



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Estimates

(Public)

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ECONOMICS LEGISLATION COMMITTEE

Tuesday, 8 November 2022

Members in attendance: Senators Bragg, Canavan, Hume, McDonald, McGrath, McKim, McLachlan, O'Neill, Barbara Pocock, Rice, Dean Smith, Walsh.

TREASURY PORTFOLIO

In Attendance

Senator Gallagher, Minister for Finance, Minister for the Public Service, Minister for Women

Treasury

Dr Steven Kennedy, Secretary

Corporate and Foreign Investment Group

Ms Roxanne Kelley, Deputy Secretary

Dr Angela Barrett, Acting Chief Operating Officer, Corporate Division

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

Ms Tarnya Gersbach, Chief Financial Officer

Ms Shannon Kenna, Assistant Secretary, Communications Branch [by video link]

Mr Rob Raether, First Assistant Secretary, Stakeholder Liaison Unit

Mr Simon Writer, First Assistant Secretary, Foreign Investment Division

Ms Amelia Henty, Assistant Secretary, Frameworks Branch

Mr Ben Evans, Assistant Secretary, Compliance Branch

Macroeconomic Group

Mr Luke Yeaman, Deputy Secretary

Mr Trevor Power, First Assistant Secretary, Macroeconomic Conditions Division

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

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

Ms Rebecca Cassells, Assistant Secretary, Climate and Industry Modelling Branch

Ms Christina Garbin, Assistant Secretary, Global and Multilateral Branch

Mr Patrick D'Arcy, Assistant Secretary, Domestic Demand, International and Trade Branch

Ms Ineke Redmond, Assistant Secretary, Macroeconomy Branch

Mr Jim Hagan, Chief Adviser International

Mr Hamish McDonald, First Assistant Secretary, RBA Review Secretariat

Fiscal Group

Ms Sam Reinhardt, Deputy Secretary

Mr Brenton Goldsworthy, First Assistant Secretary, Budget Policy Division

Mr Oliver Richards, Assistant Secretary, Budget Policy Division

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

Mr Matt Crooke, Assistant Secretary, Commonwealth-State and Population Division

Mr Ian South, Assistant Secretary, Commonwealth-State and Population Division

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

Mr Matthew Maloney, Assistant Secretary, Labour Market, Environment, Industry and Infrastructure Division

Mr Brendan McKenna, Assistant Secretary, Labour Market, Environment, Industry and Infrastructure Division

Mr Damian Mullaly, Assistant Secretary, Labour Market, Environment, Industry and Infrastructure Division

Ms Lisa Elliston, First Assistant Secretary, Social Policy Division

Ms Nerida Hunter, Assistant Secretary, Social Policy Division

Mr David Webster, First Assistant Secretary, Infrastructure and Commercial Advisory Office [by video link]

Jobs Summit and Employment White Paper Taskforce

Ms Victoria Anderson, Acting Deputy Secretary, Employment Taskforce

Dr Alex Heath, First Assistant Secretary, Employment Taskforce [by video link]

Mr Nick Latimer, Acting Assistant Secretary, Employment Taskforce

Dr Louise Rawlings, Assistant Secretary, Employment Taskforce

Committee met at 14:00

CHAIR (Senator Walsh): I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2022-23 and related documents for the Treasury Portfolio and the Industry, Science and Resources portfolio. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has set 18 November 2022 as the date by which senators are to submit written questions on notice, and 16 December 2022 as the date for the return of answers to question 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, and 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 purposes 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 also resolved 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, and which I now incorporate 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 are present, and they will be asked to remove anyone who does not follow these instructions. Witnesses and senators who were seeking to table documents during the committee's hearings 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.

The committee's proceedings today will commence with the Treasury portfolio, beginning with the Treasury's Corporate and Macroeconomic Group. The hearing will then follow the order as set out in this morning's adopted program.

Before we begin, I would like to place on the record my appreciation for the previous chairs of the Senate Economics Legislation Committee in the previous parliament, Senator Brockman and Senator Scarr, and I would like to note the very collegiate and respectful environment that they fostered. We've always had good discussions on this committee. We've kept to time as best we can, and there's always been ample opportunity for the opposition, in particular, to ask questions and provide the scrutiny that's required. So I look forward to continuing to operate in that environment of respectful and collegiate discussion, making best efforts to keep to time and giving the opposition and crossbench, in particular, time to ask their questions. To that end, we will proceed initially in 15-minute blocks.

Department of the Treasury

[14:06]

CHAIR: I now welcome Senator the Hon. Katy Gallagher, Minister for Finance. I also welcome Treasury deputy secretary Mr Luke Yeaman and officers from the Treasury. Would the minister, the deputy secretary or officers like to make an opening statement?

Senator Gallagher: Thank you, Chair. I've just got a brief comment to make to the committee before I hand to Mr Yeaman and we get underway. I wish to advise that Dr Steven Kennedy, Secretary of the Treasury, is not able to attend the committee hearing today due to a family emergency. Dr Kennedy's opening statement will be read by Luke Yeaman, Deputy Secretary, Macroeconomic Group, and Treasury officials from Macroeconomic Group and Corporate and Foreign Investment Group are here to answer your questions following the opening statement as per the program.

CHAIR: Thank you, Minister. Mr Yeaman.

Mr Yeaman: Thank you very much, Chair. Thank you, Minister, for the opportunity. I will make an opening statement on behalf of Dr Kennedy, if I may. I know that Dr Kennedy takes his responsibility to the Senate and to the parliament extremely seriously, and he would be here if he could, so apologies on his behalf.

The global economic outlook has deteriorated markedly since the April Pre-election Economic and Fiscal Outlook. It is becoming probable that major developed economies will soon experience recessions, and it is likely China will grow at the lowest rate in over 30 years outside of the pandemic. Inflation in many countries is at its highest level in the era of independent central banks.

The primary causes of these ructions are twofold: pandemic and war. Overlaying these proximate shocks are enduring trends: rapid economic and social transitions to mitigate and adapt to climate change; ever-expanding demands on government to deliver services; a global demographic transition; and the re-emergence of great power competition, with sharp rivalry between different systems and values. Such significant shocks coming in the midst of these powerful enduring trends are something that few of us have experienced, challenging policymakers both here and around the world. The successful pathway through these shocks is often described as narrow. I would instead say the pathway is partly hidden from us. Policy flexibility in the period ahead will be crucial.

There are, however, bright spots. Many countries are experiencing near-full employment conditions, and it is not lost on policymakers how valuable this outcome is and how we must do all we can to retain full employment as we tackle the inflation challenge.

One of the impacts of Russia's unjust war against Ukraine is being transmitted through high energy and food prices. International gas prices rose over sixfold from March 2021 to September 2022 and have been a key source of intensifying cost-of-living pressures for consumers around the world. Reflecting the same pressure on energy markets, thermal coal prices have risen more than fourfold. Together, this is driving rarely seen increases in electricity prices. In the UK prices have already risen by 63 per cent, in the euro area by 53 per cent, and in the US by 27 per cent, compared to pre-pandemic levels. And prices are expected to rise further in these countries.

Rising gas and energy prices are combining with persistent supply chain pressures, extraordinary stimulus in response to the pandemic, adverse weather events and interruptions to food exports to drive significant global inflation pressures. Inflation is currently at 8.2 per cent in the United States and at 10.1 per cent in the United Kingdom, both around 40-year highs. In the euro area inflation has reached 10.7 per cent, the highest in the euro area's history. In response, central banks around the world are tightening monetary policy in what has been the most rapid and synchronised tightening cycle since the advent of inflation targeting. This synchronised tightening raises the risk of a policy miscalculation that could see a sharper than forecast slowdown across multiple countries simultaneously. Another key risk to global demand is a sharper slowdown of domestic demand in China than expected. Rolling COVID-19 lockdowns and a downturn in the property market have weakened growth prospects.

Turning to the domestic outlook, we have been fortunate to be less affected than others by these global shocks in some areas, but nevertheless we have been significantly affected. In response to the sharp recovery from the pandemic and inflation, monetary policy is rapidly tightening here in Australia. Reflecting this tightening, economic growth is now forecast to slow from 3¼ per cent in 2022-23 to 1½ per cent in 2023-24. Growth in 2023-24 is forecast to be one percentage point less than it was that PEFO. Strong consumption growth of 6½ per cent in 2022-23 is expected to be temporary, driven primarily by the ongoing rebound in services spending and international travel as the impacts of pandemic activity restrictions continue to wane. By early 2023 the services driven recovery is expected to ease, with consumption growth slowing to 1¼ per cent in 2023-24. And, as more mortgages roll of fixed rate terms, an increasing number of households will see the impact of increased interest rates on their budgets.

Declining household wealth arising from ongoing expected falls in housing prices will further contribute to the slowing of consumption growth. Workers at the lower end of income distribution are expected to be impacted most sharply by the rising costs of essentials as the costs of food, housing and energy make up a larger share of their spending. The implications for welfare recipients and retirees are more complex due to indexation and higher interest rates, something I'll return to shortly. We expect the current very tight labour market conditions to gradually ease as economic activity slows. Employment growth is forecast to slow to three-quarters of a per cent in 2023-24, and the unemployment rate is expected to increase to 4½ per cent. While this is slightly above our assumption of the NAIRU, a proxy for full employment of 4¼ per cent, it remains well below pre-pandemic levels of around five per cent.

The expected impact of the recent floods in eastern Australia has been partly incorporated into the outlook. These floods illustrate the risk of devastating weather events occurring more regularly and their impact on the livelihoods of Australians. Treasury's preliminary estimate is for floods to detract around one-quarter of a percentage point from GDP growth in the December quarter, largely offset by increased activity across the second half of the 2022-23 financial year.

Inflation is expected to peak at 7¾ per cent by December 2022 before easing gradually to 3½ per cent by June 2024. While this remains the same as the profile prepared for the July ministerial statement, high inflation is expected to persist for longer than previously expected, largely due to the pass through of higher energy prices to household bills. Electricity and gas prices are expected to directly contribute three-quarters of a percentage point to inflation in 2022-23 and one percentage point in 2023-24. This assumes consumer electricity prices will

increase by an average of 20 per cent nationally this financial year and 30 per cent next year. Data released by the ABS the day after the budget shows that, excluding the temporary impacts of state subsidy schemes, electricity prices would have risen by around 16 per cent in the September quarter this year.

The increase in prices this financial year reflects increases in the default market offers published in May by the Australian Energy Regulator and associated market dynamics. The same dynamics that are flowing through global electricity prices are flowing through here in Australia, albeit with a lag. Wholesale electricity prices this year have nearly tripled compared to last year, and east coast wholesale gas prices remain more than double their average prior to Russia's invasion of Ukraine. At the same time, domestic weather events and supply constraints, combined with strong demand in residential construction and consumer goods, are contributing further to generalised price growth. Fresh produce prices were already elevated from severe weather events earlier in the year and are now expected to stay elevated following the October floods and continuing wet weather.

Turning to the fiscal position, the near-term outlook for the fiscal position has improved since PEFO, with the underlying cash deficit improving by \$41.1 billion in 2022-23 and \$12.5 billion in 2023-24. Gross and net debt are expected to be lower in each year of the forward estimates. Higher than expected inflation has increased the cost of delivering payments. Excluding new policy, payments have been revised up by \$92.2 billion over four years, around a third of which reflects increased indexation of payments. The latest income support payment indexation on 20 September was the largest indexation increase in pensions in 12 years and allowances in 30 years. Higher inflation will continue to materially increase payments in subsequent six-monthly indexation updates in March and September until inflation returns to the RBA's target range. Payments will then stabilise at a proportionally higher level.

While inflation weighs especially on lower-income households, the automatic indexation of government payments to the headline consumer price index will likely shield most vulnerable households from the worst effects, albeit with a lag. ABS living cost indexes for pensioner and other government transfer recipient households have grown more slowly than the CPI over the past 12 months. As a result, on average, for those wholly reliant on benefit payments indexed to the CPI, their incomes will rise a little more than their living costs. This is an average calculation of course, and we fully appreciate circumstances can vary widely by payment recipients.

With prices set to grow faster than wages for a period, indexation of pensions will continue to be linked to growth in consumer prices rather than be benchmarked against male total average weekly earnings. Over the past 20 years, on average, the age pension was 27.4 per cent of the male total average weekly earnings, or MTAW, for singles, and 42.9 per cent for couples. This is forecast to increase to 30.2 per cent and 45.5 per cent respectively in 2024, before slowly declining thereafter. Similarly, JobSeeker payments are also forecast to rise as a proportion of MTAW, to 21.5 per cent for singles, a level not seen since 2006. Price indexation of benefit payments through the inflation spike may therefore have the unusual side effect of reducing income inequality as payments grow as a share of average wages.

High Australian dollar commodity prices and stronger than expected employment outcomes continue to support upgrades to the outlook for tax receipts. Excluding new policy, tax receipts have been revised up \$132.5 billion over the four years to 2025-26, with around two-thirds of this increase occurring in 2022-23 and 2023-24. As a net energy exporter, this is a positive offset to the negative effects of the war in Ukraine that few other countries enjoy. As commodity prices are assumed to return to their long-run fundamental levels and the labour market softens, the increase in tax receipts moderates. Over the medium term, the outlook for tax as a share of GDP is largely unchanged from PEFO.

While the medium-term outlook for receipts is largely unchanged, payments as a share of GDP are expected to be around 1.5 percentage points higher by 2032-33. The three changes that drive this deterioration are assumed lower productivity, higher borrowing costs and the upward revision to the estimated cost of the NDIS. By applying these changes to PEFO, we can illustrate their influence. For example, if these factors had applied at PEFO, the budget deficit would have been even worse in the medium term than projected in the current budget.

Higher interest rates have increased government debt costs by \$12 billion over four years. Higher interest rates steadily increase debt costs as the government issues new debt at higher interest rates to finance ongoing deficits or to refinance maturing debt. The 10-year bond yield, which approximates the average issuance yield on new debt, is assumed to be 3.8 per cent across the forward estimates, compared to 2.3 per cent at PEFO. Over the medium term, the 10-year yield is assumed to rise to 4.3 per cent by 2032-33, around 70 basis points higher than assumed at PEFO.

When nominal GDP growth rates exceed the yield on debt, debt as a share of GDP will increase if the primary cash deficit—that is, the deficit excluding interest—is not too large. At PEFO, gross debt to GDP was expected to

begin to reduce in 2025-26, when the primary cash deficit was 0.8 per cent of GDP. Higher borrowing costs and lower nominal GDP growth projections in the October budget mean more active budget repair is required to stabilise debt to GDP in a timely fashion. This means the primary cash deficit in 2025-26 would need to be around 0.5 per cent of GDP to achieve the same debt reduction. Reflecting the changed debt dynamics, gross debt is now expected to stabilise at 46.9 per cent of GDP in the final three years of the medium-term projection period.

To canvass a few other issues briefly, in this budget the government returned much of the upgrade in receipts to the bottom line and constrained spending, significantly lowering near-term deficits and debt. There is the potential for further upgrades to the near-term receipts, reflecting the cautious approach taken to forecasting commodity prices. Should this be the case, it would be prudent to take the same approach. However, beyond the near term, the budget pressures are more profound and will likely require a combination of spending restraint and increases in taxes to reduce deficits and to lower debt. We are fortunate in Australia to begin this journey with a relatively lower level of debt as a proportion of GDP than in many countries. Nevertheless, necessary policy decisions will be difficult in order to best promote the national interest.

I'm hopeful that, having so fulsomely laid out the fiscal challenges in this budget, the subsequent policy debate will be productive, considered and understanding of the need for trade-offs.

In the light of the impacts of the Ukraine war on the economy, I thought it might also be useful to outline how at Treasury we are thinking through the impacts in providing advice to government. I will focus initially on the war-driven relative price shock.

Economists are fond of saying that the solution to high prices is high prices. This is a shorthand way of saying that, when supply is short or demand is strong in a particular part of the economy, high prices send a signal to suppliers and investors that it is worth investing in the area and supply expands. Moreover, the same high prices send a signal to consumers to look for alternatives and adjust their pattern of demand. Further, calls for government intervention to address high prices are likely to get in the way of a necessary and ultimately helpful adjustment. There are many conditions that underpin this policy conclusion but, in most circumstances, Treasury would support such an approach.

However, the circumstances of war-driven price shocks are different and outside the frame of such an approach. In our view, such shocks bring into scope government intervention. For example, the current gas and thermal coal price increases are leading to unusually high prices and profits for some companies—prices and profits that are well beyond the usual bounds of investment and profit cycles.

The same price increases are leading to a reduction in the real incomes of many people, with the most severely affected being lower income working households. The energy price increases are also significantly reducing the profits of many businesses and raising questions about their viability.

In summary, the effects of the Ukraine war are leading to a redistribution of income and wealth and disrupting markets. The national interest case for this redistribution is weak and is not likely to lead to a more efficient allocation of resources in the longer term.

Policy responses could take many forms but, in the current circumstances of generalised price pressures, they need to be mindful of not contributing further to inflation. This would suggest to us that interventions that directly address the higher domestic thermal coal and gas prices are more likely to be optimal. Australia is uniquely placed to pursue this type of intervention, given that it is a net energy exporter. I would add that, as the shock to Australia varies by state and territory, reflecting their individual energy policies, any response should also take this into account. Further, such interventions need not subtract from policies that address the broader challenges to reduce the emissions intensity of electricity production in Australia if they are well designed. Given the hopefully temporary nature of the energy shock, measures to address the price increases should also be temporary and regularly reviewed. Even if the war in Ukraine persists, global supply and demand will adjust over time.

There are many nuances and details surrounding policy development in these areas, but hopefully this helps the committee understand, in broad terms, how Treasury approaches these issues in developing advice for government.

If I may, to finish, Chair, I'll just talk to a couple of recent changes in the Treasury since the previous estimates. I'd firstly like to acknowledge former Treasury Deputy Secretary Maryanne Mrakovcic, who recently retired after a long and distinguished Public Service career. Maryanne appeared in front of this committee for more than two decades with distinction.

I also want to acknowledge the contributions of former Treasury deputy secretaries Jenny Wilkinson and Meghan Quinn, who have both deservedly been promoted to secretary roles since the committee last met. New deputy secretaries at Treasury are Sam Reinhardt, for Fiscal Group; Diane Brown, for Revenue, Small Business

and Housing Group; and Robert Jeremenko is currently Acting Deputy Secretary for Markets Group. Treasury has a couple of notable new functions, with Victoria Anderson as the acting deputy secretary of the Employment Taskforce and Hamish McDonald the head of the Reserve Bank of Australia Review Secretariat.

In the Treasury portfolio there have also been some changes, and I'd like to acknowledge the significant contribution of Wayne Byres, who recently retired as Chair of APRA. The new APRA chair is John Lonsdale, who was previously a deputy chair and before that a deputy secretary at Treasury, and we want to warmly congratulate John on his appointment.

I've also included in the written version of this statement changes at Treasury announced in the budget regarding climate change modelling and wellbeing, but in the interests of time I won't go into them now.

Thank you, Chair. I know that took some time, but I welcome the opportunity to provide this opening statement on behalf of Dr Kennedy and look forward to questions. Thank you.

CHAIR: Thank you very much, Mr Yeaman. We will now proceed to questions. Senator Bragg is seeking the call.

Senator BRAGG: Given the extensive time that Dr Kennedy has given this committee over a long period of time and the way he's approached it, I think we'd all want to wish his family all the best at this time, and I think that's something that the committee would want to note for the record. Can I just check, as a process question to you, Minister: when were you made aware that Dr Kennedy wouldn't be appearing at estimates?

Senator Gallagher: I think it was about 11 o'clock this morning, so quite late this morning.

Senator BRAGG: Was that communicated to this committee?

Senator Gallagher: I don't know. Sorry, I won't answer that. I certainly spoke to the chair just after lunch, at about 1.30, just to check that the chair was aware.

Mr Yeaman: Senator, we didn't have final confirmation that Dr Kennedy wouldn't be able to attend until quite late, around that lunchtime period, and we endeavoured to immediately inform both the minister and the committee, as early as we could.

Senator BRAGG: Okay. Just so we are on the right track here, Mr Yeaman, are you the acting secretary?

Mr Yeaman: No. I'm the deputy secretary of Macroeconomic Group, so I don't intend to try and answer all the questions that Dr Kennedy might have ranged across in this opening session. But relevant questions can be directed to the relevant sections today.

Senator BRAGG: How do you propose that we approach that, then?

Mr Yeaman: I'm very happy to answer as many questions as I can.

Senator Gallagher: We'll assist the committee. This was unexpected.

Mr Yeaman: I'll certainly answer as many questions as I can here that can be directed. But if there are questions, for example, in relation to tax policy, I will do what I can to answer those questions as best as I can, but most likely I will refer detailed elements of those to our Revenue Group colleagues or to our Fiscal Group colleagues.

Senator Gallagher: Which isn't unusual. Dr Kennedy has called on other officials to assist in this part of the program. But our apologies to the committee—it was unexpected. We're all here and ready to answer questions.

CHAIR: Yes, it's the committee's understanding that these are exceptional circumstances, and as noted in the opening statement we understand Dr Kennedy's commitment to assisting the committee at all times. Unfortunately, these are exceptional circumstances. I allocate the call to Senator McDonald.

Senator McDONALD: Good afternoon. Budget Paper No. 1, statement 2, under the 'Inflation' section on pages 56 to 57, mentions that the budget expects inflation 'to ease gradually to 3½ per cent by June 2024 as global supply-side pressures moderate and tighter monetary policy weighs on demand'. I note that the statement fails to mention fiscal policy. Are the impacts of government fiscal policy built into these assumptions?

Mr Yeaman: Yes, they are.

Senator McDONALD: If supply-side pressures don't moderate or monetary policy doesn't move at a pace to impact behaviour, will these figures be worse?

Mr Yeaman: It's certainly the case that there are a very wide range of variables that could affect that outlook—on both sides, frankly. It could be higher or it could be lower. We are already seeing some evidence globally that supply chains are starting to ease as the COVID pressures that we saw over the past few years have started to unwind. We have, for example, seen that the prices of shipping containers and other forms of transport

have started to fall from their peaks. But certainly it is the case that, if there are further shocks in the global economy or if those pressures do not unwind in the way that we foresee, then, yes, the inflation outlook could be different.

Senator McDONALD: Since the budget was released, we've seen higher-than-expected inflation for the year to September, and a range of banks have raised their end-of-year forecasts above the peak in the budget papers. Is Treasury confident that these forecasts will hold?

Mr Yeaman: The outcome that we saw after the budget in relation to the CPI did not surprise us significantly. It was a little higher than we'd expected, but, when we looked at the detail of that information, there were some issues around the timing of state electricity subsidies that meant that the underlying pressures that we were seeing in the economy were not significantly different to what we had foreseen in the budget, and we still think that that peak in inflation of around 7¾ per cent is our best estimate. But we were very clear in the budget—and I think the Treasurer has been clear too—that there's no doubt there are significant pressures throughout the economy that could see that number go higher, but, as I said, there are also pressures that could see it go lower. But at this stage we haven't revised our view of inflation since the budget.

Senator McDONALD: With electricity and gas prices accounting for one per cent of inflation in the next financial year, is it fair to say that, if the government fails to contain energy prices, there is a risk that inflation will be worse?

Mr Yeaman: Our forecasts which have that declining profile for inflation do take account of the forecast that we have for electricity prices next year, which have been well publicised. As I said before, clearly there are a range of factors; power prices are one of them. If prices are higher than we have forecast, then that will flow through to inflation, yes.

Senator McDONALD: Can you confirm that the electricity price assumptions in this section factor in the modelled impacts of the government's Powering Australia initiatives and budget?

Mr Yeaman: We take account of all information in preparing our inflation forecasts, including government policy. But I would like to note, as I have before to this committee, that we don't forecast inflation by building up, from the bottom up, every government policy and every aspect of the economy. We look at the broad macro indications around inflation and take account of policy as best we can. We don't seek to model the direct impacts of every policy across government. But, yes, our forecasts for inflation next year take account of government policy.

Senator McDONALD: Specifically the Powering Australia initiatives?

Mr Yeaman: Along with all other government policy.

Senator McDONALD: On Friday 28 October, the secretary of the Department of Climate Change, Energy, the Environment and Water told the environment and communications committee that:

... from the government's perspective and this department's perspective, the outcome that you see projected by Treasury in the budget—20 per cent and 30 per cent—is informed by budget policies, including, obviously, as one aspect of the government's policies, powering the nation.

This is variation from the RepuTex modelling that, until last week, was included on the department of energy's website.

Mr Yeaman: Our forecasts are our own forecasts. We have based them on consultation with the department of climate change and energy, the industry department, the Australian Energy Regulator and also market participants. We haven't ourselves assessed the RepuTex modelling in detail. That is their estimate. It was done at a point in time. We have made our own best estimate of what electricity prices will do based on a whole range of information, including market information.

Senator McDONALD: Did Treasury independently analyse that modelling?

Mr Yeaman: No. We are aware of it and we have read the report, but we don't have access to all the underlying assumptions of that and we haven't sought to independently verify it.

Senator McDONALD: Is it fair to say, given that modelling predicted power prices would fall by \$275 by 2025 and the budget says that they will rise until at least 2024, that the independent view of Treasury is that the modelling is not accurate?

Mr Yeaman: As I said, we haven't sought to assess that modelling in detail. We don't have access to all the underlying assumptions of it, so I don't want to speak to that. As I said, we have put our best estimate of what we think prices will do over the next two years in a detailed forecast period in the budget, and that is what we stand behind.

Senator McDONALD: It seems significant that that's the energy department's modelling but you haven't had any discussions to—

Mr Yeaman: I think that RepuTex modelling was not the Department of Climate Change, Energy, the Environment and Water's modelling; it was private modelling done by that company. We haven't had an opportunity to assess it in detail.

Senator McDONALD: It was included on the department of energy's website. When were the inflation assumptions finalised?

Mr Yeaman: The normal way is we go through a forecasting process in the lead-up to the budget. It normally starts around six to eight weeks before the budget is released and concludes in the weeks before the budget. This went through the standard process. The forecasts for energy were being updated and looked at closely in the lead-up to the budget and so it would have been in the last few weeks before the budget was finalised that those forecasts were provided to the government.

Senator McDONALD: When were the power price components of the inflation assumption finalised?

Mr Yeaman: It's the same answer—in the few weeks before the budget was finalised.

Senator McDONALD: Statement 2 in Budget Paper No. 1 only talks about wholesale power prices in general terms. Are there specific wholesale power price assumptions that inform this section of the budget?

Mr Yeaman: A combination of factors led to that forecast. For the current financial year, the way we approached this was that there was a default market offer judgement made by the Australian Energy Regulator for this year. So we looked at that DMO increase and then made assumptions about how other people in the market who were not yet on the DMO would move. Essentially we assumed that people who were on the default market offer would move with that decision and that those who were below the default market offer would catch up and move to that same level. That's how we got to the 20 per cent increase for this year.

For next year, we don't have an explicit wholesale price assumption. What we have done is look closely at futures market curves for electricity prices and we've consulted closely with the Department of Climate Change, Energy, the Environment and Water and the AER and tested our judgements on that. So we don't have a specific wholesale price assumption underneath it, but it is based on an assessment of the market curves and best advice from industry and the regulators.

Senator McDONALD: Can you table those assumptions, please.

Mr Yeaman: I can certainly look at what we have. As I said, it's based on a series of judgements combining different pieces of information. I'm happy to look at that.

Senator McDONALD: What were the power price components in the inflation forecast presented by the Treasurer in his July ministerial statement?

Mr Yeaman: I will have to go back and confirm. We would have had some information on the default market offer for this financial year, which I think was included. I think we had an increase in power prices for this financial year in the July statement. But for the next year we hadn't yet gone through the process of looking at those wholesale curves. Our traditional approach in this area has been not to forecast electricity prices separately from the broader inflation dynamics, because it hasn't been moving sufficiently. I will come back and confirm to you, Senator. My understanding is that in the first year we had an increase in electricity prices. Then in the second year it would've probably been growing at the standard rates of inflation, and we updated that in this budget.

Senator McDONALD: If you could come back to me on that—thank you. Statement 2 in Budget Paper No. 1 says that the Commonwealth and state governments' actions to accelerate the uptake of renewables and modernise the grid are expected to put downward pressure on wholesale electricity prices over time. What time frame is 'over time'?

Mr Yeaman: That depends on a very wide range of factors. I won't seek to speak ahead of my colleagues at the environment and energy department on this. They're more expert in these matters. It was a broad statement to say that over time if we have policy certainty and we're able to increase capacity across the network, including in renewable energy, that that will bring downward pressure on prices. But beyond that, I don't have specifics that I can refer to.

Senator Gallagher: That's not a surprising statement. I think it's a universal view of those in the energy market that if we have policy certainty, investments in transmission and an increased uptake in renewable energy that those three things will put downward pressure on energy prices.

Senator CANAVAN: Given the comments you made about global energy markets and the statement you just made then, is there a country in the world that has invested in solar and wind energy and reduced its electricity prices?

Mr Yeaman: I would defer to my colleagues at the climate change and energy department on that—

Senator CANAVAN: You made a lot of comments in the opening statement about global energy markets. I presume you've looked at them a little bit. You've made a pretty strong statement about increased renewable energy lowering prices, but you're not aware of a single country in the world that has increased its share of solar and wind energy and reduced power prices?

Mr Yeaman: I can have a look at that and come back to you. When I talked in the opening statement about those power price increases across the world, I think that demonstrates that the baseline that we're using for our power prices now takes account of very, very significant disruptions in global energy markets as a result of the war in Ukraine. That's particularly having an impact in Europe. Prices across the world, as I indicated, are up by more than they are in Australia—currently up by around 20, 30 and up to 60 and 70 per cent in many of these countries. Our view, and the view broadly, is that that is primarily a result of the current issues we are seeing in Ukraine and the flow-on effects to global markets.

Senator CANAVAN: Energy prices in Europe though did start significantly increasing late last year before the war. Is that correct?

Mr Yeaman: I believe that's right, but I'll go back and check that for you.

Senator CANAVAN: Thank you.

Senator McDONALD: You haven't modelled over time. Have you a view on what the reduction is in each financial year over the medium-term?

Mr Yeaman: We haven't modelled the broad, economic, longer-term impacts of this transition as Treasury. We're making a broad policy point there in the line, but we haven't got detailed modelling on that or a year by year profile.

Senator McDONALD: Noting that the page just before says, 'Current pressures are yet to fully flow through to higher consumer prices. Because electricity retailers typically contract wholesale electricity several years ahead this rise in wholesale electricity and gas prices can be expected to flow through to higher consumer prices as wholesale contracts are renewed.' When do these savings flow to retail prices? Is it fair to say it'll be several years after the wholesale prices have come down?

Mr Yeaman: I may have misheard the question or misinterpreted the question. The point we're trying to make there is that we've seen very significant increases in wholesale prices across gas and electricity and, because many large users of gas, but also electricity retailers, have hedge positions, it's quite a complex market where many companies have, as you know, long-term hedge positions to protect them from higher prices. Some of the impacts of those higher wholesale prices are not yet flowing through to consumers and retailers. We've made assumptions about how they will flow through into next year. In a way, those fixed contracts and hedging strategies are currently shielding consumers from some of the higher prices occurring in the global market. They will gradually flow through over time. We have factored that into our budget forecast.

Senator McDONALD: You've pre-empted my next question, which is: have you analysed the impact of higher wholesale electricity prices on the manufacturing sector?

Mr Yeaman: In the prices that we have forecast, the assumptions we have put in the budget around electricity and gas prices for next year, we have attempted, as best we can, to take account of those market dynamics that I described. In terms of the direct impact on the manufacturing sector, we've looked at the impact of higher power prices, as well as higher inflation more generally, on the economy as a whole but we haven't looked at it specifically on individual sectors or companies.

Senator McDONALD: Noting the government's election commitment attributed 306,000 new jobs to lower electricity prices, is it fair to say that impact will not be realised if the electricity price outcome is not achieved?

Mr Yeaman: I think that's referring back to the RepuTex modelling we discussed earlier. As I said, we haven't sought to independently verify that modelling. As I said, our forecasts are contained in the budget.

Senator CANAVAN: Good choice!

Senator McDONALD: So you're not expecting that outcome to be achieved in the forecasts?

Senator Gallagher: In terms of the jobs going forward, you'll see that the measures in the budget do outline a significant investment to get started with the Powering Australia plan. The work that was done in opposition to

underpin the policy clearly articulates that there are jobs and opportunities in implementing the Powering Australia plan, and the government stands by that. We want to seize the opportunities that come with jobs in the renewable energy sector. We've got some of those first steps in implementing the Powering Australia plan outlined in the budget, and that has been informed by the policy we took to the election.

Senator McDONALD: Minister, the election commitment of 306,000 new jobs attributed to lower electricity prices: do you still stand by that, or will that not be realised?

Senator Gallagher: I stand by the fact that the biggest opportunity—or a huge opportunity—in growing jobs and opportunities in this country is linked to the transformation of the energy system in this country. We would be crazy not to be there trying to seize the opportunities that come, including for jobs, and jobs in the regions, with the work that needs to be done. We are coming late to this because of the inaction and the delay and the dysfunction of the previous administration, which have left, since the first day of the Albanese government, ministers dealing with the mess in the energy market that existed under the former government's watch. Literally on the first day, Minister Bowen left the swearing-in ceremony to deal with the fact that the lights were about to go out. We dealt with that, we then dealt with the supply shortages—Minister King has dealt with that. We're implementing Powering Australia. And now we're dealing with some of the responses to the increase in electricity prices, which were outlined in the budget. They were clearly outlined so that we could be upfront with people, as opposed to the former government, which hid this before the election. That first year is actually attributable to the former government.

Senator McDONALD: Thank you for that. You have not answered my question, though. Your modelling was around transmission line constructions, REZ constructions. Against 'economic development induced by low power prices' you've got 306,000 new jobs. Do you stand by that?

Senator Gallagher: I stand by the work that was done to inform the Powering Australia plan and the decisions we've taken this budget to get moving with implementing it. That includes the jobs and the very necessary work that needs to be done on our transmission infrastructure—you've seen decisions taken already about getting started with that—including the job opportunities that come, for example, with Marinus Link in Tasmania and Victoria.

Senator McDONALD: So you do stand by your election commitment for the 306,000 new jobs by 2030?

Senator Gallagher: We are implementing the election commitment—of course.

CHAIR: Senator McDonald, we're at the end of this 15-minute block. Do you have a couple more questions or shall I go elsewhere?

Senator McDONALD: If you could, return to me later.

Senator BRAGG: Chair, can I just ask that we call the Fiscal Group, given that the secretary isn't here? Can we ask them to come earlier, in case we have general questions for them? We just want them to be available.

Senator Gallagher: If people want Fiscal Group, they're here. People can make themselves available for the afternoon. I do have to leave at 6:30, though, because I am repping in another committee at seven.

CHAIR: Okay. We note the marker of 6.30. We invite the Fiscal Group to join us in the room. I will return the call in a moment, after the next block, and we're going to Senator McKim.

Mr Yeaman: Sorry—if I may note, just before we begin: Sam Reinhardt, who is Deputy Secretary of the Fiscal Group, is in the room and can step forward as needed to answer questions. Her colleagues will join in time.

CHAIR: Thanks, Mr Yeaman.

Senator McKIM: Good afternoon to you, Minister, and to the officials from Treasury. Minister, I want to start with you and it's on the first topic in the statement that Mr Yeaman read out on behalf of Dr Kennedy: the causes of inflation. Firstly, do you accept that, across the economy in Australia, wages are not a driver of the current high levels of inflation?

Senator Gallagher: I'm sure there are more-qualified people to speak about this, but the advice to me and how I understand it is that wages are not a driver of inflation in the numbers that are reflected in the budget. I'll see if everyone's shaking their head at me. No? That's good.

Senator McKIM: I think you got a couple of nods there.

Senator Gallagher: Comforting.

Senator McKIM: It is, indeed, Minister. In Friday's statement on monetary policy, the RBA stated that inflation was initially—and I'll quote from them—'predominantly driven by supply shocks', and we've also had, in

the opening statement, Treasury's view that the primary causes of inflation are the pandemic and the war. I presume you would agree with both of those statements from the RBA and the Treasury?

Senator Gallagher: I don't have the statement in front of me, but, yes, I haven't heard anything that I would disagree with there. I might see if someone can get me the statement, if you're going to work through it.

Senator McKIM: I'm not playing any games here, Minister. The statement says:

Inflation in many countries is at its highest level in the era of independent central banks.

The primary causes of these ructions are twofold: pandemic and war.

I can assure you I've quoted the RBA accurately as well. I'm not playing any games here, as I've said. The next question I wanted to ask you is: therefore, given your agreement that wages are not a driver of inflation, and your accordance with the statements on the supply-side shocks that have been made by the RBA and Treasury, do you accept that corporate profits are a driver of inflation in Australia?

Senator Gallagher: Well, it's probably best if Mr Yeaman answers that, but—

Senator McKIM: I've asked you this a few times in the Senate—

Senator Gallagher: We have had this interaction in the Senate.

Senator McKIM: and frankly, you've evaded the question, Minister, so I'm giving you another chance.

Senator Gallagher: I don't think I've ever evaded a question. But that's not my understanding—

Senator McKIM: That's not your understanding?

Senator Gallagher: that it's driving inflation but, again, Mr Yeaman is an expert and he could add to that.

Mr Yeaman: To touch on a couple of those points, certainly it is our view at this stage that the largest factor driving inflation in Australia is these external supply shocks that you've mentioned. There is still a very strong level of demand in the Australian economy, as the Reserve Bank and Treasury have noted.

Senator McKIM: Not driven by wages, though, Mr Yeaman?

Mr Yeaman: As I was about to say, there is a strong level of demand and a low unemployment rate, but at this stage we haven't yet seen wages lift to levels that would be inconsistent with the Reserve Bank target.

Senator McKIM: In fact, they're not forecast to lift—

Mr Yeaman: We are seeing a pickup, but we're not seeing any evidence of an emerging wage price spiral here in Australia. Corporate profitability has been high recently, which is primarily driven, from our perspective, by the very large increases in commodity prices that we've seen recently. I think, fundamentally, the things that are driving inflation are, as I said, the cost pressures coming though out of the pandemic and the external supply shocks for our side and not corporate profits per se.

