



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Estimates

(Public)

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ECONOMICS LEGISLATION COMMITTEE

Wednesday, 15 February 2023

Members in attendance: Senators Allman-Payne, Bragg, Canavan, Cox, Davey, Duniam, Hanson-Young, Hughes, Hume, McDonald, McGrath, McKenzie, McKim, McLachlan, O'Neill, Barbara Pocock, David Pocock, Polley, Rennick, Roberts, Dean Smith, Stewart, Walsh, Whish-Wilson.

TREASURY PORTFOLIO**In Attendance**

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

Treasury

Dr Steven Kennedy, Secretary

Macroeconomic Group

Mr Luke Yeaman, Deputy Secretary

Ms Ineke Redmond, First Assistant Secretary, Macroeconomic Conditions Division

Ms Angelia Grant, First Assistant Secretary, Macroeconomic Analysis and Policy Division

Ms Christina Garbin, First Assistant Secretary, International Economics and Security Division

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

Ms Steph Gorecki-Natik, Assistant Secretary, Indo-Pacific and National Security Branch

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

Ms Riki Polygenis, Assistant Secretary, Macroeconomy Branch

Mr Jim Hagan, Chief Adviser International

Mr Hamish McDonald, First Assistant Secretary, RBA Review Secretariat

Corporate and Foreign Investment Group

Ms Roxanne Kelley, Deputy Secretary

Dr Angela Barrett, Acting Chief Operating Officer, Corporate Division

Ms Jane Curry, Acting Assistant Secretary, People and Organisational Strategy Branch

Ms Tarnya Gersbach, Chief Finance Officer

Ms Shannon Kenna, Assistant Secretary, Communications Branch

Mr Nick Loan, Acting Assistant Secretary, Stakeholder Liaison Unit

Mr Simon Writer, First Assistant Secretary, Foreign Investment Division

Ms Amelia Henty, Assistant Secretary, Frameworks Branch

Dr Ben Evans, Assistant Secretary, Compliance Branch

Markets Group

Mr Robert Jeremenko, Acting Deputy Secretary

Ms Mohita Zaheed, Acting First Assistant Secretary, Financial System Division

Mr Robb Preston, Assistant Secretary, Banking, Insurance and Credit Branch

Mr Tim Baird, Assistant Secretary, Financial Regulators Branch

Ms Nghi Luu, Assistant Secretary, Capital Markets, Payments and Financial Innovation Branch

Ms Katherine (Kate) O'Rourke, First Assistant Secretary, Consumer Data and Digital Division

Ms Emily Martin, Assistant Secretary, Consumer Data Right Policy and Engagement Branch

Mr Tony McDonald, Assistant Secretary, Data Economy and Consumer Data Right Governance Branch

Mr Aidan Storer, Assistant Secretary, Consumer Data Right Regulatory Frameworks Branch

Mr Warren Tease, Chief Adviser, Climate Disclosure

Mr Tom Dickson, Acting First Assistant Secretary, Market Conduct Division

Ms Deepti Paton, Acting Assistant Secretary, Corporations Branch

Mr David Pearl, Assistant Secretary, Competition and Consumer Branch

Ms Lynn Kelly, First Assistant Secretary, Retirement Advice and Investment Division

Mr Andre Moore, Assistant Secretary, Advice and Investments Branch

Mr Luke Spear, Assistant Secretary, Member Outcomes and Governance Branch

Mr Adam Hawkins, Assistant Secretary, Tax and Transfer Branch

Revenue, Small Business and Housing Group

Ms Diane Brown, Deputy Secretary

Mr Peter Cully, First Assistant Secretary, Small and Family Business Division

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

Ms Laura Berger-Thomson, First Assistant Secretary, Personal, Indirect Tax, Charities and Housing Division

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

Ms Susan Bultitude, Acting Assistant Secretary, Corporate and International Tax Division

Mr Yi Yong Cai, Assistant Secretary, Tax Analysis Division

Ms Kathryn Davy, Assistant Secretary, Corporate and International Tax Division

Mr Nicholas Dowie, Assistant Secretary, Corporate and International Tax Division

Mr Geoff Francis, Assistant Secretary, Personal, Indirect Tax, Charities and Housing Division

Mr Bede Fraser, Assistant Secretary, Personal, Indirect Tax, Charities and Housing Division

Mr Gino Grassia, Assistant Secretary, Small and Family Business Division

Ms Vera Holenstein, Assistant Secretary, Housing Division

Ms Mary Jeffries, Assistant Secretary, Small and Family Business Division

Mr Darren Kennedy, Assistant Secretary, Tax Analysis Division

Mr Richard Maher, Acting Assistant Secretary, Tax Analysis Division

Ms Jacky Rowbotham, Assistant Secretary, Personal, Indirect Tax, Charities and Housing Division

Mr Rob Raether, First Assistant Secretary, Housing Division

Mr Christian Vallenge, Acting Assistant Secretary, Office of the National Housing Supply and Affordability Council

Fiscal Group

Ms Sam Reinhardt, Deputy Secretary

Mr Brenton Goldsworthy, First Assistant Secretary, Budget Policy Division

Mr Damien White, First 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

Dr Nerida Hunter, Assistant Secretary, Social Policy Division

Ms Marg Thomas, Assistant Secretary, Social Policy Division

Ms Catherine Black, Acting First Assistant Secretary, Infrastructure and Commercial Advisory Office [by audio link]

Jobs Summit and Employment White Paper Taskforce

Ms Victoria Anderson, Deputy Secretary, Employment Taskforce

Dr Alex Heath, First Assistant Secretary, Employment Taskforce

Dr Louise Rawlings, Assistant Secretary, Employment Taskforce

Mr Nick Latimer, Acting Assistant Secretary, Employment Taskforce

Reserve Bank of Australia

Mr Phillip Lowe, Governor

Mrs Michele Bullock, Deputy Governor

Mr Michael O'Neill, Secretary/Chief Executive Officer, Tax Practitioners Board

Mr Ian Klug, Chair, Tax Practitioners Board

Ms Janette Luu, Acting Assistant Secretary, Tax Practitioners Board

Australian Prudential Regulation

Mr John Lonsdale, Chair
Ms Margaret Cole, Deputy Chair
Mrs Helen Rowell, Deputy Chair
Ms Therese McCarthy-Hockey, Executive Board Member
Mrs Suzanne Smith, Executive Board Member
Dr Katrina Ellis, Executive Director, Superannuation

Australian Competition and Consumer Commission

Ms Gina Cass-Gottlieb, Chair
Mr Scott Gregson, Chief Executive Officer
Mr Peter Maybury, Chief Finance Officer
Mr Tim Grimwade, Executive General Manager, Consumer Product Safety
Mr Rami Greiss, Executive General Manager, Consumer and Fair Trading
Ms Melinda McDonald, Executive General Manager, Competition [by audio link]
Ms Sarah Proudfoot, Executive General Manager, Infrastructure Regulation
Mr Tom Leuner, Executive General Manager, Mergers, Exemptions and Digital [by audio link]
Mr Paul Franklin, Executive General Manager, Consumer Data Right [by audio link]

Australian Taxation Office

Mr Chris Jordan, Commissioner of Taxation
Ms Jacqui Curtis, Chief Operating Officer, Enterprise Strategy and Corporate Operations
Ms Kirsten Fish, Second Commissioner, Law Design and Practice
Mr Jeremy Hirschhorn, Second Commissioner, Client Engagement Group
Mr Ramez Katf, Chief Information Officer and Second Commissioner, Enterprise Solutions and Technology
Ms Melinda Smith, Chief Service Delivery Officer, Service Delivery
Ms Janine Bristow, Chief Finance Officer, ATO Finance
Mr Brad Chapman, Deputy Commissioner, ATO People
Mr David Allen, Deputy Commissioner, Enterprise Strategy and Design
Ms Emma Rosenzweig, Deputy Commissioner, Superannuation and Employer Obligations
Ms Rebecca Saint, Deputy Commissioner, Public Groups
Mr Grant Brodie, Deputy Commissioner, Client Account Services
Mr Vivek Chaudhary, Deputy Commissioner, Lodge and Pay
Mr Nicholas Shizas, Assistant Commissioner, ATO General Counsel

Australian Charities and Not-for-profits Commission

Ms Sue Woodward AM, Commissioner
Ms Anna Longley, Assistant Commissioner, Legal Counsel

Productivity Commission

Mr Michael Brennan, Chair
Professor Alexander Robson, Deputy Chair
Dr Lisa Studdert, Head of Office
Dr Ralph Lattimore, First Assistant Commissioner and Chief Economist
Ms Rosalyn Bell, Acting First Assistant Commission

Australian Bureau of Statistics

Dr David Gruen AO, Australian Statistician
Ms Jenet Connell, Deputy Australian Statistician
Ms Teresa Dickinson, Deputy Australian Statistician

Ms Gemma Van Halderen, Acting Deputy Australian Statistician

Committee met at 09:01

CHAIR (Senator Walsh): Good morning, all. I declare open this hearing of the Senate Economics Legislation Committee into the 2022-23 supplementary budget estimates. I begin by acknowledging the traditional custodians of the land on which we meet today and pay my respects to their elders past and present. I extend that respect to Aboriginal and Torres Strait Islander peoples here today. The committee has set 3 March 2023 as the date by which senators are to submit written questions on notice and 31 March 2023 as the date for the return of answers to questions taken on notice. The committee's proceedings today will begin with the Department of the Treasury's Macroeconomic Group. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee. Such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence. The Senate has endorsed the following test of relevance of questions at estimates hearings, and I quote:

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

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. The Senate has resolved also that an officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. Witnesses are reminded of the Senate order specifying the process by which a claim of public interest immunity should be raised. I will incorporate the public immunity statement into 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: I remind all senators that, as we continue our work implementing the *Set the standard* report, as chair I will ensure that proceedings are conducted in an orderly, respectful and courteous way. An officer called to answer a question for the first time should state their full name and the capacity in which they appear. I remind committee members and witnesses who are appearing video conference and who are not speaking to mute their microphones.

Department of the Treasury

[09:04]

CHAIR: I now welcome Senator the Hon. Katy Gallagher, Minister for Finance, and Dr Steven Kennedy. Do either of you wish to give an opening statement? I know that you are about to give your statement, Dr Kennedy. Before I invite you to do so, I will give an indication to senators that after Dr Kennedy has given his opening statement, I will proceed in 10-minute question blocks. We will do our very best to keep to time and, of course, to have a productive, respectful discussion this morning. Welcome, Dr Kennedy.

Dr Kennedy: Thank you, Chair. Thank you to the committee for the opportunity to make an opening statement. The primary macroeconomic challenges remain—dealing with the highest inflation in decades while maintaining low unemployment; driving long-term improvements in productivity; and consolidating the fiscal position. Before providing an update on developments in Australia, I'll briefly outline global economic developments.

Headline inflation in developed economies has started to moderate as energy prices and global supply chain pressures have eased. Oil prices have retreated to around the levels seen in early 2022. Coal and gas prices have come off their peaks but remain highly elevated. A mild winter in Europe has helped to alleviate the near-term risk of a further shortfall in global gas markets. Policy actions to mitigate the impact of the global energy crisis on households have also come into effect.

Globally, monetary policy has tightened significantly and rapidly. This will see the global economy slow considerably this year. The IMF is expecting global growth to slow to just 2.9 per cent this year. Global growth over 2023 and 2024 is forecast to be the weakest two-year period of growth since 2001 outside of the GFC and the pandemic.

In the US, labour market and activity data indicate the economy continued to grow in the second half of 2022. However, there are signs in the housing market, household consumption and business surveys that monetary policy tightening is seeing private demand soften.

China experienced its second slowest rate of GDP growth in over 40 years in 2022, the slowest growth being in 2020. China's sudden exit from zero COVID has seen an improvement in the near-term growth outlook. Realtime indicators of urban residents' mobility point to a bounce in Chinese activity. In the medium term, China's outlook remains clouded by structural challenges, including a declining population and an investment dependent growth model. The IMF downgraded its medium term growth forecasts for China by around a quarter to 4.1 per cent compared with its pre-pandemic forecasts of around 5.5 per cent.

Russia's ongoing invasion of Ukraine means the outlook for global energy markets remains fragile and further energy price shocks cannot be ruled out.

Intensifying strategic competition could also become a drag on global growth if it leads to further economic fragmentation and a fraying of trade and investment links. The IMF has raised concerns that policy driven fragmentation risks reversing the efficiency gains generated by trade, investment and people flows, potentially exacerbating inflationary and supply chain pressures. In a severe scenario, the IMF estimates that trade fragmentation could reduce long-term global output by up to seven per cent. This risk is especially relevant for a medium sized trading nation such as Australia, which has benefitted significantly from integration with the global

economy. Expertly managing this risk while responding to the more difficult geostrategic environment will be a defining feature of the coming decade.

Key news on the domestic economy since we last met was the release of the December quarter inflation data. Inflation rose to 7.8 per cent through the year, the highest annual rate since 1990. This was consistent with the forecasted budget for 7¾ per cent and for inflation to peak in the quarter. The peak in domestic inflation has primarily been driven by the direct effects of a series of global and domestic cost shocks. Global shocks raised the price of imported goods and added to the cost of materials used in domestic manufacturing and construction. International freight prices peaked eight times higher than prior to COVID-19, and the surge in global oil prices raised local transport costs.

When cost increases are small and sparse, businesses might not immediately or fully pass through such increases to consumer prices. But the breadth and magnitude of the input price shocks necessitated a more fundamental change. This explains part of the broadening of inflation in the latest data, where around 85 per cent of the consumption basket experienced annual price increases of about three per cent. Price pressures in new dwellings and automotive fuel are easing and we expect this to deliver additional indirect benefits. However, working in the opposite direction, we expect increasing price pressures in some areas, including from energy and housing rents.

In December, the government announced a package of measures to moderate the sharp rise in household energy bills. The announcement included a mandatory code of conduct for gas producers, temporary price caps for wholesale coal and gas and energy bill rebates for households to be jointly funded with the states. Following the December announcement, a national electricity market future prices have declined significantly. This is consistent with the price caps on gas and coal, helping to ease price pressures in the generation market. If sustained, lower futures prices will be reflected in the default market offer announced by the regulator around the middle of the year.

For gas, at budget, we expected consumer prices would rise by 20 per cent in 2022-23 and another 20 per cent in 2023-24, but we now expect prices to rise 18 per cent and four per cent over the two years. Following the temporary intervention, we have observed a moderation in prices in the wholesale gas market. The average east coast wholesale gas price is now sitting around the temporary 12-month price cap of \$12, down from around \$20 in November.

Over the year to June 2024, Treasury expects the coal and gas caps to reduce inflation by one half a point. Consumer and small business energy rebates will further reduce inflation over the same period. Households and businesses will still face substantial increases in energy bills, but the package will make a material difference to reducing cost of living pressures. Rising housing costs remain a source of cost of living pressures for many households. Inflation in newly advertised rental prices has been rising sharply for around the year, reaching 10 per cent nationally in January. The national vacancy rate has reached a near record low of around one per cent. Despite the slow-down in population growth during the pandemic, underlying demand for housing picked up owing to a fall in the average size of households. This reflects changes in household formation as the community adjusted to rapidly changing circumstances through the pandemic. More recently, strong underlying demand for housing has been driven by a recovery in population growth amid constraints in new housing supply.

We expect inflation in CPI rental prices to pick up considerably as the stock of rental agreements turns over, peaking in June this year. The ABS's latest selected living cost indexes, which measure the price change of goods and services and its effect on living expenses for different household types, show increasing interest rates are flowing through living costs. For example, employee households recorded the strongest increase of all households of 9.3 per cent as mortgage interest charges make up a higher proportion of expenditure compared with other households.

Treasury's recently released population statement shows that Australia's population and net overseas migration growth have picked up strongly. Temporary migration has recovered faster than expected. Net overseas migration numbers are being artificially boosted this year by the resumption of inward flows of international students and working holidaymakers. This effect will diminish in subsequent years, when the usual inward and outward patterns of international student flows re-establish themselves. Coupled with broad softening in hiring demand, increases in net overseas migration should help to ease skill and labour shortages, particularly for the hospitality and retail sectors.

In recent months, the unemployment rate reached its lowest level in nearly 50 years. The participation rate reached its record high and job vacancies remain elevated. Broader measures of spare capacity in the labour market that account for underemployment have also fallen. The underutilisation rate, which combines

unemployment and underemployment, has been below 10 per cent since May 2022. This is the first time since 1989 that it has remained below 10 per cent over consecutive months.

A tight labour market presents challenges for businesses in hiring workers. However, it is associated with a range of positive outcomes and opportunities, including stronger nominal wage growth, bringing marginally attached workers into the labour market and incentivising skills, acquisition and investment that contribute to higher productivity. We can see these benefits in the data. Youth unemployment has fallen to below eight per cent, well below the average rate of around 12 per cent in the decade following the GFC. Female workforce participation is near record highs. We are seeing signs of stronger nominal wage growth. The wage price index increased by 3.1 per cent through the year to the September quarter, the fastest pace since the quarter of 2013. The national accounts measure of average earnings per hour has also picked up.

We expect to see a small increase in real wages in 2023-24, reflecting the combination of rising wages and falling inflation. There are several industries experiencing particularly strong growth in wages. This includes retail trade, which has seen the fastest growth of all industries over the past year. Strong wage growth is also present in service industries such as rental hiring and real estate services. Award workers have seen the largest wage increases following the Fair Work Commission's decision to preserve the real wages of low-paid workers. On average, award workers received a pay increase of 4.4 per cent through the year to the September quarter of 2022. Individual arrangements have also shown a response to the tight labour market, with wages rising by 3.5 per cent through the year, while wage growth in enterprise bargaining agreements lagged, rising only 2.6 per cent.

The risk of a price and wage spiral remains low, with medium term inflation expectations well anchored to the inflation target. Although measures of spare capacity in the labour market show that the market remains tight, the forecast pick-up in wages growth to around four per cent remains consistent with the inflation target. As we navigate the transition back to low inflation, it will be crucial that we retain the benefits we are seeing from full employment. The significant tightening in monetary policy over the past year and ongoing cost of living pressures will see domestic growth slow significantly this year. At the October budget, we forecast economic growth to slow to 1½ per cent in 2023-24 as cost of living pressures and rising interest rates increasingly weigh on consumption.

Recent data are consistent with some slowing emerging in consumption, although underlying developments are still clouded by the recovery in services consumption, including international travel. The December quarter retail trade data showed a small fall consistent with the expected slowing in discretionary spending on goods. Treasury will update its economic forecasts at the May budget. There will be some adjustment to account for new developments and data, including the strong outlook for population. However, we do not see a significant change in the outlook for how the economy is responding to the challenges highlighted in the budget. The core elements remain the same. Cost shocks and inflation remain a near-term challenge. Growth is expected to slow significantly, but the unemployment rate should remain at low levels by historical standards. This is sometimes called the narrow path. It is also an uncertain path given the highly unusual circumstances all countries have been facing. In the light of this uncertainty, policymakers will need to be prepared to respond to new evidence as it emerges.

Since the budget, additional spending has been required to manage pressures in critical areas, such as the energy price relief plan, floods and ongoing commitments to respond to COVID-19 waves. The December monthly financial statements showed tax receipts running ahead of the October budget forecasts, reflecting higher than expected collections from both individuals and companies. This is in part led by employment income being stronger than expected.

A key driver of forecasts for nominal GDP and tax receipts is changes in commodity prices and assumptions for their future growth. Headline revenue estimates are sensitive to the approach and assumptions Treasury uses to account for developments in volatile commodity markets. Treasury's general approach is to analyse supply and demand factors driving commodity prices in the long term and assume that prices correct relatively quickly to long-run anchors via glide paths. This approach for setting commodity price assumptions ensures that the budget does not lock in the impact of volatility from inherently unpredictable commodity prices. While this approach provides a clear indication of the underlying medium-term budget position, it can often result in substantive revisions to near-term revenue forecasts. Generally, bulk commodity prices have been above their budget assumptions except for the oil price, which is now well below what we assumed. On their own, higher commodity prices than we assumed would see an upgrade to revenues at the May budget.

Working in the other direction for resources revenue is the recent almost eight per cent appreciation in the Australian dollar against the US dollar. The higher Australian dollar works to offset the impact of higher US dollar denominated commodity prices. Our current approach includes publishing sensitivity analysis that allows

users of the budget to understand the impact of alternative commodity price assumptions on revenue. This ensures the budget statements are a transparent representation of the fiscal position and associated uncertainties.

Irrespective of the commodity price modelling methodology, we expect fiscal challenges to persist over the medium term. Persistent deficits of around two per cent of GDP are projected, with several payments growing faster than the economy. This includes interest on government debt and growing expenditure on the NDIS, health, aged care and defence. Interest payments and the NDIS are projected to be the two fastest growing payments over the next decade, growing by around 14 per cent per year on average from 2022-23 to 2032-33. The projected structural deficit throughout the medium term makes the need for fiscal consolidation clear. Further, improvements to the cost effectiveness and productivity of government services and government funded services are crucial to lowering cost growth.

I've also included in the tabled version of my opening statement three pieces of work currently underway at Treasury that may be of interest to this committee—the 'Measuring what Matters' statement, the government's employment white paper and the RBA review. In the interests of time, I won't go into them now. I thank the committee for the opportunity to provide this update.

CHAIR: Thank you very much, Dr Kennedy, for your opening statement. The committee will table that statement.

Senator BRAGG: Good morning, Dr Kennedy. I want to ask you some questions about inflation. There's a recent IMF report which did an assessment of Australia. You might be aware of it. It said that restrictive macroeconomic policies are needed in the near term to mitigate strong domestic demand and to address inflation. Does Treasury agree with that?

Dr Kennedy: I think it's certainly important that fiscal policy does not add to inflationary pressures. The current stance of fiscal policy across the forward estimates I would describe as neutral. The typical way we would think about that is the change from year to year in the deficit as a per cent of GDP. I would agree that it is important in this period that fiscal policy does not make the inflation challenge more difficult for monetary policy to handle.

Senator BRAGG: The IMF have also made statements about the proliferation of off-budget funds. They've talked about some of the proposals that are before the parliament, including some of the government's plans to put in place off-budget funds. The IMF says that this could add to aggregate demand and it should be avoided. What does Treasury have to say about that?

Dr Kennedy: We have seen off-budget funds emerge over a number of years now, not just recently. Our focus on any off-budget funds is to ensure that, whatever its policy statement is, it is going to add to productivity and, more broadly, increase the productive capacity of the economy. In terms of whether funds are likely to flow from those funds in a way that adds to aggregate demand, say, in the very near term, to be honest, I haven't got in front of me exactly how those funds are likely to flow. They are not designed to flow in the way, for example, a grant program would flow, where moneys would simply go out. They're typically—and I'm broadly characterising them—designed to partner with the private sector to close some market gap to invest in some productive capacity that the government policy judges is valuable but the private market is not delivering.

Senator BRAGG: That would add to demand, wouldn't it, by definition?

Dr Kennedy: It would add to investment, yes. In terms of adding to demand, of course, this is all a question of timing when it's adding to demand. That was my earlier point about whether these funds will add to demand in the near term or whether they'll add to demand across the broader term. As I said, we expect growth to slow significantly over the next year or two. I would be quite surprised if the establishment of those funds shifted demand in any significant way across that period.

Senator BRAGG: We're talking about \$45 billion here.

Dr Kennedy: I guess my point is that I'm not expecting it to be expended in the next two years.

Senator BRAGG: Do you generally agree with the IMF about their concerns about the fiscal direction of the nation?

Dr Kennedy: Which bit of that?

Senator BRAGG: They are saying that the budget position is too inflationary. They've flagged that off-budget funds, like those that have been proposed, are a risk to the country.

Dr Kennedy: I haven't got the IMF report in front of me. I didn't think they use the language that you just used—

Senator Gallagher: No. I don't think they did either.

Dr Kennedy: about the inflationary context. The way you characterise the budget position on the inflationary contribution of the funds, the flow of funds is included in the current budget position. As I've said, I would regard the fiscal position as broadly neutral given the change in the deficit from year to year as a per cent of GDP. My own view is that the important focus for those funds is on their aims and whether they are contributing to productivity. As I said, I've observed those funds arising now over quite a few years. In all cases, our advice is related to what is a fund for, will it be effective and is it value for money given that the government will have to, in general, in its current circumstances borrow that money to invest.

Senator BRAGG: The IMF is calling out off-balance sheet programs as creating a new risk by adding to demand and, therefore, inflation. That is what the IMF is saying. Do you think they are right to flag that concern?

Dr Kennedy: I think they are right to ensure that we focus on the policy integrity of those funds. I don't think they are adding significantly to the near-term risks of inflation.

Senator BRAGG: I want to come back to the overall position of having, as you said in your remarks, an ongoing structural deficit. Is that something that is going to add to inflation in a general way?

Dr Kennedy: It will not add to inflation.

Senator BRAGG: You don't think it will add to inflation?

Dr Kennedy: Key to the fiscal position is how its position is changing over time. I characterise it as broadly neutral. Effectively, what we saw in the last budget forecast is the deficit settling quickly at around that two per cent of GDP. If the deficit were going from one per cent of GDP to two per cent of GDP or further, it would be clearly adding to inflation because it would be clearly a change in the net spending position. The key for fiscal policy in terms of its contribution to demand is the change in the position, not so much the level of position. The level of the position—the two per cent deficit—is very important to focus on from an ongoing sustainability point of view. But, from an aggregate demand point of view, it's the change in that position we focused on. I will add briefly that is different to interest rates, where it's the level of interest rates we focus on in terms of whether their contribution to demand is contractionary, accommodative or neutral.

Senator BRAGG: Surely a smaller budget deficit would be better for the country as we try and fight inflation?

Dr Kennedy: Well, the government has to balance a number of challenges through its spending and revenue raising. If the deficit contracted, it would reduce aggregate demand. On the other hand, it also has to deal with the distributional challenges of monetary policy reducing aggregate demand, hence the targeted measures that were outlined on the energy price relief. So at the moment, as I said, my characterisation of fiscal policy is that it's broadly neutral.

Senator BRAGG: Obviously, you have just said that would reduce demand. It would aid the country and aid the central banks to keep inflation down, wouldn't it?

Dr Kennedy: It depends on what we mean by 'long'. The approach typically taken over past decades is for monetary policy to manage cycles and for fiscal policy to focus on ensuring we have a sustainable budget and investing in the future outside of crises. I thought, for example, that in the previous government's response to the pandemic, there was clearly a need for a fiscal response. There was a fairly substantial consolidation in the fiscal position last year. As I said, we've now got back to a structural position. The key focus for me in my advice to the government on the fiscal position now moves towards its sustainability over time. My main concern is that the deficit persists and it persists beyond the forward estimates at around two per cent of GDP. There are strong spending pressures, as I outlined, on the government ahead of how much revenue we typically raise. That's the focus I would encourage the government to focus on from a fiscal point of view outside of managing these very difficult transitions that are occurring at the moment.

Senator BRAGG: I've just been given the wind-up. Obviously, on the spending side, as you just said, I would have thought \$45 million would be a material sum of funds.

Dr Kennedy: I will go back to my earlier comment on those funds. The value of those funds will depend on the purpose they are put to.

Senator McKIM: Good morning, everyone. Minister, do you support the RBA's decision last week to raise interest rates for the ninth consecutive time?

Senator Gallagher: It's not the government's job to second-guess the decisions of the RBA.

Senator McKIM: So you don't have an opinion?

Senator Gallagher: They are independent of government. They have a mandate to follow. They have a difficult job. They are making the decisions they see necessary to meet their mandate.

Senator McKIM: So you don't have an opinion on nine consecutive interest rate rises?

Senator Gallagher: I don't think it's particularly useful for government ministers to be having views on an independent board making decisions about monetary policy.

Senator McKIM: Do you understand the pain that renters and mortgage holders are facing in Australia at the moment?

Senator Gallagher: Of course. Anyone in this place acknowledges that the tightening cycle that we are seeing now and the speed with which it's happening are having an impact on households with cost of living pressures, of course. I would say that not dealing with the inflation challenge has negative impacts on households as well, including those least able to afford the rising costs of a whole range of things. It's not an either/or as you are trying to put it.

Senator McKIM: We will come to my position and the Greens position and the reasons for—

Senator Gallagher: I think we know what that position is.

Senator McKIM: And the reasons for the interest rate rises in due course. I want to put this to you, Minister. Section 11 of the Reserve Bank Act gives the government the power to set interest rates in the event that it believes that the bank's policy is not to the greatest advantage of the people of Australia. Do you think the RBA's current policy of nine interest rate rises in a row is to the greatest advantage of the people of Australia?

Senator Gallagher: I think the Reserve Bank board's decisions reflect their desire to deal with the inflation challenge that is a huge issue for everybody. They've got a job to do. We've got a review of the Reserve Bank underway, as you know.

Senator McKIM: I made a submission to that review.

Senator Gallagher: It's looking at appropriate settings and a whole range of structures, processes and objectives and a whole range of issues relating to how the bank is structured. That review will report, I think, in March. I think that is the best way to assess what recommendations come out and how we respond to them.

Senator McKIM: Do you have an opinion or not on whether—

CHAIR: Senator McKim, I'm just going to interrupt you to see whether this is the entire line of questioning for your first lot. I'm not entirely sure of the relevance of it to the group that we have in front of us. We have the RBA governor coming later.

Senator McKIM: Thank you, Chair. I understand that. I guess the point I would make is that the minister does not appear with the RBA governor.

Senator Gallagher: No, because it's independent.

Senator McKIM: I don't have a lot more questions on this line, but I do think it's important while the minister is here that I be able to put questions around monetary policy and the government's view on monetary policy to the minister because she doesn't appear with the governor.

Senator Gallagher: I don't appear because it's independent of government. That is why I don't appear.

Senator McKIM: Just to be clear, I'm not criticising the fact that she is not appearing. I am explaining why I am asking these questions now.

Senator Gallagher: I do appear for the whole day. You've got me until 11.30 pm.

Senator McKIM: That's right. I will choose when I ask the questions of you.

Senator Gallagher: You don't have Dr Kennedy until 11 pm.

Senator McKIM: Chair, I will also make the point that the secretary is on the board of the RBA. He is here now, and he won't be here for the rest of the day.

CHAIR: I'm not entirely convinced. I'm just listening carefully to what you are asking, Senator McKim.

Senator McKIM: Fine. This is the final question on this area, Minister. If the government is not using its legislated powers to intervene on the RBA's nine consecutive interest rate rises and the very strong likelihood, given the governor's statements, that the RBA will continue to raise interest rates in Australia, isn't that a tacit admission that the government supports the RBA's interest rate rises?

Senator Gallagher: We support the independence of the RBA and the decisions they make. That's the government's position. They have a role. They have a mandate. They are coming before this committee to explain their decisions, as is appropriate. The government supports the independence of the Reserve Bank. We have a review underway that will inform the government and others about the current fit-for-purpose arrangements for the RBA.

Senator McKIM: Does Dr Lowe have the full confidence of the government?

Senator Gallagher: Yes.

Senator McKIM: Thank you. Minister, the Treasurer has said that the government's three-point plan to tackle inflation is responsible costs of living relief, dealing with supply chain issues and keeping spending under control. In which of those three points does the stage 3 tax cuts fit?

Senator Gallagher: You are right; they are the three points that are in our economic plan relief, which we've met through some of our election policies outlined in the October budget. The repair is looking at dealing with our supply chain issues. They are some of the issues around the National Reconstruction Fund and investment in skills and TAFE. Restraint is how we deal with the fiscal discipline—

Senator McKIM: Austerity, Minister.

Senator Gallagher: The fiscal discipline. I don't think that's right. If you look at our October budget, we made sensible savings where we could. We made investments, particularly into households needing an extra hand. Look at our childcare measures, our investments in TAFE and a whole range of areas, including our shift to a renewable energy feature and putting the infrastructure down for that. That is all about growing the economy. There were sensible investments. We're not just going to splash cash around. We're not going to behave in the way the former government did with pork-barrelling and a whole range of other things. We are going to be a fiscally responsible government. But our position on stage 3 has not changed.

Senator McKIM: Which of those three points does the stage 3 tax cuts fit under?

Senator Gallagher: Cost of living.

Senator McKIM: So tax cuts for the wealthy are a cost-of-living measure?

Senator Gallagher: Well, they are not. The package of tax reform has had a number of elements to it. I know we have a disagreement on this. Our position on stage 3 hasn't changed.

Senator McKIM: What is the inflationary impact of the stage 3 tax cuts?

Senator Gallagher: Where they appear in the forward estimates, they've been factored into the Treasury forecasts.

Senator McKIM: They are inflationary, though, aren't they, Minister?

Senator Gallagher: You have the experts sitting here. My contribution is to say that where they appear in the forward estimates, they are factored into the Treasury forecasts.

Senator McKIM: To claim that stage 3 tax cuts are a cost-of-living measure—I really have heard it all now, Minister. Dr Kennedy, tax cuts are inflationary, aren't they?

Dr Kennedy: Well, I will reflect on the minister's comments. The stage 3 tax cuts are in our forecasts. Our forecasts in the budget and the forecasts released by the RBA, I think just last Friday, do show inflation returning to the band over a couple of years. But there are risks on both sides. It is two-sided risk. They are risks that, as you would understand, you are concerned about in terms of growth and unemployment. There are also risks on the other side. Trying to pick out one spending program or one tax program and saying it's inflationary, hence we shouldn't do it, is quite a vexed approach. Really, you should look at, in my view—this would be my advice, I suppose, not that I'm supposed to be giving it here—the value or quality of each policy on its own merits and then, as a group of policies, ensure that your overall fiscal position is not, as I said earlier, adding to inflationary pressures. If people they want to argue the merits of different policies, I would be inclined to suggest that they argue them on the merits of the policy itself. Of course we're thinking very carefully about what things mean for inflation. That might have timing implications. But there are very many moving parts in any budget, of which revenue measures are just one.

Senator McKIM: Thanks, Dr Kennedy. But, all other things being equal, if you are going to put a quarter of a trillion dollars over 10 years back into the economy, that's going to put upward pressure on inflation and, therefore, risk more interest rate rises. That's a fair comment, isn't it?

Dr Kennedy: I like your use of the economist's phrase 'all other things being equal'. As I said, I'm just not sure. Anything that adds to aggregate demand could be a spending program or some of the government's spending programs on welfare, for example. They add to aggregate demand. We have to consider each program or each tax measure on its own merits—that would be my view—and then consider it all as a package. That's how I would approach it.

Senator McKIM: Minister, do you think billionaires need cost-of-living relief?

Senator Gallagher: We have a disagreement on the stage 3 tax cuts, Senator McKim.

Senator McKIM: You've said it's a cost-of-living measure.

Senator Gallagher: The government has not changed—

Senator McKIM: I'm asking you whether billionaires need cost-of-living relief.

Senator Gallagher: The government hasn't changed its position on stage 3. I'm going to keep saying it.

Senator McKIM: Do billionaires need cost-of-living relief, Minister? The stage 3 tax cuts put \$9,000 a year in the pockets of billionaires.

CHAIR: Senator McKim, that was your final question in this block. We need to give the minister the opportunity to answer.

Senator Gallagher: I've answered the question.

Senator McKIM: You haven't answered the question.

Senator O'NEILL: Chair, I raise a point of order. My point of order goes to your initial statement about the reality of expectations about how we interact in the parliament. I think there's great interest from every Australian in what is being discussed here. While I admire the passion of the democratic representative, talking over the minister about such matters I don't think is wise. I remind other senators of your ruling earlier about the way in which we might conduct this debate this morning, because it is so important.

CHAIR: Thank you, Senator O'Neill. It's helpful when a question is asked for the witness to be given an opportunity to answer before another question is asked.

Senator McDONALD: Good morning, Dr Kennedy. In the last estimates, you responded to a question on supply by stating:

I think it's fair to say the government is very mindful of, particularly for gas, the importance of not intervening in a way which discourages supply.

Dr Kennedy, is this still the case?

Dr Kennedy: I think it's still the case. It's important that policies are in place that do not discourage investment in the domestic supply of gas particularly and gas more broadly. Gas is a very important transition fuel for the government's net zero commitments. Yes, I still agree. I think the government was mindful of this when it set the temporary cap and, in particular, said it would review that cap at six months. Secondly, the department of climate change and energy, or DCCEE—*you probably appear with them*—is leading with the ACCC the consultation on the mandatory code of conduct. On elements of that code of conduct companies are engaging well. The government, I think, will work through carefully ensuring that it lands that policy in a way that does not unduly lean against further investment in gas—at least that would be my advice.

Senator McDONALD: So you think it's fair to say that the government hasn't discouraged future investment in supply?

Dr Kennedy: Well, as I said, it's put a temporary measure in. It has made it clear it's a temporary measure because it lapses legislatively. Secondly, it's consulting on other measures to try to encourage the effective operation of that market. It's still going through that process, so with regard to a judgement on whether that policy is going to discourage future supply or not, I think we should wait until the final policy is legislated.

Senator McDONALD: Can you point to any examples of new investment in supply over the last period since the government has intervened in the market?

Dr Kennedy: I don't have them in front of me, and I wouldn't regard myself as an expert in that domain. If you want us as the Treasury to look for you, we're happy to, but I can't here at the moment.

Senator McDONALD: Thank you. That would be terrific. The Prime Minister on 15 December stated unequivocally that the government's intervention into the gas market would not chill investment. Does the Treasury have any analysis that would support the Prime Minister's statements?

Dr Kennedy: We don't have quantitative analysis, if that's what you are referring to. Our analytical advice to the government is pretty much along the lines I just framed. The temporary cap was a measure to provide relief in the short term. As I said in my last estimates appearance, as long as those measures were temporary, I felt that the longer term outcome for gas and investment could be well managed. As I said earlier, I think the government is very mindful, as it settles its other policy, of ensuring there's a positive investment environment for gas. I would note more broadly that these companies and resources at the moment are the most profitable we've ever seen on record. There are great resources in this country. It's a needed energy source for Asia and the world more broadly as it makes the transition. I do think there's still ample opportunity in Australia. It's important we get the policy settings right.

Senator McDONALD: Are the gas shortfalls that the ACCC is predicting not indicative of a discouragement of supply?

Dr Kennedy: I will let the chair, Gina, talk to that issue in detail. I beg your pardon. I was about to talk about the in-year numbers. Do you mean the future gas down the track?

Senator McDONALD: Yes, that's correct. The ACCC's interim gas report that referred to a gas shortfall of 30 petajoules.

Dr Kennedy: They are talking about the in-year number. From memory, that report also showed there is some ample gas available to be contracted to meet that 33 petajoules. The ACCC also, though, talks about future demand and supply two to three years hence and, to go to your earlier question, the importance of more investment to meet that future supply. That's an issue that they have raised and we're very mindful of. We would agree with their analysis in the report that it is important that the policy settings are such that we can get that extra supply. As I said, I think gas is a very important energy fuel in the transition to net zero.

Senator McDONALD: Through the consultations the department has undertaken, have any companies indicated to you or your officials that they will be cancelling, freezing, halting or stalling any future developments or offers?

Dr Kennedy: The consultations are led by DCCEE. We seconded five Treasury officers to them. I haven't been personally involved in any of the consultations. The ACCC has, though. Gina will appear before you, I think today. I think it's best that Gina answers that question, because she's had those conversations with gas companies in the consultation.

Senator McDONALD: Are you aware of any projects that have been stalled, delayed or cancelled and have publicly attributed their decisions to the gas market intervention taken or signalled by the government?

Dr Kennedy: I've read the press reports about some companies pausing. I can't talk to you about them in detail. I can't recall them, but I have read the press reports about that. As I said, the detailed consultation on the veracity of those claims and what is going on is being led by DCCEE and the ACCC.

