senator Hume: Is this legacy products?

Senator CHISHOLM: Yes, products. I want to check what the current status of the legislative implementation of this measure is.

Senator Hume: I think we're consulting on it right now. Forgive me if I don't have the details of that one in front of me.

Ms Kelly: There were a number of announcements in last year's budget. Just to clarify which one you are asking about, Senator, was it around the residency or around legacy products?

Senator CHISHOLM: Legacy retirement products. So, market linked pensions.

Ms Kelly: This is the one to provide consumers with a temporary two-year option to transition from legacy retirement products to more flexible and contemporary retirement products. Legislation to give effect to this measure will be introduced in line with the government's broader legislative priorities.

Senator CHISHOLM: Does legislation exist?

Ms Kelly: Not currently.

Senator CHISHOLM: So nothing's been introduced. The actual legislation doesn't exist.

Ms Kelly: That's correct. There was a suite of changes to the superannuation system that were passed by parliament last week, and this has to be considered in the context of the broader priorities of the government and also the need to consult in relation to these product conversions. They go back quite some way, and so we need to consult on them before we can put together legislation.

Senator CHISHOLM: Just to be clear, there is no draft legislation?

Ms Kelly: No.

Senator CHISHOLM: Are you proposing that you would consult on this before you draft legislation?

Ms Kelly: That would be the normal process, yes.

Ms Quinn: We normally consult, design and then consult on the legislation itself. There's usually consultation at different phases of any reform process.

Senator CHISHOLM: When can we expect the consultation to start?

Ms Kelly: Ultimately, the timing of the consultation will be determined by government in line with the broader priorities in relation to superannuation.

Senator CHISHOLM: I presume nothing will happen this side of the election?

Senator Hume: There are only a few more days left before the election, as you know, Senator Chisholm. The government's made it very clear that cleaning up legacy products is a particular priority. It's not something that any government has ever proposed before. And yet, one of the reasons why financial products can potentially be costly is because financial services providers need to maintain legacy systems that are difficult to maintain. That creates cost pressures across even new systems and new products as well. This is an enormous undertaking, and it has to be done properly. We don't want it to be too costly. At the same time, we want to make sure that we have the most efficient and cost-effective financial services sector that we can possibly have.

Senator CHISHOLM: Just to be clear, the question was: will anything happen this side of the election?

Senator Hume: I think I said there are not very many days left. We would like consultation to get underway as soon as possible.

Senator CHISHOLM: It's pretty simple. Will anything happen this side of the election?

Senator Hume: We can legislate this side of the election, certainly.

Senator CHISHOLM: I'm surprised it hasn't been more of a priority. Is this legislation a low priority for you?

Senator Hume: We've passed more superannuation legislation in this term of parliament than any parliament has passed in the last 20 years. I don't think you could say that superannuation and financial services are a low priority at this point.

Senator CHISHOLM: That's not what I said. I asked if this issue was a low priority for you, given that you've prioritised—

Senator Hume: No.

Senator CHISHOLM: So it's not a low priority—

Senator Hume: It's a personal passion of mine.

Senator CHISHOLM: But you've just chosen to prioritise other—

Senator Hume: I have lots of passions: most importantly, lowering the cost of superannuation and other financial products; making sure that we don't have duplicate accounts; making sure that insurances aren't inappropriately applied to people, so that they're cross-subsidising the rest of the pool when they can't ever claim on that insurance; making sure that people have choice in their superannuation funds; making sure that people have transparency and accountability in their super funds, and that their super funds are acting in their best financial interests; and ensuring that the system operates efficiently and effectively and concentrates on not just the accumulation phase but also the decumulation phase. Most importantly, as you would know, just last week we passed significant tranches of superannuation reform legislation, one of which was to abolish the longstanding 450 rule, which is an outdated relic—an anachronism—of the superannuation system which was highly discriminatory towards women. But the good news is the coalition came to the rescue and we have abolished the 450 rule. That will take place from 1 July 2022.

Senator CHISHOLM: Do we have a sense of how many people would be impacted by this proposed change?

Senator Hume: The legacy?

Senator CHISHOLM: Yes, how many—thousands or—

Senator Hume: I imagine it would be in the thousands. Certainly, it's something that the sector has spoken of and say that it is a priority for them to be able to move people into modern and more efficient products.

Senator CHISHOLM: So, these people are stuck with these legacy financial products that they would probably like to exit. The government has promised to fix the problem but has not actually progressed anything about it. What's your answer to these people who are stuck waiting for your government who've promised action to actually do something about it?

Senator Hume: And this is the only government that would potentially ever tackle the issue of legacy products. I haven't heard a single thing to come out of the Labor Party on what it is that they would do around legacy products.

Senator CHISHOLM: Is that seriously the best you have for those thousands of people who are stuck there that maybe one day you'll get it—

Senator Hume: Perhaps you can enlighten me as to what Labor's policy is.

Senator CHISHOLM: We're the ones asking the questions; you're the ones in government. You've been there for a long time. You're the minister responsible and you've actually done nothing on this.

Senator Hume: That's not true. In fact, we've flagged an intention of government—

Senator CHISHOLM: It's pretty evident you haven't done anything—

Senator Hume: to tackle one of the most difficult and intractable problems in our financial services sector.

Senator CHISHOLM: It just seems like it's another case of this Morrison-Joyce government being all talk and very little action for those people who are impacted by this.

Senator Hume: That's not a question; that's a comment.

Senator CHISHOLM: I'll finish there.

CHAIR: Thank you. It seems an appropriate time for dinner. Thank you very much, Ms Quinn, to you and your team; it was very helpful.

Proceedings suspended from 19:21 to 19:46

Reserve Bank of Australia

CHAIR: The committee welcomes the Reserve Bank of Australia, represented by Dr Guy Debelle and Ms Michele Bullock. In welcoming the RBA, the committee recognises the central bank's independence under the Reserve Bank Act 1959, particularly in regard to its setting of monetary policy. The committee is cognisant that, while the RBA does not receive appropriations, it does provide the parliament with opportunities to discuss its insight and performance, which the committee greatly welcomes. As such, no government minister will be in attendance with the committee while representatives of the RBA are present. Dr Debelle or Ms Bullock, would you like to make an opening statement?

Dr Debelle: No, we won't, thanks, Chair.

CHAIR: I'm going to give the call first to Senator Rennick, who has to go to another committee.

Senator RENNICK: I just want to follow up on the last set of questions I asked at the last estimates in regard to our gold holdings and the letter that you'd sent to me that said, basically, that the Bank of England had fake gold bars and duplicate serial numbers. I just want to drill down a bit more on why the RBA didn't see fit to tell the Treasurer that that fraudulent behaviour had been going on at the Bank of England.

Dr Debelle: We didn't see fit to tell them because, as we replied to your question, that's in the smaller one-kilogram bar market, not the 11.3-kilogram market that comprises our holding, so we did not see this as an issue.

Senator RENNICK: Regardless of the size of the bar, it's 80 tonnes of gold worth, in today's value, \$6 billion. Don't you think that you've got an obligation to tell the key shareholder, the Treasurer, on behalf of the people of Australia, what is going on?

Dr Debelle: I didn't see it as affecting our own holdings, Senator. That was the assessment.

Senator RENNICK: How would you know that it doesn't affect your own holdings if you haven't actually counted all our gold bars?

Dr Debelle: As we also replied to your question, Senator, we follow Australian Auditing Standards in auditing our gold bars at the Bank of England, and that provides us with the appropriate assurance around those gold bars.

Senator RENNICK: I question that because a large number of bars have been refined since 2015 and you yourself told me in prior estimates that no gold had moved in over 20 years, so I fail to see, if no gold had moved in over 20 years, why gold bars would be re-refined since 2015.

Dr Debelle: As we also noted, when we lend the gold bars, under our gold-lending program, ours don't actually move. We don't necessarily receive the same bars back as we lend, and so the bars that we actually hold, in terms of their serial numbers, can change through time through the gold-lending program.

Senator RENNICK: That then brings the question: if you're trying to audit serial numbers, how do you know that everyone has not been getting the same set of serial numbers if you're not counting 100 per cent of the gold, which you aren't doing?

Dr Debelle: We are not doing that—I agree with that—but we are following Australian accounting standards in how we audit those gold bars to provide the appropriate assurance under those standards.

Senator RENNICK: Okay, you're following auditing standards—that's great—but we've identified that the custodian of that gold actually had been engaging in fraudulent practices. Don't you think that's a good enough reason to bring the gold home and look after it ourselves?

Dr Debelle: I don't think I would agree with your assessment, Senator.

Senator RENNICK: Well, I do, because gold exports are worth \$28 billion a year to this country, and we've got the world's largest gold reserves. So the fact that the Bank of England was engaging in fraudulent behaviour—as I pointed out to you last time, the private banks are doing that as well. They paid over a billion dollars in fines for manipulating the precious metals market. As I said, isn't it in the best interests of the Australian people and the 70,000 people employed in the gold sector that we make sure that we have custodianship of our own gold rather than the Bank of England, who had fake gold bars and duplicate serial numbers?

Dr Debelle: No, I don't agree with your assessment, Senator.

Senator RENNICK: And why is that? How can you justify that?

Dr Debelle: Because I am satisfied that we get the appropriate assurance about those gold bars. I'm not sure I would agree with your assessment that the Bank of England has been engaging in fraudulent behaviour.

Senator RENNICK: Well, don't you think then that we should go and count 100 per cent of our gold bar holdings to ensure that not just 10 per cent but the whole 100 per cent of gold is there?

Dr Debelle: No, my assessment is we should follow what the appropriate auditing standards are, which is what we have done, and we'll continue to do so in the future.

Senator RENNICK: I've got question marks over the auditing standards. I've been an auditor myself, and you always have to do a stocktake and a stocktake of 100 per cent of it when you've got issues around duplicate serial numbers. Anyway, I'll leave it at that. I've got one more question around the fact that you've ended your quantitative easing program. Given that, sooner or later, we're going to need to raise interest rates, wouldn't it have been wiser to keep the quantitative easing program going to fund infrastructure and then tighten the qualitative measures?

Dr Debelle: Decisions to fund infrastructure are those of you, the government, not us.

Senator RENNICK: Well, it's funny you say, that because I asked Steven Kennedy, the head of Treasury, about it this morning, and he said it was an issue for the RBA. This is what always happens. I always get ping-ponged—

Dr Debelle: No. I'm not passing it back to Steven, Senator. What I'm saying is that decisions on how to spend public money are those of the government.

Senator RENNICK: Okay. Put that to one side. I accept that, but your quantitative easing program and the \$4 billion that you were printing each week—is that not a decision made by the RBA?

Dr Debelle: Yes, that is.

Senator RENNICK: So I'll come back to my original question: wouldn't it have been better to have kept an expansive quantitative easing program going to make sure that we're not going to crash the economy as we lift interest rates, given the record amounts of government and personal debt?

Dr Debelle: While we have stopped buying more government bonds, we still own the stock of government bonds that we have already purchased, and so the stimulus that we've provided by buying those bonds remains in place while we continue to hold them, which we do.

Senator RENNICK: I'd argue the stimulus was when it happened, but, going forward, as you raise interest rates, that is going to have a contractionary effect on the economy, and therefore we need to offset that, I would have thought, with quantitative easing. If you were happy to do it to shut businesses down and pay people to stay at home for JobKeeper et cetera, surely we could—I accept I'm branching back out to Treasury here—keep that part of it going in a productive nature while interest rates are going up. As I said, with record government debt and personal debt, we run the risk of crashing the economy if you lift interest rates too high. But you do need to raise them to an extent so you've got some petrol in the tank for later on if there's another economic downturn.

Dr Debelle: Our aim is to have a monetary policy setting appropriately not to crash. We are definitely aiming not to crash the economy. We are aiming to keep the economy on a strong and sustainable growth path going forward, and the decisions we took last week and will continue to take in the future are very much aimed with the very clear objective of those decisions.

Senator RENNICK: I accept that, but there are external shocks like viruses or whatever that happen from time to time that are outside your control, and that's why we need petrol in the tank with higher interest rates. So you can drop them later on or have quantitative easing to keep the economy going.

Dr Debelle: Yes, but we're comfortable that the settings we have in place currently will indeed keep the economy going on that sustainable path. As I said, that's the basis of making the decision last week and it will continue to be so.

Senator RENNICK: On that basis, you're not planning to raise interest rates any time soon?

Dr Debelle: No. We said we will make that assessment in terms of achieving those objectives. When and if that is required will be dependent on the circumstances at the time, as it always is.

Senator RENNICK: Okay. Thank you for your time. Thanks, Chair.

CHAIR: Senator Roberts.

Senator ROBERTS: Thank you for appearing. I'm going to start with a sincere compliment, Dr Debelle. I've been impressed with your frankness and your directness and your succinctness. You convey a lot of confidence. I would also like to start by complimenting the Reserve Bank for the answers I received in the last estimates, which, after examination, were complete and factual.

Question 1: the Reserve Bank has signed on to the international central bank digital currency platform. Project Dunbar 'aims to develop prototype shared platforms for cross-border transactions' which 'will allow financial institutions to transact directly with each other in the digital currencies issued by participating central banks'. As I understand it, Dr Debelle, Australia will be testing this platform along with Malaysia, Singapore and South Africa, which suggests we have a digital platform to use to test the platform. Where is the Reserve Bank on the development process for the Reserve Bank digital currency, and what's the time frame for testing and implementation?

Dr Debelle: I will pass that one to Ms Bullock. She is the expert in this space—or has carriage of this, at least.