Senator McKIM: Dividends are as close as you could ever want to record levels, as we sit here today. Profit share of national income in the national accounts is at record levels, as we sit here today. You've got well-credentialed economists, here in Australia and around the world, including Robert Reich, the former labour secretary in the US, all saying that corporate profiteering is a driver of inflation. Are they all wrong?

Mr Yeaman: I haven't seen all of those individual comments and statements. I'll take them at face value. From our perspective, it's true that the labour share of income has declined in recent times. Primarily, we see that as a factor being driven by these exceptionally high commodity prices, which are flowing through to mining profits and then flowing through to the economy in the form of dividends and other means. In our forecast we see, if you look through at mining-profit share, the labour share and profit share in the economy, more broadly, has remained fairly steady over time. We would expect to see that as the commodity prices come off, in line with our assumptions, which obviously are assumptions, the labour share of income rebalance somewhat, compared to the profit share of income. That doesn't mean, of course, that there aren't particular cases or sectors where different behaviour is occurring—we've talked about the energy market already today—but that's our view of what's fundamentally driving these trends.

Senator McKIM: Minister, you said last week that tackling inflation was your absolute priority. That was in an interview that you gave on Radio National. You've got a good handle on the role that wages aren't playing in inflation. You've got a handle on the role that supply shocks are playing in inflation. Don't you want to have a handle on whether, and to what degree, corporate profiteering is driving inflation?

Senator Gallagher: In terms of the inflation challenge, that is the government's view. That's why this budget and the decisions taken in this budget were informed by how the government could meaningfully respond to the inflation challenge across the economy. We will continue to take advice on this, as you would expect any government to, about the best ways that government decision-making can work alongside the work that the

Reserve Bank is doing to put downward pressure on inflation. That's the reality. We will continue to work on this. The budget was the first step. To tell you the truth, between when we started the budget and where we got to in October, things have been changing. The economic environment was challenging to piece this budget together and finalise it. We've done that. There's more to be done, clearly, and the government continues to work and take the advice of Treasury on how best to do that.

Senator McKIM: Don't get me started on the RBA, we'll come to them later.

Senator Gallagher: You've got two hours tomorrow.

Senator McKIM: Yes. Mr Yeaman, what work has Treasury done to understand whether, and to what degree, corporate profiteering is a driver of inflation? Wouldn't you want to know if it was a driver of inflation?

Mr Yeaman: Certainly.

Senator McKIM: What work have you done on whether, and to what degree it's happening?

Mr Yeaman: I'll ask my colleague, Mr Cully, to come in here and speak to a few issues. We have been looking closely, in the context of productivity, as well, at a range of issues around competition inside the economy and the margins within the economy as being a part of that conversation. As I say, we look very closely at these trends and the labour share and the profit share of income. Our assessment is that at the aggregate level, or the macro level, the main driver of larger corporate profits and a larger profit share is the extraordinary commodity prices we have seen to date, and that is, by far, the biggest factor that's flowed through. We have done, as I said, some separate work which we have published in various forms which does suggest that there has been, in some sectors of the economy, a falling back in competition to some extent and that that has led to, in some cases, some higher margins and lower productivity outcomes. So that information is on the record. From a macro perspective, that's the point that we have.

Senator McKIM: Just to be clear, what I'm saying, and what numerous other people are saying, is that corporations are using the cover of the supply-side shocks to jack up their prices and to rampantly profiteer, which is having a disproportionate impact on people who are doing it the toughest and who are already getting smashed, I might add, by the Reserve Bank's habit of taking a sledgehammer to crack a walnut.

Mr Yeaman: I'd just like to add—and your comments prompted this; I'm sorry that I didn't mention it at the start—that there are a number of sectors of the economy—certainly in the case of fuel, when we were looking at the sharp increases in fuel prices—where the government was very forward-leaning in making sure that the ACCC was looking at that issue closely to avoid profiteering in that sector, and I know that the ACCC is taking a very active view of that. There has, no doubt, been something of a psychology shift inside the Australian economy from a long period of relatively low inflation and low wages growth. There is certainly more willingness amongst business groups and corporations to increase profits to at least cover their costs. Whether it goes beyond that is a question that the ACCC is looking at closely, and my colleagues in Markets Group may be able to add to this further.

Senator McKIM: Thanks. Perhaps you could take on notice what work the department is doing to understand whether—and, if so, to what degree—corporate profiteering is driving our current high levels of inflation.

Mr Yeaman: I'm happy to.

Senator McKIM: There was an FOI release on your website, FOI 3179, which is a note from an assistant secretary in the Treasury department on the role of profits as a driver of inflation. I've got copies here, and I think an electronic copy's been provided to the secretariat. I might just see if someone can put this in front of you, Mr Yeaman, but most of the note, unfortunately, has been redacted, including, I suspect, a key conjunctive word. The topic of the note is inflation, and I assume it is a prediction from an assistant secretary in the department. It says 'persistent higher price level potentially from margins rebuild'. What does 'margins rebuild' mean? Profiteering?

Mr Yeaman: It can be a range of things. I don't mean to go into a long-winded answer, but one of the things that we observed in the early stages of the rise of inflation was a great reluctance from business, broadly, to increase prices and wages because there had been such a long period of time in Australia over the past decade where prices had been running at relatively low levels. The feedback we had from our business liaison programs and other sources was that in the initial stages, as prices and input costs started to rise, including during the pandemic, there was a reluctance from business to increase prices to match their costs for fear of losing market share or customers. I'm roughly aware of the FOI you're referring to. It could have referred to that, to some extent, and it also could have referred to, as you say, companies looking to build a larger profit margin over and above their standard operating procedure.

Senator McKIM: Is a persistent—

CHAIR: Senator McKim, sorry just to interrupt you for a second. I just need to note for the *Hansard* that we're tabling this document, FOI 3179, and you have the call.

Senator McKIM: Thanks. I appreciate that. Is 'persistent higher price level' code for inflation, or might it mean inflation?

Mr Yeaman: For us, one of the things we've been trying to work through inside Treasury, inside the Macroeconomic Group, is that we're seeing some extraordinary increases in input costs and prices as a result of these supply chain pressures, and the question is how much of that will be persistent and how much will not. Will we see a fall back in prices in some of these areas or not? There's going to be a range of factors—global factors as well as—

Senator McKIM: Sure, but a persistent higher price level means prices are going to go up and they're going to—

Mr Yeaman: Inflation is an ongoing increase in the price level.

Senator McKIM: That's right.

Mr Yeaman: So, for us, 'persistently higher prices' does not imply ongoing inflation. It implies ongoing elevated price levels relative to some benchmark. A question for us is that in some of these areas, and I'm talking here about global trends as much as anything, where prices have lifted to a higher level, they may not fall back to their previous levels and that would mean we had a persistently higher price level.

Senator McKIM: Okay, and what about margins rebuild? Margins are profits, right? Are margins profits?

Mr Yeaman: They can be, yes.

Senator McKIM: What else could they be?

Mr Yeaman: In this context, as I said, margin rebuild may be actually referring to returning to their traditional profit levels, if that makes sense. It could be that margins are squeezed—

Senator McKIM: So margins are profits.

Mr Yeaman: Yes, the margins can be squeezed and then rebuilt or they can be expanded.

Senator McKIM: Sure, but margins are profits—right?

Mr Yeaman: Correct.

Senator McKIM: Okay. And what are they being rebuilt from? Because the pandemic actually didn't dent profits at all in Australia, so what could margins be rebuilt from? What's the base level?

Mr Yeaman: As I said earlier, we did see and observe that, in the early stages of the run up in prices and import costs that we saw during the pandemic, there were some industries—if you look at the building industry, for example, and other industries who had fixed contracts—that saw their import costs rise substantially and they saw their margins fall. Some businesses obviously then found themselves in financial difficulty, and so, over time, as some of those import costs come back down, we think there is an opportunity for businesses potentially to rebuild their margins back to traditional levels. I think—reading this, and I've got my colleague next to me who is from the relevant division—that's how I would interpret it.

CHAIR: Senator McKim, I note that your nearly at the end of your block.

Senator McKIM: One more, and then maybe you can come back to me afterwards?

CHAIR: Yes. You have the call.

Senator McKIM: Thanks, Chair. I just want to be clear that I'm understanding you. Minister, I'm happy if you want to answer this. You've got dividends as close as you want to record high levels. Profit share of the national income is actually at record high levels. We all agree that wages are not driving inflation in Australia. Yet nobody seems to be prepared to accept even the possibility that corporate profits are a driver of inflation. Is that a fair assessment of where you're at, Minister? I find that extraordinary, to be honest with you.

Senator Gallagher: I think the budget papers go through the drivers of inflation. That reflects the advice to the government, and also reflects the decisions the government's taken in the budget.

CHAIR: Thank you, Senator McKim.

Senator CANAVAN: Did Treasury get it wrong about inflation?

Mr Yeaman: Clearly our forecasts from earlier budgets haven't eventuated—I'm certainly happy to say that, and happy to accept that. I think that some of those things were very difficult to foresee. In the case of the war in Ukraine—its length, duration and severity—that is something that we are not able to forecast with accuracy, and it has substantially changed the benchmark. When we've benchmarked ourselves against other central banks, other

forecasters around the world, I don't think we have been outside of the range of those other estimates, but there is no doubt that inflation has been higher and more persistent than we had previously expected.

Senator CANAVAN: About 18 months ago in this committee I asked you about it, and I asked about increasing concerns. Dr Kennedy was mainly responding to me, but I think you were there, Mr Yeaman.

Mr Yeaman: Yes.

Senator CANAVAN: I asked about increasing concerns about inflation, and Dr Kennedy said:

... I still think the consensus would be that we've got a long way to go to get back to generating wage pressures and inflation. He said that on 24 March last year. A week later, the June quarter started and inflation hit 3.8 per cent in that quarter. You didn't see this coming then by that evidence, Mr Yeaman?

Mr Yeaman: I could be a little wrong on the exact timing of that conversation, and what came where.

Senator CANAVAN: I've got it here; 24 March.

Mr Yeaman: I accept the timing of the conversation, but in terms of what was occurring at the time—there is no doubt that we expected to see a pick-up in inflation given some of the global factors that were happening at the time. The strength of that pick-up in inflation has been more than we had previously expected, and it is now being more persistent. As always some of that depends on assumptions that we are forced to make as forecasters around what global trends are going to do—oil prices are a great example. We have actually seen the oil price start to come off a little more quickly than perhaps we expected initially in our July statement. There are swings and roundabouts in this space. There is no doubt that inflation has been higher and more persistent than we had predicted at an earlier stage, but that has been a common feature for most forecasters here and globally.

Senator CANAVAN: In your statement, or in Dr Kennedy's opening statement, he mentions two factors—pandemic and war—driving inflation. We spent a lot of time talking about the war, but I just wonder whether your reliance on that is a little bit self-interested here so as to remove any culpability. The pandemic, the other driving factor of pandemic, could cover a lot of ills. As I said from that evidence before, inflation here in Australia was going above the target band well before the war in Ukraine. Could we just drill down into the factors that led to that? You mentioned pandemic, but what do you mean by that?

Mr Yeaman: It's a fair point, Senator, and I want to be very clear that we take our role very seriously. We understand the risks in forecasting, and so we're not, by any means—sometimes we are judged by others outside to have a false sense of precision on our forecasts. We understand the risks and we always attempt, in the budget, to highlight those risks to our forecasts. I want to say that for the record.

But from our perspective, the initial surge in inflation that we saw coming out of the pandemic, in particular the increase in shipping costs and transport costs that flowed from the pandemic, was from a shift from away from services. There was a very significant shift, and you'd be well aware of this, Senator, away from services across many countries as people were locked down and couldn't undertake the normal things that they would undertake, whether it's health services or tourism or other outdoor activities, and so they shifted consumption very much to goods. That led to a very sharp increase in the amount of goods demanded across the economy, which put a lot of strain on supply chains. In fact, it was well above historical levels of throughput at international ports and through shipping containers et cetera. That led to a surge in prices. At the same time, many of the distribution centres—particularly China, but elsewhere in the world; across Asia and elsewhere—that generate most of those goods were suffering lockdowns, as we were in Australia and elsewhere, which meant that their own input costs were rising and there was constrained supply.

Those factors together led to very sharp increases in prices across a range of goods. As I said, timber in the construction centre sector is a very good example. One of the biggest factors driving inflation increases in Australia has been construction costs. Partly that's domestic demand, but partly that is also these international supply chain pressures that are coming. So they're the early aspects that hit us, and then the war in Ukraine came in over the top of it.

Senator CANAVAN: I'll leave it there. But, yes, I hope some lessons are learnt, because there seemed to be an overreliance on the NAIRU modelling 18 months ago, which I am always very sceptical about.

I want to turn to the statements you've made, or Dr Kennedy's made, about government intervention in energy markets. And I'm going to use some pronouns here, sorry, but you'll understand the context in that you say:

This would suggest to us that interventions that directly address the higher domestic thermal coal and gas prices are more likely to be optimal.

That's a little bit of bureaucratise. Are you suggesting price caps there?

Mr Yeaman: My colleague Ms Reinhardt may wish to add to this, because she's involved in this discussion as well. There are a couple of points here that we were trying to draw out through the secretary's opening statement. The first is that there is a very significant relative price shift occurring in the economy that is affecting different groups differently. We do not think, as per the statement, that these profits that are being made and the price increases in the commodity markets are a natural feature of the market. They are coming about because of a war on Ukraine, which is driving very significant increases across these markets, and that has been disproportionately felt by—that's basically transferring income from low-income households towards the companies and producers of these goods. That's not, to our mind, a normal market adjustment being driven by long-term fundamental shifts in the economy. That's a one-off geopolitical event that's driving these factors, which we hope will be temporary.

Senator CANAVAN: I think we're being a little bit repetitive. We've heard that—

Mr Yeaman: Sorry.

Senator CANAVAN: but are you suggesting price caps? Is that one of the options being considered or proposed?

Mr Yeaman: I'll pass to my colleague.

Ms Reinhardt: The Treasurer and Minister Bowen have both indicated that they would like to have the departments do work on the options in this area because it's a significant issue for government. As you would understand, Senator, there are options along the whole supply chain to electricity generation, so we will look at all of the options that are available.

Senator CANAVAN: What about increasing supply? Is that an option being considered? Is increasing our production of gas and coal something that is being proposed?

Ms Reinhardt: We would all understand that in response to price changes there will be changes in supply in the market.

Senator CANAVAN: I suppose what I'm getting at here is that this is one of the issues seemingly affecting the globe, especially Western countries—in China and India they're not necessarily seeing the increase in energy prices, because they're still buying Russian oil and Russian energy. That has been taken out of markets in the Western world due to sanctions and the war, but there is not able to be a supply response because of significant red tape or sometimes effectively outlawing of new gas, oil and coal projects. Are you at all looking at freeing up the restraints that currently exist to the production of coal, oil and gas, given these high prices and the need for relief to Australian families?

Senator Gallagher: Minister King has done some work on securing additional supply based on the fact that the advice from the ACCC was that there was going to be a significant shortfall. That work has been done. I think, from memory, she has secured through a heads of agreement about three times the supply shortfall that we expect. I think the focus of the work that the Treasurer is doing along with ministerial colleagues in providing advice about what options there are to deal with these significant price increases is very much about what can we do now in the short term. That's what we're focused on.

Senator CANAVAN: I perhaps wasn't as specific as I could have been. I meant increasing production in Australia of these commodities. The heads of agreement does not do that. It potentially reallocates energy from our overseas customers to domestic ones. I'm not against that, but I'm just asking: in terms of the issue globally and the recessionary conditions you outlined and we've seen in other countries, given we are the largest exporter—or one of the largest, depending on the day—of coal and LNG as well, we're not even looking at increasing the supply of coal and gas to the world to assist?

Ms Reinhardt: It's certainly the case that increases in supply that feed into electricity markets will reduce prices. There are a really substantial number of reforms that sit in the budget about renewables and Rewiring the Nation, which will add to the grid capacity. I would say that the bundle of reforms that sit in the budget will have a longer term impact on prices, but, as we talked about earlier, many of those reforms take years to flow through, as would changes in supply.

Senator CANAVAN: With all respect, Ms Reinhardt, that doesn't actually deal with my question. I didn't ask about domestic electricity markets in Australia. We're not exporting renewable energy at this stage of course. I am asking specifically about dealing with the clearly dysfunctional—I think you've effectively admitted that—international markets in coal and gas in particular. We're not looking at all what role we can play to increase the supply of these commodities in global markets to assist countries that are our allies that are facing massive energy shortages because of the outcomes of the war?

Mr Yeaman: As you said, Senator, the point we were trying to make in our opening statement on behalf of the secretary is that, given the markets currently are being hit by these disruptions, as you said, things that act quickly and directly on price are going to be more effective in our view—and this is a matter for government ultimately—in helping people to deal with the current energy price shock and affect this redistribution of income. Of course there is a process underway to look at how we can respond to prices. We will advise government, but that's a matter for government on what options are in, but the Treasurer has been clear that they are looking at a range of options.

Senator Gallagher: It's very much about the short term. The work that's currently being done that the Treasurer is talking about is: what can we do in the immediate term to deal with these significant price increases that have been foreshadowed in the budget? Aside from that we've our Powering Australia plan going forward. Obviously if there are particular projects in the energy sector that want to get up and going, there's a process around that. If they stack up and proponents want to put them forward then by all means. The focus of the government's work at the moment is dealing in the short term, looking at a range of options to manage that and implementing the Powering Australia plan, which is about fixing the grid and getting additional investment and renewables into the grid, as outlined in our election commitments.

CHAIR: I note, Senator Hume, that we're about at the end of that 15-minute block, so I'll go to Senator O'Neill and then come straight back to you for another block of time.

Senator HUME: I have lots, so we're going to be going for a long time.

CHAIR: So you're happy with that. Senator O'Neill?

Senator O'NEILL: The pre-election economic outlook—PEFO—was a pretty important underliner of what your predictions of the economy were at the time people were going to the election, so my questions go to setting that historical moment. What were Treasury's global impact growth forecasts at PEFO?

Mr Power: Sorry, could you repeat the question?

Senator O'NEILL: What were Treasury's global impact growth forecasts at PEFO?

Mr Power: You might have to give me a minute. I will be able to find those for you. I can definitely say to you, since PEFO, we have downgraded the global outlook both in a world sense and also for a number of economies, particularly the US, Europe, China, obviously due to events that have happened since then.

Senator O'NEILL: I note your general comments in the opening statement. I am seeking further information.

Mr Power: I can give you some of those numbers now.

Senator O'NEILL: The growth and forecasts at PEFO.

Mr Power: For 2022, at PEFO, we had world growth at 3¾; for 2023, again, we had world growth at 3¾. As I said, both of those have been downgraded in the October budget. Would you like those numbers?

Senator O'NEILL: Yes.

Senator HUME: Are they the same global growth forecasts as were in the March budget?

Mr Power: I think they were. I can double-check but I am quite sure they were.

Senator O'NEILL: So typically, we have the growth forecasts of PEFO for the two years 2022 and 2023?

Mr Power: That is right. I have just given those numbers.

Senator O'NEILL: What were the expectations for global inflation in PEFO?

Mr Power: We do not publish a global inflation number as a composite. But, again, clearly, since PEFO, there has been an upgrade in inflation across all economies, largely due to energy prices, but, as I said, we do not have a composite world inflation number that we publish.

Senator O'NEILL: Clearly, you have indicated some things have changed. Is there something you would like to add to the record? What has changed since PEFO where we are sitting right now?

Mr Power: Since PEFO, what I would say is it is primarily on the prices side. We have seen significant rises in energy prices. The other thing we have seen most significantly since PEFO is a rise in global cash rate expectations, particularly in the US, and that goes with the higher prices I have just talked about. So over that period since PEFO both prices and cash rate expectations, particularly in the US but also in Europe and here in Australia, have risen across advanced economies. Generally there has been a downgrade in growth outlook and an upgrade in unemployment outlook in those economies where those pressures are being felt.

Senator O'NEILL: So what were Treasury's global economic growth forecasts at budget?

Mr Power: I can give you those numbers that match the ones I have just given you for PEFO. For 2022, the global growth outlook for the three per cent in the budget. For 2023, it is $2\frac{3}{4}$ in the budget.

Senator O'NEILL: Have those changed since PEFO?

Mr Power: The numbers, as I said a bit earlier, were $3\frac{3}{4}$ at PEFO for 2022 and have been downgraded three-quarters of a percentage point in the October budget to three for 2022. For 2023, the PEFO number was $3\frac{3}{4}$ and the October budget is $2\frac{3}{4}$, so there has been a downgrade of a percentage point.

Senator O'NEILL: What is your prediction about the impact on the Australian economy of these changes?

Mr Power: Similar to what I described globally, the outlook for the Australian economy is adjusted partly because of higher inflation since PEFO. PEFO inflation in Australia was expected to peak in the fours. We are now looking at a $7\frac{3}{4}$ peak in inflation at the end of this year. Partly also because of the expected rise in the cash rate, unemployment is now also forecast to rise over the forecast period. It gets to $4\frac{1}{2}$ per cent, so just above what we would consider to be full employment. As we sit here now, we are below full employment. We expect consumption and other elements of the economy to slow as cash rates rise and that cycle occurs. As I said earlier, that cycle is a similar cycle that is forecast for other advanced economies that are experiencing synchronised tightening of monetary policy.

Senator O'NEILL: So clearly there is concern amongst Australians as they hear these figures that there is a sharp decline, really, in the economic conditions globally and that is impacting on them?

Mr Power: Certainly, there are a number of global factors that we have just been talking about which are, of course, driving this. Again, the response from central banks has been pretty uniform across countries, raising interest rates. So the outlook that I have just gone through, if you like, is quite similar across key advanced economies.

Senator O'NEILL: If I could go to some further questions about fiscal policy, this is to you, Ms Reinhardt. Should I direct this to you?

Ms Reinhardt: Yes, that's right.

Senator O'NEILL: Mr Yeaman may direct it. Following up on some of the questions by previous senators, how would you describe in a way Australians might generally understand, not just economists, the stance of the fiscal policy for this fiscal year?

Ms Reinhardt: I would describe it as a reasonably cautious approach. Mr Yeaman has gone into this in great detail. It is a time when Australia faces great challenges going forward in the global outlook. Inflationary pressures are significant. It has been quite important for fiscal policy to be cautious in that environment and that is how I would describe the position of the budget and the fiscal policy.

Senator O'NEILL: What does 'cautious' mean?

Ms Reinhardt: An example of 'cautious' in practice is the decision by government to return over 90 per cent of the increase in tax venue to the budget bottom line rather than spending that, which would have been an option available to government.

Senator O'NEILL: So for ordinary Australians trying to understand this, the cautionary response there from the government was not just to grab the money that was coming in and put it straight back out the door but to take that and put it back into what and for what purpose?

Ms Reinhardt: In that particular case, a good way to see that would be if you spent that money and did not bank it, there would be higher interest payments in the future. There are plenty of places in the budget papers where we make it clear that, had that money been spent, there would be higher interest rates in the longer term and larger debt for future generations. So in a longer term sense, that is the cautionary nature or outcome of that approach. In the shorter term sense, it is taking the pressure off inflation, which also assists the Reserve Bank in its job.

Senator O'NEILL: So it does two things. It is not only responding to the pressures of the real moment we have just had described by Mr Yeoman and Mr Power but also for the long-term thing. You call it 'cautious approach'. Many Australians would call it a responsible approach of banking what you can, as you would say, if you were looking to the future. Is that a fair comparison for Australians?

Ms Reinhardt: Yes, that is a fair comparison.

Senator O'NEILL: I am mindful that the economics affects everybody and not everybody has a language that might be used in this room. I want Australians to understand exactly what their government is doing for them

through your approaches. I will go to the forecast on real spending growth in the budget. What does real spending growth actually mean, for starters?

Ms Reinhardt: The forecast in real spending growth takes into account the growth in payments and then adjusts that for an underlying deflator, so it gives you an indication of how much governments are injecting into the economy. In this case in the forward estimates, the main chart that relates to that is on page 77. It is another indicator of a cautionary approach to spending over the forward estimates period and beyond.

Senator O'NEILL: This real spending growth is really about what the government is putting into the economy by their action, right?

Ms Reinhardt: Yes. That's a fair way of summarising it.

Senator O'NEILL: You've said that this government has chosen to be responsible and cautious in its approach. How does this strategy that you've just described compare with historical averages?

Ms Reinhardt: I may have to call on a colleague to bring in the historical averages. My understanding is that the figures for 2000 to 2010 are something like 3.3 per cent spending growth, and for the next decade it's 1.9 per cent. But I might get Brenton to talk about that.

Mr Goldsworthy: On page 76 of the budget papers, there's a comparison of overall spending growth over the forward estimates to some of the historical averages you were asking for. It's 0.3 per cent over the forward estimates, as Ms Reinhardt would have mentioned. That compares to an average of four per cent over the period prior to the global financial crisis and 2.2 per cent over the period leading up to the pandemic.

Senator HUME: Can I just ask a clarifying question on that one. During the period of 2007 to 2011, clearly real-payments growth is much higher, and during the pandemic it's much higher. Is that correct? But during the period prior to 2007, it is lower—it's just that the average has been brought up by the global financial crisis. It is much lower from 2012, or potentially 2013, right through to the pandemic. Is that correct?

Mr Goldsworthy: The averages I'm referring to, just to be clear, cover the period 2000-01 to 2007-08.

Senator HUME: So you've just not included an average at all for the period of 2007 to 2011? Does that look right?

Mr Goldsworthy: From memory, what we did was to exclude the periods of unusual, extreme shocks in the economy—

Senator HUME: It's quite selective.

Senator Gallagher: I think it's taking out the volatility in the shocks, so you get a better baseline.

Mr Goldsworthy: For the pandemic, as well as the—

Senator HUME: Well, it is not an average, then, is it.

Senator Gallagher: It's the average of a normal spending environment, I guess.

Senator HUME: You've just taken out the entire years you were in government!

Senator O'NEILL: I don't think that's the correct characterisation.

CHAIR: I'm not sure what questions are being asked and who's asking them at the moment, but I'm happy for you to have a final clarification question if you want, Senator Hume. No? Senator O'Neill.

Senator O'NEILL: To be clear, you've just provided careful figures to me of a real-spending growth in this budget of 0.3 per cent over the forward estimates—that's correct?

Mr Goldsworthy: That's correct.

Senator O'NEILL: That doesn't seem like very much by comparison to previous figures, prior to the GFC and so trying to indicate a normal moderating period in our economy, which you said were at four per cent?

Mr Goldsworthy: That's right.

Senator O'NEILL: And then the 2.2 per cent covers what period, Mr Goldsworthy?

Mr Goldsworthy: That's 2011-12 to 2018-19.

Senator O'NEILL: That is because of the COVID impact?

Mr Goldsworthy: That's right. What we tried to do was to compare like with like to the extent that you possibly can when doing historical averages.

Senator O'NEILL: That's because it's important to have responsible figures, and we can throw around the terms 'averages' and 'median' and whatever, but the reality is you have evened it out to get a clear picture for Australians to understand how much their government is spending.

Mr Goldsworthy: That's right. We also included a chart on the following page over the entire period just to make it very clear the periods chosen for that historical comparison and also what happened to real-payments growth either side of that.

Senator O'NEILL: Those figures, then, do bear out numerically the commentary from Ms Reinhardt about a cautious approach and a responsible government in terms of spending growth.

Mr Goldsworthy: Yes.

Senator O'NEILL: Thank you. Of course, there are new policy decisions that have been made by the incoming government, and I'd like to ask about that—though I'm not quite sure who to ask. Mr Yeaman, you might be able to direct me, here. How would you describe the impact of new policy decisions on the economy across 2022-23 and 2023-24? Perhaps we might just do the first financial year. Ms Reinhardt, is that a question for you—or is it for Mr Goldsworthy?

Mr Goldsworthy: I don't have the precise figures in front of me, but in the first two years it's largely neutral. New spending decisions have been offset by savings. That's the way you can think about it. Then, in the final two years of the forward estimates, there's a positive figure for net policy contributions. From memory, it's \$9.8 billion over the entire forward estimates.

Senator O'NEILL: Again, for people to understand what this means, are new policy decisions managed by offsets?

Mr Goldsworthy: That's right, particularly in the first two years of the forward estimates, when, as we have been talking about this afternoon, inflationary pressures are most acute, so there is a desire not to add additional spending into the economy from the government.

Senator O'NEILL: So, if the government had responded to increasing calls for increasing spending, what would the effect be on ordinary households?

Mr Goldsworthy: I can let my Macro Group colleagues go into further detail, but that would have added to aggregate demand pressure in the economy and it would have risked putting upward pressure on inflation.

Senator O'NEILL: Essentially pretty bad outcomes, so it's important that the government exercised caution and a responsible approach in the implementation of policy by offsetting, which is minimising the impact of any new policy decisions. Is that correct?

Mr Goldsworthy: That's correct, yes.

Mr Yeaman: It was certainly our view that it's important that fiscal policy and monetary policy are both working together to tackle the inflation challenges that we see, so therefore, as monetary policy moves back to a more neutral stance, where it's not adding to inflationary pressures, fiscal policy should do similar, especially in the next two years, when the inflation challenge is most acute. Our view is that the fiscal position in the budget, as described by my colleagues, is broadly neutral. It's not adding to inflationary pressures, especially in those first two years. Obviously, if different decisions had been taken, that would have meant higher inflation and higher interest rates and more costs for households.

Senator O'NEILL: So responsible and cautious seems to be the right approach at this point of time. I note from the questions already how significantly aware the committee is of the inflationary pressures and what they might do not just for the country but for people's own personal budgets.

CHAIR: Senator O'Neill, if that's a natural break in your questioning, I might come back to you. That was about a 15-minute block. We'll go to Senator Hume.

Senator HUME: I've got some follow-up questions to Senator O'Neill's, but I want to ask first about whether you can confirm that the economic forecasts contained in the budget take into account all government policy.

Mr Yeaman: All government policy that we can take account of, yes.

Senator HUME: For example, the budget economic forecasts contain the impact of the stage 3 tax cuts.

Mr Yeaman: Yes, they do.

Senator HUME: Can you advise then on what basis Treasury might cost an already legislated government policy? Don't you only do it once?

Mr Yeaman: Sorry; could you say that again? I think I just missed the—

Senator HUME: When would Treasury cost an already legislated government policy?

Mr Yeaman: These might be questions for my Revenue Group colleagues, because they would handle revenue costings. I'd be happy to have those questions addressed to Ms Brown in the next session. Obviously

costings for set policies can change given the underlying economic circumstances, take-up rates, circumstances in the economy—

Senator HUME: Is that something that Treasury would initiate themselves or does it have to come as a request?

Mr Yeaman: It could be either. I don't know in this particular case.

Senator HUME: It would be an infrequent occurrence, I would imagine.

Mr Yeaman: I think it would be better—

Senator HUME: It's already legislated.

Mr Yeaman: I understand. I just would prefer not to freelance on this. I'd prefer my colleagues in Revenue Group to respond to this, because they handle these matters inside the Treasury.

Senator HUME: Is there anybody at the table who can confirm that there was a request put to Treasury to cost a removal of the stage 3 tax cuts?

Mr Yeaman: I'm not sure. I think my colleagues in Revenue Group are best placed to answer those questions.

Senator Gallagher: I think it's on record. The Treasurer has spoken about the updated costings for stage 3. I think it's thoroughly unsurprising that a new government coming in would ask for a range of information from agencies about parameters within the budget.

Senator HUME: Was it a costing then considered by ERC?

Senator Gallagher: I'm not going into what ERC—

Senator HUME: Was it a costing considered in the finalisation of the budget?

Senator Gallagher: If I can answer your first question before you start another one: I'm not going into what ERC deliberated, discussed, decided. We had that discussion yesterday. I would say that I would imagine—certainly in my experience as a Treasurer in another jurisdiction when I was putting budgets together—requests for information about programs, measures or whatever in the budget, as a routine good budgeting process, you would ask for information about that.

Senator HUME: The Treasurer actively referred to \$254 billion over the medium term. I would assume, and I think that it is safe to assume, that a costing has been done to remove the stage 3 tax cuts because those tax cuts were already legislated and already embedded in those economic forecasts. Can I ask, on notice—it doesn't need to be from anybody here; I want this to go to the Treasury secretary—what was the date of any such request, when was the costing to remove the stage 3 tax cuts commenced and when was the costing to remove the stage 3 tax cuts completed? Can I also ask, because the Treasury secretary—

Senator Gallagher: No, because you're saying a costing to remove—

Senator HUME: I'm asking to put it on notice. I don't want it from anybody here. I want it from the Treasury secretary.

Senator Gallagher: The Treasurer has spoken about a costing that was done to update the costing of stage 3 tax cuts.

Senator HUME: I want to understand the process by which that costing was done.

Senator Gallagher: I just want to be clear on the language, because I can see where you're going. The cost that was advised is, as you say, \$254 billion over the forward estimates in the medium term and an associated interest bill of around \$40 billion over the forward estimates in the medium term. That was the advice that was given in terms of information that was sought. Let's just be clear about that.

Senator HUME: Perhaps when we do Revenue Group they can come and answer those questions.

CHAIR: I'll just clarify, Senator Hume, that Revenue are coming tomorrow morning.

Senator HUME: Yes, tomorrow, that's right. So they've got plenty of time.

Mr Yeaman: Senator, if I could just add one point. I'm trying to be as helpful as we can here. It has been standard practice, even with the Treasury secretary in the first session, that he has at times referred questions to our Revenue Group colleagues for the next session. As the minister said, it's on the public record that there was a costing done of the current policy and what it's currently costing the taxpayer, and we can provide details of that on notice. The separate question is, in the lead-up to budget, not surprisingly, we looked at a range of different measures, both spending and revenue measures, and provided advice to government. I'm happy to take any questions on notice around that or pass to my colleagues—

Senator HUME: Why would you do that on something that was already embedded in legislation? It's already in there.

Mr Yeaman: All I'm saying is, we looked at—as we always would in any budget, in the lead-up to a budget—a range of different revenue and spending options to help inform government decision-making. I'm not confirming—

Senator Gallagher: As the finance minister I've worked closely with the Treasurer on this. I can be clear that we came into government and wanted a very clear understanding about everything that was and wasn't in the budget, right? There were terminating measures, there were zombie measures, there were legacy issues, there were urgent calls on the budget—

Senator HUME: So there were recostings done of all of those?

Senator Gallagher: there were unallocated funds in the budget—it was a mess. From a prudent budgeting point of view, it was a mess, so we asked for—

Senator HUME: There were recostings done of all—

CHAIR: Just let the minister answer.

Senator Gallagher: a range of information to inform the decisions we took in our first budget. I'll be very clear about that. It's responsible. I would expect that the Australian people would want their Treasurer and finance minister understanding exactly what was in the budget and what, as it turned out, wasn't in the budget, as well.

Senator HUME: Do the Treasury secretary and the Treasurer agree on the guardrails that should be used around the budgeting process?

Senator Gallagher: What do you mean by 'guardrails'?

Senator HUME: I remember the Treasurer saying that he thought that a tax as a share of GDP was—I think the words he used were, 'all politics and bad economics'. He said on 5 April, that there was no point having a tax-to-GDP measure that was part of the guardrails.

Senator Gallagher: A cap.

Senator HUME: A cap.

Senator Gallagher: Well, you can see from our fiscal strategy.

Senator HUME: I can see that the Treasury secretary has mentioned it in his opening statement, and yet it's something that the Treasurer doesn't believe in.

Mr Yeaman: Our view and the reason that was in the statement is that we believe that to meet the long-term structural challenges of the budget, which we think are significant, there needs to be an open, sensible conversation around both tax and expenditure. Having a hard cap, necessarily, in our view, is not always a helpful position to be. It doesn't mean there shouldn't be a conversation around the impacts of both high taxes and lower spending on different parts of the community and the economy. I think, from memory, my understanding of the Treasurer's comments in this area was that the hard tax cap was—

Senator HUME: All politics and bad economics. Do you agree, Mr Yeaman?

Senator Gallagher: Certainly, in my view, in isolation, there was no spending cap.

Senator HUME: Do you agree, Mr Yeaman?

Senator Gallagher: There was no spending cap. You had a tax cap but no spending cap, and we could see what was going on there—

Senator HUME: Mr Yeaman, do you agree—

Senator Gallagher: It doesn't make for very good budgeting—

Senator HUME: that the tax to GDP cap is all politics and bad economics?

Mr Yeaman: I won't speak to that aspect—

Senator Gallagher: I don't think you have to give an opinion.

Mr Yeaman: but what I would say is that—

Senator HUME: Can I ask, then, Minister: what's PEFO for? PEFO.

Senator Gallagher: What about it?

Senator HUME: What's it for?

Senator Gallagher: To give an assessment in the lead-up to an election, an independent assessment from Treasury and Finance, of the state of the budget and the outlook.

Senator HUME: And it's signed off by the Treasurer and the—

Senator Gallagher: By the Treasury.

Senator HUME: Sorry, by the Treasury, I should say.

Mr Yeaman: The Treasury Secretary and the Finance Secretary. Yes.

Senator HUME: I know were just referring to it before. There were no material changes between PEFO and the March Budget—is that correct?

Senator Gallagher: That's right.

Senator HUME: I'm interested in the origins of box 3.2 in Budget Paper No. 1. For the benefit of Hansard, this box adjusts the PEFO baseline to account for key developments. Whose idea was it to include this box in the budget statements? Was it Treasury's or government's idea?

Ms Reinhardt: From memory, this was the Treasury that put forward the proposal because we felt it was a useful way of understanding what was actually going on and what the major pressures were. What this box and the graphs particularly show is that—the graph on the bottom right, chart 3.4, shows that had we taken PEFO at that point if we had the same interest rate requirements, so the same cost of debt for Australia going forward, if we had the higher NDIS estimates and in addition if we made the lower productivity assumption that now underlies the budget, then we would have seen a much higher debt and a much lower UCB at PEFO. It's a way of showing what the circumstances in PEFO would have been if we faced the challenges that are now clear to us as the Treasury and to Australia as the Australian economy.

Senator HUME: Was it you then, Ms Reinhardt, that selected those key developments for the PEFO baseline to be adjusted by?