Senator McDONALD: The list I have is Woodside's review of the Bass Strait operations; Senex's 120-petajoule Atlas expansion scrapped; Cooper Energy's upgrade delays; Comet Ridge's hesitation to commence new exploration; and Beach's offshore development in Victoria and, additionally, the two import terminals. Minister, can you point to any intervention into the gas market that the government has taken that has not discouraged supply?

Senator Gallagher: That has, sorry?

Senator McDONALD: Not discouraged supply.

Senator Gallagher: Well, we don't accept that the recent interventions and necessary interventions into the gas market, which I note the coalition opposed, will impact future supply. The caps on gas and coal have been set at levels which will deliver a reasonable rate of return to producers. These are the prices that made economic sense before the war and continue to make economic sense today. Additionally, 90 per cent of gas produced on the east coast is exported and wouldn't be subject to this mandatory code of conduct. I am very happy to go through the coalition's record on failure to secure gas supply too, if that would interest the committee. But the information that I have before me is that over a number of years, right back to 2014, the former coalition government was warned about supply matters, including for 2014, 2016, 2017, in July 2018 from the ACCC—

Senator McDONALD: Minister.

Senator Gallagher: December 2018, April 2019, January 2020, July 2020—

Senator McDONALD: Minister, I thank you for your—

Senator Gallagher: January 2021 and January 2022, where it was said from the ACCC:

The shortfall in the southern states is forecast to continue into 2023 and beyond, which is two years earlier than we had previously forecast.

And the former coalition did nothing.

Senator McDONALD: Minister, we could have a discussion about—

Senator Gallagher: You can concentrate on the last six months of us trying to fix the energy markets, but let's go back—

CHAIR: I'll just make a little interjection here.

Senator Gallagher: and have a look at what happened over the last decade, because I think that is relevant.

CHAIR: Minister. Senator McDonald, this would be—

Senator CANAVAN: You don't have an answer. You can't answer the question.

Senator Gallagher: Senator Canavan, you did nothing. We are dealing with a pattern of dysfunction and delay.

Senator CANAVAN: Methinks they protest too much.

Senator Gallagher: No. It's just the truth.

CHAIR: Senator McDonald, you are nearly at the end of your block. I think you need one final question.

Senator McDONALD: Thank you. Whilst the minister is going to look back at the past and not look at what actions would bring more supply to the market now—

Senator Gallagher: Well, it's actually relevant, though.

Senator McDONALD: Secretary, I want to ask you—

Senator CANAVAN: Chair, I raise a point of order. There's no need for those interventions across the table.

CHAIR: I agree. It's all a bit equal opportunity at the moment.

Senator McDONALD: Secretary, you kept referencing a temporary price cap. Can you confirm the reasonable pricing provisions in the code are permanent, not temporary? Is this in line with your advice?

Dr Kennedy: The mandatory code is an ongoing code. Part of it is a reasonable pricing mechanism. The government outlined in its consultation that it would review the operations of the code and the reasonable pricing mechanism after one year but it would consult on an ongoing reasonable pricing mechanism. It also outlined, though, it would continue to take advice—I'm sorry, but this is from memory—from the ACCC about the mechanism and its operation. The last thing I would say, Senator, is that the government is still consulting on what exactly that mechanism and the rest of the code would look like. I will be in a better position to answer questions when that position is settled. I understand from DCCEEW that there are still consultations over the next couple of months, from memory, before the final position is settled. But the issues you are raising about the operation of the code and its interaction with investment are certainly ones we're mindful of and we'll continue to advise the government about.

Senator O'NEILL: I might pick up from theme that we've had from Senator McDonald at the moment. Maybe some departmental people might be interested in coming forward. I want to ask for some detail, rather than the rhetorical flourish, of how electricity future markets responded to the energy price relief plan that you outlined in your opening statement, Dr Kennedy.

Dr Kennedy: As I said in the statement, the direct effect, we think as a result particularly of those future prices coming down, is going to be half a per cent off inflation. I will pass to my colleague Mr Yeaman to take you through some of the details. The final effect will be when the Australian Energy Regulator makes its default market offers. But the combination of the two—the coal and the gas intervention—in our judgement has been effective in lowering those future prices. We do expect it to be effective in lowering electricity prices. I will ask Mr Yeaman to take you through a few details on the futures.

Mr Yeaman: As the secretary said, we did see, following the intervention by the government, a marked decline in future prices for electricity. During the six-week period between 30 November and 11 January we saw prices falling by between around 25 per cent and 45 per cent across each of the NEM jurisdictions. So we did see a very substantial decline in those forward electricity prices, which is underpinning the numbers that Dr Kennedy discussed around our overall national electricity price forecast.

Senator O'NEILL: So this is directly related to Dr Kennedy's statements about the announced package of measures that you stated in your opening statement. It's a considered package to deliver this outcome?

Dr Kennedy: That's right. In terms of the half a per cent off, half a point off inflation, that is our statement of just the direct effects of both caps. There will be an additional effect related to the subsidies that the Commonwealth has agreed to deliver with the states but is settling the final design on. They could lower inflation by a further quarter point, depending on exactly how they are designed. So, in total, inflation could be down by as much as three-quarters of a point across the next year as a result of the whole package that you are talking about.

Senator O'NEILL: Which is good news for Australians at every level. There was a decline after the budget and before the announcement of the plan. Could you explain why that occurred?

Mr Yeaman: These are complex markets. A range of factors play into this. I think it was clear that once the budget forecasts were announced with the significant increases in electricity prices, the government had been strong in signalling that they were going to take steps to address the market and to make changes that would

benefit consumers. I think that the market to some extent was pre-empting government intervention in that space. As the package was announced, we continued to see the declines in futures prices that I described. I think there was some anticipation of intervention in the market that led to the market starting to adjust. As the government's package was announced in full and became clear, that locked in those lower prices that we've discussed.

Senator O'NEILL: Really you've described a currency of trust there, where the market was responding to what the government was saying and the government did what it said it was going to do. We've seen further enhancement of the impact of that decision making.

Mr Yeaman: I think it was clear following the budget announcement and the statements of the Treasurer and other ministers on budget night and in the week after that there were going to be steps taken to address the issues in the energy market and consumer pressures.

Senator O'NEILL: Which is what Australians expect us to do. Do you have anything to say about the speed of the response to the plan, Mr Yeaman?

Mr Yeaman: Look, I think it was very clear that this was an urgent issue that needed to be addressed once these forecasts became apparent. I think the government has acted quickly. It certainly has been eager to move quickly to address these challenges. The plan is now, as I say, having an impact on the market prices as we speak. So I think it was a prompt response.

Dr Kennedy: I might make a further point on the timing issue. It was really known, in broad terms, that there were going to be significant increases this year from when the AER's default offer came out in May last year for electricity prices. What really became more apparent across the year was the potential for there to be even further increases. Our forecasting budget at least was for 20 per cent this year and 30 per cent next year. So the response, as much as it was difficult for the community to absorb those price increases for this year, was pretty much locked in. There was really nothing the government could do about them other than potentially provide assistance. So the need and the design of the caps were really about trying to prevent the price increase happening again in the following year, hence our discussion about gas at 20 and 20 going to 18 and four and then electricity prices previously 20 and 30 and now quite a bit less in the second year. That is just to be clear about how the timing was unfolding through that period.

Senator O'NEILL: So, for ordinary Australians hearing this, it was on a trajectory. The government's intervention has had a very significant impact in changing that trajectory and that's going to be very good for all Australians pretty much, in simple terms?

Dr Kennedy: It's certainly going to alleviate the significant rises. I wouldn't want to downplay, though—and hence the need for rebates that the government has agreed with the states—the fact that there still will be significant increases.

Senator O'NEILL: So there's pressure there. How sustained is the impact of the changes? Could you talk about the impact on the 2024 electricity future prices as well as the 2023 prices?

Mr Yeaman: I might ask a colleague to come to the table on that.

Ms Redmond: In terms of the futures response, it was as Mr Yeaman indicated earlier—up to 48 per cent, I believe, in terms of a price decline post that announcement. What we did see even post our budget print—yes, it made an impact on electricity prices—is that those future prices had actually increased from when we originally set our price estimate as well. That's why the underlying price increase was revised up to 36 per cent and the resulting impact of the price caps was estimated then to be a 23 per cent increase, a reduction of 13 percentage points. In terms of futures prices and why they matter, it is because a retailer is building a book of contracts over the course of time, approximately one to three years ahead of the supply date. You mentioned 2024 as a supply date. Up to between 35 per cent and 48 per cent actually represents supply from 2023 through to the 2024 financial year.

Senator O'NEILL: How would you characterise that impact?

Ms Redmond: This is a substantial reduction, particularly given the uncertainty that the market was experiencing at the time of the policy.

Senator O'NEILL: A substantial reduction?

Mr Yeaman: Substantial and sustained, I think, is a fair description.

Senator O'NEILL: That is the next part of my question. So the scale is important. Sustainability is also going to matter in a market that has been, let's face it, really unpredictable and very volatile for quite some time. We've only been in nine months and we have nine years of policy inaction by the former government. I am interested in the sustainability of what has been enacted.

Mr Yeaman: I think it is the case that the interventions that have been enacted have brought down those futures prices substantially and that it hasn't been adjusted for the next few months. Those futures markets have declined over the next few years. I would just say, as Dr Kennedy and you have said, Senator, this is a highly complex market that is subject to great volatility. New information will continue to come into the market over time and affect those prices as we go forward. At this stage, based on, as the senator said earlier, all else being equal, there has been, I would say, a substantial reduction in the futures prices. That has not just been for a very short-term period. It is reflected across the curve.

Senator O'NEILL: I'm sure I am going to be running out of time soon. I have a final set of questions and I will bundle them. We discussed this in the abstract. Australians live their lives in a very real and practical way, and businesses as well. My questions go to what all of this means for electricity users. What is Treasury's energy price forecast? Why is it going to take time for this to have the full impact, although you've indicated that it is heading in the right direction? Finally, what does this mean for Treasury's inflation forecasts?

Dr Kennedy: I will take the questions in reverse. The caps will drop that inflation number, particularly through to 2024. As Mr Yeaman has outlined, we think there is an ongoing effect, so they will lower the level of prices. All other things equal, to use the earlier phrase, that should persist. The rebate is a—

Senator O'NEILL: Dr Kennedy, that is an anti-inflationary impact? That is what you are saying?

Dr Kennedy: Yes, it is lowering inflation. It lowers the loops of inflation. Of course, when you can lower inflation, you lower the rate at which you are indexing welfare payments, for example. Welfare payments rose very substantially, as they should, to track inflation in the last budget. Measures to bring that inflation down will lower the cost to government and lower the costs, obviously, to welfare recipients and take the pressure off households trying to respond to those price increases. In the longer term for the energy market, to have low and stable prices, we need ample generation of a variety of forms. We need stable policy settings both from a climate and energy perspective that give investors the confidence, as we were talking about earlier with Senator McDonald, to invest. I think it is not our primary area of responsibility, of course—Minister Bowen leads on these issues—but focusing on that energy transition to ensure that we have low, stable prices in the future is, in our view, absolutely crucial.

Senator O'NEILL: Not just for the householders but for—

Dr Kennedy: For the whole economy.

Senator O'NEILL: For businesses, small and large, yes.

Dr Kennedy: Particularly for small businesses. It is also for households because, from a global competitiveness point of view, many of those small businesses are going to be exporters. If their energy costs are unreasonably high or higher than other countries', they will face a competitive disadvantage.

Mr Yeaman: I will add one point, Senator. I think you asked about the flow-on impacts. As Dr Kennedy said, there is a range of impacts. Because electricity is such a critical input, there are the direct users. They pass through those costs to other second users and indirect users, be it in the transport sector or in manufacturing. I think anything that can be done to help bring down those electricity prices will have second-round flow-on effects. We have identified the direct effects here—around half a percentage point on inflation—but we expect there to be second-round effects through the economy as that benefits other downstream users on those prices. I think you also asked a question around why it takes time. As you said, these companies and users tend to be locking in long-term contracts, be it five, seven or 10 years. Some users are still on lower contracts from prior to the invasion of Ukraine. They are still benefitting from those. Others are signing up to new contracts now, which will take time to roll off. So the overall impact is mitigated, to some extent, by those long-term contracts rolling through. But we see the benefit come through.

Senator O'NEILL: Which will come to you at different points?

Mr Yeaman: Exactly. It is difficult, as Dr Kennedy said. Certain elements of these increases were already locked in and could not really be addressed in the short term because of these longer term contracts. It takes time to see the benefits.

Senator O'NEILL: Thanks, Mr Yeaman, and thank you, Chair.

Senator HUME: Secretary, did the Treasury design the Treasurer's three-point plan on inflation?

Dr Kennedy: We certainly provided a whole array of advice to the Treasurer about the importance of fiscal constraint, the importance of targeted relief and all notions that go to that.

Senator HUME: Was there any consultation process that Treasury undertook on developing that three-point plan for the Treasurer?

Dr Kennedy: To be honest, Senator, we're talking to him about it all the time.

Senator HUME: The three Rs? Is that you? I know you have a rhetorical flourish. Was that you that thought of the three Rs?

Dr Kennedy: What three hours, sorry?

Senator HUME: The three Rs that the Treasurer announced was his three-point plan on inflation. Minister, would you like to—

Dr Kennedy: I might need the minister to help. I'm a simple public servant.

Senator O'NEILL: It is the three Rs, not three Ls.

Senator HUME: It is three Rs, yes.

Dr Kennedy: Oh, sorry. I thought you said three hours. I'm sorry. I thought you meant did I spend three hours with him.

Senator Gallagher: You spent more than that.

Senator HUME: So the three Rs wasn't you?

Dr Kennedy: The policy content that sits behind the Rs, if you like, is us. You probably know this well, Senator. We don't regard ourselves as experts in communicating that policy content that we're providing. Our ministers usually come up with how they're going to communicate it.

Senator HUME: So the three Rs, then, and the content behind the three Rs and the three-point plan, did that go to cabinet?

Senator Gallagher: It's a lot of work that sits underneath those three Rs, so, yes. It is subject to consideration constantly through our cabinet committee processes. Under relief, we've got payments to households. We've got the child care. We've got the cheaper medicines. We've got the shift to renewable energy, which comes under repair.

Senator HUME: It wasn't mentioned at all in the last outlook.

Senator Gallagher: It's our economic plan. A lot of detail sits underneath that. I don't know what the interest is.

Senator HUME: I'm just interested that those three words weren't mentioned in the budget yet now they are the economic plan. Is that right?

Senator Gallagher: All of the things that sit under that were mentioned in the budget. I don't know what your issue is.

Senator HUME: When did you become aware that the three Rs were the economic plan?

Senator Gallagher: The thought behind our response to the challenges facing the economy began before we were elected and it continues afterwards.

Senator HUME: That isn't what I asked.

Senator Gallagher: It is. You are trying to suggest that something new is happening when we clearly outlined our policies before the election. We are implementing them after the election. In terms of dealing with some of those economic challenges, they fall neatly under relief, repair and restraint.

Senator HUME: But it wasn't a program. It wasn't a specific economic plan developed by Treasury taken to cabinet that went through the ERC.

Senator Gallagher: Everything that sits under that is and does. I've answered that.

Senator HUME: Will we see the three Rs in the next budget, those three words?

Senator Gallagher: If you would like them—

Senator HUME: No. You are writing them, Minister.

Senator Gallagher: I will find a way to make sure that they are there just for you.

Senator HUME: I wonder whether they will be up in lights with themes—

Senator Gallagher: It's a pretty silly look.

Senator HUME: with colours underneath those three Rs. Until five days ago, we hadn't heard any of those words, not one.

Senator Gallagher: It's good you're listening to us. We appreciate it.

Senator HUME: It's a shame the rest of the world isn't. Secretary, the RBA governor has obviously been reported in the *Financial Review* specifically as speculating that Australia's cash rate could go as high as 4.75 per cent. Is that something that is possible? Would you agree that is possible?

Dr Kennedy: Well, I am most certainly going to be leaving it to Phil. I'm not going to provide any commentary on him. If you want to distinguish the question from his own commentary and thoughts about where I think interest rates are going to get to, I'm not going to comment on that either. As the point was made earlier, I am a member of the RBA board. I will reinforce here—I'm sure I can say this for all fellow board members—that the criticisms or otherwise of the interest rate decisions apply to the whole board, not just the governor, because it is the board that makes the decisions. The board has also decided that the governor will communicate our decisions and communicate those issues. I don't want to do hypotheticals. I don't think it's valuable for someone in my position to be speculating into the market about where interest rates would land. I would strongly prefer to leave that with the RBA governor, who will be here shortly, to communicate the board's thinking and his own thinking on those issues. I think that's the best way to think it through.

Senator HUME: I can assure you, Dr Kennedy, that the undermining of the RBA's independence isn't coming from the opposition. It's coming from the government. Page 45 of Budget Paper No. 1 outlines the budget forecasts that take into account an expected cash rate peak of 3.35 per cent, which is where the cash rate is right now. We note that the RBA has said that the cash rate will go further. Can you advise what the current market expectations are for the peak cash rate, then, based on that Bloomberg survey of market economists compared to the peak in the budget of 3.35 per cent?

Dr Kennedy: I do hopefully have that here. I will mention just two things on the way through. We have been tending to use the market profile. I note that the RBA has been using the average of the market and the market economists profile, which you can talk to the RBA about. Those two were apart but they've come much closer together. Hopefully Mr Yeaman has the market for you now.

Mr Yeaman: Yes. As you say, the budget assumed a peak of 3.35 per cent based on that market economist curve. Currently, that curve is peaking at 3.6 per cent in mid-2023. We'll keep monitoring that up to the budget and look at how that moves. But that is the current expectation.

Dr Kennedy: That is the most—

Mr Yeaman: That is the survey of market economists, as opposed to the market futures curve.

Dr Kennedy: Yes.

Mr Yeaman: Which is what we've been using in recent budgets.

Senator HUME: On your opening statement, Secretary, you said that you don't see a significant change in the outlook for how the economy is responding. However, you did say that there will be some adjustments to account for new developments and data. You mentioned one of those things. You said a stronger outlook for population. What else might be new developments and data?

Dr Kennedy: Headline inflation peaked in a quarter at around our forecast. We don't forecast underlying inflation. But underlying inflation was a little stronger than expected. So that is new information that we would have to incorporate into our own inflation forecasts. It is something the bank has already done in its release last Friday. By way of example, in the August policy statement, the bank had been expecting underlying inflation to peak at six per cent. I presume it has peaked. It has come through at 6.9 per cent. That is a new piece of information. Inflation is slightly stronger. As you said, the population growth will tend to lift the level of growth. The near term outlook for China has improved with the zero COVID movement. That's related to some of that discussion I talked about on commodity prices. Iron ore and metallurgical coal have been running higher than what they were at budget and running above, so we'll need to take that into account. There's a small appreciation on the trade weighted index on the exchange rate. The US dollar, as I said, will offset that from a revenue perspective. From a broader economic perspective, I think there will be a small appreciation in the dollar. We haven't settled it yet. We'll settle it as we get closer to budget. That would typically lean against growth and push back in the opposition direction. And then there will be key data coming out in the weeks and months ahead on wages particularly. I think we will be watching very closely the wage price index and how the labour market is responding. There is the labour market itself and employment growth and further data. Hopefully that is a reasonable sketch for you of some of the things that are coming through. The consumption outlook is sort of broadly coming through where we expected. There are ons and offs there as well.

Senator HUME: The independent economist Chris Richardson publicly stated recently that every \$6 billion of additional government spending is likely to cause an extra half a point change in the cash rate. Is this sort of analysis something that Treasury would agree with?

Dr Kennedy: Look, I haven't got a rule of thumb in my head for whether that would be right. Let's be clear what Chris is talking about. He is talking about, as I was talking about earlier, a net additional \$6 billion. If you take \$6 billion off somewhere and you add it somewhere, that's not a net additional. We always have to keep that in mind with programs. We often think of them entirely separately, but from a fiscal position we have to think about the whole array of spending and taxing that we are undertaking. I'm just going to have to come back to you on the rule of thumb, to be quite honest. What did he say?

Senator HUME: So there is a rule of thumb?

Dr Kennedy: Yes. We have rules of thumb—fiscal multipliers and rules of thumb.

Senator HUME: That would be great. In fact, if you have numerous rules of thumb, they would be very interesting for us to see. If you could list those and give them to us on notice, that would be very good.

Dr Kennedy: Can I tell you one quick interesting thing about those rules of thumb? They are very relevant to the recent period. There's a lot of debate about them. Some people think fiscal responses do very little. Others think they do a lot. For example, there was a very robust debate during the COVID period about whether fiscal policy would be enhanced when interest rates were at the zero lower bound. Obviously, we'll consult with the Treasurer. I would be happy to provide you with the information around those rules of thumb.

Senator HUME: Fantastic. Finally, Dr Kennedy, have you got any headline speeches coming up? I know you did a couple last year to the Australian Business Economists and you did one to the ANU. There was some post budget stuff. Is there anything?

Dr Kennedy: It's my practice to do a post budget speech with the Australian Business Economists. This year, I plan to do one in Melbourne. Apart from appearing in front of this committee three times a year, I haven't planned anything else. Once we get through our busy budget period, I hope to have the opportunity to make a hopefully educative contribution, if I can.

Senator HUME: I know that analysis is the area of expertise and advice of Treasury, not communications. In those speeches will you be referring to the three Rs?

Dr Kennedy: I haven't thought it through yet.

Senator HUME: It will be interesting to see. Thank you, Dr Kennedy. Thank you, Chair.

Senator McKIM: Dr Kennedy, I can assure you that I do have some questions for you. I can't get over something the minister said previously. I want to explore that. Minister, are you seriously claiming that Labor's stage 3 tax cuts that deliver three-quarters of the benefit to the top 20 per cent of income earners and deliver next to nothing for people on the minimum wage are a cost of living measure?

Senator Gallagher: The tax package had a number of stages, as you know, Senator McKim. See my comments in that light. I'm clear what your position on stage 3 is. The government hasn't changed its position on stage 3. I can keep saying that to you. We are focused on dealing with the near-term challenges facing the economy. That is why we have our economic plan and all the policies and investments that sit under it. That is the focus of the government.

Senator McKIM: Do you stand by your claim that Labor's stage 3 tax cuts, not stages 1 and 2 tax cuts, giving \$9,000 a year to people earning over \$200,000 but next to nothing to people on the minimum wage, are cost of living relief? Do you stand by that claim?

Senator Gallagher: Well, I think if you go back and check the *Hansard*—it might not suit you for media purposes, Senator McKim—you will see that I reflected on the tax package as a whole that this parliament has legislated. Let's just remember that.

Senator McKIM: It's a billionaire's—

Senator Gallagher: It's been legislated and the government hasn't changed its position on it.

Senator McKIM: Do billionaires need cost of living relief?

Senator Gallagher: I've answered your question, Senator McKim.

Senator McKIM: Do billionaires need cost of living relief?

Senator Gallagher: We can sit here and continue and you can waste your time. I've given you my answer on this.

Senator McKIM: Billionaires obviously don't need cost of living relief, do they, Minister?

Senator O'NEILL: I raise a point of order.

Senator Gallagher: I've answered the question. You keep trying to twist my words. I've answered your question. I'm not going to change it. We can sit here and you can use your 10 minutes up with me saying the same thing and you saying the same thing. I understand that you have a political point to prove. I've answered the question.

Senator McKIM: It's a simple question, Minister.

Senator Gallagher: I've answered it.

Senator O'NEILL: I have a point of order. This is a question and answer sequence. Asking a question once is reasonable, but repeating the question doesn't seem to serve much purpose. I seek your guidance, Chair, about the way in which we are going to conduct the day.

Senator McKIM: Can I respond, please, Chair, on the point of order. First of all, I'm not sure what the point of order is. Secondly, I did not once interrupt Senator Gallagher during that period of questions and answers. I was very careful to make sure that she had an opportunity to finish her response. That leads me to my third point, which is that she has not answered that question. I have repeatedly asked it. She has not answered it. I'm entitled to keep asking the same question in the absence of an answer. A response does not equate to an answer.

CHAIR: I would be concerned about repetitive lines of questioning. The minister is answering the question. It may not be an answer that you like. I was momentarily distracted by organising the program for the day. I am watching, Senator McKim, for lines of repetitive questioning. You have the call.

Senator McKIM: So what is your answer to the question of whether or not—

Senator Gallagher: I've answered it.

Senator McKIM: What is your answer to the question of whether or not billionaires need cost of living relief?

CHAIR: The minister has said that she has answered the question.

Senator Gallagher: The government has not changed its position on stage 3. That is my answer.

Senator McKIM: That is not an answer.

Senator Gallagher: That is my answer to your question. I will keep saying it, Senator McKim.

Senator McKIM: I raise a point of order.

CHAIR: Sure. This is taking your time.

Senator McKIM: I understand that. Senator O'Neill is effectively absorbing my time by taking spurious points of order. The point here is that—

Senator O'NEILL: I raise a point of order. You are reflecting on me there, Senator McKim.

Senator McKIM: Alright, I withdraw. The point here, Chair, is that despite the minister's claim, she has actually not answered the question. She has issued a number of words that don't actually respond to the question. Saying that the government supports stage 3 tax cuts is not an answer to the question of whether billionaires need cost of living relief.

CHAIR: This is a statement to me. You can ask one more question. The minister may not like your answers.

Senator Gallagher: You can't control my answers. You can control your questions. You can't control my answers.

Senator McKIM: They are not answers.

CHAIR: Senator McKim, I—

Senator Gallagher: They are answers. I will continue to give them.

CHAIR: I will reallocate the call if there's a repetitive line of questioning, Senator McKim.

Senator McKIM: I'm going to have one more try and then I'll move on. Minister, do you agree that your statement that the government supports the stage 3 tax cuts is not a response to my question, which is whether billionaires need cost of living relief? My question is: do billionaires need cost of living relief?

Senator Gallagher: The government's position on stage 3 hasn't changed.

Senator McKIM: Dr Kennedy, I might get some more reasonable responses from you. I'm sure I will. You said this morning that the risk of a price and wage spiral is low. The RBA governor has consistently used the risk of a wage-price spiral as justification for interest rate rises. That was done most recently in his comments immediately after the February board meeting of the Reserve Bank, when the governor said it is important to avoid a wage-price spiral. Can you have a go at reconciling those statements, please?

Dr Kennedy: Well, it's definitely important to avoid a price-wage spiral. There's no doubt about that. In the current data, our assessment is the risk is low. As I think I mentioned to one of the other senators, we are watching wages developments very closely. We've watched what has happened in other countries, where wages growth has picked up to around five per cent in some cases but is now easing. We've also thought through the changes in wage settings, for example, that have happened in the past when we've previously had large supply shocks. The same mechanisms that used to echo a wage increase through the economy through either pattern bargaining or other arrangements are not present. So that significantly reduces the risk. You can maybe ask Phil on the other side of it. As I said, I see the current risk is low. But I do agree with him, if I have got your phrasing correctly, that it is something we are watching very closely. I tried to outline it earlier when I said the risks are two-sided. There are risks on the upside and there are risks on the downside.

Senator McKIM: Thank you. However, your general view is that the risk of a wage-price spiral is low. That is obviously a statement that is casting forwards. You are saying, I assume, the risk into the future of a wage-price spiral is low. Informing that view, do you make any assumptions about interest rate changes and use them to underpin that view, or is that on the basis of where we are now on interest rates? Interest rates obviously are going to impact on wages.

Dr Kennedy: We assume a future interest rate profile. The one we were talking about earlier in the budget had us peak—

Mr Yeaman: At 3.6 per cent in the middle of the year, which is based on the survey of market economists' views.

Dr Kennedy: I think it was a little lower.

Senator McKIM: The governor has made, since the budget, some comments that most people, including me, think increase the likelihood of future interest rate rises. Do you factor those sort of things in, Dr Kennedy, when you form a view about the risk of a wage-price spiral?

Dr Kennedy: Yes. We take a judgement effectively from an independent source, which is either the market economists or the market. I will point out that is the same thing the RBA does in its forecasts. So in the forecasts that were released last week, they have assumed a profile for future interest rate increases, which we need, to throw things forward.

Senator McKIM: Thanks, Dr Kennedy. We have a situation at the moment. You referred to the rises in rents in your opening statement as well. We've got a situation where house prices are actually falling at the fastest rate on record while rents are rising at the fastest rate on record. How is this happening? How can the cost of buying a house be coming down at the fastest rate on record but the cost of renting a house is going up at the fastest rate on record?

Dr Kennedy: I might throw to my colleague to talk through some of the housing market dynamics in a moment. Part of the price fall is related to the cost of borrowing. I think you know this. Effectively, it's demand for the assets and the cost of obtaining credit and how people think forward about that asset. The rents are, if you like, the return on the asset. They are rising on the other side to match the interest rate increases. There are also, though, other dynamics running through the market. There are underlying supply and demand dynamics running through the market. I mentioned earlier the change in the average number of people per household. That is an interesting thing that happened through the pandemic. Of course, now there is the recovering population, with students in particular, and their demand for accommodation as they arrive. All those things I don't see as inconsistent. They are all consistent with a housing cycle. We've certainly seen rent cycles in the past. You are right; the increase in CPI rents—that is, all rents on average—we expect to peak this year. It will be a significant rent cycle. Similarly, house prices still haven't come back to the level they were pre-COVID. They have fallen a lot. So there has been a significant reduction in their wealth more recently. I suppose it's just worth keeping in perspective. They haven't retraced their steps from 2019-20.

Senator McKIM: Thanks, Dr Kennedy. That's a comprehensive response. I want to narrow in on one part of that response. I won't try to quote you. I want to put it to you that part of that response is an acceptance that putting up interest rates does lead to rent increases. In fact, it is one of the major drivers of rent increases. If the cost of a landlord servicing their mortgage goes up, they will be inclined to pass that cost on to the tenants through higher rents. Therefore, my proposition to you, which I would like you to respond to, is that interest rate increases are one of the major drivers of the current rent increases.

Dr Kennedy: The interest rate increases have a number of channels through which they work. In this country, they do work strongly through the housing channel because of the predominance of variable interest rates. I'm

getting into Phil's country. The central bank has an instrument that it uses to control aggregate demand. It will flow through various channels. That's its job.

Senator McKIM: Is that proposition right, though?

Dr Kennedy: The distributional implications of how the central bank is working is a job for the fiscal authorities or the government to consider. The central bank does its job by thinking about the balance between aggregate demand and supply, ensuring inflation remains low and stable, at the lowest possible unemployment rate. I will leave it with Phil to talk further. That's what the board is firmly focused on.

Senator McKIM: I want to ask one more question to try to tease that out. I appreciate that. Dr Kennedy, on my proposition, is it right or not that interest rate rises are a significant driver in the rent increases that we are just seeing? Is that correct, in your view, or is that incorrect?

Dr Kennedy: They are certainly one of the drivers. I will leave it to the governor to distinguish more carefully.

CHAIR: Thank you, Dr Kennedy.

Senator DEAN SMITH: Thank you, Secretary and officials, for making yourselves available today. In meeting the inflation challenge that Australia faces at present, is fiscal policy playing a subsidiary role to monetary policy?

Dr Kennedy: I would say fiscal policy is playing an important role in particular because, as I see it, there are very significant demands on the budget for additional spending. There are very significant demands to spend any upgrades we may receive from the commodity price revenues I spoke about. It's a matter for government, of course, but to the extent to which fiscal policy can provide targeted relief to address the types of distributional issues that were being raised earlier by Senator McKim but not contribute to overall aggregate demand, I think that's a very important role. As I said earlier—I remember speaking about this when I first came into the job in 2019—we typically see monetary policy as the primary lever to manage the larger swings. But you are absolutely right to point to the fact that fiscal policy has a role to play. That is correct. I think you described it as subsidiary or secondary?

Senator DEAN SMITH: I did, actually, yes.

Dr Kennedy: I would be more inclined to say it has an important complementary role to play.

Senator DEAN SMITH: It's interesting that you should say that because my second question, by pure coincidence, is whether they are working in perfect complementarity.

Dr Kennedy: Okay.

Senator DEAN SMITH: I kid you not. The key word is 'perfect'.

Dr Kennedy: There are two things. Firstly, I guess, we can comment on the October budget part. As I've alluded to, I thought a very important part of that fiscal strategy was to lock the revenue upgrade and not worsen the fiscal position. The government is still considering its current budget, of course, and will make decisions and deliver that on the second Tuesday in May. The Treasurer has spoken on a number of occasions about how one of the things that is most important to him are fiscal policy settings that do not add to the challenges of inflation. I would call that complementary.

Senator DEAN SMITH: So they are optimal at the moment?

Dr Kennedy: Well, I'm turning into a running commentator on the government at the moment, which I don't think is quite appropriate. Look, we're always advising the government, which weighs things. Quite frankly, the Treasurer seeks advice from me very regularly about how we can improve the current settings. I would never say that they are all they can be. I would say that the approach taken in October was important. Similar approaches going forward will also be important.

Senator DEAN SMITH: In your opening statement, in the second last paragraph, you state that the projected structural deficit throughout the medium term makes the need for fiscal consolidation very clear. The IMF's article 4 statement, at page 48, makes this comment with regard to Australia's fiscal consolidation moving forward:

Fiscal consolidation is expected to continue...albeit at a...slower pace.

Is the fiscal consolidation task progressing at a pace that is necessary to meet the inflation challenge?

Dr Kennedy: The point I was trying to make at the end was more a point around the longer term sustainability of the fiscal position. In this country, Commonwealth spending has tended to settle as a proportion of GDP somewhere between 26 per cent and 27 per cent of GDP. We've typically taxed, on average, something closer to

25 per cent. That's not perfect numbers. It's a little less than that. That structural position I'm talking about is the average amount of tax we tend to raise from income and the amount we've spent. Important programs that the Treasury would support, particularly in their aims, such as the NDIS and other important spending initiatives, have added to the structural spending of the government. My contribution there about consolidation is that governments are going to have to make hard decisions about how to either reduce that spending as a proportion of income or raise taxes if they want to run balanced budgets over time, which I think would be a good thing to do over time. If governments do nothing, what happens is that fiscal drag will see income tax rise on average over time. The average tax on income increases. I outlined those propositions in a speech to the Australian Business Economists last year. The consolidation I'm talking about is a steady medium term consolidation. The focus is on the trajectory of spending such that isn't growing particularly faster than income and hopefully less than overall income over time. That goes to the efficiency of government services. Secondly, it is to ensure that the revenue raised that matches that spending is done in the most efficient way. That's my conception of sensible fiscal consolidation over time. Sorry to be quite so long-winded.

The second point you are making is about inflation in the here and now. One of the ways that government could contract aggregate demand is to increase taxes for a year. There's a variety of things it could do. It could immediately cut spending on some program. Given the complexity of implementing those types of fiscal measures outside of a crisis, I'm more inclined to think about the flexibility of monetary policy, which I understand not everybody agrees with. The ability to manage aggregate demand through increasing or decreasing interest rates is a better tool in the short term.

Senator DEAN SMITH: Is the complexity that you talk about a political complexity?

Dr Kennedy: I see it as both, including policy. Obviously I'll let the rest of you talk about the political complexity. From a policy point of view, many programs are well intended. Sometimes they are well aimed. They have large constituencies. It's a difficult exercise to work very hard to change them and work with those stakeholders. Actually I think you as a group of senators know all of this very well. I see it as both. But I do see it as something very important. The reviews that are currently underway on the NDIS and the continuation of the aged care reforms that were begun under the previous government are very important areas. They are complex, and the community is very engaged in how much government money will go to those activities. But they are crucial for the budget as well.

Senator DEAN SMITH: Has the Treasury any data or done any analysis on the quantum of fixed rate loans transferring to variable rate loans in this calendar year?

Dr Kennedy: We have. I don't have that off the top of my head. I will see if my colleague has it.

Mr Yeaman: I'm just drawing up that information. It has been reported widely and publicly that, I think, around one-fifth of the mortgage book will roll off over the course of the next year from fixed rates to variable rates.

Senator DEAN SMITH: The RBA, before a Senate committee some weeks ago, used a figure of 800,000. I'm just keen to understand the Treasury's data and analysis. Is it close to 800,000 or less than, for example?

Mr Yeaman: We use the same data sources that the Reserve Bank does. We look closely at their information. I have my information here in percentages, not numbers. We've been looking at the same information. My colleague on the screen from Melbourne, Ms Polygenis, may be able to add. I think those numbers are broadly consistent with the numbers we look at.

Dr Kennedy: As a matter of practice, Senator, we collaborate with the RBA in the preparation of our forecasts. We tend to share in areas where they are more focused and more expert. Often around financial markets, the information tends to flow to us. In areas where we've established an area of expertise, such as population growth, we share our numbers with them. I would be very surprised if they were different given the same data sources and given that in what we call forecast rounds we would regularly engage with the RBA in how we're thinking about the economy and how they are thinking about the economy. On that type of number, of course we would come to different views and judgements. But on that type of number—I will confirm for you—I would be very surprised if there was any difference at all.

CHAIR: This is your last question, Senator Smith.

Senator DEAN SMITH: Was the official able to provide some additional information? In particular, I'm keen to get an understanding of what that 800,000 for the calendar year 2023 looks like month by month and keen to understand what it looks like in terms of a geographical breakdown. What is the granularity of that 800,000?

CHAIR: Are you asking for that to be taken on notice?

Senator DEAN SMITH: No. I am asking for it to be answered.

Dr Kennedy: We might have some of it. Let's see.

Ms Polygenis: We will need to take the more detailed questions on notice. I would like to make one point of clarification. Of the numbers that the RBA provided, the number of loan facilities coming off fixed rates over that period is somewhere in the high 800,000s. That is not necessarily the number of households, because some households have more than one loan facility.

Senator DEAN SMITH: The RBA made that clear in their evidence, correct.

Dr Kennedy: We'll take that on notice. If it's also helpful, we'll try and give you some sense of the extent of what the roll-off looks like.

Mr Yeaman: One point I can give you now is, based on the figures I have in front of me—I don't have monthly figures but in broad terms, I think on a quarterly basis—it's relatively smooth through the course of the year. People are rolling off over the year in pretty consistent numbers quarter by quarter. We will look at what we can give you on a regional and a—

Senator DEAN SMITH: That's interesting, because the parliamentary library did an exercise for me. They calculated 53,000 or 54,000 in June.

Dr Kennedy: In the month of June?

Senator DEAN SMITH: Yes. But they did use a set of assumptions that may be the same or dissimilar to what the Treasury or the RBA might seek to use. I have asked that information from a number of sources. Do I have the luxury of one more? It is unrelated.

CHAIR: No. I have just been advised that another senator has questions that I wasn't aware of. There are a couple of questions from Senator Hume. Senator Canavan has questions for Dr Kennelly, and Senator Rennick does too. We are going to finish at 11 am this morning, so just a couple of questions, Senator Hume.

Senator HUME: Thank you, Chair. In your opinion, Secretary, is the current budget an expansionary fiscal policy? Is it a contractionary fiscal policy? Is it neutral?

Dr Kennedy: It's neutral.

Senator HUME: That is despite the fact that there is a structural deficit, which you have spoken of.

Dr Kennedy: That's right.

Senator Gallagher: Which we inherited.

Senator HUME: You are making words, Senator Gallagher?

Senator Gallagher: That we inherited and that we have made significant inroads into budget repair on in the October budget. We'll continue to focus on that.

Senator HUME: Secretary?

Dr Kennedy: The way we tend to think about the fiscal position being expansionary or contractionary is we focus on the change in that deficit. If it was going from two per cent of GDP to three per cent of GDP, that would be expansionary. If it were going from two per cent of GDP to one per cent of GDP, that would be contractionary. If it's staying at two, it's neutral. That's the manner in which people tend to think through what the net fiscal impulse is.