Ms Bullock: The first thing to note is that Project Dunbar is a proof of concept. I distinguish it from a pilot. A pilot is where you have actual, real money. This isn't a pilot. It's actually a proof of concept. So, really, what it's about is going through the technical infrastructure you might need, the legal arrangements you might need, the requirements that you might need to set this multicurrency approach up. So there is no Central Bank digital currency. We don't have one. The other central banks don't have one. It's purely a proof of concept. If you like, it's a little bit of a desktop exercise with a little bit of experimentation with technical approaches to do it. So there are no actual central bank digital currencies involved.

Your second question was about where we are at with the central bank digital currency. We've had a multiyear process in this. We've done some small experiments. We've experimented internally with the concept of a wholesale central bank digital currency. Again, it's not real. It's just sort of a mock-up, if you like. We've done that internally to see whether or not individual banks could perhaps use it for settlement between them. We've also expanded that fairly recently. There was a report in December, Project Atom, which was an experiment, again. It was with Commonwealth Bank, National Australia Bank, Perpetual and ConsenSys and ourselves. It was, again, a proof of concept—it wasn't a pilot—to see whether or not central bank digital currency paired with tokenised syndicated loans would make a more efficient way of having syndicated loans transacted through the economy. We released a report on that in December. I think it proved that there were some efficiencies in this area—

Senator ROBERTS: Excuse me, did you say there were inefficiencies?

Ms Bullock: Efficiencies. Syndicated loans is a very manual process and quite lengthy, and what the project proved was, if you tokenise the syndicated loans, you had a central bank digital currency to transact amongst the various players in the syndicated loan, that made that a much more efficient process. Whether or not you can do it with normal payment systems as well is another question, but we didn't test that. So there's that. We're also participating, as you mentioned, in Project Dunbar with the Bank for International Settlements Innovation Hub and those three other countries. We recently formed ourselves a central bank digital currency group in the Payments Policy Department, and we're going to be engaging with the Digital Finance Cooperative Research Centre, which is looking at all sorts of things digital. We're going to be engaging with them on looking at central bank digital currencies as well. That's a bit of a potted history of where we're at with our work on this.

Senator ROBERTS: If a new digital currency is to be created out of electronic ledger entries, will existing amounts of cash be transferred into digital dollars? The public may be confused about how this is going to work.

Can the Reserve Bank please provide a simple overview of what happens after the project gets the green light? Where's the value coming from when we have cash?

Dr Debelle: We're assessing exactly that: is there value, given we have a decent payment system as it is, which includes cash but also electronic settlement. You've nailed the question, which is: is there value in this and is it worth the investment at this stage or not? Michelle, I'm not sure if you want to add anything to that.

Ms Bullock: The only thing I'd add is that there is no suggestion that we are getting rid of cash. This concept is not to replace cash, and it hasn't even been decided that we would do it. This would be a decision not for the Reserve Bank but for the government, and it wouldn't be replacing cash. That's very clear.

Senator ROBERTS: When I was talking about the value, I wasn't talking about the value of the process and whether it's going to be more efficient or worth doing. I appreciate your answer, and clearly that is a valid interpretation of my question, but if someone's got so much value in Australian dollars how will that be converted into digital currency dollars or whatever the currency is? Will they still have that purchasing value?

Ms Bullock: The way that most central banks are looking at this around the world is that the central bank itself won't be providing people with digital money; it will work like cash does. At the moment, if you want cash, you go to your ATM or your bank and you withdraw some cash from your bank account. A digital currency, if we had one, would work in a very similar way. You would go into your bank with your digital wallet, take some money out of your bank account and put it into central bank digital currency, just like cash. You can think about it in a very parallel way.

Senator ROBERTS: If someone's got \$2,000 in cash in their bank account today, will that give them the equivalent purchasing power if there's a conversion into digital currency?

Ms Bullock: Correct. It would be exactly the same if it was a \$100 bill or \$100 in your mobile wallet.

Senator ROBERTS: Now the BIS is involved. In one specific case, our foreign exchange reserves are used to settle international transactions. These will now be replaced with Reserve Bank digital dollars if it goes ahead. Is the process to simply replace the US dollars we have in reserve with the US government issued as cryptodollars or as a similar value based digital currency?

Dr Debelle: No. I'll cut straight to the chase. We would continue to hold US dollar reserves in the instruments we currently hold them in, which is primarily US treasuries.

Senator ROBERTS: Okay, that's pleasing to hear. What would happen if this were handled badly, not necessarily for the Reserve Bank but for the people you're dealing with overseas, if the system wasn't tight? What are the various risks you can foresee that need to be managed?

Ms Bullock: This is why there's a lot of water to flow under the bridge before any advanced economies have launched into this. There are obviously cyberissues; you need to make sure that the system is secure. Overseas consultations demonstrate that people are very concerned about privacy, which is a very valid concern. By the same token you're also concerned about the use of digital currency for criminal purposes, so there's a balance there.

Another concern that most central banks identify is about the banking system and whether there might be a flight of deposits to central bank digital currency, which would have implications for banks' balance sheets. It would potentially make it easier to run on banks, if people were concerned about banks. So there's a lot of financial stability risks and issues associated with it. That's just a sample of some of the issues that need to be considered if we were going to go in this direction and have what I would call a retail central banking currency.

Senator ROBERTS: Digital currency or cryptocurrency is not backed by any asset. It is literally an exercise in trust that the government can protect the value of someone's currency. Is this now the time to start talking about getting an asset backing, such as gold, behind this new currency?

Ms Bullock: Just like cash at the moment it would be a fiat currency, which is to say it isn't backed by anything. You're right it's all about trust in the institutions of the country and the government, in the Reserve Bank. In that sense it would be just like cash, if we were going down this route. It would be an unbacked currency.

Dr Debelle: But it is backed by the government's capacity to raise revenue for its citizens basically.

Senator ROBERTS: Did you say: backed by the government's ability to raise revenue?

Dr Debelle: Yes.

Senator ROBERTS: During COVID-19 there has been a hell of a lot of money spent on non-productive outcomes—as much as food is rent can be considered non-productive. They are essential but they're non-

productive. The outcome of long-term borrowing for short-term gain is inflation. Is spending on productive capacity—roads, railways, bridges, dams and irrigation—in this recovery phase likely to produce a lower inflation outcome across forward estimates than continuing to spend on what can only be described as 'economic sherbet'?

Dr Debelle: That's an interesting question. I'm not sure I'd draw that distinction. I think I would regard food as a pretty productive and essential thing for people to consume. We build roads for a purpose, not just because, which is to satisfy people wanting to use them, and the same with food and the same with shelter. So I'm not quite sure that we can draw such a clean line between what's productive and unproductive.

Senator ROBERTS: Food is essential, as I said. Perhaps spending on non-productive assets: entertainment—instead of travelling overseas people are buying new cars, that kind of thing. What I'm talking about is spending on such items that may be essential—but not producing increased wealth could lead to inflation. That's the risk. On the other hand, spending on something that increases productive capacity, like a dam with irrigation systems to supply increased food productivity and lower the cost of food, leaves people better off and wealthier overall. That's what I was getting at—a productive capacity rather than just consumption.

Dr Debelle: There is a reasonable amount of dollars invested in infrastructure at the moment. That has increased quite a bit both from the Commonwealth and the state governments, so that sort of spending is absolutely happening. Again, I'm still not quite sure I would draw such a clean distinction. In the end people consume what they want to consume, and I'm not sure it is up to us too much to tell them what is good and bad about that—within reason.

Senator ROBERTS: That is a wonderful statement to hear coming into my ears now. I love that, but anyway—

Dr Debelle: I thought you might.

Senator ROBERTS: What we've got though is an acknowledgement that there is money being spent on infrastructure. You've answered my question. I just personally believe that we need to spend more on improving our productive capacity. Thank you very much. Again, Chair, I would like to put on record that the Reserve Bank always answers quickly, succinctly and factually so thank you. It is really appreciated.

CHAIR: Dr Debelle, you have a fan there!

Senator ROBERTS: Yes, he has.

Dr Debelle: Thank you.

CHAIR: We're now going to Senator Gallagher.

Senator GALLAGHER: Thanks, Chair. I thank officials for attending. Dr Debelle, I asked some questions earlier of Dr Kennedy around interest rates and he was pretty reluctant to say anything and referred me to you tonight. The bank released the statement on monetary policy on, I think, Friday. Could update the committee about what you expect to see happen with interest rates over the next six to 12 months.

Dr Debelle: I'm not sure I have a strong expectation about what will happen to interest rates. That will be driven by what happens to the economy, which is the point I'd like to stress. Our monetary policy decisions are going to be very much informed by what's actually happening to the economy. As the governor said when he appeared before the House last Friday, and as we said before the Press Club, it's really a case of seeing how the economy evolves over the period ahead. That's really going to be the main determinant of what happens to interest rates—how things actually play out in the period ahead.

Senator GALLAGHER: Can I ask some questions around inflation. In July last year, Dr Kennedy spoke about the gradual strengthening of inflation if there was higher wage growth. We've had a brief discussion around that this morning in the time that was allocated. Would you agree that the underlying forces influencing inflation build up over some time before there's a visible impact?

Dr Debelle: Sometimes yes and sometimes not. The drivers we've seen in terms of inflation over the past 12 months in Australia have been, in particular, high fuel prices. Prices came up pretty quickly, and they passed through to what people are paying at the pump pretty much immediately. That happened very fast. One of the other big contributors to the 3½ per cent inflation we had over the last year was the increase in home-building costs, which was very much a function of strong demand in that sector as well as disruptions to some of the key inputs into home building. That passed through to inflation reasonably quickly. It varies. Sometimes it builds up over a period of time; sometimes things can happen pretty quickly. The best example is the oil price shocks in 1973, which fed through to inflation very quickly. But I don't think there's a hard and fast answer to your question. Some prices are more sticky, more slow moving, and some prices move quite rapidly.

Senator GALLAGHER: In the December quarter, there was a much stronger result than I think you'd been predicting. Are you saying there are two components to that? I think Dr Kennedy said this morning that contributors to inflation could fall into two parts: one is more volatile and one is a longer-term impact. Would you agree with that?

Dr Debelle: Yes. I very much agree with my fellow board member.

Senator GALLAGHER: Once you remove some of the volatility that you're seeing, the ones that contribute more, the underlying inflation—they take time to build up to become clear in your results?

Dr Debelle: In terms of prices, yes. To answer your question: underlying inflation is running at just over 2½ per cent in the year to December, whereas the actual overall consumer price inflation was about 3½ per cent, and a decent chunk of the difference in that is due to high petrol prices and the like. As the seventies showed, oil prices can add to inflation for a while. They can be volatile, but they can also stay high for a while. If I could answer slightly differently: in our assessment, we have to look at what are going to be the medium-term drivers of inflation and take account of those while taking account of things which may move around a lot in the short term in both directions, up and down.

Senator GALLAGHER: From that, would you agree that the underlying causes of inflation that are likely over the next few years have already been created?

Dr Debelle: Not necessarily. I mean, again, things come along out of the blue. A pandemic came along, which had a pretty material impact on inflation, completely disrupted whatever was happening two years ago, and put us in a completely different place, so I'm not sure that I would completely frame it that way. It is the case that our monetary policies seem to take some time to have their full impact. I don't know if that is what you are getting at. That is certainly true but, at the same time, over the course of them having their impact, there are plenty of other things that come along, both expected and unexpected.

Senator GALLAGHER: In terms of what you're seeing in inflation or the inflationary environment we're in, does the RBA consider inevitable that interest rates will rise over the next year at some point?

Dr Debelle: I think it's possible; I'm not sure it's inevitable. As the governor said when asked pretty much the same question last Friday, there are scenarios absolutely where that happens. There are other ones where that doesn't, so I'm not sure I'd describe it as inevitable.

Senator GALLAGHER: Is it probable?

Dr Debelle: I mean, in the end, it's going to depend on what sorts of things actually evolve. In being too dogmatic about the predictions over the last couple of years, things have turned out quite a lot differently to what we expected in all manner of things, so we have to be somewhat modest in our ability to be too precise about that.

Senator GALLAGHER: There are some questions around least-cost routing.

Dr Debelle: I will defer to Michelle on that.

Senator GALLAGHER: Yes, just an update really on what's happening there. I have read the information on your website but it relates to 2018. It doesn't look like it has been updated recently.

Ms Bullock: The conclusions of the review last year set out our findings there. We said that we expected basically dual-network debit cards to be issued by all banks that have more than one per cent of transaction volumes. That basically gives the possibility for least-cost routing. You can't have that without dual-network debit cards. It is our understanding that all the major acquirers now offer least-cost routing. Some of them offer it explicitly to merchants. Others offer it in the background for merchants, so they just automatically provide it to merchants and give them lower costs as a result. Certainly, all of the major acquirers now offer least-cost routing.

Senator GALLAGHER: From your point of view, is that done then, or is there a next stage to it? Sorry, I haven't followed this closely so forgive me if that is a basic question. It looks like there has been work under way, there has been some ability among some merchants and some issuers for some time, but are you now saying it is largely available across the board?

Ms Bullock: It is largely available across the board now. I will be frank in saying we were pretty disappointed with the speed with which the banks rolled it out. But they have rolled it out now. And as I said, it is not done and dusted in the sense that we are continuing to make sure that the banks are continuing to issue dual-network debit cards. As you know, many people are using not just cards but they are also using mobile phones, so we are now liaising with and trying to persuade mobile phone providers to actually commit to least-cost routing with their mobile phones. We are also working with gateways and payment facilitators to make sure that least-cost routing is available online as well as in person. There is still more work ongoing, but we are working very hard on getting extra bits and pieces under way.

Senator GALLAGHER: So it should be available on EFTPOS and PayPass, but not necessarily or not at all on mobiles and online?