Ms Reinhardt: We looked at what some of the major changes were. I think there's another chart in the budget papers which shows the growth in estimates variations, and the biggest are the NDIS and the PDI, the public debt interest payments. It really gives a good indication of what the pressures are on the budget going forward.

Senator HUME: What were the criteria for those developments or adjustments?

Senator Gallagher: They were the biggest movements.

Senator HUME: Do they include inflation more broadly?

Ms Reinhardt: Inflation impacts on PDI. Inflation impacts on the interest rates that are charged through Australia and in the world, so inflation flows through in that way.

Senator HUME: I've never heard the phrase 'adjusted PEFO' or 'PEFO adjusted' before. Is it something that's been used before as a baseline for any budgets?

Ms Reinhardt: We'd have to check whether it has. We often adjust our projections and inflation to show—there's scenario analysis in the back of the budget papers as well. We often show what the impact of different events is on the underlying budget.

Senator HUME: The secretary that signed off PEFO also signed off on this?

Mr Yeaman: Yes. For us, the reason it's a comparison to PEFO is because PEFO was the last full authoritative update of our estimates. We were trying to highlight the impact of the most significant changes since our last major economic update by drawing it out that way.

Senator HUME: To get some idea of the timeframes as to when those key developments were finalised: can Treasury confirm what date this analysis was commenced and when it was finalised, what date it takes into account information up to?

Mr Yeaman: We can. This was finalised as part of our normal budget process, so in the last weeks before the budget—this would have been as the fiscal estimates came together—we would've done this analysis as we looked at those major spending drivers that Ms Reinhardt mentioned. We're happy to take it on notice and see what we can provide, but it was in the standard timeframes of the budget.

Senator HUME: When was the decision to downgrade the long-term productivity growth assumption taken?

Mr Yeaman: I don't have the specific date in my mind, but, from memory, I think that was something the government had talked about previously in opposition and then, on advice from us on arriving in government, they took a decision to downgrade the productivity assumption. So it was shortly after the—

Senator HUME: So the government chose to downgrade productivity growth—is that what you're suggesting?

Senator Gallagher: Based on advice—

Mr Yeaman: Based on our advice, Senator.

Senator Gallagher: and essentially the fact that we haven't been at 1.5 for plenty of time.

Mr Yeaman: We have been monitoring this for some time. There's been a long-term decline in productivity growth. We have been looking at it, as Treasury, for some time and we took the view that it was appropriate to reduce the long-term productivity assumption from 1.5 to 1.2 and advise government of that.

Senator HUME: Budget forecasts are a reflection of the agenda of the government, and the government have said that they have a reform agenda that is productivity enhancing. If it's productivity enhancing, why are you downgrading your productivity assumptions?

Senator Gallagher: It's a more realistic assumption, essentially. I'm not sure if you got to 1.2. Maybe you did. But—

Senator HUME: We were certainly striving for productivity, rather than just saying we were striving for productivity and then downgrading the productivity assumption.

Senator Gallagher: Well, you were striving, and you had a much higher assumption that you didn't reach. It's a more realistic assumption, and of course the government is focused on a productivity agenda. That's what the large part of our election commitments in spending are focused on, but we're also providing everybody with a very honest assessment, based on advice, about the state of the economy and the state of the budget, and the decisions reflect that. We're going to pretend and hide behind figures that haven't been reached for some time.

Senator HUME: This box also talks about an actuarial assessment to the NDIS. When was that actuarial assessment received?

Senator Gallagher: That's probably a question for community affairs committee, but my understanding is that it's a yearly actuarial report that's done.

Senator HUME: Is there anybody that knows?

Senator Gallagher: It's not part of the Treasury portfolio.

Senator HUME: It's part of the budget papers—

Senator Gallagher: Yes. Well, so is the whole government.

Senator HUME: and it says that you've actually dramatically changed—

Senator Gallagher: Every portfolio is reflected in—

Senator HUME: You've adjusted PEFO on the basis of this actuarial assessment.

Ms Reinhardt: It's an independent actuarial assessment that is done by the auditor that's associated with the NDIA and it was released recently, I understand.

Senator Gallagher: I'll check it, but it was quite late through the budget process. It's something that has happened under your government and, essentially, it informs the parameter variation that goes in on the NDIS.

Senator HUME: What about the higher yields for the debt? What does it take into account and to what date is that up to?

Ms Reinhardt: Mr Goldsworthy will provide that, but it's a standard approach to assessing the yields on bonds rate, which we haven't changed at all from previous assessments.

Mr Goldsworthy: Similarly to a lot of budget assumptions, we need to settle them a few weeks out from finalisation of the budget papers. A useful way of thinking about the average cost of government borrowing is to look at the 10-year yield, and that has increased markedly since PEFO, as the box draws out. Again from memory, I think the assumption used in budget was 3.8 per cent for the 10-year yield, which was around the 20-day average at the time we finalised the assumption, and at PEFO, I think, from memory, it was 2.3 per cent.

Senator HUME: On the basis of the evidence that you've just given me, can I perhaps ask you—I was going to ask the secretary, given the potential for it to be misconstrued—to reaffirm that PEFO actually did reflect all government decisions and all other circumstances that may have had a material effect on the economic and fiscal outlook that were in existence before the issue of writs for the election? Was that still the case?

Senator Gallagher: I don't think anyone is casting aspersions on that, other than you.

Senator HUME: No-one has used an adjusted PEFO ever before. In fact, if there is a precedent I would love to know about it. Perhaps you could take it on notice.

Senator Gallagher: Quite a lot has happened, to be fair.

Senator HUME: It's been six months.

Senator Gallagher: Quite a lot has happened in the economy between March and October. It is right for Treasury to reflect some of these changes. Nobody is casting aspersions on PEFO. No-one has done that. You are the first person that has raised that, but it does give you—

Senator HUME: No, the budget measures raise it.

Senator Gallagher: No, they do not. They compare. Right throughout the budget paper there's comparison between year and year.

Senator HUME: Well most budget papers go budget to budget. This doesn't even go PEFO to budget; it goes adjusted PEFO to budget.

Senator Gallagher: No, it doesn't say 'adjusted PEFO'.

Senator HUME: It does.

Senator Gallagher: It says 'PEFO adjusted for key developments'—

Senator HUME: That's why—

Senator Gallagher: that is, since PEFO. You're the only one bringing that is PEFO into this. It is quite right that in a budget that seeks to explain some pretty significant developments over a short period of time that it's reflected in charts and analysis by the Treasury. That's essentially what a budget paper does.

Mr Yeaman: I would like to say on behalf of the organisation—and I am very confident that this would reflect the secretary's views—I can certainly confirm that the PEFO represented our best professional judgement at Treasury and the Department of Finance. I will leave it to Ms Wilkinson to confirm that. But, from our perspective, PEFO certainly represented our best professional judgement, taking into account all the information and policies at the time. As Ms Reinhardt has explained, the reasons we have drawn these issues out is that there have been very material differences to the economic environment and some of the spending pressures we have seen that have emerged since then. The PEFO was, as Treasury, our last definitive fiscal update. That's why we drew that comparison to PEFO. I just wanted to make sure that was on the record.

Senator HUME: I just want to understand, for my own benefit, why you would not simply include the changes to economic forecasts in your budgeting since the last budget. Why did you pick PEFO?

Senator Gallagher: Because PEFO was the last full economic statement.

Senator HUME: But there were no material differences. Isn't it usual practice to go budget to budget rather than use PEFO?

Senator Gallagher: If there wasn't a PEFO, yes. But there was a PEFO.

Mr Yeaman: I can go back and check—

Senator HUME: Why didn't it use the PEFO rather than adjusting the PEFO?

Senator Gallagher: It didn't adjust the PEFO. It's using the PEFO as a baseline and then putting in some of the significant variations that have occurred since then and shown what that would have looked like.

Senator HUME: Those significant variations embedded in the adjusted PEFO are then used—

Senator Gallagher: It's not an adjusted PEFO. I think we should be very clear about that. PEFO remains a true and honest representation of decisions taken up to that point and signed off. It didn't change—

Senator HUME: What's the point of the red dotted lines?

Ms Reinhardt: The point of the red dotted lines is to show that there are really significant changes that face Australia, the government and the budget as a result of factors that are largely external to the control of the government.

Senator HUME: That is an international—

CHAIR: Sorry, Senator Hume. Can I do a bit of timekeeping. We have a break coming up 4.15. Do you want to continue on until 4 and then I will give the call back to Senator McKim and Senator O'Neill?

Senator HUME: Yes. Can I ask about economic modelling. Has Treasury modelled the participation and productivity impacts of both the government childcare policy and the paid parental leave policy?

Mr Cully: The answer to your question is that we did do some modelling on the participation effects of the enhanced childcare support. There is a box in the budget that outlines our results on that. It's box 2.4 in budget statement 2. To go to the bottom line, based on analysis of past subsidy increases, Treasury estimates the government childcare subsidy changes will increase hours worked by women with young children by up to 1.4 million hours per week, equivalent to an extra 37,000 full-time workers in 2023-24.

Senator HUME: Page 2 of budget paper 1 says that these measures would provide a long-term economic dividend by lifting workforce participation—which is exactly what you have just said—and productivity. How do you measure productivity there?

Mr Cully: That is a qualitative assessment. We didn't do any direct modelling of those things. But I will give you two concrete examples. Firstly, the increase in women's workforce participation, with women working longer weeks or joining the workforce anew, will allow them over time to build up their human capital and their skills and that will, over time, yield a productivity dividend.

The second one, which is quite subtle but quite important, is the 'use it or lose it' provisions in the parental leave changes. Before the birth of children in about a quarter of households the woman, the mother, is the primary income earner, not the father. In some households there will be a discussion, and they may choose to have the father take on greater childcare responsibilities relative to the mother, and the mother earns more and is more productive than the father and has a marginal effect on boosting productivity.

Senator HUME: But they are unquantifiable?

Senator Gallagher: I think there's a fair bit of data about both of them.

Mr Cully: I don't think they're unquantifiable; it's just hard to do. It would require a very considered level of effort to do the economic modelling to see what that would yield. There is a range of academic literature which looks at these effects, and it always find there is a positive effect.

Senator HUME: Is the productivity specifically mentioned on the second page of the budget paper embedded into your productivity projections?

Mr Cully: The answer to that question is covered in the box on the changes to the productivity assumption.

Senator HUME: That's on page 83, box 3.3?

Mr Cully: Yes. It looks backwards and says the best estimate we have of future productivity growth is based on using a 20-year assessment of what's happened in the past rather than a 30-year assessment.

Senator HUME: These are two specific policies that the government has said will increase productivity, but the productivity forecast has gone down and there is no way you can tell me exactly how you have calculated productivity from those two measures or embedded them in the productivity forecast; is that right?

Mr Cully: They are not forecasts; they are medium-term projections where you take a starting point and you run out 10 years based on an assumption around what you think productivity growth will do. The purpose of that is to try and make some judgements about the fiscal outlook in 10 years time. It's not a comment on government policies and the impact they may or may not have on productivity.

Senator HUME: But that lower productivity growth assumption is one of the key factors adjusting PEFO; is that right?

Mr Yeaman: In a lot of areas, our view is that Australia, in terms of productivity, is going to be a productivity taker; we're going to take the global productivity frontier in some sectors, with the shift in technology. There has been a well-documented longer-term slowdown in global productivity growth. Australia has downgraded its long-term assumption—as Mr Cully said, it's not a forecast. So have the United Kingdom, the United States, Canada—a number of these countries have all been downgrading their long-term productivity assumptions because of what they see as a broader global slowdown. There's a very long [inaudible], which I won't bore the committee with now, as to what that might be. The question for Australia is: how do we move closer to that frontier over time? Do we fall back from it or move closer to it? Based on the evidence, we think there is a positive effect of these policies on productivity. When we shift to our medium-term and long-term assumptions they are governed by what we think is a plausible long-term rate of productivity growth to underpin our budget projections, rather than adding up every policy the government has because there are hundreds of these policies that would have some impact, positive or negative, on productivity growth. So we take a longer-term assumption.

Senator HUME: Do the industrial relations reforms before the House of Representatives this week improve productivity? Have you done any calculations on that?

Senator Gallagher: That legislation hasn't been settled, as you know.

Senator HUME: You wouldn't bring it forward unless you knew it was going to be productive, surely?

Senator Gallagher: You're asking Treasury about things that they've included in this budget. That legislation hasn't been settled. As we know, it hasn't been passed by the parliament.

Senator HUME: So it's not included in the budget projections?

Senator Gallagher: In terms of getting wages moving, getting bargaining working—another area we're cleaning up after 10 years of neglect and delay—yes, we think it will be good for the economy.

Senator HUME: You think—or have you actually calculated it out?

Senator Gallagher: There is plenty of evidence to support this—

Senator HUME: Is there? Has Treasury done any costings on it?

Senator Gallagher: as there is for PPL and access to early childhood education—

Senator HUME: But Treasury hasn't costed any on those, though.

Senator Gallagher: If you want to argue against those policies and say they don't have a positive benefit—

Senator HUME: Just tell me what it is.

Senator Gallagher: in terms of economic equality and women's workforce participation—

Senator HUME: They're great for participation but are they any good for productivity?

Senator Gallagher: and support for families to manage the shared care arrangements that they need to manage, then, by all means, do that. But there is plenty of evidence, and Treasury has explained to you how they factor that into their thinking.

Senator HUME: There are three policy names just there: child care, which is important for participation, I agree; paid parental leave, again, it's great for participation; and industrial relations reforms, which I don't know about, participation—in fact, it may have the opposite effect. But all three of those policies have been taken to the Australian public saying that they are productivity measures, yet no calculation has been done by Treasury to demonstrate that they are, in fact, increasing production capacity—

Senator Gallagher: I don't think that's in the evidence that Treasury just gave.

Senator HUME: and your forecasts for productivity go down—your projections, I should say, go down. Is this really a productivity agenda, Minister?

Senator Gallagher: I actually don't think that's the evidence. You're trying to conflate a couple of things there. One is the decision based on advice of the Treasury to adjust the productivity assumptions to a more realistic level, after a long period of obvious decline and not reaching the assumption that had been built into the budget.

Unidentified speaker: It was just so wrong.

Senator Gallagher: That's one thing. Then we have investments that we are making in skills, in access to early childhood education, in support for families with PPL, in fixing the aged-care crisis, in fixing the energy crisis, just to name five of them that we've inherited, essentially, from a government that didn't deal with them. And, yes, we believe there will be positive productivity benefits from making those sensible investments without adding to the short-term inflation problem that we are dealing with now.

Senator HUME: But no-one else has—it's just a 'we believe'.

Senator Gallagher: There is plenty of evidence.

Senator HUME: Could I ask, then, on notice, if Treasury could provide any evidence they have that either paid parental leave or childcare policy or, indeed, the industrial relations policy, which is before the House of Representatives, right now, will improve productivity in this country, and, if so, how that is embedded—

Senator Gallagher: We can do a literature search for you.

Senator HUME: No, I don't want a literature search. I want to know what Treasury has done—

CHAIR: I'd like to allocate the call to Senator McKim. You've put that question on notice.

Senator HUME: I haven't finished the question but, yes, I will put the question on notice—and how those policies and the productivity forecasts that come from them are embedded in that lower productivity forecast, and how you can then say in the budget papers—that have been signed off by you, with your name in front of it, Minister—

Senator Gallagher: Very proudly.

Senator HUME: that this is a productivity agenda that is represented by those policies.

Senator Gallagher: And proud of all of those policies as well.

Mr Yeaman: We're happy to take that on notice. I think Mr Cully has stepped through the evidence that we used to make the claim around productivity, in relation to those measures you described and some of the academic evidence, but we're happy to take it on notice and see what else we can provide.

Senator McKIM: Mr Yeaman, there was some discussion earlier with Senator O'Neill around the budget's impact on inflation. You said something like—I just want to make sure I'm not being unfair to you—in broad terms, the budget's impact on inflation was neutral over the next two years. Is that fair?

Mr Yeaman: Yes, that's correct. I'll elaborate, briefly. What we look at particularly is the change in the budget position, year by year, and the budget position is remaining fairly neutral, as I said. There are not significant changes over the forward estimates but particularly over the next two years. We are still probably seeing some of the effects of a very substantial fiscal consolidation, as many of the extraordinary COVID measures were wound down. So our view is that, yes, the fiscal position is broadly neutral.

Senator McKIM: That's in terms of its impact on inflation?

Mr Yeaman: And the economy, more broadly, yes.

Senator McKIM: Would you make that claim over the next four years or only the next two?

Mr Yeaman: Particularly over the next two years, I think it's neutral. But I equally don't think that the—when you look at the shifts, historically, that we've seen in the fiscal position, even over the forward estimates, by the end of the forward estimates we have inflation, on our forecasts, returning back to the Reserve Bank's central target band. So the inflation challenges that we see aren't as prevalent in that part of the forecast period. But I don't see it having a substantial fiscal impulse, even in the latter years.

Senator McKIM: All other things being equal, increasing taxes would take money out of the economy and help with inflation. Is that fair?

Mr Yeaman: Correct. It would take money out of the economy and, all else equal, put downward pressure on activity and prices.

Senator McKIM: And the converse would be true—decreasing taxes is inflationary?

Mr Yeaman: Yes.

Senator McKIM: So would abolishing the stage 3 tax cuts reduce inflation more quickly?

Mr Yeaman: I think, as I said, if you take more income—and it can be tax cuts or it can be spending on any front—out of the economy, that is likely to lead to a reduction in economic activity and therefore inflation. I would say though, and it's an important point—and I don't mean to take up the committee's time—that the prevailing economic circumstances matter, as do the effects more broadly of tax changes or any other policy measure, frankly, on a whole range of other factors such as distribution and participation and many of the things we've talked about today. So that is one factor that you would consider in such a decision, but it's not the only factor.

Senator McKIM: Nevertheless, if the stage 3 tax cuts are left in, that would be inflationary, wouldn't it?

Mr Yeaman: No. Our profile currently has the stage 3 tax cuts, as legislated, in there. Our inflation forecasts fully take account of that.

Senator McKIM: I understand that, but, compared to not having them in, it is inflationary, isn't it?

Mr Yeaman: I wouldn't use that term. As I said, if you were to increase taxes, whether it was through taking out the stage 3 tax cuts or any other mechanism, that would, all else equal, put downward pressure on demand and also on inflation.

Senator McKIM: And not proceeding with the stage 3 tax cuts would effectively be an increase in taxes, wouldn't it?

Mr Yeaman: I think that's consistent—

Senator McKIM: The RBA is forecasting inflation will still be at 3¼ per cent at the end of 2024. Stage 3 tax cuts will be in by then. They will have had six months in. And you've baked those in, as I think you've just acknowledged. So, just to be clear, after six months of the stage 3 tax cuts, inflation is still going to be above the target range. And, if the RBA's recent form is anything to go by—and I understand that you're not on the board, although Dr Kennedy is—the RBA will still be putting up interest rates. We can only assume, because that seems to the RBA's aim in response to inflation.

Senator Gallagher: There's a lot in that.

Mr Yeaman: I think there are a lot of assumptions in that question, Senator.

Senator Gallagher: It's a wild old ride you've taken us on!

Senator McKIM: Well, I'll tell you what: it's a wild old ride for people whose mortgage payments are going through the roof—

Senator Gallagher: I wasn't referring to that.

Senator McKIM: for people whose rents are going through the roof, for people that are using Afterpay—

Senator Gallagher: I wasn't referring to that.

Senator McKIM: to afford their food bills at the moment. Minister, they're the people having the wild ride, not this committee.

Senator Gallagher: I wasn't referring to that; I was referring to a question with a lot of 'what ifs' and a lot of hypotheticals, which makes it very difficult for Treasury to answer.

Mr Yeaman: Senator, I understand, and I'm aware of the RBA's forecast profile, which has inflation a little more persistent than we have it, but we have inflation returning to 2½ per cent by June 2025 on our current forecasts. So, from our perspective, the most significant inflation challenge is particularly this year and into next year, and I understand the Reserve Bank has slightly different forecasts, and obviously you should take that up with them. But, from our perspective, that's what we have.

Senator McKIM: Thank you. Mr Yeaman, during an exchange with me earlier, we were talking about wages. Again, I don't want to be unfair to you, but I think you said something like, 'There's no prospect or little prospect of a wage-price spiral, in Treasury's view.'

Mr Yeaman: What I said is that, at this stage, we don't see evidence of a wage-price spiral occurring in Australia.

Senator McKIM: Thank you. Yet, last week, the RBA governor spoke, and in writing, about the importance of avoiding a wage-price spiral. So how should ordinary Australians view those two comments, which, on the face of it, seem to be diametrically opposed?

Mr Yeaman: I respectfully disagree. I think they are consistent. At this stage, in the measured statistics that we look at, and in the business liaison work that we do, we haven't seen evidence of wages moving to a level that is inconsistent with steady inflation over time. We are certainly aware that there is building pressure in the labour market, and with an unemployment rate at the historic levels that we have now—

Senator McKIM: But wages are going to flatline. Real wages are flatlining for the next four years, according to your budget.

Mr Yeaman: Correct. The reason that real wages are—

Senator McKIM: Why is it so important that we avoid a wage-price spiral when real wages are flatlining for the next four years—after, I might add, declining for the last two? That would be six years of no real wages growth, and you've still got the RBA governor out there jawboning down wages.

Mr Yeaman: From our perspective—and we agree with the Reserve Bank on this point—if a wage-price spiral were to become embedded in Australia—

Senator McKIM: There's no evidence of that. You've just told us.

Mr Yeaman: Correct. But in terms of the point you are making—I don't want to speak for the governor here, and I won't—from our perspective, if a wage price spiral was to emerge in the Australian economy, that would make the job of the central bank and the government much more difficult to bring inflation down and would have a larger cost over time.

Senator McKIM: But there's no evidence of that?

Mr Yeaman: At this stage we don't see evidence of that. But, of course, we think that people should remain vigilant about that risk.

Senator Gallagher: I'm just looking at the statement—again, you've got the RBA coming. But in that section of the statement the governor made, noting that wages growth is picking up from the recent lows, although it remains lower—

Senator McKIM: It's not. He's wrong about that.

Senator Gallagher: I think there is evidence that wages are picking up, and, in fact, in wages forecasts—

Senator McKIM: Not in real terms. That's just not true.

Senator Gallagher: Well, he's not saying in real terms.

Senator McKIM: But real wages are the thing that matter here, Minister.

Senator Gallagher: They are picking up. I think it is a purely factual statement:

A further pick-up is expected due to the tight labour market and ... Given the importance of avoiding a prices-wages spiral—which I think we can all agree on—

the Board will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms ...

'The price-setting behaviour of firms'—that's something you should support.

Senator McKIM: There's no evidence—

Senator Gallagher: Just a bit of context, to be fair—and they can defend themselves. But I don't think they're saying what you are alleging.

Senator McKIM: I don't think you can defend that statement, and, tragically, he won't be here personally to do it, which is a real shame, because I don't believe that independence should equal a lack of accountability. But, leaving that aside, in an inflationary context you'd agree, Minister, that it is real wages that is the critical thing rather than absolute wages, isn't it? If wages are going up 10 per cent, but inflation is 15 per cent, then wages are not having an inflationary impact, are they? Because real wages are declining. You would have to agree with that, wouldn't you?

Senator Gallagher: Well, look, yes—

Senator McKIM: You would?

Senator Gallagher: I think you were trying to say that the RBA are doing and saying something that they are not saying, from my reading of the statement by the governor on 1 November

Senator McKIM: The RBA is smashing the economy and risking a recession in this country. That's what they're doing.

CHAIR: Senator McKim.

Senator Gallagher: I know you have very strong views about it, Senator McKim. But that is the point I was trying to make.

CHAIR: I'm not comfortable with this line of questioning, Senator McKim, given that we do have the RBA coming on Thursday morning. You've made a statement about the attendance or otherwise of the governor that I think needs to be clarified, which is that he's been invited, and it has been confirmed by the committee that he is overseas.

Senator McKIM: That's correct.

CHAIR: You have the call.

Senator McKIM: Thank you. This is one for you, Mr Yeaman—not in regard to the RBA, I hasten to add. At estimates this year, our Treasurer was pretty buoyant—it was via Dr Kennedy—about the prospect of achieving and sustaining full employment. You've gone a little bit, in Dr Kennedy's opening statement, to the NAIRU. However, the budget has unemployment increasing over the forwards. So would you agree now that the prospect of achieving and sustaining full employment is lost in the short to medium term?

Mr Yeaman: No, I wouldn't say it that strongly. As I said in the opening statement, we are very conscious that there is a very fine line to walk here between doing enough to contain inflation but doing the minimum necessary to ensure unemployment can remain as low as possible. There is no doubt our budget forecasts include now a modest pick-up in the unemployment rate to just above what our estimate of the NAIRU would be. This is my view, but, if unemployment could be contained at 4½ per cent, that's still, by historical standards in Australia, a very low level of unemployment and a positive outcome for the economy, and that is exactly the kind of thing we are trying to grapple with—how to best walk that narrow road between containing inflation and removing demand from the economy but not seeing a larger-than-necessary increase in unemployment. I think, with the forecast we have, while there is a pick-up in unemployment, the level of unemployment in the country—if those forecasts are realised—would still be at a very historically low level for Australia and close to full employment.

Senator McKIM: Understood. However, in February we were told that we were close to achieving and sustaining full employment. You couldn't make the claim as we sit here today, could you—that we're close to achieving full employment? We've gone further away from that since February, obviously, haven't we?

Mr Yeaman: Clearly, because of the increasing inflation that we've seen and because of the need for the central bank to act and for government to take the responsible approach that's been discussed, we do think that

will flow through to a pick-up in the unemployment rate which, as you said, pushes us relatively further from what we would consider full employment. But, as we've discussed before, this is not an observed number, where full employment exactly sits. We don't know precisely. We estimate it by using various tools and models, and our view is that we want to maintain unemployment as low as possible while containing inflation. I still think 4½ per cent is a very low level of unemployment for this country, but I don't disagree.

Senator McKIM: Okay. Thank you. Am I to take from your answer—because you spoke about inflation and the actions of the RBA in increasing rates—that we are now further away from achieving and sustaining full employment than we were in February at least in part because the RBA has put up interest rates?

Mr Yeaman: I'm not going to comment on the actions of the central bank. What I can say—

Senator McKIM: No, I'm asking about the effect of those actions, which I believe is in your patch.

Mr Yeaman: I understand. Certainly the Reserve Bank is doing what it considers necessary, for the record, to achieve its mandate—

Senator McKIM: Leaving that aside, the effect of their actions has in part driven us further away from achieving and sustaining full employment, has it not?

Mr Yeaman: What we say in the budget is that the reason economic growth will be slowing next year and unemployment is rising is a combination of factors, including rising interest rates, rising cost of living and some of the other issues that we have discussed today in the committee.

CHAIR: Thank you Mr Yeaman and other officials.

Proceedings suspended from 16:16 to 16:31

CHAIR: We are now ready to resume with the Treasury portfolio. Senator Smith is seeking the call.

Senator DEAN SMITH: Acting Secretary, could you just step me through the process by which the department prepares and develops the incoming government brief?

Mr Yeaman: I can. I may seek some additional comments from Ms Kelley on this. As a standard practice across most departments, the department, once the election is called, goes through a process of identifying relevant issues that we consider a new government will need to tackle in the first period of government and of tracking both parties' election commitments that will require implementation—immediate implementation actions. We then internally draft advice in the form of an incoming government brief that tackles both of those issues—that discusses some of the longer term challenges for government that they need to address and also some of those implementation challenges that I mentioned.

Senator DEAN SMITH: Is there an official at the table that can be a bit more granular?

Mr Yeaman: I'll ask Ms Kelley to add to that.

Ms Kelley: Sorry, Senator, could you just repeat your question?

Senator DEAN SMITH: I'm interested in the preparation and development process that happens when building the incoming government brief.

Ms Kelley: Sure. As Mr Yeaman said, once the election is called, we form a couple of teams that then actually look at some of the various commitments by parties in the election. We then consider strategic policy advice that we as Treasury may want to provide, whether it's to a returned government or it's to a new government. We spend that time—that is known as caretaker—developing the strategic policy advice for a returned or a new government. We also then look at all the various election commitments, and we do an analysis of those and provide our advice in terms of how they could be implemented. In addition, we provide basic organisational information and pull that all together.

Senator DEAN SMITH: When the team or teams are monitoring the election campaigns, what resources do they use to monitor election commitments?

Ms Kelley: It's mostly the websites and when the various parties publish their commitments.

Senator DEAN SMITH: Exclusively?

Ms Kelley: Yes, because we don't have any—

Senator DEAN SMITH: You're not media monitoring?

Ms Kelley: Yes, we do. We have media monitoring, but mostly that's because that media monitoring talks about policy statements or commitments, which are then normally published on the respective parties' websites as well.

Mr Yeaman: If I may just add one point, the Department of the Prime Minister and Cabinet typically will also run a process to monitor key initiatives across both sides of politics. We do some of our own work to supplement that, but we also benefit from their process.

Senator DEAN SMITH: What is the internal process? You have a number of teams, and the information is collated and then built up. What's the internal process that is gone through to get to the final incoming government document?

Ms Kelley: It's probably a standard process in that sense, in terms of how we develop our policy advice. If it's around a particular policy, the group that is responsible for that policy will develop the advice, and that then passes through the usual, I suppose, approval chain, and then we as an executive board—which is the secretary and the deputies—are the final sign-off on those documents.

Senator DEAN SMITH: If a policy is publicly ruled out by a political party, how, if at all, is that accommodated in the incoming government brief?

Mr Yeaman: It depends. Every process is a little different.

Senator DEAN SMITH: Ms Kelley just told me that it's a pretty standard process.

Mr Yeaman: The organisational process is standard. The steps she talked about—forming a team, the volumes, the briefs—are a pretty standard process. But in terms of the issues themselves, which obviously change election by election, what I would say is that, if a policy has been ruled out, we would obviously note that in the brief. We would note that that is the government's position. In some cases—I'm not talking about a specific example here, but in some cases—if we thought there was still a long-term policy challenge that needed to be addressed by government, we may still provide some advice, saying, 'This is a challenge you will need to address at some point in the future, and here are some ideas.' But we would note that their current policy position was not to make changes in that area. As I say, that is a fairly hypothetical example, but I'm trying to be helpful.

Senator DEAN SMITH: So the incoming government brief actually includes things in addition to election promises. It might actually include policies that have been consciously ruled out by a political party, but you make an internal decision that you're going to include that in the incoming government brief because it might be a matter that is worthy of consideration, even though the political party doesn't think so?

Mr Yeaman: I'm not trying to get into the specific examples here, Senator.

Senator DEAN SMITH: You're welcome to if you want to.

Senator Gallagher: It's a briefing document.

Mr Yeaman: If we felt there were issues for either side of politics that needed to be raised for their term of government, we would always reserve the right to provide policy advice on those matters. That doesn't mean we're blind to the statements governments have made and that government can't choose to take that advice or not. But from our perspective, with incoming government briefs and more generally, we always reserve the right to provide policy advice where we think it's necessary.

Senator DEAN SMITH: So if a political party has ruled a policy out and consciously said, 'We're not going to do this,' you reserve the right to say to the new incoming government or the re-elected government, 'We think you're wrong'?

Mr Yeaman: I wouldn't have put it that way.

Senator DEAN SMITH: No, and I wouldn't expect you to put it that way, but I'm—

Senator Gallagher: It's a comprehensive briefing document.

Mr Yeaman: I'm talking here more about longer-term challenges. For example, we might say, 'We think there are areas of a certain policy that you will need to tackle over the next period of government or into the future, and these are things that you need to start to think about.' That's not to say by any means that we would contest the government's position or recommend that they proceed with a policy that they had ruled out.

Senator DEAN SMITH: When we turn to the particular budget measure that some commentators have called the thin end of the wedge in terms of visiting the franking credits debate—the budget measure in regard to the franking credits issue—was that included in the incoming government brief?

Senator Gallagher: Well, we're not going to go into what's in—

Senator DEAN SMITH: Minister, I'm doing my job.

Senator Gallagher: Yes, I know.

Senator DEAN SMITH: And you're doing your job.

Senator Gallagher: Do you want to talk about the tax compliance and tax integrity measures in this budget? Is that the question?

Senator DEAN SMITH: I'm going specifically to matters of public commitments given by the Labor Party that a policy was not to be adopted, but I'm not there yet.

Senator Gallagher: Okay, we'll get there.

Senator DEAN SMITH: Deputy Secretary, do the policy considerations that you might choose to include in an incoming brief, that an incoming government might have consciously ruled out, have any characteristic? You said they might address long-term policy challenges.

Mr Yeaman: I'm trying to be as helpful as I can for the committee quite genuinely here. We are very conscious of the commitments of a government when they come in, and that they will be implementing and following through on those commitments. All I was trying to illustrate was that we always, as departments, reserve the right to say that there are challenges in the policy space that will need to be addressed over time, and we may provide advice around that. I don't want to say any more than that; that's really the essence of what I'm saying.

Senator DEAN SMITH: Are you equally conscious of those policy positions that have been ruled out during the course of an election campaign?

Mr Yeaman: Yes, of course. We take full awareness and consideration of that.

Senator Gallagher: That's the policy platform.

Senator DEAN SMITH: I'm very curious to know how the franking credit measure got considered by government after it was elected, because, on no less than three separate occasions, the Treasurer ruled out—actually, I'll start with his boss, the Prime Minister. On ABC radio's *AM* on 30 March, in response to Sabra Lane's question—I'm paraphrasing—'Is the franking credit issue dead and buried?' Mr Albanese says: 'Well, we have already said, for example, that we won't have any changes to the franking credits regime which is there.' I'll repeat that. The Prime Minister says: 'Well, we have already said, for example, that we won't have any changes to the franking credits regime which is there. We've already said as well that we'll examine the budget et cetera.'

Then, on Perth radio, in an interview with Nadia Mitsopoulos, Mr Albanese says this, in response to Nadia Mitsopoulos's question—and Nadia is responding to a message from Deborah who has called into the station; Deborah has asked a question about franking credits. 'Is that an issue; you're not touching those?' Nadia Mitsopoulos proposes to the Prime Minister. The Prime Minister, who's the Opposition Leader at the time, says, 'We're not touching them; we're not touching them.' And if that is not enough, on 17 January—

CHAIR: This is very comprehensive, Senator Smith. I'm just wondering if there is—

Senator DEAN SMITH: That is my preferred operating style.

CHAIR: Is there a question sometime soon?

Senator DEAN SMITH: Yes, that's right. Context is very important. I think we've covered that.

Senator Gallagher: I don't want to shatter you, but it's a matter for Revenue and Markets tomorrow.

Senator DEAN SMITH: Then Mr Chalmers says on 17 January to Scott Emerson:

Labor will focus on multinational taxes and making them fairer. We won't be doing negative gearing, we won't be doing franking credits, those other examples that I've already given you, I couldn't be clearer than that.

Mr Chalmers, then the Shadow Treasurer, says that on 17 January.

Senator Gallagher: Got it.

Senator DEAN SMITH: So, Deputy Secretary, I'm curious to know: did the Treasury make a judgement call and put into the incoming government brief any commentary around franking credits?

Mr Yeaman: The people who deal in Treasury with those particular issues around that policy measure are due to appear tomorrow at the committee in our Revenue and Markets group sessions. They can speak to the intent behind that policy advice. I think that's all I can say at this stage.

Senator Gallagher: If I could, after that long introduction—

Senator DEAN SMITH: Ms Kelley shared with the committee a few moments ago that the incoming brief moves up the Treasury and is reviewed by the secretary and by other deputy secretaries. My question to you—you're sitting in the role of the secretary—is: was a franking credits policy initiative included in the incoming brief? Did you make a judgement call that it was an issue that was necessary for the new government's consideration?

Senator Gallagher: Can I just jump in? Mr Yeaman might have something to add, but we don't normally discuss—and I don't think any government normally discusses—the content of the incoming government brief. So if that's specifically your question—'Was it in a brief?'—we're not going to answer that, okay? The second point I'd make is in response to your quotes from the Prime Minister and the Treasurer. The policy that they were being asked about is not in the budget; that's clear. If you are talking about the tax integrity measures which were previously put into 2016-17 MYEFO by your government and which remained unlegislated, then that is a matter for revenue and markets group tomorrow. So I think I've addressed the whole set of your questions with that response. I'm happy to answer any further questions you have, but if it's specifically around the tax integrity, capital raising and off-market measure—and I believe it is—then that is a matter for a different group of Treasury tomorrow.

Senator DEAN SMITH: I think we're in the corporate part of the estimates and I am curious to understand, given the evidence that we've heard from the deputy secretary and from Ms Kelley—

Senator Gallagher: It's a crafty way of trying to make this relevant to this section; I accept that.

Senator DEAN SMITH: I'll take that as a compliment.

Mr Yeaman: To expand on that element, I think there are many policy processes that we go through with government, as you know, Senator. The incoming government brief is one, but it is not the only, form of advice we provide to government. There are many forms of policy advice we provide that go beyond the incoming government brief on many of these issues, including in the run-up to the budgets, on measures, and my colleagues in revenue group can speak to the specific process around that measure in more detail. But I think there are multiple policy processes that run between an incoming government brief and decisions being taken.

Senator DEAN SMITH: So, at the moment, I can't rule out that it might have been included by Treasury officials themselves, not on the basis of a clear commitment from the opposition, because the opposition's clear commitment to listeners across the country was that there would be no changes to franking credits.

Senator Gallagher: The question that they were being asked in relation to the policy that we took to the 2019 election is not in the budget, so I don't know what you're trying to draw attention to.

Senator HUME: Budget Paper No. 2.

Senator DEAN SMITH: I don't think your characterisation aligns with—

Senator Gallagher: So your measure that you introduced in the 2016-17 MYEFO—is that what we're talking about?

Senator HUME: No, it's different. We're talking about improving the integrity of off-market share buybacks, which is a different—

Senator Gallagher: Yes, which is an integrity measure that you introduced in the 2016-17 MYEFO that you didn't proceed with.

Senator HUME: No. That's a different measure.

Senator Gallagher: No. Unfortunately, I don't think it is different.