Senator HUME: So it really is relevant to whether the budget is balanced.

Dr Kennedy: It's very relevant whether the budget is balanced from a sustainability point of view. It's very relevant for debt trajectories. It's very relevant for how much interest is being paid on the current stock of debt. If the budget is in a significant deficit, and interest on debt is at a reasonably high level ahead, and the combination of those two things is ahead of broader growth in the economy, debt will not stabilise. To go back to my earlier points about sustainability, particularly in light of the higher interest rates on debt, to get a debt trajectory—I think we would all agree it would be good if that debt trajectory was down given the increase in debt that occurred over the past few years—we will need smaller deficits over time.

Senator HUME: If we have inflation rising at a time when there are those neutral settings, wouldn't you want to reduce the deficits?

Dr Kennedy: Basically, I guess the question is whether fiscal policy could play a—

Senator HUME: Would you want a more contractionary budget rather than a neutral budget?

Senator Gallagher: What cuts would you like us to make, Senator Hume?

Senator HUME: Minister, thank you for asking me a question, but I'm actually asking the secretary a question.

CHAIR: I'll have to reallocate the call after that one, thanks, Senator Hume.

Dr Kennedy: My experience in periods like this, particularly when interest rates are having a significant impact on households, is that one of the most important things a government can do is not respond to that need by moving to a more expansionary setting. As I said, the mechanisms through which you might try and discretionarily contract the budget, be they a spending cut or a tax increase, often come with a lag and a lag beyond the monetary policy lags. I tend to focus more on the sustainability point of view. I would make this point: in our economy, where we can see large surges in revenue, as I talked about earlier with commodity prices, it is definitely important not to recycle that revenue surge back into spending, if at all possible.

Senator Gallagher: Which is why we banked 99 per cent of the revenue upgrades in the last budget.

Senator CANAVAN: I will just pick up there. Is monetary policy contractionary?

Dr Kennedy: That is a very good question, because it depends on the level of interest rates. It's the level of interest rates that matters.

Senator CANAVAN: It's a relatively simple one. Is it contractionary?

Dr Kennedy: It's certainly moving to become more contractionary. There is a lot of academic debate about where it settles on an ongoing basis.

Senator CANAVAN: Is fiscal policy moving to become more contractionary?

Dr Kennedy: Fiscal policy is neutral across the forward estimates.

Senator CANAVAN: So why isn't fiscal policy moving in the same direction as monetary policy?

Dr Kennedy: Senator, as I said, I think it's important that fiscal policy at least remains neutral.

Senator CANAVAN: Well, it seems to me, based on your evidence, that the fiscal policy is not moving in the same direction as monetary policy. Monetary policy, as you said, is moving to be more contractionary. Fiscal policy is not. So you are not really helping the Reserve Bank at the moment, then, are you? Sorry. I should say that the government isn't, not you.

Dr Kennedy: As I also said earlier, the usual role in managing these cycles—I certainly grant you these are not very usual times—was to give this role to monetary policy because of the difficulties of the ons and offs in the fiscal policy. Quite frankly, I've seen that a couple of times now through my career where governments have intervened—

Senator CANAVAN: You haven't seen eight per cent inflation in your career either, presumably.

Dr Kennedy: I'm just trying to think.

Senator CANAVAN: I do need to move on. I'm sorry. I wouldn't normally do this.

Dr Kennedy: My point—

CHAIR: Sorry, okay.

Senator HUME: He was in the middle of an answer.

Senator CANAVAN: If you could wrap up quickly.

Dr Kennedy: My point is the flexibility of decision making for fiscal policy is difficult for many of the reasons we've been talking about today. I would be surprised if we all decided that fiscal policy was now going to be the primary tool for managing cycles.

Senator CANAVAN: That's not what I said either, though.

Dr Kennedy: As I said earlier, I think it remaining neutral and the decisions made in October were important. I hope that's the case on an ongoing basis.

Senator CANAVAN: Just quickly, I want to turn back to energy. Over the past week, spot gas prices in Brisbane, Sydney and Adelaide have all averaged around \$15 a gigajoule. Why is the price of those markets above the government price cap? That is inconsistent with your evidence before saying that gas prices have come down.

Dr Kennedy: I will have to ask a colleague because, to be honest, I wasn't monitoring those markets last week, if they've got anything to add.

Senator CANAVAN: If you don't know, there's no answer.

Ms Reinhardt: We can take the detail on notice. I would say that there is flexibility in spot price markets to respond to near term pressures. You will see more volatility in those markets. Futures markets have remained low since the announcement. They are the markets that feed into the DMO.

Senator CANAVAN: I have some documents to table. We might have to come back to this later because of the time. Future prices for 2024 based on data from the Australian Energy Council and the ASX energy website show them increasing from mid-December. I've got the charts here. You said earlier that future prices have decreased. What is the base month? What is the base date that they decrease from?

Ms Reinhardt: Futures markets decrease, as we outlined earlier, from late November, when the government indicated that it was taking action—

Senator CANAVAN: But that's not when they announced the energy price.

Ms Reinhardt: And they continue, as Mr Yeaman said—

Senator CANAVAN: The key from here—

Senator Gallagher: Let her answer.

Senator CANAVAN: It's only because of the time constraints, Senator Gallagher.

Senator Gallagher: We are coming back to this group.

CHAIR: Senator Canavan, we will be coming back to this group.

Senator CANAVAN: The key thing is when the government announced the energy price intervention—when they announced the cap and the reasonable price—future prices went up, not down. That's what shocked the market. Maybe we can come back later and you can show me why those figures are wrong. But future prices went up after your government, Minister, announced intervention in the market.

CHAIR: Senator Canavan, we will now table your documents, which have been provided to the department. In the last couple of minutes, I'm seeking questions specifically for Dr Kennedy. I understand that Senator Rennick has some.

Senator RENNICK: In 2021-22, migration was 171,000, of which 109,000 were students. There is a record 217,000 student visa applications for this year. Given that students predominantly add to demand and not supply, why is Treasury pursuing a big Australia policy at the same time that the RBA is trying to cap demand? Isn't the Treasury policy of big Australia going against that, especially with regard to rents, where rents are going through the roof because many people can't find a place to stay?

Dr Kennedy: There is a bit to map through. We don't have a big Australia policy. The government sets the permanent migration caps and sets the policies. I would say that Treasury has always spoken about the importance of thinking through migration from how it contributes to GDP per capita and how it contributes to the income of all of us. It's not sensible—

Senator RENNICK: But students don't produce.

Dr Kennedy: I'll come to students very quickly. It's not sensible to think about the migration program by saying that the economy is larger because there are more people here. That's necessarily not a thing.

Senator RENNICK: I agree.

Dr Kennedy: We have to think through what is the appropriate program, how it works and how it contributes to the dynamism in the economy et cetera. I would say—it's possibly where we don't agree—that Australia's migration program over a number of years has contributed significantly to the dynamism of the country. On students particularly, there is an artificial dynamic at the moment. We are seeing some students return who weren't here to finish degrees. We are seeing the new flow. From what we've seen in the past, the patterns are roughly 160,000 students arriving a year and roughly 80,000 leaving, or something along those lines. There is a net position of 80,000. What we're getting in this next year or two are much large numbers because we haven't got the outflow. We're just re-establishing the inflow. As to whether it puts pressure on rental markets and accommodation, more people clearly put pressure on rental markets and accommodation.

Senator RENNICK: Thank you.

CHAIR: Thank you very much. I have a request from a senator who assures me that it's two minutes of questions for Dr Kennedy. I'm accommodating two minutes.

Senator McKENZIE: He knows I'm a senator of my word. Thank you so much, Chair. I do thank the committee for their indulgence. I won't hold you up. Has Treasury considered or done any modelling of the implementation of a national road user charge incorporating electric vehicles extending beyond the current fuel tax credit system?

Dr Kennedy: I don't believe so.

Mr Yeaman: All I'm aware of is we were asked by the department of infrastructure to provide an assessment of how different outcomes for the road user charge might affect inflation in Australia. I think we provided some advice around that matter.

Senator McKENZIE: But no detailed modelling?

Mr Yeaman: No. Not detailed modelling, unless my colleagues can speak.

Dr Kennedy: We will confirm that for you.

Senator McKENZIE: Could you put that on notice to look at that?

Dr Kennedy: None that we're aware of.

Senator McKENZIE: The Commonwealth has just intervened in a High Court case around road user charges. I've been pursuing this with the Attorney-General's Department. I want to clarify that they were doing it with some intelligent economic assessment, given that their position on behalf of the Commonwealth is essentially arguing for a national road user charge rather than individual states pursuing their own mechanisms.

Dr Kennedy: I'll make some comments. I will carefully stay away from the—

Senator McKENZIE: The case itself. Absolutely.

Dr Kennedy: case itself, which is around whether it is an excise or a user charge of some form. I guess our broader policy position is that if states wish to pursue those charges and construct them in a legislative way, not pre-empting further considerations, we would see that as a sensible policy approach. This is my own view. We're not against the policy. A-G's is the lead on this. What we contribute to is the appropriate use of the legislative instrument to get to the outcome. That's how I see it. Certainly as you would know in my past, I have a deep interest in the capacity for road user charges to be applied.

Senator McKENZIE: Absolutely.

CHAIR: Thank you.

Senator McKENZIE: I'll have a range of questions on notice. Just to clarify, A-G's and no modelling done by Treasury for this particular initiative?

Dr Kennedy: For a national road user charge?

Senator McKENZIE: Yes.

Dr Kennedy: Correct. No.

Senator McKENZIE: Thank you. Thank you, Chair.

CHAIR: Thanks, Senator McKenzie. Thank you very much, Dr Kennedy, and officials for appearing before us today and answering all of our questions. We are, of course, very happily releasing Dr Kennedy. As you can see, senators have some questions for the rest of the group. It is proposed that when we kick off with markets at 4.30 pm, there are some representatives of this group with us to answer further questions at 4.30 pm. Thank you very much, Dr Kennedy. We are now taking a break. We will resume at 11.15 am.

Proceedings suspended from 11:02 to 11:15

Reserve Bank of Australia

CHAIR: It being 11.15 am, the committee now welcomes the Reserve Bank of Australia and its representatives, Governor Phillip Lowe and Ms Michelle Bullock. In welcoming the RBA, the committee recognises the central bank's independence under the Reserve Bank Act 1959, particularly in regard to its setting of monetary policy. The committee is cognisant that while the RBA does not receive annual appropriations, it does provide the parliament with opportunities to discuss its insight and performance, which the committee greatly welcomes. As such, no government minister will be in attendance with the committee while representatives of the RBA are present. Mr Lowe, thank you very much for joining us. Ms Bullock, thank you for joining us. Would you like to make an opening statement?

Mr Lowe: Thank you, Senator, for the invitation to join you. We don't have an opening statement. We're really just here to answer your questions.

CHAIR: Thank you very much. On that basis, I will proceed to Senator Hume.

Senator HUME: Thank you both for attending today. Do you believe that current monetary policy settings are expansionary, contractionary or neutral?

Mr Lowe: As things currently stand, monetary policy is restrictive. You see that in the fact in—

Senator HUME: Is that the same as contractionary?

Mr Lowe: Yes, contractionary. It's restricting. You see that in the fact that housing prices are falling. The rate of home building has slowed down. People are having to pay a lot more on their mortgages. Those things are all contracting or restricting growth in the economy, so monetary policy is restrictive.

Senator HUME: When the board makes its decision on interest rates and whether to raise them or lower them or whether to keep them the same, what are the things that it takes into consideration?

Mr Lowe: In the decision making, the centre point is the inflation target and the inflation outcomes. Inflation at the moment of 7.8 per cent is way too high. It needs to come down, so that's our primary consideration. When we take our decisions each month, we're looking at the data on inflation, the data on the labour market, how household spending is evolving and how the global economy is evolving. All those things are important. The Reserve Bank board meets every single month. We look at each of those things each month and make an evaluation of the outlook for inflation. As I've said, it's way too high and it needs to come down.

Senator HUME: In the Reserve Bank's opinion, is the current fiscal policy expansionary, restrictive or neutral?

Mr Lowe: Our assessment is that it's broadly neutral. If you take the federal government and the state governments together, which I think is the best way to think about it, the budget deficits and the share of GDP around three per cent, it's likely to stay around that mark for the next few years. The federal budget deficit narrows a bit and then widens, and the states are doing the reverse. The best way to think about whether fiscal policy is contractionary or expansionary is to look at the change in the aggregate budget deficit. Over the forecast period, there's little change in the budget deficit as a share of GDP, so I would describe it as neutral.

Senator HUME: Shouldn't it be contractionary if inflation is at the level that it is today?

Mr Lowe: I'm not going to comment on what the government should or shouldn't do. The Treasurer doesn't comment on what I should or shouldn't do so I'm not going to comment on the direction of fiscal policy.

Senator HUME: Can I ask—

Mr Lowe: I can make perhaps one general observation. At the moment, aggregate demand growth has been too strong, and interest rates are part of the way that we bring that back down again. Interest rates are a nimble policy tool. They're a blunt policy tool, but they are nimble. The Reserve Bank board meets every month, and we can take decisions every month based on the flow of information. The received wisdom over recent time is that fiscal policy most of the time is not as effective at managing the cycle. If you are going to have fiscal measures introduced, it has to go through the House of Representatives and the Senate. That takes time. I broadly subscribe to the view that fiscal policy most of the time should be dealing with the structural issues and the structural budget position. Except for in extraordinary times, it's not the best tool to use to manage aggregate demand. Interest rates, for all the faults and all the problems we have, is the more nimble tool.

Senator HUME: I want to clarify. When you say that fiscal policy is neutral, in your opinion, does that mean that it's not assisting to bring inflation down?

Mr Lowe: I wouldn't characterise it that way. It really again depends upon the counterfactual. The government has a lot of extra revenue because of the high commodity prices, so if it decided to spend that now, that would have been problematic, so we welcome the fact that the government has decided to save most of the extra revenue there. There are other elements of fiscal policy that can help as well. With the government's energy package, our estimate is that the price caps there will reduce inflation in 2024 by a half a percentage point. That's meaningful, so that's helpful. The government can take measures in specific parts of the economy that have an effect on prices. Another thing it can do is to free up the supply side of the economy. If there's greater competition, more investment and more freedom on the supply side of the economy, then the price pressures in specific areas for any given level of aggregate demand are going to be less. So specific measures in particular industries, flexibility on the supply side and aggregate demand are the three tools that the government has to affect the inflation outcomes. It's really up to the government and the parliament to decide what combination of those tools they use.

Senator HUME: As a rule of thumb, do you believe that fiscal policy and monetary policy should be aligned?

Mr Lowe: In general, yes. But, as I said, fiscal policy doesn't need to be worried just about the management of the cycle. There are structural issues that we need to pay attention to. I think in previous hearings in this building I've talked about the importance of maintaining medium term structural budget integrity. There are huge demands on the public purse, as you know. We need to find a way to meet those demands if we want to. The answer isn't borrowing. That is the kind of first order issue for fiscal policy. Over and beyond that, it's helpful if monetary policy and fiscal policy are not working in opposite directions, and they're not at the moment.

Senator HUME: You mentioned before—I thought it was very generous of you—that you don't comment on government decisions as part of fiscal policy and what the government should do. First of all, is there anything specifically around that structural deficit that would you like to see the government doing?

Mr Lowe: Nothing specifically right at the moment. We've talked before in these hearings about the importance of having a strong budget position in the medium term. At some point in the future we'll have another downturn and we want the government to be able to respond. You can only do that if the budget is in a strong structural position. My observation, and the observation of others, is that there are a lot of demands on the public purse coming from health, aging, defence, disability and education. The society wants the public sector to provide these things. If the governments want to do it, they need to find a way of paying for it. That way isn't debt. So the best outcome, as we talked about in previous hearings, is to make the pie bigger through addressing the supply side. In broad terms, that's what I would like to see over time—efforts to make the pie bigger so that the demands on the public purse can be more effectively met. That's not affecting right now, but that's what I would like to see in the medium term.

Senator HUME: I get a sense that your views are aligned with those of the IMF, which is that those large off-balance sheet funds can potentially be inflationary, can potentially cause debt to rise and that would make your job that bit harder?

Mr Lowe: Well, they can add to aggregate demand, and we take that into account in our forecasts. They can also increase the supply side of the economy over time. It is part of the government's intention that these funds are used to address supply side issues. In the medium term, that can, if these policies are wisely conducted, make the pie bigger. Making the pie bigger helps us all.

Senator HUME: I thought it was a generous comment that you weren't going to direct the government on how it should be running its fiscal policy. Sadly, I don't think the government has been quite so generous towards you. We know that the Assistant Treasurer Stephen Jones commented to reporters on Tuesday, saying:

We think—

the government—

we are doing our bit, which is putting downward pressure on interest rates. We also think that there is plenty of evidence that the stuff that's already in the system—the interest rate rises that are in the system—are pulling money out of the economy and damping down demand. We are concerned that further increases are going to put pressure on households and businesses.

These are the comments of the Assistant Treasurer. I would imagine that, considering they are quite contrary to those you have expressed, that would not be particularly helpful for you or for members of the board in doing the very difficult job that you are tasked with doing, which is to bring down inflation. Am I right?

Mr Lowe: The minister has kind of identified one of the risks. The risks at the moment are two-sided. There is a risk that the tightening of policy that is taking place does dampen spending more than we think. We don't have a perfectly clear crystal ball, so there is a risk there. I understand why people have focused on the risk. But there is a risk on the other side. There is a risk that we have not yet done enough with interest rates and that spending is more resilient and that inflation stays high. If inflation stays high, it's very damaging for the economy. It worsens income inequality. It makes it harder for businesses to plan. It erodes the value of people's savings. It's corrosive to the economy. All the evidence is that if inflation stays high for too long, expectations adjust and that ultimately leads to higher interest rates and more unemployment. So the risks are two-sided. We're trying to navigate our way through a narrow path. I understand why some people focus on the risks on the one side, but we've got to be attentive to the risk from higher inflation. It is more than 30 years since we had higher inflation, and many people have forgotten the really serious damage that does to people, livelihoods and the functioning of the economy if it persists. It leads to higher interest rates and more unemployment. We really want to avoid that. People are free to express their opinion. It's a free country with freedom of speech. We welcome debate. We're very cognisant that the risks are two-sided.

Senator HUME: This is my final question. Do you feel, Governor, that (a) it is unfair that the blame for high interest rates and high inflation has been sheeted back to you and that (b) the Reserve Bank has been left to do all the heavy lifting?

Mr Lowe: I wouldn't say it's unfair. It is the job of the central bank to control inflation, to make sure that inflation expectations don't adjust and we avoid all those terrible things. That's the job of the board of the Reserve Bank. It's not just me. The fact that it's all sheeted down to me is a bit unfair, because it's the board. There are nine of us, including Michelle, who make these decisions. We take them collectively. It's not just me making these decisions. There are nine people based on the advice of a large staff. That's the world we operate in. I'm not complaining about it. That's our job. I've got to contain inflation. I've got to convince the community that we're

serious about that. That's our job and it's unpopular. I accept that. That's why the central bank is independent in its decision making from the political process. It's easier for me to do unpopular things than it is for maybe some of you. I don't know. I'm not complaining. It's our job.

Senator HUME: Thank you, Governor.

CHAIR: Thank you, Mr Lowe. I note that you said you welcome and encourage debate. On that note, I'm about to go to Senator McKim. I want to advise senators that I will be going in strict 10-minute blocks because of the interest in this session.

Senator McKIM: Thanks, Chair. Good morning, Dr Lowe. Good morning, Ms Bullock. Dr Lowe, you induced people into taking on record levels of debt by saying that interest rates were unlikely to increase until 2024. You later apologised if people had listened to you. Since you made that statement, you've put up interest rates nine times in a row and flagged that there are more to come when the pre-conditions you set at that time for even a single rate rise had not yet been met. You've admitted overdoing monetary stimulus during the pandemic. You said that rents weren't likely to be significantly impacted by interest rate increases, but rents are currently going up at the fastest rate on record. You seem prepared to smash Australia into a recession by trying to squash demand in response to inflation that has, on the RBA's own analysis, been predominantly a result of supply side factors. Can you explain to the renters and mortgage holders of Australia why you still deserve to hold your job?

Mr Lowe: I have a seven-year term as the governor of the bank, and I intend to serve out that term. It's an important job. It comes with public accountability, and this is part of the process. I intend to serve out that term. I will return to the point that I made in response to one of Senator Hume's questions. The decisions that the Reserve Bank made are made by a board of nine people. It's not just me.

Senator McKIM: I understand.

Mr Lowe: We make them collectively and collaboratively. The board has made these decisions. I think it would be a very bad outcome for the board to have to resign. It's a collective responsibility. I will pick up on one other issue that you raised. You said that I seem intent on smashing Australia into a recession. Can I assure you that is not our intention. We are trying to navigate a narrow path here. We want to get inflation down because it's dangerous. It's corrosive. It hurts people. It damages income inequality. If it stays high, it leads to higher interest rates and more unemployment. So we want to get inflation down. But we also want to preserve the gains in employment that we've made. The unemployment rate today is the lowest in 50 years. That's a huge national benefit. People have jobs who in the past wouldn't have had jobs. Kids get opportunities. They get on the ladder of opportunity and success. People are getting the hours they want. The employment-to-population ratio has never been higher. A higher share of Australians have jobs today than ever before. We really think that's good news. It doesn't get reported very much, but it's good news. We want to preserve as much of that good news, that progress that we made on the labour market, as is possible. So there's a narrow path here. There are risks in both directions. Our objective is to travel that narrow path as best we can. No doubt we'll get buffeted around, and maybe we'll get hit off it. But we want to bring inflation down, and we want to preserve those really hard-won gains in the labour market that we've made. There's a chance that we can do this. It's not guaranteed, but there's a chance that we can do it. We want to see inflation down and keep the gains in the labour market.

Senator McKIM: Thanks, Dr Lowe. Those matters I raised in my first question are a litany of errors. You have admitted to some of them. You have apologised for others. Do you accept that independence should not mean a lack of accountability?

Mr Lowe: No, of course not. I am accountable through this process. I'm accountable through the media commentary, which, you might have observed, is nonstop around the clock. There's a lot of accountability. I explain myself here. I will be here for another three hours in this building on Friday answering questions from members of the House of Representatives. I feel that there's a lot of accountability. It's very important that there is.

Senator McKIM: What do you say to the renters and the mortgage holders of Australia who are getting smashed by interest rate increases while the major banks are pulling in megaprofits?

Mr Lowe: Well, we recognise it's really difficult if you have a mortgage and interest rates have gone up. I get a lot of people writing to me at the moment telling me about their personal circumstances. It's really tough. I understand that. I read those letters and hear those stories with a very heavy heart. I find it personally disturbing. People are really hurting and I understand that. I also understand that if we don't get on top of inflation, it means even higher interest rates and more unemployment. The banks are profitable; it's true. It's a positive for the country. We want strong, resilient banks. I know it's hard for people to accept when they are suffering problems

with their personal finances, but the country is better off from having strong, resilient, effective banks that can provide the financial services we need. It's tough, I know.

Senator McKIM: Thank you. At the House economics committee in September last year you were asked about the impact of interest rates on renters. I just have your quote here. You said, 'It's not particularly large,' and you said, 'It's not a first-order effect.' Rents are going up at record rates. Do you stand by those statements?

Mr Lowe: Perhaps I can unpack that a bit for you.

Senator McKIM: Please.

Mr Lowe: It's clear that when the interest cost goes up, some landlords want to pass that on in terms of a higher rent. I hear this. Landlords tell me this. I also know that they can only do that successfully if the supply-demand balance in the market is such that people will pay the higher rents. At the moment, the vacancy rate for rental accommodation—

Senator McKIM: Very low.

Mr Lowe: is very low.

Senator McKIM: That's right.

Mr Lowe: All the evidence is that it is the vacancy rate that ultimately determines how fast rents rise. So the vacancy rate summarises the balance between supply and demand. You can only put your rent up if the balance of supply and demand in the market allows you to do that. That is, I think, the fundamental issue here. It's the balance of supply and demand in the market. With population growth picking up again, we need more construction of dwellings. Otherwise we're going to be in a situation of strong rental growth for a long period of time. It isn't because interest rates are going up; it's because the supply of rental accommodation is short relative to the demand with stronger population growth. Over recent years it was partly ameliorated by a change in household size. It may well happen again that household size starts rising again. It's the supply-and-demand balance that ultimately affects rents and the ability of the landlord to pass on costs.

Senator McKIM: Dr Kennedy said this morning—I wrote down his exact words—rents are rising to, and I quote, 'Match the interest rate increases'. That's what Dr Kennedy told this committee this morning. You told the House committee last year that the impact of interest rates on rents is not particularly large and not a first-order effect. Do you understand the tension between those two statements? Are you asserting in your answer that many landlords are just deciding to absorb their increased costs and not pass them on to tenants?

Mr Lowe: No. Not every landlord has borrowings, but many do, obviously. When their interest costs go up, it's understandable that they will try to pass that on to the person paying the rent. I don't dispute that. Steven Kennedy would probably make the same point. The additional point that I'm making—and I think it is an important one—is they can only successfully do that if the supply-demand balance is in the market. So it's a complicated story. You need both. Ultimately, all the evidence that we have is that it's the vacancy rate that drives rents, not interest rates.

Senator McKIM: Well, I want to ask you about that, Dr Lowe. In Melbourne and Sydney, vacancy rates are very close to the long-run average, but we are seeing record rent increases in those two cities. Given your previous comments, how do you explain that?

Mr Lowe: Well, the vacancy rates come down very quickly, particularly in some of the inner-city areas or the areas close to the universities.

Senator McKIM: They are about the long-run average, Dr Lowe. So if you have vacancy rates at around the long-run average and rents going up at about 10 per cent a year, how do you explain that, given your previous answer? Don't you think that your statements to the House economics committee underestimated the impact of interest rate rises on rents?

Mrs Bullock: I would reiterate what the governor said. Rental vacancy rates in Melbourne and Sydney are down around levels at which typically in the past rents have started to rise. That's what we're observing. It's not an historical average. In other cities, they are down below. They are at historical lows.

Senator McKIM: Specifically Melbourne and Sydney. They are about the long-run average.

Mrs Bullock: No, they are not at their long-run average.

Senator McKIM: They are about the long-run average.

Mrs Bullock: They are around their historical lows.

Senator BRAGG: Good morning. I want to ask you about some comments made by the Assistant Treasurer which are slightly different from the ones Senator Hume referred to. The Assistant Treasurer said recently in relation to interest rate increases, and I quote:

I'm hoping that if this is not the last, it's near the last of the rate increases.

Is this a statement that the Assistant Treasurer has made to you directly in a meeting or something similar?

Mr Lowe: No. We've not discussed interest rates. The governments over a long period of time have not discussed their views on interest rates with the central bank.

Senator BRAGG: So this is a statement made by a Treasury minister that hasn't been made to the bank directly?

Mr Lowe: No.

Senator BRAGG: Have you met with the Assistant Treasurer at all?

Mr Lowe: Not recently. I've met him on a number of occasions, particularly in relation to the payments system and the stock exchange. There are a number of issues that I have discussed with him in the past. But we've not discussed interest rates.

Senator BRAGG: Is this a normal thing that a Treasury minister would be doing—making these sort of public statements about monetary policy?

Mr Lowe: It has happened in the past. As I said before, it's a free country. People are free to express their views on issues. It's up to each of us how we choose to exercise the freedom we have. If members of the government want to exercise the right to talk about that, it's certainly possible. I'm not objecting to it.

Senator BRAGG: Governor, the reason I'm asking you about it is that you alluded in your answers to Senator Hume that there was an expectation that the government of the day wouldn't comment on monetary policy and you as the central bank wouldn't give extensive statements about fiscal policy. In this case, this Treasury minister has decided to make detailed statements about monetary policy. Would you hope for more reciprocation?

Mr Lowe: No. As I said, it's a free country and people are able to express their views as they see fit. I think the model that we've had for many decades, which has been supported by both sides of government, where the Treasurer of the day doesn't comment on monetary policy, has served the country well. I would observe that Treasurer Chalmers has not discussed monetary policy in the public at all. Different models can work. We're just focused on doing our job.

Senator BRAGG: The statements of the Assistant Treasurer have no bearing on what you will do?

Mr Lowe: Well, we listen to people's views. I listen to many people's views. We make our decisions independently every single month and based on the facts and the analysis. With regard to the commentary out there, while it's interesting to listen to and we value hearing people's perspective, no, we don't.

Senator BRAGG: We'll take it as a no?

Mr Lowe: No. It will not affect it. There is a lot of criticism of the bank at the moment. We understand that. We talk about that at the board meeting. We evaluate the arguments. We rely on the evidence, the data and the arguments. That's what influences us, not what people say.

Senator BRAGG: Thank you for clarifying that. I want to ask you briefly about what I think is an attack on the independence of the bank. You might be aware that there has been a coordinated attempt by backbench members of the government to attack you. In fact, I have a quote here from Mr Laxale, the member for Bennelong. He mentioned that you seemingly made a choice between speaking to the Australian public and attending a cosy lunch. He encourages you to address that proactively in your opening address. Today I think you noted that you will be here today and again on Friday. What do you make of this coordinated attack on the bank's independence?

Mr Lowe: I'm not aware of any coordinated attack or any attack at all on the bank's independence. When we're raising interest rates, it's unpopular in large parts of the community, particularly given the history of the lower interest rates over recent years. It's unpopular. It's the job of the central bank to do sometimes what is unpopular in the national interest. That's what we're doing. Some people don't like it, and they're free to comment on that, but it's not going to affect the decision-making process. We have nine people who sit down every month and say, 'What's the right thing to do here by the country?' Even if it's unpopular, we do it. We know it's hard. We're balancing various risks. I don't feel like there's an attack on the bank or its independence. It's noisy. If there were an opportunity, I could address the issue of the lunch, since you've raised it.

Senator BRAGG: It's an urgent issue for Mr Laxale, who is not here at the moment, so we'll get you to address it.

Mr Lowe: If it's okay with you, as you would know, it's a longstanding practice of the Reserve Bank to talk to market participants, to businesses, to journalists, to politicians and to civil society. We do that all the time. If you go on the bank's internet site, you can see all the people and institutions I meet with. I think it's really important that we do that. We don't want to live in a bubble. We want to hear what people have to say and what their questions are. I did that last week with this lunch at Barrenjoey, which you've all read about. A number of people have questioned why I did that rather than make a public speech. In previous years I've generally started the year with an address to the National Press Club and then a three-hour hearing at the House economics committee. I've done that in the first week of February. From my perspective that worked quite well. But I had feedback about that. One piece of feedback was maybe you're talking too much. It is possible to talk too much. I have been conscious of that. The other piece of feedback that I had was that to start the year it's better to address the questions of the parliament rather than the media. Having both in the same week—an address to the National Press Club and then a three-hour appearance before the House economics committee—some people suggested to me that the order should be reversed. It should be the parliament whose questions I answer in a three-hour session, rather than 15 minutes of questions following an address to the National Press Club. People made that point to me.

I thought there's something to that. Normally I would have addressed the House economics committee last Friday, but it got pushed back to this Friday. I listened to that feedback. I decided that this year I would first address the questions asked of me by the parliament. That got pushed back a week. So there was a gap in my diary. Because the parliamentary hearing got pushed back a week, I wanted to hear what people in the market had been saying about our recent decision. I accepted an invitation to that lunch. I hear that many people have concerns about the timing between the Reserve Bank board meeting and the release of the statement on monetary policy, which is on the Friday. I thought that was manageable, but I hear many people are concerned about that, so we are responding to that. We will no longer do those type of lunches before the release of the statement on monetary policy. There's nothing untoward here. It's appropriate. I can't live in a bubble. I need to talk to people. I need to hear what financial markets say. I like asking people questions. You asked me questions today. I have these lunches. I ask people questions about what they think.

CHAIR: We like it too, Mr Lowe.

Mr Lowe: So that's the world we're in. In general, and for many years, I've been able to have these and other meetings with the understanding of all participants that people in the meeting don't run to the press straight afterwards. If you're meeting with me, you want to have confidence that I'm not going to go to the press or tell other people what you've said, and I expect the same courtesy. That's what happens 99.9 per cent of the time. That did not happen there. There's nothing untoward here. The standard courtesy is that we all—we presume you do this as well—meet with people and you don't expect them to run to the press straight after. That didn't happen on this occasion. There's nothing untoward here. I want to talk to people. We are going to change our practice.

Senator BRAGG: I appreciate that expansive explanation. I personally am not concerned about that. I understand it's part of your role. I am more concerned about the attack on you personally from members of the government's backbench and the executive in part and whether it would erode the independence of the central bank. Again, I ask: are there any steps you are taking to protect and preserve the independence of the bank from these political attacks?

Mr Lowe: I don't feel like the independence of the institution is under attack. It's not affecting our decision making; let me assure you that. The decisions are based on the data, the analysis and the facts. That's not the noise around. We will continue to operate that way. The Treasurer and I haven't really spoken about interest rates. That's the way we operate. There's no pressure from Treasurer Chalmers. It's noisy, but raising interest rates is always unpopular. It affects the whole community, and representatives of the community understandably will sometimes want to talk about that. But we keep doing our job. Our job is to make sure inflation comes down and hopefully preserve the gains in unemployment that we've made.

Senator DEAN SMITH: Thank you very much, Governor and Deputy Governor, for making yourselves available to the parliament. As an old-fashioned parliamentarian, I do appreciate the significance of the gesture. I go back to your opening remarks. Am I correct in assuming that there's a poor understanding in the Australian electorate about the corrosiveness of high inflation, because we have been spared it for many decades?

Mr Lowe: I don't know about whether there is a poor understanding. I think people have forgotten. For many years, inflation varied between maybe 1½ per cent and 3½ per cent. We all got very exercised if inflation was half a percentage point away from two or 2½ per cent. So that was the world we were living in. People really forgot

about how corrosive inflation was, how it eroded your savings, how it made income inequality worse and how it really hurt the poor. I think we've forgotten about that, because it's 30 years since we lived in that world. Our job, as the country's central bank, is to make sure that doesn't happen. Part of the way we do that is to remind people of the dangers of it. We say, 'Look, if we return to that world, you'll have all these nasties again.' I know it's really hard for people to pay more on their mortgages, but it will be harder still if inflation gets too high and stays too high. It will mean higher interest rates and more unemployment. It's hard for people to understand that, because we haven't been in that world for 30 years.

Mrs Bullock: I would just add that in a world where we've been in, where inflation has been quite low and stable, people didn't worry about it. It was in the background. It's not something that affects their decisions. It's not part of their thinking. You can see how that has changed now. It's basically on everyone's lips. They are worried about it. That's the difference. What we want to go back to is a world where it's just in the background and people aren't worrying about it.

Senator DEAN SMITH: One of our national papers described the rate rise as an inflation SOS. Do you think that the electorate is starting to appreciate the urgency and the emergency around the inflation impact on the economy?

Mr Lowe: I hope that people understand that inflation is damaging and corrosive. Perhaps the media coverage of our decision last week has reinforced that. I also want people to understand that we're really serious about this. It's not something where we're going to say, 'We'll run the risk and have inflation stay high.' It's just too costly, too damaging and corrosive. So I hope that message is getting across to the community. If inflation expectations can stay well anchored—and at the moment they are—firms will reflect that in their pricing decisions and we'll see the same in wage outcomes as well. So if inflation expectations can stay anchored, we can stay on that narrow path. Our communication is partly aimed at reinforcing the need for inflation expectations to stay anchored and convince people that this period of high inflation is only going to be temporary. If we can do that, we can stay on the narrow path. If people start to think that inflation is going to be seven and eight per cent the year after next, then they are going to have all sorts of trouble. I think people understand that now.

Senator DEAN SMITH: Governor, how high will unemployment have to rise to get inflation in check?

Mr Lowe: That's a very good question. We really don't know the answer to that at the moment. Our central forecasts have the unemployment rate getting to 4½ per cent next year and that being enough broadly to get the inflation rate down to three per cent over the next couple of years. If we can do that, if that central forecast comes to fruition, it will be a good outcome for the country, won't it, because we'll have got to 4½ per cent unemployment. Before the pandemic, the lowest we got to was a bit above five per cent. But there's a lot of uncertainty around this. It partly depends upon how wage outcomes develop. If wage outcomes kind of stay in a reasonable ballpark, then I think we can manage what I see as a fairly soft landing. We're keeping the unemployment rate below where it was before the pandemic.

Senator DEAN SMITH: What are the risks with regard to that wage dimension that you've just talked about?

Mr Lowe: One risk would obviously be that people say, 'Inflation is 7.8 per cent, so I need a 7.8 per cent pay rise.' If that happens, inflation is going to be high next year and then we have another high pay rise. The year after that, inflation is high and we're in this nasty world I talked about.

Senator O'NEILL: The wage-price spiral?

Mr Lowe: Yes. That's one risk. I think we have to keep it in perspective at the moment. At the moment, we don't really see evidence of that occurring. We think that the growth in the wage price index will get up to four per cent, maybe a bit higher, and probably not go much higher than that. But there are risks here. If we end up in the world I was describing before where people link wage increases one for one with inflation, then inflation will persist and it will be more difficult. But, at the moment, that's not happening. The enterprise agreements that have been signed over the past four or five months have bigger wage increases this year. Next year, they're a bit lower again. We hear this from firms in our liaison as well. They are giving workers a bigger increase this year. But they are saying to their workforce, 'Well, next year we've got to go back to something more modest.' I hope that's how it works out. If it doesn't, we'll have problems.

Senator DEAN SMITH: Governor, in your earlier remarks, you talked about the collective and collaborative nature of board discussions and board decisions. Am I right to assume that board decisions are unanimous?

Mr Lowe: Well, we go around the table each time. Each board members expresses their views. The experience that I have had as governor is that we all come to the same conclusion. We explore the issues from every angle. Maybe Michelle can reflect on it as well, because I'm chairing the meetings and she's a member.

Mrs Bullock: Yes. It's a very open discussion. I've only been involved in it regularly for the last nine to 10 months. We go around the room. But before we do that, we have an active discussion about possible options. I think we've expressed those in some of our press releases as well. Post meeting we've mentioned the options we've discussed. I've observed discussions where some people have come in sort of with a particular view and then heard alternative arguments and changed their mind. But my experience personally is that in the end when we go around the room and everyone is specifically asked, there is a unanimous coming-together on what is the best thing to do.

Mr Lowe: Sometimes in the meetings, I'll say, 'Well, we're really unsure about what the right outcome is, whether we should do A or B. What do you think?' We go around and we collectively work it out. Other times, I have a stronger view that the answer should be A. I will say that. I always present to the board the arguments for B as well.

Senator DEAN SMITH: Perhaps we should invite the entire board to appear and not just the chair and the deputy chair of the board.

Mr Lowe: That would be up to you. The board has agreed in the past that, for better or worse—

Senator HUME: You'd have to get agreement with the board.

Mr Lowe: I'm the spokesman for the bank on monetary policy. That's what they've agreed for better or worse. As you know, there's a review of the Reserve Bank currently underway. I expect that this will be one of the issues that comes out of that review—how we communicate and the accountability mechanisms. They are things that we should be talking about.

Senator DEAN SMITH: Governor, I think I should ask you the same question I asked the Treasury secretary. I asked the Treasury secretary whether or not fiscal policy was playing a subsidiary role to monetary policy at the moment. He provided an answer. You might have seen that. What is your response to that question?