Ms Bullock: At the moment, it works differently. If I present my dual-network debit card, the merchant can choose where the transaction goes. They have that choice. In a mobile world, if I had my Apple device, for example, I might have made EFTPOS and my Visa card provisioned on that so the dual-network debit card is there but I actually choose, as the consumer, which one I want to use. The functionality to allow the merchant to overturn that or choose it isn't there yet nor is it online. I might just add, there is a challenge here because if I as a customer really don't want to use my EFTPOS and I really want to use my Visa card, there is a question about whether a merchant has a right to overturn that without telling me. So I think we have to be a little bit careful. Absolutely, least-cost routing is an important part of a competitive landscape where we want to see it rolled out but we do have to be mindful that consumers also have rights here.

Senator McKIM: Good evening to you both. Dr Debelle, last time we were talking, I was asking you about why the RBA isn't jawboning a little bit more loudly on the capital gains tax discount, and you directed me to the RBA submission to the House of Reps inquiry. I read that, so thanks for that. I found it a little bit wishy-washy, the things that the OECD and the IMF are saying. I don't know if you are aware of some of the language that the IMF and the OECD are using. I can read you some excerpts of what they are saying. You are a long way off it, if I might say, in my judgment, so just wanted to ask you again why you are not jawboning a bit more loudly for tax reform?

Dr Debelle: In the end, our taxation regime in this country is a decision for the government.

Senator McKIM: I understand that, of course. But the RBA is an independent body. Shouldn't you at least be [inaudible] about the effect that tax policy is having on monetary policy? Monetary policy is your bag, right? Let me put it this way: do you think that negative gearing and capital gains tax concessions are having an impact on the efficacy of monetary policy in Australia?

Dr Debelle: I'm not sure they are having an impact on the efficacy, because the environment, while they are not changing, remains the same, so I am not sure it has an impact on the efficacy of monetary policy.

Senator McKIM: So you don't think that negative gearing and the capital gains tax are having an impact on the capacity of the Reserve Bank to assist in the maintenance of full employment and the economic prosperity and welfare of the people of Australia?

Dr Debelle: No, that is not obvious to me. I'm not saying they don't have any impact but they are what they are. This is a more general statement about fiscal policy: they are what they are. We take account of that in our setting of monetary policy, just like we do any fiscal decision.

Senator McKIM: Sure, but you've got a situation where house prices in the last 12 months have risen more than 10 times the rise in wages. That impacts, does it not, on the welfare of the people of Australia, particularly those people in Australia who aren't lucky enough to already have a foothold in the property market? I presume that your aims don't just apply to people who own houses; they also apply to people who don't own houses and who can't afford to get into the market because it's been turbocharged, in large part, because of decisions the RBA have made around low interest rates and the QE that you've engaged in over the last couple of years. I guess I'm just trying to push back on your contention that those tax policy settings have no impact on the efficacy of monetary policy.

Dr Debelle: Yes, our policy decisions have had an impact on house prices. That's absolutely true, as you said, and that has been thus for a long time, but that's given the tax environment. Yes, they had those impacts. I'm not sure if the tax environment had been different, the impact would have been any different over the last couple of years. That's what I'm saying. To your question: changes in tax regimes do absolutely have distributive consequences. That's ever been thus as well. I'm just not sure I would so directly link the two. I'm not saying that tax settings don't have an impact. I'm just not sure that they have any particular impact, while they're not changing, on the transmission of our monetary policy settings.

Senator McKIM: Last estimates I also asked you about the RBA's powers and whether you thought any legislative changes were necessary to enable you to better direct monetary policy to productive ends rather than speculative ends. I've done a little bit of work on this in the interim, and I've observed that section 36 of the Banking Act does actually provide the RBA with powers to direct the class of loans that banks can make. Are you aware of when the last time the RBA used those powers, and did the RBA consider invoking those powers during your recent bout of money printing, over the last couple of years?

Dr Debelle: The answer to the second part of your question is: no, we didn't. As to the answer to the first part of your question, I will have to take that on notice because I don't know the answer off the top of my head.

Senator McKIM: Thanks; I appreciate that. The powers, *prima facie*, seem fairly broad. Would they, for example, allow the RBA to direct a bank to limit the number of housing loans it makes with any particular basket of money that it might get, for example from the RBA's money printing?

Dr Debelle: As I said, we haven't made those allocative decisions. I don't know since when; it depends on the answer to the first part of your previous question. APRA sets prudential standards around the quality of the loans that banks can make but not necessarily the—well, some of those standards have somewhat of a quantitative aspect to them as well, but they're primarily aimed at ensuring that the lending standards are appropriate.

Senator McKIM: I think you've agreed to take my previous question on notice. Perhaps I could ask you on notice whether the RBA has a view on the extent of those powers; whether they would allow the RBA to direct a bank to limit the number of housing loans, for example, it makes; and whether the RBA could establish a different cash rate for lending for housing, as opposed to lending for business. Perhaps you could take those on notice if you don't have a response immediately.

Dr Debelle: Since the mid-eighties—I think, off the top of my head—we have had a deregulated interest rate system. From my memory, I reckon it was in 1986 that the last ceiling on housing loan interest rates was removed. Since then we've operated in a deregulated financial system, where we set the benchmark interest rate, the short-term risk-free rate, which underpins the whole interest rate structure in the economy. But other lending rates above and beyond that are set by the institutions, not by us. They're very much dependent on what level at which we set the cash rate, and our overall monetary policy settings. Neither we nor the government for that matter are in the business of putting particular limits on interest rates.

Senator McKIM: Is that a policy choice of the RBA or of the government of the day?

Dr Debelle: Michele can correct me if I'm wrong. The setting of—actually, I'll have to come back to you on that one, in terms of whether the interest rates caps which were in place before came directly from us or from the government.

Ms Bullock: We'll take that on notice, and the issue of the Banking Act. I wasn't aware that we were mentioned in that context in the Banking Act, so I'll have to go and have a look. It's a very long act!

Senator McKIM: Thank you. I appreciate you taking that on notice. Just to be clear, I am interested in that, on notice, as you just categorised, Dr Debelle, but also the decision to—I can't remember the phrase you used—emulate the interest sector, or whatever it was—the decision to not apply any caps or rates settings in place, and whether that was a decision of the RBA or of the government of the day, and whether it continues on as a decision. In whose ambit is that policy? Is it government or RBA policy? That's what I'm interested in.

It goes to the nub of something I've raised with you before. On the face of it, it looks like the RBA has plenty of power to direct banks what to do, but you're exercising a choice not to use it. Particularly in the context of you printing \$400-odd billion over the last couple of years, is it in the interest of the welfare of the people of Australia and is it a wise move to basically abrogate responsibility there and let the banks do whatever they want with it?

Dr Debelle: In answering your question, I would note that we have unemployment down to 4.2 per cent—the lowest it has been for quite some time. That probably benefits the welfare of the Australian people, particularly those with jobs now who might not otherwise have had them absent those policy settings.

Senator McKIM: I'm not arguing against QE here, just so we're abundantly clear; I'm not arguing against that at all! I'm simply arguing for a little bit more direction on some of the areas of the economy that that money ends up in, and whether the RBA is exercising its mind in that area. But you've agreed to come back on notice on that, so that's fine.

Ultimately, I'm getting at the efficacy of independent central banking. I had a conversation with Dr Kennedy this morning, and he was lauding—and fair enough, too—a low unemployment rate, and that's something we're all happy to see. He was saying we were pretty close to this promised land of low unemployment and wages starting to grow, and that we've only been in this place twice in the last 50 years. I made the point for him that that means—just for your information, he was talking about pre [inaudible] as of the times and pre the 2008 episode as the other time. I made the point for him that that was basically an admission that neoliberalism has basically failed for 50 years; we haven't achieved the promised land, have we? There are a lot of people that have missed out along the way, and the best we can say is that, for the third time in two full generations of Australians, we are close. We haven't achieved full employment, which is one of the key aims of the RBA, for 50 years.

Dr Debelle: I accept that that is indeed one of the key aims. I would say it was probably difficult to achieve full employment in 2009 after we'd been through a shock of that size to the world economy. There were a few years where a few things seemed—

Senator McKIM: Fifty years is a long time.

Dr Debelle: Indeed it is.

CHAIR: It is a long time, Senator McKim, and you've had a long time asking questions, too! Have you got many more?

Senator McKIM: No more. Thank you, Ms Bullock and Dr Debelle.

Senator McDONALD: What a fascinating debate and discussion about economics more broadly! I want to ask—

CHAIR: Are you going to contribute to it?

Senator McDONALD: I was not going to do that, unless you'd like me to!

CHAIR: No!

Senator McDONALD: I want to talk to you about inflation and the CPI. I appreciate that the RBA doesn't calculate the CPI. I want to talk to you about the concept of regional Australia—the CPIs are set by capital city—particularly northern Australia, which the part I'm interested in; I live in Townsville. We've had a significant increase in costs over the last few years. Townsville city rents increased over eight per cent last year, but it was a 25 per cent increase over the previous four years. I suspect that this is in part due to property shortages and a lack of new stock coming on because of a range of issues, but more importantly it was a result of increasing insurance premiums, which the property owner was then passing back to the renter. Over 30 per cent of households reside in the regions. They're tied to their local capital city. But I would suggest they're not really a good proxy for what's happening in the regions, and it means we're getting these two-speed economies where the second speed is not being adequately recognised. There might be higher wages regionally, and there might be offsets, but we just don't know. Do you have a view on whether or not that is something that should be considered? I recognise that a decade ago us northerners petitioned for a regional CPI, and the ABS said they didn't have enough staff to do that. What are your thoughts?

Dr Debelle: Let me make a couple of comments—and you can ask my good friend Dr Gruen as to whether he's got the budget now to afford it. One thing we, the Reserve Bank, do in our liaison program is get out and talk to businesses in regional Australia, including in Townsville and North Queensland and other parts of regional Australia. Particularly over the last year or two we have had quite a lot of feedback around some of the issues around rent and house prices more generally, as Senator McKim was just talking about, in regional Australia. That is something we pay a reasonable amount of attention to, and to some of the developments which are going on there. Notwithstanding whether or not it's in the CPI, it is something we get information on from our conversations with people, and businesses particularly, in regional Australia. It is something that we take account of. If we'd been having this conversation 10 years ago, there would have been complaints that we were setting monetary policy for capital cities and that it was way too tight for regional Australia, so it's interesting to hear that it's the opposite way around this time around. As I said, in the end we have, broadly speaking, one policy tool, which we have to set in terms of conditions in the country as a whole, but in making that assessment we are very much informed about what happens in all parts of the country, not just in the capital cities.

Senator McDONALD: That is terrific, and it's unsurprising that the RBA is ensuring that it's so well informed. But how do I, as a northern senator, ensure that—you just raised the issue of property prices. That's currently being informed by the lack of access to capital for developers to build in northern Australia. It's almost impossible to get finance to build outside of Townsville, Mackay and Cairns. In the absence of there being a tool or a metric to talk about that, it's difficult to then get government to look at levers to pull in places where there's not a huge population; it's a really significant issue.

Dr Debelle: True, but, in the end, as you said, the government has the capacity to address that. That's in the government's remit rather than ours.

Senator McDONALD: Yes, sure. I was interested in talking to you about how the RBA addressed that. You've told me it's by going out on the ground and having conversations with people. I'll continue my quest elsewhere, then. Thank you.

CHAIR: Excellent. We wish you luck on your quest! I'd like to thank the witnesses from the Reserve Bank of Australia for joining us this evening. Go with our fond regards. I hope you can get a recording of Senator Roberts's compliments to you, which you can keep for posterity.

Senator McDONALD: A TikTok clip!

CHAIR: Thank you very much for joining us today.

Australian Prudential Regulation Authority

[20:45]

CHAIR: I'd like to now welcome our witnesses from APRA as we recommence our hearing. Mr Byres, do you have an opening statement?

Mr Byres: I do have an opening statement, Chair, and it does, essentially, two things: it talks about some of the progress and, in some cases, finalisation of some of the issues that we have discussed before this committee previously and that we've dealt with since we last appeared, but then it focuses on some of our recent work on superannuation and transparency. I'm conscious, though, that it is significantly late in the evening already. I understand the statement has been circulated to the committee members. So, if you'd prefer, I would be happy just to have the statement tabled and we can go to questions.

CHAIR: Excellent. It has been circulated to members. Senator Walsh, you're seeking the call?

Senator WALSH: Yes, thank you. Thank you all for being here. I'd like to start with some questions on your answer to question 45 that you provided recently. This is a question about the number of people who remain in underperforming super funds. You've responded that almost 90,000 members have left underperforming funds since August 2021 and that amounted to 6.4 per cent of members of those funds. I just want to confirm that it's therefore correct that 93.6 per cent, or 1.3 million workers, are still in those underperforming funds as at the start of February when you provided that information.

Mr Byres: I will hand the question to either Margaret Cole or Suzanne Smith, whoever would like to take that, but we'd be happy to answer that question.

Ms Cole: Sure. I think that those figures sound right. I haven't got the exact answer in front of me. I think the last time we had statistics for was as of the end of December, so that's when those figures must be relevant to, so you are right in saying that a number of members remain in the products that failed the first Your Future, Your Super performance test. Some of those funds have a changed status. Of the 13 that failed, seven have either closed—

Senator WALSH: Ms Cole, I'll just stop you for a moment. Chair, I'm having trouble with the audio.

CHAIR: Ms Cole, we're having some issues with your audio. Can you turn off your video?

Ms Cole: I'm off video now. I was about to explain why you're technically right, but some members are now in funds that failed but which are now in the process of closing or merging or are close to merging with other funds.