Senator DEAN SMITH: I'm interested in understanding where the initiative came from. It's clear to me, I think you'd have to agree with me—

Senator Gallagher: It came from the 2016-17 MYEFO.

Senator DEAN SMITH: You'd have to agree with me, Ms Kelley, that the only assumption that the task force could have made is that franking credit reforms would not have been on the agenda of the new government when preparing the incoming government brief. So, at some other point in the process, either someone made a decision to include it in the incoming government brief or it was not in the incoming government brief and then someone else post the election made a decision to bring the initiative forward. I'm just trying to get it clear, in terms of where the initiative has come from. What is its origin?

Ms Kelley: Well—

Senator Gallagher: Sorry, Ms Kelley. Again, I'm trying to be helpful. The incoming government brief is not the only piece of information that comes to government. In my experience, having just gone through receiving it for the portfolios that I'm responsible for, it has a range of information, including how to progress the government's agenda, and also pressures, challenges, opportunities, issues and stakeholders. It's a comprehensive briefing on day one so that, when you go on Patricia Karvelas's show on day 2, you actually look like you know something. That is the purpose of the incoming government brief. But then there is—

Senator DEAN SMITH: I don't doubt that. The deputy secretary has just told us that, so I don't doubt that.

Senator Gallagher: Yes. So there's a series of other advice that comes, including a whole set of advice that comes on putting a budget together. So I don't think you can say that there's a conspiracy in the incoming government brief.

Senator DEAN SMITH: But, Minister, the budget preparation process surely happens after the incoming government brief, because you wouldn't go through a budget process unless you were the government. So the budget process material happens separate to the incoming government brief.

Senator Gallagher: Yes, supplementary, in addition to.

Senator DEAN SMITH: If you're sharing with me the fact that when you come to government there are other documents in addition to the incoming government brief, then I'd be keen to know exactly what they are.

Senator Gallagher: Well, they're briefs. They're continuous. Every day you get briefs, on everything.

CHAIR: Senator Smith, there has been a pretty good go on this issue. I'll come back to the opposition in a moment.

Senator HUME: Can I just clarify an issue?

CHAIR: Sure.

Senator HUME: There were two measures, Minister. One was around franking credits for capital raising and the other one was around share buybacks. The capital raising one, yes, was in MYEFO and was never legislated, because the government of the day decided not to pursue it, but the one that we're referring to—

Senator Gallagher: I don't know the one you're referring to because you're just saying 'franking credits'.

Senator HUME: Well, it's your policy. It's 'Improving the integrity of off-market share buy-backs'. It's a brand-new policy, which is what all the fuss is being caused about.

Senator DEAN SMITH: Page 13 of Budget Paper No. 2.

Senator HUME: Today Stephen Jones has been asked questions about it. It's all over the front pages of the newspapers.

Senator Gallagher: I think it has also been noted that this is a question for Revenue Group, who are coming tomorrow. I'm going to come back to you.

Senator HUME: I just wanted to make sure that we don't confuse the two policies. They're very different.

Senator Gallagher: Okay, and if I've said something I shouldn't have, I'll come and correct the record. But, to be fair, the proposition that was being put to me by Senator Smith was a 'franking credits policy'.

Senator HUME: Which is that one. It does that.

Senator Gallagher: I don't think so. He was citing from the comments the Prime Minister and the Treasurer made about questions they were asked about a policy we took to the 2019 election. If there has been some confusion about that, I'm happy to correct the record.

CHAIR: I think we've done as much as we can on this for the moment. I'm going to Senator McKim.

Senator McKIM: I want to ask questions on the ANU work done on the distributional modelling of the budget. I think we gave you a heads-up that we were going to ask some questions about this. In broad terms, researchers at the ANU have analysed changes to personal income tax and social security, including child care and Paid Parental Leave, contained in the budget and have concluded that the budget will provide a \$5,700 per annum increase in income for the top 20 per cent of households and that the bottom 20 per cent of households will get—and I quote from the ANU research—'effectively nothing'. Does Treasury accept that the direct measures in this budget will increase the incomes of the top 20 per cent of households vastly more than they will the incomes of the bottom 20 per cent of households?

Mr Cully: We have seen the ANU report and have had a look at it, given the cue you gave us yesterday as well.

Senator McKIM: Thank you.

Mr Cully: It's important to know that there are only three measures that are looked at by virtue of that report. They are the stage 3 tax cuts, the Paid Parental Leave and the childcare extra support. The stage 3 tax cuts account for 89 per cent of the measures that were analysed. They are already baked into the budget, as we've heard in previous responses. We did not attempt to look at the distributional analysis of the Paid Parental Leave and childcare support. We haven't done that work for the purposes of the budget, but those measures are both relatively well targeted. To the extent that they are kind of biased against different types of households, very much depends on the nature of who uses child care and who uses Paid Parental Leave and where they sit in the

income distribution. I think the bottom line effectively is that the ANU report is effectively providing some commentary on the stage 3 tax cuts.

Senator McKIM: And child care and the PPL.

Mr Cully: 89 per cent of it is on the stage 3 tax cuts.

Senator McKIM: Do you dispute their findings? Does Treasury do a distributional analysis of this kind? Wouldn't you be interested in the distributional impacts of the budget in terms of the well-off people in our society versus the least well off? Do you do that work?

Mr Cully: I don't mean to frustrate you, but, if you want to talk further about the stage 3 tax cuts, that will be a matter for Revenue Group tomorrow.

Senator McKIM: Thanks. I will raise it—

Mr Yeaman: But we don't as a matter of course do widespread distributional analysis across all budget measures—

Senator McKIM: Why not?

Mr Yeaman: It's a fair question, but at this stage it's not part of our standard practice. We do occasionally look at measure by measure. I also wanted to draw your attention to the point that was made in the opening statement as well, which related to indexation. It's something that our secretary has raised in this forum and will raise in other forums, I'm sure, and that is that the increase in indexation, particularly for low-income households on welfare, is very significant. And, because of the way that the indexation arrangements work, where they're given the highest payment rate of three measures—the CPI and other cost-of-living indexes—our view is that over time that will potentially reduce inequality as well and potentially in a reasonably significant way. That's an extra point I wanted to bring into the conversation.

Senator McKIM: I appreciate that, and I did note that. I wasn't sure whether to laugh or cry when I heard you say that, to be honest with you. What you're basically arguing, as I understand it, is that inequality is going to improve because most people are going to be worse off because their real wages are declining. That's fair, isn't it?

Mr Yeaman: No, I do not think that's right. Others are more expert in this than me, but it's to do with the differences between the ways that indexation applies. Because of the way the system applies the highest rate, pensioners and others on welfare are going to receive the CPI, and in some cases that is growing faster than the actual costs. Again, I fully accept, and I want to stress the point, that this is an aggregate measure and that there will be individuals who do not face that circumstance.

Senator McKIM: I understand all that, but—

Senator Gallagher: It's an important part of how the budget works in this environment.

Senator McKIM: People are still going to be starving on income supports, Minister, so I'm not sure you've got much of a leg to stand on there. Mr Yeaman, you said this morning that, basically, income inequality will be reduced as benefit payments grow as a share of average wages. The reason they're growing as a share of average wages is, at least in part, because wages are flatlining, isn't it? If wages were growing more strongly, you wouldn't be able to make that claim, would you?

Senator Gallagher: Wages aren't growing as fast.

Senator McKIM: Real wages are going backwards. They're not growing as fast as inflation. I think we can all agree on that.

Mr Yeaman: The simple point we were making was that the gap, if you like—the relativities—between welfare payments and an average wage will narrow, as indexation grows faster than wages.

Unidentified speaker: That's correct.

Mr Yeaman: That is the view that we are taking. That means that the gap between those on wages and those on welfare payments can narrow, and that can have a positive effect on inequality.

Senator McKIM: But, just to be clear, that's in part because wages are not growing in real terms, isn't it?

Ms Reinhardt: The other factor to keep in mind is that when we also look at cost-of-living indexes for those payment recipients they are growing at a relatively slower rate than the CPI and the indexation of those payments. So it's actually that factor as well which makes us say that, in effect, those very large payment increases, in terms of the budget impacts, are actually going to low-income families and households and are making a difference to their budget. On average, that difference is quite significant, relative to the indices of cost of living for those recipients. It's not just about the relativity to wages.

Senator McKIM: But it is in part about the relativity to wages, is it not? I'm not sure why this is so hard to accept.

Senator Gallagher: I don't think that's the point. The Treasury secretary says it's an unusual side effect of the economic environment we're in at the moment. The point has just been made that the automatic levers in the budget are working as they should and providing significant cost-of-living support to those on lower incomes—they are. It's \$32.6 billion dollars, the fastest increase, I think, in 12 years for the age pension and longer—

Senator McKIM: People were starving before the inflation spike.

Senator Gallagher: I'm not saying that there aren't cost-of-living pressures, but I am rejecting the allegation that you're trying to run, which is that there is less focus on those on lower incomes. The single biggest adjustment is for payments to flow through, quite rightly, to those living on those payments.

Senator McKIM: I think you should get them up above the poverty line. That's what you should do. Mr Yeaman, I have to say I'm a bit surprised that Treasury doesn't run this kind of distributional analysis on the budget. Isn't it a key requirement to understand the impact of a budget on different quintiles—or however you want to break it down—of income and wealth in our society? Isn't that a pretty key measure for a budget?

Mr Yeaman: I have a couple of comments. My colleagues may wish to add to this. We've had this conversation a number of times at this committee. We are certainly interested in inequality and the effect of policy over time. We look closely at indicators, which by our reading have shown that inequality generally has been fairly steady across—

Senator McKIM: Are you talking about income or wealth inequality here?

Mr Yeaman: Income inequality. We track these measures relatively closely. We do take a keen interest. In terms of the budget itself, which is a large exercise, from time to time we do analysis on discrete measures, but we don't as a matter of course do it for all measures in the budget because of the effort that's involved in that. I would also note that the government has made a commitment to look at different ways of measuring what matters, essentially, in terms of wellbeing overall for the economy. So we are doing work. We had some material in the budget this time round in our budget statement 4 which flagged some of the approaches other countries take to that. And we are actively considering how we can increase the richness of our budget documents to capture a broader range of measures that go to those issues around inequality but also wellbeing more broadly.

Senator McKIM: Just off the back of that, does Treasury have a model for assessing the distributional impact? The ANU pumped this out three days after the budget. Do you have a model that looks at this sort of stuff? Would you develop one? I find it bit strange that we rely on the ANU. You've made some observations about their work, Mr Cully, and that's fine. You are well entitled to do that. But they did the work and it is what it is, and I don't believe you've disputed it. You've made some observations. I don't think you've disputed it. Why isn't Treasury doing this work?

Mr Cully: Again, I will give you a short response and defer the rest of the questions to Revenue Group. The ANU uses a microsimulation model, which they call PolicyMod. Treasury has its own microsimulation model called CAPITA. It's run out of Revenue Group and, as Mr Yeaman said, it's used for identifying the implications of different tax and transfer policies. One of the things I would point out about the ANU work—again, an observation—is that what it does with these microsimulation models is it says, 'What would the impact be on different households when all these changes go through?' It doesn't take account of behavioural responses. It's not what economists would call a general equilibrium model. So it doesn't try to work through what the impact would be in terms of—for instance, child care, as I mentioned in my response to Senator Hume we expect that that will increase labour force participation. That is not captured in the ANU work. For good modelling exercises you want to do that. If you're trying to understand the overall impacts on the economy you would need a general equilibrium model, which would try to take account of the way resources are reallocated across the economy. If you want to ask further questions about CAPITA it's Revenue Group tomorrow.

Senator McKIM: Does CAPITA take into account those behavioural changes?

Mr Cully: No. I don't think so.

Senator BRAGG: I usually ask Dr Kennedy a question about wages policy and how much of the wages growth in the budget is eaten up by the super guarantee increases. I know that he always likes that question! Previously, Dr Kennedy has indicated that that proportion is about 80 per cent, so in other words about 80 per cent of the wages growth in the federal budget is consumed with the mandatory superannuation increases. Is that still your position?

Mr Yeaman: Yes, that's correct.

Senator HUME: I'm sorry but this is going to involve calculators and a lot of explanation, so just bear with me here. I just need it to understand this a little better. The PEFO underlying cash balance and the October budget underlying cash balance over the forward estimates are on table 3.3 on page 79 of Budget Paper No. 1. Can I just confirm that the difference between those two—the PEFO underlying cash balance and the October budget underlying cash balance over the forwards—is \$42.76 billion, or about \$43 billion? Does that sound right?

Senator Gallagher: Sorry, where are you?

Senator HUME: Page 79 of Budget Paper No. 1, table 3.3. The difference between the PEFO underlying cash balance and the October budget underlying cash balance—that's \$224.49 billion and \$181.807 billion—the difference is about \$42.76 billion. Are we all working on the same numbers here? I just want to make sure I'm not making stuff up.

Mr Goldsworthy: That sounds right.

Senator HUME: Alright. The Treasurer's speech says:

And nearly all of the tax upgrades over the forward estimates have been returned to the budget, not spent:

- 99 per cent returned to the budget over the next two years.
- And 92 per cent returned to the budget over the next four years.

Can you advise how the 99 per cent and the 92 per cent are calculated?

Mr Goldsworthy: I can certainly give it a go. I don't think we've got in this table all the information required to do the calculation, but that calculation, from memory, is taking how much tax receipts, excluding GST, have increased over the forward estimates and over the first two years and then taking net policy decisions as a percentage of that.

Senator HUME: Back to table 3.3: is that, then, the \$9.782 billion for 'Total policy decisions impact on underlying cash balance'? Then, if you turn to page 76, about halfway down:

- Returning over 90 per cent of the \$123.8 billion of improvements in tax receipts ... from estimates variations to improve the budget position over the forward estimates.

I'm trying to establish whether that nearly \$10 billion is, essentially, eight per cent of the \$123.8 billion—so 100 per cent less eight per cent is 92 per cent. Is that how you got there? Does that sound right?

Mr Goldsworthy: I don't have the calculator with me, but—

Senator HUME: Can we just get someone to confirm that.

Mr Yeaman: I would say in broad terms that's right, but there may be a few small differences in the underlying numbers, categories and so on.

Ms Reinhardt: I think it's not \$124 billion but \$132 billion, from memory, but we can take that on notice.

Senator HUME: Thank you. It's been used over and over again, so I think it's important we calculate it properly. Does that then completely abstract from the \$92.173 billion of additional spending in this budget that's in, again, table 3.3 on page 79?

Ms Reinhardt: The \$92 billion is parameter variations, rather than additional policy decisions.

Senator Gallagher: That's what we went through yesterday—that's the demand-driven, adjusted, basically, for those economic parameters.

Senator HUME: Couldn't you, then, divide the change in the underlying cash balance over the forwards by the tax upgrades over the forwards—that original \$42.7 billion difference between the PEFO and the October budget underlying cash balances, divided by the \$123.8 billion, mentioned there on page 76, of improvements in tax receipts? Is that not probably a more accurate reflection of the share of tax upgrades that have been returned to the budget?

Mr Goldsworthy: The way we think about it is in terms of active decisions by government. The \$92 billion that you refer to, as Ms Reinhardt said, is parameter variations. It's a whole bunch of changes to the economic outlook—inflation is a big part of that—that have driven an increase in payments. Those are factors outside the government's control, if you like. The point of the 90 per cent figure was to talk about how much of the increase in tax receipts flowed through to the budget.

Senator HUME: But the tax parameter variations clearly aren't an active decision of government; they're driven by factors outside of the government's control. Why would you then—

Senator Gallagher: Of the extra money that came in, we took a decision not to spend it but to return it to the budget for budget repair. So that was an active decision of the government.

Senator HUME: That 99 per cent and the 92 per cent, which I've heard you repeat numerous times, Minister—

Senator Gallagher: Yes. I think it's higher in the first two years and then, over the forwards, it's 90 or 92.

Senator HUME: But the Treasurer's budget speech doesn't actually refer to active decisions of the government, does it?

Senator Gallagher: They're policy decisions. This is the normal way your put a budget together. You guys did the same thing.

Senator HUME: I feel like there are some weasel words in there, that's all. I suppose—

Senator Gallagher: No, not—

Senator HUME: If you—

Mr Yeaman: Tell me if this is wrong—that's to my colleagues—but another way to describe it is that, if that revenue upgrade had been spent actively by government, it would have shown up on the total policy decisions line. That's where it would have come in—

Senator HUME: That's right.

Mr Yeaman: and that's why we use that as the comparator.

Senator HUME: And it does specially refer to 'not spent', which is very different, isn't it?

Ms Reinhardt: I think the other thing to keep in mind is that, historically, many governments have used increases in revenue to fund additional active decisions for payments, and that is not the case and that is a clear decision of this government.

Senator HUME: That's a very good point. If you could give me a better indication of the historical pattern of the share of tax upgrades that have been returned to the budget, that would be very helpful—because there is a line that is used on page 76:

This is far more disciplined than recent budget updates.

Senator Gallagher: It is!

Senator HUME: Let's put aside COVID. We know why—because they were exceptional budgets for exceptional reasons. Is it really far more disciplined than recent budget updates?

Senator Gallagher: Yes. It is.

Senator HUME: Which budget update?

Senator Gallagher: We can go back through them. In the March one, for example—

Ms Reinhardt: We have taken that on notice.

Senator Gallagher: you got quite a significant upgrade and you spent virtually all of it.

Senator HUME: I think that's the point, isn't it? There were still COVID measures in that budget which have now been removed.

Senator Gallagher: There were some COVID measures, but not many, frankly. There's your first one. And, yes, there was elevated spending for COVID, but the point we're making is that we have taken a prudent and responsible approach to spending in this budget. That \$9.7 billion in the net spend is made up of a range of things. I think 85 per cent of it is issues we inherited or legacy issues that we are having to fund that weren't funded. So, even when you look at it in that context, the extra spending was to fix up issues that we inherited once we came into government.

Senator HUME: If you divide the change in the underlying cash balance over the forward estimates by the tax upgrades over the forward estimates, and you've compared that in the March budget to the October budget, actually the March budget returns about twice the share of the tax upgrades to the budget compared to the October budget. Isn't that right?

Ms Reinhardt: We're talking about the discretionary actions of government, and that's the point of this. In terms of what is the historical story around returning discretionary spending to budget or not spending additional revenue, this line in the paper makes it clear that, in the seven budget updates between 2013 and 2014, where tax receipts were upgraded only 40 per cent of the improvements were returned to budget.

Senator HUME: I understand the rhetoric around discipline, and yet, at the same time, there is nowhere—

Senator Gallagher: It's not rhetoric; it's facts.

Senator HUME: Bear with me, because there is nowhere—

Senator Gallagher: This is not rhetoric. That's what in here.

Senator HUME: There is nowhere in the budget papers, Minister, where there is a medium-term fiscal objective of balancing the budget. That seems to have been entirely abandoned. Now, I can't remember a budget where there hasn't at least been a medium-term objective of balancing the budget. Is that—

Senator Gallagher: I think you took it out of your last one. You had about eight where you dropped it.

Senator HUME: If you would like to go and compare March budgets to October budgets, deficits and debt out into the medium term, I am happy to go there, Minister. In fact, I've got a whole series of questions on it.

Senator Gallagher: Yes, sure.

Senator HUME: Can we do that? I've got time. Have you got time?

Senator Gallagher: We're at your discretion, Chair. Happy to be in here to help. Our fiscal strategy is responsible, it's honest and we will stick to it. I think that's in contrast to what we saw under the previous administration.

Senator HUME: Is there any medium-term strategy anywhere to balance the budget over the cycle?

Senator Gallagher: I'll get to the fiscal strategy. We can go through it paragraph by paragraph if you like.

Senator HUME: I just need to know if there is anywhere that says, 'Our objective is to balance the budget,' or if there is any number that shows that balancing the budget is even in the medium-term projections.

Senator Gallagher: I would say to that that the Treasurer and I are bringing a very responsible and prudent approach to managing the budget. The budget is in structural deficit. That deficit is in the order of \$50 billion a year. We absolutely want to reduce the deficit over time and repair the budget, and I think—

Senator HUME: Does 'repair the budget' mean taking it to balance?

Senator Gallagher: Can I finish? I think you can see the first steps in that approach reflected in this budget, where the revenue increase has been returned to the budget, so we're borrowing less and paying less on that debt over time. It also means that we have found savings to offset expenditure. There is, as you know, the audit process that we've got underway, which will continue, to apply that discipline to the budget. But we are also being honest about the pressures on the budget that we are having to manage and the fact that we do have high levels of debt to manage. That debt is increasing—it's the fastest-growing program across government at the moment—and we have other areas like the NDIS, defence, hospitals, aged care and a range of others that are fast on their tail.

Senator HUME: So, if you don't balance the budget, how are you going to manage the debt?

Senator Gallagher: There is a structural deficit that we are needing to manage. That fiscal strategy reflects the budget we've inherited and the approach that we will take to managing those challenges over time.

Senator HUME: Perhaps the folk at the table—anybody—can take on notice the last time a budget didn't have a medium-term objective of delivering a balance or a surplus over the economic cycle. That would be terrific.

Senator Gallagher: Well, we'll have to go through the eight or nine different versions that you had.

Senator HUME: Well, we had nine years of government.

Senator Gallagher: Behind a strategy, do you know what's important? Actually to meet the strategy. Again, you can dress it up all you like and then not deliver on it.

Senator HUME: I'm happy to go head to head with you on who balances budgets.

Senator Gallagher: Well, those 'Back in black' cups were amusing, weren't they?

CHAIR: Senator Hume and Minister, we're entering one of those episodes where it's difficult to distinguish the question and the answer. It's really good when one person asks the question and then someone else answers it and then the first person asks another question. Senator Hume, you're still within a time block. Do you want to continue?

Senator HUME: Yes. Can you confirm what's meant by 'limiting growth in spending until gross debt as a share of GDP is on a downward trajectory' in the economic and fiscal strategy?

Ms Reinhardt: To me it's reasonably clear, but I will make an attempt at saying it differently. This is exactly what this budget aims to do, which is to keep spending at a low level. We talked earlier about the chart on page 77 on limiting growth in real spending in order to reduce debt in the longer term and put the budget on a sustainable footing.

Senator HUME: That was in the longer term, but I think that chart went out over the forwards. Does that mean that, once debt is going down as opposed to increasing, the government is free to start spending again, or is

there going to be a continual trajectory of getting the debt down? There's nowhere in this budget where I've seen the debt going down—not in the medium term.

Ms Reinhardt: The debt stabilises in the medium term.

Senator Gallagher: It goes down over the forward estimates compared to what it was—

Senator HUME: Hang on. It goes down over the forward estimates, and then it shoots up over the medium term.

Senator Gallagher: No, you say it doesn't go down anywhere. There are clear charts in there where it does go down, because we are returning money to budget repair. In respect of your question, 'When was there a fiscal strategy that didn't have returning the budget to balance over the medium term?' the last one you published, in March 2022, didn't have that, so that's the last time.

Senator HUME: I would point you to—

Senator Gallagher: Well, I've got it in front of me:

Over the medium term, the fiscal strategy will be focused on growing the economy in order to stabilise and reduce debt.

It doesn't talk about returning the budget to balance anywhere that I can see. It targets a budget balance on average over the course of an economic cycle consistent with the debt objective.

Senator HUME: Can I take you to both the March budget papers and the October budget papers? Let's go to—I think I mentioned it to you yesterday—debt 101. I know that it's 101, because it's on page 101. That's net financial worth. But we then have net debt estimates and projections and gross debt estimates and projections on page 97. In the March budget they are on page 98 and page 99. Correct me if I'm wrong, but in the March budget it shows an improvement in gross debt—gross debt going down—and net debt going down over the medium term. And in the October budget it shows the exact opposite—net debt goes up and gross debt goes up over the medium term. That is different to the PEFO estimates. Is that correct?

Senator Gallagher: I answered this yesterday. Firstly, over the forward estimates, there is lower debt because of the approach we've taken in this budget. Then, over the medium term, it reflects those three things we spoke about yesterday—lower productivity assumptions, increase in NDIS and increase in managing the public debt. That explains it. It's a very honest assessment.

Senator HUME: Chart 3.14 in the March budget and chart 3.16 in the October budget show that Australia's net financial worth is decreasing in the October budget but was improving in the March budget—quite dramatic differences actually. Is that correct?

Ms Reinhardt: The difference, as we've said, can be completely explained by the NDIS variation, the productivity assumption and PDI costs.

Senator HUME: What are the policy choices that have been made to remedy that situation, or have we abandoned all hope?

Senator Gallagher: Well, we can't change the interest we pay on the debt we've inherited.

Senator HUME: You can change the amount of debt that you pay.

Senator Gallagher: This is interest on the debt.

Senator HUME: You can balance budgets and then you pay down the debt and then the interest is lower.

Senator Gallagher: I understand, but we have inherited a high level of debt, which we are managing, and that debt is more expensive to manage because of the interest rates. I don't know what you're suggesting we might like to do about that, other than the decisions that we have taken here not to make the Reserve Bank's job any harder. The NDIS demand-driven actuarial report comes and says: 'This is how many people are on the scheme. This is how much it's costing.' That needs to be reflected. Productivity assumptions are based on advice about the fact that this is a more realistic assumption going forward. For example, if you had won the election, these adjustments would be being made, unless you were going to refuse to fund the NDIS, refuse to accept interest rate increases. I'm not sure how you would do that. Perhaps the one variable that you probably would have continued with was an unrealistic productivity assumption.

Senator HUME: What I'd like to understand is whether the government's decisions, the policy decisions that you've made, have added to the government's borrowing task, debt burden.

Ms Reinhardt: That is the \$9.8 billion over the forwards, which we in Treasury would say is an extremely small addition to budget decisions. You can see that in the chart on page 77 compared to historical real payments growth over time.

Senator Gallagher: And 85 per cent of that was legacy—terminating COVID related, flood related expenditure.

Senator HUME: It seems to be everybody else's fault, but what about things like the Housing Australia Future Fund, the National Reconstruction Fund, Rewiring the Nation? These are all things that cost that add to that debt. Is that not right?

Ms Reinhardt: They add to gross debt, and, at this point, they don't add to net debt.

Senator HUME: Do they add to gross debt?

Ms Reinhardt: They add to gross debt.

Senator HUME: And gross debt is seen to be deteriorating, or growing, over the medium term, and yet under the previous government it was seen to be declining over the medium term.

Senator Gallagher: What we're trying to explain to you is that the differences reflected in that chart are explainable against those three things that I mentioned.

Senator HUME: Hang on. You're telling me that debt is going up because debt is going up? And you're also saying the NDIS—yes, I understand that.

Senator Gallagher: No, interest. Interest is going up, so the debt is more expensive to service. That's in the order of \$19 billion a year, I think.

Senator HUME: So why not aim to balance your budgets so that you can aim to reduce debt so that those issues aren't so prevalent? Rather than pursuing policies that actually make the situation worse and then turning around and blaming the previous government.

Senator Gallagher: That's if you don't believe there's any economic benefit to fixing the national energy transmission network. Is that what you are trying to say?

Senator HUME: That's where I'm going. And that's why I asked earlier—

Senator Gallagher: Is there no point investing in manufacturing jobs through the National Reconstruction Fund? Is there no economic fund for giving housing at an affordable level to people who are locked out at the moment? I run that line.

Senator HUME: That's exactly why I'm asking whether those productivity assumptions that you've made, or at least the assertions that have been made over and over again, whether in the budget speech or the budget papers, have been analysed? Are they actually reflected in the budget? Because, if there were productivity measures in here that were genuine and if productivity was going up because of the policy choices your government are making, wouldn't that fiscal outlook be better?

Ms Reinhardt: The fiscal outlook would be better, definitely. But that's not how we do productivity assumptions. We have a long-held position of doing a 20 or 30 year backward looking average on productivity.

Senator HUME: So productivity has nothing to do with your policy choices?

Ms Reinhardt: That is not what we're saying. What we saying is that the Treasury underlying assumption on productivity is a cautious assumption which is backward looking. We've revised it from 30-year average to 20-year average, and, if you look at the chart on page 83, you'll see why those assumptions have been adjusted—because over the last 20 years we haven't come anywhere near the 30-year average. So it is not a projection forward on what we think the productivity impact will be of future decisions of current decisions. It's simply a conservative estimate of the past 20 years of productivity.

Senator HUME: So you've overlaid your PEFO with a whole bunch of adjustments. Would you not then make some sort of adjustment for your productivity assumptions based on policy decisions and situations that the government find themselves in now? You've done that to PEFO.

Senator Gallagher: As Ms Reinhardt was explaining, that's a long-term assumption.

Senator HUME: I understand that.

Senator Gallagher: It doesn't jump around year by year based on different policies, because it's a measurement across the economy as well.

Senator HUME: Surely you would want your policies to have productivity impacts over the next 10 years?

CHAIR: Senator Hume, I just want to do some timekeeping for the benefit of people who may be trying to watch along.

Senator HUME: Can I just ask one enormous favour: the indulgence of the chair?

CHAIR: Is it a question to me or a question to someone—

Senator HUME: It is a question to Senator Gallagher. She did say there is nowhere in the March budget papers that suggested that the fiscal strategy didn't have a target to balance the budget. In fact, page 77 of the March budget does have that.

Senator Gallagher: Is it in the fiscal strategy?

Senator HUME: It's in the government's economic and fiscal strategy, page 77 of the March—

Senator Gallagher: I think that's what I read out.

Senator HUME: If you are happy to correct the record—

Senator Gallagher: With a lot of caveats around it.

Senator HUME: No, it's just the government's economic and fiscal strategy. If you are happy to correct the record—

CHAIR: Is there a question, Senator Hume?

Senator HUME: Well, I don't think we should have something incorrect in *Hansard*.

Senator O'NEILL: Could we have a copy, please?

CHAIR: I'm sure if the minister needs to correct the record she'll come back. I'd like to move on, though, because we've had some senators waiting patiently. I'm going now to Senator O'Neill.

Senator O'NEILL: It's a good time to ask these questions because a lot of uncertainty was being developed there by Senator Hume in her questions. I just want to get some things clearly on the record for people who want to have a real sense of what's going on and what is in this budget from the government that was elected, not in the ones of the government that was not elected. How has the Albanese government delivered on the fiscal strategy in this budget? What are the key things that are actually delivering on the stated fiscal strategy?

Senator Gallagher: I think we were just talking about it, actually, but the fiscal strategy outlines the approach that we've taken. I'm just trying to bring it up.

Senator O'NEILL: Page 75 in Budget Paper No. 1.

Senator Gallagher: I'm just going under my—

Senator O'NEILL: Your reams of paper?

Senator Gallagher: My reams of different paper. The budget reflects, obviously, the economic and fiscal strategy that's outlined in box 3.1. I'm happy to answer questions on it, but, essentially, it's about putting the budget on a more sustainable footing over time. It's about investing in economic growth, in jobs and in getting wages moving. It's got a focus on gender equality. I guess the primary challenge that we were dealing with, and it's reflected in the economic and fiscal strategy, was ensuring that the decisions we took in this budget didn't add to the inflationary pressures that are being experienced across the Australian economy, and ensuring that we start the work of budget repair.

I think you can see that in the way that we've handled the upside in the receipts that have been coming in; in how we're limiting growth in spending; in the audit that I led, or Finance led, around ensuring quality spending, which will be ongoing, and we've done the first bit of work there; and in making sure the investments we did make—in child care, aged care, Powering Australia or the climate policies—expand the productive capacity of our economy so that, where we did spend, we were spending in ways that delivered an economic dividend and that, importantly, in the short term didn't add to inflation, particularly in those first two years. And then there's an element on the tax side. We're ensuring the compliance and integrity of the tax system to make sure that we are in a position to continue to fund high-quality government services.

All of the decisions that are reflected in this budget, I think, align with that strategy, and it's important not only that you have a strategy that's published in the budget papers but that it's actually one that you align with your decision-making and commit to.

Senator O'NEILL: So your budget needs to be more than a set of announcements. It actually has to be a strategy that you're implementing.

Senator Gallagher: Yes—and that you follow the strategy. It's not just published because you have to do it as part of the Charter of Budget Honesty; it actually guides and shapes the decisions you make and how you implement those decisions.

Senator O'NEILL: So Australians who want to understand what the government is doing can find the answer on page 75 in Budget Paper No.1, which tells you exactly what it is that the government's doing—and that is what the budget has done. Could you explain something that I think was maligned in the last line of questioning, which

is the commitment by the Albanese government to return the majority of tax receipt upgrades to the budget. And how does that compare with recent budgets?

Senator Gallagher: I think we did cover that with Senator Hume's questioning. But we did see welcome improvements in tax receipts. The decision that the government took was to return the vast majority of that, around 90 per cent over the forward estimates, to support the budget, basically, and assist with budget repair over time but also, on the other side, to not spend in a way that added to the inflation challenge.

Senator O'NEILL: There's been a lot of commentary embedded in the statements and questions that you've been receiving from Senator Hume. I'd like to understand very clearly: how does the forecast in real spending growth in this budget compare, on average, to other periods?

Senator Gallagher: The papers go to that on page 76, and we did touch on it a little bit. I think you can see the challenge—and this was a challenge that the shadow Treasurer laid down as well—around limiting real spending growth. You can see that we more than exceeded the target he set. But it's very modest compared to more normal times, not even comparing pandemic to pandemic. It's a very prudent approach to spending. I can tell you that there is no shortage of requests to support very meritorious proposals across government and outside of government, but this budget and the decisions we took had to reflect the economic circumstances we are dealing with, the approach that we are going to take to managing the budget in a fiscally responsible way, delivering on our election commitments, dealing with some of those legacy items, zombie measures all those types of things, tidying it up and managing to do this as well. That was because we took that approach around savings and redirection of funding, which is an important part of this budget.

Senator O'NEILL: So then that goes back to those two keywords that we were discussing in earlier questioning—the 'responsible' nature of this budget and also the 'cautious' nature of this budget, mindful of its impact if that discipline isn't followed. There was some commentary about the former government and its March budget. I ask you to clearly put on the record a comparison between the savings delivered in this budget and in the March budget?

Senator Gallagher: I don't recall any savings in the March budget, but I can be corrected if I'm wrong. I don't recall any. The work we did in the first few months of this government identified \$22 billion in savings and/or—it's a mix—a redirection of funding in existing portfolios. It's about 50-50. It's just over \$10 billion in savings and about \$11.5 billion in reprioritisation and redirection of funding from within existing portfolios. That was also agreed by the ERC through the budget process.

Senator O'NEILL: As you said, there are always meritorious projects, but you have to be responsible, just as people have to be when they are managing their own family budgets. There might be many things that you want, but you have to do the things that are going to be the smartest investment for your budget, for your family. It is for the country in this case. There were a number of assertions by previous questioners about the fiscal strategy outlined in the former government's March budget. Could you clarify whether the fiscal strategy outlined in the previous government's March budget included as part of it an objective to return the budget to surplus?

Senator Gallagher: I did have it here.

Senator O'NEILL: I'm just looking at the page—

Senator Gallagher: I don't think the word 'surplus' is there. There was a targeting of the budget balance on average over the course of the economic cycle consistent with the debt objective. We deal with that in our fiscal plan, with limiting growth in spending until gross debt as a share of GDP is on a downward trajectory while growth prospects are down and employment low. Again, that's the discipline that we will bring to managing the budget.

Senator Hume interjecting—

Senator Gallagher: To be clear, there's no mention of the word 'surplus' at all in the document that you just provided.

Senator HUME: I'll just be clear. There is no surplus and no balance over either the forward estimates or the medium term in this budget. Is that correct?

Senator Gallagher: There is a budget in structural deficit. That is what we have inherited. We are being honest with people about that. That is the impact.

Senator HUME: I'm just wondering what you are doing about it.

Senator Gallagher: We could have glib three-word slogans. We could put out mugs that say 'back in black' and all the rest of it and hope on a wing and a prayer that it works.

Senator HUME: But you can't rearrange history—

Senator Gallagher: But let's be honest. I think the Australian people want us to be honest with them about the state of the budget.

Senator O'NEILL: Exactly.

Senator Gallagher: It is under enormous pressure—

Senator HUME: Hang on, the budget is your responsibility.

CHAIR: Senator O'Neill has the call.

Senator Gallagher: It is under enormous pressure. We just found \$22 billion in six months. That was hard work.

Senator HUME: I have some questions about that, too.

Senator Gallagher: It was hard work, and those are largely one-off savings. A budget in a structural deficit in the order of \$50 billion a year is a big challenge for anyone.

Senator HUME: But you've raised the white flag and said that you can't fix this over a decade!

Senator Gallagher: No, we haven't. That's absolutely not true at all. What we have done is be very honest and upfront with the current state of the budget that we inherited. I think there was a level of pretending going on—

Senator O'NEILL: Exactly.

Senator Gallagher: under the previous administration—and 'pretending' is probably a generous word—that the budget was fine, there were no issues, we could keep spending and do all this, we could never increase taxes and it would all magically work out in the end. The reality—and this is what the Treasurer and I have been saying—is that there is a \$50 billion structural deficit that we have inherited and that we are determined to fix. We want to pay down debt and return the budget to surplus over time, but there is a massive challenge that we have to deal with first, including: how do we pay for the NDIS; how do we pay for defence; how do we pay for hospitals; and how do we manage a trillion dollars of debt? Honestly, can we have some honesty here?

Senator HUME: This is more a state of the nation than a budget.

Senator Gallagher: What you want is a glossy document that says, 'We're all in surplus in a few years time.' It's not going to happen, because of the structural deficit the budget is in. It would have been your structural deficit; it happens to be our structural deficit. We are determined to deal with it, and this budget is the first step along that journey. There is much more work to be done and a conversation to be had about what Australians value, what they want to see funded and how we get there.

CHAIR: Senator Hume, Senator O'Neill has the call.

Senator O'NEILL: Thank you for the clarity of your response, Minister. One of the things that has been so frustrating for Australians is this embroidery of the truth—if I can be generous—about what was going on. We've heard it again today in claims by members of the opposition about their fiscal responsibility. Yet the facts belie the claims that they're making. I want to ask, very clearly: when was a budget surplus last included as an explicit objective of government fiscal strategy?

Senator Gallagher: I would have to go back through it. There were a number of changes to the fiscal strategy under the previous administration. I think they had quite a few. We could take that on notice. I'm sorry, I don't think I have that with me.