Mr Lowe: We covered some of this material before, I think. Fiscal policy is broadly neutral from a demand management side. The government is saving most of the terms of trade revenue boost, so that's positive. It would be problematic if that were not the case and that money was being recycled back into aggregate demand. But that's not, so I welcome that. The other two parts are fiscal policy affecting the prices in some specific sectors and adding to the supply side. The government has initiatives in both those areas. It's up to others to comment on whether the balance is right. But it's positive they're not recycling the terms of trade revenue. They do have some measures in the energy market adding to some flexibility on the supply side in some areas. We can always do more, but, from where I sit at the moment, it's not problematic.

CHAIR: This is the final question.

Senator DEAN SMITH: If fiscal policy is neutral, doesn't that mean that there are opportunities not being realised?

Mr Lowe: Again, at a very high level, you could have a more restrictive fiscal policy and that would take some pressure off aggregate demand. But the difficulty—

Senator DEAN SMITH: And take pressure off the inflation?

Mr Lowe: Perhaps. But I think one of the difficulties here—and governments right around the world have dealt with this—is the flexibility of fiscal policy to tighten up and loosen up. It's pretty hard for the government to go through and use fiscal policy in a countercyclical way. During the COVID crisis, it was easy. It was clear that there was a national emergency. Things happened very quickly. Most of the time, if we are talking about trying to reduce aggregate demand by one per cent, it's a pretty surgical thing that has to be done. Getting that through the parliament and making all the decisions is tough for any government. So that has led to the position we're in, where monetary policy is used mainly to manage aggregate demand and fiscal policy looks to the structural issues. You could have a different set-up, but it's hard. Fiscal policy is hard on the governance of monetary policy.

Senator DEAN SMITH: I have some other questions if time allows.

CHAIR: Thank you, Senator Smith.

Senator CANAVAN: I noted your comment earlier about investments that can help increase the productive side of the economy. From a general point of view, are policies that help expand productivity disinflationary, if you like? Do they help moderate inflationary pressures?

Mr Lowe: Obviously, it depends upon the specifics. In general, yes. If you can expand supply, it helps. If you can increase competition, that puts downward pressure on prices. If there are more workers available and you increase labour supply, that helps. So expanding the supply side in the short run puts downward pressure on inflation and in the long run makes the pie bigger. If you have a bigger pie, your job is easier too.

Senator CANAVAN: That is exactly right. Getting more specific, we've had a period of relatively low inflation until recently, decades of it. To what extent do you think the microeconomic reforms of the past generation have helped contribute to that relatively subdued inflationary environment?

Mr Lowe: I think they were incredibly important and they were also important to expanding the pie. One of the reasons the Australian economy did so well over many decades was that we had a series of reforms that made us more competitive, made the economy more dynamic and that delivered stronger growth. So the pie was bigger and developments on the supply side, not just in Australia but globally—China was obviously an important party—made the job of central banks much easier. And they also expanded the pie. This is a call that I've often made. We need to refocus on expanding the supply side.

Senator CANAVAN: With that in mind, in the past here we've seen the government reregulate labour and now energy markets. If removing restrictions on the economy helps subdue inflation, wouldn't reintroducing restrictions in these very important markets add to inflationary pressures?

Mr Lowe: Again, it depends upon the specifics. I don't want to be drawn into the specifics of the IR legislation. I know that the Treasurer has said that he has the five-yearly review of the Productivity Commission on his desk. It has more than 1,000 pages. He plans to release that in March or April. I hope that is going to give us some new ideas on how to expand the supply side and make the economy more flexible. I expect it will talk about the need to invest in people and technology, in energy and better delivery of government services. I am hoping that five-yearly review re-energises the discussion about productivity and enhancing supply. We'll see.

Senator CANAVAN: I want to drill down to the labour situation. I have been critical of some of your commentary in the past, but I understand that you have a tough job to do right now. One of the potential consequences of these tough decisions you are making is that it may force some businesses to the wall. We've spoken about mortgages and households. That will, of course, lead people to lose their jobs. Has the Reserve Bank at this stage looked at what will be potentially the impact on bankruptcies and business performance of higher interest rates?

Mr Lowe: We don't forecast the bankruptcy rate. It has been very low during the COVID period. It has risen a little, but it is still in historical terms low. How many business failures we see will ultimately depend upon how the economy grows. Our central forecast is for growth of 1½ per cent this year and next. If we can get that, some businesses will find things difficult, but I don't think it will be a major problem. If the economy contracts, businesses are going to find things more difficult.

Senator CANAVAN: And people will lose their jobs too.

Mr Lowe: And people will lose their jobs. It's possible. We're aware that is a risk. Some people criticise the bank board for meeting every month. At the moment, I'm glad we meet every month because we can assess the data. We can look at very high frequency at what is going on. At turning points it's very valuable to meet frequently. We can be responsive.

Senator CANAVAN: There's obviously a risk. You recognise that there's a risk that at least some businesses fail and people lose their jobs as we seek to have a landing, soft or otherwise. How important is it, then, to have flexible labour markets in that environment such that businesses can respond to the changes that are caused by a higher interest rate environment?

Mr Lowe: Businesses need to be able to respond both in head count and hours worked. Hours worked has become an increasingly important element of flexibility that businesses have. It's beneficial to retain that. The general principle has to be right, doesn't it. If the business environment is uncertain, businesses should have flexibility. I'm not going to comment on whether the changes that are being made impair or enhance that. The principle you are articulating is surely right.

Senator CANAVAN: Thank you. On the energy side of things, how much has the disruption in energy flows resulting from the war in the Ukraine contributed to inflation over the past year now almost?

Mr Lowe: Substantially. At one point, for the price of petrol, the annual rate was up 30 per cent. That makes a big difference. The sky high prices of gas and coal in Europe flowed through back into our domestic market. That has been a first order issue. It hasn't just been energy. It has been food and a lot on the supply chain. It has worked its way through. The more positive story here is we're through the worst of that. Most commodity prices—

Senator CANAVAN: I'm going to come to that. If the removal of energy flows from Russia can have such an impact on Australian inflation, how much impact will come from the government's decisions causing investments in gas in Australia to be deferred? How much impact will that have? We've seen over the past month major investments in Queensland and Victoria deferred as a result of the government's changes or interventions in

energy markets? I'm not asking you to comment on these interventions. Given that has happened—it's a fact that those investments are not proceeding—how much will lower energy flows in Australia impact on inflation?

Mr Lowe: It is not my area of expertise. I think it's really a medium term issue. If there's less investment there, hopefully there's more investment somewhere else. What rate of expansion—

Senator CANAVAN: Do you mean somewhere else in Australia?

Mr Lowe: In Australia or elsewhere. This is one of the issues I highlighted in a speech last year. The existing capital stock to produce energy is depreciating. We're not reinvesting in existing capital stock.

Senator CANAVAN: But we are investing in new capital stock.

Mr Lowe: I don't know how that's to all balance out.

Senator CANAVAN: I am a little confused. There has been a lot of commentary on the Russian situation. You've referred to it here and before and so has the Treasury secretary. The government refers to it endlessly. There's so much focus on what Vladimir Putin is doing and how that plays out on interest rates and monetary policy settings. There's almost no interest in the investment settings for energy in Australia. You're not following that, by the sounds of it. Wouldn't that have more of an impact on Australia's inflationary environment? It's a perfectly reasonable question.

Mr Lowe: I will answer quickly. These investment decisions are multiyear things and so will play out over multiple years. It will depend upon how much other investment takes place in other forms of energy. Next year, in 2024, the government's recent initiative will reduce inflation by around half a percentage point. That is within our normal forecasting horizon. I think the issues that you are talking about are important, but they are really beyond the next 18 months to two years.

Senator CANAVAN: I don't quite accept what you say. As you say, it's not your area. Some of the deferrals in investment will have an immediate impact on energy flows, particularly those in coal seam gas, where there is a requirement for annual investments. They are not as long-lived as offshore.

CHAIR: Senator Canavan, as you finish up, this will be your last question, thanks.

Senator CANAVAN: We seem to have an unhealthy focus on international investments here and not enough focus on what we are doing to our own energy markets right here and how that impacts on inflation. Is there anything you can encourage us to look at in this microeconomic reform space? I know you've commented on this in general terms before. Is there anything that we should focus on in energy, labour or capital markets that would make your job easier?

Mr Lowe: Over time, expansion of a capital stock that produces cheap, reliable energy will help. How you do that I don't know. But it must be true again. The principle is cheap, reliable energy. We need the capital stock to be put in place in the country to deliver that. So whatever you can do in this place to help, I welcome that.

Senator McKIM: I want to tie off the previous discussion. I want to make it clear that my statements around vacancy rates in Melbourne and Sydney being about the long-term run average levels were based on the statement on monetary policy issued by the Reserve Bank last Friday. Dr Lowe, you've addressed to a degree your Barrenjoey lunch. Thank you for your commitment to make more public statements before you do events like that in the future. I think that's a good thing. What did you share with a bunch of bankers at the Barrenjoey banquet that you can't share with mortgage holders and renters? Why did the bond market jump so markedly during that lunch you had? What did you say to them that pumped up the bond market so markedly while you were at that lunch?

Mr Lowe: What did I share with them? I shared the messages in the statement released on Tuesday afternoon. Those messages included that we're serious about getting inflation under control, we're on a narrow path and we want to preserve the gains in unemployment we've made. They are the main messages. I've talked about those much more expansively today than I did at that lunch. I sought views from the people at that lunch on a range of issues, including how resilient household spending is, how the labour market is likely to evolve and whether the wage outcomes we're seeing at the moment are likely to be sustained. I asked them how our message has landed. I got mixed feedback on that. We talked about the potential for supply shocks in the future to make inflation more variable—that was an issue I raised in a speech last year—and how we should be thinking about monetary policy with that. I also talked about the level of interest rates in Australia being lower than elsewhere in the world. I got their views on that. So it was interactive. I push back on the proposition that I shared with them things that I'm not sharing here or with the Australian people.

Senator McKIM: It's the timing of it.

Mr Lowe: It's the timing. I accept that people find the timing difficult. If I had my time again, I would do things differently. We have changed our policy now. It is the timing. I addressed the issue about the market moves because when I saw that, I was concerned that something untoward could have happened. These are the facts as I know them. I want to share them with you. I arrived at the lunch at 12.30 pm after the executive committee at the bank. I had a brief discussion with the CEO and chief economist at Barrenjoey about their business model and how things were going and the competition they were bringing to the marketplace. We went into the room with the maybe 15 or 20 guests and sat down. I started speaking probably around 12.50 pm after the CEO of Barrenjoey told the room about the things they were doing. I would have started around 12.50 pm or 10 to one. The lunch finished at 2 pm. We've looked at the bond yields. They had been rising earlier in the morning and then for an hour or two they'd been flat. Then they started rising at 12 pm.

Senator McKIM: So you don't think there's a correlation?

Mr Lowe: Then they rose fairly steadily between 12 pm and two o'clock. Exactly the same movements were happening in the New Zealand market at the same time. Over a couple of days, the movements in the Australian yields were almost exactly the same as the movement in the US Treasury. They are the facts as I know them. The movements in bond yield started before. A lot of it was already done before I started speaking. They are the facts as I know it. I can't say any more. We've investigated it thoroughly. That's what we've found, yes.

Senator McKIM: Thanks, Dr Lowe. You say you can't live in a bubble. I think that's right. You hear directly from bankers at lunches like the one at Barrenjoey. You hear directly from big business through your business liaison program. How are you ensuring that the pain that renters and mortgage holders are feeling is adequately factored into the decisions that the RBA is making? How are you hearing directly from the people who are bearing the brunt of decisions? In other words, you are hearing directly from people who have a desire for profit—big business and the banks. I understand that they want to make money; that's their job. How do you make sure you are factoring in the pain that is being felt by the people who are bearing the brunt of the pain from interest rate rises? How do you make sure that you factor those matters in to your decision-making at the appropriate level compared with big business and big banks, who are just interested in making more money?

Mr Lowe: It's a very good question. Recently, I met with the head of ACOSS to hear of the stress that many low income people are under. I get, as I said before, many letters from people who are in stress. I read them with a heavy heart. Our liaison team also talks to the financial counsellors. There was some of that in the recent statement on monetary policy. We reach out as best we can to these various groups. It's harder to kind of get together people who are stressed. We talked to ACOSS. We get direct feedback from individuals. We talk to the service providers who are helping people in difficulty. We hear the message loud and clearly. We factor that. We talk at every board meeting about how this is really hurting some households. We also talk about how if we don't get on top of this, the pain will be worse. It is not a nice message, but that's the reality we face. We have to face into that reality.

Senator McKIM: Thanks, Dr Lowe. You've spoken again today, as you often do, about wages, yet you've not said anything today, and you rarely do, about corporate profits. The CBA has just announced a nine per cent profit this morning. Do you accept that when you put interest rates up, that increases the profits of big banks? Would you agree with Dr Kennedy's statement this morning that the likelihood of a wage-price spiral is low?

Mr Lowe: When we put up interest rates, the immediate effect, I think, is a boost to bank profits, particularly if they are slow in raising deposit rates, which they have been. I know the government is concerned about that, and rightly. But over time, higher interest rates as they lead to the economy slowing make it more difficult for banks. So it's kind of better now, maybe not so good later on. That's how it works out. In the second—

Senator McKIM: In the second part of the question, do you agree with Dr Kennedy that the likelihood of a price-wage spiral is low?

Mr Lowe: I think it's relatively low. If we're wrong on that, the costs are very high. This is the kind of thing. It's low, but I don't want to give the impression that we're not worried about it. We are not because the probability is high but because the cost of that happening is very high. If that develops, we're going to have even higher interest rates and more unemployment. This is why I draw attention to it. It is not because I'm overly worried about that at the moment. The wage outcomes are still consistent with inflation returning to target, and business is telling us that next year they are expecting to give smaller increases. So that's all positive and we welcome that. I only talk about the wage-price spiral to remind people that if that were to change, it's going to be difficult for us all.

CHAIR: This is your final question, Senator McKim.

Senator McKIM: I will move to one last topic, in that case. Dr Lowe, the RBA's most recent statement on monetary policy has two models that show that supply side factors are responsible for somewhere between a half and three-quarters of the increase—

Mr Lowe: Yes.

Senator McKIM: in inflation. How do you think monetary policy addresses supply side issues? Do you accept that there are other ways to reduce inflation? Are there levers that the government has rather than the RBA—for example, tax policy—that would reduce inflation and are able to be better targeted towards those who have the capacity to pay?

Mr Lowe: We've talked about the various measures that the government could do. It could manage aggregate demand. It can expand supply. It can do things like it has done in the energy market. So there are options there. I will leave it to others to make judgements about what the right combination is there.

Senator McKIM: On monetary policy and supply.

Mr Lowe: On monetary policy and supply shocks, there is very little that monetary policy can do to offset supply shocks. Sometimes you will want to respond to the higher inflation that comes from a supply shock to stop inflation expectations rising and staying high. But if that doesn't happen, you can let the supply shocks wash through the system. Another point I want to make here is that probably a quarter to half, maybe roughly, is from demand. We really saw that in the December quarter. This was really quite important for us. In the December quarter, the price of clothing and footwear went up 2.2 per cent. That is five per cent over the year. In other countries, it was starting to slow. The price of non-durable household goods—stuff you buy at Kmart or a department store—were up 2.3 per cent and 12 per cent over the year. That's not because of global supply problems. They've been fixed up. Those prices are coming down.

Senator McKIM: It could be profiteering, couldn't it?

Mr Lowe: It could. But strong demand. The retailers tell us that demand has been strong. The price of meals out at restaurants is up 2.1 per cent in the quarter and seven per cent over the year. That's strong demand. People are going out. They are celebrating with their families for the first time in three years. With strong demand, prices go up. The strongest example was the cost of domestic travel and accommodation. It is up seven per cent in a quarter. We are all travelling again and want to go on holidays. With strong demand, prices go up. So a lot of the inflation we saw in the December quarter was because there is strong demand in the quarter in it. There is increasingly a demand element to the inflation. We're hoping that—I'm starting to see some evidence of this—that demand is moderating and the rate of increase in these areas will come back. At the same time, the supply side problems will fix up as well. That is the basis for when inflation comes back down. But demand is driving part of the inflation most recently.

CHAIR: Thank you, Mr Lowe. I have a few senators who haven't had a chance to ask questions yet and some senators who would like to ask some more questions. In the interests of time, I'm going to move now to strictly five-minute blocks.

Senator RENNICK: Do you understand the meaning of countercyclical measures?

Mr Lowe: Yes. Monetary policy is one of them.

Senator RENNICK: That is a very good point. I will qualify this by saying that mortgage repayments are excluded from the price of inflation or inflation calculation. If we've already got fuel rising and rents rising, why are you increasing the cost of living by increasing interest rates when you should actually be seeking to counter those measures? You are pouring fuel on the fire rather than relieving inflation. If interest costs were included in the inflation rate, this would actually be reflected in a higher inflation rate, not a lower inflation rate.

Mr Lowe: But higher interest rates work to contain inflation by reducing demand. If people have less money in their pocket, they are going to spend less. The higher interest rates also affect the exchange rate. Just imagine if we left interest rates low. The exchange rate would be much lower.

Senator RENNICK: Fuel costs, energy costs and the cost of living are already increasing. Demand will come off. All you are doing is adding fuel to the fire by reducing demand much faster at the cost of austerity to low income earners.

Mr Lowe: We're trying to get the right balance here—to get aggregate demand to slow. Our judgement is that the level of interest rates broadly will be enough to do that. This is tough.

Senator RENNICK: I'm glad you mentioned that—the right judgement—because you haven't sought to manage the long end of the yield curve. Rather than raise interest rates nine times in less than a year, why didn't you do some jawboning, like other central banks do? You could say that you will raise interest rates at, for

example, half a per cent every six months so that we lift them by four per cent over four years rather than do this sudden, dramatic three per cent rise in less than a year that is going to hurt many businesses and many people who, whether you meant to say this or not, had the impression that interest rates weren't going to rise until 2024?

Mr Lowe: I will come back to something you said. You said other central banks are actually raising interest rates more quickly than we have.

Senator RENNICK: I realise that. In the past, they had used jawboning as a measure rather than this deliberate policy designed to asset strip people over the long term.

Mr Lowe: I'm just not sure jawboning the 10-year bond yield at the moment is going to affect much in the economy.

Senator RENNICK: Well, you can jawbone the two-year and the five-year.

Mr Lowe: The two-year interest rate is really a reflection of what people think our policy rate will average over the next two years. We are being as clear as we can about how we think that will evolve.

Senator RENNICK: I note before that you mentioned that we're low and we need to improve our capital stock. You keep saying that there's not a lot you can do about the supply side. I disagree with that. As Senator McKim has pointed out, the RBA can also be involved with managing the volume of credit. That was said in the 1937 banking royal commission, the original royal commission. If the RBA can lend \$188 billion at 0.1 per cent to private banks and they are profiteering out of that by \$5 billion a year, why can't the RBA lend to state governments to build productive infrastructure such as power stations and dams at a similar low rate?

Mr Lowe: But if the state governments or the federal government want to do that, they can obtain funding in the marketplace.

Senator RENNICK: But why do we have to pay a premium? Why will the taxpayer have to pay the margin on that rather than use our own currency? It's our currency. Why do we have to pay a private bank a two or three per cent margin to use the currency that is backed by the Australian people and the Australian government?

Mr Lowe: Well, the taxpayer pays the market rate. The government pays the market rate.

Senator RENNICK: And the private banks profiteer out of that market rate.

CHAIR: This is your final question, Senator Rennick.

Mr Lowe: It borrows directly from investors, from pension funds and the super funds. There's no banker mediating that. If they were borrowing from the banks and the banks were charging the spread, I would understand what you are saying. The government issues its bonds to the super industry, to foreign investors and they pay the market rates.

Senator RENNICK: Yes, exactly. Foreign investors then lend it back to us.

Mr Lowe: It's not the Reserve Bank's job to determine the allocation of credit in the economy.

Senator RENNICK: Well, that's not what the 1937 banking royal commission said.

Mr Lowe: I don't want to go back to where we were five decades ago. It didn't work out that well.

Senator RENNICK: Thank you. Can I finish off with one question?

CHAIR: Do you have one question?

Senator RENNICK: Yes. I know I touch on this every time. The RBA, in reply to a question on notice, said that you were confident that the Bank of England didn't refine Australia's RBA gold bars. I don't see how you could possibly be confident of that. I have one page stating what you mean in terms of these gold bars. These gold bars were refined between 2009—this is just one page—and 2019. Why are you defending the Bank of England for refining our gold? You've previously said, or Guy Debelle has said, when he was deputy reserve governor, that our gold had never moved, yet I've got documentation from the RBA that shows that those gold bars were refined.

Mr Lowe: This has been audited extensively. We have confidence in that process.

Senator RENNICK: It has been audited by your own RBA. It hasn't been audited by external—

Mrs Bullock: We've got nothing more to add on the gold.

Senator RENNICK: Basically, you can't explain the disappearance or refining of our gold bars.

CHAIR: Thank you, Senator Rennick.

Senator ROBERTS: Thank you both for being here. Dr Lowe, in 2016, I had my first Senate estimates session. I asked the Treasury secretary, who at the time was John Fraser, a question about the huge increase in

money supply. He pretty much dismissed me and said, 'No, don't worry about it.' At the next Senate estimates session, he said yes; he acknowledged it. In the third one, he said, 'Yes. The theory is that it will lead to inflation, you're correct, but we haven't seen it yet and we don't know why.' So I understand that it's a vexing problem. You said that one of the solutions is to make the pie bigger. You are saying that the answer to the government's funding dilemma is to grow the economy and, as a result, the tax base. Have you heard of the project Iron Boomerang? We've got the world's best metallurgical coal for making steel in the east coast and the best iron ore in the west coast. It would build a railway line fully funded. The investors are ready to go. There is a Senate inquiry taking off on it pretty soon. It would take coal to the west and iron ore to the east. There would be massive steelmaking complexes both in the east coast and the west coast. It would remove shipping and road transport. It would be a huge investment. It would add \$100 billion to our GDP, which is five per cent. It would open up the north and all of central Australia for the Indigenous living there and rural communities and agriculture. Is that something that we should be thinking about?

Mr Lowe: If the rate of return on that investment is as you describe it and both the financial and social returns are as you describe them, it is something to think about. There may be other projects that have better returns. I don't want to endorse it, because I don't know anything about it. But, in principle, we should be looking at the financial and social returns we get from these projects. If they are greater than the cost of funding and the economy has enough resources to do it, then certainly we should be thinking about it.

Senator ROBERTS: We've got investors, we're told, from overseas lining up and also from within. I will come back to the formal questions I had. The Reserve Bank spent the COVID years increasing the money supply, as Deputy Governor DeBelle said at the time, by electronic journal entry; they are his words. It is commonly called printing money. At an earlier estimates, I was given a figure of \$508 billion as the total for electronic journal entries since 2019. Can you update that figure, please?

Mr Lowe: That's still roughly the same. I think our balance sheet is a bit over \$600 billion at the moment.

Mrs Bullock: It is about \$600 billion. Exchange settlement account balances are probably around \$450 billion or something like that.

Mr Lowe: Our balance sheet has roughly \$100 billion of banknotes on it. That is still \$100 billion of banknotes. That is \$4,000 for every person in the country, which I find extraordinary. That is one of the elements on our balance sheet. We have these exchange settlement balances, which is the electronic money that you talked about.

Senator ROBERTS: Thank you. So inflation has gone from not a problem to a 30-year high, 7.8 per cent in the December quarter. On 2 February 2022, Dr Lowe, you said that inflation had surprised on the upside. In March 2022, you predicted inflation would peak at 4.2 per cent. That was at the ABA, Australian Banking Association, conference that we both attended. Why were you surprised, Dr Lowe, when many, including myself, had spent 2020 and 2021 warning the Reserve Bank and the government, including at Senate estimates, that the sheer volume of this money expansion would inevitably cause significant inflation?

Mr Lowe: You were one of these people who were making the argument that the money supply expansion was ultimately going to be inflationary. That has played a role. As we were talking about before, at least half, maybe three-quarters, of the increase in inflation is due to what went on in Europe and the supply-side disruptions. The expansion of money supply, the low interest rates and, I would say, the government support during the pandemic have driven inflation. But it's not the full story.

Senator ROBERTS: Is 7.8 per cent inflation the price the public is paying for the Reserve Bank supporting the government's wasteful mismanagement of COVID using lockdowns and other restrictions, leading to JobSeeker, JobKeeper and mismanagement that the government caused, which is what necessitated the money creation? Did you even consider saying to the government, 'No, I'm not going to print the massive amount of money, so perhaps reconsider your COVID strategy'?

Mr Lowe: No. We did not do—I want to be very clear about this—the money creation at the request of the government. The nine people who sit on the board of the Reserve Bank decided to do this. We had meetings with the government and we understood—

Senator ROBERTS: Was it because the government had put in place so many onerous restrictions?

Mr Lowe: No. It is easy to forget this now. In early 2020, we were being told by the health people that tens of thousands of Australians would be dead within months. Remember that there were preparations for, including in the Reserve Bank, temporary morgues in our cities. Our borders were closed. We were told the vaccine was maybe three years or longer away. This was going to be something that would take the society a long time to get over. That is what we were being told. That was the information—

Mrs Bullock: And we were observing what was happening overseas.

Mr Lowe: And we were seeing what was going on in New York and Italy. It was really terrible and scary. People were locked in their homes. That was the base upon which we made the decision to go on this route. It turns out that the scientists developed a vaccine much more quickly and the economy was more resilient and we did too much. But we didn't do too much because the government told us to or we wanted to; we thought it was the right thing to do given the information we had at the time.

CHAIR: We're out of time for this line; sorry, Senator Roberts.

Senator HUME: I want to ask about some testimony that was given by Dr Kohler, who came and spoke to the cost-of-living committee a couple of weeks ago. She said that around 800,000 Australian households are going to be switching from a fixed-rate to a variable-rate mortgage some time this year.

Mr Lowe: That's right, yes.

Senator HUME: That is quite concerning. I know you have spoken in the past about the extent of buffers in people's household budgets or in their mortgages, more importantly. Can you talk me through how that has played out or that is playing out in what you are seeing in your decision-making? What is it that households have in their savings and mortgages that will allow them to absorb changes to interest rates?

Mr Lowe: It's a critical issue because the pool of excess savings in Australia is as large as anywhere in the world. It is the pool that was built up during the pandemic. It's more than 20 per cent of one year's household disposable income. So there's a huge pool of excess savings. It's not evenly distributed across the population. Lower income people obviously haven't got the same savings as higher income people. One of the analytical issues we are grappling with here is how people view these savings. Do they view them as just an increment to their wealth that they can spend over the coming years, or do they view it as like a piggy bank that now they can go and kind of use to spend over the next little while? We don't know the answer to that. That is one reason we're watching the spending data very carefully.

We've spoken to the banks about the people with fixed-rate loans. Some of these people with fixed-rate loans have a split loan with a fixed-rate and a variable-rate component. They have an offset account against the variable-rate component, and they've built up substantial buffers in it. Other people who just have a fixed-rate loan have a deposit account where they've built up substantial buffers. So the banks tell us that most of the people with fixed-rate loans have been pretty cautious. They knew interest rates weren't going to stay low forever. They've taken the low interest rates for two, three or four years as a bonus and saved some. That's good.

Not everyone is in that case, though. Some people have taken the low interest rate to allow them to spend more. Those people are going to face a lot more difficulty when interest rates go up by three per cent and their repayments have to go up by three percentage points. There is a huge diversity across the population. The banks tell us they are working with their customers. They are contacting them in advance. A large number of these people with fixed-rate loans have built up buffers in either their variable-rate offset account or in their savings account.

Senator HUME: Do you get data about the extent of mortgage stress and how that has been changing?

Mr Lowe: We do. We get very frequent data on the share of the population that is behind on its mortgage. It's almost at a record low, the share of 90 days. We also get data on the share that is behind 30 days. That has ticked up a bit, but it's still very low. The banks tell us that people are paying their mortgages. This increase in interest rates, while it's come quickly, people can see it coming and are adjusting their behaviour. I want to acknowledge that it's really hard for some people. Some people are going to find a very big increase in their mortgage payments. It's really hard. Other people are better prepared.

CHAIR: Senator Hume, I will go to Senator Bragg for two questions and Senator O'Neill for two questions.

Senator HUME: I just have one question that I would really like to ask. Believe it or not, I was reading the Reserve Bank Act just for fun. I realise that section 11 has an amazing clause in it.

Mr Lowe: It does.

Senator HUME: I'm not entirely sure that you are aware of this.

Mr Lowe: I am. I know section 11 well.

Senator HUME: Did you realise that if the Treasurer doesn't agree with your policy position, after a certain amount of toing and froing with the board and swapping of papers, he can submit a recommendation to the Governor-General and that the Governor-General, acting with the advice of the Federal Executive Council, may by order determine the policy adopted by the banks. So the Treasurer can override the Reserve Bank's policy.

Mr Lowe: That has been the case since 1959. That provision has never been used. In my view it would be a retrograde step to ever use it.

Senator HUME: Let's hope that we don't see Stephen Jones marching to Admiralty House any time soon.

CHAIR: Don't make me regret my generosity, Senator Hume.

Mr Lowe: It is a provision there. It's appropriate that ultimately the government can overrule the central bank. It would be unwise in most cases to do it, unless we went completely crazy. I view it as a safeguard mechanism. It's never been used and let's hope it never gets used.

Senator BRAGG: You said before, Governor, that you didn't talk to the Treasurer about interest rates. Is that right?

Mr Lowe: Yes. We talk about the economy. This is not just the current Treasurer but treasurers before him. They don't share with me or the Reserve Bank board their views about what interest rates should or should not do. We talk about the economy, and there are obviously implications of that for interest rates, but it's not something that governments have discussed with the central bank.

Senator BRAGG: I want to get this right for the record. Did you imply before that the cash rate would go to 4.75 per cent?

Mr Lowe: No, I didn't. If you interpreted what I—

Senator BRAGG: No, I just want to make sure we have the record right.

Mr Lowe: No, I didn't. I don't think I've talked about a number at all, unless I completely misspoke. No, I didn't. We have an open mind. We are at every single meeting. I don't think we're at the peak yet. How far we have to go up I don't know. It's going to depend upon the inflation data, the resilience of spending, the strength of the global economy and what is happening with prices and wages. But I don't think we're at the peak yet. How far they need to go we're still unsure.

Senator BRAGG: Finally, you don't meet with the Treasurer to talk about interest rates?

Mr Lowe: But we talk.

Senator BRAGG: But not about interest rates. That is the main thing you do?

Mr Lowe: We talk about the economy. There are other issues the Reserve Bank does deal with as well. There are payment system issues, as you know. We're the government's banker. We print the banknotes. We didn't talk about today our decision to change the \$5 note. There are a lot of reasons for us to talk. We're both going to India next week for the G20 meeting, so I will spend a lot of time with the Treasurer next week. That has always been the case with treasurers.

Senator BRAGG: I want to check that point with you. You don't talk to the Treasurer about interest rates, but the Treasury secretary sits on the board of the bank. Is that how that communication occurs?

Mr Lowe: I don't know what takes place between the Treasury secretary and the Treasurer. The Treasury secretary sits on the board in his own right. I don't know what he says to the Treasurer after the board meeting, but I do not speak to the Treasurer between the board meeting and the announcement. That has always been the way. There's nothing unusual here. It's just the way the system has operated.

CHAIR: There are a couple of quick questions from Senator O'Neill, who has been very patient.

Senator O'NEILL: I have. I've been listening with great interest. Thank you very much, Mr Lowe and Mrs Bullock, for being here. It has been an exercise in, I think, civic education. As you said, people are very interested in what you do now. It's clear that there are nine of you making the decision, Mr Lowe, although you are the one most targeted with commentary in the media. Mrs Bullock, you are similarly responsible. The reality is that there's no minister in the room today. This is about this separation that many people who are paying mortgages wouldn't have any idea about until they are starting to pay attention because of the concerns.

My questions go a little to some of the commentary from Senator McKim. As a representative of the people of New South Wales I'm very proud to represent such a sensible group of people as Australians. But their concerns are very real at the moment. I find that Australians will trust a good stable government if they know that jobs that are important are being done properly. Senator McKim asked you about the sources of information that you have. There have been implications about an imbalance in that. How closely are you listening to people? You mentioned people, livelihoods, jobs and businesses and the economy as core concerns for you and the board in making your decisions. You also mentioned letters that are arriving. What comfort can Australians take from your assurances here today that you really do listen and understand what is happening to the ordinary people we represent, be it in government, the opposition or on the crossbench?

Mr Lowe: Ultimately, all our policies are to help people. That's what the Reserve Bank is about. It is to help people. We want people to have jobs. We want their savings protected. We want them to face low rates of inflation. It can sometimes seem very abstract. We talk about the inflation rate and the unemployment rate. But it's all about people and having people with good jobs, rising real wages and keep their savings safe. That's what we talk about at every single one of our board meetings. We have to make complex decisions. When we are making those decisions, we rely on a whole range of information and data, as well as what we are hearing from business and from the community sector.

Senator O'NEILL: You mentioned ACOSS.

Mr Lowe: It is all about people. I'm glad you asked the question, because that's what we do. We're here to help people keep their savings safe, keep low inflation and get them jobs.

Senator O'NEILL: You've talked a bit about understanding inflation and its impact. We have a generational divide of people who might understand that and people who might not. You've also mentioned ACOSS; the financial council, which talks to people all the time who seek financial advice; and some politicians who express the concern of their community. You also mentioned your diary. Given the concern amongst the community and your raising awareness of the importance of managing inflation, how actively are you seeking to understand, in addition to the letter writers, what is going on for ordinary Australians? Have you changed your practice? Do you have any proposals to increase that communication with people out on the ground, so to speak, such as small businesses and mortgage holders?

Mr Lowe: Again, the Reserve Bank isn't just me. Part of the frustration I have is that we've got a fantastic team. They are out there. We've got a community and business liaison team. Their job is to go and talk to business and community representatives. They share with me what they are hearing. Sometimes I will have the opportunity to directly engage with the community sector as well. I welcome opportunities to do that. I have been to the financial counselling service in Surry Hills.

Senator O'NEILL: I went there with you.

Mr Lowe: You and I went there together. We heard harrowing stories. When I have been in Perth, I have visited quite a few community groups. I have an appetite to do it. I have a busy diary. Where I can, I do it. The Reserve Bank is more than just me.

Senator O'NEILL: I think that has become very clear in the course of today. Thank you very much, Mr Lowe.

Senator DEAN SMITH: The feedback from the Western Australian government has always been very positive, so congratulations on that.

CHAIR: Thank you very much, Mr Lowe and Mrs Bullock, for joining us today. The Senate really appreciates your time and making yourselves available for our scrutiny. That concludes this session. You go with our thanks.

Proceedings suspended from 12:49 to 13:47

Australian Prudential Regulation Authority

CHAIR: The committee now reconvenes. We welcome representatives from the Australian Prudential Regulation Authority. Mr Lonsdale, welcome back to Senate estimates. I see that you have distributed an opening statement. Would you like to speak to your opening statement?

Mr Lonsdale: Thank you, Chair. Good afternoon, everybody. I'm happy just to table the opening statement. It covers the key focus areas for APRA that we talked about in our supervisory and policy priorities a fortnight ago. It highlights the key risks that we are worrying about during the course of the year. With that, my colleagues and I are happy to take your questions.

CHAIR: Thank you very much, Mr Lonsdale.

Senator BRAGG: Good afternoon. Thanks very much for coming. I assume you are aware about the disallowance of a regulation last week in the Senate?

Mr Lonsdale: Yes. Are you talking about the superannuation related one?

Senator BRAGG: Yes. What does that mean from APRA's point of view? What are you expecting funds to do now for that period where there was a regulation that has been disallowed? There's clearly a gap in member information.

Ms Cole: We're carrying on with our super data transformation program, which has been up and running for some while now. We are continuing to collect information of the sort that was pertinent to the regulations. We will align our collections to the regulations as they now stand, which was the prior regulations.

Senator BRAGG: If I'm the member of a fund that did not receive the member statement per the regulation as it stands today, will I receive the information that was hidden from me?

Ms Cole: I think you've got to distinguish the notification requirements in the annual member meeting regulations. I can't off the top of my head tell you whether there have been any meetings in the period in question. I can tell you that we have continued to collect information throughout the period. We will make sure that what we are collecting, which goes to a slightly different point, is aligned with the regulations as they are now.

Senator BRAGG: There were disclosures made by the funds under the regulation made by Mr Jones that has been disallowed.

Ms Cole: That was the regulation in place at the time any relevant meetings took place. If meetings took place in that time frame, they will have had the information in the format.

Senator BRAGG: That is very clear. Basically, if you were in a fund at that time, you received the information per the law of the land as that day, which was an aggregated approach.

Ms Cole: Exactly.

Senator BRAGG: So funds have been able to hide various payments to particular organisations for that period, but now they are required to disclose?

Ms Cole: I'm not making any value judgement on it. If they had to send out their member meeting notice because their member meeting was scheduled at a time that was pertinent to what are now the disallowed regulations, they would have followed those regulations. They will now follow the regulations that have been reinstated.

Senator BRAGG: Did APRA give any advice about the content of these regulations?

Ms Cole: No.

Senator BRAGG: You gave no advice to government?

Ms Cole: Not to my knowledge, no. I don't believe so. We certainly didn't give any written advice.

Senator BRAGG: I want to ask you about how you propose to enforce the best financial duty. There was a disclosure by the Electoral Commission a couple of weeks ago which set out some of the payments made in 2021-22 by super funds. I want to ask you about some of these payments. For example, AustralianSuper has paid over \$500,000 to the ACTU and to the AMWU collectively. What is your view on these payments?

Ms Cole: Thank you. I know that you've drawn some issues to our attention, and we've corresponded about them. We are obviously aware of the latest data from the Australian Electoral Commission's transparency register. As I said on a prior occasion, we've looked back over that register for a period of five years. We have not, from that look, found any evidence of payments made directly from a trustee or superannuation fund or registered political party. So we haven't found anything that would be described as a political donation. There are certain payments that we are looking into further regarding the nature of contractual payments between super funds and service providers which might be related entities. We continue to look into some of those payments.

Mr Lonsdale: Senator, you will understand that we don't want to talk about specific payments, because they are very operational matters. Ms Cole outlined our general process. If we do discover something that needs action, our normal course would be, if we were going to take enforcement action, to publicise that. But ordinarily they are operational issues.

Senator BRAGG: If you go through these disclosures, you see that you've got funds like Cbus, HESTA, Hostplus making payments to unions of hundreds of thousands of dollars. Then you've got this one particular super fund called First Super, which is not a very large fund, which has made a payment of \$2.5 million.

Ms Cole: I'm not going to comment on entity-specific matters. We are looking into payments between super funds and unions and inquiring as to what those payments are for, what services are being provided in return for those payments and whether, indeed, it is value for money for members. The whole issue here, obviously, is to protect the best financial interests of members. Those inquiries are ongoing.

Senator BRAGG: What is the timetable on that inquiry?

Ms Cole: I can't give you a specific timetable. I'm sure it's well appreciated that when one is looking into a matter or conducting an investigation, it takes a certain course. There are due process issues that always have to be followed when we look into matters, so I can't at this point tell you when we will have completed that inquiry.

I can say, as the chair said, that if we find evidence that substantiates the taking of action, we're fully prepared to do that.

Senator BRAGG: I want to ask you briefly about the unlisted assets issue. I note your statements that you are concerned about the valuation of some of the assets. Where do you see this body of work going? Is this an updated prudential standard? What does it look like?

Mr Lonsdale: We issued our policy and supervisory priorities document. We indicated that improving investment governance for superannuation is an important element of that. We have a standard. We're working on guidance. There are a number of elements to that. There's stress testing. There's the valuation of unlisted assets. There's liquidity management. I think the nub of it, Senator, is to make sure that, in a difficult issue around valuation, that is done as well as we can have it done. I might check whether Dr Ellis wants to add anything. That's how I see it.