Senator WALSH: I might just stop you there, because I think you said that the most recent data that you were aware of was until December, but I refer you to the answer to the question on notice. I'll just read out what APRA told us: 'Data received to 2 February 2022 indicates that just over 89,000 members have exited their underperforming MySuper products since 30 August 2021, representing a 6.4 net decrease in total membership numbers. These exited member accounts held a value of \$3.48 billion, 6.2 per cent of the amount held in the underperforming products at 30 June 2021.' So the data that you've provided us on notice goes up to 2 February, and it says that there has been a 6.4 decrease in membership of those underperforming funds. I would take it from that that around 94 per cent of people remain in those funds and that that would be 1.3 million workers.

Ms Cole: I'm not sure it's necessarily inconsistent, but Suzanne Smith can say if I've got the date wrong for the data calculated. I guess I was trying to explain why those members are not necessarily going to remain in one of the 13 failed funds, because those 13 failed funds are merging or changing their status, pretty well as we speak.

Mrs Smith: I can confirm that's correct, Margaret.

Senator WALSH: We are having a bit of trouble with the audio, but I also just want to check this, on the record. I think the maths is that, if the exited members' accounts held a value of \$3.48 billion, and that was 6.2 per cent of the amount held in those funds, the total value of the accounts remaining in these underperforming funds would be over \$50 billion. Can you confirm that?

Mrs Smith: Can we take that one on notice and come back and confirm that information for you?

Senator WALSH: I'm just wondering if any of the APRA officials have the answer to the question on notice that you provided us—I think the day before yesterday—because I'm just taking the information from what you've provided us very recently. I would think, respectfully, you'd be prepared to talk about the answer that you provided a day or two ago.

Mrs Smith: I'll just pull that information out, and perhaps we can come back to that one in a moment.

Senator WALSH: Right. Would most of the people who are still in those funds today be stapled to those funds?

Mrs Smith: Those members will have a choice. As Ms Cole said, most of those funds are merging. I think three of the 13 funds that failed have actually completed a merger, and there are another six that are in the process of merging. So those funds would merge into the new funds, but those members will have a choice of moving.

Senator WALSH: Are they stapled to those funds today?

Mrs Smith: To the extent that they're in the funds and haven't made a decision to move, they will remain members of those funds.

Senator WALSH: Thank you.

Senator Hume: But, to be clear, Senator, you may be stapled to your fund, which simply means it follows you from job to job, which means that, when you move to a new job, you don't get a duplicate fund, a different fund. But, at any point in time, because of the government's choice legislation, you can now choose to leave your fund, and, again, because of the PYS legislation, there is no exit fee for doing so.

Senator WALSH: Yes, I just want to clarify that the vast majority of those people who are still in those underperforming funds would currently be stapled to them, and I think the official said that, yes, that's the current situation.

Senator Hume: Yes, but I think it's important not to misinterpret what stapling means.

Senator WALSH: Yes. I've got lots of questions about that. When I asked these questions in the previous estimates, back in October, Ms Cole told us that you were getting the data on how many people were leaving these 13 underperforming funds on a weekly basis—I believe, since August last year. Have you been providing updates to government on how many people are leaving those 13 funds?

Ms Cole: We certainly have conversations with Minister Hume, who's here today, from time to time, and I'm sure it's correct to say that we have from time to time provided the numbers, yes. We've also spoken in public about the numbers a few times. The numbers are transparent to anyone who asks to see them.

Senator WALSH: Is this the first time that the numbers have been presented in aggregate, at this point in time?

Ms Cole: Yes, I think this is the first time that we've stated in a public setting, if you like, what the up-to-date last numbers we've had are.

Senator WALSH: When did you provide government with the information that you've provided to the committee on that data received to February?

Senator Hume: I think I can safely answer that the first time I've seen the data is tonight.

Senator WALSH: Thanks, Minister.

Ms Cole: I don't believe we have, but I'd have to go away and ask.

Senator WALSH: Thank you, Ms Cole. So, Minister, this is the first time that you've heard that 94 per cent of people in the underperforming funds are still in those funds.

Senator Hume: Yes. But, again, I think you've misinterpreted what Ms Cole has said, which is that, even though people are still within those funds, at least seven, I think it was, of those funds are now already in the process of merging with other funds. So, while they may have been underperforming funds as at the time of the test, hopefully, by the middle of this year they won't be underperforming anymore because they'll be part of a different fund.

Senator WALSH: It sounds like you're not surprised or concerned that only six per cent of people in those funds have left them and that 1.3 million people remain in them at the moment. You're not concerned or surprised.

Senator Hume: I think it's encouraging that 89,291 people have taken action of their own accord to move funds, and that's largely because they received something in registered mail to say: 'Your superannuation fund is underperforming and you probably don't realise it,' and that's the first time that has ever occurred. So I think that's an encouraging sign. Is there going to be a level of stickiness in superannuation? Yes, there always has been. Disengagement is one of the things that's plagued superannuation since day one, so I think it's a great thing that so many of those people—I don't know exactly what the number was; I think you made an estimate of the number yourself, Senator Walsh—are now going to be moving, because of the mergers that are occurring, into funds that are performing. I think that's terrific.

Senator WALSH: The only numbers I have, Minister, are that 89,000 people left and 1.3 million have stayed in underperforming funds.

Senator Hume: Many of that 1.9 million are now moving into funds that are performing because of the merger process, and that process wouldn't have occurred if it weren't for the Your Future, Your Super changes.

Senator WALSH: The only number we have is that 89,000 left and 1.3 million are still in an underperforming fund. How is that—

Senator Hume: Well, 1.3 million are still in funds that are now in the process of merging with funds that are performing.

Senator WALSH: All of them? Some of them?

Senator Hume: I don't know what numbers are in each particular fund. I've never asked APRA that, and I never ask which funds are merging either. That's not my business. It is my business to make sure that we do absolutely everything to ensure that people who are in underperforming funds know they're in underperforming funds and have the option to choose to move funds should they wish to do so.

Senator WALSH: So you're happy with the information that you're receiving just now, for the first time, on the progress of your policy, which says that a much larger number of people are choosing to stay in an underperforming fund than are choosing to leave?

Senator Hume: We don't know whether they're choosing to stay or just not responding to the information that their fund is underperforming.

Senator WALSH: What's the difference? They're still in an underperforming fund.

Senator Hume: The good news is that their fund is now merging with a fund that is performing. So they will do much better and that's terrific news.

Senator WALSH: This is the first time, Minister, that you have been advised that 1.3 million people are still in underperforming funds and that only 90,000 have left. Why—?

Senator Hume: Your repeating the same thing over and over again, Senator Walsh. I think the way you are interpreting those numbers is a misunderstanding.

Senator WALSH: Why have you not asked for that information earlier?

Senator Hume: I think we did canvass this at the last estimates. We knew that, after the letters were received, there was still considerable stickiness. Did that take us by surprise? Probably, except for the fact that disengagement, as you know, has plagued the superannuation system since day one. One of the reasons we undertook the Your Future, Your Super reforms was to make sure that those people who are in underperforming funds were at least told that their funds were letting them down. Let's face it, lots of funds out there were simply hiding behind the skirts of the well-performing funds. They can't do that with Your Future, Your Super. They're held to account for their performance.

Senator WALSH: Earlier today we asked some questions of Treasury and the ATO about what people have been told about their underperforming funds and also about stapling. You've referenced the letter that the funds were required to send out, under your legislation. So we know that the people in underperforming funds got that information—or we hope they got that information.

Senator Hume: They should have; it was through registered mail.

Senator WALSH: We believe they got that information. What information did people get from government, or an appropriate agency or regulator, about the fact that they were about to be stapled to those funds?

Senator Hume: Nothing changed for people who were in superannuation other than the fact that when they changed jobs they didn't automatically get a new superannuation fund, which potentially could be a duplicate. I imagine that there would have been a lot of people out there who simply forgot that they had superannuation funds when they changed jobs. But now that's a thing of the past. We got rid of the stock of duplicate accounts with the Protecting Your Super changes. We gave people choice, with the choice legislation, and now we're stopping the flow of duplicate accounts and making the system far more efficient for doing so. With the Your Future, Your Super changes we know that, by default, people no longer have multiple sets of fees, multiple sets of insurances and multiple accounts, which is a very inefficient way to save for your retirement.

Senator WALSH: Presumably you would like these 1.3 million people who are still in underperforming funds—you will now interject that some of these funds may be in a process of merger—

Senator Hume: Seven out of the 13.

Senator WALSH: But presumably the intent of your legislation is that people engage with the fact that they're in an underperforming fund and do something about it themselves.

Senator Hume: In an ideal world, but the good news is that the funds are taking action themselves for the first time.

Senator WALSH: How would you assess the level of engagement of individuals in the decision to stay or change funds when 90,000 have left and 1.3 million at present have stayed?

Senator Hume: As you said earlier, disengagement in the superannuation system is an unfortunate by-product of a compulsory superannuation system, but, that said, there are now nearly 90,000 people who have made the choice to engage with their superannuation, potentially for the first time, and made the decision to move to a better-performing fund. The good news is that those who haven't chosen to do that are still protected because their funds are now looking for merger partners with funds that are performing, so they'll have much better retirement outcomes too.

Senator WALSH: Thank you. I just want to clarify something. I think I asked you before whether there was any communication with people about the fact that they were being stapled to funds and your answer was that it was no change for them. Can I just confirm the answer to that question? Was there any communication required by funds or anybody—

Senator Hume: Nobody is stuck in a fund, so nothing's changed. In fact, probably the choice legislation was the one that we should have communicated with them about to tell them they're no longer stuck in a fund and they have the choice to move to whatever fund they want to.

Senator WALSH: So you haven't communicated with the people who are still in an underperforming fund—

Senator Hume: Yes, we have.

Senator WALSH: that they've been stapled to it? That's my question.

Senator Hume: It's their fund. They're there—

Senator WALSH: It is just a yes or no, Minister.

Senator Hume: They have probably defaulted into it and are potentially choosing to stay.

Senator WALSH: It is just a yes or no. So it was not your intention to communicate that to them and you haven't: that is the answer.

Senator Hume: We're not forcing people to move funds if they don't want to move funds.

Senator WALSH: I'm just wondering why it's such a hard question to answer if you are—

Senator Hume: Because you're intentionally trying to misinterpret the concept of stapling. Nobody is stuck anywhere. They're not stuck anywhere because of the reforms that this government has made. We went through with those reforms and, let's face it, a Labor government would never have made those reforms. Those people are much better off. They now have the choice to move should they want to.

Senator WALSH: Labor certainly did say that we should not be stapling people to underperforming funds.

Senator Hume: I'm actually thrilled to know, because Stephen Jones has said it publicly, that Labor will not be making any significant changes to the superannuation reforms that the Liberal government has made.

Senator WALSH: We're here in estimates asking you, the government, questions. I'm going to have one more go. It is a yes or no question. Has the government communicated to people that they have been stapled to underperforming funds?

Senator Hume: Individually or collectively?

Senator WALSH: Individually.

Senator Hume: Have we written to everybody and said that they have a superannuation fund? No.

Senator WALSH: Have you told people that they're stapled to an underperforming fund?

Senator Hume: They're not stapled to anything. All that 'stapling' means is that their superannuation fund does not duplicate when they start a new job. They don't get a brand-new fund.

Senator McALLISTER: 'Stapling' was your preferred language.

Senator Hume: Actually it wasn't mine; it was the Productivity Commission's.

Senator McALLISTER: You were talking about stapling. You built the system. Senator Walsh is asking you a very straightforward question. If you're so relaxed about it—

Senator Hume: I am relaxed. I'm actually interested to know what the alternative would be—

Senator McALLISTER: You don't look terribly relaxed. Why not confirm what Senator Walsh is asking?

Senator Hume: because it sounds like you're suggesting that it would be much better that, if every time somebody moved jobs, they got a second fund, a third fund and a fourth fund. If they have multiple jobs, do they have multiple funds by default?

Senator WALSH: The answer is that you haven't communicated to these individuals that they're stapled to an underperforming fund because you just don't think it's necessary to do so, which is okay if that's what you want to say.

Senator Hume: Any individual can move fund at any time that they choose to do so. If they choose not to, that's fine too.

Senator WALSH: Okay. I'll move on.

CHAIR: How are we going, Senator Walsh?

Senator WALSH: I'm going quite well.

Senator Hume: I think we're going round in circles, Chair.

CHAIR: Senator McDonald does have some questions.

Senator WALSH: I've got a few questions about this important issue. We also received an answer, Minister, from the Department of the Treasury to question No. 137 about consumer research on stapling. We asked whether Treasury had undertaken research to see if employers in the general community were aware of the stapling changes that came into effect in November last year and what the result of that research was. Given the results, where we still have these 1.3 million people in these funds—however you would like to now characterise them—it's important to understand what the levels of awareness are in the community about this situation. So we've asked for a copy of any research to be provided. We've been told in the answer to the question that there is research that's been conducted, and that campaign evaluation research on the outreach and engagement processes that you've engaged in is 'produced to inform a deliberative process of Cabinet and therefore findings are unable to be supplied'. Why is the department refusing to give us this research?

Senator Hume: You might have to ask the department.

Senator WALSH: I am of the understanding that, in the answer to this question, the department is essentially claiming cabinet-in-confidence.

Senator Hume: I'm not aware of that.

Senator WALSH: Isn't that what I just read out?

Senator Hume: Actually, I don't know what you just read out.

Senator WALSH: So you haven't seen the department's answers to questions on notice in your portfolio—to No. 137?

Senator Hume: No.

CHAIR: Do you want a copy of it, Minister? Would that help?

Senator Hume: If we're going to talk about it, it would be easier.

CHAIR: Can we get a copy of it for the minister, please?

Senator McALLISTER: Did your people not give you a folder?

Senator Hume: I beg your pardon?

Senator McALLISTER: Do you not have a folder—

Senator Hume: I've got a folder.

Senator McALLISTER: with the answers?