Senator O'NEILL: In the last half hour, we've had a discussion about claims that they were heading towards a surplus. We've already clarified that in March 2022 there was no claim in the fiscal strategy of the former government that they were heading towards a surplus, yet they continue to try to pretend that. I would be really interested to know, on notice or as soon as it can be provided, the last time there was an explicit objective of government fiscal strategy to return the budget to surplus.

Senator BARBARA POCOCK: Thanks everyone, for being here and taking our questions. It's wonderful to see a bevy of macroeconomists before us. I'm currently chairing a select committee on work and care, and I'm delighted to have my deputy chair alongside me—another member, Senator Bragg, is with us as well. It has made me think a lot about macroeconomics. My opening question is: has the macroeconomic group in Treasury given much thought and undertaken analysis of the long-term shift in the essential investment that we need to make in our care economy? I'm thinking about the demographic shift, the ageing of our population, the fact that our community wants to look after people with disability in different ways, and the shift in our labour market which has really changed the early childhood education and care system we need. This is, I think, amongst our most significant macroeconomic challenges, so what kind of thinking are you doing about the way we respond to that, looking ahead?

Mr Yeaman: I'll ask my colleagues to add to this general answer. It is certainly an issue that we are well aware of and thinking carefully about. It's coming up, as you say, in a very wide range of different areas and it tends to come to us in different forms, based on different policy challenges at the time. For example, as you said, in the skill shortages, there has been a long and active debate over the recent year and a half or so around skill shortages in the economy and the labour market, and it's very clear from all of the evidence, including from the former National Skills Commission and elsewhere, that many of the long-term needs in our labour market are going to be in the care economy and in the services economy. That's been an ongoing trend for some time but it's continuing. There are a range of other areas that we've canvassed, and I'll ask my colleagues whether they have anything to add, but, as an opening gambit, I can assure you that it's an area that we're well attuned to and aware of, and we're seeing it come up across a range of our different work streams.

Mr Cully: Probably the only thing I would add is that the government has made a commitment to introduce an intergenerational report in the middle year of each term, so thinking has already started to get underway within Treasury around what that *Intergenerational report* would look like next year. One imagines that, in the same way that past intergenerational reports have identified issues about ageing and pensions, it's going to have to address issues around the care sector. Fiscal Group colleagues might have more to add.

Senator BARBARA POCOCK: We know from Minister Gallagher's own words that, if we can make investments—and the kinds of investments we need to make are not very mysterious—and if we lift our female participation rate by, say, 6 per cent, we can lift GDP by \$25 billion, and that's halfway to where we need to be if we're going to take the action we need to on the fiscal circumstances we find ourselves in. What are you thinking about, what are you doing and what policy levers are you working on to raise the female participation rate and lift GDP?

Mr Cully: I can answer the question as it relates to the long-term trajectory around the female participation rate. Again, in response to earlier questions when you weren't here, Senator Pocock, there's a box in the budget which looks at parenting, early childhood education and care, and labour force participation and it has a pretty useful chart in it which shows that there has been rising female labour force participation since 1978. I think that's as far back as that particular labour force series goes. But there is still a fairly high differential between men and women—it's of the order of nine per cent—so I guess there's an issue around the extent to which there's still room to grow the female labour force participation over time and then what the macroeconomic implications of that would be. There were a suite of measures that were in the budget, which colleagues can probably talk to at greater length, around childcare support and paid parental leave, which are intended to deliver further improvements in the participation rate, and we do know that, relative to some countries overseas, such as New Zealand and Sweden, there is still potential for female labour force participation to grow over time.

Senator O'NEILL: Can you state which paper and what table you were referring to?

Mr Cully: Yes. It's box 2.4 in budget statement No. 2, on page 60.

Senator O'NEILL: Thank you.

Mr Yeaman: The work on this is split across. We look at the macroeconomy and the broader trends in the macroeconomy and the impacts of various policies, but our colleagues from Fiscal Group, particularly those from Social Policy Division, look at new areas of policy work in this space, so I'll just ask if my colleagues have anything to add.

Ms Reinhardt: The things I'd add are, first, Fiscal Group is responsible for the *Intergenerational report*, and that will show some of the significant pressures around the changing demographics in Australia. You point to some of the really important issues around the care economy. That report tends to be based largely on the actual longer-term fiscal impact, but Treasury and many departments across government are particularly interested in the micro, or what it means for people. The recent budget measures around child care and paid parental leave are targeted squarely at increasing participation for women but also supporting cost of living for families.

Some of the other things that are being undertaken as part of this budget include the requirement that the Fair Work Commission consider gender equity when it sets minimum wages. There's action to introduce gender budgeting, in the way that budget measures are considered. There's also work on setting up a new group to actually look at the gender pay gap. And there's a \$1.7 billion women's safety, home, work and community measure. So there are significant measures in the budget to actually address this issue. Also, while the NDIS estimates variation has a big impact on the budget, it is also much larger payments going to recipients. So that, in itself, is a positive thing for many recipients.

Senator BARBARA POCOCK: I agree: there are things in the budget that move in the right direction. But I wanted to ask your opinion, as macro economists, and your view about giving a tax cut to the value of \$250-odd

billion, which would, if redirected, be able to go much further on paid parental leave and on child care. For example, we could make child care free; we could increase paid parental leave to the international standard of 52 weeks. That would be easily accommodated within those stage 3 tax cuts. So I wanted your reflections on those as economists.

Mr Yeaman: To be as helpful as we can, we haven't—I haven't, but I can ask my team if they've got anything further to add—done detailed work on—

Senator BARBARA POCOCK: The PBO has. Those figures are available.

Mr Yeaman: Understood. We ourselves haven't, to my knowledge, back-modelled the macroeconomic impacts of those specific policies, on that scale that you describe. As I said, we've been focused on some of the government's measures in the space of child care, and the women's budget statement I think includes quite a lot of analysis that the Treasury has contributed to as well. Of course, there's a balance of issues that we need to consider from macroeconomic perspectives. There are short-term budgetary constraints; there are broader issues in the tax system that need to be weighed; there are also participation benefits to be had as well. I'm not trying to be difficult. It is a complex issue and one that we haven't looked at in that level of detail, to my knowledge, but it is one we can continue to assess.

Senator BARBARA POCOCK: I wonder, Mr Yeaman, if you could point me to any economic theory which says giving a \$9,000 pay cut to a man on over \$200,000 will have any impact on his participation in the labour market, versus giving free child care to a woman on the minimum wage—which, we do know, will have a very significant effect on her participation in the labour market.

Mr Yeaman: We agree, certainly, that boosting female participation is a high priority and that it will have longer-term economic benefits, and we are advising government on ways to continue to improve that participation outcome for women. I think there's a separate question then around: not every policy is simply looking through the lens of participation; other policies are there also to address issues such as bracket creep and tax equity and fairness inside the tax system and broader incentives across the economy. I'm just trying to make the broader point that there are other things that can also impact those decisions, including fiscal sustainability.

Senator BARBARA POCOCK: But would you agree that there isn't any economic evidence which would suggest that that tax cut will make any difference to labour market participation?

Mr Yeaman: I think our colleagues in Revenue Group would have something further to say on this, as they look at these issues closely as well and also have macroeconomists in that group. Certainly we are conscious that there is evidence that higher marginal tax rates for different individuals can lead to changes in participation outcomes, but I certainly agree with your general thrust—that, for women who are more marginally attached to the workforce in particular, those sorts of benefits that you describe will have a larger impact on participation.

Senator BARBARA POCOCK: Much larger. Have you done any analysis of the brief period during the pandemic when child care was free and what kind of impact that had on any macroeconomic indicators?

Mr Cully: We do note that it reduced inflation.

Senator BARBARA POCOCK: There's an important argument in its favour!

Mr Yeaman: The short answer is: I'm not personally aware of any. Since the pandemic, obviously, there have been a lot of policies to look back at and assess. I'm not aware of it. It could be that there has been work done that others are tracking; I'm happy to have a look at that. But, from my perspective, I haven't seen any definitive studies in my own or our own work that look at that issue, but it's a good question.

Senator BARBARA POCOCK: Very exciting natural experiment for in economist to consider. Have you done any analysis on what superannuation payments on paid parental leave would do to help make sure that women who spend a lifetime in care of others while working do not enter an old age of poverty?

Mr Yeaman: Sorry, just looking at my colleagues.

Ms Reinhardt: Sorry, superannuation is not—I don't think we would have any—

Mr Yeaman: The reason I am edging a little—apologies for this, Senator—is that our colleagues who are from Markets Group look at retirement as a whole. I am well aware that there have been some quite detailed studies, in recent times, around retirement income interactions and incentives for a whole range of these issues that you're describing. I'm not personally familiar with exactly what was contained in those reports, but my colleagues may be able to provide more assistance around whether those reviews talked to that issue specifically.

Senator BARBARA POCOCK: Any thoughts on taking, for example, the very sizeable tax benefit for older men in that superannuation tax benefit and putting those to work, for example, for free child care? Any analysis of

that kind of swapping or switching and the impact that would have on GDP, on inflation and on the participation of women?

Mr Yeaman: Not to my knowledge. I haven't seen any analysis that looks directly at the switching you have described. There has been a long discussion around superannuation measures and tax measures, and there have been separate discussions around participation for women and child care. I haven't seen the two connected myself.

Senator Gallagher: I would say that the Women's Economic Equality Taskforce are shaping their own agenda, but I have no doubt some of the issues you raise will form some of their advice to government.

Senator BARBARA POCOCK: Great, I would love to see them consider that kind of swap. I am almost finished. Just a couple of questions about the wellbeing paper included in Budget Paper No. 1. The Treasurer made a comment leading into the budget in July that a wellbeing statement would be the focus of the budget. What we actually have is a discussion paper about wellbeing. I am just wondering what consideration is being given by Treasury to what should be included in that wellbeing measure. My colleague Senator McKim mentioned inequality, and I am certainly voting for that as an important measure. I wondered whether consideration has been given to other measures like child poverty and the health of the climate?

Ms Reinhardt: I think it's a fair assessment to say this is an initial foray into this issue. Other countries that have introduced measuring what matters assessments, or wellbeing budgets, have really consulted with the broader community on what the right measures are for their country. The Treasurer has made it clear that he is very keen to do that as well. This is an initial assessment which draws on the OECD measures of wellbeing. They are internationally accepted, but are they appropriate for Australia? I think it's a fair question to ask, and that's what we'd like to do over the coming months. We'll have a look at starting that conversation around community about what measures matter for Australia.

Senator BARBARA POCOCK: I am interested in your view on the ways in which a measure can be put in harness to actually make a difference. If reporting fixed things, then the women's budget would have fixed gender inequality 30 years ago. Similarly, pay equity measures—we've got them by the bucketload—have made no difference to a stalled gender pay equity picture. How will the wellbeing budget measures change what is done, and how will they avoid being a tick-the-box exercise?

Ms Reinhardt: I guess I have a more optimistic view. Maybe that's not my role here today, but I'll share it with you. Measures like this—particularly gender pay equity measures—may not impact the year after they are published, but, over time, they influence of public debate. I would hope that something like measuring what matters would give us the opportunity to equally put out in the public domain what the significant measures are, which then engenders debate and can make change.

Senator BARBARA POCOCK: Thank you. Thanks, Chair.

CHAIR: Thank you very much, Senator Pocock. Who would like the call? Senator McDonald.

Senator McDONALD: Thank you. Minister, can you explain the breakdown of responsibilities between the Treasurer, the minister for energy, the Minister for Resources and the minister for industry in relation to gas policy?

Senator Gallagher: It's a group of ministers working together to solve a challenge which has intersections across portfolios. I'm also involved in that group. We work collaboratively and as a team, and because we each have a single ministry and we don't have one person with multiple ministries—this is the way this government works.

Senator McDONALD: So, why is the Treasurer leading this work, as opposed to the energy minister?

Senator Gallagher: The Treasurer is playing a coordinating role in bringing together all parts of government that have an interest in this to work. But it should be seen as a coordinating role. He's doing a lot of the work, alongside the minister for energy, the minister for climate change, the minister for industry and me.

Ms Reinhardt: And I think the resources minister.

Senator Gallagher: Yes, Minister King. Sorry—I thought I'd mentioned her first. Maybe I mentioned industry twice, because they share that department. But yes: Minister King, Minister Husic, Minister Bowen, the Treasurer and me. And we are working together and then providing advice to the Prime Minister.

Senator McDONALD: Can I ask which agency is leading the policy response that the Treasurer has alluded to in many appearances this week to current pressures in the Australian domestic gas market?

Senator Gallagher: It depends on what part you're looking at. If it relates specifically to Minister King's area, then her department's leading that. If it relates to the Treasurer's role then he's leading it. If it relates to the energy portfolio then Minister Bowen is leading it. So, it's a very collaborative way of working. Secretaries of our

respective departments are also meeting. They are working in the same way to support the ministers' decision-making and progress.

Senator McDONALD: Is there an interdepartmental committee or working group coordinating this work?

Senator Gallagher: The secretaries group that's meeting is doing that role.

Senator McDONALD: Is that what it's called—the secretaries group?

Senator Gallagher: I'm not sure of the formal title of it, but there is a secretaries group, supported by senior officials.

Senator McDONALD: How many times would it have met on this policy agenda?

Senator Gallagher: Well, it depends how far you want to go back. It has been since day one, essentially, when the gas prices landed on our doorstep, right up to now. I'd have to take that on notice.

Senator McDONALD: Yes, could you take that on notice, please, with the list of dates. Do members of the ministers' offices attend these meetings?

Senator Gallagher: There is a staff role in that. I'll take that on notice.

Senator McDONALD: Was the secretaries group convened specifically to enact this policy response? Or is it a pre-existing group?

Senator Gallagher: I'll take that on notice.

Senator McDONALD: Thank you. So, the committee, or the agenda for this committee, was formed on day one, is that right?

Senator Gallagher: No, you asked me how many meetings had been had in relation to issues I think in relation to gas, and I'm going to say that there were a lot of meetings over these last few months, dealing with a range of different issues. And as they have been dealt with, for the group that's meeting now the work plan before us is to deal with the increases in energy prices that were outlined in the budget and look at our policy responses to that. But we have been dealing with supply. We've been dealing with the fact that the lights were going to go out in May—

Senator McDONALD: Thank you, Minister. I'm just trying to understand: is there a specific policy agenda—is it specifically identified under the secretaries group? Or is it an item that's touched on as needs be, on an ad hoc basis?

Senator Gallagher: No, the secretaries group, supporting the ministers group, are dealing with options for government's consideration about responding to the issues in the energy market—in particular, sharp increases in price.

Senator McDONALD: So, it provides advice to all the ministers, not just the Treasurer, in this regard?

Senator Gallagher: Yes. The agencies are providing advice and options to all ministers.

Senator McDONALD: Is the Department of the Prime Minister and Cabinet involved?

Senator Gallagher: Yes, they would be.

Senator McDONALD: Is the Prime Minister or the Prime Minister's office directly involved?

Senator Gallagher: I will take that on notice but, yes, they are involved. In a sense, the Prime Minister has asked for this work to happen so that the government is in a position to make some decisions. So we are supporting the Prime Minister, obviously.

Senator McDONALD: Is there a time line for a recommendation or a solution?

Senator Gallagher: I think the Treasurer has been clear on that this week. We would like to be able to take some decisions by the end of the year.

Senator McDONALD: Has the department met with any stakeholders to canvass or discuss possible solutions to the current pressures on the domestic gas market?

Senator Gallagher: I'm aware that stakeholders are engaged in discussions—relevant stakeholders to each minister's portfolio, obviously.

Senator McDONALD: So who should I be directing these questions to? Is that Ms Kelley or Ms Reinhardt?

Mr Yeaman: Ms Reinhardt.

Ms Reinhardt: The main avenue for discussions with stakeholders in the energy market is through DCCEEW, the Department of Climate Change, Energy, the Environment and Water. They are the main department that

engages with stakeholders in the sector. And I think Mr Fredericks and Ms Duggan talked about extensive engagement with stakeholders, at their appearance.

Senator McDONALD: Has the department canvassed with stakeholders a possible levy on energy producers?

Ms Reinhardt: I'm not aware of any discussions like that, but then I wouldn't deal with a levy in Fiscal Group.

Senator McDONALD: Has the department or minister's office canvassed with stakeholders direct subsidies for electricity generators?

Ms Reinhardt: I want to be really clear. The Treasury department is assisting with looking at options but stakeholders would be dealt with through with DCCEEW. I'm not able to answer questions about consultations that they would have.

Senator Gallagher: Yes. It's a broad 'whole of effective ministries' approach.

Senator McDONALD: Has the department done any modelling on increases or substantive changes to the PRRT?

Ms Reinhardt: Again, that's a question for Revenue Group rather than Fiscal Group.

Senator McDONALD: You haven't met, then, I assume—the department has not met with stakeholders on possible new taxes with resource companies. They haven't engaged?

Ms Reinhardt: I think I've made it clear that we haven't met with stakeholders. Any stakeholder discussions have—

Senator McDONALD: Any stakeholders at all. You haven't spoken to any stakeholders about—

Ms Reinhardt: The department of climate change and energy—any discussions that have been held have been held throughout that department, as is appropriate, as the main agency that connects with stakeholders in this industry.

Senator McDONALD: Right. But you would be aware of those through the secretaries group, if there was stakeholder engagement?

Ms Reinhardt: I'm not aware of those discussions; I'm not in the secretary's—

Senator Gallagher: There are a lot of discussions happening. There are so many happening.

Mr Yeaman: We're aware that there are discussions taking place, but we haven't been directly involved in those with the stakeholders, as Ms Reinhardt said.

Senator McDONALD: I'm just trying to ascertain if there is a group that's meeting with purpose to work out these policy options.

Senator Gallagher: Yes, there is. Tick.

Senator McDONALD: Tick? Great. So they're feeding back that they're having engagement with stakeholders on these various policy options that I put to you.

Senator Gallagher: They're engaging with stakeholders, as you would expect ministers to do. I don't think it's any secret this work is underway and that government's considering it. Unfortunately, this is probably something that should have happened a few years ago. It didn't happen, so we're dealing with it now and responding to the challenges that exist. And stakeholders are being dealt with in accordance with normal ministerial engagement practices.

Senator McDONALD: Can I turn to the secretary's opening statement, which talked about:

Policy responses could take many forms but, in the current circumstances of generalised price pressures, they need to be mindful of not contributing further to inflation. This would suggest to us that interventions that directly address the higher domestic thermal coal and gas prices are more likely to be optimal.

Can you confirm, Mr Acting Secretary, whether this intervention you are referring to is a price intervention or a taxation intervention?

Mr Yeaman: We're trying to make the broad point in the context of the overall response and the driving factors behind it, most notably the war in Ukraine. We're trying to draw a distinction between—in this circumstance, we think there is a greater case for direct intervention that targets the price in the short term as opposed to allowing the market to operate in its normal functioning way. As the Treasurer has said, all options are being considered by government in this space, and that covers the full suite. We're simply trying to make the point that, in a world where you have disruptive global energy markets and you have a temporary external shock, there is a greater case than perhaps normal to intervene directly to bring down the price in the short term.

Senator McDONALD: If you've indicated that this intervention would be more likely to be optimal, can you confirm whether there would be any effect on inflation?

Mr Yeaman: Under which option?

Senator McDONALD: From what you've told me, any option. You're saying that interventions that directly address the high domestic thermal coal and gas prices are more likely to be optimal. So do you think that this optimal intervention would have an effect on inflation?

Mr Yeaman: It depends very much on how it's designed and defined. From our perspective, what we're trying to illustrate here in the opening statement is simply that measures that act directly on the market to bring down prices are likely to be more effective in the short term, given the nature of the shock, and that any measure that's applied should be mindful of not exacerbating inflationary pressures.

Senator McDONALD: Have you done any modelling on the effect of this and the various options that are being considered on inflation?

Mr Yeaman: As Ms Reinhardt said, there are a full suite of options that are being considered, as the minister said, with purpose. Currently, that work is ongoing. It hasn't yet been completed. One of the factors that will be taken into account, along with many others, I'm sure, is the potential inflationary impacts of different measures. But it's one of many factors that will be considered, I'm sure, as part of that advice.

Senator McDONALD: Right. But you are doing modelling. You are commencing that work now.

Mr Yeaman: We are. We're assessing a range of options across a range of fronts. One of those things, which I'm sure the government will be interested in, is how it will impact the broader macroeconomy as well.

Senator McDONALD: I'm sure they will be. Have you engaged with the Department of Industry, Science and Resources as to what effect intervention would have on the broader gas and coal market?

Senator Gallagher: Yes.

Senator McDONALD: Very good. Can you detail this? Was it modelling or consultation?

Senator Gallagher: It's all of the discussions—

Ms Reinhardt: It's analysis based on their understanding of the market and their discussion with stakeholders—well, a discussion with the Department of Climate Change, Energy, the Environment and Water.

Senator McDONALD: So you've engaged with that department as to—

Ms Reinhardt: And with DISR, in terms of the impact on both the electricity market and the resources market as a result of any changes that might be considered.

Senator McDONALD: Okay. So that is going on, regarding the impact on the coal and gas market.

Ms Reinhardt: We'd have to consider all the factors.

Senator Gallagher: Yes, the analysis is going on. Ministers have asked for options to be considered. That's the work that the department is doing—analysing those options and then providing that advice to ministers so that we can provide advice to the Prime Minister and our cabinet colleagues about the best way forward.

Senator McDONALD: Again, to the department, you named intervention as an optimal approach. How would you identify it as optimal without proper modelling?

Mr Yeaman: As I said—the statement makes it clear in its introduction—this is a very complex area, and there are many different aspects that go into this analysis. What the secretary was looking to indicate here is what happens because of the nature of the shock. He was trying to draw a contrast. Traditionally, we would have said that, if you had high prices in the market, rather than intervene, you would rather allow those signals to flow through the market. What he was trying to drive to was, in this circumstance, where you have a war in Ukraine—which we expect to be, hopefully, temporary—which is having a very disruptive impact on the market itself, that there is a greater case for direct intervention into the market. Of course, that all has to be weighed very carefully against the things you described, which are the broader impact on the market and its operation in the longer term and the impact on investment and inflation. We are very aware of that. We are simply trying to point out that there is a greater than normal case for intervention into this market currently because it is not functioning in the way a traditional market would operate.

Senator McDONALD: APPEA has referred to the intervention that happened in Argentina at the beginning of this century. Will you refer to some of the other industry experiences or nation experiences for a market intervention in this regard?

Mr Yeaman: Certainly part of our remit across all departments at the moment is to look at external experience as well as recent domestic experience.

Senator McDONALD: I'm interested in the assumptions in budget paper 1. I want to get a better understanding of the forecast commodity price movements in the resources sector. Can you walk me through the thermal coal price assumptions for this year and for each year throughout the forwards and out years?

Mr Yeaman: I will ask my colleague Mr Power to speak to that.

Mr Power: You'll be aware that for quite a while in the budget process for commodity prices, including thermal coal, metallurgical coal and other commodities, we take a starting point based on recent spot prices, usually a 20-day average. Then we take quite an explicitly conservative approach to where those prices move to. We have a longer-term anchor for those prices. For thermal coal, for example, that anchor is \$60 and for met coal it is \$130. The prices glide from the recent spot prices to those anchor points over two quarters, and in the budget that position is reached at the end of the March quarter of 2023.

Senator McDONALD: What is the anchor price assumption for LNG?

Mr Power: It is slightly more complicated for LNG. Obviously, there are contracts which are available and in place for export prices. There is a small amount of gas which is available for the spot market. We combine those two elements. In the LNG case we express that as dollars per ton, and the assumption is that it glides from \$934 per ton to \$630 per ton. It's the combination of those two elements I just mentioned: the contract price, which linked to oil, versus the spot price, which is more fluctuating.

Senator McDONALD: What are the natural gas price assumptions?

Mr Power: For LNG, we assume export prices for domestic gas, for example. That's fed into our own inflation forecasts. We talked at the start of the session about the consultation that we've done in the sector to come up with gas prices which feed into retail prices. We focus there on retail prices. We don't, if you like, forecast directly the wholesale price for natural gas. We're focused on retail prices and how that's fed into the retail bill. Essentially, we have arrived at estimates that, over two years, there would be a 20 per cent rise in retail domestic gas prices in Australia.

Senator McDONALD: What are your anchor price views for natural gas?

Mr Power: For natural gas domestically, the costs that retailers face, based on their hedging arrangements—their longer-term contract arrangements—we've assumed that there will be a 130 per cent increase in those costs that retailers face, based on their contract prices and their hedging strategies. That's about a third of the retail gas price. It's not the total component. So, that is the input component to having 20 per cent rises across 2022-23 and then 2023-24.

Senator McDONALD: What is the anchor price? What is your starting number?

Mr Yeaman: For our commodity assumptions, because they're primarily there to underpin our revenue assumptions and because for revenue purposes it's the export price that matter most for our calculations, the standard approach we have of current price gliding to an anchor point over two quarters is built around the export price. That price, as Mr Power said, is largely linked to the oil price assumption that we have, and that goes from \$900 down to around \$630 a ton.

Senator McDONALD: How far out do you forecast all of these prices?

Mr Yeaman: We have two years worth of detailed macroeconomic forecasts. We've taken a specific view on electricity and gas prices for the two years that we've discussed. Beyond that, we assume that prices grow at a standard rate alongside inflation, but we'll continue to monitor that as time goes by.

Senator McDONALD: I'm sorry; could you just explain that again? You've put them out to two years. How do you explain the longer term pricing assumptions?

Mr Yeaman: As I think I said earlier in the afternoon in the committee, in the past we haven't specifically forecast electricity and gas prices in this way because it hasn't been a significant enough factor for the overall macro forecasts. Given the current market conditions, we have taken a view on retail coal and gas prices over the two years of the detailed forecast period. Beyond that, we have not got a separately identifiable electricity and gas price forecast, so we essentially grow electricity and gas prices in line with broader inflation across the economy beyond that point.

Senator McDONALD: So these are the same forecast assumptions for energy commodity prices, used in the forecasting of energy prices over the next few years—is that correct?

Mr Power: The assumptions we've just gone through are the ones that we use for forecasting energy prices. They're domestic prices; they feed into inflation.

Senator McDONALD: And these are the same assumptions that the energy department uses?

Mr Power: These are assumptions we've come up with based on consultation with the energy department. That included DISR, it included DCCEEW and it also included a number of consultations with the energy regulators and industry participants and market experts.

Senator McDONALD: So they are aligned—you're using the same assumptions and the same forecast prices?

Mr Power: What I can say to you is that, in the consultations that we've done, we have consulted with them, and the assumptions which are in the budget are the collective view of those departments at the time that we put the budget together. Obviously, as time moves on and different things change, then they may take different assumptions over time.

Senator McDONALD: Are you assuming that energy commodity prices are not the driving force behind increasing energy prices, then?

Mr Power: No. Obviously, as I said, the prices and the arrangements we used to anchor our inflation forecast draw on, for example, forward prices for those different markets. For example, electricity draws on forward prices for coal and gas. So all of that is built in, if you like, to the way that we develop those assumptions.

Senator McDONALD: So you've incorporated increased renewable penetration and increased spending on transmission infrastructure into the assumptions for increasing energy prices?

Mr Power: As I said, when we look at each of those markets, we look at the forward prices which are in those markets, and those markets are quite good at incorporating both the prices of commodities and those measures and expenditures that you mentioned. We don't, as Treasury, bottom-up forecast each of the components; however, those forward markets do take into account that information, and we use those forward markets to help develop these prices, in consultation with the bodies that I've mentioned.

Senator RICE: I want to go to a specific element of the Jobs and Skills Summit, and that's about LGBTIQ+ representation or lack of representation at the summit. In drafting the issues paper, did Treasury consider that barriers to secure and well-paid employment included those experienced by trans and gender-diverse Australians, including significantly higher rates of unemployment and workplace discrimination?

Mr Yeaman: Senator, we've just been joined as you've been speaking by the relevant officials, and they may have missed the front of your question.

Senator Gallagher: Is it the summit or the white paper?

Senator RICE: The issues paper.

Ms Anderson: Sorry, I didn't catch that question, Senator.

Senator RICE: Basically, it was: in the 'Jobs and Skills Summit issues paper', where you were looking at barriers to secure and well-paid employment, did you consider the barriers experienced by trans and gender diverse Australians, who have significantly higher rates of unemployment compared to cisgendered people?

Ms Anderson: It wasn't specifically called out in the issues paper, from memory; however, in the context of the employment white paper, which we're preparing now, we are looking at barriers to participation for all sorts of cohorts who have historically faced disadvantage in the employment market. That would include the cohort you've mentioned.

Senator RICE: In terms of it not being included in the issues paper, was that an oversight?

Ms Anderson: No. I think the issues paper didn't cover every single issue. It was trying to focus on the core issues around the summit: full employment, growing productivity, and looking at the opportunities that come from a full, or close to full, employment environment, which includes participation of disadvantaged groups. Whilst it wasn't called out explicitly, it was certainly in our thinking. There were probably other areas that weren't called out explicitly either, but that doesn't mean they aren't under consideration.

Senator RICE: I understand the issue was raised with the Treasurer in the lead-up to the Jobs and Skills Summit. Is it correct that, of the 140 participants, there were zero invitees or attendees representing LGBTIQ+ communities?

Ms Anderson: I'll have to take that on notice, I think, unless Mr Latimer is aware of any explicit groupings.

Mr Latimer: Senator, there were no organisations which specifically represented those communities; however, we didn't, as you'd expect, collect that information from attendees themselves.

Senator RICE: No, but Ms Anderson was just saying that, in terms of canvassing the groups prior to the summit, they were considered. What criteria were used for who attended the summit, so that those voices weren't considered significant or important enough to be at the summit?

Ms Anderson: I don't think we would say they weren't considered significant or important enough. But, from the outset, the government had indicated it was quite a limited number of attendees. In terms of who determined the attendee list, that was quite a serious matter of consideration between ministers. Again, I don't think there's any reflection on any particular groups, but not every group was able to be represented.

Senator RICE: Okay. Were there any separate LGBTIQ+ forums held in the lead-up to the summit, as there were for other marginalised, disadvantaged communities—other communities that experience significant barriers to employment?

Ms Anderson: Again, I'd have to take that on notice. The over 100 forums in the lead-up to the summit were undertaken by government MPs and ministers, so I'd have to double-check. I'm happy to do that.

Senator RICE: Okay. Could you take on notice whether there were, who coordinated them, who was invited and why they weren't publicised to the communities, if indeed they occurred.

Ms Anderson: No problem.

Senator RICE: Thank you. Thank you, Chair.

CHAIR: Thank you very much.

Senator RICE: That was even less than five minutes!

CHAIR: There are so many things I could say about that. That was exemplary, Senator Rice! We are just a couple of minutes away from the scheduled dinner break, so I think it's an appropriate time for us to suspend. I'd like to advise the witnesses that senators do still have questions for them and that the committee has decided that the best way to ask those questions is with a spillover hearing with the Treasury portfolio. The committee will be in touch to arrange that at an appropriate time. For now, though, we very much thank the officials who've been with us in the program this afternoon. I thank you in particular, Mr Yeaman, for stepping into some big shoes today and for all your efforts. Thank you, Minister. The committee's consideration of the 2022-23 budget estimates will resume after the dinner break with the Industry, Science and Resources portfolio.

Senator Gallagher: Chair, before we adjourn, I want to go back and correct the record around the issue that Senator Smith and Senator Hume raised. The capital raising measure was in the 2016-17 MYEFO. The off-market one is in this budget but was not in 2016-17 MYEFO. I'll just correct the record there, where I got that wrong.

CHAIR: Thank you very much, Minister. Thank you, officials.

Proceedings suspended from 18:29 to 19:30

INDUSTRY, SCIENCE AND RESOURCES PORTFOLIO**In Attendance**

Senator Ayres, Assistant Minister for Trade, Assistant Minister for Manufacturing

Department of Industry, Science and Resources**Executive**

Ms Meghan Quinn PSM, Secretary
Mr Russ Campbell, Acting Deputy Secretary
Ms Janean Richards, Acting Deputy Secretary
Ms Jane Urquhart, Deputy Secretary

Analysis and Insights

Mr Wayne Calder, Acting Head of Division
Mr Jeewantha Karunarathna, General Manager, Resources and Energy Insights
Ms Kayelle Drinkwater, General Manager, Data Policy

Anti-Dumping Review Panel

Ms Jaclyne Fisher, Panel Member

AusIndustry

Ms Kylie Bryant, Head of Division
Ms Rebecca Lannen, General Manager, Entrepreneurs Program
Ms Tia Stevens, General Manager, Portfolio Program Delivery
Ms Claire Forsyth, General Manager, Business Outreach and Engagement
Ms Tara Oliver, General Manager, Research and Development Tax Incentive
Ms Kelley Wiggins, Acting General Manager, Probity and Programs

Australian Building Codes Board

Mr Gary Rake, Chief Executive Officer
Mr Rodney Harris, Chief Operating Officer

Australian Radioactive Waste Agency

Mr Sam Usher, Chief Executive Officer
Ms Jodie Lindsay, Chief Operating Officer
Mr David Osborn, General Manager, Safety and Technical

Australian Space Agency

Mr Enrico Palermo, Agency Head
Mr Chris De Luis, General Manager, Office of the Space Regulator

Chief Finance Officer

Mr Michael Olive, Acting Chief Finance Officer
Ms Sally Bektas, General Manager, Business Grants Hub
Ms Erin Cockram, General Manager, Financial Services

Chief Information Officer

Ms Rebecca Lee, Chief Information Officer

Chief Operating Officer

Mr David Luchetti, Acting Chief Operating Officer
Ms Deborah Miliszewski, General Counsel
Ms Louise Perez, General Manager, Communications

Critical Technologies Hub

Dr Carolyn Patteson, Head of Division
Ms Louise Talbot, General Manager

Digital Technology Taskforce

Ms Michelle Dowdell, Head of Division
Mr Lucas Rutherford, Acting General Manager

Industry Growth

Ms Donna Looney, Head of Division
Ms Judith Blake, General Manager, Sector Development
Mr John Krbaleski, General Manager, Australian Industry Participation
Mr Mark Weaver, General Manager, Industrial Competitiveness and Strategy
Mr Kris Browne, Acting General Manager, Health Technologies

Machinery of Government Taskforce

Ms Sam Chard, Taskforce Lead

Manufacturing

Ms Narelle Luchetti, Head of Division
Ms Rebecca Manen, General Manager, NRF Strategy
Ms Joanne Mulder, General Manager, Enabling Investment and Growth
Mr William Tan, Acting General Manager, NRF Priorities and Supply Chains

Minerals and Resources

Ms Anthea Long, Head of Division
Mr Andrew Hutchinson, General Manager, Critical Minerals Office
Mr Daniel Quinn, General Manager, Resources Strategy
Mr Matthew Crawshaw, General Manager, Mining and Major Projects

National Measurement Institute

Dr Bruce Warrington, Chief Executive Officer and Chief Metrologist

Office of Supply Chain Resilience

Mr Tim Wong, Acting Head of Division

Office of the Chief Scientist

Dr Cathy Foley, Chief Scientist

Oil and Gas

Mr Shane Gaddes, Head of Division
Mr David Lawrence, General Manager, Gas
Mr Shane McWhinney, General Manager, Northern Endeavour
Mrs Norelle Laucher, General Manager, Offshore Resources
Mr Graeme Waters, National Offshore Petroleum Titles Administrator

Questacon

Ms Jo White, Director
Dr Bobby Cerini, General Manager, Science and Learning
Ms Kate Driver, General Manager, Operations

Science and Commercialisation

Mr Anthony McGregor, Acting Head of Division
Ms Shanan Gillies, General Manager, Science Policy and Governance
Ms Michele Graham, General Manager, Science Policy and Governance
Ms Tanya Blight, Executive Director, Office of Industry Innovation and Science Australia
Mr Frank Tonkin, Acting General Manager, Commercialisation
Ms Mardi Davis, Acting General Manager, International and Astronomy
Ms Jacqueline Cooke, Acting General Manager, Research and Collaboration

Strategic Policy

Ms Vivianne Johnson, Head of Division

Ms Alison Drury, General Manager, Trade and International

Ms Naomi Perdomo, General Manager, Strategic Policy

Ms Rebecca Kirkwood, General Manager, Ministerial Liaison and Governance

Technology and National Security

Mr Anthony Murfett, Head of Division

Mr Tim Wyndham, General Manager, Emerging Technologies and Adoption

Mr Andrew Matz, General Manager, National Security Engagement

Portfolio Agencies**Australian Nuclear Science and Technology Organisation**

Mr Shaun Jenkinson, Chief Executive Officer

Mr John Edge, Chief Operating Officer

Dr Miles Apperley, Group Executive, Nuclear Safety Security and Stewardship

Commonwealth Scientific and Industrial Research Organisation

Dr Larry Marshall, Chief Executive

Mr Tom Munyard, Acting Chief Operations Officer

Dr Peter Mayfield, Executive Director, Environment, Energy and Resources

Mr Jack Steele, Director, Science Impact and Policy

Professor Elanor Huntington, Executive Director, Digital, National Facilities and Collections

Geoscience Australia

Dr James Johnson, Chief Executive Officer

Dr Steve Hill, Chief Scientist, Acting Chief of Place and Communities Division

Dr Andrew Heap, Chief of Minerals, Energy and Groundwater Division

Mrs Alison Rose, Chief of Space Division

Mr Trent Rawlings, Chief of Corporate Division

Ms Erika Taturan, General Manager, Enabling Services

Mr Clive Rossiter, Chief Information Officer

IP Australia

Mr Michael Schwager, Director General

Ms Paula Adamson, Deputy Director General, Customer Services Division

Ms Margaret Tregurtha, Deputy Director General, Policy and Corporate Division

Ms Jodie McAlister, General Manager, Policy and Stakeholders Group

Mr Doug Pereira, Chief Financial Officer, Finance and People Services Group

Ms Justine Hall, General Manager, Customer Experience Group

National Offshore Petroleum Safety and Environment Management Authority

Mr Stuart Smith, Chief Executive Officer

Mr Cameron Grebe, Head of Division, Environment, Renewables and Decommissioning

Mr Derrick O'Keeffe, Head of Division, Safety and Integrity

Department of Industry, Science and Resources

[19:30]

CHAIR (Senator Walsh): The committee's proceedings will resume with the Industry, Science and Resources portfolio, beginning with the Department of Industry, Science and Resources, cross-portfolio and corporate sections. The hearing will then follow the order as set out in the circulated program. The committee has set 18 November 2022 as the date by which senators are to submit written questions on notice, and 16 December 2022 as the date for the return of answers to questions taken on notice.