Dr Ellis: We've had a prudential standard in investment governance in place since 2013, but we only had guidance on valuation in the past. When we updated the prudential standard, which came into effect on 1 January this year, that actually brought in requirements around valuation frameworks, because we felt it was an important area to really uplift the practices in. We currently have out for consultation guidance on valuation of unlisted assets and guidance on investment governance in general. So it is an area where we have uplifted the standards. We will be doing ongoing supervisory work to look to see how trustees are implementing the changes to the prudential requirements.

Senator BRAGG: I have just one more question. There is an inquiry or a review inside the Treasury into the best financial interest duty that was set up by the Assistant Treasurer. Is that something that APRA is involved with in any way?

Ms Cole: The government's review of Your Future, Your Super?

Senator BRAGG: Is that what it is?

Ms Cole: Yes. The consultation has closed. We have certainly interacted with Treasurer on that, yes.

Senator BRAGG: What is it looking at? It has been very secretive.

Ms Cole: I think its terms of reference are out there. I think it's looking at the best financial interests duty, the stapling issue and a variety of issues all in the context of looking to see how the performance test played out and whether there were any unintended consequences of that. But that is a public consultation and the terms of reference are published.

Senator BRAGG: My final question is related to that. I thought it was an inquiry into the duty itself. Is there any case, in APRA's view, to weaken the best financial interest duty, as was legislated in the last parliament?

Ms Cole: I think the best financial interest duty is a very important concept. I think that it has really clearly focused the minds of superannuation trustees on the financial implications of the actions they take and how members' best financial interests should be the focus of their attention. We have found it useful in impressing on trustees how that needs to be at the heart of everything they do. I know there are some who think that, strictly legally speaking, the words 'financial' and 'best interest duty' pretty well correlate. I would say that putting the word 'financial' in was emphatic and important to drill the point home to trustees. So we've certainly found it useful in our interactions with trustees.

CHAIR: I did neglect to table the chair's opening statement earlier. There being no objection from the committee, I table the opening statement.

Senator DEAN SMITH: Thank you, Mr Lonsdale and others, for making yourselves available this afternoon. There has been much media commentary about the 800,000 fixed-rate loans shifting to variable-rate loans in calendar year 2023. I understand that APRA does collect a dataset that is made available to the ABS and that the ABS has published it. It is the economic and financial statistics information. Can you give us a sense of how you collect that and what elements you collect?

Mr Lonsdale: In respect of this particular statistic, Senator?

Senator DEAN SMITH: Yes, that's right.

Mr Lonsdale: Broadly, it is a topic that we are very interested in. I would have to take on notice, and am happy to, and give you exactly how we collect that data and what the data points are, if that's what you are interested in. I'm also happy to talk more broadly about how we are seeing the issue, if that's of help to the committee.

Senator DEAN SMITH: That would be of tremendous help. In your most recent annual report, you talk about at page 21 some changes that were made. From APRA's perspective, could you talk at that level in terms of what you are seeing with that market experience and exposure?

Mr Lonsdale: It's of great interest to us. The total stock of fixed-rate lending is probably about one-third of the mortgage book on fixed-rate lending. We are expecting over half of those mortgage holders to roll off typically low rate fixed rates on to higher rates, usually variable at this stage. We're watching that very closely because obviously that has a significant impact not just on customers but on the regulated entities that we regulate.

Senator DEAN SMITH: The banks?

Mr Lonsdale: The banks in particular. So we have been actively asking the banks for some time, 'What is your strategy in respect of these customers?' What we're hearing and seeing is that banks are leaning into this. They actually can predict with some accuracy the cohorts of customers that may experience mortgage stress. We are encouraging them to act early, because obviously the earlier you can and the more proactive you can be with customers, usually the better the outcome. The sorts of things that they talk to customers about are restructuring loans and maybe a longer term. There are a range of things that banks and customers can agree on. As we look at the system right now, non-performing loans are actually very low. I wouldn't say they are historic lows, but they are very low. When you think about why that would be the case, what our examination tells us is that, at the time they took out these loans, the vast bulk of the people were not at their maximum borrowing capacity. The bulk of them actually had what we call a significant net income surplus as well. So they are coming off low-rate fixed-rate loans typically on to more expensive products. Yes, it is difficult, but there is some capacity to do that.

Senator DEAN SMITH: I don't want to interrupt your train of thought. I think starting to draw distinctions here between new home buyers and others does become important. I'm sorry to interrupt your train of thought. I would like us to get to a discussion also about that first home buyer component.

Mr Lonsdale: Yes, I have been talking broadly. For APRA it's important for me to say that the way that we calculate our settings and think about these settings is at a system-wide level. You are thinking about macroprudential settings, for example. Generally speaking, what I've said applies. There will, however—this is the 'but'—be pockets of borrowers that will come under stress during the course of 2023. What do those borrowers look like? They would typically be people who borrowed late in the cycle. Maybe they borrowed at the maximum borrowing capacity, typically with a very low deposit. There is a category of people who will experience some stress. We're very alert to that. It takes me back to what I was saying at the beginning. We are actively encouraging banks to deal with that proactively.

Another thing I would add is a system view. I mentioned at the beginning that these events do have impacts on the banks' balance sheets, or can. When we look at the banks' balance sheets and ask ourselves the question whether we have a strong, stable financial system, the answer is unambiguously yes. When you look at the key prudential metrics that we've got—capital—the major banks, for example, are running CTI at ratios of, say, 11½. If you go back to the GFC, you were talking about eight to nine. So 11½ plus all that component of over 400 basis points is very well capitalised. It is very liquid.

Credit standards are the other place where we've spent the last few years focusing very heavily to make sure that people who do get a loan actually have the capacity to repay that loan. We had a very heavy focus on high-DTI lending, debt-to-income lending, and high-LVR lending. As I sit here before you today, both those metrics have certainly come down when you look back over the last couple of years. So from a system point of view, we have a very strong, stable, resilient financial system. How do we know? We really stress test. We run very stringent stress tests on the banks. We look at big shocks on housing and big shocks on unemployment and then see what the outcome is. The banks and the sector are very resilient. I might stop there.

Senator DEAN SMITH: Can you give the committee an indication of the level of exposure of each of the big four banks to those customers who might find themselves in a more difficult position?

Mr Lonsdale: I don't have that data with me. We're happy to take that on notice. I'm sure all the major banks would be very happy to disclose that information. They would have, I think, quite granular information on people or cohorts that they are watching closely or where, actually, delinquencies—we call them the early warning signs—are prevalent. We can certainly take that on notice.

Senator DEAN SMITH: You said you had been engaging with the banks for some time. And the banks have been responsive, or are they taking their time?

Mr Lonsdale: I think the banks are very alive to this issue. In the last week, I've spoken to three major bank chairs and a CEO. This issue was one of the issues discussed. I would say they are very alert to this issue. They

are very alert to the impact on customers that higher interest rates—it is not just interest rates—the cost of living and a weakening macroenvironment might have on customers. They are acting proactively. I don't know whether this gives you any comfort, Senator, but we don't just ask but seek the kind of proof point, if you like.

Senator DEAN SMITH: That is why I would like to get your understanding of the banks' exposure—so I could use it as a proof point against the banks, should they ever come before a Senate committee, and so I understand what you are saying.

Mr Lonsdale: Yes, I understand. One recent proof point would be the performance of the banks during the COVID period. That's not very long ago. When you look at that period, we had in Australia 10 per cent of the mortgages covered by a mortgage deferral. That is unprecedented in this country. Those customers who are covered by a deferral then moved off the deferral and on to more normal lending arrangements. If you then juxtapose that against the non-performing loan statistics, I guess my working hypothesis would be that if there were a problem, you would expect to see non-performing loans at a much higher rate. We did not see that. So non-performing loans remained quite low during that period.

Senator DEAN SMITH: Thank you. You've talked about the banks being well capitalised. Is there enough competition in the market between the banks so that when people go to look for a better deal on their interest rate, on their mortgaged properties, they are able to get choice and competition?

Mr Lonsdale: I will give you a snapshot of where we play in the competition space. We are not the competition regulator, as you know. They are on after me. I would encourage you to ask them that question.

Senator DEAN SMITH: You are right. I was pushing the boundary a bit, but I thought I would have a go.

Mr Lonsdale: But in the way that we construct our regulations and regulate the financial system, we set safety regulations, but we set those regulations having regard to competition efficiency and contestability issues. So it is something that we are very interested in. On competition, let's say that there is a lot of refinancing going on. You see that. If you talk to the banks, they will say it's very competitive both at the mortgage level and at the deposit level. You might say, 'Well, they would say that.' But there are a lot of products and a lot of providers and a choice, I guess, as well, and a lot of incentive, I think, for whether a depositor or you have a mortgage to actually shop for a better deal. That's how we see it. We do pay particular attention to competition in terms of the regulations that we are setting for different entities as well. Smaller entities we don't apply very large-scale regulation to like we might apply to the major banks, for example. I might stop there.

CHAIR: This is your final question.

Senator DEAN SMITH: What has been a bit more elusive is where the transfer from mortgage fixed rates to variable rates is occurring. So even though the RBA some weeks ago now has put into the public domain the fact that 800,000 fixed-rate loans are transferring to variable loans, what has been less forthcoming across government has been the month-by-month quantum for calendar year 2023 and the location of those—the where. You talked about particular pockets of borrowers. You characterised them, I think, in terms of a number of factors, but you weren't able to identify them in terms of a geographic or state-by-state breakdown. Is that information that APRA has?

Mr Lonsdale: Let me check. I will ask Ms McCarthy-Hockey whether we have it. If we don't have it here, I'm very happy to take that question on notice.

Ms McCarthy-Hockey: We don't collect loan-level data.

Senator DEAN SMITH: Why is that?

Ms McCarthy-Hockey: It's not part of our current collections.

Senator DEAN SMITH: But in your annual report, I thought you did talk about being a better—

CHAIR: This is quite an extended last question, Senator Smith.

Senator DEAN SMITH: You're very generous, Chair. I'm most grateful. It is enhancing data-driven decision making, which is at page 6. It's not collected because no-one has asked you to collect it, or it's not collected because it can't be collected?

Ms McCarthy-Hockey: It's part of an initiative that we have, which we will be engaging with industry this year on, as to the kind of data that we can extend to the industry regarding the regularity and granularity and how we can get that better transparency. It's something that we will be working on this year, so it's a priority for this year.

CHAIR: Thanks, Senator Smith. Looking at the time, I'm going to have to be a bit more aggressive in my approach, starting with you, Senator McKim, for 10 minutes.

Senator McKIM: Good afternoon. Is APRA considering reducing serviceability buffers that would make it easier, if that happened, for people to borrow more money?

Mr Lonsdale: Thank you for your question. The serviceability buffer is part of a suite of what we call macroprudential tools. There are probably three sets. There is the serviceability buffer. There's the countercyclical buffer, which is currently set at one per cent. We also talk about any lending restrictions, of which there are none. The short answer to your question is that we are comfortable with the macroprudential settings as they stand now. So it is three per cent for the serviceability buffer and one per cent for the countercyclical buffer. We will be putting out a paper later this month that sets out in more detail why that is. The nub of it is that we've set those at prudent levels, which we think is very important for lending standards going forward. When we look at 2023, we see a number of challenges in front of us. We think maintaining that prudence is important. If the facts change, then so might our stance. As we sit here today, that is our view.

Senator McKIM: And, just to be clear, Mr Lonsdale, your view as you sit here today is the serviceability buffer, which is at three per cent, is at the appropriate place for that buffer?

Mr Lonsdale: Correct.

Senator McKIM: Thanks. It has been reported that NAB has increased the proportion of rental income that can be used to calculate a property investor's serviceability ratio. Is that correct? Have other banks also done that?

Mr Lonsdale: I will ask Ms McCarthy-Hockey if she has that information. Do we have it?

Ms McCarthy-Hockey: Well, we wouldn't be commenting on particularly a bank. We could take it on notice.

Senator McKIM: Has any bank, regardless of who it might be, increased the proportion of rental income that can be used to calculate a property investor's serviceability ratio?

Mr Lonsdale: I think we'll come back to you. We apply macroprudential buffers, as we discussed. The banks also apply prudence to income or expenses. It doesn't just relate to projected interest rate increases. They might make assessments on an individual's ability for living costs or other unforeseen events. That is done as a commercial decision by banks. But I'm happy to take it on notice and come back.

Senator McKIM: Sure. In terms of the on-notice question, could you come back to the question on whether any banks have done that? If so, how many? What is the nature of any shift? I want to ask whether APRA would be comfortable if banks did that. The reason for that question is that if a bank does increase the proportion of rental income that can be used to calculate a property investor's serviceability ratio, that will actually make it harder for owner-occupiers to buy a house. If a property investor can get a loan on the basis that rents can service a higher proportion of the loan, they can borrow more and, therefore, bid higher. Do you understand the proposition? Do you accept that proposition, Mr Lonsdale?

Mr Lonsdale: I would prefer not to comment on the hypothetical until we can come back to you on the facts. The second thing I would say is that with all of these issues there are trade-offs. Take the serviceability buffer, for example. The higher the serviceability buffer, the more difficult it can be to get a loan but the more prudent and safer the system is. We look at a range of factors.

Senator McKIM: Banks are making record profits at the moment, Mr Lonsdale. This morning, the CBA just announced a record profit compared to last year. The banks are going pretty good at the moment. The RBA is putting up interest rates. Dr Lowe this morning accepted the proposition that when the RBA puts up interest rates, the banks' profits go up in the short term. So banks are going pretty well at the moment, aren't they?

Mr Lonsdale: Is that your question—are banks going well at the moment?

Senator McKIM: Yes. Banks are very profitable at the moment, aren't they?

Mr Lonsdale: Banks are profitable.

Senator McKIM: Very profitable.

Mr Lonsdale: Banks are profitable, yes.

Senator McKIM: Perhaps you could take that second question on notice in terms of whether you accept that proposition, as you said. If you want to go away and see whether that is happening, you could take that on notice. I read with interest the ACTU submission to the RBA review. I want to put this to you and ask you a question. The ACTU said this:

The RBA did not use monetary policy to its full extent—

Just for context, this is prior to the pandemic, when investment was stagnant. It continues:

The RBA did not use monetary policy to its full extent because macroprudential policy was too loose to assuage its concerns about excessive private debt and financial instability if monetary policy were deployed more aggressively.

Do you accept that proposition? Do you think that monetary policy and prudential policy are well coordinated?

Mr Lonsdale: I would prefer to talk generally about the question. I don't want to comment on the RBA review on the specifics.

Senator McKIM: Just the proposition.

Mr Lonsdale: More generally, we talk to the Reserve Bank all the time, as we do with all Council of Financial Regulators entities. It is very important when agencies are moving levers or using their powers that each one knows what the other is doing. We find that has worked well for a long period of time. So there's actually a lot of discussion and a lot of coordination. In terms of macroprudential settings, we have had a concerted effort to improve the resilience and soundness of the financial system for a number of years. That is in two dimensions. The first dimension is the levels of capital that we require the banks to hold. That was the earlier question that the other senator asked. The second goes directly to lending standards. The serviceability buffer we increased from 2½ per cent to three per cent in 2021. We combined not just that macroprudential move but also a series of microprudential moves. It's very difficult, actually, to talk about the macroprudential without looking at the microprudential. That is direct discussions and direct supervisory action on regulated entities—banks, if you like—where we're not comfortable with lending standard. We certainly did that for high-DTI lending through the course of 2021.

Senator McKIM: This is the last question. I will just go back, Mr Lonsdale. Do you accept the proposition that the ACTU has put that the RBA actually didn't use monetary policy in the pre-pandemic times to its full extent, because macroprudential policy was too loose to assuage its concerns about excessive private debt and financial instability if monetary policy were deployed more aggressively? Do you accept that proposition? That is a pretty inherent criticism of macroeconomic policy at that time.

Mr Lonsdale: I don't want to talk about monetary policy. It's not appropriate.

Senator McKIM: No; macroprudential policy.

Mr Lonsdale: Yes, I understand the question. It's not appropriate for me to comment on monetary policy. On macroprudential policy settings, I've outlined that we have had a concerted effort over a number of years to tighten, if you like, lending standards. We pay very close attention to the cycle, the economic environment, and asset prices informing those views.

Senator DAVEY: Thank you for attending today. Before I get to data collection, thank you for tabling your opening statement. I want to ask about the climate vulnerability assessment undertaken by APRA. Last year's was focusing on banks. I have had a quick read of it. I do notice that since APRA first announced that they were undertaking the climate vulnerability assessment, some financial institutions have already responded to increasing risks. Page 9 of your report identifies that some banks are reducing lending to some regions—for example, parts of northern Australia—and to some sectors of the economy, including mining and other fossil fuels. Would you accept that potentially that is a result of your focus on climate vulnerability assessments and your advice to the sector?

Mr Lonsdale: I will ask Mrs Rowell to respond.

Mrs Rowell: I will answer that question, Senator. Thank you for the question. I think it's important to understand the purpose of the work we're doing in the climate space and particularly the climate vulnerability assessment, and that is to ensure that the entities we regulate are able to understand the risks to which they are exposed and the implications of that for financial system safety and soundness and outcomes for consumers. The vulnerability assessment we undertook had three key objectives. The first was to get a sense of what the impact might be under a couple of different scenarios. The second was to get an understanding of the way in which the banks might respond to those impacts and what considerations that might mean for, for example, policy settings or how the transition might need to be managed to ensure an orderly and fair transition. The third was actually to improve the capability and understanding and approaches of the banks to actually modelling and assessing climate risk.

The comment in the report that you referred to in terms of what might happen under those scenarios was not a prediction or an expectation; it was about what a possible response might be under different scenarios, taking into account the assumptions and the underlying model and risks exposure. So it really helps, I think, all of the stakeholders that have looked at the outcomes of that modelling and that work to understand what we and the industry and other stakeholders might need to do going forward to ensure that consumers can still get lending, that businesses can still get finance and the like as we manage the transition to net zero.

Senator DAVEY: I must have read the page wrong. The page says, in response to the potential for higher lending losses from climate change, that the banks commonly modelled adjustments to their risk appetite. I read it

that they were already doing this. I'm certainly hearing from industries that certain industries are already finding it harder to access finance, as a response to banks mitigating against climate risk.

Mrs Rowell: I believe that there are some reassessments occurring across the financial sector in terms of where lending is occurring, where financing is occurring et cetera. But the CBA analysis itself was about modelling and trying to paint a picture of possibilities, not to be determinative in terms of what the particular response would be.

Mr Lonsdale: In respect of the banks, it did identify that there were quantifiable impacts on bank balance sheets. It is not so much in aggregate but certainly pockets. What we say to entities is that you need to build that risk in. That's like a lot of other risks that we as the prudential regulator expect entities to do. Why do we expect it? We expect it because they are taking depositors' funds and they are lending those funds. So we expect that to be done very prudently. We expect, I think, much better outcomes. There are opportunities as well.

Senator CANAVAN: I am a little confused. Is this modelling exercise looking at the risks of climate change impacts—that is, if you like, terrestrial, weather events, natural disasters and those types of things, actual physical changes to our climate—or is it looking at the impact of climate change policies? You mentioned this before. This is the confusion. You mentioned the impacts of the transition to net zero. Which of those are you actually modelling, or are you doing both?

Mrs Rowell: Both. So we asked the banks to look at particular scenarios and what that would mean in terms of both physical risk, transition risk and their adaptation. That includes possible policy responses. There were two particular scenarios that were modelled. One was a delayed policy response and one was a current settings policy response. That was so that we could, again, get the spectrum of outcomes under those two different scenarios.

Senator CANAVAN: Do the climate change policies—the transition to net zero—have negative impacts on the balance sheets of the financial sector?

Mrs Rowell: The results of the modelling showed that there were different impacts under different scenarios. Those different scenarios assume different policy settings.

Senator CANAVAN: I would imagine different scenarios would have different impacts. That is quite a tautology. That's what I'm asking you. What are those different impacts? You did the work, not me. Does the net zero policy show a negative impact on banks' balance sheets?

Mrs Rowell: I would need to take that on notice to look at the detail of the report. I don't know that we were specifically modelling the net zero transition.

Senator CANAVAN: But you did say you did model the net zero policies.

Mrs Rowell: The question is about the timing of the transition to net zero. It is the delayed transition—

Senator CANAVAN: What was the time line? When do we get to net zero in the modelling?

Mrs Rowell: Well, the modelling was done out to 2050.

Senator Gallagher: It was your policy too.

Senator CANAVAN: Well, it's not my policy, but other people in this place were silly enough to adopt it. I would have thought that is clear. I'm not sure what the vagueness was about there. Did you isolate the impact of net-zero policies? Did you hold all other things equal?

Mrs Rowell: No.

Senator CANAVAN: You mixed them together with the weather effects?

Mrs Rowell: There are a number of variables in the scenarios and the modelling, some of which are policy settings and some of which are other assumptions about the nature of impacts in particular periods and the like. So it's very hard to pick that in terms of the underlying cause. We didn't go to that level of detail.

Senator CANAVAN: I'm happy for you to take this on notice. I really am starting to question the merit of this modelling if you cannot explain it in simple terms. I've done modelling. If the modeller can't explain it in plain English, it's probably a black box and full of rubbish. It shouldn't be that hard.

CHAIR: Senator Canavan, Mrs Rowell has offered to take it on notice to access the detail that you are requesting.

Senator CANAVAN: Senator Walsh, there's nothing wrong. This is the opportunity for senators to question and hold to account the public servants who are using taxpayers' dollars on these things.

CHAIR: You seem to be impugning the official by saying that she should have had a detailed understanding about—

Senator CANAVAN: I did not say that. I said it was my experience. I don't know anything about Mrs Rowell's modelling experience. I've done modelling that is dodgy and hopeless. I know it is dodgy. It usually—

CHAIR: Do you have a final question before Senator Davey?

Senator CANAVAN: I'm happy to include myself in that regard.

CHAIR: Do you still have questions?

Senator DAVEY: I have some questions.

CHAIR: This is your final question, Senator Canavan.

Senator CANAVAN: Mrs Rowell, I will just give you one more opportunity to explain in simple terms what was modelled and what you found about the impacts of net zero policies. It sounds to me that you don't know the answer to that question.

Mrs Rowell: I don't know the answer to that specific question because the modelling involved scenarios, both of which actually get to net zero by 2050 with different policy responses in between.

Senator CANAVAN: So it was a complete waste of money, by the sounds of it?

CHAIR: Senator Canavan.

Senator CANAVAN: With red tape and bureaucracy on people.

CHAIR: It's not appropriate.

Senator CANAVAN: Well, explain to me why you're doing this.

CHAIR: She has offered to take the detail on notice.

Senator CANAVAN: You can't explain to the Senate why you're doing this work.

Senator Gallagher: I think the witnesses should be treated with respect.

Senator CANAVAN: I think taxpayers' dollars should be treated with respect too, Minister, and that is not happening here. And plus the extra cost—

CHAIR: Senator Canavan, you don't have the call.

Senator DAVEY: Before I move on to data collection, which is why I'm here, I also note that your next climate vulnerability assessment is going to be looking at the insurance industry, which is very relevant to my portfolio interest of emergency management. Insurance is already impossible to get in northern Queensland. It is almost impossible to get in a lot of flood zones. I will be fascinated to see what sort of comes out of a climate vulnerability assessment of an industry that is designed to insure against just that if the push is that they have got to price in those risks into their models. I think it's a very worrying point for Australia to get to. I want to turn to the APRA points of presence data that you collect.

Mr Lonsdale: Before we do that, with respect, could I make one comment on the CVA. I am very happy to come back to Senator Canavan. We have worked on this for a couple of years. We have published a very detailed paper. I assume you have read that, Senator.

Senator CANAVAN: No. I have other things to do. I've just had a quick look. This is the point. You can't explain it. This is the problem, Mr Lonsdale. You did the work, not me. I don't get paid to do the work.

CHAIR: Okay. I would like everyone to stop speaking. Mr Lonsdale, respectfully, I am more familiar with Senator Canavan than you are. I would like to leave that issue there for the moment. If there is something that you would like to take on notice, the committee would very much appreciate that.

Senator CANAVAN: It's your job, not mine.

CHAIR: I had moved the call on. I have moved the call to—

Senator CANAVAN: Well, I'm pretty worked up about this.

CHAIR: I have moved the call on to your colleague.

Senator CANAVAN: You are putting imposts and red tape on Australians and you can't even justify it. It is an absolute disgrace.

CHAIR: You don't have the call.

Senator Gallagher: We can take that on notice, Senator Canavan.

CHAIR: That has been noted multiple times by me. I would like Senator Davey to be able to ask her questions.

Senator O'NEILL: Before we go to that, I want to make a point of order. I think you made a very clear statement at the beginning of the hearing today. For the most part, it has proceeded in a way that I think reflects a shift in the tone of questioning. It can be very thorough without being domineering. I appreciate your order. I think we need to be reminded of that at this point of time. The disrespect to the witnesses is concerning.

Senator McDONALD: I want to make a point of order. I think that this is the only forum that senators get to hold government officials to account on the expenditure of taxpayers' money.

Senator O'NEILL: One hundred per cent. That's fine.

Senator Gallagher: They don't get to yell.

Senator CANAVAN: Whoa.

Senator McDONALD: Senator Canavan is always—

Senator CANAVAN: Talking about respect and then you interject.

CHAIR: Again, I—

Senator McDONALD: Is always passionate—

CHAIR: Yes.

Senator McDONALD: and informed and asks good questions. I think the government would be the poorer—

Senator CANAVAN: Exactly.

Senator McDONALD: for not holding this to account.

CHAIR: I take the two points of order. I will say that my way of dealing with what I do think has been disrespectful behaviour is to allow the senator who actually had the call to have the call and ask her questions. That is how I would like everyone to proceed. Senator Davey, you have the call.

Senator DAVEY: I would appreciate further information on the design of the cultural vulnerability assessment for insurance. You can take that on notice. I will return to the points of presence collection data that I know you were questioned at length about in November by Senator Malcolm Roberts. I'm going to try very hard not to double up. I note in the regional banking taskforce a recommendation was made for APRA to commence a review of its ADI points of presence collection to better capture indicators on how banking services are assessed. Is that review going to be undertaken?

Mr Lonsdale: Yes.

Senator DAVEY: Will there be public consultation?

Mr Lonsdale: Yes.

Senator DAVEY: When will it start?

Mr Lonsdale: That will start early this year.

Senator DAVEY: I'm sure you would have, because I'm sure you have media monitors, just like we do. There was an article in November last year that indicated that data collection on regional banking services had been overstated and that APRA had acknowledged the errors and had been working to redress the errors in their published data. What is the impact of that incorrect data and then the correction of that data?

Mr Lonsdale: I will start and maybe I'll ask Ms Therese McCarthy-Hockey just to give us the particular statistics. We've got a points of presence data publication, as you know. It has highlighted significant falls in bank branches, particularly in regional areas, for some time. It was brought to our attention that there may be an error in the data that was presented. We engage with entities. The result of that has been a small revision downward in the bank branches. I will ask Therese.

Ms McCarthy-Hockey: The revision was four per cent down.

Senator DAVEY: Does that mean that there are even fewer branches in regional areas than the pre-corrected data showed?

Mr Lonsdale: Correct.

Ms McCarthy-Hockey: Yes.

Senator DAVEY: What led to the error? I understand you collect against four main indicators, which is face-to-face branch, face-to-face other, ATMs and EFTPOS. In what area was the error? Where was the discrepancy discovered?

Ms McCarthy-Hockey: In branches.

Senator DAVEY: In face-to-face branches. Can you explain the difference between face-to-face branch and face-to-face other?

CHAIR: Before you answer that, Senator Davey, through no fault of your own, we've gone a bit over time. I'm just wondering if after this one you could finish your questions and perhaps put some on notice.

Senator DAVEY: Yes. I just want to get to the bottom of the errors.

CHAIR: We've got three minutes and three senators remaining. If you could finalise your questions, that would be great.

Senator DAVEY: Okay.

Mr Lonsdale: We might come back. We'll give you a precise definition of the two. To be clear, this is an issue we take very seriously. We know the impact on particularly regional areas and demographics such as older people. Our role has been really to shed light on this through the publication. We are going to go through a consultation process this year. We hope that will provide more transparency on what is actually going on here. It will pick up things like substitute branches—for example, Australia Post—and other forms of doing banking, such as electronically. That's what we would expect to come out of this consultation process.

Senator DAVEY: That's good. Finally, on notice, could you provide us with the revised data, the corrected data, and what it was just so that we can get a comparison?

Mr Lonsdale: Of course.

Senator DAVEY: I will hand over because I'm sure Senator Roberts has some interesting questions too.

CHAIR: Thank you. There are a couple of questions from Senator Hume, I understand.

Senator HUME: Very quickly. Did APRA advise Assistant Treasurer Stephen Jones that there were problems in the superannuation disclosure requirements, where funds were finding that their annual member meeting disclosures were too onerous?

Ms Cole: Not to my recollection, no.

Senator HUME: My question is to the minister, then. Minister, after the Senate disallowed the government's watered down transparency rules just last week, Assistant Treasurer Stephen Jones was quoted in the *AFR* as saying that, if he had his time again, he would have gone about the process differently. Does that mean that there are still intentions to water down transparency in super, or does it just mean that he would have done it differently?

Senator Gallagher: Well, it's probably a better question put directly to the Assistant Treasurer.

Senator HUME: I know, you are representing him.

Senator Gallagher: I know. I am representing him. From the government's point of view, the parliament has had its say. The Senate has resolved this matter and disallowed the regulation.

Senator HUME: Can you point me anywhere in the Labor government's election commitments to the place where it said that your intention was to change transparency rules in superannuation? I do note that it was the first policy announced by the Assistant Treasurer on 15 July 2022, a mere 46 days after he was sworn in. Was it an election commitment to water down transparency in super?

Senator Gallagher: It wasn't to water down. That's your language. I will have to take on notice. I don't believe it was an election commitment, but I will take it on notice.

Senator HUME: Is it still a policy of this government to water down transparency.

Senator Gallagher: I've just answered that to your previous question to me.

Senator HUME: No. You said the Senate has spoken. You didn't say it was still a policy of this government.

Senator Gallagher: Well, it has been resolved by the Senate. It has been disallowed. We've gone back to the previous arrangements.

CHAIR: Thank you, Minister.

Senator RENNICK: I have been contacted by a local constituent who has been having difficulty getting their death benefits and savings on behalf of their loved ones out of their superannuation account. I'm actually quite surprised by how many people I touched on it. There was an ABC article on it. I posted that on my social media page. I was quite surprised by the amount of feedback I got, actually. Can you outline the steps to take for people who have problems getting their loved one's balances and death benefits from super and where they can go to lodge a complaint about that?

Ms Cole: I think the complaints people are AFCA, which stands for—

Dr Ellis: The Australian Financial Complaints Authority.

Senator RENNICK: APRA doesn't manage that?

Ms Cole: We don't. ASIC, for example, would be closer to this subject than APRA because they have a touch point on complaints about the handling of super, for instance.

Senator RENNICK: So that is the Australian Financial Complaints Authority?

Ms Cole: They are the complaints authority that deals with complaints from individuals about the way that things such as this have been handled. ASIC has some oversight of the way that super funds deal with their members and complaint handling.

Senator RENNICK: So it's ASIC and them? I will try to nail that down.

Ms Cole: Rather than us, yes. We don't have the consumer interface.

Senator RENNICK: I have one more question. Is it true that APRA used to be a part of the RBA up until 1996-97? Is that correct?

Mr Lonsdale: Sort of. It is a sort of because APRA was born out of a comprehensive inquiry into the financial system, the Wallace inquiry of 1997.

Senator RENNICK: Yes.

Mr Lonsdale: I'm sure Ms Rowell will correct me. The key tenets brought together banking stability, which came from the Reserve Bank, insurance and, at that time, quite a nascent superannuation regulation. Have I got that right?

Mrs Rowell: That's correct. There were also some state financial regulators as well that were brought together.

Senator RENNICK: Great. I just wanted to clear that up. Possibly you could answer this as well, Minister. I think that superannuation and then the macroprudential side of banking are two separate things. Would it not be better to have macroprudential controls under the scope of the RBA as another tool to manage inflation? What we've got at the moment is Treasury does fiscal, APRA does macroprudential and the RBA does monetary. We've got three different departments doing three different things. I'm personally of the view that you really want the same department with your hands on the accelerator, steering wheel and gear stick.

Mr Lonsdale: I will make two points. The government has commissioned a review on the Reserve Bank, as you know. Part of that touches on macroprudential issues.

Senator RENNICK: Yes.

Mr Lonsdale: The review will report to the Treasurer and the government in due course. The second point I would make is more of an APRA point. I think it's difficult to think about that issue without thinking about microprudential policy as well. Macro and microprudential policy and the purpose of it, I think, must be thought of in the same vein.

Senator RENNICK: Can you explain the difference between macro and micro?

CHAIR: Senator Rennick, I need to go to Senator Roberts. Can I do that now?

Senator RENNICK: Yes.

CHAIR: Thank you.

Senator ROBERTS: Thank you all for being here. Can you list the risks that you see that might place Australian bank funding under threat in 2023?

Mr Lonsdale: Thank you for your question. There are a lot of risks that we look at.

Senator ROBERTS: That is why I am asking.

Mr Lonsdale: I will give you highlights. I won't cover them all, but I will give you the highlights. We pay very close attention to the macro environment. We have a weakening macro environment. We pay close attention to interest rates and inflation. They can all impact on funding costs. Our banks access considerable funding from wholesale funding markets. There is market reverberations, geopolitical risk and anything that might affect the credibility of a bank. As I said, banks have to attract capital. They access capital so they can lend in markets. There are a range of issues that go to the risks that we look at.

Senator ROBERTS: I will go to one of those risks—negative equity. The Reserve Bank modelling at the end of last year suggested real estate prices will fall 20 per cent between their peak in 2021 and the end of 2023. What figure do you use for a fall in real estate values in your banking stress testing? I understand it's less than 20 per cent.

Mr Lonsdale: We do a variety of stress tests. I can't give you one figure. What I can say is that we actually model a greater impact on housing prices than the number you quoted.

Senator ROBERTS: What is the figure?

Mr Lonsdale: I can't give you that figure here. I'm happy to take that on notice, if you want.

Senator ROBERTS: Yes, please.

Mr Lonsdale: There are a range of factors that feed into the stress test too. It's not just impact on housing. The impact on labour markets is very important. Often when you think about stress tests, it's the duration that is actually important too. A range of factors feed into the stresses. I think it's important when you are talking about stress tests to APRA to realise that these are not forecasts in any way.

Senator ROBERTS: No. I understand that.

Mr Lonsdale: Our job—

Senator ROBERTS: They are 'what ifs'.

Mr Lonsdale: They are 'what ifs'. We want to make sure that the financial system is strong and resilient, which it is.

Senator ROBERTS: So bank deposits account for 60 per cent of bank funding. As the Reserve Bank drives up liquidity through interest rate rises and inflation, banks will have less funding from deposits. Is this going to put banks under funding pressure?

Mr Lonsdale: We watch capital very closely. Liquidity is also a very big metric that we look at.

Senator ROBERTS: What was that?

Mr Lonsdale: Liquidity is a very important metric that we look at. All banks of all shapes and sizes can access it if they wish to. The price of that funding has gone up a bit. Our banks are seen as very strong and very liquid. As we sit here before you, they do not have problems accessing funding in the market.

Senator ROBERTS: So 20 per cent of bank funding is short-term debt. Are you worried at all about this increase? It sounds like you're not?

Mr Lonsdale: Well, it is a metric. It's one of the most important metrics that we watch. I don't want to say that we're not worried about it. We're always worried about it. We're always worried about liquidity, capital, operational resilience and creditworthiness. There's a whole range of things. As we look at the figures today, our banks are very liquid.

CHAIR: Senator Roberts.

Senator ROBERTS: Last question.

CHAIR: We're behind time, so that would be great, thank you.

Senator ROBERTS: Banks could be facing a real live stress test in the near term that may cause serious funding issues for our banks. Will APRA guarantee that it will not order or allow a bailing in of depositors' funds?

Mr Lonsdale: Thank you. I think we've discussed this topic before.

Senator ROBERTS: We have.

Mr Lonsdale: I will make two points. We believe that the financial system is very strong, stable and resilient, as I say. We do a lot of things to make sure that is the case. In respect of depositors, our whole mandate is protecting depositors' interests, protecting insurance holders and protecting superannuation members. It's not borrowers or investors. It's superannuation depositors. We don't have a bail-in provision for depositors. I think—

Senator ROBERTS: When we moved a bill on that, Treasury—

CHAIR: Sorry, Senator Roberts. I'm afraid we're running out of time. I have just been advised that Senator Canavan has a final question or two. We are behind time.

Senator CANAVAN: Under the standing orders, we can keep asking questions. They are standing orders that you created.

CHAIR: I would appreciate it if you keep to time.

Senator CANAVAN: I will try. As long as there are no interjections and spurious points of order, we should be fine. Thank you, Chair. I want to go back to this climate vulnerability assessment. Is the document we're talking about the one dated 3 September 2021? That is all I could find on your website?

Mrs Rowell: There is a report of November 2022.

Senator CANAVAN: There is a new one. I googled it and couldn't find it. Could you table it? In the one you did in 2021, table 3 had a set of questions you asked. Is it to banks that you put those questions? They are qualitative questions.

Mrs Rowell: I don't have that report in front of me, Senator Canavan. I will have to take that on notice.

Senator CANAVAN: Did you do this work or was it someone else?

Mrs Rowell: We have a team of people that do this.

Senator CANAVAN: Your team did. It is table 3. They are qualitative questions, including in the climate vulnerability assessment. Does that ring a bell at all?

Mr Lonsdale: Senator, it's hard for us to respond to your questions unless we know what you're talking about.

Senator CANAVAN: I can table it. That's fine. Give me a second. I will put the question. I will try to find an email and send it to the table. Table 3 says the risk type is operational risk; you were asking about it. It wasn't very clear from reading your report who you asked this question of. The question was: have there been any climate related events in the last five to 10 years that have led to prolonged, which is more than three days, outages or loss of access to your firms' sites? My first question is: which firms did you ask this of? What is a climate related event? What did that mean?

Mr Lonsdale: Subject to your view, Chair, I think the most constructive thing is for us to try to ascertain the publication and then take the question on notice and come back with an authoritative, clear response.

Senator CANAVAN: I really am struggling to understand why you can't answer these very simple questions about your own work.

CHAIR: It is appropriate for you to take the question on notice.

Senator CANAVAN: That is fine. He is allowed to take the question on notice. I am also allowed to comment on the remarkability of something central, something you put in your opening statement.

CHAIR: You are able to ask questions.

Senator CANAVAN: You referred to the climate vulnerability assessment, not me, and you can't answer simple questions about it.

CHAIR: Do you have a question?

Senator CANAVAN: What I am really getting to here is you have asked people whether climate related events caused an interruption to their business for three days or more. Does this include a cyclone going through? Is that a climate related event, in your definition?

CHAIR: Senator Canavan, I am allowed to chair, and I'm generally pretty respectful of people's contributions.

Senator CANAVAN: Well, I don't feel that has been the case today, but go on.

Senator Gallagher: Your behaviour has been out of order.

CHAIR: I find that interesting.

Senator CANAVAN: I'm sorry. There are constant injections from the other side and then they have the gall to say, 'Show respect.' But you have been the one interjecting.

CHAIR: Me?

Senator CANAVAN: We have not done any of that today.

CHAIR: Me?

Senator Gallagher: Senator Canavan, I have never seen you behave this way. There is something unhinged about your behaviour today. It has been very disrespectful to APRA. It's something that the Senate should consider.