Senator Hume: No, I just know them.

Senator McALLISTER: Though not this one.

Senator Hume: You're referring to an obscure question that you asked earlier today.

Senator WALSH: No, it's a question on notice. It's an answer to a question on notice.

Senator Hume: To whom?

CHAIR: Which question is it?

Senator WALSH: It's No. 137 to the Department of the Treasury regarding consumer research on stapling. The department is claiming cabinet-in-confidence as to research about the levels of awareness and understanding

in the community about stapling. My understanding is that it's really up to you to decide whether something is cabinet-in-confidence or not. Is that right?

Senator Hume: I'm not exactly sure which piece of research they're referring to.

CHAIR: Let's get the minister a copy. It's printing out now.

Senator WALSH: I don't think you need my copy of an answer to a question on notice.

CHAIR: Sorry, I was looking beyond you.

Senator WALSH: Looking beyond me—okay.

Senator Hume: I'm happy to take the department at their word. I haven't seen that research, but that's fine. I'm not entirely sure of the context of the question, which is fine.

CHAIR: That's why I wanted to give you a copy, just so you had the benefit of it. I think it's printing out now, Minister.

Senator WALSH: I'm referring to question 137:

1. Did Treasury undertake consumer research ...
2. What was the result of this research? ... If possible can a copy of this research be provided.

The answers were that, yes, Treasury did undertake research to understand the levels of awareness in the community. The answer to point 2 is that all campaign evaluation research is—I understand these words to mean—cabinet-in-confidence. So I'm asking you why we're not able to see this research. I'm asking you what you can tell us about it and why we can't see it.

Senator Hume: From memory, and I could be speculating here, Senator Walsh, there is research that's done as part of the communications campaign. I do recall you—actually, it might not have been you, it might have been Senator Gallagher, questioning Treasury this morning on the campaigns that were under way, and they did refer to the Your Future, Your Super campaign. And that is currently being developed, so that is cabinet-in-confidence.

Senator WALSH: It's cabinet-in-confidence because—

Senator Hume: The research that contributes to that campaign, yes.

Senator WALSH: Is that because it's being used to develop a campaign to increase—

Senator Hume: I'm speculating. I'm responding to the question that's in front of me, and that would be my best guess.

Senator WALSH: I'm just repeating, because I was looking at the document at the same time: you think it's cabinet-in-confidence because it's being used to develop a further campaign to—

Senator Hume: Which is something that goes through a cabinet subcommittee, yes.

Senator WALSH: increase engagement and awareness about the issues—

Senator Hume: In the Your Future, Your Super changes more broadly. Making sure that people go to the website, check their own superannuation fund against other funds that are out there, check it against performance, check it against fees, see if their fund is an underperforming fund, see if there is a fund that might better suit them to move to—which, of course, is something that didn't exist before the Your Future, Your Super reforms went through—and that's what we want people to do.

Senator WALSH: Okay. So what would be the harm to the public in releasing this information?

Senator Hume: I'm not entirely sure what the benefit of the public is in releasing the information, either. And I haven't got the information—I haven't got the research sitting in front of me and I haven't read the research in any great detail, so I'm just speculating. It wouldn't really be for me to say.

Senator McALLISTER: I guess the test isn't really that there has to be a benefit. That's not really how open government works. The test is that information should be made public unless there is some—

Senator Hume: Well, if it informs cabinet—

Senator McALLISTER: May I finish the question? The test is that information should be made public unless there is some harm that would be done, and Senator Walsh's question was to ask you to describe what harm would be caused to the public interest by releasing this research?

Senator Hume: Well, I don't think it is a harm to the public interest, Senator McAllister; in fact, I think there are lots of reasons why information would not be made public, and one is because it involves cabinet deliberations, and that's a pretty common reason to not release.

CHAIR: As a principle.

Senator Hume: As a principle, that's right.

Senator WALSH: Minister, you referred to some of the questions that we were asking this morning of Treasury and the ATO about advertising campaigns on these changes. My recollection is that Treasury said this morning that there was no more funding allocated to further campaigns.

Senator Hume: No; that's right.

Senator WALSH: How is that consistent with what you've just said, which is that you think this research is being claimed to be in confidence because it informs further campaigns?

Senator Hume: It's not further campaigns, it's current campaigns.

Senator WALSH: I'm fairly sure that Treasury answered questions saying that there was funding for campaigns which had concluded, and that there was no intention and no budget to do further campaigns about Your Future, Your Super.

Senator Hume: No, that's not the case.

Senator WALSH: There is an intention—

Senator Hume: Money has been allocated. Money has already been budgeted. It has already been set aside. The campaign is being developed now.

Senator WALSH: Okay, and what can you tell us about that campaign?

Senator Hume: That it's going to be a ripper.

Senator WALSH: What is it about? Is it about the stapling or is it about the underperforming funds?

Senator Hume: It's an awareness campaign. Your Future, Your Super has changed the face of superannuation for so many Australians.

Senator WALSH: Is it an election campaign?

Senator Hume: No, it's not an election campaign, it's a campaign to make sure that people are aware, now, that there is new access to information about their superannuation fund that they've never had before, and it's all in one place, at the ATO website—that they can compare their fund to other funds that are out there, on the basis of performance and fees, and that website also highlights which funds are persistently underperforming funds and have been for years.

Senator WALSH: So you've decided to do this campaign to provide people with further information about their need to access information about changing funds, but you didn't know until tonight that there are 1.3 million people who are still in underperforming funds?

Senator Hume: Again, I think you're intentionally misinterpreting that data. Those—whatever number it is—people that remain in underperforming funds will not be in underperforming funds for much longer because, thanks to APRA, who, in fact, are here—and here for questioning, any time you're ready—are doing a terrific job in facilitating mergers. They've got new powers to do so, and they're making it happen. So all of those people that were stuck in underperforming funds won't be for much longer. In fact, they're going to have a much better retirement outcome thanks to the Your Future, Your Super changes.

Senator WALSH: As I understand it, you introduced stapling because people were not engaged enough in their super to avoid having the duplicate accounts that you talked about before. And now what you're telling us is that, all of a sudden, these people who are still in these underperforming accounts are either—through some process not of their choosing, a merger process—going to find themselves in a better performing fund or, all of a sudden, they're just going to wake up and make the choice that they haven't made since last August to get themselves out of this fund. They're going to engage and they're going to decide to just get out, despite the fact that the numbers are so overwhelming. You've had six per cent of people choose to leave, and 94 per cent of people choose to stay, but all of a sudden people are so engaged they're going to get out of their fund?

Senator Hume: Again, and you can specifically ask APRA about this—

Senator WALSH: Well you did jump in, Minister.

Senator Hume: that's not the case at all. You are intentionally and deliberately trying to misinterpret the data that's in front of you. In fact, a number of people—89,291 people—have already made the decision to switch to a better-performing fund. Those who haven't made that decision don't need to worry. We've got their backs too because APRA is facilitating mergers. Three funds have also chosen to close—is that right, Ms Cole? I think it's three that have chosen to close.

Ms Cole: There are three that have completed mergers or closed at this stage.

Senator Hume: Yes. Thank you. So those people will have a much better retirement outcome thanks to the Your Future, Your Super legislation. In fact, our estimate and Treasury's estimate is that there is around \$17.9 billion in retirement savings that will be made in the next 10 years because of these reforms.

Senator WALSH: So when you set out with this signature policy, you were saying to yourself that you would be pretty happy if six per cent of the people that you've communicated with about being in an underperforming fund decided to get out after receiving that one letter that you sent them?

Senator Hume: I'll be pretty happy the moment all Australians are in a fund that's delivering for them. There were so many that weren't, and their members didn't even know it.

Senator WALSH: Six per cent is the success benchmark for you, Minister?

Senator Hume: There are 89,291 people who have actively made the choice, and for those that haven't made the choice, it's okay because we have their backs as well.

Senator WALSH: A tiny proportion of the people that I assume you would want to make that decision.

Senator Hume: Would you rather have them stay there, Senator Walsh? What is the alternative that Labor has come up with? I haven't seen you present a single alternative. In fact, your unions are encouraging people to stay in underperforming funds. The Maritime Union actually wrote to its members and begged them to stay in an underperforming fund.

Senator WALSH: Well would you—

Senator Hume: Is that correct? I should check that with APRA. That's the case, isn't it?

Senator WALSH: Minister, are you—I'd like you to be on the opposition benches asking the questions.

Senator Hume: Well I'd probably ask some more sensible ones.

Senator WALSH: That would be great if you were. But, essentially, this is a signature policy, and what you've done is send people that registered letter that you—

Senator Hume: No, the super funds sent it. We didn't send it.

Senator WALSH: Thank you for the correction. You required the super funds to send that registered letter. You've done some advertising to employers that we heard about earlier today. You've got something in the works. But essentially, you've completely failed to communicate to people that they're in these underperforming funds—they're now stapled to them—and only six per cent of people have got out.

Senator Hume: Again, this is an intentional—

Senator WALSH: This is a complete disaster. How is it anything other than a complete disaster?

Senator Hume: Senator Walsh, be serious.

Senator WALSH: I'm very serious.

Senator Hume: There are thousands and thousands of people—

Senator WALSH: At least I had the list, I had the numbers with me, Minister.

Senator Hume: who are much better off already, today, from these reforms, which, I might remind you, you resisted.

Senator WALSH: Yes. We said that no-one should be stapled to an underperforming fund.

Senator Hume: And they're not. They can leave at any time—

Senator WALSH: And today the majority of people are stapled to underperforming funds.

Senator Hume: You also voted against choice, which would have left those people in those underperforming funds and not given them the opportunity to move. You also voted against Protecting Your Super, so you would have stopped people having not only reduced fees, but abolishing exit fees as well, so they couldn't change funds without a penalty. You have not supported a single piece of superannuation legislation until last week—not one.

Senator McALLISTER: [inaudible]

CHAIR: It is, Senator McAllister. I have given a bit of latitude, because the questions have been very political, to be frank.

Senator WALSH: Based on data provided by APRA.

CHAIR: I have given the minister a little bit of latitude, to be frank.

Senator McDONALD: Good evening to APRA officials. At the Senate estimates hearing on 28 October 2021 I asked a question about how new business volumes for the retail life insurance advice channel had declined by 50

per cent over the last five years as a result of less financial advisers, less commissions, and a reduction in those advisers who are providing advice on life insurance products. I also made the point that new business is very important for life insurance as it serves to add younger lives to the life insurance pool, and it covers some of the fixed costs of these companies. I asked whether such a significant decline in new business was very concerning for APRA. I noted that since the APRA reforms to the individual disability income insurance market from 1 October 2021 new business volumes have declined even further.

The answer I received last October seemed to suggest that the problem was attributable to recent premium increases as a result of losses experienced by life insurers. These losses have largely been limited to the individual disability income insurance product. So why has this driven such a large reduction in new business across the board? Can you please confirm if this decline in new business is of material concern to APRA, and further explain what has been driving this decline in new business and what are the consequences for the life insurance market?

Mrs Rowell: I think the drivers of new business volumes in life insurance are quite complex. They are significantly linked to the level of premiums that are charged, but also to the priority that individuals place on life insurance in the context of their overall circumstances. There have been a number of changes to the life insurance market and retail disability products in particular over the last little while. Those new products are very different to previous products in place. They have more sustainable pricing, terms and conditions, but getting behavioural response to those new products to change, particularly in the current environment, which is quite uncertain for many people I think, is proving challenging. So there has been a dip in new business volumes. I don't have the precise numbers in front of me. We can take that on notice. Our understanding from the insurers is that they are getting a reasonable response to the new products, but it is taking time to explain the changes to both the advisers and the policyholders to get the take-up.

Senator McDONALD: So you will take on notice the decline figure I have quoted, 50 per cent over the past five years. If you could take that on notice I would appreciate it. At the Senate estimates hearings on 28 October 2021 I asked a question about a response from APRA to a question on notice from Senator Small in June 2021, in which APRA justified life insurers giving large discounts to new clients on the basis that having them underwritten again reduces the risk they pose. I asked the question, given that some insurers are offering a 25 per cent discount in the first year, supposedly as a result of the underwriting process which the insurer needs to pay for, how can this be a good thing for the other policyholders in the insurance pool?

Mrs Rowell: I don't think I can add anything more to the previous response we gave on this. The way insurers manage the pricing of their portfolio across new and existing customers is a commercial decision for the insurers. There are a number of reasons for them pricing the way they do. It's important to be sure, when you're quoting the figures, that you are comparing like with like. Often the new policies that are being sold to the new policyholders will have different terms and features to the existing policies. So I think some more granular analysis would be needed to understand exactly what the discounts or the differential in pricing between new and existing customers was and whether it was a like-for-like comparison. Beyond that, I don't have anything to add beyond what we said at the previous hearing

Senator McDONALD: So you don't think the discounts are a further indicator of a life insurance market that is in difficulty? I wonder if you would have concerns—

Mrs Rowell: We are concerned about life insurance. We are concerned about the products, the pricing, the sustainability and the cost of insurance. That's why we are pushing the insurance industry to respond and to make changes to all those aspects of what they're offering so that we get a good outcome for policyholders so that they can get valuable cover at a reasonable price and that the insurers can write sustainable business. So it is a concern, and that's why we've taken action in the disability income space.

Senator McDONALD: So the pricing practices of the funds, of the offerings, are you taking any interest in that? Are you tracking that and reviewing what the impact of the changes would be?

Mrs Rowell: We are monitoring the response of the life insurers, in particular to our disability income product expectations. We're looking at a range of things, including what's happening to pricing and also what's happening in the terms and conditions, the changes they're making to their underwriting and claims processes and the like. It's an ongoing process. It's early days. These new products were only put in the market from October last year. So that will be an ongoing process for us to monitor over the next 12 to 24 months and beyond.