I now welcome Senator the Hon. Tim Ayres, representing the Minister for Industry and Science. I also welcome the Secretary of the Department of Industry, Science and Resources, Ms Meghan Quinn, and officers from Industry. Minister, Secretary and officers, would anyone like to make an opening statement?

Senator Ayres: I don't, but I understand the secretary will.

CHAIR: Ms Quinn.

Ms Quinn: I will be very brief. I just make the observation that today is my first appearance before the Senate as the Secretary of the Department of Industry, Science and Resources. It's an honour to lead this department and the broader portfolio, as it's an important role in Australia's economic development. The portfolio's core purpose is to support Australian industry, including in the resources sector, to become more productive, and science and technology enriched and resilient, to create jobs for Australians.

The work of this portfolio supports prosperity across the nation, including in regional Australia. We are working with a broad range of stakeholders to leverage Australia's many strengths and to advise on policies, implement programs and deliver services across our diverse area of responsibilities. Over the past six months the department has gone through a significant change. Several functions related to climate change, energy and liquid fuels have moved to the newly created Department of Climate Change, Energy, the Environment and Water. This involved the movement of approximately 665 people and around \$2.5 billion in funding.

In addition, several portfolio bodies moved, including ARENA, the Climate Change Authority, the Clean Energy Regulator, the Australian Energy Infrastructure Commissioner, the Australian Institute of Marine Science, Snowy Hydro and the Clean Energy Finance Corporation. Other functions, such as the Office of Supply Chain Resilience, the Critical Technologies Hub and the Digital Technology Taskforce, were moved into the department. This involved fewer people, around 35 people; however, it did bring significant responsibilities in cross-government coordination. Our department continues to support the operation of the Department of Climate Change, Energy, the Environment and Water during its creation, and we continue to provide services as they build their own organisational capability.

Against this backdrop, I am proud of how we've continued to come together as a department and how we remain focused on supporting the government and the Australian people. I look forward to answering your questions today.

CHAIR: Thank you very much, Ms Quinn, and congratulations on your new role. The committee is interested in having a copy of your opening statement, if we can. Are you able to provide it to the secretariat to make some copies?

Ms Quinn: I can, yes. It has some handwritten notes on it, but I'm happy to provide it.

CHAIR: If you're happy to do that, that would be most helpful. Thank you, Ms Quinn. Senator McDonald.

Senator McDONALD: Congratulations! What a terrific appointment and an exciting portfolio and an exciting department. I feel excited for you—it's very good. I've got some questions around gas prices and supply. But first I just want to ask: is there a senior minister for the Department of Industry, Science and Resources? Is it Minister King or Minister Husic?

Ms Quinn: Minister King is the senior portfolio minister.

Senator McDONALD: Could you please explain the breakdown of responsibilities between the Treasurer, the minister for energy, the Minister for Resources, the minister for industry and the minister for the CCEEW department, please. What's the breakdown of responsibilities? How are the responsibilities divided up between each minister?

Ms Quinn: I'll start with the ministers in this portfolio. The Minister for Industry and Science clearly looks after the programs, service delivery and policies related to industry. The Minister for Resources looks after resources, obviously.

Senator McDONALD: I'm sorry if I didn't finish that question properly. It was specifically in relation to gas policy.

Ms Quinn: That's right. Broadly speaking, the impact of input costs would be what Minister Husic is responsible for but also any transition assistance or industry support for industries facing significant input costs. That's roughly, at a high level, what Minister Husic's responsibilities are. Minister King is the Minister for Resources. The split here is a little less clear, because gas responsibilities are split across ministers. But, broadly speaking, she's responsible for extraction of gas. She has an export gas control item as well.

Senator McDONALD: What about the minister for energy?

Ms Quinn: Energy markets, in terms of domestic market arrangements, so the electricity market or the gas market or transmission of gas, are the responsibility of the minister for energy.

Senator McDONALD: And the Treasurer?

Ms Quinn: The Treasurer is in charge of a whole lot of things, including regulation of competition, the terms of taxation and the broader impact on the Australian economy.

Senator McDONALD: I refer to an article published on Monday in the *Australian Financial Review*, titled 'Gas price cap rhetoric "worsening risk of shortage"', which I can provide for distribution. Would you like that tabled, Chair?

CHAIR: Are you familiar with the article, Ms Quinn?

Ms Quinn: Not that specific article.

CHAIR: Then we will get some copies made and have it tabled. Thank you, Senator McDonald.

Ms Quinn: I just want to draw the committee's attention to gas policy. To the extent that it impacts on this department, it is actually under item 1.3, which is scheduled for discussion on Thursday.

Senator McDONALD: That is gas policy, did you just say?

Ms Quinn: The resources component, yes.

Senator McDONALD: This is cross-portfolio because I have just asked questions of Treasury, who told me that each portfolio has its own responsibility in this regard through the secretaries' meetings.

Ms Quinn: There are different responsibilities in this portfolio, yes. Issues related to resources, gas extraction, the Australian gas security mechanism, heads of agreements and those sorts of things are under 1.3. Issues to do with the impact on industry are under 1.2, which is also on Thursday. I'm happy to go through it at a high level, but if you need more details than I won't have the information.

Senator McDONALD: Let's start and see how we go. In this article there was a focus on ensuring that additional supply came into the market rather than moves to control prices. There was recently aggressively pro-intervention rhetoric from Mr Husic and Dr Chalmers, as well as from former competition watchdog chairman Rod Sims. Minister, who is right? Is it Minister King on supply, Minister Husic on pricing or the Treasurer?

Senator Ayres: They are all correct. There is at a high level—and I'd like to be in a position where we have the relevant officials at the table, if you want a more detailed discussion of these questions. The government has, as you would know, resolved the questions of gas supply, fundamentally. There are still—as each of those portfolio ministers speaking for the relevant portfolios—significant questions in terms of gas price. As the Treasurer has indicated, the government is working its way through those questions. There is nothing remarkable about that and nothing that I disagree with any of the relevant portfolio ministers about, in terms of the points that they've made publicly on that question.

Senator McDONALD: Do you agree with the Deputy Prime Minister's comments that the government should be working with gas companies and try make sure that we get more supply, which gets a downward pressure on gas prices?

Senator Ayres: I certainly do. As you would know, and as I just indicated, the government has delivered agreement from gas producers to provide significantly more supply.

Senator McDONALD: So you disagree with Minister Husic's comments; this is not a shortage of supply problem?

Senator Ayres: I think you're misunderstanding—following the government resolving that question, as was pointed out prior to there being an agreement, there's plenty of gas there. I think what Mr Marles was saying is that supply needed to be resolved. The government has resolved supply, and Minister Husic is correct to say that the question that is now in front of gas consumers—households and industry—is a set of questions around price.

Senator McDONALD: Can you confirm if Minister Husic is one of four ministers leading the response to the gas crisis?

Senator Ayres: I am cautious about going too far into detail on this question. We've got plenty of time reserved for this issue on a Thursday. I am aware that Minister Gallagher went into some detail on these questions immediately prior to the dinner break this evening, but certainly, Minister Husic—like a series of these other ministers—is engaged on this question.

Senator McDONALD: You just made the comment that the government has solved supply. Could you elaborate on that a little more about how the government has solved supply.

Senator Ayres: The government has reached an agreement with the gas producers that has substantially resolved to the east coast supply question.

Senator McDONALD: Excellent! Tell me more. Tell me more about how that has happened.

Ms Urquhart: In the budget context, you saw in the budget documents the forecasting of the outlook for the next couple of years in relation to both gas prices and the electricity prices that would follow from that. The department has been doing quite considerable work for some months—which is quite well known publicly—around entering a new heads of agreement reviewing the Australian domestic gas security mechanism, with reforms to commence from 1 July next year. The Minister for Resources, Minister King, negotiated a new heads of agreement with the east-coast LNG exporters. It improves on commitments made in previous agreements. In particular, it commits to the principle that domestic gas customers will not pay more for the LNG exporters' gas than international customers; enhancing accountability through additional reporting requirements and quarterly compliance reviews; defining key terms, such as 'competitive market terms', 'uncontracted gas', 'reasonable notice' and 'supply term'; referencing the LNG netback price as a benchmark price; and enhancing transparency through expanded publication requirements.

That new heads of agreement came into effect on 29 September and will remain in effect until 1 January 2026. At the same time, the government concluded its review of the domestic gas security mechanism and announced reforms that include changes to the activation process, which would allow the minister to consider activation on a quarterly basis; provide protection for long-term foundational contracts; require LNG exporters in a shortfall market to have equal responsibility for supplying additional gas to the domestic market; and allow LNG exporters to trade export permits. The department is actively consulting the LNG industry on the implementation of those reforms, which, as I say, will come into effect fully next year following the necessary regulatory changes.

Senator McDONALD: So the AEMO and ACCC forecasts predicting a shortfall of gas supply are no longer relevant, since the government has now solved the gas supply challenge?

Ms Urquhart: Through the discussions through the heads of agreement, I think the shortfall identified was 56 petajoules, if I recall correctly, and the minister, in discussions with the LNG producers, identified 157 petajoules.

Senator McDONALD: Great. Done. Tick.

Ms Quinn: I might just add something. To be clear: the arrangement for reform to the gas security mechanism is that it could be activated on a quarterly basis, which would require continuous evaluation and monitoring of what's happening. The budget also included financial support for both this department and the ACCC to continue to focus on what's happening in the gas market, to be in a position to provide information and advice to the minister for decisions on a quarterly basis. It's important that there's continued scrutiny in this market. It is quite an opaque market with lots of different views about what's happening in the market because there are many different parts of it, so the ACCC's continued scrutiny, analysis and support from this department are quite important. In that sense, I'm not sure you'd say entirely that the job is ever done. While we have this extreme situation of the international energy crisis that everyone's facing, it's important that we continue to monitor what's happening in the market.

Senator McDONALD: Is that why the government cut funding to gas supply programs in the budget, cut funding for developing more gas supply? I speak specifically of the \$31 million to the Cooper-Adavale development and the \$100 million to the gas hub project.

CHAIR: Can I intervene, Senator McDonald. I'm not sure if these questions belong with these officials who are here today—

Senator McDONALD: I can come back to those ones specifically.

Senator Ayres: We've been asked a series of questions here that go to—

Senator McDONALD: Policy.

Senator Ayres: the agreement that's been negotiated recently to deal with supply issues that relate to the crisis that we're currently experiencing. Questions that go more broadly to issues inside resources really do belong on Thursday, not here.

CHAIR: Yes. Thank you, Minister, and I just—

Senator McDONALD: Okay. I can come back to the resources section on Thursday. I'll stick with the policy then, the cross-portfolio and corporate.

CHAIR: Okay. Thanks. I feel I need to get this out of my head, Senator McDonald: you asked about the various responsibilities and it was clarified that gas extraction questions and agreement questions belong in outcome 1.3. Then we proceeded on that basis to see how we would go, and we've done that.

Senator McDONALD: Alright. I can come back to that on Thursday.

CHAIR: Great. Thanks.

Senator McDONALD: Is there an interdepartmental committee or working group coordinating this work?

Ms Quinn: We are engaged with our colleagues on this issue, as you've heard in other estimates from other colleagues. We're engaged broadly and we have been for some time, including when we were talking about what arrangements there were for heads of agreement and the gas security mechanism and then more recently in terms of examining different options.

Ms Urquhart: If I could add to that, within the department we're quite experienced at working across divisions. As you'll expect, there are often issues that cut across the department's responsibilities, which are quite broad, and so in that sense you can be assured that colleagues from the industry side of the department are talking to colleagues from the resources side of the department, and there are colleagues in analysis and insights who are obviously our economic specialists. So, as is usual in the department, we talk to each other.

Senator McDONALD: When you say 'engaged', Ms Quinn, they're engaged how? Is it a task force? How does it work?

Ms Quinn: We're working within our department to advise our ministers, and we're working with colleagues to make sure there's a solid fact base and an understanding of what they're looking at and their responsibilities. As you mentioned earlier, different departments and different ministers have particular responsibilities, and it's important, in this holistic issue, to look at all the different options. So we're engaging with them as you would expect us to do.

Senator McDONALD: So there's not a task force as such?

Ms Quinn: People have their individual responsibilities and work with their ministers and work across the Public Service to provide a really accurate fact base.

Senator McDONALD: So that's an ongoing process? I was referring earlier to some of the comments of the Treasurer about policy development; I'm not sure if I got 'task force' from his comments. I'm just trying to identify the—

Ms Quinn: I'm not aware of that particular name. We're working within our responsibilities but working cooperatively and collegially with our colleagues.

Senator McDONALD: So members from the ministers' offices would attend those meetings, and you'd engage with representatives from the ministers' offices, or the ministers themselves, as you're informing them?

Ms Quinn: Yes and no. It depends a bit. There are lots of discussions: we provide advice to both Minister King and Minister Husic; they have conversations with colleagues; we have separate conversations across the Public Service. It all depends on the particular issues and what experts and information we need to have in the room.

Senator McDONALD: The Department of the Treasury—you would have heard—earlier today confirmed that they're not the lead agency on this issue and it's not their responsibility to conduct any engagement or consultation with relevant stakeholders. Has the Department of Industry, Science and Resources met with relevant stakeholders in regard to addressing this issue?

Ms Quinn: We certainly have had extensive engagement with the industry, both on the industrial user side and on the producer side, in developing the discussions around the heads of agreement and in the process of discussing what changes there might need to be on the gas security mechanism. There have been intensive discussions through that process. We're also in discussions with stakeholders around the announced government changes to the security mechanism, and that will be ongoing, as you would expect, as we face regulatory changes on that matter. We get a lot of contact with stakeholders across the portfolio on a regular basis. We are out and about a lot, and we do collect that information and engage on a regular basis.

Senator McDONALD: Yesterday in Senate estimates, the Department of Climate Change, Energy, the Environment and Water confirmed, like you, that they didn't have a task force established to deal with this energy crisis. They also confirmed that energy officials are yet to meet with the Prime Minister to brief him on the crisis. Have any energy officials briefed Minister Husic?

Ms Quinn: We've certainly briefed ministers on this issue, yes—both Minister Husic and Minister King. I believe we might have even provided some information to the Assistant Minister for Manufacturing, Senator Ayres.

Senator McDONALD: Has the department prepared briefs or submissions to Minister Husic on gas supply or gas prices?

Ms Quinn: Yes, we have provided information to both our ministers on the reform processes and what's going on in the market.

Senator McDONALD: Did you generate those, or were they requested by the minister or his office?

Ms Quinn: I cannot remember precisely whether they came from the minister or not. I don't have the officials here. As I said, they'll be here on Thursday, so I'm happy to come back on that question. But it's likely we provided information. There might have been follow-up discussions, so it was likely a bit of both.

Senator McDONALD: What was the nature of your advice to the minister?

Ms Quinn: That goes to the precise details of advice. It would have been on what's happening in the market, what the possible path forward would be and what the implications of different scenarios would be, particularly focused on the impact on industry and particular different parts of industry, which are his portfolio responsibilities.

Senator McDONALD: Terrific. Can you provide these briefs or submissions on notice please?

Ms Quinn: I'm happy to take that question on notice and check with the minister.

Senator McDONALD: If both the departments—CCEEW and this department—are conducting stakeholder engagement, who's taking the lead?

Ms Quinn: It depends a little on who's responsibility the policy issues are. As I mentioned, DCCEEW looks after the energy markets and what's happening in relation to the regulations, including the role of the Energy Market Operator and the other regulators. Questions related to that and questions related to state responsibilities on those policy issues would be for them. For us it's around the producers on the gas side and then also the energy users. They're kind of our core stakeholders. Of course, sometimes they cross over and you can't help but stray into each other's territory, so we work very closely with them. Up until just a few months ago, it was all together in one department, so it's a very close working relationship.

Senator McDONALD: That's great to hear. Has the minister for industry, Minister Husic, met with any of the gas producers since the election?

Ms Quinn: I would have to take that on notice. I don't know all of the meetings that the minister has.

Senator McDONALD: Could you take on notice the name of the company and the date of each meeting please. Has the department met with any stakeholders to canvass or discuss possible solutions to the current pressures in the domestic gas market?

Ms Quinn: Those issues come up in almost every conversation with the stakeholders who are impacted, whether they're on the producers' side, parties to the gas market more generally or users of gas, so the answer is almost certainly yes.

Senator McDONALD: Has the department of the minister's office canvassed with stakeholders a possible levy on energy producers?

Ms Quinn: I'd have to take that on notice. I can't speak for the minister. Obviously, stakeholders raise issues with us, in terms of their questions. Depending on how any such levy might be imposed, it would be a function potentially for another department, so we would be careful not to stray into the responsibilities of others. For example, we do have discussions with our Treasury colleagues jointly if they ask us to on things to do with taxation—for example, the petroleum resource rent tax is the responsibility of the Treasurer, but clearly it applies to stakeholders in this portfolio. So often those discussions would happen together, just as they are in other kinds of discussions that cross over our responsibilities—the R&D tax incentive, for example.

Senator McDONALD: Has the department or the minister's office canvassed with stakeholders direct subsidies for electricity generators?

Ms Quinn: Electricity generators are the responsibility of the department of energy. I can't speak for the minister, again, but it's not something that we would actively discuss because that, technically, sits with DCCEEW.

Senator McDONALD: What about the department of the minister's office canvassing the stakeholders increases or substantive changes to the PRRT?

Ms Quinn: Once again, the Treasurer has said that this is an issue that the Department of the Treasury is providing advice on. We are working with our colleagues, as we have throughout the existence of that policy, and we are in discussions with them about the different options and are providing our input into their process.

Senator McDONALD: What about canvassing with stakeholders possible new taxes on resource companies?

Ms Quinn: The policy responsibility for taxes is the Department of the Treasury. They would be taking the lead on those discussions, to the extent that there are any with stakeholders. Once again, though, we would work cooperatively with it on most of those issues.

Senator McDONALD: Treasury has said that it is not meeting with stakeholders—that was the evidence just provided at the last estimates schedule—and you can't say whether you spoke about taxation matters. Who was speaking with stakeholders about these taxation measures that the Treasurer has publicly floated?

Ms Quinn: You'd have to ask other officials. We have conversations; they raise issues with us; they express their views to us, as do probably all people they talk to; we listen respectfully. In terms of engaging on technicalities of particular policies outside our remit, we usually direct stakeholders for those detailed views to the responsible area to have those technical discussions. Of course, when you're talking to stakeholders, they're interested in sharing their views across broader areas, and we listen, think about it and pass those views onto the responsible area.

Senator McDONALD: I'm wondering whether it's going to get confusing for stakeholders if no one department is taking the lead internally or externally on these very important issues. Is it possible that they're getting mixed messages?

Ms Quinn: I've not found stakeholders expressing much concern about who's responsible for what. It's pretty clear that Treasury has point responsibility for tax, that the Department of Climate Change, Energy, the Environment and Water has point responsibility for the operation of the market, that we're responsible for extraction and export and that DFAT is responsible for trade. It's reasonably clear who's responsible for what. It is complicated, because the world is complicated.

Senator McDONALD: It is.

Senator Ayres: If it might help, Senator McDonald: I understand your interest in who's advancing which proposition, but the Prime Minister's made it very clear that we're going to run a fair dinkum cabinet-style government, not like the last government. It will be a fair dinkum cabinet-style government, consistent with the Westminster tradition, where ministers will have responsibility for the areas that they are given but will collaborate over questions like this. And we'll run a proper cabinet process where it's been made very clear publicly that there are a series of options on the table. Those will go through the proper cabinet processes, and proper deliberations will happen, and they'll happen in a timely and methodical way. We're not going to get into the trap that the last government fell into, of announcing 22 different energy policies and leaving the electricity and gas markets in utter chaos—

Senator McDONALD: Minister, that's terrific. Thank you.

Senator Ayres: We're going to work through it in a careful, methodical way. People are collaborating in a healthy kind of way—

Senator McDONALD: I'm very pleased to hear that. Terrific. Can I ask specifically, then—

Senator Ayres: and at the end of those deliberations there'll be—

Senator McDONALD: A perfect solution.

Senator Ayres: a series of decisions.

Senator McDONALD: Ms Quinn, can I ask specifically, then: what is your department's input into these discussions? I appreciate that you're not the lead agency. I'm not trying to re-prosecute old ground. I just want to understand what specifically the advice is that you would be providing to these other portfolio areas.

Ms Quinn: It matches our administrative orders arrangements and the responsibility of our ministers. We provide information, input and policy views in relation to the impact on industry broadly. There are lots of different types of industries and implications of different options on both the industrial users and the resources sector, including the gas producers. We also have legal responsibility for, as I said, export controls. We also have, in the past, industry assistance, or how you would go about designing different types of assistance if that's the path you wanted to go down. We also have a view on the system implications in that in the market for gas there are inputs from the producer side but it goes through a very complicated market, including transmission and different contract arrangements. We have policy views on the operation of the market, even though it's not our direct responsibility. And we would engage with others on those sorts of issues.

It's also important that there are crossovers, because, for example, it has historically been the case that gas was provided into Victoria as a by-product of extraction of oil out of Bass Strait. So, there are implications in terms of the knock-on consequences for other parts of the system. They're all the sorts of things that we engage with, from

a fact base responsibility but also we question and challenge and make sure we understand what other people are putting forward, because our job is to advise our ministers so that, as Minister Ayres has said, they can participate in a discussion with their colleagues.

Senator McDONALD: Terrific. Has the department of industry provided any advice or modelling to the Department of Climate Change, Energy, the Environment and Water or the Treasury about the impact of gas supply on domestic manufacturing capability?

Ms Quinn: We have talked about the cost structures, the implications, and which industries would be most affected by not only gas but also electricity prices with the increase in both in recent times. We are working with them on those issues, just like we have in response to other shocks to the system. What information we have, we're happy to work with them cooperatively. It depends a bit on the precise question and the precise process that they're going through, but we share information very freely with them.

Senator McDONALD: What industries are you focusing on within the domestic manufacturing capability area?

Ms Quinn: These go to outcome 1.2, which is also on Thursday.

Senator McDONALD: Hold that one, then, I'll come back to that.

Ms Quinn: I'm happy to come back to that when I have my industry support colleagues with me.

Senator McDONALD: On the subject of a price cap, EnergyQuest has just released a report that concluded:

While superficially attractive, regulation via price caps could easily make the situation worse. Based on our comprehensive gas supply data base we estimate that introducing a \$10/GJ cap could remove or delay the equivalent of more than one year's east coast domestic supply (700 petajoules) in less than eight years. It could not only kill LNG imports but also development of the Narrabri gas field in NSW and the Beetaloo field in the NT and inhibit the development of much of Arrow Energy's acreage in Queensland.

Do you agree with EnergyQuest that a downside of price caps could be the reduction in the supply of gas over the longer term?

Ms Quinn: It is absolutely self-evident that if producers can't cover the costs of the production then it wouldn't be in their economic interest to produce. The question really depends on what the costs of production are in particular parts of the system, and what prices can be received. It's a complicated thing to think about the gas market because there are quite a lot of different producers with different gas components and different cost structures. It's something that needs to be examined very carefully—what the cost structure is, what the appropriate pricing is. It also goes to the market dynamics. The voluntary code of conduct that is currently and recently in place goes to improving the transparency of the pricing offers. There is an opaqueness to the market both around the cost of extraction and production of gas and around what people are paying for it, given the individual contract nature and not a lot of transparency through markets. Given that opaqueness, it's really hard to say with any precision what price will do what. That's part of the analysis that needs to be done.

Senator McDONALD: Given the complex supply chain of producer-pipeline-wholesaler-retailer-manufacturer—

Ms Quinn: There are definitely different elements to the market, and you need to think about the implications of any policy. There is quite a lot of regulation in the market as it stands now. At all levels, it's a regulated market, so when changing regulation you need to think through the consequences. That is the case at any point in time, but it's clear—as my colleague Steven Kennedy said—that countries around the world are looking at regulation and other interventions in the face of significant increases in electricity and gas prices.

Senator McDONALD: We touched on Argentina and their particular experience, where they ended up importing gas and were having to introduce LNG import terminals to meet supply.

Ms Quinn: That is something that the industry is talking about for a number of years. One thing to think about is that there's not a universal gas market. The Western Australian and Northern Territory markets are very different to the east coast's, and we need to think about policies that meet the needs of different markets. There has been discussion, for at least four years that I'm aware of, about the possibility of import terminals or regassification terminals on the east coast. That's a supply response to increased cost. Those things are more expensive than other options, but if the price were higher it might be the case that some companies find that an attractive option.

Senator McDONALD: The LNG exporters tell me that they have not yet paid off their infrastructure development projects, particularly in Queensland, of course, so I guess that's another element, isn't it, to consider in the price-fixing part of the supply chain?

Ms Quinn: It's certainly the case that there were significant fixed-cost investments for the LNG producers. They have long-term contracts that they had as part of that approach. Their intention is that those long-term contracts provide the cover for the fixed investment. It's an important part of the consideration to maintain those long-term contracts in terms of orderly supply, particularly for our trading partners who have invested that money in that production and have long-term contracts. That is part of the considerations the government has undertaken, particularly around the heads of agreement and the Gas Security Mechanism. That's definitely something that needs to be factored in.

Senator McDONALD: The Japanese Prime Minister came to discuss exactly this topic. Thank you for your patience, Chair.

Senator O'NEILL: I hope, Ms Quinn, that these questions might be still applicable for you in your new role, because you've been with the department for some period of time—is that correct?

Ms Quinn: I haven't added it up, to be honest, but end of August, so not that long.

Senator O'NEILL: Ms Urquhart, have you been with the department for a period of time?

Ms Urquhart: I have been.

Senator O'NEILL: Hopefully you might be able to assist if required. Would you be able to tell the committee what date the former prime minister Scott Morrison appointed himself to the Department of Industry, Science, Energy and Resources?

Ms Quinn: The Prime Minister appointed himself in April. I note that this is a question for our resources team, which will be here on Thursday. We understand the Prime Minister appointed himself on 15 April 2021.

Senator O'NEILL: Okay. Let's see how far we can go with this.

Ms Quinn: If there are more detailed questions, we're very happy to take them on notice or come back on Thursday with the relevant officials from the resources team, who are looking after some of the arrangements related to this issue.

Senator O'NEILL: I don't know if you'll be able to tell me this: was the department informed before this date of the Prime Minister's intention to appoint himself to the Department of Industry, Science, Energy and Resources?

Ms Quinn: No, we weren't. But we often wouldn't know prior to a minister being appointed. There might just be a little time before an announcement, but ministerial arrangements are not usually something that the department is consulted on. They're at the behest of the government.

Senator O'NEILL: So the decision's made, the appointment occurs, and then I'm assuming it would be a notification process?

Ms Quinn: Traditionally there's a press conference and we get to see it all happening at the Governor-General's residence.

Senator O'NEILL: But there was nothing normal about this.

Ms Quinn: There wasn't, no.

Senator O'NEILL: That didn't happen.

Ms Quinn: Correct.

Senator O'NEILL: I'm trying to get to what happened. You wouldn't normally be informed if a minister were to be sworn in to administer the department?

Ms Quinn: Not officially. Often there's media attention. We formally find out the responsibilities of the minister through a circular with ministerial responsibilities from the Department of the Prime Minister and Cabinet.

Senator O'NEILL: But, as you said, there was nothing normal about the way that this process unfolded. After you became aware that the Prime Minister had appointed himself as the minister for the Department of Industry, Science, Energy and Resources, what did you do next?

Ms Quinn: We were informed afterwards, and we—

Senator O'NEILL: On what date?

Ms Quinn: 21 April.

Senator O'NEILL: Six days after his appointment you were then advised. By whom?

Ms Quinn: An official in the Department of the Prime Minister and Cabinet. The department contacted an official in the then Department of Industry, Science, Energy and Resources.

Senator O'NEILL: So the Department of PM&C?

Ms Quinn: Yes.

Senator O'NEILL: Are you able to indicate the level of that person, if not their name?

Ms Quinn: I do not know. I was not in the department at the time, and I'm not sure what level they were, to be honest.

Senator O'NEILL: I wonder if Ms Urquhart can provide any further detail.

Ms Urquhart: I wasn't in the department either, but my understanding is that they were senior executive level speaking to senior executive level in the department. I didn't hold relevant responsibilities at the time, so I was not involved in that discussion.

Senator O'NEILL: Okay, but are you reasonably confident about what you just told me: there was a senior executive in the Prime Minister's department in touch with a senior executive in the Department of Industry, Science and Resources. On 21 April, six days after the Prime Minister had appointed himself, you became aware of that roll and the department became aware of that new additional minister that you'd acquired?

Ms Urquhart: That's right.

Senator O'NEILL: Okay.

Ms Quinn: I think you know this, but, just for clarity, this is a subject of an inquiry by Ms Bell, who is looking into these issues and so I want to be careful as a department that we don't cut across that inquiry.

Senator O'NEILL: I'm very mindful of that, but I think in terms of the general public's interest I'm going to try and have some reasonably high-level questions that still give us a bit of an indication of what the Prime Minister was up to behind closed doors.

Senator DEAN SMITH: Basically the secretary was [inaudible] now, Senator O'Neill.

Senator O'NEILL: We don't want that. Did the former Prime Minister instruct the department not to inform other ministers about his appointment?

Ms Urquhart: I couldn't answer that question, I'm sorry.

Ms Quinn: Not that I'm aware of, but they're the sorts of questions that would go to the officials involved at the time.

Senator O'NEILL: Will they be here on Thursday?

Ms Quinn: No. Most of the officials involved in those initial discussions at a higher level are now officials in the department of energy. The responsibility for the people working on this moved as part of the ministry of government changes earlier this year.

Senator O'NEILL: Are they the 665 people that you indicated?

Ms Quinn: Correct.

Senator O'NEILL: And the \$2.5 billion that moved over to the other department. Do you have any insight into what protocols were established about how to manage the two ministers in the role?

Ms Quinn: My understanding is that there was an awareness that the Prime Minister had been appointed on 21 April. No protocols were put in place, no requests for briefings were made and no discussions were had until quite some time later when there was a particular matter that the Prime Minister requested a briefing on.

Senator O'NEILL: So, awareness of the appointment on 21 April. Were there no protocols established to manage this extraordinary—literally extraordinary—arrangement? No briefings?

Ms Quinn: It's not that unusual for multiple ministers to have shifting responsibilities within a portfolio.

Senator O'NEILL: It's pretty unusual for a prime minister to appoint himself in private though, isn't it?

Ms Quinn: I'm not aware of other instances, but certainly there are—

Senator O'NEILL: Not one? There's no other instance is there, Ms Quinn?

Ms Quinn: There are instances where there are ministers that might have joint responsibility for particular areas. I know—

Senator O'NEILL: You've explored that with Senator McDonald, but it's very transparent and everybody knows what everybody is doing, and you're able to describe those roles. In this situation you're telling me

there was no protocol, no briefings and no request for information for some period of time. Let's go to that. What's the date at which a request for information was made by the Prime Minister?

Ms Quinn: By his department, the Department of Prime Minister and Cabinet, on 8 December 2021.

Senator O'NEILL: So some several months later, in the lead-up to Christmas 2021?

Ms Quinn: Yes.

Senator O'NEILL: Do you know, Ms Quinn or Ms Urquhart, if other ministers were aware that the former Prime Minister had been appointed to multiple ministries?

Ms Quinn: I'm not aware.

Ms Urquhart: I can't answer for the former Minister for Resources, for example, and his awareness.

Ms Quinn: Throughout this whole period the department did continue to work with Minister Pitt as the minister for resources.

Senator O'NEILL: So business as usual continued with the publicly known and appointed minister, but a covert communications structure was set up with the Prime Minister?

Ms Quinn: They're your words, Senator. I don't know what Minister Pitt knew or the discussions he might have had with the Prime Minister. I know that the advice I have from the department is that they continued to work with the minister for resources in the usual way, irrespective of knowing that the Prime Minister also had sworn himself into the Department of Resources.

Senator O'NEILL: The briefing request that you've indicated occurred from the Department of the Prime Minister and Cabinet for the Prime Minister's use on 8 December 2021—was that provided to Minister Pitt as well simultaneously?

Ms Quinn: Was what?

Senator O'NEILL: The briefing that you provided, at the request of PM&C. Was that also provided at the same time to Minister Pitt?

Ms Quinn: I would have to take on notice the precise details. I don't believe so. I believe that the Prime Minister requested advice on a particular matter, and advice was provided to him directly through his department, as the minister.

Senator O'NEILL: So we've got two paths of information being followed.

Ms Quinn: This is where it's getting into the territory covered by the inquiry by Ms Bell. I do not believe there was multiple advice provided to multiple ministers. I understand from the information I have that on a particular matter the department provided advice to the decision-maker, the Prime Minister, and for other matters they provided information to the single decision-maker, the minister for resources. I'm not aware of a circumstance in which there were two paths. There was always a single path, but who was responsible for what was made clear to the department, and advice was provided, as is usual, to a decision-maker. The situation was, in this case, that the Prime Minister was indicated as a decision-maker for a particular matter.

Senator O'NEILL: It sounds like there were two discrete paths that emerged after 8 December with information—

Ms Quinn: No. There was a particular request for briefing on a particular decision. It was clear who was the decision-maker within the department, and advice was provided to decision-makers as appropriate.

Senator O'NEILL: You said that the department was clear on who the decision-maker was?

Ms Quinn: Yes.

Senator O'NEILL: Who was the decision-maker?

Ms Quinn: Well, we were asked to provide information on the PEP-11 application, and it was made clear that the decision-maker for that was the Prime Minister.

Senator O'NEILL: That was the Prime Minister?

CHAIR: Do you have a—

Senator DEAN SMITH: I have a significant matter I'd like to draw to your attention.

CHAIR: Sure.

Senator DEAN SMITH: I just want to make sure that the minister at the table is very, very happy with this line of questioning from Senator O'Neill, because I would hate the secretary to inadvertently compromise herself

or other officials, or indeed the inquiry. My question is just to make sure that the minister is happy with this line of inquiry from Senator O'Neill—or is at least paying attention to this line of inquiry.

CHAIR: Sure. I might just add there that, as the conversation was going on, I was considering the estimates rules and whether the existence of another inquiry is necessarily relevant to the questions that are asked here.

Senator DEAN SMITH: I think the fact that the secretary has raised it on a number of occasions now—that there is an inquiry. By not just listening to the secretary's evidence but also by watching the secretary's evidence—I just want to make sure that she's very, very comfortable in responding to these questions. If she's not, she's free to take them on notice. In addition to that, I just want to make sure that the minister at the table is alert to the line of inquiry that Senator O'Neill is taking and to any possible adverse implications for this other inquiry. I'm merely drawing it to the attention of the chair and the minister in order to protect the integrity of the inquiry process and also the professional standing of the secretary.

CHAIR: And the minister is invited to answer your question. I'll just clarify from the chair's position that the existence of the other inquiry is not necessarily relevant to the answers that Ms Quinn gives here. I certainly want Ms Quinn to be comfortable with the answers that she's giving. I invite the minister to respond.

Senator Ayres: Yes, I'm listening very carefully. Thanks, Senator Smith. And I haven't seen anything in Senator O'Neill's questions that gives me any concern. I've heard the secretary point out that she is, quite properly, being cautious in her answers and that she'll exercise judgement about how she approaches those. If she needs the committee's assistance, I'm sure she'll ask for it. Obviously when there is a criminal trial, there are some questions about how the Senate itself and Senate committees should approach the hearing of evidence in relation to criminal trials. And there's been some recent experience for the Senate in dealing with those sorts of questions. This is not the same kind of approach that is required. There has been a lot of darkness and not much sunshine on this issue and—

Senator DEAN SMITH: That's why there is an inquiry process.

Senator Ayres: It's a reason for a lot of things, Senator Smith, including some furrowed brows right around the parliament.

Senator DEAN SMITH: Senator Ayres, on this particular matter I think you will agree that my motivation is to protect the integrity of the inquiry, the integrity of this Senate estimates process generally and also of this committee.

Senator Ayres: Yes. Balancing all of those issues, I'm content with what I've heard so far. If I feel the need to jump in I will.

Senator O'NEILL: Just to be clear, there were no other ministers aware that the Prime Minister had been appointed to multiple ministries, to the best of your knowledge?

Ms Quinn: I don't have any knowledge either way, and that's not a question I can answer.

Senator O'NEILL: I think you said that to me before. I'm just double-checking. You also indicated previously that it's an historical fact that no Prime Minister has ever secretly appointed themselves to ministries before—at least none that we've ever become aware of?

Ms Quinn: That was not my evidence. I am saying I'm not aware of it, but I wouldn't be in a position to be aware of it.

Senator O'NEILL: When the Prime Minister appointed himself on 21 April and an official from PM&C contacted the department, did the department seek legal advice on the self-appointment of the Prime Minister into the role of the minister for the Department of Industry, Science and Resources?

Ms Quinn: This is where I would like to take that on notice and consider the answer in relation to the information provided to the inquiry, but also note that there is an ongoing legal case on this matter, and I would like to take advice before I answer as to what legal information was or wasn't provided to who—given those legal proceedings more than the inquiry.

Senator O'NEILL: Sure. Thank you very much. Once the former Prime Minister had been appointed to the department, you indicated that there was a period of no action: no protocols established, no briefings requested, no request for information. But on 8 December 2021 action was triggered by the department of the Prime Minister and he requested that briefing. So there was no incoming ministerial briefing. Is that correct?

Ms Quinn: Not that I'm aware of.

Senator O'NEILL: But a briefing was requested on 8 December. Was there any other briefing that you're aware of requested by PM&C?

Ms Quinn: I believe that the briefing that was requested was on the PEP11 matter, and that alone.

Senator O'NEILL: And no other briefing requested in the time that the Prime Minister held that role as the head of the Department of Industry, Science and Resources?

Ms Quinn: Not that I'm aware of, no.