Senator CANAVAN: Sensible questions can't be answered and then there is your claimed defence of them. Chair, were you going to make a point of order?

Senator Gallagher: That's not true. Questions were taken on notice, which is a longstanding practice of the estimates committee.

Senator CANAVAN: And I said they are allowed to do that.

Senator Gallagher: They are. But then they're not to be harangued or patronised or shouted at, which is how you've been behaving.

CHAIR: It is appropriate that the question be taken on notice. You're asking, I think, the same question over and over again. It has been put on notice. If you have something different to ask respectfully, you can ask it.

Senator CANAVAN: No. It was a very different question. I'm still waiting for an answer with regard to what is a climate related event in this survey, in your assessment of climate vulnerability.

CHAIR: In relation to this research, I understand that these questions have been taken on notice.

Senator CANAVAN: You are running interference.

CHAIR: I am clarifying.

Senator CANAVAN: I will just keep going, Chair. I will just keep going. Honestly, this is a very simple question. Does a climate related event in this vulnerability assessment include any storm or cyclone that has an interruption of three or more days on a business?

Mrs Rowell: I would imagine it does. However, I would like to confirm that, please.

Senator Gallagher: It would also be useful if we could have the document, if you are going to continue on this path, Senator Canavan—

Senator CANAVAN: I'm happy to wait. We'll just have to wait.

Senator Gallagher: instead of asking questions about a document that is not provided in emails. It should be provided before we actually continue with this line of questioning, if that is what the committee is asking.

Senator CANAVAN: Let's wait. I'm just sending it to them. On the evidence I've got now, you are assessing Australia's climate vulnerability or businesses climate vulnerability by reference to any storm, cyclone or any other weather event that causes a three or more day outage as a climate related event. If we are doing an assessment of climate change, surely you have to have a baseline of cyclones, storms and other disasters that have affected Australia for thousands of years. How can you justify this as a sensible assessment of climate change risk if you are not differentiating between what storms and cyclones would just be happening anyway and what are actually caused by anthropogenic carbon emissions?

Mrs Rowell: I'm not sure I would characterise the way we've approached the climate vulnerability assessment the way you have, Senator. What we have asked the banks to do is to take a number of assumptions about physical risk impacts that will occur over the period between now and 2050 and transition risks et cetera, using data that has been provided by a number of reinsurers, the CSIRO, the NGFS and others in liaison with the Reserve Bank. So a combination of financial, climate and other data points has been used to do the modelling between now and 2050 to assess the impacts of physical transition and other climate related risks to their lending portfolio.

Senator CANAVAN: So in assessing climate vulnerability, do you think it's essential to separate out weather events that are linked to carbon emissions or could be linked to carbon emissions compared to weather events that may just happen anyway, regardless of how much carbon emissions are emitted?

Mrs Rowell: The purpose of the assessment was to understand the changing nature of risks over time and the impact for banks on their lending. I think there will be a number of drivers of those changing physical risks and other risks over time that are relevant. It's really looking at relative scenarios as opposed to anything else, Senator.

Senator CANAVAN: What is being said and discussed in the media, and certainly in discussions I have with financial institutions, is that your work is directing them to look at climate change, as we would colloquially think of it, as the increased risk of natural disasters associated with anthropogenic global warming. That's the risk they are identifying. From what I am hearing from you, the actual work you are doing in the climate vulnerability assessment is simply the risk of weather events in the broad, not the risk to do with anthropogenic global warming at all. How is your work isolating the impacts of anthropogenic global warming, which is, as I say, what everybody else thinks you are saying in this work? It doesn't seem to match up with the work you are actually doing.

Mrs Rowell: The difference between the scenarios reflects, I guess, the changing of risk depending on what the responses are and what the assumptions are about how risk changes over time. That allows us to look at those differences and other stakeholders to look at those differences.

Senator CANAVAN: Do you have a model? Is there a spreadsheet or code behind this work in any way?

Mrs Rowell: We took scenarios from the NGFS and other modelling and data. We provided it to the banks. The banks have their own models that they have used.

Senator CANAVAN: So you don't have the models?

Mrs Rowell: We don't have the models.

Senator CANAVAN: You just take the information from them?

Mrs Rowell: The banks have done the modelling.

Senator CANAVAN: Did they provide the modelling to you?

Mrs Rowell: They provided the outcomes of the modelling to us.

Senator CANAVAN: Not the modelling?

Mrs Rowell: Not the modelling.

Senator CANAVAN: So you haven't been able to assess that or check it?

Mrs Rowell: We have had engagement with them in terms of how they've approached the modelling and to understand some of the differences in approach. There was some variability of results across the different banks. It was about understanding the drivers of that difference. You have to appreciate, Senator, that when you are talking about modelling out to 2050 using risks that are changing and not necessarily based on historical information, it's quite difficult and challenging to do, and there is a degree of uncertainty. That needs to be considered when assessing the output from the work.

Senator CANAVAN: Well, I remain unconvinced about exactly what you are doing or what impact it has and whether it is at all meritorious. As I said before, your statements are putting a lot of red tape and risk into our financial system. It is impacting businesses and industries in my area. Your statements are often very unhelpful. You have not at all outlined in plain English here what you are actually doing and why you're doing it. Thank you.

Senator WHISH-WILSON: It affects everyone.

Senator CANAVAN: Everybody. It employs people. It's pretty important. It employs thousands of people. You should come and visit it some time. It's making massive money for the country. It is helping all our—

CHAIR: Gentlemen.

Senator Gallagher: It's not gentlemen.

CHAIR: Senator Whish-Wilson, please don't—

Senator Gallagher: It's not a floor for aggro blokes to have a chat across the chamber.

CHAIR: I agree. It appears that—

Senator Gallagher: Mr Lonsdale would like to provide something on the record.

CHAIR: Thank you. It appears that Senator Canavan has concluded his questions. We welcome you putting something on the record, Mr Lonsdale.

Mr Lonsdale: I would like to thank the senator for his questions. He is obviously very interested in the climate vulnerability assessment. We will come back with a very comprehensive answer. The next time we appear, we look forward to another discussion.

Senator ROBERTS: Can I get a copy of that, please?

Mr Lonsdale: It is public, Senator. It is dated 29 November last year.

Senator ROBERTS: I missed the last comment that Mr Lonsdale made in response to my previous question about whether APRA will guarantee that APRA will not order or allow a bail-in of depositors' funds.

Mr Lonsdale: We do not have a bail-in power for depositors' funds, Senator.

Senator ROBERTS: The Treasury official that came to my office said you do.

CHAIR: Thank you, Senator Roberts. That concludes the questions that we have for APRA. We very much appreciate your attendance here today. I can only express my regret as the chair for the nature of the discussion today. I have not experienced anything like it. I thank you for your patience. Again, thank you for answering our questions. You go with our thanks. Thank you.

Mr Lonsdale: Thank you, Committee.

Australian Competition and Consumer Commission

[15:06]

CHAIR: The committee now welcomes representatives from the Australian Competition and Consumer Commission. Welcome, Ms Cass-Gottlieb. Would you like to make an opening statement?

Ms Cass-Gottlieb: I would, thank you very much, Chair. Good afternoon, Chair and senators. As I attend to the nation's capital to account for our work, I acknowledge the Ngunnawal people, the traditional owners and custodians of the land where the Australian parliament sits. I pay my respect to them, their culture and elders past, present and future. Since our last appearance before this committee in November last year, the ACCC finalised and published our latest reconciliation action plan. The plan talks to our commitment to ensure employment

opportunities and development support for our First Nations employees through to our connection with First Nations consumers and prioritisation of action to address conduct that may often have a disproportionate effect on them. We are proud to support our First Nations employee network, Mipla Tunapri, comprising two words from Aboriginal and Torres Strait Islander languages, meaning we or us and to give knowledge and understanding. Just as we benefit from listening to and being influenced by our colleagues in Mipla Tunapri, I noted in my forward to our rap an ambition to elevate this influence by enhancing Aboriginal and Torres Strait Islander voices within our agency and our work. I look forward to sharing progress in this area with the committee in future appearances.

The ACCC is very pleased to be here with the committee. Today I am joined by ACCC CEO Scott Gregson and members of our senior management team both in person and virtually. It has been an interesting and significant first year in my role as chair and agency head. I'm very grateful for the dedication, hard work and support of our highly capable team and the senior leaders right across the ACCC. I would also like to take this opportunity to pay tribute to former deputy chair Delia Rickard, who departed the agency a few weeks ago. We're very grateful to have had her passionate leadership, expertise and 10 years of service at the ACCC, prior to that at ASIC and otherwise in the Commonwealth Public Service. Newly appointed deputy chair Catriona Lowe is continuing the tradition, you will be pleased to hear, of strong and forthright consumer advocacy, including in the important area of scam deterrence, by making Australia a harder target for scammers. The ACCC's remit is diverse and extensive.

CHAIR: Ms Cass-Gottlieb, given that your opening statement now goes into operational detail about the ACCC and we have copies, would it be acceptable to you if we tabled this?

Ms Cass-Gottlieb: Absolutely.

CHAIR: We have it here on the committee tables. We will move to questions, especially since you've just been able to recognise your staff in your opening comments.

Ms Cass-Gottlieb: Thank you. That was an important part of it. I'm very happy to move to questions.

CHAIR: Thank you very much.

Senator McDONALD: Thank you very much, Chair. Thank you for your opening statement. It is quite detailed and it's great to have the opportunity to read through it. I have some questions. Following the introduction of the gas price intervention, it took the ACCC nearly a month to release interim guidance to the industry on how to comply with the new set of rules imposed by the government. How long will it take for the ACCC to finalise their guidance to industry?

Ms Cass-Gottlieb: It is correct. We issued the guidance on 17 January after the introduction of the order on 23 December. We were consulting. We did also have some time for the Christmas season holidays. We have since that time engaged with industry. As we indicated, those interim guidelines reflected our approach to investigate and enforcement. We were wishing to obtain comments on the practical application and the way in which to make it as clear as possible. We have already written to the main producers, including the Queensland LNG ventures, who had given us a range of feedback in relation to the guidance. Where clarification is of assistance, we have already indicated the areas that we will provide clarification in. We have given them a further opportunity to raise any other questions. We will then move promptly to issue an updated guidance. I'm not going to call it a final guidance. We're seeking to keep abreast of practical application and to make sure that it is clear in its application.

Senator McDONALD: Thank you. So the interim guidance will be updated through written or verbal updates?

Ms Cass-Gottlieb: It will be provided in letters. There will be written clarification. We will update the guidance. As I just said before, I don't think we'll call it final because it actually is going to keep developing as industry experience and our experience is informed. However, we will indicate that it is updated as of a certain date.

Senator McDONALD: Could I ask that the letters that you have provided to industry be tabled, please? It is the letters that you have referred to with the updates on guidance.

Ms Cass-Gottlieb: Yes. We will provide the letter we provided to the industry association, APPEA, which did not have the individual producer names but has exactly the content of the update that we gave to the industry.

Senator McDONALD: Thank you. How many times have updates or clarifications been provided to companies?

Ms Cass-Gottlieb: To date, once, on that occasion.

Senator McDONALD: And that included requests for clarification of the guidance?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: That is what you are going to provide me on notice. How frequently do you think you will be having to update that guidance?

Ms Cass-Gottlieb: We are hopeful that we have addressed the main area that was raised with us, which was in relation to the examples concerning the treatment of take or pay. We have received oral feedback in meetings that has addressed the concern and lack of clarity that was raised in relation to the letter we sent. If we do not shortly receive further commentary about other areas, we will move to do that updated as the particular date guidance. I do not expect to do more unless and until we have other matters raised with us.

Senator McDONALD: Minister, how can the industry positively engage with government and regulators when they only have a 10-page pamphlet that the ACCC has called 'interim guidance' almost two months after the passing of the government's legislation?

Senator Gallagher: I think there has been significant engagement with industry right throughout, not just in the last two months but since we came to government, on a whole range of matters relating to the operation of the energy market.

Senator McDONALD: I'm looking for engagement on this specific issue, given that we know that take-or-pay contracts were put on hold whilst industry tried to understand what their obligations were being mindful of the penalties.

Senator Gallagher: So what is your criticism?

Senator McDONALD: No. My question is: do you think that the 10-page guidance that the ACCC has provided as interim advice has been enough for them to continue to positively interact with the government?

Ms Cass-Gottlieb: I have some factual responses that might assist. We have had confirmation from two producers—I don't think it's appropriate in terms of confidentiality to say whom—that the clarification that has been provided has allowed them to progress to close, subject to relevant commercial steps but not in any way relating to guidance to close major contracts, and to continue to conclude the process that has been underway in terms of an expression of interest to offer contracts pursuant to the cap.

Senator McDONALD: So two producers have confirmed that they are now able to sign contracts?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: How recently?

Ms Cass-Gottlieb: In the last 10 days.

Senator McDONALD: That has been a matter of some discomfort to manufacturers who've not been able to secure signed contracts for the last two months while they waited for producers to have clarity on the guidance that you were providing.

Ms Cass-Gottlieb: Negotiations continued. However, we were keen and met frequently in order to remove any concern about lack of clarity.

Senator McDONALD: I note the last-minute release yesterday of an answer to a question on notice SBE050, which was due on 16 December—61 days ago—listing stakeholder contact regarding proposed changes to the voluntary code of conduct and other gas interventions. Was there a reason for this long delay in responding?

Ms Cass-Gottlieb: I don't believe so. I can check. I'll ask our CEO.

Mr Gregson: My understanding is the ACCC, as it does, completed its responses some time ago. We'd have to make further inquiries as to the timing of provision to the committee.

Senator McDONALD: Thank you, yes. The due date was 16 December, and I received it yesterday. What specific changes to the voluntary code of conduct were discussed?

Ms Cass-Gottlieb: Those initial meetings had particular focus on the emergency price cap. The matters, at a broad level—and I'm going to refer to ones that have been commented on in public because I want to maintain the confidentiality of the specific individual meetings—that have been raised, referencing in public, have particularly focused on the intended reasonable pricing framework in the code.

Senator McDONALD: Was the code mandatory discussed? This is during the voluntary code of conduct consultations.

Ms Cass-Gottlieb: During the voluntary code of conduct consultations? Those were previously.

Ms Proudfoot: Those were run through APIA and the sector because they were developing the voluntary code. Any discussions we had were subsequent to the request from the Treasurer that we look at making the code

mandatory, and I think we started that work in October. That was to build on the voluntary code as it was but also to strengthen it by making it mandatory and to put penalties in place.

Ms Cass-Gottlieb: The second element that arises, as seen in the public commentary, is the question of compulsory arbitration, which is made mandatory through the mandatory code.

Senator McDONALD: When was the ACCC's advice on the development of the code provided to the Treasurer?

Ms Cass-Gottlieb: We are in the process of engaging with the DCCEEW and Treasury consultation on the code. The advice that had been provided in the lead up to the consultation paper, which was issued on 9 December, was summarised and made public by Treasury when that consultation paper was made public. Currently, we have not provided any written advice. We are in association with, in parallel with, the DCCEEW and Treasury consultation process in relation to the mandatory code, having consultation with industry participants.

Senator McDONALD: How many gas producers do we have operating in Australia?

Ms Cass-Gottlieb: I think it is 90-something but I will check the exact number.

Senator McDONALD: As an expert in the gas market and expert enough to advise government on extreme interventions and oversee a proposed code of conduct and pricing provisions, I am asking if you have a complete list of the industry participants.

Ms Cass-Gottlieb: We do.

Senator McDONALD: I want to ask you about consultation with that industry. How many of them have been consulted as part of this process?

Senator Gallagher: Do you mean over the consultation process?

Senator McDONALD: I am talking to the chair but, Minister, if you are happy to answer it.

Senator Gallagher: I am trying to follow as well.

Senator McDONALD: I mean in regards to the consultation on the mandatory code.

Ms Cass-Gottlieb: The ACCC has met on a series of occasions. In the course of October November, we listed the number of those consultations in the response. That was broad and was conducted by members of staff. I do not know exactly the number who were consulted. In this past period, we have had meetings with approximately eight, being the parties that are both the largest providers and the parties with the most available gas to supply in the short term and also the parties that approached us interested to put submissions in relating to incentives for future supply.

Senator McDONALD: And small producers as well? I am trying to understand if this was a good representation of the industry.

Senator Gallagher: I'm trying to be helpful with information you might want. DCCEEW and Treasury are leading the consultation. The consultation window closed on 7 February. Treasury and DCCEEW received 59 submissions through that process and are reviewing them. Submissions were from 37 businesses, including: 20 producers, four retailers, one producer retailer, seven users, two bioenergy, one gas pipeliner, one input terminal, one investor; and 13 industry bodies including four gas sector/energy bodies, six users, five governments, three academic think tanks and a union—just to give you a snapshot of the submissions that have come in.

Senator McDONALD: I am struggling to follow this because Treasury this morning said that the ACCC and DCCEEW were leading the consultation but now the ACCC are saying that they are not leading the consultation. I don't want to wait until Treasury comes back to then be told I'm directing my questions to the wrong place.

Senator Gallagher: I think parts of Treasury will be able to answer some questions later this afternoon.

Senator McDONALD: But they have already told us this morning that they can't.

Ms Proudfoot: If I may, Treasury released a consultation paper that commenced the consultation through December. That initially had a rather short time frame for the price cap mechanism that was introduced on 23 December. The ongoing consultation that went through until the seventh was to look at the package as a whole, including the code. DCCEEW is the department that is leading the development of the code with ACCC input, particularly around the reasonable pricing framework, arbitration and what that will look like, so it is a holistic consultation that a number of government agencies are involved in.

Senator WHISH-WILSON: Has the ACCC received any representations in relation to potential breaches of the Trade Practices Act or abuses of market power in relation to fisheries quotas or more broadly?

Ms Cass-Gottlieb: I'll say not to my knowledge. However, as it may have predated me, I will ask the CEO.

Mr Gregson: We are obviously sensitive about some matters that may or may not be under investigation. I think it is best to hand this to Melinda McDonald, who is on the video screen. She's the general manager of competition.

Ms McDonald: As Mr Gregson has said, we don't often comment on ongoing investigations. What I am able to say in this forum is that we do have an investigation in relation to that issue just generally, but I am not able to provide more details at this point in time.

Senator WHISH-WILSON: That was going to be my next question because my first one was just whether it you had received representations. There are a couple of historical examples I can find where the Treasurer has asked the ACCC to do a broader inquiry into industry matters that are not necessarily around an allegation of a potential abuse of market power, such as the perishable agricultural goods inquiry in August 2020 and the 2008 examination of fertiliser prices. Is it common to do broader holistic analysis? Does the Treasurer get representation? Perhaps Senator Gallagher might know this: Does the Treasurer get representations from other ministers to look at areas like fisheries or agriculture, or does it get triggered some other way?

Ms Cass-Gottlieb: The Treasurer has the power under what was previously the prices surveillance part of the act to direct the ACCC to investigate structures in industries relating to prices, costs, margins, services provided. That direction has been used across quite a wide range of sectors, a number of agricultural and resources related, a number of petrol, gas, retail electricity, the stevedoring supply chain. They arise in a number of different ways to our observation, sometimes following Productivity Commission reports which have identified areas of concentration or concern, sometimes flowing from matters that the ACCC has investigated, where the government has considered that it should be looked at more broadly and otherwise some come from within government. But they are the ones where we see the genesis, I suppose.

Senator WHISH-WILSON: The rural and regional affairs committee recommended a broader inquiry into fisheries quotas outside of any potential allegations of abuse of market power. Minister, would you be able to confirm if there have been any discussions with the agriculture minister or his department in relation to responding to the Senate inquiry?

Senator Gallagher: I will have to take it on notice. Obviously, there is deep engagement across portfolios that the Treasurer would be engaged with. Perhaps it is best for the committee that I take it on notice to see what I can do.

CHAIR: Senator Hanson-Young.

Senator HANSON-YOUNG: Last time we were here I was asking about the greenwashing work that you've embarked on. You did talk about a greenwashing sweep. I'd like to know if you have any further details that you can share as to the results of that and where that is up to, and whether we've had any advancement on the criteria issue.

Ms Cass-Gottlieb: Yes. The sweep commenced on 4 October and concluded on 14 October. As to the industries that we particularly thought warranted more careful attention flowing from that, we looked at cosmetics and personal care, textiles, garments, shoes, and food and beverages with the highest proportion of potentially misleading environmental claims.

To give you some new information, it identified several problematic trends: the use of vague and unqualified claims, including businesses using terms such as 'eco-friendly' or 'sustainable' without any specificity or clarification as to what the backing was for such a claim; the overall lack of substantiation provided by some businesses; and the use of strong absolute claims that may be very difficult, in fact, to substantiate—such as '100 per cent recyclable'. There was the use of unhelpful comparisons—for example, stating that a product uses less materials than something, but not even being clear about what it's being compared to and without stating how much less was used. There was also the overstating of benefits, or omitting relevant information about negative environmental effects; making broad aspirational claims without information about how this would be achieved; the use of third-party certifications in an unclear way; and the use of symbols that appear to be trust marks but are not.

We anticipate publishing a sweep report in March that will show the key observations that we have made from that. Then we are going to move to use that report and what we have seen—first, to provide guidance—in the second quarter of this year. Then, where we see particularly concerning conduct that meets our strategic review of ones that have a strong likelihood of consumer harm, we will also take that further into an investigation enforcement consideration.

Senator HANSON-YOUNG: You mentioned third-party certification as one of the issues. Does that include Climate Active?

Ms Cass-Gottlieb: We have received a few complaints—and, particularly, one very extensive and detailed complaint—and concerns in relation to Climate Active. We are considering both that complaint and others that we've received relative to Climate Active. We are also ensuring that—together with other relevant regulators, such as ASIC and the Clean Energy Regulator—we have a consistent approach to assessment where there is this intersection of a government scheme with voluntary schemes, and, in addition, private-sector claims in relation to products.

Senator HANSON-YOUNG: I got this bottle of water from downstairs at the cafe here in Parliament House. 'Certified carbon neutral'—the logo on this is bigger than even the name of the company or the brand that has made it, which suggests that they want you to buy the bottle because it says 'certified carbon neutral'. Now, when you roll it over you see the certification is from Climate Active, the government's own certification scheme. I clicked through—it says, 'Scan here to find out more,' so I followed the links—and there was an asterisk at the very bottom of the website that said: 'excluding the label and the cap'. I'm assuming the water is real; it's not gin or vodka! My point here is that this is an extraordinarily brazen attempt of greenwashing, to me. I'm concerned that the third-party certification is actually federal government certification. There's a crossover here. How do we unravel this?

Ms Cass-Gottlieb: We stood up a sustainability task force within the ACCC in December last year so that we would have a group who would bring a dedicated and clear approach and build expertise, because it is clear to us, as it is clear to the community, that investigation and enforcement action here is required to be clear and to be well-founded for us to have strong scientific and detailed supporting material and evidence, so that we also take the actions that then meet the required judicial standard. We are taking the nature of these claims, such as what you're pointing to there, very seriously.

We have our task force together with our enforcement teams, consumer and competition, looking very closely at them. Some are voluntary schemes; this is a government backed scheme. We have taken up a role where we wish to build what we can see in a factual and evidentiary way to provide advocacy to the parties within government who set rules for such schemes in order to test other rules meeting the objectives that they are in place for. We are going to have a broad response. It has to be strongly supported with the best possible expertise, and we will then decide and have a mixture of investigation, enforcement and advocacy to achieve change.

Senator HANSON-YOUNG: Thank you. You would be aware that, in December, the environment minister, Tanya Plibersek, attended the COP15 conference in Montreal and signed Australia up to that pact, effectively—to that biodiversity framework. There are two specific commitments that the Australian government has agreed to—Nos 15 and 16—that deal directly with greenwashing. Have you had any conversations with the environment minister about what those obligations now mean and what laws will need to be put in place? The fact that you can claim to be carbon neutral, asterisk or not, seems to me ridiculous in the modern world, and it should be illegal. You shouldn't be able to claim that you are environmentally friendly or that you're carbon neutral unless in fact you are.

Ms Cass-Gottlieb: There are two parts to my answer. The first is the reason that we have put this task force together. The leader of the task force, Tim Grimwade, is sitting here, and he is a very experienced member of the ACCC. He has had responsibility for many years in product safety as well, which is an area bringing a similar combination of commitment to the protection in areas where consumer trust is very high and reliance is very high, and where we need a very strong science and evidence based background. The reason we're doing so is because we want our task force to be able to engage with the relevant parties within government and also within other agencies so we have a consistent approach.

Senator HANSON-YOUNG: Perhaps Mr Grimwade would be able to answer this question for me, then. Have you had any meetings with the environment minister or, indeed, the climate change minister in relation to this topic of greenwashing since the task force has been established?

Mr Grimwade: No, the task force was only just established in December. We're still putting together some final members of the group. We're developing our work plan, and, whilst we've had some discussions internally with the commission about what we intend to prioritise, a formal work plan is yet to be delivered to the commission in the next few weeks. We're a little bit away from, I think, having discussions with the environment minister.

CHAIR: Do you have a final question or two, Senator Hanson-Young?

Senator HANSON-YOUNG: Yes, I do. I'd like to go back to the issue of Climate Active, which is the government's certification program, which clearly isn't working. Are you aware of the allegations made and aired in the *Four Corners* report on Monday, and will you be looking at those brazen breaches?

Ms Cass-Gottlieb: We received a very detailed submission from the Australia Institute that I think they have made public, which traverses those topics and has more detail about their concern in relation to the intersection of the government scheme and private sector action.

Senator HANSON-YOUNG: You did mention that you had had other complaints about the Climate Active scheme. Would you be able to tell me if you've got before you now the number of complaints you've received? Otherwise, I'm happy for you to detail them on notice.

Ms Cass-Gottlieb: We will take the number on notice. What I can indicate in terms of the nature is that it is not only about looking at the overall framing of the scheme; we also do have issues that have been put before us in terms of the question of double counting and the manner in which there is actually integrity behind the way such schemes are used and implemented.

Senator HANSON-YOUNG: Yes, and when we talk about double counting and this particular scheme we're talking about offsets.

Ms Cass-Gottlieb: Yes.

Senator HANSON-YOUNG: And dodgy offsets.

Ms Cass-Gottlieb: As alleged, yes.

Senator HANSON-YOUNG: Thank you, Chair.

CHAIR: Senator McDonald.

Senator McDONALD: Has the ACCC engaged with independent or nongovernment consultants or analysts on gas intervention policy?

Ms Cass-Gottlieb: We have retained independent economic consultants and an industry consultant.

Senator McDONALD: Do you have the names of those organisations or businesses, please?

Ms Cass-Gottlieb: So the economic consultancy is Frontier Economics, and we have on secondment an experienced lawyer who has worked in the industry for a number of years.

Senator McDONALD: As a contractor, not as a—

Ms Cass-Gottlieb: Yes.

Senator McDONALD: Has the ACCC engaged with EnergyQuest or MST Marquee?

Ms Cass-Gottlieb: No, but we have read what they have said publicly and also the submissions that they made to the Senate select committee cost-of-living inquiry.

Senator McDONALD: Terrific, because that's what I wanted to ask you about. In the recent Senate committee on the cost of living, EnergyQuest told the committee that, in order to reduce energy costs:

... we need to support LNG import terminals, as Europe has done, for when things don't go to plan, but these terminals are not viable with a price cap of \$12 a gigajoule. Thirdly, we need to facilitate investment in gas supply infrastructure which fills the gaps before renewables can do the job.

I'm assuming that you're aware of those comments, having read the submissions?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: What is the government doing to address these recommendations from EnergyQuest? Have you provided advice on that?

Senator Gallagher: I don't think that that's a matter for the ACCC, but I think the government has been clear that we see gas as an important, essential firming fuel on the transition to more renewables in the energy system. So I think we've been clear on that.

Ms Cass-Gottlieb: One thing I think is worthwhile to add is that the ACCC January gas report did suggest, on the basis of the demand forecasts of AEMO and the supply forecasts we received from producers across the east coast, that there is a need for continued investment in new supply in order to meet the demand forecasts, where the demand forecasts include export commitments and domestic commitments as currently forecast. Over time, with the transition to greater electrification and renewables, that demand may, as would be hoped for and expected, reduce. However, there will be the transition time, which is considered in the report. In addition, there will be some C&I customers for whom their manufacturing process is not capable of electrification and also a need, as Senator Gallagher was referring to, for a reliance upon gas for firming capacity.

Senator McDONALD: That point on avoiding a gas shortfall provided in the January report had two recommendations on increasing domestic supply and infrastructure pipelines and storage; is that correct?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: How do those recommendations differ from those in the July interim report released last year?

Ms Cass-Gottlieb: They are in line with recommendations that were made in July and prior to July across a number of years spent considering where the barriers were to making more efficient use of fields that are already in development and have environmental approvals to date. Entrants have approvals and are adjacent to existing fields so that there is an efficient use of existing infrastructure, rather than requiring additional infrastructure.

Senator McDONALD: Minister, is the government aware of the delays and uncertainties facing at least two proposed LNG terminals—EPIK and Viva?

Senator Gallagher: I'm sure the relevant ministers would be.

Senator McDONALD: Following on from the ACCC's recommendations last July and then again in January, what is it that the government is doing to incentivise additional direct supply and the relevant infrastructure for gas for the domestic market?

Senator Gallagher: I imagine these questions are best put to those ministers and their portfolios who have responsibility for that, but I can say overall that we, as a government, support new gas supply coming online as long as it meets the necessary environmental approvals and other approvals that are needed for it to be, of course, commercially viable.

Senator McDONALD: Thank you, I will keep those questions for tomorrow then. Ms Cass-Gottlieb, in that same committee, Mark Samter from MST Marquee told the hearing:

Gas is everywhere in the economy, and frankly the decisions that have been made with the intervention, in my view, categorically will lead us to shortages that lead to very uncomfortable decisions on how you resolve them.

Minister, in light of the ACCC's forecast gas shortfalls, other than the proposal to potentially break long-term supply contracts with our regional allies, has the government begun to plan out how it will resolve widely expected gas shortages?

Senator Gallagher: Again, that's probably a question for the relevant department and portfolio minister. I know that there are a number of ministers involved, actively working together to ensure supply, as we've been doing. We walked into shortages and a gas crisis at that time, and we've been dealing with it since. I think the government showed on its record over the last seven to eight months what it's prepared to do and the work that's needed to be done. We've had to take action to deal with the untenable increases in prices that we were seeing.

Senator McDONALD: Is that action with price intervention the action you're referring to?

Senator Gallagher: There have been supply responses as well as the caps that were agreed on and announced in December. So I think you can see that we are actively engaged in this policy space along with the Powering Australia plan, which is dealing with creating the energy system we need for the future. So I think on any level, with any minister, whether it be Minister Bowen, Minister King, Minister Husic or the Treasurer, you can just see how hard people have been working in this policy space.

Senator McDONALD: Thank you, Minister. I'm staying well away from energy topics because I appreciate that's for different estimates hearings. What I am specifically looking for is: what has the government been doing to bring additional gas supply to market? The ACCC's advice is that there will be a shortfall of 30 petajoules and there will be shortages in 2027 and out. So the specifics that I'm trying to look for are on gas supply.

Senator Gallagher: The government takes those reports seriously, and we'll be aligning responses. But it is not the Treasurer's portfolio responsibility on its own; it engages a number of different ministers, and that's what I've been saying. I don't think after nine years of delay and lack of—

Senator McDONALD: Minister, I appreciate that you want to keep talking about the past.

Senator Gallagher: Well, because it informs the present, to be honest.

Senator McDONALD: But you have been in government for nine months.

Senator Gallagher: The lack of action in the past informs—

CHAIR: Let the minister answer the question.

Senator McDONALD: The minister has done this already today in response to a question.

Senator Gallagher: Well, to be fair, you can't control my answers. You ask loaded questions.

Senator McDONALD: No.

Senator Gallagher: You do.

Senator McDONALD: This is not loaded.

Senator Gallagher: You do, and then I'm responding and saying that part of the present response, the response that we've had to do on a number of fronts—whether it be Minister King, Minister Bowen or the Treasurer—has been impacted or influenced by the lack of action of the previous decade.

Senator McDONALD: Then what are the supply solutions this government is bringing? I can list what happened under the coalition to bring supply to market, but since—

Senator Gallagher: Except you didn't, did you?

Senator McDONALD: Since you have been in government you have cut funding to those portfolios. You've cut funding for gas basin plans, for research and for the Beetaloo and the Cooper-Adavale region. These are all plans this government has cut.

Senator Gallagher: Where they lacked information, when you splashed cash around without proper business cases and detail underpinning that spending, yes, we are having a look at it. That is absolutely clear.

Senator McDONALD: So what are you doing to replace that agenda to bring more supply to market?

Senator Gallagher: I have explained that those questions are best put to the portfolio departments and ministers with responsibility for that. I have explained that the number of ministers—

Senator McDONALD: I will do that.

Senator Gallagher: Well, that is my answer.

Senator McDONALD: I am just saying we have the ACCC—

Senator Gallagher: We are taking it seriously. We have the ACCC's report and we look at the Integrated System Plan when AEMO releases it. There's a range of information coming to government, and I can tell you what we're doing: we are working on all of it, which is in stark contrast to the approach taken by the previous government, which has left us in this situation we find ourselves in now.

CHAIR: Senator McDonald, will this be your last question in this block?

Senator McDONALD: It will be, thank you. Minister, could you provide some guidance on the Treasurer's decision-making on allocations of gas in the case of a shortfall. That was part of the legislation and regulations introduced in December?

Senator Gallagher: Sorry, could you ask me that question again. I'm not sure I understood it.

Senator McDONALD: Can you provide guidance on the Treasurer's decision-making on allocation of gas in the case of a shortfall?

Senator Gallagher: Can I provide guidance on the Treasurer's decision-making?

Senator McDONALD: The decision-making tree. How will the Treasurer make decisions on the allocations of gas? This was an introduction in the last year, and in the case of a shortfall the Treasurer will make decisions on how that is allocated. So if gas is—

Senator Gallagher: Are you talking about work that's subject to the consultation process?

Senator McDONALD: No, I'm not.

Senator Gallagher: Well, I'm sorry. I'm not across this detail, so it's probably best that I get an answer for you on notice, because I don't fully understand the question you're asking.

Senator McDONALD: Thank you. On notice, could I ask that we understand how the Treasurer will make decisions on allocating gas in the case of a shortfall? Will he be making decisions around manufacturing versus homes and around gas-rich states like Queensland versus Victoria, which doesn't produce gas? What will be the decision-making tree? That's what I am trying to understand.

Senator Gallagher: I think avoiding the shortfall is the first policy response that the government will work on, as it has done and did last winter. But, yes, we will take that on notice if there is anything further I can add.

CHAIR: Thank you, Minister. Thank you, Senator McDonald. I note that we're starting to move towards a break, so I propose that we go to five-minute blocks now. I'll go to Senator Stewart.

Senator STEWART: Nice to see you again. I want to thank you for your commitment, particularly to First Nations consumers in your area. One of the questions that I have relates to scams and fraud. We know that First Nations communities are particularly vulnerable to scams and fraud, including some of my own family, who have

been subject to them in recent months as well. How much are Australians losing every year to scams and fraud, and what cohorts are particularly vulnerable?

Ms Cass-Gottlieb: Thank you, Senator. Our last report put together not only the Scamwatch data but also data reported to banks and other agencies, and we issued it in July last year. We had a figure of \$2 billion, and we thought that was likely to be an underestimate. That was for the full 2021 year, looking across all. We thought that was an underestimate because we know that many people are so ashamed of being scammed that they don't report to any agency or any party. We do have our own ACCC Scamwatch data for 2022. Between 1 January and 31 December 20, ACCC Scamwatch received 239,259 scam reports, with \$569.5 million reported lost. In terms of the figures reported to ACCC Scamwatch, the reason the other was \$2 billion was that it looked at those cases referred or reported to banks, exchanges and other law enforcement agencies. But, looking at the data reported to the ACCC Scamwatch, that was a 75.9 per cent increase in losses compared to the year before, so it was a very significant increase in losses compared to the year before.

Senator STEWART: Seventy-five per cent?

Ms Cass-Gottlieb: A 75 per cent increase. If it were correct that all other reporting agencies had faced that, you would see a significant increase from the \$2 billion. We are going to issue the cross-agency report earlier in the year than last year. We hope to do that in the coming months rather than waiting until the middle of the year where we have brought all the data together.

On the question of groups that are disproportionately affected, we find that members of our community who face disadvantage or experience vulnerability are disproportionately impacted by scams. That includes the older members of our community. It also includes culturally and linguistically diverse members of our community and First Nations members of our community.

Senator STEWART: You mentioned that there is likely to be underreporting of people who have experienced scam or fraud.

Ms Cass-Gottlieb: Yes.

Senator STEWART: Do you know what the difference is between what you know to be the figure now and what you think it might actually be? I have another question about why you think people are underreporting. I have some guesses, but it would be good to hear from you about that.

Ms Cass-Gottlieb: I will see whether Scott and Rami feel we have a good basis to estimate what it would be once we took it all into account.

Mr Greiss: I understand that there have been estimates that only about 13 per cent of losses are reported. Of course, no-one can know for certain the exact number but, as the chair pointed out, we believe the actual losses are much greater than those figures that are reported to us.

Senator STEWART: If you're saying you've got \$2 billion now, then it's—what's the maths on that—87 per cent.

Mr Gregson: I think some of our recent references have been referring to figures of up to \$4 billion, which is really using that 13 per cent and extrapolating from the \$500 million that Ms Cass-Gottlieb mentioned, so it's a very high amount.

Senator STEWART: It's incredible.

Mr Gregson: As we say, we're piecing data together, and the unknown is hard to establish, but it's certainly in the billions. We're quite comfortable with saying that Australians are losing up to \$4 billion a year in scams.

Ms Cass-Gottlieb: One of the government's many objectives, as part of the important initiative of a National Anti-Scams Centre, is to enable much better coordination. Minister Jones is the key minister in leading the work of bringing that to fruition. It is to ensure that there is what we call 'no wrong door' and that any report, to an agency—whether it's into government, into law enforcement or into banks—comes together quickly to enable us to obtain the relevant data and disseminate it to banks, telecommunications providers, digital platforms and other law enforcement for real-time disruption action and also so that we are able to inform government and parliament of the data as rapidly as possible.

CHAIR: Do you have a final question, Senator Stewart?

Senator STEWART: I've got lots of questions. It's of interest to me after listening to my family on the phone talking about money that's been taken from their bank account. On the National Anti-Scams Centre, what's the support for that like across the business sector?

Ms Cass-Gottlieb: The business sector is engaging very actively with this. They have participated in roundtables with government, the ACCC and other law enforcement agencies in order both to provide data and to work on better-practice ways of response so that we can make Australia a harder target. In conjunction with your comments about family, certainly our Indigenous outreach teams find, in the communities that they are working with and in contact with, quite a high incidence of the impact of scams.

Senator STEWART: I imagine they'd fit in the above-60 or so classification.

Ms Cass-Gottlieb: Absolutely. They do.

Senator STEWART: Thank you.

CHAIR: Senator Rennick?

Senator RENNICK: Are you concerned about the alarming increase in insurance premiums across a range of products throughout Australia?

Ms Cass-Gottlieb: Our purview in terms of insurance premiums is quite focused. The northern Australian pool has been put in place by government in relation to cyclone and flooding and policies that cover cyclone and flooding. If matters come to our attention about misleading claims in terms of what is covered or in terms of pricing, we would consider those in terms of our regulation and enforcement role.

Senator RENNICK: So you're not responsible for the lack of competition in the insurance sector?

Ms Cass-Gottlieb: Where there is lack of competition arising as a result of anticompetitive conduct or concerted practices, it would absolutely be within the investigation and enforcement powers, the remit and the concern of the ACCC.