Senator McDONALD: So you'll be having a review, a fixed kind of review period, at 12-24 months? Is that your intention?

Mrs Rowell: Yes. We have communicated to the insurers our expectation of what we want them to do over the next little while. We have regular updates from insurers to give us information on what they're doing and the

changes they're making to their whole process around disability income insurance, and we are getting regular information on premium changes as well so that we can monitor what's happening in the market.

Senator McDONALD: Would you publish a review decision? How does APRA go about that process?

Mrs Rowell: There are two different ways in which we would deal with those reviews. There's the specific feedback to individual insurers, which we would not make public. But we would often publish some sort of summary report of general themes and findings of what we're seeing, whether by way of a letter to industry or in some sort of insight article or other published report. It really depends on the nature of what we find and the level of concern we have, as to the depth and nature of what we would publish or the form of what we would publish.

Senator McDONALD: I guess some of the questions I'm asking are hopefully flagging the concerns that industry has brought to me. In response to questions that I asked at the previous Senate estimates, APRA released data on the extent of premium increases for the individual disability income insurance market, suggesting that the average increase in 2020 was 15 per cent, which is before any age based increase. I'm keen to know what the average increase was for 2021.

Mrs Rowell: I don't have that information to hand. I will take that on notice and see what we're able to provide.

Senator McDONALD: Thank you very much. I'd also like to know the maximum average increase by any one insurer; the extent of increases for level premium businesses; the average increase for closed products such as agreed value policies that have in the past been so important to small business operators. I'm hearing that some of these increases, since APRA intervened in the IDII market, have been as much as 70 per cent. An average of 15 per cent can hide what is really going on and the impact this might be having on everyday Australians. Whilst you may have commenced your intervention into the IDII market with a primary focus upon the sustainability of these life insurers, what are you doing to ensure that these life insurance companies are being fair to their existing policyholders who are now in closed products?

Mrs Rowell: We are expecting that life insurers develop a plan to transition their existing policyholders from the existing products to new products and we expect them to do that in a fair and equitable way. It's important to understand that that is a challenging process and not entirely within the insurer's hands. That is because those policyholders have a choice of keeping the existing policy, which has all the terms and conditions that go with it, but there is also a significant increase in premium to deal with the losses that have been incurred for those products in the past, which is what the insurers are responding to. The alternative decision that they can make is to move to a newer product that perhaps has different terms and conditions that are slightly less generous but is more stably priced and more sustainable going forward. How the life insurers balance those decisions and the information that they give to policyholders is clearly important, but ultimately that's an arrangement between the life insurer and the policyholder. We monitor, engage and review how that's being managed, but it's not something that we can necessarily directly control. It's a decision for the insurers and the policyholders.

Senator McDONALD: Isn't it a challenge for the policyholders that they get to a point where they're not insurable under another fund? I'm reflecting on personal experience, where I'm now apparently too old and too risky to insure. So I'm going to stick with the wildly expensive fund that I have—better something than nothing.

Mrs Rowell: Again, that's a challenge for the industry. There is a process called underwriting to assess risks. We expect insurers to do that in a fair and transparent way. There are a range of insurers out there who have different terms and different approaches to underwriting. I would not like to think that, just because you're getting older, you're uninsurable. There would be insurers out there willing to write reasonable risks whatever the age of the policyholder.

Senator McDONALD: That's a hopeful note to finish on, Chair. Maybe I am insurable after all.

CHAIR: Absolutely. I think you're insurable, and I think your deductible would be very, very low indeed. Senator Small has some questions. Can you hear me, Senator Small?

Senator SMALL: I can, indeed, from behind the iron curtain here. Thank you, Chair, and good evening.

CHAIR: Fire off, Senator Small, as quickly as you can.

Senator SMALL: In response to some questions from my colleague Senator Brockman in the June estimates last year, APRA indicated that a review of the sole purpose test would follow once the Your Future, Your Super reforms had passed. Many industry participants that I've talked to have asked why a 21-year-old piece of guidance is yet to be updated. Can you offer any guidance on how that review is going and what the time line looks like?

Ms Cole: I think that I missed the date line. I think it might have preceded my joining APRA, so I might ask Ms Smith to answer the question.

Mrs Smith: Thanks for the question. In relation to the sole purpose test, since that time with the Your Future, Your Super reforms, we've also had the introduction of the best financial interests duty, which is an important duty which extends the onus onto trustees to act in the best financial interests of members and also reverses the onus of proof. What we're doing is looking at all of our standards and guidance in relation to what the introduction of the best financial interests duty means, and we're in the process of doing that. With the sole purpose test and the best financial interests duty, that will be wrapped up in the review which we're currently undertaking to ensure that the standards and guidance that we have in place are best incorporating these higher standards and requirements. Over the course of the next few months, into 2022, that review will incorporate the sole purpose test and best financial interests duty.

Senator SMALL: So would it be fair to expect that to be finalised by, say, midyear?

Mrs Smith: I don't know that I can commit to a time frame but I know that we're in the process of looking at all of the guidance that we have in the context of the best financial interests duty. So I would hope that if it's not completed it will be well in train.

Senator SMALL: Thank you.

Ms Cole: We're also looking at testing with trustees the way that they're approaching the change to best financial interests duty. With the benefit of the reverse burden of proof, we're being very active in asking them to identify how they approach that new duty. Anything that we [inaudible], any changes to guidance or standards, will be informed by those real-life interactions with the entities that we supervise.

Senator SMALL: Thanks for that. I think that's getting to the crux of it. That's what industry really needs.

There's one other issue that I touched on last estimates as well, and that's the IDII market. As I understand it, tranche 3 is scheduled to commence on 1 October this year and it requires life insurance underwriters to provide contract renewal every five years, subject to policy terms and conditions that apply at that time. What, if any, disadvantages could this result in for consumers, particularly looking at things like reduced terms, increased costs or even, in extreme cases, the total loss of cover?

Mrs Rowell: I will respond on that. It follows on from the questions from Senator McDonald. We are aware of the implications and pros and cons of moving to the five-year policy contract term. There are questions of providing certainty and stability for policyholders as well as insurers versus some of the issues that you refer to, which are continuing access to cover and the need to re-underwrite and the like. They're complex things to balance. When we introduced the IDII measures, we felt that there was a need to make significant changes in the IDII market to address the underlying losses and poor outcomes for policyholders that were occurring. The five-year contract term was one of a set of measures. It's the only one that remains to be put in place, and we did defer it because of the feedback we had from industry about some of the challenges and complexities.

We've had further engagement through the Financial Services Council and with individual insurers over the last couple of months, and we are still discussing with them those challenges and the pros and cons, if you like, of that measure. We will need to communicate our response to industry as to proceeding or otherwise with that particular provision in the coming months.

Senator SMALL: Do you have a firm deadline by which you would communicate that to industry, given it's quite obviously profoundly important to those working in that space?

Mrs Rowell: We don't have a firm time line but we are aware of the importance and the urgency. It is actively under discussion and consideration within APRA, and we would hope to be communicating—I'd like to commit to it being by the end of March but there are no guarantees on that. But that's the goal we're working towards: to make a decision and communicate by March as to whether or not we're proceeding with that requirement.

Senator SMALL: Thanks very much, Mrs Rowell.

CHAIR: Senator McAllister?

Senator McALLISTER: I think my questions are probably best directed to Mrs Smith. Since the Choice Heatmaps were published, has APRA identified any issues with the data that they relied on or any inaccuracies in the Choice Heatmap results?

Mrs Smith: Thank you for the question. We published the Choice Heatmap using data that was provided by SuperRatings. At this point in time, we don't collect data on the [inaudible] factor; that's provided directly to APRA. But we're in the process of collecting that now. We produced that heat map using data—that we used to the best of our ability—that represented what we wanted to be able to publish to provide transparency. To the extent that we've achieved that and provided transparency, we've had some questions from industry around the

use of data. But, based on the assumptions, we're confident the assumptions that we've made using that data are consistent across the industry.

Senator McALLISTER: That doesn't really answer my question though, does it? You said that the assumptions are consistent across the industry. Well, they could be wrong and applied consistently. It doesn't really resolve any of our challenges. My question to you was: have you identified any issues or inaccuracies with the results?

Mrs Smith: We're confident in the data that we've used. I think we needed to take a snapshot of data. We did an industry tender to provide that data, and we made assumptions that were consistently applied across the industry. Those assumptions were [inaudible] with an independent group who look at the assumptions. There will always be differences in assumptions that can be made to the extent that we had information provided to us that identify areas that could be done differently. But we're backing the data that we've used, the application and the manner in which we've done that.

Senator McALLISTER: Your answer so far is that you proceeded in the way that you set out to proceed; therefore, by your logic, that's acceptable, irrespective of whether or not there are any issues raised by parties about whether or not it's actually accurate. Consistency is not the same as accuracy, Mrs Smith, so I'll ask you for a third time: are there any inaccuracies in the heat map results?

Mrs Smith: I think it would depend on individual funds. There are a lot of products and options that are captured in that heat map. What it has highlighted is that a significant number of choice products are performing below benchmarks. So I think it has provided a level of transparency. What I would say is that we are very happy to listen to challenges or questions, which we're doing. We've received some questions back from particular funds and groups around the data, which we'll look into.

Senator McALLISTER: What are the concerns and the questions being raised with you that you are looking into? What are the problems they are raising with you?

Mrs Smith: Some of the questions have been around the level of granularity of the data provided. We've had some questions around benchmarks that have been provided and why the use of net returns versus net investment returns. The questions are all reasonable questions that we will look into on a case-by-case basis.

Senator McALLISTER: So APRA didn't consult any of the funds or ask them to review the data in relation to their performance to verify or validate it for publication. You just published and be damned.

Mrs Smith: The information that's provided to SuperRatings is provided by the funds themselves. We did engage with a number of funds where there were areas that we wanted to check for consistency or accuracy. It's actually not feasible for us to engage with every fund to check every data point that we're using. That's why it was important that we needed to make some assumptions, that those assumptions were applied consistently and that we did have some independent validation of the assumptions that were made.

Senator McALLISTER: APRA would expect RSE to apply thorough, rigorous checks to any data that they rely on in communication with members and consumers. Does APRA consider itself bound by those same standards?

Mrs Smith: I think APRA has made no secret of the fact that data is absolutely important, and we were disappointed with a lot of the data that was provided last year in relation to the performance test. We absolutely rely on accurate data. What we felt was important, though, was to provide a level of transparency to the industry on a segment of the industry that had had no transparency and in which a significant portion of Australians hold their superannuation money. That's what we've done through the production of the heat map. The heat map metrics that we used have been publicly known since we first published heat maps back in 2019, so the metrics were well known. We've also made public that we would be using SuperRatings data prior to the release of the heat map.

Senator McALLISTER: Do you consider that the use of that data, which critics say is non-standardised and in fact provides a misleading picture of performance, is compatible with the standards that you would ordinarily apply to trustees?

Mrs Smith: As I said, quality data is absolutely important. We did work with SuperRatings to look at the data we were using. SuperRatings provide a lot of data to the industry. We think the data we've provided is representative and gives a good picture of the choice sector.

Senator McALLISTER: Any concerns?

Mrs Smith: What I will say is that we've worked hard over the last period of time, recognising that we need to collect deeper and richer data from the industry. The superannuation data transformation program which we've

been running for the last few years is doing that. We are collecting APRA data now directly to APRA and we will be using that data going forward.

Senator McALLISTER: So you're happy with what you've produced, but you won't be doing it again? Is that essentially the message that you have?

Mrs Smith: We will be producing heat maps in the future, but we will have the benefit of data that's been provided directly to APRA for the next iteration.

Senator McALLISTER: Is there any world in which you might find yourself in your position to acknowledge that the approach taken this time has some shortcomings, or are you just sticking with your position that, since you applied a consistent approach across the industry, that was enough?

Mrs Smith: As I said, we're open to receiving feedback and looking at where there are genuine concerns in relation to that. We've received some of those and we've got meetings coming up with groups who have expressed concerns on that data. We have received some information and correspondence in relation to that, which we're looking in to. So we need to spend some time looking at what those concerns are more deeply. To the extent that anything needs to be done about it, we would consider it at that point. But we also consider that the benefits of transparency and getting information into the market around transparency in choice to hold trustees to account is really important as well. The fact is that it's 12 months sooner than it would have otherwise been. I think we will see action from trustees around ensuring that outcomes for members are prioritised in those products.

Senator McALLISTER: I'm very conscious that the choice sector was left alone for a very, very long time, so I see your point. Obviously APRA found its way to make assessments of some other funds much sooner. Thank you, Chair. That's all I have.

Senator CHISHOLM: I just had some questions around the finding that the default My Ethical Super product offered by Christian Super was underperforming in August 2021. I don't know if you're aware, but Christian Super does not invest in a range of industries that do not meet its faith based standards, including alcohol producers, gambling companies and weapons manufacturers. Are companies in these industries included in the indexes used to set the benchmark?

Ms Cole: I'm not sure I specifically know the answer to that one. Is that one we could take away on notice?

Senator CHISHOLM: Sure. I've just got a few questions I'll put. In terms of Christian Super, I presume APRA would be of the view that most members of that super fund are aware of their faith-based investment approach—that is, that members would choose that fund for that reason?

Ms Cole: That would seem to be a reasonable assumption. I couldn't say for sure, but I think I see the sense in what you're saying.

Senator CHISHOLM: Was there any consideration of the faith-based mandate of Christian Super in relation to the benchmark?

Ms Cole: The performance test regulations emanated from Treasury, from the government. That wasn't APRA's consideration. We were the ones that implemented the test in accordance with those regulations. I'm not aware that there was anything specific in there in relation to faith-based investment.