Senator DEAN SMITH: Excuse me, Chair. I would be happy to propose a private meeting so that we could get some advice from the Clerk of the Senate to give you the necessary protection and the other members of this committee the necessary protection—not to necessarily interrupt or disrupt Senator O'Neill's line of questioning, but so that we can continue to proceed during the course of the evening with the confidence that Senator O'Neill's line of questioning is not putting the official in harm's way, putting the minister in harm's way or putting this Senate estimates process in harm's way.

CHAIR: Sorry, I missed the last part of what you said there, Senator Smith.

Senator DEAN SMITH: In summary, I'm happy to have a private meeting so we can seek the official view of the Clerk, that can be disclosed to the whole committee, so as to not inadvertently put anyone in harm's way as a result of Senator O'Neill's line of questioning. And, of course, the process would also give Senator O'Neill a degree of confidence. That's a proposition. You don't have to accept it immediately. You might choose to reflect on it. A couple of times now—actually more than a couple—the secretary has found it necessary to remind Senator O'Neill that there is a legal process underway.

Senator O'NEILL: Which we are all aware of.

CHAIR: Senator Smith, my thoughts on this are that if an official needs to take a question on notice in order to consider whether there are any implications to that question being answered, it is appropriate to do so. And I note that Ms Quinn has done that on a previous question without any concern from Senator O'Neill. Can I get an indication from you, Senator O'Neill, of how much—

Senator O'NEILL: I've only got a couple more to go and I think I'm pretty close to the end of my questioning here. There's some overlap I think.

Senator DEAN SMITH: Is the option available to the committee at any point during the course of this evening?

CHAIR: Yes. Thank you very much for those thoughts, Senator Smith. Ms Quinn is capable of taking things on notice if she wants to reflect on the implications of any answers. On the basis that Senator O'Neill has said she is nearly finished with the line of questioning, I'll give the call to Senator O'Neill.

Senator O'NEILL: Ms Quinn, you indicated that on 8 December 2021 the Prime Minister requested the only briefing that he requested in the time that he was in the role as the Minister for the Department of Industry, Science and Resources. He did not request an incoming ministerial briefing. And just to be clear, apart from that PEP-11 8 December request from PM&C on behalf of the Prime Minister, which will be asked about in a later session, did the former Prime Minister make any other decisions in the portfolio?

Ms Quinn: I just want to be clear: I can't speak to what the Prime Minister's own department may well have provided him; I can only speak to what information the department—then including the energy responsibilities—provided to him. The awareness we have in our department, just to be really clear, is an awareness on 21 April that the Prime Minister had been appointed to the resources portfolio. There was an awareness on 8 December, via the Department of the Prime Minister and Cabinet, that the department was advised that the Prime Minister had been sworn in and would be the decision-maker for the purposes of PEP-11. The department then provided briefing to the minister in that role as a decision-maker for the purposes of PEP-11. And, to our knowledge, the department only provided briefing to Mr Morrison via the Department of the Prime Minister and Cabinet in relation to this decision alone, and we're not aware of other briefing or advice provided in his capacity as resources minister. I can't speak to other information provided to the Prime Minister from his own department or others, and I note that Ms Bell has been asked to inquire into this matter and will be reporting back on 25 November.

Senator O'NEILL: One of the roles that the department is tasked with is keeping the minister's office briefed on developments in the portfolio and providing advice. Again, apart from PEP-11, did the department provide briefs or advice to the former Prime Minister or his office in relation to any other matter in the Industry, Science, Energy and Resources portfolio?

Ms Quinn: I can't speak to industry, science et cetera. We provided information through cabinet and through other processes, but, certainly in relation to decision-making, not other than the PEP-11 case.

Senator O'NEILL: So exclusively PEP-11. And just for the mechanics of it, so I understand a little more, how was it decided whether questions on notice or matters requiring ministers' attention were sent to either the former minister, Keith Pitt, or the former Prime Minister, Scott Morrison, or did you send them to both?

Ms Quinn: When you say 'questions on notice', I'm just clarifying what—

Senator O'NEILL: If there were questions asked about a matter that might have an overlap between the two ministers.

Ms Quinn: As I was saying, the department was clear, for the PEP-11 decision, the Prime Minister was the decision-maker, so information was provided to him, as it would be. Minister Pitt was the decision-maker for other decisions and other administrative arrangements, and information was provided to him as a decision-maker. That was clear to the department—who was the decision-maker for certain matters. That is not dissimilar to other portfolios I've worked in where there could be multiple ministers who could be decision-makers on particular matters. For example, when I worked under the competition act, there were multiple ministers who had different responsibilities, and it was clear who got the briefing and we provided that information on decision matters. So that element is not unusual—to have more than one minister in a portfolio that may be the decision-maker.

Senator O'NEILL: But you had very clear delineations. So, as of 8 December, it was very clear to the department that all communications and requests for information about the PEP-11 matter were, from that point on, the responsibility of the Prime Minister alone in his additionally self-appointed role as the minister for Department of Industry, Science and Resources?

Ms Quinn: That is the advice I have before me, yes.

Senator O'NEILL: And no further communication about PEP-11 therefore went to Minister Pitt, because his responsibility ceased as of 8 December. Is that correct?

Ms Quinn: This is where I'd like to take it on notice, because there are multiple elements in terms of application processes et cetera. It's likely that some of the parties involved were also involved in some other decisions. So I'd like to take that particular question on notice, to get clear advice in terms of decision-making and make sure that we don't cross any lines between the inquiry and the legal court case.

Senator O'NEILL: Thank you.

Senator BRAGG: Thanks very much for being here and congratulations to you, Ms Quinn, on your appointment as secretary. I know you bring extensive experience in the Treasury portfolio, so I think you'll do well in that role. Can I ask you about space?

Ms Quinn: You can ask about space. Technically space is in 1.2, on Thursday.

Senator BRAGG: That's the Space Agency. What if we want to ask questions of the department?

Ms Quinn: The Space Agency is in the department.

Senator BRAGG: Okay. Can I ask you about R&D?

Ms Quinn: Yes, you can.

Senator BRAGG: As you know, we had this issue with software and the endless processes that we went through in the last parliament to try and get this right. The principle, I think, that we were trying to achieve, or certainly that the industry was looking for, was: how do you provide some certainty that software can be part of the offset, particularly when software is a service and particularly when it's an organisation that might not have a huge amount of regulatory capacity? Where is that up to now?

Ms Quinn: I'm very happy to take the high level on this and then get officials that can answer in more detail. There was a review of the R&D tax incentive, colloquially known as the three Fs review. That resulted in reform changes to the arrangements. Those reforms have been bedded in. The advice I have is that it has made some improvements to the operation of the system. There are still issues, as you would expect with any regulatory regime where people have issues on how to account for things and how to measure things and the implications. And software is something that stakeholders raise from time to time in terms of their concerns about how it's accounted for. It does get complicated when we're talking about things that can be moved between different parts of a business and how to capture it, so it's always going to be a little difficult to be precise. If you want to go into more detail, I'm happy to throw to my colleagues who've got much more expertise in this matter.

Senator BRAGG: Do you have a breakdown of where the R&D tax expenditures go?

Ms Quinn: I will bring the experts to the table for you.

Ms Oliver: I can talk in more detail to software and the R&DTI.

Senator BRAGG: Is it AusIndustry that supports the judgements here? Is that part of the department?

Ms Bryant: The R&DTI branch sits within the AusIndustry division, but it's not necessarily driven by the AusIndustry brand, let's say, as we're in with regional managers and things like that. It's quite separate.

Senator BRAGG: So do you have a breakdown of where the tax expenditures are going across the economy?

Ms Oliver: Yes, we do by industry, I can give you some information about software particularly, ICT registrations.

Senator BRAGG: I'm interested in what percentage that might be.

Ms Oliver: Absolutely. Recently software registrations have represented about 40 per cent of total registrations that we receive under the scheme.

Senator BRAGG: You mean in terms of the volume of the claims or the volume of money?

Ms Oliver: That's right. That's in terms of the volume of claims. It has typically been over 35 per cent of total registered expenditure.

Senator BRAGG: So what is the trend over the last five years?

Ms Oliver: I have got some figures here around software over the last two years. We have seen quite a big tick up in the last financial year. In 2021 the per cent of total expenditure was 46.5 per cent, having jumped up from 41.8 per cent in 2019-20. In previous years, in 2018-19 and 2017-18, it was hovering around the 30 per cent mark. So we are seeing an upward trend in expenditure.

Senator BRAGG: What sort of industry engagement are you doing?

Ms Oliver: We're doing quite a lot of industry engagement, particularly with the Tech Council of Australia.

Senator BRAGG: What are they saying to you?

Ms Oliver: They are certainly talking with us about how we might be able to improve certainty for software companies about eligibility for the program. Off the back of the recent Board of Taxation report—I'm not sure if you are aware that they inquired into the administration arrangements of the scheme in 2021—they looked at this issue in particular, and they found that the best approach to improving certainty for software companies was to focus on administrative reforms. They found, in fact, that a separate program for software was not recommended at that time.

Ms Quinn: Just to add to that, guidance in terms of how software related activities should be considered was refreshed by the Australian Tax Office in April 2022. That is one active step in terms of providing additional information to stakeholders who might claim, particularly those stakeholders who might not have as much regulatory capital in their organisations. That's April 2022. In terms of how that guidance has helped, it is probably a little early. It has not even been 12 months yet. That would be the sort of discussions to find out whether that guidance has clarified, whether people are comfortable that it has made it easy for them to understand. As you know, it can be very difficult to find eligibility when things are moving very quickly in a particular industry. The intent of the tax incentive is to incentivise additional expenditure in the research system over and above what people would have done otherwise.

Senator BRAGG: Of course. I do not want to take any more time, but the nub of the issue is really, are there any existing proposals on the table that the government is considering? It is obviously quite complicated. The reason this has been a bit of an intractable issue is that it has been caught between different parts of the Commonwealth. Is there any further proposal being considered at the moment, or is the approach you're taking to wait and see the industry response to the new ATO guidance and the like?

Ms Oliver: We are working actively with the Tech Council of Australia. As the secretary mentioned, there was new guidance put out in April 2022. Further guidance is in progress and expected to be put out by the ATO in coming months.

Senator BRAGG: You're saying there is going to be more guidance in addition to what was published in April?

Ms Oliver: That's right.

Senator BRAGG: That's not very old.

Ms Oliver: That will be more looking at the ATO side of the R&D—

Senator BRAGG: You're saying guidance from AusIndustry.

Ms Oliver: We consulted with Treasury and the ATO and stakeholders and the Tech Council of Australia in that guidance that was put out. That was relating more to the department of industry's functions under the scheme, which was about registrations and what is eligible for the R&D tax incentive. The next tranche of guidance will

focus on the ATO's responsibilities, which relate more specifically to validating the expenditure under the program. For example, once R&D activities are registered with our department, the expenditure related to those activities is then submitted to the ATO as part of the company tax return. That is when the ATO gets involved. So there is further guidance planned there, and we will work with the ATO on that as well. We are also working with the Tech Council of Australia on a possible pilot, working with up to 20 small software companies, and taking them through our advance findings process. An advance finding—

Senator BRAGG: What's your timetable for that?

Ms Oliver: We're in active discussions with the Tech Council of Australia currently. I would say perhaps in the next few months we would be looking to put that into motion.

Senator BRAGG: I look forward to talking about that next time.

Ms Oliver: We're looking forward to the learning.

Senator CANAVAN: I would like to echo Senator Bragg's comments and congratulations, Ms Quinn. I agree with his sentiments. You are a very esteemed economist. I am not—I'm an agrarian socialist now. If I remember my economics textbooks correctly—I'm picking up on Senator McDonald's questions before—if we were to put in a price cap, talking about these price caps for gas, wouldn't that lead to a shortage of gas if the price was below the equilibrium price that we're seeing now? Presumably that's why we would want to do that. Why wouldn't that lead to a shortage of gas in Australia?

Ms Quinn: I refer to my answer before, which is that there is a complicated market and lots of different sections of the market. The east coast gas market is very different to the west coast gas market, for example.

Senator CANAVAN: I should say that I'm referring to the east coast here, because that's what we are all worried about. Why wouldn't that need to—

Ms Quinn: You have to be very careful, when you think about regulatory interventions, to make sure you don't have unintended consequences. That's part of any analysis of any regulatory intervention, either on the quantity or on the price.

Senator CANAVAN: Going to some of the specifics of the complexities of this market, it seems to me over the last few months that one of the driving forces of the particular spike we saw in gas prices was during winter the increased demand from gas power stations, who were desperate for the gas to keep lights on. They would almost pay any price to guarantee that. Have you looked at how a cap might operate in the event that there is a surge in gas demand just to keep the lights on for electricity production? Would that cap bind on those consumers or would there be different arrangements for them, et cetera?

Ms Quinn: They're all very good questions. Part of the issue you have to think about in terms of the market is the different components, as Senator McDonald said earlier. There are producers; there's the transmission system; there are different users, including the electricity generators and industrial users. In relation to the electricity generator you also need to think about the implications for the electricity market. We have different generators with different cost structures bidding into the market. So it's a complicated system that needs measured and considered analysis to work through the issues and implications. You are absolutely correct that different interventions have different pros and cons, and that's part of the discussion and work.

Senator CANAVAN: What about the non-price factors in contracts? I'm particularly talking about the length of the contract, the potential price risk, demand risk that a producer or consumer might take on that; the penalties for non-delivery or how much non-delivery can occur without a breach of contract. I think you said earlier that there is not always great transparency at the moment. Do you have transparency at this stage into all of those contractual terms that might exist—I'm particularly interested in the industrial sector—between the industrial sector and gas producers or suppliers?

Ms Quinn: It's a very complicated market. You mentioned the seasonality issues as well in terms of when gas is being delivered for what purpose and in what volume. There's a lot of negotiation between parties, and a lot of that is commercial in confidence, so there is a lack of public information. For example, we don't have full visibility of all the contracts by any means. The ACCC has more through inquiry processes, using its powers under the competition act as part of its ongoing inquiry. It produces aggregate information and analysis in its reports.

It is complex and you do need to work through the consequences. There has been a structural change in the gas system with the reduction in gas supply out of Bass Strait and an increase in gas supply in Queensland. That has implications for different parts of the market that are still working through the system as well.

Senator CANAVAN: I was going to go to the transportation costs as well. Are you looking at any kind of interventions based on a wellhead sort of price, because obviously different consumers in different parts of the country pay different prices for the delivery of gas. How is that being factored in?

Ms Quinn: That's one of the considerations. It's absolutely the case that the transport costs factor into the retail price and even the wholesale price depending on what your arrangements are. So all of that complexity is part of the discussion.

Senator CANAVAN: I don't know if you heard earlier tonight in this committee Treasury or the Treasury secretary, who was absent. In his opening statement, Dr Kennedy flagged that energy price interventions should be considered. He wouldn't really go into specifics of what they might be. He certainly didn't dismiss price caps. Is this department being consulted by Treasury or was it consulted before Dr Kennedy's statement this evening?

Ms Quinn: We have been in discussions, as I went through with Senator McDonald, with our colleagues across the Public Service on what's happened in the gas market. This department has been in those discussions for a large number of years, because providing advice on the export arrangements and the heads of agreement and production issues is an ongoing discussion. The short answer is, yes, we have been discussing with Treasury and others what is happening in the market.

Senator CANAVAN: Did you know Dr Kennedy would make that statement this evening?

Ms Quinn: Not precisely. I have talked with him as well as other people in the system on different views but I am not party to his Senate estimates opening statement.

Senator CANAVAN: Minister, do you know if the ministers were consulted about Dr Kennedy's statement?

Senator Ayres: I don't know.

Senator CANAVAN: Could you take that on notice?

Senator Ayres: Yes.

Senator CANAVAN: There has been a lot of focus on, I suppose, interventions that go to issues like price caps potentially, talk of reservation. If you were to introduce any of these sorts of measures, as I mentioned, it would presumably put some pressure on clearing the market, because there would probably be extra demand than what we see now if the price is artificially kept low. It seems to me the corresponding need here, if we are to intervene, is to increase supply at the same time to try and alleviate such pressures. Are you looking at advice to government how we could increase supply in the short term of gas in eastern Australia in particular?

Ms Quinn: We are looking at all of the options, as ministers have expressed publicly. It's a complicated market; there are a lot of different moves parts. We are and have in the past looked at all the elements of the system.

Senator CANAVAN: Are there any particular options in terms of increasing supply that you're focused on at the moment?

Ms Quinn: The question is on the regulatory side. I sort of mentioned a few times we will have our resources colleagues here on Thursday, but obviously the government has released acreage release in terms of opening up more parts of the system for possible exploration. So that's one specific policy.

Senator CANAVAN: Were any of those in eastern Australia though?

Ms Quinn: I would have to—

Senator CANAVAN: You might have to wait, I think.

Ms Quinn: I have to wait for the experts.

Senator CANAVAN: Almost all of those might have been disconnected from the eastern market. I was particularly asking about eastern Australia. I noticed in the budget the government has cut a significant amount of funding to gas projects, over \$50 million across the Beetaloo and Cooper basins. Have you done analysis of how that would affect the supply of gas, especially for industry, in the next few years?

Ms Quinn: We would have provided advice on those particular measures.

Senator CANAVAN: Were those decisions made in this portfolio?

Ms Quinn: They are in this portfolio.

Senator CANAVAN: Do they come under Minister King?

Ms Quinn: Yes.

Senator CANAVAN: I note also that recently in the last week the minister for the environment I should say, has asked for 18 major coal and gas projects to be reassessed under the EPBC Act. Was the department consulted before the minister for the environment made that decision in

Ms Quinn: I'd have to take that on notice for our resource colleagues, who are not here because they're on Thursday. I'm happy to take it on notice and provide that information at the time.

Senator CANAVAN: I want to pick up on Senator McDonald's questioning. You mentioned cost curves in the industry and what have you and the impacts of price caps. Did I hear you say that you're doing more modelling now on the costs—constructing a cost curve—

Ms Quinn: I don't believe I used the word 'modelling'.

Senator CANAVAN: I'm sorry, I shouldn't have used the word 'modelling'.

Ms Quinn: I'm very careful with using that word because it's—

Senator CANAVAN: Yes. Have you done more analysis of the costs of production for—

Ms Quinn: It is, as I mentioned, a factor in the process. One of the opaquenesses in the market is the differential cost structures. It's incredible commercially sensitive information—particular companies' cost structures. That is information that would be really helpful to the discussion.

Senator CANAVAN: There has been some analysis of that in the past though, particularly with the ACCC reports.

Ms Quinn: Yes, there is analysis out there.

Senator CANAVAN: I would have thought one difficulty here is that you'll never get a precise estimate anyway because cost accounting is not a precise science.

Ms Quinn: It's a complicated issue because of the technology in different parts of the country. You have to take into account labour costs and capital costs—and it shifts obviously with what's happening in the broader economy. It's important to look through those issues. The different technology options do make a difference. They are all factors in any production market—what the cost structures are, what the competitive dynamics are and what the supply dynamics are. I'll say it again—I feel like I'm a bit of a broken record—it's a complicated issue that has been with us for some time. We'll continue to work on it and provide advice.

Senator CANAVAN: What about on the industry side of this equation? That's on the resources side—the costs are sort of the breakeven price that gas producers would need. What about for the industrial customers, particularly focusing on our manufacturing industry? There has been more limited analysis of that in ACCC reports, although I think from memory Rod Sims has often referred to a figure of around \$8 a gigajoule being a pinch point for many industrial consumers in Victoria. Are you doing any work on that—what price they need to stay alive, before we lose too much manufacturing?

Ms Quinn: Also a factor is the different cost structures faced by industrial users and the electricity generation sector. It depends very much on exactly what they're using gas for what their substitution points are between gas and electricity, for example, where they're located and what other options they've got. It's not the case that there's one single price for the different industrial users either because of those factors—depending what they're using it for, what their cost of capital is, how energy efficient they are and what their other options are for reducing their demand for gas as well. The government announced, not in this portfolio but in another portfolio, energy efficiency measures. There is both on the supply side and the demand side these cost pressures competitive dynamics, and, as I said, it's complicated.

Senator CANAVAN: Yes, and that's going to be our problem here. I come back to the point that there might not be easy answers but there are simple ones, and a simple one is to increase supply. That would help lower the price. That would create more gas for everybody. Trying to retrofit our different interventions is probably going to create more perverse outcomes than otherwise. In regard to industry and manufacturing, how are you reaching out to that sector at the moment—not necessarily to work out these breakeven prices? What discussions are you having with brick manufacturers, petrochemical manufacturers and people who are highly exposed to these higher prices?

Ms Quinn: We have different avenues for engaging with stakeholders. We have our network of regional managers—I forget the terminology; someone will correct me. We have people on the ground that are engaging with industry on a regular basis. They collect intelligence and information through that network and feed it back to policy. We also conduct individual discussions with different groups of stakeholders.

Senator CANAVAN: Have you or any of the deputy secretaries hosted roundtables with manufacturers recently?

Ms Quinn: Not recently. There have been individual approaches when we're talking to different manufacturers about things and we have a series of roundtables, depending on the issues.

Senator CANAVAN: Has either Minister Husic or Minister King hosted a conference or meeting with industrial users recently?

Ms Quinn: We had a large number of roundtables in the lead-up to the Jobs and Skills Summit, which covered what was happening in the particular industries and how to focus on jobs and skills, but it did look at other issues to do with—

Senator CANAVAN: But not a specific meeting about this issue?

Ms Quinn: There have certainly been stakeholders who've approached both the department and the minister's office to talk about—

Senator CANAVAN: But they've got to approach you. You're not reaching out to them at the moment.

Ms Quinn: We reach out to them on a regular basis, but we haven't had a specific thing in recent weeks on this issue.

Senator CANAVAN: I thought I heard before that there's no interdepartmental committee on this issue—is there?

Ms Quinn: There are lots of discussions across the Public Service on this issue.

Senator CANAVAN: But no IDC focused on energy prices.

Ms Quinn: There are discussions at all different levels on a regular basis.

Senator CANAVAN: Sorry—there's no IDC to deal with energy or gas prices?

Ms Quinn: There are mechanisms to talk across the departments.

Senator CANAVAN: That's not my question, Ms Quinn. With all due respect, it's a pretty simple one, and I don't think it's one that deserves any—

Ms Quinn: Different people have different names, whether it's an IDC or a working group, or we're just having a meeting or a discussion. It's clear we've been tasked to look at this issue.

Senator CANAVAN: This is perhaps a question for the minister. My concern here is that it doesn't seem like the government is taking this issue very seriously. When we were in government and this was happening, I remember—when there was a gas shortage—we had a number of major roundtables in this room, or in one of these rooms, with manufacturers and the gas producers. The Prime Minister was involved in those discussions. There was an interdepartmental committee. But, to me, it seems like your ministers are all at odds with each other, and the departments don't seem to have any formal processes to collate these issues. When is the government going to get serious with proper processes to allow the industry, which is suffering in this country right now, to have its voice heard here?

Senator Ayres: I think I might take that question. Senator Canavan—

Senator CANAVAN: Well, you're not. You're wailing around at the moment!

Senator Ayres: If you want to contrast the relative senses of urgency—

Senator CANAVAN: I do, because I remember when we last had a gas shortage. As I said, the Prime Minister turned up and was very active.

Senator Ayres: and the record of Mr Morrison's government that you were part of—zero work done on this question in the lead-up to the election, all about power but no interest in energy—we could do that all night. And I'd be very happy to do it.

Senator CANAVAN: I'd be happy to, because the only thing you've done is to use the thing we left you. You spent months complaining about the ADGSM, and now that's all you've relied on.

Senator Ayres: I've listened to you drone on for the last 15 minutes, and I'm going to answer the question. I'm not going to be interrupted by him. There has been a very clear process.

Senator CANAVAN: It's not very clear tonight.

CHAIR: Senator Canavan!

Senator Ayres: We are going to run a fair dinkum government.

CHAIR: We've been having a very respectful conversation over the last few hours.

Senator CANAVAN: Until Senator Ayres—

Senator Ayres: He started it!

CHAIR: It's very helpful when, as I said earlier, one person asks a question and then one person answers a question. Minister, you have the call.

Senator Ayres: Thank you. I was listening carefully to the discussion that you and the secretary were having. These are urgent issues, and they're complex issues. What they require is a proper cabinet-style government that deals with these questions in a careful and deliberate way. On the questions of a short-term supply, as has been outlined this evening, the government reached agreement with the gas producers about five weeks ago. There are questions that relate to price and the kinds of interventions that are being considered by the government. As I think the Treasurer said a few weeks ago, 'All of the options are on the table' and are being worked through in a very careful way. That's what Australians expect. We'll do that in a way that produces the best possible policy result.

I should say, Chair, that I think there was a question that Senator McDonald asked about Minister Husic's meetings with gas producers. We agreed to take it on notice, but I'm in a position to answer it now if that assists. He had a series of meetings: Monday 27 June with APPEA; Wednesday 24 August with Santos; Thursday 25 August with INPEX; Monday 12 September with Origin Energy; Wednesday 12 October with ConocoPhillips Australia; Wednesday 26 October with APLNG; and Thursday 8 November with Shell.

Senator McDONALD: Is this Minister Husic?

Senator Ayres: Yes, and of course he's the Minister for Industry and Science. I'm sure that, when we come to the discussion in the resources portfolio, there may be other questions about other meetings, but I'm in a position to answer for him tonight, so I thought I should do that rather than leave that question lingering on notice.

Senator McDONALD: Thank you. Could I just follow up on that?

CHAIR: Senator McDonald, sorry. Can I just do a bit of timekeeping and see who else may have questions?

Senator McDONALD: I have more questions.

CHAIR: It's you, Senator McDonald—okay. And I believe Senator O'Neill has some questions.

Senator O'NEILL: I have a couple as well, yes.

CHAIR: Thank you.

Senator McDONALD: Just to finish off on this point: on 26 October, Phil Coorey wrote in the *Australian Financial Review*:

Last week, Dr Chalmers and ministerial colleagues Chris Bowen, Madeleine King and Ed Husic began—
began—

examining options to try to force down prices without creating sovereign risk. It is understood a departmental taskforce has been formed.

CHAIR: Was this the department?

Senator McDONALD: Yes. I've been asking questions of both the Treasury and now this department. I am curious. Minister Ayres said before, 'We're going to have a fair dinkum cabinet process; we're going to have systems and collaboration.' An interdepartmental committee, group or task force, as you say—whatever you want to call it—would be a key part of that process, normally. So I'm interested that Phil Coorey thinks that a departmental task force has been formed and yet, in all my questions, I can't find anybody to refer to a task force by any other name. So I just want to have one more opportunity to ask this specific question: is there an interdepartmental task force, a committee, a collaboration or a camel—a committee by any other name—that is working specifically on options to force down prices and would have been created by Dr Chalmers, Chris Bowen, Madeleine King and Ed Husic?

Senator Ayres: I think there was a long discussion earlier on, which you led with the secretary, about the kind of engagement across government on this question, and I think she answered that very carefully and thoroughly. Whether the Google search terms 'gas' and 'task force' have elicited Mr Coorey's article or not, or however you might have otherwise brought yourself to that article, I think it's a set of—

Senator DEAN SMITH: I think, Senator Ayres, it was a line of questioning that I used with the Department of the Prime Minister and Cabinet.

Senator Ayres: It sounds to me like a question for Mr Coorey.

Senator McDONALD: No.

Senator DEAN SMITH: And they were just as elusive.

Senator Ayres: I couldn't hear, because I was trying to answer the question.

Senator DEAN SMITH: I was questioning, on 28 October, officials from the Department of the Prime Minister and Cabinet, and they were equally elusive, so my suspicion is aroused.

CHAIR: The minister has just answered a question. I'm just wondering what the current question is, Senator McDonald or Senator Smith.

Senator McDONALD: I think the minister was making some aspersions that I couldn't come up with questions on my own.

Senator Ayres: No, I would never do that.

Senator McDONALD: I have certainly not had any communications with any journalists on this matter.

Senator Ayres: No, I suggested that that's the form of words that Mr Coorey has used.

CHAIR: It's his claim, I think.

Senator Ayres: You've had a long discussion with the secretary. She's characterised it the way that she has, and I'm very comfortable with that.

Senator McDONALD: I won't speak for Senator Smith, but I think the point he was making was—

Senator DEAN SMITH: The secretary has said—I'm paraphrasing, but these are the keywords—that there have been discussions with colleagues et cetera around the gas market. I'm interested in knowing what formal process is being used to facilitate those discussions across government.

Ms Quinn: The usual mechanisms apply to any policy discussion where departments of state do the analysis, as they're responsible for under the administrative orders. We provide advice. We work with colleagues to work up options if that's appropriate—if there's shared responsibility or knock-on implications for issues. We are doing that in this case. We provide briefings to our ministers, who have ministerial-level discussions. So I can assure you that there are discussions at ministerial level, secretary level, deputy secretary level, assistant secretary level and junior levels across the system on this issue. There is no shortage of cooperation, collaboration and discussion.

Senator DEAN SMITH: To follow up on Senator Canavan's line of questioning, I think we would like to know: at the junior official level, at the senior official level and at the ministerial level—we don't need to know at cabinet level, because I think we're all quite familiar with how that process works. All the processes that sit under that usually have a name, membership and chair. We're seeking to try to understand if there is a process and, if so, what is it called and what is its membership? If there is not one, then there is not one. So, Secretary, is there not one?

Ms Quinn: There are different administrative arrangements and discussions at the different levels. I'm happy to take it on notice and pass it to the area of responsibility.

Senator DEAN SMITH: The second question is: over the course of the week, when I had a similar line of questioning for officials at the Department of Prime Minister and Cabinet, and now today, on Tuesday 6 November—when I'm unfortunately getting the same response from you as I got on 28 October, when I unsuccessfully prosecuted a line of questioning—why the need for secrecy? I would have thought that businesses, consumers and others would be very interested and looking for a level of confidence that the government is not just discussing this but that there are formal processes in the government informing its deliberations.

Senator Ayres has said this is going to be a fair-dinkum, cabinet-style government. Well, I think interdepartmental committees, or taskforces, or whatever they are called in this particular instance, are characteristic of a fair-dinkum, cabinet-style government. I can't help but think there's cause for concern if there's no committee or mechanisms that you're prepared to share with the committee or that there are but you're still not prepared to share them. I don't understand why there needs to be this level of secrecy.

Ms Quinn: I don't know that I would characterise my answers as having any level of secrecy. I just note that it's 8 November today, rather than 6 November. There are discussions across government, at different levels, as would be appropriate. Ministers are discussing this issue. They have been public about discussing this issue. We are working through—

Senator DEAN SMITH: How are they discussing it? Is it under a tree—in a coffee shop? In the car park? In other conversations—

Ms Quinn: Wait, Senator—

Senator DEAN SMITH: I don't mean to talk over you, but in other conversations on other matters over the last few days of this estimates process, the words 'task force' and 'interdepartmental committee' have been willingly shared with other committees as a way of demonstrating progress on issues. The secretary's board took

on notice my question about all the various subcommittees. The Department of Prime Minister and Cabinet took on notice my question about interdepartmental committees and their membership. We're very, very curious why, on this particular issue—which is of such significance and importance to people living on the east coast of our country—we are being a bit elusive. My word—

CHAIR: Senator Smith, versions of this question have been asked and answered. The answers may not be to your satisfaction—they clearly aren't—but the question has been asked and answered multiple, multiple—

Senator DEAN SMITH: To be fair to the secretary, the answers have been getting better!

CHAIR: multiple times by you, Senator McDonald and Senator Canavan! I am just noting, for the purpose of management of the hearing—

Senator DEAN SMITH: The answers have been—

CHAIR: that the question has been asked and answered multiple times. It may not be to your satisfaction. I know the minister and the secretary may want to have one final answer to this question that has been asked multiple times, but my appetite for the same question is running out, and Senator O'Neill does have some questions. Minister?

Senator Ayres: I'd just observe that the secretary has answered this question in detail. If the apprehension amongst coalition senators is that there is not a careful, deliberate process of discussions, briefings and proper, cabinet-style process across government, I can assure Senator Smith that that's not the case. This is not a government like the previous government, that did things by press release and by attaching marketing and labels to issues, rather than actually dealing with them.

Senator DEAN SMITH: As Senator Ayres knows [inaudible] quality of the outcome.

Senator Ayres: We'll be assessed on the substance of the response.

Senator DEAN SMITH: It is the quality of the outcome.

Senator Ayres: This is a difficult and important a set of issues in front of the Australian economy.

Senator DEAN SMITH: The quality of the outcome.

CHAIR: Exactly.

Senator Ayres: The quality of the outcome; that's right.

Senator O'NEILL: Yes. Not just a special name to make it sound important at interdepartmental committees.

CHAIR: Okay!

Senator O'NEILL: Oh, my God! Let's get the name right! Forget about the substance!

Senator Ayres: Having finished on that point, I just have to make one small correction, and that is that the meeting with Shell was on 8 September, not November, and I just assure Senator McDonald that, if there is any other information in relation to that, we will come back on notice on that issue.

CHAIR: Thank you, Minister. I'm going now to Senator O'Neill.

Senator O'NEILL: I just want to ask a question about a matter of considerable importance to me and the country, I think, and that is the tech sector—in particular, the skill shortages that are going on in that space. What's very clear, I think, to anybody who has been following the debate around this important sector in the Australian economy is that the skill shortage hasn't just happened overnight. I'm wondering what the factors are that are really driving the shortages and whether there is any changeover time or whether it's just an exacerbation of the same factors over and over.

Ms Quinn: Just to be equally fair across this, this is technically in item 1.2, which is on Thursday. I'm happy to do it at a high level and have officials here in more detail. Whenever there's a significant increase in demand for skills, it does take time for the systems of government, society and industry to respond. It is the case that there is increasing demand for digital and technology skills in the economy, and it's important that systems, in terms of the education system and industry training systems, respond, and in this case there's a gap. The other factor here is the restrictions on immigration during the period of the pandemic. We have historically had skilled labour coming into Australia through our immigration system that has an ability to fill immediate needs. In the digital and skills system, it's also the case that, historically, not all parts of the labour market or parts of society have seen their future possibility in these sorts of jobs, so there has been a focus over time on increasing the number of women, for example, who may be interested in digital skills. The current government has a focus, as explored during the jobs and growth summit, on expanding the pipeline of people from disability, people with different ethnic, cultural and linguistic backgrounds and First Nations people. They typically are at lower representation in the digital and skills area and the more we can widen the pipeline of people interested in these jobs who have the

ability to access the training and entry-level opportunities or to reskill, if people need to add those capabilities to their existing skills, then the more we are likely to reduce the skills gap in this country.

Senator O'NEILL: Thank you very much for giving me an outline of the shape of the problem, particularly in reference to reskilling. It's such a critical thing for people to have hope that they can change if the industry that they're in is declining in its importance and they have to invest to make a change. That's been an impediment for many people, particularly across the regional areas that I spend so much time in. But I'm keen to understand the particular actions currently in your portfolio area to address the skills shortages that you have just been describing. You have named quite a few initiatives.

Ms Quinn: That's right. Coming out of the Jobs and Skills Summit and joint work between this portfolio and the Department of Employment and Workplace Relations is the Digital and Tech Skills Compact. Working through a working group with employers, government, unions, and training and education providers, that's looking at the possibility of a digital apprenticeship scheme. There is a set of programs, which the team can take you through, if you're interested, particularly on Thursday under 1.2, around the next generation artificial intelligence and emerging technology graduate programs; the Cyber Security Skills Partnership Innovation Fund; a focus on quantum research PhDs, for example; a focus on programs for women in STEM—the government has announced a review of those programs and, in particular, is thinking about whether those programs could be adapted or expanded for different diversity groups—and also work around the space industry, in terms of the workforce pipeline for those industries. They're just a few. There are other initiatives outside this portfolio and there are a set of things the government is looking at in terms of the vocational education system and how those can be adapted for technology and skills, and higher education. The industries talked about digital traineeship arrangements and things like that—how government can partner with industry to help industry fix some of these issues themselves as well.

Senator O'NEILL: I'll probably have some more detailed questions on Thursday when we get to 1.2. You mentioned STEM and you mentioned women. Are there any particular programs that are addressing this issue right now?

Ms Quinn: Yes, there are. If you would like more detail, I'd like to take them on notice and have my experts here on Thursday.

Senator O'NEILL: I think we will wait for that. Thank you very much, Ms Quinn.

CHAIR: Thank you, Senator O'Neill. I understand from my colleagues that we're in a position to release Corporate.

Senator McDONALD: Just not cross portfolio.

CHAIR: Okay. So we're in a position to release Corporate, There was a break on the program, but, I think, with the agreement of the committee, we may make good time if we push through, so that's where we're at at the moment. Senator McDonald, I believe you have some questions in relation to program 1.1, outcome 1.

Senator McDONALD: I think it's going to be a mixture of cross portfolio and outcome 1.1. So I will continue to be guided by the secretary on—

CHAIR: Okay. Senator McDonald, you have the call.

Senator McDONALD: Thank you. Ms Quinn, I wanted to ask you about the ACCC code of conduct. How is the department contributing towards the ACCC's review of the gas code of conduct and the government's consideration of making it mandatory.

Ms Quinn: That's, technically, under our resources team, which is 1.3, but, at a high level, officials from my department have been working with officials from the ACCC, including in discussions with industry around the voluntary code of conduct that's in place. We have been having discussions about the voluntary code of conduct, but also about the government's reforms for the gas security mechanism.

Senator McDONALD: Will this extend beyond producers and include retailers, manufacturers, pipeline operators and so forth?

Ms Quinn: They're all design questions about the current voluntary code. It does not cover that full breadth as you've mentioned, but, in theory, a code can cover all or part of the market. It varies depending on all the different industry codes, but those are questions for the Treasury portfolio that look after the competition.

Senator McDONALD: I want to move to industry engagement, roundtables and summits. How many roundtables or summits has Minister King or representatives from her office attended since 22 May this year?

Ms Quinn: I'd have to take that on notice. There were a large number of roundtables in the lead-up to the Jobs and Skills Summit. It was just as I arrived in the department, but I think it was in excess of 20 or so. But how many hours work—

Senator McDONALD: How about you take that on notice, please?