Senator RENNICK: Are you concerned about the double-digit increases in insurance across Australia. I'm not just talking about flooding and one-off weather events. I'm talking of massive increases across the board in car insurance, business insurance and housing insurance. I'm getting the feedback, and I can relate to it personally, that my constituents are getting very high increases in insurance premiums, such as double-digit growth in costs. There are very few insurance agencies here in Australia. It's mainly QBE and Suncorp—different brands, but most of them come under those two agencies. Is there anything you can do about it? Are you looking at it? It's a big cost to business and a big cost of living. It's not just up to the RBA to reduce the cost of living here.

Ms Cass-Gottlieb: There are various areas in relation to cost of living where the ACCC has directions from government to monitor, to investigate and to report. Apart from northern Australian insurance, we do not have one generally in relation to insurance. Unless—and this is a big caveat—they are engaging in anticompetitive conduct or misleading conduct, the ACCC does not have the power to set the prices that businesses are setting.

Senator RENNICK: I understand you don't have power to set prices, but, when prices are increasing by double digit amounts, isn't that a signal for the ACCC to step in and do something about it? Let me put it another way: that would be a reflection of a lack of competition in the market—the fact that prices are going up so much. Is this something that the ACCC can look at—the lack of competition in the market that is driving price gouging in the insurance sector?

Ms Cass-Gottlieb: When matters come to us, or allegations of anticompetitive conduct, we will definitely look at it. We are also conscious, in a broad sense, about consequences of levels of concentration and increasing concentration in a range of industries, and we are very closely interested in the financial services sector in this regard. We bring that focus when we look at anticompetitive conduct and also when we get applications for clearance of mergers in the sector. We do look to it; we're concerned about concentration and what can be the attendant consequences of concentration.

Senator RENNICK: Thank you. My time is up. Can I get, on notice, a list of the concentration of insurance providers in Australia—Suncorp, QBE and whatever foreign insurance providers there are? Would you be able to provide that information? Is that something you track?

Senator Gallagher: I think it might be a question better placed, from an information point of view, to APRA.

Senator RENNICK: APRA?

Senator Gallagher: Yes, who were just here before, who are the prudential regulator in this space.

Senator RENNICK: In insurance? I'll put it on notice to APRA, because I think it's something we need to deal with.

CHAIR: Thank you, Senator Rennick. Just a reminder to senators that we're going in five-minute blocks right now, and I understand Senator Smith has a couple of questions.

Senator DEAN SMITH: Thank you very much for being here this afternoon. I have a number of not small issues, but I won't dwell on them too much. Can you give the Senate committee an update on the ACCC's decision in December to block the Telstra and TPG network-sharing deal?

Ms Cass-Gottlieb: The relevant process update is that the parties have taken the matter on a merits review basis to the Australian Competition Tribunal, and the Australian Competition Tribunal has held its first case management hearing and is setting a timetable for hearing that. The parties are not able to proceed with the proposed conduct that they're seeking authorisation on unless and until there's a conclusion of those proceedings, so they give an undertaking not to proceed until the conclusion of the process.

Senator DEAN SMITH: Can you give the committee a brief summary of the ACCC's decision?

Ms Cass-Gottlieb: What I will do is pass to Tom Leuner, who I can see on the screen, who is the head of our mergers division.

Mr Leuner: Can you hear me okay?

Senator DEAN SMITH: We can hear you well actually.

Ms Cass-Gottlieb: We can Tom.

Mr Leuner: The ACCC's decision really focused on the fact it felt that there was a longer-term effect on dynamic competition or competition between networks such that that anticompetitive effect would outweigh any short-term competitive benefits that might come from TPG being able to extend its network. The test that the ACCC applied is: to get authorisation, the ACCC must be satisfied in all the circumstances that either there's not a substantial lessening of competition or there's a net public benefit, and the ACCC wasn't satisfied over either of those limbs.

Senator DEAN SMITH: There's been a bit of commentary in regard to mandated roaming as a means of improving mobile coverage, as some people suggest. Mandated roaming has been an issue that the ACCC has canvassed over many, many years. Briefly, for the committee, can you provide a summary of the ACCC's view about what mandated roaming would do for investment and what it would do for competition?

Ms Cass-Gottlieb: It was previously considered by the ACCC in quite a detailed investigation. Sarah, do you want to speak to that question?

Ms Proudfoot: It's actually an issue that we're looking at in an emergency context at the moment under an inquiry that we're undertaking on regional mobile infrastructure. The short version is it's often very expensive to provide the sort of infrastructure that you need in remote areas, and there have not been strong investment incentives for commercial investment. So you generally have government stepping in to provide that. We are mindful of that and have been engaging with stakeholders as part of this inquiry. We've had more than a thousand submissions into our consultation hub, we're having roundtables and we've actually got a few events coming up in early March to speak more with the sector. It's something we're looking at in an emergency context.

Senator DEAN SMITH: In terms of an emergency, natural-disaster-crisis context?

Ms Proudfoot: In terms of a natural-disaster-type context—that's right. It is something that we're looking at in that context, but there is that generally challenging commercial imperative of the cost of maintaining infrastructure the further out you are from main centres.

Senator DEAN SMITH: Am I correct, though, in my understanding that mandated roaming is regarded as having a negative impact on investment and competition?

Ms Proudfoot: That was the view that we reached in a declaration inquiry in, I think, 2017. I can take the exact time on notice.

Senator DEAN SMITH: Thank you very much. Australian wheat growers have enjoyed a very, very strong harvest, and there has been some commentary around supply chain issues. Have any issues been raised with the ACCC in regard to supply chain constraints as a result of the bumper grain harvests?

Ms Cass-Gottlieb: As you are aware, we have a monitoring role in respect of compliance with the wheat port code in relation to the conduct of port terminal service providers to ensure that exporters of bulk wheat have fair and transparent access to port terminal services. Our last update in that regard revealed that grower representative groups and some exporters generally support regulation of the bulk export supply chain, but the port terminal service providers generally don't.

Through that monitoring role, we have observed that the industry has evolved significantly since the first review of the code, but no amendments to the code that were recommended by the review, which was published at the end of 2021, have yet been made. Since the then government's October 2020 response, we consider that a

second review of the code should take place to take account of recent changes, including how the infrastructure manages high-performance harvest periods, because, while there have been some new entrants, the question is: is it sufficient?

Senator DEAN SMITH: But in recent months, you've not—

CHAIR: Can this be your final question? For the benefit of those waiting.

Senator DEAN SMITH: I have a very, very quick one after this one. In the last few months, have you seen an uptick in any complaints or concerns?

Ms Cass-Gottlieb: Not that I'm aware of, no.

Ms Proudfoot: We'll take that on notice and come back to you if that's okay.

Senator DEAN SMITH: How important has competition been to the development of the Australian economy and to the prosperity of Australians?

Senator Gallagher: In general? In a minute?

Senator DEAN SMITH: It's a preamble, Minister.

Ms Cass-Gottlieb: The ACCC thinks it's critical and we see a range of examples. I'll give one quick example. The ACCC did a review of the charges made by foreign exchange transfer. The introduction of new competition from a global fintech offer produced very significant reductions in prices. Similarly, when Rex first entered intercity airline routes, it produced significant reductions in prices. There is the offer of different financial services, foreign exchange and some much more technologically astute offers and prices. They're just examples. We think they're good examples.

Senator DEAN SMITH: I think they're strong examples.

Ms Cass-Gottlieb: They're strong examples of the premise that competition is essential.

Senator DEAN SMITH: I think, when most people talk about the past or future experience of Australia's economic activity, they would make a strong point of referencing the importance of competition. My question, Minister, is: why in Dr Chalmers's 6,000 word essay did he only have space to mention the word 'competition' once?

Senator Gallagher: Oh, my goodness! It's a classic Senator Smith question, isn't it? Have you got a tally of the other words that were used?

Senator DEAN SMITH: 'The consumer', I think, doesn't get mentioned at all.

Senator Gallagher: No, because the whole thing was about how the economy works for people. That was the fundamental thesis at that centre of it.

Senator DEAN SMITH: I think the chair's evidence was that competition was the vehicle

Senator Gallagher: It's not the question I expected to get over the Treasurer's essay.

Senator DEAN SMITH: Is there any explanation for why the Treasurer could only mention competition once in his 6,000 word essay?

Senator Gallagher: Well, again, I think the effective operation of markets was central to his thesis, so I think it was implicit.

Senator DEAN SMITH: Oh, it's implicit?

Senator Gallagher: Did you read it or did you just word-check it?

Senator DEAN SMITH: I'd call it a skim.

Senator HUME: A skim! You did a word check on it, didn't you?

Senator DEAN SMITH: Have you read it?

Senator Gallagher: Yes, of course I've read at.

CHAIR: I'm concerned that this is turning into a conversation that could better occur at Aussies Cafe than in this meeting room.

Senator Gallagher: You just did a word search. That's what you did.

Senator DEAN SMITH: Senator Gallagher, you know that I wouldn't read it.

CHAIR: I think, Senator Smith, you've finalised your question.

Senator DEAN SMITH: I would call it a skim.

CHAIR: For the benefit of the chair and the representatives who are here and those who are playing along at home, we are due to have a break right now. I am told with great confidence that, if I give the call to Senator McDonald, we'll be able to take that break in 15 to 20 minutes—

Senator McDONALD: In 20 minutes.

CHAIR: Twenty minutes. We can release the ACCC and then break at that point. Senator McDonald, you have the call.

Senator McDONALD: Thank you very much, Chair. I'm going to be very speedy, and I hope you will assist me in getting through a couple of topics now. First, I've just tabled an article from the *Townsville Bulletin* with regard to the Northern Australia insurance inquiry. When the ACCC came to give evidence to the Joint Select Committee on Northern Australia on reinsurance recently, the ACCC provided me with an email address to allow northern Australians to provide data directly to the ACCC. In brief summary, the journalist has alleged that the ACCC has been allocated more than \$18 million in taxpayer funds to measure the baseline premiums and profit measures for property insurance in northern Australia but that the data that's been collected on northern Australian insurance premiums was from 15 insurers. On notice, I'd like that list of 15 insurers, please, and their office locations and whether the information was verified, because the Townsville Lot Owners Group claim that the ACCC figures are just wrong. They've collated insurance invoices from, specifically, strata title properties in North Queensland that are 10 times the amount that the ACCC is quoting. On notice, because I appreciate that I've only just tabled this article, I'd like the list of insurers you've obtained the information from with your data collection powers, information on the verification of the data and a response to the allegation that the premiums paid by consumers are not in line with the data that's been collected by the ACCC.

Finally, Minister, the Townsville Lot Owners Group has requested that the Assistant Treasurer, Stephen Jones, reject the ACCC's interim report on insurance premiums for northern Australia. Can you tell me—I presume this will be on notice—has Minister Jones acted upon this request to reject this report, and has Minister Jones responded to the Townsville Lot Owners Group?

Ms Cass-Gottlieb: I might do a couple of quick responses. The \$18.4 million is to cover work over five years, and it involves, because of the concern of government and the previous government, which set up the pool—

Senator McDONALD: Yes. I'm very familiar with this.

Ms Cass-Gottlieb: This initial report was to provide data for a baseline pre-operation of the pool, to then be able each year to keep updating and to obtain a measure of the impact and effectiveness of the pool. We are both required and compelled—the production of data by insurers. We also have used data analytical techniques in order to test the integrity of that data. It does report on an average basis, and perhaps what is being referred to by lot owners is looking on an individual basis rather than an average basis. But we will look at that question and give an answer on notice. We also are intending to attend, in Townsville and in the region, in order to have an opportunity for consumer groups, residents, lot owners and other community members to be able also to speak to us in relation to these topics.

Senator McDONALD: Terrific. On notice you'll provide that.

Senator Gallagher: I'll take that on notice.

Senator McDONALD: Going back to the ACCC and gas, are you able to step us through the process for trades under the proposed reasonable pricing provisions?

Ms Cass-Gottlieb: You are there looking in relation to the trains in terms of the LNG plants and processes?

Senator McDONALD: I said the process for trades. I'm sorry if I wasn't clear.

Ms Cass-Gottlieb: No, I misheard you. I apologise.

Senator McDONALD: Yes, I gathered that.

Ms Cass-Gottlieb: You are there looking at trades that occur further post the sale by the producer?

Senator McDONALD: I'm looking at, under the proposed reasonable pricing provisions, any guidance that will allow for that process of trades between producers, post-production of course, and then how that market is going to work using these reasonable pricing provisions.

Ms Cass-Gottlieb: In part, the answer is: the consultation is being undertaken in order to think through the details of firstly the requirements in the code and also the guidance the ACCC will give on the reasonable pricing framework. But to answer in principle very quickly, the policy-intended application of the code is to the sale that occurs at a wholesale level by a producer, or an affiliate of a producer, with a customer that is not a producer.

Senator McDONALD: I'm specifically looking around this reasonable price provision portion. What do you consider should be included to come up with a reasonable price for gas trade?

Ms Cass-Gottlieb: In terms of trades that are occurring by a producer at wholesale with a customer that is not a producer and not within the producers group, we've set out the principles that are set in the consultation paper to look to the full costs of the next most likely new supply, including costs of development and exploration and the risks that are undertaken before it then goes into the operational costs of bringing the gas to production and to market. That is with the express intent that it does not undermine incentives for new supply. The ACCC does not envisage that that regime will apply to trades that are producer to producer, as distinct from producer to a customer at wholesale that is not a producer. A gas powered generator, a C&I customer or a retailer would be a producer to not a producer, which would be subject to the obligations under the code, including the reasonable pricing framework.

Senator McDONALD: Right. So that would prevent arbitrage from the customer buying gas from a producer and then selling it to an LNG operator at a profit?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: What assumptions or assumed costs will be included in the reasonable price? Will it include the capital investment for production?

Ms Cass-Gottlieb: Yes, it will.

Senator McDONALD: Will it be by individual well, by tenure, by project or by company, or all of the above?

Ms Cass-Gottlieb: These are matters subject to further consultation. It definitely covers exploration, development, operational, bringing to production, all the gathering infrastructure such that it then is processed and produced and capable of supply and marketed. What further work is being done as part of the—and tested in—the consultation? It is the provision of a set of scenarios that reflect the different modes of production. The two most obviously stark ones are offshore and onshore, but there is consideration of whether there should be the consideration of the case of the next most likely efficient source of supply by a number of different scenarios. We're in consultation and doing further work on that.

Senator McDONALD: Would that include capturing wages costs according to who's involved in producing the gas required for the change or wages across the whole company? Are you considering those larger companies that have big overheads and head office costs, as opposed to a smaller business?

Ms Cass-Gottlieb: We are looking to identify the most likely source of supply and the most efficient. It is not uncommon in situations where there are common costs between broader operations and the specific operation being regulated that there is an allocation of the common costs to the operation being regulated.

Senator McDONALD: Okay. So you'll include contractors? These are all the sorts of questions that I'm hearing over the ACCC's considerations, so I'm keen to test you on what you're thinking.

Ms Cass-Gottlieb: The intention, as we understand it—as was also indicated, I believe, in the DCCEEW appearance before this committee—is that a detailed, worked-through draft of the code and the relevant provisions will be issued. I understand that the DCCEEW intended timing was by early to middle March, and at that point there would be much more detail available in relation to the answer to these questions, Senator McDonald.

Senator McDONALD: Thank you. How long, on average, are you seeing the process from exploration to final investment decision and, finally, production, for gas producers take?

Ms Cass-Gottlieb: We are certainly seeing that it takes quite a number of years, and we are taking that into account.

Senator McDONALD: I guess what I'm trying to understand is how the reasonable pricing provisions will provide investment certainty over such a long supply decision-making process or investment decision-making process, from exploration to production. Will it develop market signals that will appropriately develop supply?

Ms Cass-Gottlieb: We are bringing to bear both the experience in terms of the period of time and the processes for prior investment decisions, including through to FID, in relation to the various projects, and also what we hear in consultations as to the processes that they currently have underway and plan to have underway.

Senator McDONALD: Does the ACCC have an understanding of the impact the reasonable pricing provisions would have on the gas market?

Ms Cass-Gottlieb: We are getting many confidential consultations and submissions in relation to that. We have also been informed by the over six years of reports that have been done in relation to the previous operation of the market in terms of bringing supply to fruition.

Senator McDONALD: Are there any other analyses that you have requested or contracted on sensitivity analyses?

Ms Cass-Gottlieb: One of the reasons that we have retained independent and expert economic assistance is so that we can have a model that tests elements of the reasonable pricing framework that is being developed.

Senator McDONALD: Would you be able to provide that advice from the independent economic agency to this committee, please?

Ms Cass-Gottlieb: It is awaiting work on the design elements.

Senator McDONALD: Is it in the device design phase now?

Ms Cass-Gottlieb: Yes.

Senator McDONALD: Can I ask for the design criteria of the sensitivity analysis that you're doing?

Ms Cass-Gottlieb: Should we consider that, Sarah?

Ms Proudfoot: We can take it on notice.

Ms Cass-Gottlieb: We'll take that on notice.

Senator McDONALD: How much has the price intervention affected prices on a per-customer basis for reduced costs?

Ms Cass-Gottlieb: Because this is looking at the C&I customers it's a wholesale sale. We are aware of contracts being entered into at the capped price. We currently have underway a process of obtaining further data for the purposes of Minister Madeleine King's decision-making in April, which is looking at committed contracts volumes and also prices, and that will cover the relevant period. While we're aware of certain one-off examples, we don't yet have the data that would cover the period since December.

Senator McDONALD: Alright. I'll come back to you at the next estimates, so could you be prepared for that question?

Senator Canavan provided some analysis of the spot market currently, which is now trading above the cap price. Are you aware of that information?

Ms Cass-Gottlieb: Yes. The short-term markets are exempted from the cap. We have had, across February, a range between \$12.90, which is at Wallumbilla—closest to the export ventures—and \$15.20, which is in Adelaide. It's a simple average, not volume weighted. In other trading locations we have a range from \$13 to \$14. The most recent prices that we have, from Monday this week, range from \$11.97 at Wallumbilla, through to \$15 in Adelaide.

One of the aspects we also need to test is—given that those prices, which are per gigajoule, are unregulated and so are not subjected to the cap, so we're not exactly aware of what product was being supplied at those prices—whether it included other services, such as flexibility, apart from the pure price per commodity—gigajoule.

Senator McDONALD: I'm interested in the public consultation commentary throughout the consultation period. I want to ask you to provide information about the public comments that are not confidential. I'm not asking you to disclose industry information. Sorry—I won't ask you that; that's going to be too broad. I'll go back.

The ACCC recommended this market intervention to the Treasurer last year. Consultation is still ongoing. We've got no analysis from experts. We have no specific details on how this intervention is affecting the market. Producers are still unsure about making investment decisions. Are you confident that this is a sound advice pathway?

Ms Cass-Gottlieb: It's been a considered advice pathway, informed by the work that the ACCC has done over a number of years. It also has—

Senator McDONALD: I'm sorry to interrupt. The work that you've done on price—is that also on supply?

Ms Cass-Gottlieb: Yes, it had also considered supply. While we are yet to have our independent, expert, retained economists provide advice on the models—we're in the design phase—we have been obtaining that advice orally throughout the process. So we have been obtaining advice. The report in January was informed by not only a consultation with a range of producers and the data they provided but also a consultation with a broad range of C&I users, which is summarised in the report. I do consider that there has been a process—and it's

continuing—not only of consultation but of testing it with data that is gathered from both data analysis of that data and qualitative reports that we've obtained from parties in the sector.

Senator McDONALD: I'm just flagging that that is user data. It's the analysis of the sensitivity of investment decisions that I'm very concerned we focus on, given that the ACCC has flagged shortfalls, moving forward. At the same time, we've had the two import terminals on hold, as well as other projects that would've been coming to market to fill that domestic supply shortfall. Moving forward, in the absence of those, and with no new projects—I asked Treasury this morning to take on notice any information about new projects—I'm just hoping that the ACCC has got a good handle on this.

Ms Cass-Gottlieb: In addition to consulting with C&I users—so, yes, users, because we want to build up a broad, both-sides-of-the-market picture of both supply and demand—we have been meeting with, and obtaining quite detailed submissions from, producers, small and large, in relation to the impact upon their investment decisions.

Senator McDONALD: And they're positive? Are they telling you they're bringing more gas to market?

Ms Cass-Gottlieb: Some are reflecting that they are in a position to bring more gas to market, and others are reflecting what is being stated publicly—that they are waiting to have more certainty about what the reasonable price frame will entail.

CHAIR: Thank you, Senator McDonald.

Senator McDONALD: I'll put some more questions on notice.

Senator DAVID POCOCK: Ms Cass-Gottlieb, I have some questions relating to your report to the Senate on anticompetitive and other practices by health insurers. I read the report, and in 2021-22 the average gap expense for hospital treatment increased by 9.5 per cent. It seems like a lot and is above inflation. Do you have a sense of what was driving the increased gaps?

Ms Cass-Gottlieb: I'm going to pass to Melinda McDonald, as the report is within her branch.

Ms McDonald: I'll need to take that question on notice. I'm afraid that that particular report actually isn't something within my division's responsibilities at the moment.

Senator DAVID POCOCK: Will you be able to answer other questions on the report, or should I just put them all on notice?

Ms McDonald: I'm afraid I will need to take them on notice. Since I've been in this role and running this division, that report has not been in my responsibilities.

Senator DAVID POCOCK: I had a question about private health insurers collecting sensitive consumer data.

Ms Cass-Gottlieb: After the Medibank—

Senator DAVID POCOCK: Yes—and often through wellbeing apps, not necessarily through their platform. I'm interested in the extent to which consumers are aware of this and if the ACCC has thoughts on a way forward with this. It seems like a growing problem.

Ms Cass-Gottlieb: Yes. The ACCC, during the first digital platforms inquiry—which was really a landmark inquiry and reported in 2019—identified concerns about the gathering of highly granular personal data, in combination with, frequently, community members not realising that it's been gathered because it's been taken from application forms, identify verification forms or, yes, through an app. They don't realise it and therefore do not know what is held, and they cannot be said to have had sufficient information to consent to the gathering and then the retention of data.

Those matters, importantly, intersect with the work of the Privacy Commissioner. The ACCC, the Privacy Commissioner, the eSafety Commissioner and the ACMA sit in the Digital Platform Regulators Forum in order to bring together areas of interest and concern. We know that the Privacy Commissioner, post the Medibank data breach, has certainly been looking at this question of how much data is collected and how long it is held. The Attorney-General, as part of the consideration of changes to the Privacy Act and the regulation, is also looking at those questions. But the ACCC has a concern about it. We have thought about, in our broader remit, the regulation and consumer safeguards in respect of digital platforms and the digital economy.

Senator DAVID POCOCK: My understanding is that they are even collecting stuff around lifestyle, diet, exercise and overall health. I was wondering if, on your assessment, they're just using that for their own purposes and potentially marketing, or if some of them are selling that to third-party marketers.

Ms Cass-Gottlieb: In the 2019 report, the ACCC noted that a key part of the business model of many digital platforms and, in effect, businesses with a digital business model is to monetise data. That could be for internal

purposes, to see where additional services may be offered, or potentially there could exist data brokers and other participants—who are little understood, actually—who then engage, in effect, in financial transactions dealing with data. It is an issue we are aware of. It is an issue that we are considering in the context of whether it should be a focus of ongoing digital platforms reports which are given to the Treasurer six-monthly.

Senator DAVID POCOCK: In part of the report, you talk about the Prostheses List reforms and the MOU between the former government and industry. I'm just wondering if the ACCC will be tracking whether the savings agreed to under this MOU will be passed on to consumers.

Ms Cass-Gottlieb: As I understand it, that is one of the topics that is addressed in that report. However, I think it's best if we do take that on notice and get the people who are most engaged in that report to answer that question.

Senator DAVID POCOCK: Is that also an 'on notice' one?

Ms Cass-Gottlieb: A number of us are noting that down.

Senator DAVID POCOCK: I can send through those questions then.

CHAIR: Thank you very much, Ms Cass-Gottlieb and the representatives of the ACCC. The committee will now take a break.

Proceedings suspended from 16:46 to 17:09

Department of the Treasury

CHAIR: We reconvene with the Department of the Treasury, starting with the Macroeconomic Group and the Corporate and Foreign Investment Group. For the benefit of senators, we also have the Markets Group here for questions, but we'd like to be able to release the Macroeconomic Group and the Corporate and Foreign Investment Group if we can, so I invite questions to these departmental representatives first. We go to Senator Hume.

Senator HUME: Thank you, Chair. I want to ask you about the payment times review. This was announced in December last year. It was announced that Craig Emerson, a former colleague, would be leading the legislative review of the payment times reporting framework.

Senator Gallagher: You might need to ask the revenue group about that.

Senator HUME: Not necessarily. Is it a Corporate question?

Senator Gallagher: No, it's not a Corporate question.

Senator HUME: I just want to know how much he's being paid.

Ms Kelley: I don't have that information.

Senator HUME: Would you like me to save that for Revenue?

Ms Kelley: That might be better.

Senator HUME: We've given them a heads up.

Senator Gallagher: They'll be listening.

Senator HUME: I will save those questions for Revenue. Minister, I was pleased and buoyed to hear your commitment to the stage 3 tax cuts after your questioning by Senator McKim earlier on today. But it was interesting, when you were talking about some of the measures that the government are taking to alleviate the cost-of-living pressures, that the tax cuts weren't on the list of things that you mentioned. Are tax cuts providing assistance in the cost-of-living crisis that Australians are facing at the moment?

Senator Gallagher: When I was going through the list of things that we have done in relation to cost of living, I was talking about the actions that we have taken since being elected and running through those, as opposed to talking about legislative tax cuts that had happened under the previous parliamentary term.

Senator HUME: But they will be kicking in in the 2024-25 year?

Senator Gallagher: Yes.

Senator HUME: I would imagine that, at that stage, that will provide significant cost-of-living relief to thousands or, indeed, millions of Australians.

Senator Gallagher: You heard my evidence to Senator McKim. In relation to the cost-of-living measures, I was specifically referring to the ones that we had responsibility for: medicine, child care, PPL, getting wages moving and looking at affordable housing and how we support new industries. That type of thing.

Senator HUME: Again, I ask you: is a tax cut for those earning over \$60,000 going to contribute to cost-of-living relief?

Senator Gallagher: I accepted that, and that was my evidence this morning.

Senator HUME: I ask this because your former colleague—in fact, your successor—Chief Minister Andrew Barr has received a request from the CPSU for higher wages. He has come back and said that cost-of-living pressures for staff on higher incomes will be partially offset by the federal government's stage 3 tax cuts in the 2024-25 financial year. Do you agree with that?

Senator Gallagher: Those tax cuts come into effect in stage 3, and, yes, they will provide more money in the pockets of people on a range of income brackets, including higher income earners.

Senator HUME: Do you agree with Mr Barr?

Senator Gallagher: I haven't seen his comments.

Senator HUME: It's in the *Canberra Times*.

Senator Gallagher: I do read the *Canberra Times*. I give a big shout-out to the *Canberra Times*. I'm a big fan of theirs, but I haven't specifically read those comments. I have been tracking the wages discussion that's been going on in the ACT.

Senator HUME: Do you think that Mr Barr is being reasonable, or is the CPSU right?

Senator Gallagher: I don't really have an opinion on bargaining. I've got my own issues with bargaining across the APS; I'm not going to wade in on someone else's.

CHAIR: Senator Hume, I'm not really sure if your questions are relevant. You're asking the federal minister about comments of the Chief Minister.

Senator HUME: Yes and no. I'm actually asking whether the stage 3 tax cuts are effective cost-of-living relief, as, obviously, Chief Minister Barr has said.

Senator Gallagher: I don't think there's anything I can add to the evidence I gave earlier today. I've gone through the measures, and I'm staying out of the bargaining arrangements of the ACT government.

Senator HUME: So the CPSU's request is unreasonable?

Senator Gallagher: I haven't specifically looked at their log of claims for the ACT government. We're embarking on our own bargaining, and we'll have a log of claims, no doubt, from the CPSU that we'll have to respond to in due course.

Senator HUME: I think that Mr Barr is relying very heavily on the federal government maintaining their commitment to the stage 3 tax cuts—

Senator Gallagher: The Public Service here has a significant influence on the ACT economy, so that's not unusual.

Senator HUME: which is extremely good news. I wanted to ask some questions about the safeguard mechanism. I am considering putting them on notice. Are the right people here, though?

Mr Yeaman: It's a bit of a mix between us and Fiscal Group. Some of the questions that I understand the department of climate change was asked on Monday around modelling would probably be related to macro group, but broader policy design issues around the safeguard mechanism would be Fiscal Group.

Senator HUME: Alright. Let me see how we do and if you can point me in the right direction—and then they can point me back to you after you've left; that's the way it normally goes! Has Treasury assessed the costs involved in the new safeguard mechanism, or are you aware of the costs for each facility?

Mr Yeaman: We haven't done an assessment of the broad costs. What we have done—which I think was covered in the hearing on Monday with the department of climate change—is this. In order to support the design process, we did a modelling exercise with the department of climate change which looked at, essentially, opportunities for abatement across affected businesses and industries and the interaction then with the carbon market—essentially, what it would mean for the carbon market. We didn't go to broader issues around macroeconomic impacts, jobs, inflationary impacts and so on.

Senator HUME: But you accept that there is a cost and that the cost is likely to be significant?

Mr Yeaman: It's an interesting question. I think around 80 per cent of companies covered by the safeguard mechanism have existing public net zero commitments, so many are already on this track and are building that into their cost base already. The safeguard mechanism provides certainty for industry around how this transition will occur. Again, this is probably a question more for the department of climate change and for our Fiscal Group colleagues, but, insofar as the design of the safeguard mechanism—the hybrid approach, as it's called—that's been

adopted, it means that, for many affected businesses, the immediate cost will not be significant because they're starting, essentially, from their current baseline level and then, over time, ratcheting down.

Senator HUME: Is there a general acceptance, though, in Treasury, that the costs are inevitably passed on?

Mr Yeaman: We look at it from a range of angles. Obviously, to the extent a business has an additional cost—and this is any cost of business—they will of course make decisions on whether to pass that on or take that on their profits. One thing we've highlighted, which I think was also highlighted by the former Treasurer in some speeches which were based on Treasury advice, is: the costs of not having a credible set of policies in this area increasingly, we think, will affect businesses' ability to access global capital markets and investment in Australia. It's a genuine point that, for us, there are a range of costs on both sides of this equation that need to be factored in.

Senator HUME: Have you done, then, an assessment of the impact that this legislation will have on domestic electricity and gas prices, as opposed to supplies, as opposed to future investments, as opposed to access to capital markets? Have you done an assessment on what the effect will be on prices?

Mr Yeaman: No, we haven't. Again, my understanding is not as strong as others' in this space, but my understanding is that the electricity sector itself is not subject to changed arrangements under the safeguard mechanism; its baselines are not declining over time; it has special arrangements in place. So the direct impact, we expect, on electricity prices would not be significant.

Senator HUME: I find that hard to believe.

Senator Gallagher: This is your policy, by the way.

Senator HUME: The government's imposing billions of dollars of additional costs on businesses—

Senator Gallagher: You do recognise that?

Senator HUME: with no idea of what the impact is going to be on prices.

Senator Gallagher: Do you accept that this is your policy?

Senator HUME: You know that this has been changed, Minister. You know that this—

Senator Gallagher: Do you know this is your policy?

Senator HUME: Yes—

Senator Gallagher: It's your policy, which we are making—

Senator HUME: except that the only difference was that it used to be a carrot and now it's a stick. It used to be voluntary and now it's compulsory, and that's the difference.

Senator Gallagher: Because you have to drive the change to net zero—which was also your policy, right? You had the net zero policy. You had the safeguard mechanism. This is a pathway to get there—

Senator HUME: We had different pathways.

Senator Gallagher: Right. You had no pathway, but—

Senator HUME: This is the pathway you've chosen. You've chosen to make higher electricity prices for ordinary Australians.

Senator Gallagher: No. We've tried to make—

Senator HUME: You've chosen to make higher gas prices for ordinary Australians. If that's the path you've chosen, Minister, knock yourself out—

Senator Gallagher: No, we're trying to make this safeguard mechanism work—

Senator HUME: but that doesn't mean it absolves you from having to answer questions to the Australian public—

Senator Gallagher: Yes, which I'm happy to.

Senator HUME: about why you think that higher electricity prices and higher gas prices are okay.

Senator Gallagher: I would also say—

CHAIR: I'm trying to identify a discrete question and a discrete answer, and I am unable to do that at the moment. I would like to hear a discrete question.

Senator HUME: Will this policy put upwards or downwards pressure on prices?

Mr Yeaman: As I said, from our perspective, we haven't done a detailed modelling exercise.

Senator HUME: You don't have an opinion.

Mr Yeaman: We haven't done a modelling exercise on that. For the reasons I described, and especially in the near term, we don't expect there to be significant inflationary impacts in the short term, but we haven't done that detailed work.

Senator HUME: Well, we'll have to tell that to the Australians that get higher electricity bills. Thank you, Chair.

CHAIR: Thank you. Senator Roberts?

Senator ROBERTS: What is the total value of foreign residential real estate purchases approved over the previous three years?

Ms Kelley: We might have to take the three years on notice because I don't have those figures with me—unless my colleagues have those. But in our annual report we publish the annual figures. So on page 224 of the Treasury annual report, the total foreign investment in real estate for 2021-2022 was \$64,000,762.1.

Senator ROBERTS: \$64 million?

Ms Kelley: Yes. I think that's right. Then the other bit that we were going to draw your attention to is that we're now publishing a quarterly report, and in that quarterly report we give information about investment in residential real estate as well. That then goes to the value as well as the numbers.

Senator ROBERTS: Can you provide the other numbers on notice?

Ms Kelley: Yes. We can actually give you a copy of the quarterly report if you'd like. It's on the Treasury website.

Senator ROBERTS: Yes, please.

Ms Kelley: As well, the annual report is on the Treasury website.

Senator ROBERTS: Can you give me the other two years?

Ms Kelley: We'll give you the other two years as well.

Senator ROBERTS: Thank you. What foreign country is the highest purchaser of Australian residential real estate?

Ms Kelley: Again, it will depend what year you want. Do you want that over the three years?

Senator ROBERTS: The next question will be: how much residential real estate has been purchased by China over the last three years? But I'd like to know which country's citizens are the highest purchasers.

Ms Kelley: Our annual report has the figures for 2021-22.

Mr Writer: In our quarterly report, which we published in November for the first quarter of last year, we have table 4 on page 4. It identifies that, by value, the largest source jurisdiction for approved residential real estate proposals is the People's Republic of China. In 2022-23 that, by value, totalled \$1 billion for the year to date.

Senator ROBERTS: That was China alone?

Mr Writer: Yes. In 2021-22, for the full year, it was \$2.4 billion.

Senator ROBERTS: \$2.4 billion?

Ms Kelley: Sorry, my figure should have been \$64 billion before.

Senator ROBERTS: \$64 billion. What were the two figures for China?

Mr Writer: The figure for 2021-22 was \$2.4 billion, and in 2020-21 it was \$2.7 billion. We should also clarify that the \$64 billion figure relates to all real estate, not just residential real estate.

Senator ROBERTS: Okay. Could I have the figures for residential, please?

Ms Kelley: Yes, we'll break that down.

Mr Writer: Yes, we can do that.

Senator ROBERTS: So, at a time when many Australians can't afford to buy a house, China is buying up more than \$2½ billion in Australian housing, and every one of those transactions was approved by you?

Mr Writer: Well, residential real estate matters are managed by the Australian Taxation Office under a delegation from the Treasurer, so it administers that system.

Senator ROBERTS: So it's the ATO?

Mr Writer: Yes.

Senator ROBERTS: Which official in the ATO?

Mr Writer: I think it's their international division. I'm not sure what the precise name of the division is, but it's the international division.

CHAIR: They'll be on after the dinner break.

Senator ROBERTS: Thank you. At what point does the economic security of Australian citizens through their ability to own a house become a national security concern, given that you are obliged to consider national security in reviewing foreign investment?

Ms Kelley: That is one of the factors that we consider in foreign investment applications. As you know, with the national interest as well as national security, there are economic factors, policy factors and character factors. So each case is considered on its own merits.

Senator ROBERTS: The point is that, under very high cost-of-living pressures right now, many people can't afford a house, interest rates are rising, and we're selling houses to the Chinese and other foreigners. It's the marginal demand, by which I mean from China, that does drive the price of housing, surely?

Ms Kelley: I don't think we have the sort of information to confirm whether that is actually the case.

Senator ROBERTS: If the Chinese and a few other nations couldn't buy houses in this country, just like we can't buy houses in China and some other countries, then that would take the heat out of the market. So, basically, Chinese citizens are driving the price up, and everyday Australians are getting lumbered with the cost at a time of severe cost-of-living pressures.

Mr Writer: We take into account a broad range of factors when making assessments under the Foreign Acquisitions and Takeovers Act, but there are many factors that have an impact on house prices. For us, we are not in a position to say—

Senator ROBERTS: I'm not blaming you for the housing crisis; I'm asking a question that goes to: why are we letting China, for example, buy \$2½ billion worth of residential real estate when Australians are suffering from high prices of housing? There are many factors in high housing prices, most of them government.

Senator Gallagher: To be fair, the Treasury and relevant officials are implementing the legislation and framework set out—

Senator ROBERTS: That's right. I was hoping someone would say that. It's not their fault.

Senator Gallagher: They're implementing the rules as provided.

Senator ROBERTS: Correct.

Senator Gallagher: From a government point of view, we believe in foreign investment, but we also have a responsibility to ensure that that investment is in our national interest and take into consideration a range of factors in meeting that. But that's the overarching framework, and then there are laws around how that's implemented.

Senator ROBERTS: Can't your government guarantee or commit to seriously looking at and reviewing the purchasing of houses by foreigners? Can't they review the rules, in other words?

Senator Gallagher: This is a matter that the Treasurer, of course, will maintain an interest in, monitor and receive advice and briefings around. But we have a non-discriminatory approach to the assessment of foreign investment applications, and that will continue.

Senator ROBERTS: I'm not being discriminatory in talking about China; I'm using China as an example. Many countries, especially countries like China, won't allow Australians to buy houses in their country. I dare you to tell a single mother who's sleeping out of her car because she can't even find a rental house what you've just told me.

Senator Gallagher: I'm not sure that the pressures in the housing market can be solely drilled down to being the responsibility of foreign investment on its own.

Senator ROBERTS: I didn't say that.

Senator Gallagher: There are a range of factors, and that's why we have a range of policies in order to deliver that, including the Housing Australia Future Fund, which is targeted to single women looking after children.

Senator ROBERTS: Is that a recently released policy?

Senator Gallagher: The Housing Australia Future Fund is one we took to the election. We've got legislation that will come through to the Senate. Within that, the fund has particular cohorts where we want to drive the growth in affordable and social housing. Women and children escaping domestic violence are one of the groups that would receive investments from that fund.

Senator ROBERTS: I saw some figures—I can't confirm them. As I understand it, someone worked out that the average price of a house under that scheme of yours is \$83,000. My point is: let's do something fair dinkum about this.

Senator Gallagher: We agree with you.

Senator ROBERTS: Well, let's see some changes to the rules.

Senator Gallagher: Housing, and housing affordability more broadly, is a significant issue affecting Australians, particularly—

Senator ROBERTS: Interest rates are still going up. The cost of living is still going up. Energy prices are going up, which will make housing more expensive. These are all policies—

Senator Gallagher: Yes. There are supply chain issues. There are planning issues at the state and territory level. There are supply issues overall. We have a shortage of housing in the affordable area. We need to generate more investment into the social end of housing. There's a whole range, on the housing continuum, of interventions that this government is currently looking at and working on with the states and territories.