Senator CHISHOLM: Minister, are you aware of anything?

Senator Hume: There's nothing specific in the benchmark, of course. But if you're suggesting, Senator Chisholm, that you can't invest with an ethical framework and outperform, I'd suggest you look at the performance tables, because Australian Ethical Investment has been one of the top performers for the last five years, three years and 10 years, and it has very similar investment guidelines to Christian Super, which hasn't, and has underperformed.

Senator CHISHOLM: I'm just curious, though, if there would be any consideration given to how those funds are evaluated against the benchmark?

Senator Hume: They're based on an investment benchmark, not an ethical benchmark. We don't do a faith overlay, if that's what you're asking. In all honesty, neither should we. Let's face it, why should we discriminate against people of faith, and say, 'It's okay for you to have an underperforming fund, but people that invest in other parts of the superannuation system get a bonus; we're going to punish you because you're of faith.' I think that's entirely unfair. Let's face it, Christian Super could quite easily have a product that isn't a MySuper product, that people could choose to go in. But MySuper products are there for default.

Senator CHISHOLM: What would happen if Christian Super was found to fail this benchmark for the second year in a row?

Senator Hume: Then they would be prevented from having new members join that particular option of the fund.

Senator CHISHOLM: What about merger propositions?

Senator Hume: I can't answer that.

Senator CHISHOLM: Does APRA have a view on how that would be handled with a fund like this?

Mrs Smith: I think they'd be looking at appropriate merger opportunities, and looking at scanning the market to identify funds that would be appropriate for merger, where member outcomes were prioritised and they were acting in the best financial interests of their members.

Senator CHISHOLM: What about their faith-based investment approach? How would that be considered?

Mrs Smith: I think part of the merger discussions are all about how they would incorporate that. I think they need to prioritise acting in the best interests of their members, and best financial interests of their members. That's what we're really looking at: what is the approach that they've taken, how have they scanned the market, and how have they made the decision that it is in the best financial interests of their members?

Senator McDONALD: I have asked questions over several estimates, though not previously, about APRA's road map to risk for insurance and capital. There is a real problem with capital into regional Australia, particularly into the north, where banking institutions are saying, 'I won't lend you that money in Croydon, Normanton, Richmond or Quilpie, but I will lend it to you in Townsville and Toowoomba.' That's not where the business is. The ABA is denying there's a problem, but their risk shading is stopping financiers from lending in those places. What, if anything, is APRA going to do about managing the availability of finance into regional Australia? You've written a road map on risks, so you obviously care enough to write about what not to do, but are you going to get interested in what they should be doing?

Mr Byres: I'm not sure of the road map document you're referring to. Could you—

Senator McDONALD: We've talked about this previously. What I'm interested in is what interest, if any, would you take in the fact that we can't access finance in regional parts of Australia?

Mr Byres: We've talked about this in the context of the work we've done on climate risk—the financial risks of climate change. As you know, we published—we finalised—our guidance late last year and we were very careful in that guidance not to be seen to be prescribing where a bank should or shouldn't lend, or where insurers should insure or where super funds should or shouldn't invest. Those are, appropriately, decisions for those organisations. We ask that the decisions they make are well founded.

Having said that, the concern that you've raised more broadly about access to financial services, particularly in rural and remote communities, is one that we understand and which we're interested in. In our corporate plan, we talked about, in particular, the availability and portability of insurance, which is increasingly difficult in many parts of the country. We're aware of, obviously, and contributing to the government's task force on banking in rural and remote parts of the country. We're doing our bit to contribute to that, but we don't have a mandate to tell people who to lend to.

Senator McDONALD: That's a bit disappointing for the rest of us and for the rest of the country. What about the proportionality of regulation between the COBA operators and the big banking institutions?

Mr Byres: We've been very conscious of the competitive dynamic between the large four banks and the smaller institutions in many things we've done in recent years. Most recently—and I refer to our opening statement—there have been changes to the bank capital regime, which we finalised at the end of last year. There are many measures in that regime which are designed to ensure that there aren't any competitive inequalities created by regulation, making sure that different approaches produce similar outcomes and producing simplified approaches that are less burdensome for smaller banks to implement.

We focused the remuneration requirements that we introduced earlier in the year very much on the live institutions where we saw challenges in culture and behaviour. We applied very simple approaches to smaller institutions. And we've changed reporting time frames for smaller institutions relative to the large institutions, to make sure that there's no undue burden on smaller entities. So I think we've been very active and very alert to those issues, doing what we can to make sure that the smaller institutions are not carrying an undue or an unfair burden relative to their larger competitors.

Senator McDONALD: Well, my reality is that people can't get finance. I don't know who else to turn to if you're not tracking it or if you're saying that it's up to the financiers. They'll go where they make more money.

Mr Byres: As you said, Senator, we're not uninterested in the issue; obviously, we provide a lot of the data. We collect data about things like where branch networks are and where they aren't anymore, and where access to

financial services is declining. We're providing that to government. My point is really to say that it's very difficult for a regulator like us to tell people that they must do something.

Senator McDONALD: I'm suggesting that your policies have encouraged them to make that decision as to where not to lend.

Mr Byres: If you have any feedback on where that is in our framework, or if people give you feedback on aspects of our framework that are creating that incentive, I'm very happy for us to have a look at those and talk to you some more about it.

Senator McDONALD: Thank you.

CHAIR: Are there no more questions for APRA? Thank you to our witnesses from APRA. Thanks for joining us so late in the evening, as well. It's much appreciated.

National Housing Finance and Investment Corporation

[22:06]

CHAIR: I call witnesses from the National Housing Finance and Investment Corporation.

Mr Neilson: We're just waiting for our CEO, Mr Nathan Dal Bon, to join. He should be joining straightaway.

CHAIR: Mr Neilson, I wonder, whilst we're waiting, whether or not I could see if you're in a position to answer a question?

Mr Neilson: Yes, sure.

CHAIR: In terms of providing us context, could you explain how the corporation helps increase housing supply?

Mr Neilson: NHFIC has two main vehicles, one of which is the Affordable Housing Bond Aggregator. The idea of the bond aggregator is to accumulate loans, on one side, and then go and issue a bond to cover those loans. Those loans are made to community housing providers, generally with a long tenure and at a lower rate of interest than what would generally be available. It's above the government bond rate, but what that does is to encourage greater investment in the social and affordable housing sector. It means that CHPs which are the beneficiaries of those loans can construct more social and affordable housing dwellings as a result of that. That's through the AHBA. There is also the NHIF, which is the infrastructure facility, where, effectively, we can provide moneys for new developments to provide necessary infrastructure, which will also help enable projects to proceed to build more social and affordable housing.

CHAIR: Are there any metrics you can give us which enable us to assess the success of these initiatives?

Mr Neilson: We put a number of measures down in our corporate plan, including the amount of loans that are being approved by the board. We'd set a target of up to \$2.5 billion, and we're close to that target. In our most recent plan we've exceeded the objectives that were outlined in the plan. For example, we had set a target of somewhere between \$300 million and \$500 million worth of loans. And we have a liability cap that is currently set at \$3.5 billion, and we've been successful in making those loans such that we're getting very close to that liability cap. So, we measure approved loans. We also measure the number of social and affordable dwellings that have been created. I think that number is about 12,000 to 13,000 social and affordable homes. We also measure the interest savings that we generate for the CHPs, which is around \$420 million.

CHAIR: Excellent. Could you give us an update on, in particular, how the Family Home Guarantee program has performed since its 1 July start? And maybe you could just give a bit of background and context in relation to the nature of the program.

Mr Neilson: The Family Home Guarantee scheme, as you've highlighted, has been in operation now for six months. It's part of the overall FHLDS scheme. I have some data that I'm happy to share with you on the number of places that have been issued. For the first home guarantee there were about 7,900 places available. We've issued 1,407 certificates, and there are 650 places on hold. The Family Home Guarantee scheme itself, as you may be aware, is designed to provide moneys for particularly vulnerable people, including single parents, and they are required to have a deposit of only two per cent. The scheme has been successful in getting guarantees out to those beneficiaries. But I probably don't have a lot more information to share on that. Our CEO, when he comes on the line, will be able to add some more information.

CHAIR: And you have with you this evening three senators from Queensland and two senators from Victoria—a minister as well. Do have any granularity on geographical distribution for the loans that are being provided? Are they reasonably proportionately spread across the country? Is that one of the things you track?

Mr Neilson: We certainly do track that. I'm just looking through my notes to see whether we've got that—

CHAIR: You've got three senators from Queensland here and two from Victoria. We'd expect 60 per cent of the loans to be provided in Queensland and 40 per cent in Victoria—that was a joke, sorry!

Mr Neilson: Perhaps I could take the question on notice, because I just can't—

CHAIR: Yes, you can take it on notice. I'm just interested—whenever programs like this are established, I'm always interested in the geographical spread of the beneficiaries.

Mr Neilson: We do track that information by each of the schemes that we operate, whether it be the FHLDS, the new home guarantee scheme or the Family Home Guarantee scheme. We also track it by other metrics. I think it's fair to say that probably the strongest contingent of Family Home Guarantee loans has been going into Queensland.

CHAIR: That's excellent. That's the best answer I've heard all day. Senator Chisholm, do you have some questions?

Senator CHISHOLM: I do, yes. I might just continue on that Family Home Guarantee line of questioning. Back in October last year, the Minister for Housing said that 1,236 people, I think it was, had applied for the Family Home Guarantee? Or was that single parents who had applied for a place under the Family Home Guarantee in the first three months?

Mr Neilson: Sorry, Senator, could I ask you to repeat the question in terms of that number?

Senator CHISHOLM: Back in October last year, the Minister for Housing said 1,236 single parents had applied for a place under the Family Home Guarantee in the first three months. Can you tell us how many single parents have applied for a place under the Family Home Guarantee to date?

Mr Neilson: I may not have that information immediately to hand. I'm happy to take that on notice. We know the total number of places that are available, but the breakdown of that—

Mr Saville: I can probably help with that answer. From July 2021 to 31 December 2021 we had 1,407 guarantee tickets issued in respect of the Family Home Guarantee.

Senator CHISHOLM: Do you have a breakdown of how many of that 1,407 are single parents?

Mr Saville: Family home guarantees can only be issued to single parents with dependants.

CHAIR: So they all are, presumably. Is that right?

Mr Saville: They all are.

Senator CHISHOLM: One of the other things that's claimed is that the fund is getting them out of public housing. Do you have any data as to how many of those 1,407 have left public housing as a result?

Mr Neilson: I don't believe we have that data.

Senator Hume: I don't think all of them would have left public housing. Some of them might have just left the rental market.

Senator CHISHOLM: The Prime Minister said on 20 December last year that the Family Home Guarantee is 'targeted towards single parents and it's getting them out of public housing'.

Senator Hume: Not all single parents live in public housing.

Senator CHISHOLM: I'm just trying to get a sense, when he makes that claim, of what data there is to back it up. Is there nothing that you're aware of?

Mr Neilson: Senator, as I said, we don't have any particular data that's available, but I'm happy to take that on notice.

Senator CHISHOLM: Minister, you're not aware of how that claim—I think you said before that most of them come—

Senator Hume: I imagine that there would be some who would be public housing. Some might be renters. Some might be living with friends or with family while they wait for somewhere more permanent. But I think the good news in this story is that there are now so many single parents who are finally getting a foot in the housing market who would never have done so before because of the Family Home Guarantee.

CHAIR: Minister, I'm sorry to interrupt. I think the chief executive officer has managed to dial in. I just want to check that he can hear us. Can you hear us, Mr Dal Bon?

Mr Dal Bon: Yes, I can hear you. Can you hear me?

CHAIR: Yes, we can hear you very clearly. I can say that Mr Neilson and Mr Saville have done a very good job in your absence.

Mr Dal Bon: My deep apologies—I haven't been able to connect.

CHAIR: That's okay. We can hear you now.

Senator CHISHOLM: I'll just go back to just some general questions about programs. I've got the transcript of a press conference by the Prime Minister at Eagle Farm, not far from home, in Brisbane from 20 December 2021. As part of an answer, he says:

And that's why we introduced those programmes so people would be able to buy a first home with a much smaller deposit. Now since we've done that, 320,000 Australians have got into their first home since the last election, and that's extraordinary.

The Prime Minister and the Minister for Housing have repeatedly said that government's HomeBuilder scheme, the three home guarantee schemes—the First Home Loan Deposit Scheme, the New Home Guarantee and the Family Home Guarantee—and the First Home Super Saver Scheme have directly led to 320,000 Australians being able to get into their first homes, since the last election. Could you explain how the government has calculated this?

Mr Dal Bon: In terms of that global figure, it wasn't quite clear from the quote whether you were referring to the total number of first home buyers or the total number of first home buyers that have been assisted by government initiatives. But from a NHFIC point of view, in terms of the schemes that we administer, I can certainly relay how many people have accessed the schemes since their inception. Would that information be helpful?

Senator CHISHOLM: A breakdown would be good.

Mr Dal Bon: In terms of the total number of recipients since the schemes have been operating, the beginning of 2020, we've had approximately 60,000 places released across the three schemes. A total of 40,968 places have been taken up, to date. There are 4,261 of those places that are still looking for a property, and there are 36,707 that have now bought a home and therefore the guarantee has been issued.

In terms of the breakdown across the different schemes, if you look at the global numbers—FHLDS has been operating now for a number of years. We've had almost full take-up of the 10,000 places across 2019-20 and 2020-21, and I can give you the latest number in terms of the FHLDS, the First Home Loan Deposit Scheme, take-up for 2021-22. Under the New Home Guarantee, in terms of 2020-21 places, there were 10,000 places available; 5,332 were issued, and there were 4,430 that were rolled over into this financial year's FHLDS places. Then we have the First Home Guarantee. That's been operating for just over six months. In terms of the total number of places that have been taken up, we're looking at—just bear with me and I'll give you the latest figures—around 2,200. This is for the Family Home Guarantee. And roughly, looking at those figures, about 1,700 of those 2,200 have progressed to guarantee certificate issue or beyond.