Ms Quinn: Absolutely, because there have been other ones around other policy issues et cetera, so I'm happy to take that on notice. So you asked about roundtables—

Senator McDONALD: Roundtables or summits Could I have a list of these events with dates, where and who was invited? Were the events on application or by invitation only or a combination of that?

Ms Quinn: I'm happy to take that on notice.

Senator McDONALD: On 31 August, the day before the jobs summit, the Prime Minister posted a video to social media saying that 'we know the summit has brought people together already, in more than 100 consultations and roundtables and mini-summits have been held'. The Prime Minister also mentioned these in his concluding remarks. What was the department's role in organising these summits and roundtables?

Ms Quinn: There was a series of round tables. The department did the usual things in terms of supporting invitations, managing attendance, organising events, taking notes, shaping the discussion, recording views, providing that information into the system in preparation for this summit. But my colleague might be able to expand on that in relation particularly to the Jobs and Skills Summit.

Ms Johnson: The department coordinated eight pre-summit round tables supporting both Minister King and Minister Husic. The proposed invitation list was developed by policy areas of the department. We worked with peak bodies and key industry and community stakeholders to ensure the round tables represented a cross-section of stakeholder and sector perspectives. This included diverse representatives from small businesses, multinationals, start-ups, business groups, industry peak bodies, unions, academics and education sectors and First Nations people. I can run through the list of round tables and the dates, if you'd like.

Senator McDONALD: No, I'm happy for you to provide those on notice, thank you. What were the outputs of the summits and how did they feed into the main summit?

Ms Johnson: The outputs for the summit were collected in terms of feedback from the table. We collected minutes and we provided that information to the Department of the Treasury, who fed that into the holistic jobs and skills round-table process.

Ms Quinn: Just to be clear, they also provided to our ministers, who considered them as part of their portfolio responsibilities as well.

Senator McDONALD: Will you provide the list of these summits, their locations, the attendees, their cost and the action items, please?

Ms Johnson: Yes.

Senator McDONALD: How did political party signage find its way into at least two of these initiatives?

Ms Johnson: I'm not aware that it did. I'll checked that for you.

Senator McDONALD: If you could take that on notice, thank you.

Ms Quinn: It might help if you've got specific information to narrow it down.

Senator McDONALD: I will provide you with that.

Ms Quinn: Thank you.

Senator McDONALD: Minister, I've got a quote from the Australian Workers Union from September 2020: 'More gas should mean more affordable gas. More affordable gas means more competitive manufacturing and cheaper electricity.' Do you support this statement, Minister?

Senator Ayres: Before I address that, on that last question I'd be very keen to see the example. I can tell you that there were many of those fora conducted, round tables, many of them by members of the government, not ministers. I'd be interested to see because I'm sure that something conducted by the department wouldn't have political party signage up there. Please give me the quote again—from 2020, was it?

Senator McDONALD: Yes, September 2020: 'More gas should mean more affordable gas. More affordable gas means more competitive manufacturing and cheaper electricity.'

Senator Ayres: You're talking to a representative of the government that's just put just short of 47,000 square kilometres more exploration space, both onshore and offshore. The question in front of the government now is not the medium-term and long-term question of more gas supply being opened up in Australia. It is the immediate

question of the excess gas being generated in Australia and the supply agreement that the minister reached with the gas producers. That is the fundamental question in front of the government now in terms of supply, so broadly I agree. The question that we've spent much of this evening traversing is: what is the correct policy response to deliver security, particularly for the kinds of gas consumers on the industrial side that Senator Canavan was talking about earlier, and that is the issue on price that the government is engaged in now. What is the correct policy response that will deliver certainty and security for those businesses and for households and in terms of its knock-on impact into the electricity market?

Senator McDONALD: You mentioned onshore supply. Can you speak more specifically to that?

Senator Ayres: Yes. One of the issues here, of course, is consistency. I've noticed some interesting commentary from around the country. I noticed that the New South Wales treasurer says that he thinks there should be gas reservation, while the New South Wales government has not made progress in terms of the Narrabri project; it's still being held up. So there are questions of consistency.

Senator McDONALD: Queensland's the same. There are projects there that are yet to be approved under the EPBC—

Senator Ayres: But the immediate question that we're engaged with, of course, is supply tomorrow, supply on 1 January, price on 1 January, and let's not pretend that these longer-term questions of gas supply are immediately engaged.

Senator McDONALD: I think what you said was that your government provided onshore exploration areas. I think you misspoke. I just want to check though, to give you the opportunity to clarify that.

Senator Ayres: I'm just checking, as we speak, about those.

Senator McDONALD: Normally it's the state jurisdiction.

Senator Ayres: Yes, they're offshore. You're right.

Senator McDONALD: Minister, as a former state secretary for the Australian Manufacturing Workers Union, do you know the AMWU's current position on gas?

Senator Ayres: I don't have a copy of the AMWU's current position on gas. I'm a person in this parliament who's very proud of my record in working with that particular union, advancing the interests of manufacturing workers in New South Wales and around the country. They, along with the AWU and the ETU in particular in this area of policy, make important contributions.

Senator McDONALD: Alright. I'll refer you to—

Senator Ayres: You're not going to make much progress with me by contrasting the different positions of different unions in the Australian labour movement and asking me to comment on them. That's going to be a cul-de-sac that we could spend all night in, I suppose, but—

Senator McDONALD: No, no. I'm not going to.

Senator Ayres: It's not very unusual for these organisations to express different views and then come together in a way that's pretty constructive.

Senator McDONALD: Indeed. Alright.

CHAIR: And it may not be relevant to the estimates process if that were a direction that you were inclined to go to.

Senator Ayres: And it might not even be entertaining! That's right.

CHAIR: Senator McDonald.

Senator McDONALD: Thank you for providing that guidance, Chair.

Senator Ayres: I'm here to help.

Senator McDONALD: I was specifically going to ask you about Mr Steven Murphy's comments, He made a media statement in May 2021 where he noted that the former government's national gas infrastructure plan was 'wasteful spending by gas-guzzling government intent on denying the futures of manufacturing workers in renewables'. I'm just wondering whether you would like to say whether you agree with that statement or not.

Senator Ayres: Steve Murphy, the National Secretary of the AMWU, is one of the country's finest labour movement and trade union leaders. If you want to know more about Steve's views on any subject, he'd be delighted, I'm sure, to come and see you. I could probably give you his phone number, if you like.

Senator McDONALD: Marvellous.

Senator Ayres: He's got plenty to share about the issues in front of blue-collar workers, particularly blue-collar workers in the regions, and I reckon you'd probably enjoy meeting him.

Senator McDONALD: Simply then, you do support new oil and gas projects—specifically Narrabri?

Senator Ayres: As people in the government have pointed out, all of these projects have to make their way through the regulatory processes. Much of that, of course, is in the domain of the states and territories. They all have to satisfy the economic requirements of their investors. It's uncontroversial, I think, that there is going to be a requirement for gas in the Australian market, both in terms of its firming capability in the power industry and in terms of its role in households and its role as a feedstock for industry. There is going to be a continuing requirement for that. There is also going to be continued demand from our offshore customers for Australian coal and gas in particular. The government's position has been a very clear in relation to that: we have a determination to introduce as much low-cost renewables and storage into the Australian system to put downward pressure on energy prices, and we will continue to export to offshore markets while there is a global market for those products. In relation to some of those products, there will be quite some global market and demand for quite some time.

Senator McDONALD: I was going to ask you about Minister King's support for new oil and gas projects but I think she's been quite clear on that. Does Minister Husic support new oil and gas projects?

Senator Ayres: I think Minister Husic's position and Minister King's position on these questions are entirely consistent, and they are consistent with the position of the government.

Senator McDONALD: Very good—so consistent that he also supports new oil and gas projects.

Senator Ayres: Yes, and I think if you have more questions of detail that go to resources and energy then Thursday is the day for those questions.

Senator McDONALD: Fantastic. Minister, are you aware of which basins make up the Strategic Basin Plan, which was designed to develop and bring online more gas supply?

Senator Ayres: I am not aware of the list of particular basins. I don't have it in front of me.

Senator McDONALD: That's fine. Do you want to refer that to the department?

Senator Ayres: I'm happy to take it on notice, yes.

Senator McDONALD: Or refer that to the department.

Senator Ayres: I'm happy to.

Ms Quinn: I'm happy to come back on Thursday and have the officials here to provide details on that.

Senator McDONALD: Are you aware of how much potential gas exists across these basins?

Ms Quinn: I'm sure the relevant experts are, yes.

Senator McDONALD: Okay. We'll leave all of those questions until Thursday. Critical minerals—

Ms Quinn: Which is also under resources, which is on Thursday.

Senator McDONALD: At a high level, I was trying to find out when the new Critical Minerals Strategy was expected to be announced. Would you have that sort of information?

Ms Quinn: We're working with the government at the moment on the Critical Minerals Strategy. It's a matter for government as to when it's released.

Senator McDONALD: I've got 2023, but we'll wait with breathless anticipation for the new Critical Minerals Strategy.

Ms Quinn: Given we're in November, it's a reasonable chance it will be 2023.

Senator McDONALD: What is the process for developing the new strategy? Consultation with industry? Feedback from the trade department?

Ms Quinn: All the usual things that you would expect in developing a strategy: discussions with the sector, with stakeholders, with all the components and other departments that have policy responsibility. It won't just be domestic; it's also important that we consider the international market and international stakeholders. Critical minerals are in great demand across the world, and this is a great opportunity for Australia to be part of the solution and providing those resources for countries to transition to net zero emissions. So, there will be domestic and international engagement and consideration. I'm happy to come back on Thursday with the officials who are looking after it to provide more information in detail, if that helps.

Senator McDONALD: Terrific, and perhaps you could just give them a heads up that I'll be looking for industry consultation and involvement, terms of reference—because it's not that long since the last Critical

Minerals Strategy was announced, in February. So, I'm keen to explore the changes. Can you tell me anything about the Critical Minerals Development Program, or should I come back on Thursday for that as well?

Ms Quinn: It would be best to come back on Thursday.

Senator McDONALD: Has the department conducted, or been asked to conduct, or been consulted on any modelling, profiling or analysis with regard to altering the current tax regime for gas?

Ms Quinn: We have had discussions at a departmental level with the Department of Treasury on PRRT. We always do, historically. In terms of the exact back and forth, once again I'm happy to have the people involved in those discussions—who could provide more information than I can—talk to it on Thursday.

Senator McDONALD: Okay, so, again, looking for consultation with industry about changes to tax arrangements for future investment in the industry and what analysis there is.

Minister, on 27 May 2022 it was reported that the Prime Minister stated, in relation to a superprofits tax or a change to the PRRT, 'We won't be going down that track.' Minister, do you support the Prime Minister's statements?

Senator Ayres: It's been made very clear, as this discussion has evolved, that the government is considering a range of options. When there's a decision made by the Prime Minister and the cabinet, everyone will be told. In the set of questions that the government is working through—and we've traversed quite a bit of that over the course of this evening—there are complex and difficult considerations that go to the interests of consumers and producers, and getting the balance right for Australia. We're going to work through it in a careful and deliberate way and we're going to make sure we get the outcome right in the national interest.

Senator McDONALD: So that's not still the position of the government? Is that what you're saying—that we won't go that path?

Senator Ayres: I've just set out that we are working carefully through these issues.

Senator McDONALD: Is that a broken promise to the industry?

Senator Ayres: Absolutely not.

Senator McDONALD: Has the department conducted any modelling or analysis on what would happen to Australia's gas supply if a price cap was to introduced?

Ms Quinn: We're working through different policy issues, as I've mentioned before. As we work through it we will be providing information to the different relative parts of the system, depending on their responsibilities. We'll provide and make available all of our expertise in that policy discussion.

Senator McDONALD: So have you not yet been asked? Were you saying that you will provide it in the future, or that you're currently working on it?

Ms Quinn: The discussion around gas has been going on for a long time. I'm happy to take on notice a bit more specificity to your question. Have we provided analysis on the policy implications related to pricing, quantity, export controls and all of the rest of it? Almost certainly, because the previous government made decisions around this and the department was involved in it. Are we involved in those discussions with colleagues now? Yes. So, yes, we'll be providing information and analysis if we've got it.

I've been in discussions before, when people use precise things like modelling or analysis, most processes that go through discussions do regulatory impact statements. Those regulatory impact statements have analysis, quantitative implications, different options, pros and cons. All of those sorts of things are always considered.

Senator McDONALD: Specifically, this is on gas supply if a price cap will be introduced. I would be curious to know if the department believes a price cap would work in Australia, when it's never worked anywhere else.

Ms Quinn: It would very much depend on the design parameters of the policy that's before us.

Senator McDONALD: We touched on Argentina previously. Is the department aware of what happened in Argentina when they introduced a price cap on oil and gas?

Ms Quinn: I'm aware at a very high level. I can take that question to officials who work more closely on this, and they can give some information on it on Thursday. Hypothetically speaking, it's really hard to answer. It always depends on the context of the situation and the specific components of the market. We are talking about a situation at the moment where prices are extraordinarily high internationally. They're not as high domestically in Australia as they are in other countries, partly because of the structure of our market. So it very much depends on the regulatory environment, in which other regulatory factors are put into place. So it depends on looking at the system as a whole. It's really difficult to give a hypothetical answer, because it's a highly regulated market, and we are facing extraordinary circumstances.

Senator McDONALD: I think there was a similar environment in Argentina, so perhaps the department could come prepared to answer specifically what happened in that market: Is it true that production levels fell? Is it true that they had to start introducing fuel rationing? Is it true that they had to start importing LNG?

Ms Quinn: I'm happy to take it on notice. We obviously advise on what's happening in Australia, and we would understand our Australian context at a much deeper level than we'd understand the Argentinian energy market and system. I'm happy to take it on notice and see whether we have got that level of detail. We may well not have. I'm not quite sure.

Senator McDONALD: I hear what you're saying and I understand what you're saying about the special environment or the potential different environments in Australia, but, given that that was a country that faced quite similar issues and used a mechanism, I think it would be foolish not to at least examine the circumstances there, because it did lead to the investors withdrawing from the market, and they had to then subsidise investors to come back to the market.

Ms Quinn: I will take it on notice and ask officials. I am on public record as having pointed out that Australia is very different from Argentina and we're being well served by our regulatory environment and legal structures. In terms of a historical economic analysis of why Australia is different from Argentina, we've got a lot of benefits going for us in terms of our legal frameworks, our regulatory structures, confidence in our institutions and our decision-making. I think it's unlikely that what happens in Argentina is comparable to what happens here, because of all those other factors that go into making the Australian economic system strong and resilient.

CHAIR: Senator McDonald, I have been advised that other senators have questions.

Senator McDONALD: Could I just finish a question on this topic?

CHAIR: Yes.

Senator McDONALD: I guess the interesting point is that we as Australians, particularly at resource levels, both in state and territory jurisdictions and in the federal jurisdiction, like to think that we are immune from the sovereign risk issues that we see in these other overseas jurisdictions. But I'm getting very clear feedback from investors currently that they are putting future investment in Australia on hold because of the uncertainty around future regulatory decisions and are either investing offshore or just keeping their money in their pockets. As you know, with gas, the moment a wellhead starts, production is declining, because they're not forever. If we don't have more projects coming online, we will have a declining supply issue.

Ms Quinn: I just make the observation that, internationally, there's been a great deal of action in the regulatory space relating to energy markets, with a large number of regulatory interventions across the globe in relation to the spike in energy prices across all energy forms as a result of the unjust war in Ukraine. Clearly international investors need to think about opportunities, and they always do. I would argue that, on the face of it, the Australian situation is that we are still an excellent place for people to invest. We have sound regulatory environments and good access to international capital, highly skilled labour and all the rest of it, infrastructure provision et cetera. It's a relative comparison, and some of the interventions in other parts of the world have been extraordinary in response to an extraordinary international situation.

Senator DEAN SMITH: Ms Johnson, in response to Senator McDonald, you offered to provide a list of the job summit events hosted by the department, and I got the sense that you might have had that list with you and you be able to read it out for us.

Ms Johnson: Yes, I can. On 11 August we had a resources sector east-coast round table, chaired by Minister King. It was held at the Brisbane Commonwealth parliamentary offices in Queensland and some catering was provided. Would you like the cost of that catering?

Senator DEAN SMITH: Yes, if it's there.

Ms Johnson: It's \$38.96.

Senator DEAN SMITH: In total?

Ms Johnson: In total.

Senator DEAN SMITH: That was a very modest event.

Ms Johnson: It was a modest event. There were 19 guests and two departmental staff.

Senator DEAN SMITH: And the minister.

Ms Johnson: And the minister. On 17 August we had the digital skills sector round table for Minister Husic. It was held at the Sofitel in Sydney. The chair was the deputy secretary, at the time, Mary Wiley-Smith. There

were 29 guests, 12 departmental staff and catering was \$675. The venue hire was \$3,000 and audiovisual ICT costs made the total cost inclusive of that to \$11,940.51.

Senator DEAN SMITH: The benefit of using Commonwealth resources and not private hotels.

Ms Johnson: Unfortunately, on that occasion, there was no availability at the Sydney office. On 17 August we had the science and commercialisation sector round table, on behalf of Minister Husic. The chair was the acting deputy secretary, at the time, Narelle Luchetti. This was held in the department's NSW state office in Sydney. There were 28 guests and six staff. Catering was \$513.08.

On 18 August we had the manufacturing round table for Minister Husic. The function was held at the Sydney department's state office, again. The chair was the acting deputy secretary, at the time, Narelle Luchetti. There were 22 guests and eight departmental staff, and catering was \$497.46. On 18 August we also had an industrial union sector round table, on behalf of Minister Husic, again held at the Sydney state office. Acting Deputy Secretary Narelle Luchetti was the chair. There were 15 guests, eight departmental staff and catering of \$604.55.

On 19 August we had the AI sector round table for Minister Husic. That was held at Industry House, in Canberra, where the department is based. The deputy secretary, at the time, Mary Wiley-Smith, was the chair. We had 10 guests and three departmental staff and catering of \$298.

On 23 August we had the large industrial employers round table. That was hosted by Assistant Minister Ayres, again at the DISR Industry House in Canberra, chaired by Assistant Minister Ayres. It was also facilitated by Professor Roy Green, given his strong industry and skills workforce knowledge. We had 17 guests attend and two staff. Catering was \$258, and there were some costs associated with Professor Green's facilitation which brought the total cost to \$542.85. On 26 August we had the Resources Sector West Coast Roundtable on behalf of Minister King, at the Perth CPO offices, chaired by Minister King. There were 20 guests, five staff and catering was \$591.

Senator DEAN SMITH: Did Minister King or Minister Husic promote the events on social media? I don't remember seeing any images of these roundtables on their social media.

Ms Johnson: I'm not aware of that. We'd have to take that on notice.

Senator DEAN SMITH: You can take that on notice. In terms of those job summit roundtables that you've identified for me, can you confirm that there was a clear distinction between the job summits hosted or organised by the Labor Party as distinct from the government?

Ms Johnson: The roundtables that I've just spoken about, and reflected the details of, were hosted by the department on behalf of either Minister Husic or Minister King, specifically as a precursor to the Jobs and Skills Summit.

Senator DEAN SMITH: So, in terms of the distinction between them in their roles as members of the Labor Party and them operating in their roles as ministers of the Crown, was that distinction maintained?

Ms Johnson: Yes, absolutely—for those eight events that I just ran through.

Senator DEAN SMITH: Were there other events that the department was involved in organising at all?

Ms Johnson: No, Senator.

Senator DEAN SMITH: Just these ones.

Ms Johnson: Just these ones.

Senator DEAN SMITH: Perhaps on notice, you could make sure that there were no departmental resources that might have been used if Minister King or Minister Husic were doing events in their ministerial capacity, but in local electorates?

Ms Johnson: I can certainly check that for you, Senator, and take that on notice.

Senator DEAN SMITH: Some ministers did local job summit events in the electorates of their Labor Party colleagues where the distinction between them acting in their roles as ministers of the Crown and Labor Party material wasn't so clear or obvious. I'm just keen to be very, very clear, Secretary, that there were no departmental resources used in organising events for Minister King or Minister Husic that consciously or inadvertently included Labor Party signage or material or references.

Ms Quinn: I'm absolutely happy to take that on notice. As you might know, these are the sorts of things that we watch closely, and we have discussions with the ministers and their officers about their respective roles. There's usually a fairly clear distinction between ministers understanding which hat they're wearing for particular events, and it is something we keep a close eye on in terms of the obligations of the Public Service to not be involved in party political matters.

Senator DEAN SMITH: Excellent. Thank you. Thank you, Ms Johnson.

CHAIR: Thank you, Senator Smith. Senator McDonald, bringing us home!

Senator McDONALD: Thank you. Could we turn to carbon capture utilisation and storage programs, please?

Ms Quinn: Those programs are a matter for the Department of Climate Change, Energy, the Environment and Water.

Senator McDONALD: Indeed they are. They were taken away from Minister King—I suspect because she's a supporter of the fossil fuel sector. My question is: when was the decision made by the government to transfer responsibility for CCUS programs and policies from the department of industry to the department of climate change?

Ms Quinn: The carbon capture and storage policy and programs are managed by the Department of Climate Change, Energy, the Environment and Water. This department still has responsibility for offshore carbon capture and storage under the Offshore Petroleum and Greenhouse Gas Storage Act, because of the strong links to the resources sector and industry growth. So there's a shared responsibility in terms of policy and programs and then the regulatory functions in terms of offshore CCUS components. I think your characterisation was that all things were taken off. That's not an accurate discussion. In terms of the machinery of government arrangements, the AAOs were announced on 23 June 2022. That covered most of the arrangements. I just want to check with my colleagues. Some issues were discussed afterwards. There's often a post-discussion about various issues, so I just want to check. We have a member of our Machinery of Government Taskforce who might be able to add something. Sam, over to you.

Ms Chard: The secretary's account is correct. The responsibility for the CCUS programs was effected through the original AAO changes that were made in June. There were some subsequent discussions between departments and ministers to clarify responsibilities, but they're effectively captured by those initial AAOs.

Senator McDONALD: So the carriage of the programs is with the Department of Climate Change, Energy, the Environment and Water onshore—

Ms Quinn: Correct.

Senator McDONALD: But offshore—

Ms Quinn: The regulation of offshore—

Senator McDONALD: remains with this department?

Ms Quinn: Yes, but not policies and programs, to the extent there are any.

Senator McDONALD: When did Minister King or her office become aware of the transfer of responsibility for the programs from her department to the department of climate change and energy?

Ms Urquhart: I would think we would have to take that on notice.

Senator McDONALD: Did Minister King or her office seek advice or information about transferring responsibility for CCUS programs and policy out of the Department of Industry, Science and Resources and into the Department of Climate Change, Energy, the Environment and Water?

Ms Quinn: Almost certainly we provided information of some form as part of the machinery of government changes. The officials who were involved in that will be here on Thursday.

Senator McDONALD: Will this part of the department, cross-portfolio, have any information on when this advice was requested?

Ms Quinn: No.

Senator McDONALD: On whether or not the minister wrote to the Prime Minister or any other minister regarding transferring responsibility for the CCUS?

Ms Quinn: That would be the officials who were involved in this particular area.

Senator McDONALD: Alright. Could I please turn to the National Reconstruction Fund and the announcement of \$1 billion for value-adding and resources.

Ms Quinn: Once again, I can answer at a high level. Technically, it's under program 1.2, which is also on Thursday, but I can absolutely answer at a high level.

Senator McDONALD: So—

Ms Quinn: So we're following the program as set out in the portfolio budget statement and as provided to the committee. Today is covering cross-portfolio, corporate and program 1.1, and programs 1.2 and 1.3 are scheduled for Thursday.

Senator McDONALD: I do understand that, but it's a cross-portfolio program. I'm not sure why the department has not come prepared to answer some of these questions.

Ms Quinn: We're happy to answer questions at a high level, but, in terms of following the schedule and having officials available at the right time, we are following the schedule as set out in the PBS.

Senator McDONALD: So what did you come prepared to answer questions on?

Ms Quinn: Cross-portfolio, corporate and 1.1.

Senator McDONALD: Program 1.1—supporting economic growth, productivity, job creation? Is that not what the Reconstruction Fund is supposed to do?

Ms Quinn: There are arcane and deliberate rules about different programming, and the National Reconstruction Fund is under 1.2. I'm happy, as I said, to answer at a very high level, and maybe we can cover all the questions that you have.

Senator McDONALD: Let's see. Has the department been given any specifics as to how this fund will be implemented within the resources sector?

Ms Quinn: It's the ministerial responsibility of Minister Husic. There are specific details set out in the election commitment in terms of the guidance of the National Reconstruction Fund, including indications of the seven priority areas and funding that might be allocated to those areas. Those program parameters are being encapsulated into the advice on setting up the National Reconstruction Fund. That includes allocation to value added in the resource sector.

Senator McDONALD: Can you give me on notice the seven priority areas you just referred to?

Ms Quinn: I'm happy to read them out to you.

Senator McDONALD: Let's do that.

Ms Quinn: The renewable and low-emission technologies; medical science—and I can give you the 'up to' numbers as well. The election commitment under renewable and low-emission technologies was up to \$3 billion; medical science was up to \$1.5 billion; value added in resources, which I just mentioned was up to \$1 billion; value added in the agriculture, forestry and fisheries sector was up to \$500 million; defence capability had no specific number; transport had no specific number; enabling capabilities; and advanced manufacturing and critical technologies were \$1 billion each.

Senator McDONALD: We're up to \$8 billion.

Ms Quinn: That's eight out of the \$15 billion commitment.

Senator McDONALD: Which ones had no specific number?

Ms Quinn: Defence capability, enabling services, and transport. There would likely be other sectors available as well—the intention is that it covers the whole economy in terms of all the different sectors—and that's to be worked through in the implementation detail, with more guidance on the precise investment mandates and co-investment plans. More specific detail is to come.

Senator McDONALD: Does this department have carriage of the \$1 billion fund?

Ms Quinn: We have carriage of setting up the National Reconstruction Fund. The intention for the National Reconstruction Fund is that it's set up under legislation and then makes decisions on particular investments at an arm's length from government.

Senator McDONALD: So DISR will have carriage of the whole \$15 billion fund?

Ms Quinn: The National Reconstruction Fund will itself have carriage of the investment envelope, but the department is doing the legislative and policy work to establish the National Reconstruction Fund, and will have ongoing arrangements and maintenance similar to the other investment funds that the government has, such as the Clean Energy Future Corporation, as one example.

Senator McDONALD: Will you have carriage of the \$1 billion for value-adding and resources? I know you said it was independent of government, but what engagement, advice, panels or whatever will this department have with that fund?

Ms Quinn: The intention is that there will be enabling legislation for the National Reconstruction Fund that sets out the broad parameters. Below that, there will be investment mandates that are also instruments as decided by government, and the department will be providing advice on the shape and form of those instruments going forward. Once the investment mandates are set up and the National Reconstruction Fund is operational, it will be independent of government, subject to the ability of government to change investment mandates or other

arrangements as set out in the legislation. The department will continue to work with industry to build their capability, advise them on the processes, check the operation of the National Reconstruction Fund and the like—very similar arrangements to other investment funds that have been set up under previous governments.

Senator McDONALD: Is any of the money for the funding for this National Reconstruction Fund being appropriated from DISR's funding, or is it from another source?

Ms Quinn: That's to be worked through as part of the government's legislation, which it intends to introduce into parliament. The arrangements around the funding and things like that will be at a high level in the legislation. The funds themselves are not being sourced from existing funds directly.

Senator McDONALD: Where will I find that in the budget papers—the \$15 billion?

Ms Quinn: I'll have to double-check, actually. There are discussions around the set-up costs, the departmental costs for setting it up and things like that. Once the \$15 billion has been legislated, we will then move into the processes, but it's not been legislated yet. I'll double-check.

Senator McDONALD: But in the budget?

Mr Campbell: In Budget Paper No. 2, the measures document, if you go to page 153, that outlines the National Reconstruction Fund establishment arrangements. It talks about the \$15 billion allocation, and the \$50 million over two years to establish the NRF. It talks about the NRF generating revenues from investments which will be quantified as part of the policy legislation design of the NRF, which will follow some further public consultation. So that's part of the investment mandate discussion. There will be more details to publish there.

Senator McDONALD: To go back a step, can you provide clarity on what this fund will do—specifically, the value-adding and resources?

Senator Ayres: I'd just put it this way, Senator McDonald. The secretary has gone about as far as she can. There may be other details that are publicly available or that have been canvassed. This is the subject of a design process at the moment, consistent with the announcements that the government made in the course of the last term, when we were in opposition, and since assuming government. There will be legislation, which will be the subject of cabinet deliberations, in due course.

Senator McDONALD: Okay. I note the department of industry is receiving \$50 million in departmental funding for this execution of the—

Ms Quinn: For the set-up of the fund.

Senator McDONALD: The set-up, thank you. Will the investment decision-making process remain within the department or will a new entity be established, or will existing entities like the CEFC or the Australian Business Growth Fund be utilised?

Ms Quinn: That is part of the discussion around setting it up. The department won't be responsible for the investment decision. It will be the responsibility of the governance of the National Reconstruction Fund. The government is exploring the best way to set up the National Reconstruction Fund, including how it can leverage the capabilities within the system from other collective investment vehicles. It is the case that there have been synergies and the use of other arrangements to help set up entities, and that's something that's being explored.

Senator McDONALD: So there's no point in me asking how many ASLs that will cover. You've got \$50 million allocated to do this project, but you really don't have any more information on it—on the design, on the fund.

Ms Quinn: We're working through it at the moment. The team working on this will be able to go into more detail. We know what we need to do, roughly. There is setting up the legislation, which we're working on intensively at the moment. Then are the investment mandates, which will involve consultation and discussion across the different areas of focus, because it's unlikely that there will be one investment mandate for all of those different areas, because they have different circumstances and considerations. And then, below the investment mandates, there's the intention to look at co-investment plans, how different things can go together for particular industries to be able to support them—for industries and firms to be ready for co-investment. The National Reconstruction Fund is expected to look at co-investment but also guarantees and other kinds of instruments, potentially equity in some circumstances, depending on constitutional constraints. So there are different steps and layers.

Then there's setting up the governance arrangements and the structures for the actual Reconstruction Fund itself to be an operational entity—to make clear investment decisions against those mandated investment mandates in terms of engaging with industry. And then there will be an obligation on the department to continue, as we do with other entities, the governance arrangements, the policy design, the establishment and the evaluation of the

process. I'm sure that the team have got some cost estimates that go to the \$50 million. It's unlikely that our Department of Finance colleagues signed off on things without more detail. I'll have to take that for Thursday.

Senator McDONALD: That's true, isn't it? They're quite particular. Alright. Is there any public consultation that is informing this design process?

Ms Quinn: We have been in discussions with people around the arrangements. There will be further consultation as we move through those layers that I've just talked about.

Senator McDONALD: With the public consultation, would I see an advertisement anywhere, or do you go out to stakeholders to ask their advice? How is that consultation manifesting?

Ms Quinn: At the moment we're talking to particular stakeholders about particular issues of expertise. There will be more public processes as we go through the investment mandates and the co-investment plans.

Senator McDONALD: Okay. I do just finally want to ask, on that, which stakeholders are being approached for each element of the fund.

Ms Quinn: I'm happy to take that on notice. At the moment we're working through the details of the legislation and how the legislation can be framed. So we've certainly had discussions with people from the legal fraternity and from those involved in the operation of other collective investment vehicles and the like, but I'm happy to take on notice other stakeholders that have been discussed in terms of the legislation phase. We've got plans for the next phase, but we've not enacted them yet.

Senator McDONALD: Okay.

Senator Ayres: I'll just intervene. It may be that you pursue more questions about this when we come to this section in estimates on Thursday, and it is entirely proper for the committee to seek evidence about the budget allocation that Mr Campbell referred to and the way that that is being worked through. It is, however, the subject of a cabinet process at the moment, so there is a limit to how far either I or the department can go in terms of these design questions, and that may be frustrating. We want to be as helpful as we can in terms of what we can discuss that go to what's in the budget papers thus far, but it's very much circumscribed by a cabinet process that will be resolved when it's resolved, and will produce, as the secretary said, legislation, but other design features as well.

Senator McDONALD: I think we can feel confident that we've breached no cabinet confidence. We've breached nothing.

Senator Ayres: I'm just—

Senator McDONALD: No, I'm just agreeing with you. We have learnt nothing. We've not breached any confidentiality or been told anything we shouldn't, because we know no more than we did at the beginning of my questions.

Senator Ayres: I'm confident that cabinet confidentiality has been breached. I'm sure that, if people listened carefully to the secretary, they would have learnt many things, but sometimes when you're asking the questions it's hard to listen carefully as well. What I want to do is manage expectations—

Senator McDONALD: Thanks, Chair.

Senator Ayres: Senator McDonald, in the subsequent discussions we have about this, of what evidence you might be able to elucidate.

Senator McDONALD: Yes, exactly.

CHAIR: Senator McDonald.

Senator McDONALD: Thanks, Chair. I think my takeaway from tonight is that the way we've broken Treasury and this department into two parts over the three days is not entirely efficient, because you don't have people who could have answered cross-portfolio matters here. I get how this all works, I've followed it for a few years, but I think next time we might as a committee think about how we do this in a more expeditious manner.

Ms Quinn: I understand the frustration. It's also important that it's a large impost on the system to have all officials here for all of the time. So, we have a program and a schedule to make it kind of efficient for both sides. 'Cross-portfolio' is a very vague term, which makes it difficult to know exactly what questions might come up. So, it's easier to think about the portfolio budget statement and how things are set out. The National Reconstruction Fund is clearly in the 1.2 bucket.

Just to clarify: it is a public commitment that the National Reconstruction Fund will be a corporate Commonwealth entity established by legislation. It's also a commitment that will have, as I mentioned before, independent investment decisions guided by an investment mandate. That mandate will be issued by the

Department of Industry, Science and Resources, with the Minister for Finance—so, a co-ministerial arrangement. That's just a little bit of extra that is publicly available and was part of the election commitment and is part of the design principles that we're applying.

Senator McDONALD: I appreciate that estimates and the time involved is an impost on the department. Unfortunately, it is the process—it is the only process—that the Senate has in order to go through and hold departments and officials to account.

Ms Quinn: Sure.

Senator McDONALD: It's the system of government. And I think the deputy chair did write asking the secretaries of both departments to come prepared to answer broad questions.

CHAIR: Thank you, Senator McDonald. We aim for continuous improvement in our processes as a committee.

Senator McDONALD: Yes.

CHAIR: Are there any further questions?

Senator McDONALD: I have just one last little package. I want to ask some questions around Assistant Minister for Foreign Affairs Tim Watts MP travelling to Africa in September 2022 to attend the West Africa Mining Security Conference in Accra. A media report stated that he was there to campaign for the Australian mining industry.

Ms Urquhart: I would have to take that on notice or refer you to the Department of Foreign Affairs and Trade. An assistant minister in the Foreign Affairs and Trade portfolio I would—

Senator McDONALD: No, this is definitely Resources, because we have some specific projects over there that I wanted to talk about, particularly given that the minister went to campaign for the Australian mining industry.

Ms Urquhart: Sorry—could you repeat the name of the minister?

Senator McDONALD: It is Foreign Affairs, Tim Watts.

Senator Ayres: We'll take the question on notice, but I do not believe that the department will be in a position to answer questions about the travel and responsibilities exercised by the Assistant Minister for Foreign Affairs. There are DFAT estimates. They traditionally go for two days.

Senator McDONALD: So, perhaps I should tell you about this. It is specifically around a dispute with an Australian mining company, Cassius, and with a goldmine run by a Chinese state linked company, Shaanxi Mining, that's committed trespass and theft and caused the death of at least a dozen miners. The dispute has occurred with an Australian mining company, Cassius, where allegedly Shaanxi has tunnelled into the Australian company's mining claim and stolen tens and millions of dollars worth of gold. This was all part of the *Sydney Morning Herald's* 'Blood Gold' investigation. Will the department of resources have any knowledge of an Australian mining company that's operating—

Ms Urquhart: Thank you, Senator. I'm not aware of the background or that report. The Hon. Tim Watts MP is an assistant minister in the Foreign Affairs portfolio. I'm certainly not aware of our department having provided any support to such a visit. But I'm happy to take that on notice and check that matter for you.

Senator McDONALD: Thank you. What I'm looking for specifically is whether the department has provided support or advice to Cassius, the Australian mining company, or any other Australian mining companies operating in Ghana or Africa. If not, then I am curious as to how an Australian official would be travelling, purportedly to represent, fight for or campaign for the Australian mining industry, without taking advice from the Department of Industry, Science and Resources as the foremost authority on Australian mining.

Senator Ayres: I think we will take it on notice, but the department—and the secretary will correct me if I am wrong—except in very limited circumstances would not be engaged at all in the operations of or policy in relation to Australian mining interests overseas. I'll qualify this by saying it is my understanding. To the extent that the government engages with those issues, it's through the Department of Foreign Affairs and Trade: in foreign affairs, in trade itself and of course in Austrade and the agencies that deal with those questions. If there are questions that you have in relation to that matter, foreign affairs, Defence and trade estimates are squarely the place where they should go. We will take the question on notice and see if there is any aspect of the department's operations that tangentially touch this, but overseas mining interests are not normally within the province of this department.

Senator McDONALD: Okay. In my experience, if the Department of Foreign Affairs and Trade were providing a briefing note to an Australian official travelling to somewhere like that, particularly with the specific purpose to campaign for Australian mining, it would seem surprising that they wouldn't have contacted the resources department to ask anything.

Senator Ayres: As I said, there are very few touch points between this department's operations and Australian mining interests overseas.

CHAIR: I think this question has been taken on notice.

Senator McDONALD: I think it has.

Senator Ayres: I just wanted to frame that with the expectations about whether we can actually be helpful on that question.

Senator McDONALD: Well, the good news is that I've provided you with a whole lot of pre-notice about what I want to talk about on Thursday, so I look forward to that with enthusiasm. Thank you for your patience, Chair. You have been very good.

CHAIR: There being no further questions at this time, the committee's consideration of the 2022-23 budget estimates will suspend until Wednesday 8 November 2022. I thank Assistant Minister Ayres, Secretary Quinn and officers from the Industry, Science, Energy and Resources portfolio who have given evidence to the committee today. The hearing is adjourned.

Committee adjourned at 22:28