Senator CHISHOLM: So, basically, the tally from the government scheme point of view is 60,000.

Mr Dal Bon: In terms of the guarantee schemes that NHFIC is responsible for, there have been 60,000 places, as I said before, that have been allocated; and, of those places, we've had around 41,000 places taken up, to date.

Senator CHISHOLM: Okay. Can you provide an update on the total number and a breakdown according to each state and territory of the number of people who have been assisted through the home guarantee schemes?

Mr Dal Bon: I've got the global numbers. Let me just check if I have those state breakdowns for you. I've certainly got some state breakdowns for this financial year, if that's helpful.

Senator CHISHOLM: I was after the total through the home guarantee schemes. If you have to take it on notice, I understand.

Mr Dal Bon: The data I have at hand relates to a state breakdown for this financial year. In terms of previous financial years, I will probably need to take that on notice.

Senator CHISHOLM: And the same for the First Home Loan Deposit Scheme?

Mr Dal Bon: Sure. I was going to take away all the First Home Loan Deposit Scheme, the new home guarantee and the family home guarantee. I should say, just in terms of the state breakdowns, that that information is published partly through a paper that we release through our research function. We have released two previous papers that summarise 2019-20 and 2020-21, and that includes a breakdown by state. They are published already. For this year, we're obviously still in progress, but I'm happy to provide those details on notice or to provide them now—whatever you prefer.

Senator CHISHOLM: Just in terms of the First Home Loan Deposit Scheme, do you have how many people have been allocated a place under that?

Mr Dal Bon: In total?

Senator CHISHOLM: Yes.

Mr Dal Bon: It would be the sum of those numbers that I read out before. In 2019-20 the number of certificates issued was 9,803; in 2020-21 the number of certificates issued was 9,765; and then, to date, for FHLDS we're looking at 8,218—noting that we're halfway through the financial year. That's as of 31 December last year.

Senator CHISHOLM: How many of those have settled?

Mr Dal Bon: The vast bulk. Certainly for previous years they would have all settled by now given the time frame. For this year, if you bear with me for a second, I can give you that number. This is more up-to-date data, not 31 December but 14 February. What we've had so far is 8,191 settlements confirmed.

Senator CHISHOLM: So 8,191 of the 8,218 have settled?

Mr Dal Bon: In terms of the certificates, there have been 8,808 certificates issued. That means there are 613 that are still at the contract-signing stage but haven't settled. In addition, there are 1,388 at the pre-approval stage. Then there are 459 at the reserve stage. If you want me to quickly frame it, there are four steps to the process in terms of the issuance of the guarantee. The first stage is essentially a two-week process where a place is reserved. Assuming they're successful in their application, they then go through to finance pre-approval and the guarantee issue stage. The third stage is that contract-signing stage, and the fourth stage is the settlement.

Senator CHISHOLM: What about the new home guarantee scheme? How many people have been allocated a place under that, and how many of those people have settled?

Mr Dal Bon: For this year?

Senator CHISHOLM: All up.

Mr Dal Bon: Again, it would be based on those numbers that I read out before, in terms of the different years. The new home guarantee was operating for around seven months of 2020-21. The number of certificates issued was 5,332. There were 4,430 places that were rolled over into this financial year. They were rolled over into the FHLDS Scheme, and then there are a number of places that have been taken up so far this financial year. In terms of new home guarantee take-up, you're looking at 2,249 settlement concerns, 347 that are at the post contract stage with guarantee issued, 1,785 at the pre-approval stage and 81 at the reserve stage.

Senator CHISHOLM: What about the Family Home Guarantee scheme?

Mr Dal Bon: The Family Home Guarantee scheme started on 1 July this financial year. In terms of the numbers that we have, there are 1,462 settlement concerns. In terms of guarantees issued, we have 254, we have 500 at pre-approval and we have 45 at the [inaudible] stage. This is that 4 February.

Senator CHISHOLM: In December last year, the government announced that it would re-issue up to 4,651 unused guarantees for first-home buyers from the 2020-21 financial year who did not have the opportunity to purchase their first home. Could you explain the process by which unused guarantees occur and are re-issued?

Mr Dal Bon: For the New Home Guarantee, the minister has the discretion to roll over those places under the investment mandate. There was a decision by the minister to roll over those places. That essentially became live on 31 January this year.

Senator CHISHOLM: Can you explain how these property price caps work across the three home guarantee schemes?

Mr Dal Bon: There are five caps across metro and regional areas. There are a range of price caps depending on location. There are price caps that apply to the First Home Loan Deposit Scheme and the Family Home Guarantee, and there is a separate price cap set of thresholds that apply to the new home guarantees.

Senator CHISHOLM: Is there any mechanism to review these price caps on a regular basis?

Mr Dal Bon: Yes, that's within the investment mandate. Again, there's a provision there that relates to NHFIC having an annual review of the price caps, and we provide that information to the minister.

Senator CHISHOLM: How does that work? Who makes the decision on the price caps?

Mr Dal Bon: The minister makes the decision.

Senator CHISHOLM: So you provide evidence to the minister for the minister to make the decision?

Mr Dal Bon: We essentially assess the potential for price caps. We then provide that information to the minister to adjust the price threshold. Then we provide that information to the minister.

Senator CHISHOLM: Does that include a recommendation?

Mr Dal Bon: I believe what we provided last [inaudible] recommendation.

Senator CHISHOLM: At the recent Press Club appearance, the Prime Minister suggested that the government would keep pursuing policies to ensure Australians could purchase property, stating, 'There will be more to help people get that first start in their home to ensure that Australians continue to get a go.' Has the Minister for Housing or his office asked NHFIC to do any work regarding the expansion of the home guarantee schemes?

Mr Dal Bon: Not that I recall. It's not just NHFIC. I'd also direct that question to the Department of the Treasury as well.

Senator CHISHOLM: Understood. Has the Minister for Housing or his office asked NHFIC to do any additional work regarding a new scheme to assist first-home buyers?

Mr Dal Bon: Not that I recall.

CHAIR: Senator Walsh.

Senator WALSH: There are just a few questions from me. In December, your liability cap was lifted from \$3 billion to \$3.5 billion, and many people have urged that it be lifted even further. Mr Dal Bon, you said last time we were here that you were seeking clarity about whether there would be an increase, and you thought that that would certainly help in terms of investment decisions but, of course, that it was a decision for government. Do you still agree that clarity with respect to whether there will be any further increase, and when, would help in terms of investment decisions?

Mr Dal Bon: I think that the government did make a decision since estimates last year to increase the liability cap from \$3 billion to \$3.5 billion. My sense is that the government will obviously take into consideration the views of NHFIC in deciding whether to lift the liability cap again. There were also views put forward with respect to the statutory review that was released. We will work with government, and then we will rely upon their decision in terms of whether they lift the liability cap or not.

Senator WALSH: Thank you. If the liability cap were lifted to \$5 billion, do you have any estimates of how many more social and affordable homes could be supported?

Mr Dal Bon: I haven't done a scenario analysis to try to estimate what that figure may be. Obviously it's very heavily assumption driven. When the liability cap was increased from \$2 billion to \$3 billion a little while ago, we attempted to estimate what that would mean in terms of additional supply, but I'm not prepared to speak, because it's hypothetical work around the increase in the supply of dwellings.

Senator WALSH: Thank you. Regarding actual commitments, how many loans have been issued to community housing providers?

Mr Dal Bon: I think from memory there are 50 or so loans. I'll just confirm that figure.

Senator WALSH: Fifty or so?

Mr Dal Bon: There have been 55 transactions.

Senator WALSH: Thank you. How many applications have been approved? How many are waiting for approval?

Mr Dal Bon: When you say 'have been approved' or 'waiting for approval', can I just clarify? There is a pipeline of transactions that we have at the moment, at various stages of development. Then there are actual decisions that have been approved by the board and then proceeded to financial close. Do you mind if I just clarify which piece of information you're looking for?

Senator WALSH: Maybe just give us both and we'll figure it out later.

Mr Dal Bon: Okay.

Senator WALSH: Thank you.

Mr Dal Bon: What I have is essentially the dollar figures. That figure of 55 that I referred to is deals that essentially are closed; we've reached financial close. In terms of the figure that we have, we have approximately \$2.8 billion of unaggregated loans that have received board approval. Of that figure, roughly \$2.2 billion of loans have closed and settled. The difference between the two is essentially those transactions that are in the process of working towards financial close. In addition, we have quite a substantial pipeline of work that will come forward over the next three to six months. I'm just trying to find a figure here that I can refer you to. I might have to come back to with the precise figure, but there are a range of transactions where, for example, we have used letters of comfort or letters of support through to applications being submitted. If you don't mind, if I could take that on notice, I will come back. Actually, I have a figure here. My apologies. This is an old figure, but at the moment we have \$798 million of actual transactions in the pipeline.

Senator WALSH: Thank you. And if we were to sort of piece all of that together, are you able to give us an assessment of basically how close you are to reaching the \$3.5 billion cap that you have today?

Mr Dal Bon: There is a lot of movement in the pipeline. I guess that is one of the issues which is unknown. That ultimately goes to the amount of headroom we have within the liability cap. What we have been doing is managing a certain number of transactions within the liability cap, then there are a certain number of transactions that we say are locked. That basically means that we are progressing the transaction but we are clear to the counterparties that at this time we don't have headroom. Most of the trends at this stage can be accommodated within the liability cap, and I could take this on notice, obviously. I could come back to you and give you a sense of what that onwards figure is.

Senator WALSH: Thank you. The NHFIC website currently states that over 14,000 new and existing homes have been supported. Do you have an update on that total figure?

Mr Dal Bon: That 14,000 figure would be the latest figure we have based on the \$2.8 billion forward commitments here that I referred to previously, Senator.

Senator WALSH: I think you might have to repeat that. We're having a little bit of trouble with your line.

Mr Dal Bon: I'm really sorry.

Senator WALSH: That is okay.

Mr Dal Bon: I will talk up. The figure that I referred to before in terms of the board decisions, that \$2.8 billion figure, equates to the 14,000 properties.

Senator WALSH: Okay, so 14,000 is up to date right now, but there are more in the pipeline?

Mr Dal Bon: Correct.

Senator WALSH: And do you have a number of how many houses are in the pipeline?

Mr Dal Bon: Not in front of me, Senator, but I'm happy to take that on notice.

Senator WALSH: Thank you. Of the 14,000, how many are new homes and how many are existing homes?

Mr Dal Bon: Of the 14,000, roughly—obviously rounding—3,800 are new dwellings and a further 8,300 are existing dwellings.

Senator WALSH: Thank you very much. I will just check with my colleague. Sorry, just one moment. I'm referring now to a media release where the Minister for Housing states that the National Housing Infrastructure Facility has unlocked more than 6,700 social, affordable and market dwellings. Can you tell us what that means? What does 'unlocked' mean, because of the NHIF?

Mr Dal Bon: In the terminology that we're using, it generally relates to the supply outcomes, which are supported by financing. For example, if we have a particular project that is worth X amount of dollars, we estimate the supply outcome that results from the level of support that we provide to a particular project.

Senator WALSH: How much of the \$1 billion facility has been approved, committed and disbursed?

Mr Dal Bon: In terms of the numbers, we're looking at \$316 million of mistransactions that have been approved by the NHIF board. As I said before, that \$316 million relates to 6,700 new dwellings. Of that \$316 million, \$202 million has been committed and \$73.3 million has been disbursed at this stage.

Senator WALSH: Thank you. The \$1 billion facility provides the opportunity to access up to \$600 million in concessional loans; \$225 million in equity investments; and \$175 million in grants. I've got the same questions for each of those categories, and I wonder if you've got that information. How much of the \$600 million in concessional loans has been approved, committed and disbursed?

Mr Dal Bon: Let me check for you. There's \$116 million in the form of loans and \$40 million in the form of grants. Then for the \$316 million, \$251 million is in the form of loans; \$54 million is in the form of grants. I don't have the breakdown of the \$73.3 million quote, so I'd have to get back to you.

Senator WALSH: I'll just clarify my question; I'm not sure if we were on the same page. I was asking, of the \$600 million in concessional loans, first of all, whether you've got figures for how much of that is approved, committed and disbursed?

Mr Dal Bon: Of that \$600 million figure, there's been \$316 million of commitments and, within that \$316 million, there's \$251 million associated loans. So, of the \$600 million, \$251 million.

Senator WALSH: Of the \$225 million in equity investments, what could you tell us about what's approved, committed and disbursed?

Mr Dal Bon: All the transactions that we've done today have been in the form of concessional loans and grants; there hasn't been any equity.

Senator WALSH: Did you say it's been in concessional loans and in grants?

Mr Dal Bon: Yes. I'll repeat that figure. Of the \$316 million, \$251 million is in the form of loans and \$64 million in the form of grants.

Senator WALSH: I think that is very helpful, so thank you very much.

Mr Dal Bon: I was going to say I have found that figure for you in terms of the liability cap. This was at 31 December last year. As I said before, this figure is moving around on a constant basis, but at that stage you're looking at roughly \$290 million potentially in terms of transactions on risk.

Senator WALSH: Thank you very much. Senator Chisholm was going to ask the same question, but we've clarified that we have the information we want.

CHAIR: There are no further questions. I thank our witnesses from the National Housing Finance and Investments Corporation in particular because you had the graveyard shift. Thank you very much for your patience in being with us today. I also thank Minister Hume for being with us today.

Committee adjourned at 22:51