Senator ROBERTS: I hope they don't include nationalisation, like the gas industry.

My final question: at what point does the economic security of Australian citizens—should their own ability to own a house become a national security concern, given you're obliged to consider national security in reviewing foreign investment? You're obliged to consider national security and economic security in the future of this country.

Senator Gallagher: We rely on foreign investment to help support and grow the country in a whole range of areas, including outside of housing—housing infrastructure, some of our critical minerals, technologies. There are good reasons why we welcome foreign investment into this country. I've answered on the housing front. The housing affordability issue cannot be laid at the feet of foreign investors; it's a much more complex problem than that. That's why we have a range of—

Senator ROBERTS: I'm not saying it is.

Senator Gallagher: That's why we are actively working with the states and territories, and local government, and looking at levers available to the federal government to make sensible and responsible investments to make a difference. That's what we're doing.

Senator ROBERTS: Foreign purchases will be driving the marginal price of a house in this country. Thank you, Chair.

Senator HUME: I want to ask about the Energy Bill Relief Fund and its status. Am I asking in the right place?

Mr Yeaman: That is in Fiscal Group.

Senator HUME: You should play football; you've got such a good handball! All right, we'll move on.

CHAIR: We release the Macroeconomics Group and the Corporate and Foreign Investment Group, with our thanks.

[17:34]

CHAIR: We now welcome representatives from the Markets Group. I assume you don't have any opening statements and you would like to proceed straight to questions? Yes.

Senator BRAGG: I can't ask you anything about the National Reconstruction Fund, can I?

Mr Jeremenko: That is not our responsibility.

Senator BRAGG: Where does that sit?

Senator Gallagher: A different department.

Mr Jeremenko: Industry.

Senator BRAGG: I thought so.

Senator Gallagher: You'll get them tomorrow; I think they come in around lunchtime. We answered some questions around the financing side in Finance yesterday but Treasury is probably not the place.

Senator BRAGG: Thanks for that. I want to ask you about a FOI request. Do you want the number?

Mr Jeremenko: I think those listening will find it helpful, thanks.

Senator BRAGG: It's FOI reference 3159. It was a FOI request in relation to correspondence received by the Assistant Treasurer between 22 May and 24 August, relating to the regulation on superannuation annual members

meeting notices, from a range of different organisations. On this FOI there was partial provision of the information. Treasury identified two documents; one was a series of emails between the Assistant Treasurer and Industry Super Australia, and the other one has not been provided. Can you give me some insight?

Senator Gallagher: Do you have a copy of that that can be tabled? I presume reasons have been given. It'll just make it easier.

Senator BRAGG: While that's happening, maybe we should ask something else.

Mr Jeremenko: Can I just clarify—

Senator Gallagher: Was it to the Treasury or the Treasurer?

Senator BRAGG: It's one of your documents from the Treasury.

CHAIR: Sorry; you're seeking to table a letter from the Assistant Treasurer and related materials?

Senator BRAGG: Yes. We might circle back to that.

CHAIR: I don't think there's any objection, so the document is tabled.

Senator BRAGG: I don't think there's anything particularly terrible about it. We might jump on to the financial advice review undertaken by Michelle Levy. What was the cost of the review and why was it necessary for a second opinion?

Mr Jeremenko: I'll ask colleagues to speak to the cost.

Ms Zaheed: The review had an independent reviewer in Michelle Levy. It was supported by the Treasury secretariat. I don't have the total cost for Treasury staff travel—all that gets built into Treasury's budget—but I do have costs for Michelle Levy's contract, if that would be useful?

Senator BRAGG: If you can provide that on notice, that would be great.

Ms Zaheed: Sure.

Senator BRAGG: Why do you think a second opinion is needed?

Mr Moore: The Assistant Treasurer has flagged there will be wide consultation on the report now that it's been released. The purpose of that consultation is to test with industry participants the impact of the recommendations and their implementation. There are a couple of elements to that we are particularly interested in. One is understanding how the recommendations would work for different advice models.

Senator HUME: Isn't that what she did?

Mr Moore: What she did was—the report already analysed the current situation and the problems with it. She made some recommendations. The report didn't really fully set out how it would operate for a range of participants in the industry, so that's what the consultation's about: to test that further with stakeholders.

Senator BRAGG: You don't think she did a good job?

Mr Moore: I don't have an opinion on the job she did.

Ms Zaheed: If it's helpful, I have those figures now. I can give you those figures now if that's useful. Ms Levy's contract was \$182,765. We used ORIMA to do our adviser survey. That cost \$35,200. There was an international trip that Ms Levy went on with Treasury staff to look at different advice arrangements globally. That cost \$65,130. There was some small cost, around \$2,000 to \$3,000, for printing of the final report. Those are the costs that are external to things like Treasury employees and the like.

Senator BRAGG: That's good. I'm glad you've got the detail on all that. I also asked Treasury how much the delegation to Indonesia cost—this is the Treasurer and the people who went with him—and Treasury didn't provide that information. Do you have that information?

Ms Zaheed: Unfortunately, that's not my area.

Ms Kelly: Treasury didn't fund any of that cost, so we are unable to provide information in relation to the costs.

Senator BRAGG: Who funded that?

Ms Kelly: I wouldn't know. That would be a question for DFAT, I imagine.

Senator BRAGG: So DFAT funded a Treasury minister's travel?

Ms Kelly: I'm not saying that. We just have any information—

Senator Gallagher: Let's come back to that. Maybe, through his own travel entitlement—I don't have the details of that but, if you'd like us to, we will take that on notice.

Senator BRAGG: Thank you. Has the minister formally sought the advice to get the second review commission into advice?

Mr Moore: You're asking about the advice that Treasury provided on that?

Senator BRAGG: No. I'm asking: Has the Assistant Treasurer formally sought this second review? Has he asked you to do that?

Mr Moore: The Assistant Treasurer has announced publicly that it's the intention of the government to consult widely. He hasn't commissioned Treasury, as such, to conduct a review. We envisage that we would be part of that process. The normal way that would run is that we would facilitate meetings with stakeholders, roundtables—

Senator BRAGG: It sounds like it could be a lot of the same people giving more of the same advice about advice.

Mr Moore: The focus of it would be on the practical implementation of the recommendations as they have—

Senator BRAGG: What do you think about the review?

Mr Jeremenko: That's a question of opinion from an official.

Senator Gallagher: That's asking for an opinion. You're not allowed.

Senator BRAGG: You're providing advice on the substance. I'm wondering what you think of the review.

Mr Jeremenko: That's for the minister to deliver, when we do provide that, with respect. In terms of what my colleagues at the table have been saying, it's not absolutely a completely unusual situation that, when a government receives quite an extensive report into a matter, they don't take time and maybe have a different way of trying to—to use the words the Assistant Treasurer has used publicly—stress-test various areas of it, either through further consultation the department runs or through engaging with some other technical group. I'm not suggesting that's going to happen in this instance, but it's an example of the sorts of things that can happen when reports land.

Senator BRAGG: You won't tell me what the department thinks of the report?

Senator Gallagher: No. You're asking them—

Senator BRAGG: It's very secretive!

Senator Gallagher: How secretive is it that it's been released? It's not secretive at all. You have the review.

Senator BRAGG: I'm wondering what you think of it, that's all. It's not a—

Senator Gallagher: We'll come to a considered view on that.

Senator BRAGG: dodgy question or anything. I'm just wondering what you think.

Senator Gallagher: We will come to a considered view on that. The Assistant Treasurer is leading those consultations. I think the review was released last week, from memory.

Senator HUME: It hasn't changed much from the interim review, though.

Senator Gallagher: We will consult. It's an area where there are a lot of stakeholders with a lot of views. We're going to consult. They have the review now. You have the review. You'll be aware of the government's position when our response to the review is finalised.

Senator BRAGG: You're the minister; I'll ask you. Maybe this is not the best place to address the question, but do you have any concerns about the way the review was conducted or—

Senator Gallagher: To be honest, I haven't been very close to this review at all, so I don't have any concerns, but I say that in the context of it not being in my portfolio area. From what I understand, the review was appointed under the former government.

Senator HUME: It was a Hayne royal commission recommendation.

Senator Gallagher: Yes, there was a recommendation. You appointed the reviewer and set the terms of reference. That review has now reported, and we're consulting. I don't know what the problem is.

Senator BRAGG: So you don't accept the characterisation that it's a fresh review? You're consulting on the recommendations, are you?

Senator Gallagher: Yes, that's what the Assistant Treasurer has said.

Mr Moore: The final report is the basis for the government's consultation, ahead of making final decisions on its response.

Senator BRAGG: Okay. I think you've got this piece of paper now?

Senator Gallagher: Is that about the FOI? Yes, I'm just having a read of it. Sorry, I was answering your question. I don't think that's a Treasury matter, from what I'm looking at, because this is a response from the office of the Assistant Treasurer. I'm having—

Senator BRAGG: These are all administered by the department.

Senator Gallagher: No. I stand to be corrected, but if your FOI went—I'm just reading your FOI for the scope. You've asked if there are any documents received by the Assistant Treasurer. That would then have to be dealt with at his office, as happens with me as well, and then it gets handled in accordance—but it doesn't go to the department. If you FOI Treasury then they'd handle it under their arrangements. It may be that this went there as well. Did it, or was it just to the Assistant Treasurer?

Senator BRAGG: Okay.

Senator Gallagher: That's why I answered that way. Treasury won't be able to answer. This was handled in the office, by the looks of it. I think you can appeal, can't you? You can go through the process if you think it's not right.

Senator BRAGG: The substance here is that there were Treasury resources put into developing regulations which covered up payments and which were disallowed last week.

Senator Gallagher: Yes.

Senator BRAGG: I'm trying to work out how it happened, because, according to these freedom-of-information requests, there's only one organisation that provided anything on the record about this or to the Treasury or to the minister. One document is being protected, and it won't be released at this stage under FOI. I'm just trying to work out why that is.

Mr Jeremenko: As the minister was saying, under the FOI Act, the authorised decision-maker for this request is, in this case, this senior adviser in Minister Jones's office. So I can't second-guess that. Personally, I'm not familiar with this document—as in the document you're talking about that was redacted—as well as what I'm speaking of.

Senator BRAGG: But are you familiar with the regulations that were disallowed?

Mr Jeremenko: Yes.

Senator BRAGG: What was the main basis for those regulations?

Mr Jeremenko: The government was very keen to ensure that, in terms of members understanding all of the different pieces of information that they could well receive about their superannuation fund, they would receive it in a way that was digestible. It was part of a broader transparency package to ensure, as I say, the ability of super fund members to actually understand and deal with the amount of information that could well be delivered to them as part of an annual member meeting notice. The government's view was that it was better to make the regulations that were made and instead make sure that that transparency still existed via the other avenues that I know you're familiar with, including the work that APRA are doing on their data collection, and then publishing that.

Senator BRAGG: But, as you know, there was no regulatory impact statement undertaken for this purpose. There was only a very targeted consultation, part of which is not being released for apparently commercial-in-confidence reasons. It seems to have been a very strange adventure. Was it Treasury's advice that that was a worthwhile endeavour?

Senator Gallagher: I think that goes to advice between a department and a minister. The government's position on this was clear. We put forward a regulation. It tweaked the arrangements that had been in place previously. The Senate has disallowed it, so we go back to the other arrangements.

Senator BRAGG: So that's the end of that policy?

Senator Gallagher: The parliament has spoken, hasn't it?

Senator BRAGG: That's an interesting way to answer the question.

Senator Gallagher: Well, it has.

Senator BRAGG: Is that the end of the policy?

Senator Gallagher: The disallowance occurred, so it is not government policy. The regulation in place has reverted.

Senator BRAGG: So you won't pursue that secrecy agenda again?

Senator Gallagher: It's not a secrecy agenda. It was about transparency—providing the same level of information in a usable way. The Senate has disagreed with that. We move on.

CHAIR: I wouldn't mind reallocating the call. Do you have one more?

Senator BRAGG: I probably just have one more.

CHAIR: Sure.

Senator BRAGG: On the same theme—in relation to this review you're conducting inside your department on the whole package of Your Future, Your Super—is the review of the best financial interest duty still a body of work?

Mr Jeremenko: It's part of that. Correct.

Senator BRAGG: Okay. Do you think there are good policy arguments for weakening that test?

Senator Gallagher: You keep asking opinions of officials. It's not fair.

Senator BRAGG: Do you think there are good arguments, Minister?

Senator Gallagher: I'm not close to this review. I haven't been involved in it, so I'll leave it to work its way through its processes.

Mr Jeremenko: The consultation is closed, as you're probably aware. We're in the process of advising government as to options in terms of dealing with the submissions that have been put in. I understand those submissions have recently been made public as well.

CHAIR: Senator Hume?

Senator HUME: I want to follow up on a couple of the issues around the Levy review. In the *Financial Review* today, Ms Levy, said:

I was and am an expert in the field. I did listen and speak to others who are expert. That was a big part of it. I don't know that there is a particular reason for more opinions. The stress testing was in part done through the proposals paper.

Not only is Mr Levy an expert in the field, but Treasury were embedded and worked on this report, so I can't understand what the problem is. Is the Treasurer saying that Treasury didn't do a good job, that Miss Levy didn't do a good job?

Senator Gallagher: No. I don't think it's that unusual for governments to receive a report, publish it and take feedback on it. I think that is thoroughly uncontroversial and unsurprising. Is your proposition that we should have received the report and just done whatever she said?

Senator HUME: No. I'm suggesting she made recommendations and you respond to recommendations, not re-prosecute or relitigate the case.

Senator Gallagher: I think it is useful for the government to understand the feedback on those recommendations. It would assist in decision-making in formulating our response. There are a whole range of reviews where you do that.

Senator HUME: Can I ask who you are asking for feedback from?

Senator Gallagher: I, specifically, don't know the people who have been asked, but my understanding is we will take feedback from anyone who wants to provide feedback. That's why it's been published and made available.

Senator HUME: Can I ask Treasury, is there anybody who was on the secretariat for this review who feels that there was some cohort that wasn't particularly well canvassed?

Mr Jeremenko: As the minister was saying, and as we've been trying to explain, it's perhaps better to characterise this as not another review. Michelle Levy did the review. It exists, it's public and there are recommendations. It is the government taking further soundings around what it should do with those recommendations. How the government does that is yet to be determined, but we remain available, as always, to support the government in doing that. The secretariat that supported Ms Levy in conducting the quality of advice review was within Treasury, but that is now disbanded because the review is over. In terms of the advice we provide government, it would be from a completely different division with Markets Group, and different individuals as well.

Senator HUME: I want to ask about the time line of the review—not the review of the review but the assessment of the recommendations. What's the time line there?

Senator Gallagher: From my recollection—and I'm being assisted here—the open banking review underwent a similar process, in which, when you received it, there was a further consultation process, led by an independent

reviewer with support from Treasury. That's why I say it's uncontroversial and unsurprising. I don't believe there is a date, although I will be corrected. I'll see if I can find anything out from the Assistant Treasurer's office to assist with that. I'm advised that he wants to take the time to get the response right, and I believe it'll be a matter that we'll all be interested in as it goes through the cabinet process as well.

Senator HUME: If the government decides to junk the review, the review that was a recommendation of—

Senator Gallagher: There's no suggestion of junking a review.

Senator HUME: If you don't pursue the recommendations that are in this review, a review that itself was a recommendation of the Hayne royal commission, what will you do about the access to and quality and cost of financial advice?

Senator Gallagher: I think there are a whole load of hypotheticals there that make that question impossible to answer.

Senator HUME: Let me rephrase it, Minister. Do you believe that access to and quality and cost of financial advice are priority issues for your government?

Senator Gallagher: Yes, I would say so.

Senator HUME: Thank you.

Senator Gallagher: And the right consumer protections—working with all of the groups across the financial sector in landing the government's response is an important part of this. Again, I think it's very uncontroversial.

Senator HUME: Noting the concerns and the need to stress test, can the officials who are here today walk the committee through the process of the review from beginning to end? What number of submissions was received, what number of roundtables was held, how many stages did you go through and what were the gaps in that process?

Mr Jeremenko: I'll ask my colleagues to answer that. I'll give a preamble, if I may—not to suggest that, in saying this, we have any views that align with what you just said in terms of gaps. This was a very comprehensive report.

Ms Zaheed: Senator, there were a number of processes that were undertaken. Initially, there was a consultation paper released on 11 March—it was the terms of reference. The issues paper was released on 25 March. We got a large number of submissions to that, and they're all public on the Treasury's website. Subsequent to that, there were 134 submissions to the issues paper. The public submissions are obviously on the Treasury's website; the confidential ones—not so much. Subsequent to that, Ms Levy released a proposals paper for public consultation on 29 August. The proposals paper had 178 submissions, and 29 of those were confidential. There was a subsequent consultation on conflicted remuneration, which was not included in the issues paper. That was released on 31 October 2022, and there were 29 submissions to that one. Then there was Ms Levy's final report. As part of those consultation processes, there were a range of meetings with a wide set of stakeholders.

Senator HUME: As part of those meetings with stakeholders, were there meetings with Choice and the Consumer Action Law Centre?

Ms Zaheed: There were a range of consumer advocacy bodies, such as Choice, and I think you mentioned the consumer action legal centre—

Senator HUME: Legal centre—yes, sorry.

Ms Zaheed: I'd have to check this, but I believe CALC weren't at the consultation process. They worked through Choice on this one. The consumer bodies often co-represent. We did have super complaints Australia.

Senator HUME: Super Consumers Australia?

Ms Zaheed: Sorry—Super Consumers Australia.

Senator HUME: We're correcting each other on our consumer groups!

Ms Zaheed: You just end up thinking in acronyms after a point in time! But, yes, consumer advocacy bodies were involved in the consultation processes and made submissions.

Senator HUME: Beyond the adviser bodies and the organisations involved—I'm assuming there were big corporations, small corporations, individual advisers, consumer groups—who's missing? Who have we not consulted?

Ms Zaheed: Just going back to the point that my colleagues have already made, it was a public consultation process, so anyone with an interest in the process had an avenue to consult. I don't think any of my colleagues are

saying that the review itself excluded a particular group of consultations. It's more around how government is thinking about its implementation.

Senator Gallagher: It's about informing the government's response. Again, I don't think that's unusual. There would be countless numbers of reviews that governments receive where you get the recommendations and you have a process around that. It happened under your government; it's happened under this government.

Senator HUME: Do you think that Ms Levy approached this review with an open mind and treated all of the submissions and the contributions with the respect and levity—that's not a pun around her name—that they deserved?

Senator Gallagher: Yes, and we thank her for her work.

Senator HUME: You don't seem very grateful.

Senator Gallagher: I don't know what you want me to do. We thank her for the work. We've got the review. We've released the review.

Senator HUME: Minister, will Australians—

Senator Gallagher: Is it your position that we should just accept all recommendations and move on? Is that the problem that we're having here. Do you think there shouldn't be any further discussion—we should just take the recommendations and run with them?

Senator HUME: No, but you haven't identified or articulated a specific problem you have with the recommendations, other than the fact that you want to do more work. That doesn't seem particularly fair—

Senator Gallagher: We want to take feedback.

Senator HUME: to all of those people who submitted, to all of those who participated in the roundtables and to all of those that have been waiting on an outcome, particularly the Australians that are out there paying too much for their financial advice and probably need more. Can I ask you, Minister: will Australians keep paying high amounts for financial advice if the government does not action this review in a timely manner?

Senator Gallagher: It is the government's intention to action this review in a timely manner. The fact is that we've released it and everyone's got the recommendations. If we choose to respond in a way that doesn't accept some recommendations—I don't know if that's the case, because it's not under my portfolio responsibility—you will know because you've got a copy of the review and the recommendations. You could tell us what you think; you could put in a submission.

Senator HUME: Can we expect the Assistant Treasurer to publicly rebuke reports before a response is finalised on other issues?

Senator Gallagher: I don't know what you're talking about in relation to that.

Senator HUME: Why did the Assistant Treasurer publicly announce that it needed a stress test and more expert advice, when you can't identify any problems with it?

Senator Gallagher: We've received a review. It's got a number of recommendations. It's in an area where there are a lot of stakeholders with a lot of views. I don't think it's unusual that the government would want to take further feedback and finalise a response. We're not delaying the response. The feedback we get will be incorporated into the advice from the Assistant Treasurer to the government about the response. Again, this is how government works.

Senator HUME: It's how your government works.

Senator Gallagher: I take that. What about the open banking review then?

Senator HUME: That's still going. It's been implemented and—not only that—it's constantly iterative consultation. You know full well that the consumer data right is a very different concept.

Senator Gallagher: But what about that process, where you got a review and then you—

Senator HUME: It's still going through consultation. There is still a working group that constantly works on an iterative process. If you don't understand the consumer data right, Minister, then don't comment on it.

CHAIR: Can I just do a time check at this point. We've been on one topic for a while. We've got Markets with us. We are due, now, to go to Revenue et cetera. Do you have other lines of questions for Markets, or are we in a position to release Markets? Senator Bragg.

Senator BRAGG: Has the Treasury put any restraints on Ms Levy meeting with members or senators?

Senator Gallagher: Sorry, I missed that. Was that to me?

Senator BRAGG: Sure.

Senator Gallagher: I missed the question, sorry.

Senator BRAGG: It was a very good question. I was just wondering whether the Treasury or the government has had any restraints placed on Ms Levy in meeting with members or senators.

Mr Moore: I'm not aware of any.

Senator BRAGG: You're not aware of any?

Senator Gallagher: No.

Senator BRAGG: Are you aware of any requests to meet with Ms Levy from members or senators?

Mr Jeremenko: Yes—as in: that members and/or senators had, during the period of the review, asked to meet with her?

Senator BRAGG: Yes.

Mr Jeremenko: Yes.

Senator BRAGG: Were any of them facilitated?

Mr Jeremenko: Not by me personally, but my colleagues might be able to help.

Ms Zaheed: Yes. There were meetings facilitated through the Assistant Treasurer's office, as is the usual course of action for an independent government review. It usually goes through the relevant minister's office, and meetings were facilitated.

Senator BRAGG: How many were facilitated and how many were rejected?

Ms Zaheed: I'm not aware of any being rejected. That might be one where not all requests came to us. I'm aware of one being facilitated.

Senator BRAGG: That must be nice. I'm very pleased to hear that someone was allowed to meet with Ms Levy. Finally, I want to ask you about something we discussed last time you were here, which doesn't seem all that long ago. Effectively, there was a Treasury consultation in March or April last year on regulating the gatekeepers in the digital asset crypto space. I believe Treasury has now put the submissions on the website; is that right?

Ms Zaheed: Are you talking about the consultation? Can you repeat the date for which one you are talking about?

Senator BRAGG: It was the CASSPrs—not the ghost, the other one.

Ms Zaheed: The submissions to those that are public submissions are on our website.

Senator BRAGG: So that has happened.

Ms Zaheed: Yes.

Senator BRAGG: What was the outcome of the consultation?

Ms Zaheed: Subsequent to that, we have released the paper on token mapping.

Senator BRAGG: Yes, but what was the outcome? The token mapping had nothing to do with the CASSPrs.

Ms Zaheed: The CASSPrs paper was referring to the licensing regime, as the government has announced.

Senator BRAGG: Yes. What happened to that?

Ms Zaheed: As the government's announced, Treasury's working on token mapping. We've prioritised that. That paper's out for consultation. We're also, concurrently, working on licensing and custody arrangements, with a consultation paper that we expect to release by mid this year.

Senator BRAGG: I don't like overtalk witnesses, because it's not in good taste, but I would like an answer to the question.

Ms Zaheed: The feedback from the consultation was obviously that Treasury has read it; Treasury has thought about it. As I've said, we're working on licensing and custody, but we've prioritised token mapping. That was the government's decision. That paper's out for consultation. The government intends to release a paper on licensing and custody by the middle of 2023, the middle of this year. So, obviously, things we've learned through those processes will be fed into our work on licensing and custody.

Senator BRAGG: Let's just try to cut to the chase here. You've already run a consultation on regulating crypto markets and brokers and the like. That's already been done. What is the next step in regulating these gatekeepers? Obviously, there have been a lot of people who have lost their shirts over the collapse of FTX and the like, and there could be more. I'm trying to understand what the next step is. Is the next step draft legislation? What is it?

Ms Zaheed: I'll let Ms Luu add to this question. The next step is a further consultation on licensing—

Senator BRAGG: But why have another one?

Ms Luu: Since we put out the CASSPrs paper in March of last year, we have gone through all the submissions and have had meetings in the interim to try to understand the sector. There has been a lot of movement in the interim. As you flagged, FTX collapsed. There is a lot happening globally. We're taking the time to understand what is happening overseas, with US announcements just this week, as well as papers being put out by the UK. We certainly will take that feedback and the submissions we received, which are on the website now. That will feed into the work on licensing and custody. After that exercise, we will be looking at whether there are other regulatory gaps that would not be covered or are unable to be covered by the licensing and custody work.

Senator BRAGG: To summarise that: instead of moving quickly on the gatekeeper regulation, you put out the token mapping thing, and then you're going to come back later this year and have another consultation paper on the markets licensing system.

Ms Luu: Correct.

Senator BRAGG: In the interim, if you're investing into one of these things in Australia and it falls over, then too bad.

Ms Luu: I think as the token mapping paper outlined, there were probably some tokens that you could consider to already be a financial product, and so therefore would be covered under the normal consumer protections that exist.

Senator BRAGG: Just to tease that out: if you put out a paper later this year, when will we get to legislation?

Ms Luu: That is a matter for government.

Senator BRAGG: It's a matter for government, but we're years away from seeing these things regulated. That's a decision of government.

Senator Gallagher: I'll come back to you if we can provide any more information about time lines.

Senator BRAGG: Are you concerned that people will be unnecessarily exposed?

Senator Gallagher: In terms of the time taken to get the regulation right or the decisions right? I'd rather do it properly.

Senator BRAGG: There is already a paper.

Senator Gallagher: But this is a matter for the Assistant Treasurer, so, if there's anything I can update you on in terms of his thinking about timing, I will do so.

Senator BRAGG: What do you think the outcome of token mapping will be?

Ms Luu: I think it will allow us to have a common platform thinking about how we approach these very complex products and these tokens. There are different views. These things are evolving. The tokens themselves can take many forms. They change over time. What we're trying to do is bring a common view on these issues. It is a very complex sector with a diverse group of stakeholders.

Senator BRAGG: I want to ask one more, and then I'll go away. The Assistant Treasurer said in August last year that this token mapping thing was going to be released before Christmas last year. It didn't happen until this year. What's the story? Is there a problem there? How is it going with them? What's the issue with these delays? It's very slow going. At this rate, there will be nothing put in place this parliament.

Mr Jeremenko: As you referred to, the government released this on 3 February, early—obviously—in the year. There are a whole lot of priorities of the government. It's up to the minister as to when certain things are released and when matters are prioritised. If I could add on the consumer protection point: ASIC are increasing, as you're probably aware, their enforcement in this area. ACCC also are doing the same in terms of beefing up their focus in the crypto area. So it's not as if, in the absence of legislative change to regulate, there is no protection there for consumers.

Senator BRAGG: It's unusual though for a Treasury minister to put onto the Treasury website that something will be released by a particular timetable and then it's missed by months and months.

Senator Gallagher: It's not months and months. I think you're exaggerating there.

Senator BRAGG: It's quite a time long time, though.

Senator Gallagher: Anyway, what happened under your government?

Senator BRAGG: I don't know. I wasn't part of the executive in that government. You're asking lots of questions for a minister at the table. I don't think that's how it's supposed to work, Chair.

Senator Gallagher: I think this 'what's happening and why is it not happening fast enough', when we've been in for nine months after a nine-year-old government, and we've picked up a lot of pieces of work and are moving through them methodically and responsibly—as I said, if there is more that I can provide you in terms of time lines I will come back to you. I don't have that information before me.

CHAIR: Speaking of time lines, it would be good to make it to Revenue Group at some point soon. Senator Hume, do you have questions for Markets Group?

Senator HUME: I do. I have one more line of questioning about the FAR and the compensation scheme of last resort. Can I ask whether the department prepared advice on any amendments to the Financial Accountability Regime legislation to impose penalties on banking executives between 18 October and December last year?

Mr Jeremenko: I'll ask Ms Zaheed to answer that.

Ms Zaheed: Yes, we looked at it. It was a parliamentary amendment moved. As is ordinarily the case, we look at any PAMs that gets moved on pieces of legislation and provide advice in relation to PAMs.

Senator HUME: When was that advice received and to whom was it sent?

Ms Zaheed: I don't have the exact date. I suspect it would have been close to the date that amendments were discussed and raised. I don't have the exact date for when we would have provided advice.

Senator HUME: Can you take that on notice and potentially table the advice?

Ms Zaheed: We can provide the date for when that advice was provided.

Senator HUME: Give it a crack. Has the Treasurer been briefed on the Financial Accountability Regime and the compensation scheme of last resort?

Ms Zaheed: As a matter of course, briefings that we do to the Assistant Treasurer—

Senator HUME: Not the Assistant Treasurer; the Treasurer.

Ms Zaheed: I know. I'm just saying: as a matter of course, briefings that we do to the Assistant Treasurer are copied to the Treasurer, so I can't say for certain whether the Treasurer—

Senator HUME: So he hasn't been briefed directly?

Ms Zaheed: I haven't had a conversation with the Treasurer about that, but briefings that go to junior ministers generally go to the Treasurer. There are obviously conversations between the offices.

Senator HUME: Do you know whether the Treasurer was briefed on the plan to add penalties to the scheme?

Ms Zaheed: That's a question for the Assistant Treasurer.

Senator HUME: So the submission or the advice that you gave the Assistant Treasurer, was that CCed to the Treasurer?

Ms Zaheed: I don't recall if it was formal advice or if it was advice in the context of discussion with advisers.

Senator Gallagher: I can check, Senator Hume, and see if there's anything further we can provide on that.

Senator HUME: Did the Treasurer or the Treasurer's office express any directives or communicate any intention to pass the bill with or without the penalties?

Ms Zaheed: There would have been lots of conversations. I recall a range of conversations understanding those issues, so looking at what stakeholder submissions might have been, what the consequences were. There were a lot of those considerations, and, as you would expect, Treasury obviously provided advice on those issues.

Senator HUME: At what point did the department become aware that it was intended to remove the Financial Accountability Regime schedules out of the Financial Sector Reform Bill and pass it with just the consumer credit reforms?

Ms Zaheed: I don't have the exact dates. My recollection is that we assisted on the PAMs a couple of days before it was introduced, so it would have been very close to when they were introduced. I'll take the exact date on notice.

Senator HUME: Minister, maybe you could answer this one: when was it decided to gut that bill and remove those schedules?

Senator Gallagher: I'll have to check. I was just saying to Mr Jeremenko that I'm having a distant flashback to the end of the sitting calendar last year.

Senator HUME: A special time!

Senator Gallagher: It was. I'm happy to come back with a date. I can't recall specifically.

Senator MCKIM: I'm happy to try and assist!

Senator Gallagher: Senator McKim might be able to! I don't want to encourage him, though. Some dark, dark days!

Senator HUME: Now I have the giggles! Can I ask whether the department has drafted a new bill to reintroduce those schedules that were removed?

Ms Zaheed: We've been having discussions with the Assistant Treasurer's office around the government's plans for that bill. As far as I'm aware, I don't think we've provided a new draft bill to the minister as yet.

Senator HUME: So we don't really have a timetable as to when that will be introduced?

Ms Zaheed: That's a decision for government, Senator.

Senator Gallagher: Maybe I can update you on that.

Senator HUME: It is something or it isn't?

Senator Gallagher: I don't have any further information to provide you on that.

Senator HUME: That something of a concern considering there was a fair bit of drum banging prior to the election about the Hayne royal commission recommendations and making sure that they were implemented. This is one of those recommendations, as is the commissioning of the review.

Senator Gallagher: Yes, and we are working through them all.

Senator HUME: Some stakeholders have raised concerns about the compensation scheme of last resort, particularly the one-off levy that's associated with that. Has any work been progressed or advice been received on how that particular issue can be resolved?

Ms Zaheed: That is one of the issues that we've been looking at and providing advice to government on for options, implications and different policy choices that government has in relation to the one-off levy.

Senator HUME: Is that advice going just to Assistant Treasurer Jones, or is it going to the Treasurer as well?

Ms Zaheed: As you'd be aware, if it's a formal piece of advice it goes up through a ministerial submission. That would go to both the Treasurer and the Assistant Treasurer. There is lots of discussion, lots of advice and lots of conversations we have with offices. That is primarily through Minister Jones's office.

Senator HUME: Do you intend to brief the Assistant Treasurer and the Treasurer in person on that advice?

Ms Zaheed: I'd expected those briefings to happen with the Assistant Treasurer. We've had conversations on this issue.

Senator HUME: Has the Treasurer expressed a particular interest in receiving more advice on this bill?

Ms Zaheed: There have been no discussions directly that I'm aware of on this particular issue between the Treasurer and the department. That's not to say the Treasurer hasn't taken an interest. We've engaged with the Treasurer's office but not directly with the Treasurer on this issue, but that's not unusual.

Senator HUME: Minister, this is a bill that has bipartisan support. It is an extraordinary delay in legislating with a bill with bipartisan support.

Senator Gallagher: We weren't able to successfully negotiate its passage last year, so further work is being done. I imagine that bill will be reintroduced, and hopefully we can get support from the chamber to see it passed.

Senator HUME: This doesn't seem to be the first time Assistant Treasurer Jones has messed up something that seemed easy on the surface. You've already rebuked him once today for his comments around interest rates.

Senator Gallagher: I'm not sure I've rebuked him.

Senator HUME: Well, you probably haven't had a chance to what the television report on some of the comments you've been making today around the RBA's independence—

Senator Gallagher: That's the government's position.

Senator HUME: but that is the way it is being reported.

CHAIR: Do you have a question, Senator Hume, or just negative reflections?

Senator HUME: I'm just wondering—

Senator Gallagher: It's a complex portfolio with a lot of stakeholders to work with. It's not surprising that on occasion you're going to have to rethink and continue to negotiate with people to get reforms through.

Senator HUME: Perhaps the message from Minister Jones today is to rethink and negotiate with people, rather than simply talk.

CHAIR: Is that a note to end this section on?

Senator Gallagher: Being senators, we know the benefits that come with good dialogue, consultation and negotiation, because that's the only way we get anything done.

Senator HUME: That's exactly right; thank you, Minister.

CHAIR: That sounded like a note to end on; thank you very much Senator Hume. I believe we are releasing the Markets Group with our thanks. Thank you for being with us.

**Australian Taxation Office
Australian Charities and Not-for-profits Commission**

[18:27]

CHAIR: We welcome representatives from the Australian Taxation Office, the Tax Practitioners Board and the Australian Charities and Not-for-profits Commission to join Treasury's Revenue, Small Business and Housing Group. A particular welcome to Ms Woodward. I understand this is your first estimates appearance, so welcome. We've created something of an omnibus appearance panel. I'm aware there's an opening statement from Ms Woodward and also one from the Tax Practitioners Board. I wonder first up whether you'd be happy for me to table those rather than deliver them verbally, so I will table those opening statements. Mr Jordan, did you wish to make an opening statement?

Mr Jordan: Not a statement as such, but with your indulgence can I spent 30 seconds saying something? We at the tax office were extremely pleased to see in the survey of 12,000 Australian citizens run by the Department of the Prime Minister and Cabinet that we came out on top for trustworthiness of government agencies. I hope people trust us. More interestingly we came out on top with 82 per cent of people satisfied with their interactions with the ATO. So we came out on top of both trustworthiness and satisfaction, and I think that's a result of the very hard work all the people in the tax office have put in over the last few years for our cultural transformation to put the staff and the client at the centre of everything we do.

CHAIR: Thank you very much, Mr Jordan, for those opening words. We'll figure out how this is going to work as we go along, and we're going to go straight to questions.

Senator O'NEILL: I've just skim-read the opening statement from the Tax Practitioners Board, and I'm sure some of my questions, Mr Klug, might enable you to put some of that on the record. We don't hear a lot about the Tax Practitioners Board, but Australians, in recent times, would have heard about the termination of the registration of tax agent Peter-John Collins of PwC, which is one of the largest providers of financial advice and accounting services in the country. On 23 January, it was found that he had shared confidential information with colleagues about tax policy. That confidential material was material that he had actually obtained in the course of consultations with Treasury. Australians generally don't pay a lot of attention to this, but, when somebody consults with Treasury, the practice is that they would sign a confidentiality agreement so that the conversation can be robust, honest and then treated with confidentiality. That didn't occur in this case, did it? Do you want to fill out the information about this particular instance with regard to Mr Peter-John Collins of PwC?

Mr Klug: I'm happy to fill in the gaps for you. Would you like me to perhaps give a bit of background on the Tax Practitioners Board, just to explain our role?

Senator O'NEILL: Let's just start with this instance, and then we can go there if required.

Mr Klug: Okay.

Senator O'NEILL: What happened?

Mr Klug: The situation was that, yes, there was a breach of confidentiality. As the Tax Practitioners Board, we regulate all tax practitioners in the country, large or small. That breach came to the attention of the TPB. We sanction tax practitioners, and, as part of our sanctioning, this came to our attention. It went in front of our conduct committee, and, as a result of going to the conduct committee, his registration was terminated based on the facts of the case and the evidence that was supplied to us.

Senator O'NEILL: What were the facts of the case?

Mr Klug: The facts were that it was a breach of confidentiality. The detailed information is included on our register. The information that he had obtained as part of that consultation process was released to partners in his firm, to his colleagues and also to clients.

Senator O'NEILL: So, in effect, by his participation in what was supposedly a confidential set of considerations, Mr Peter-John Collins of PwC took that information back to his company and shared it with colleagues who then monetised that for profit. Is that it, in a nutshell?

Mr Klug: In a nutshell, that's correct.

Senator O'NEILL: To me, it's certainly shocking behaviour. I understand the Treasurer recently wrote to you regarding what assurances you have in place to ensure, immediately, a redress of the situation we've just described so that confidential processes remain confidential and that any improvements to those processes be implemented post-haste. Can you set out what you're doing immediately in response to that direction from the Treasurer?

Mr Klug: We take the issue of conflict of interest and confidentiality very seriously. We have very good processes in place at the TPB regarding our own board members et cetera, and there are other actions which are being put in place. It would probably be best if our secretary and CEO expanded on those.

Mr O'Neill: The TPB is looking at our own consultation processes. We understand that the Treasurer has similarly asked the Treasury, the ATO and the Board of Taxation to provide some assurances around the integrity of the process. With those other agencies, we're looking at the obvious benefits of ongoing and confidential consultation, the risks around integrity and, if confidential information is leaked or conflicts of interest are not managed, how we might tighten up those processes. Some of the things that have been suggested so far include a centralised register so that we've got a better tracking of those types of issues, as well as some engagement with firms and the tax practitioner industry more generally. Firms, too, are also looking at these sorts of issues and how they can better ensure that they're abiding by their obligations to confidentiality.

Senator O'NEILL: But the monetising of this matter is more than just about Mr Peter-John Collins, who suffered a personal response from the Tax Practitioners Board. He didn't monetise this by himself; he did it with other people in PwC.

Mr O'Neill: That's right. There was confidential communication and information from Treasury and the board of tax to Mr Collins. Mr Collins, as we said in our public entry on our register, shared that information with PwC personnel, both in Australia and overseas, who, in turn, shared that with clients. That was part of the monetisation, as you said. The board similarly investigated PwC in this case and ordered PwC to address its own conflict-of-interest measures to ensure that they are compliant into the future.

Senator O'NEILL: Have there been any further disciplinary actions for anyone else at PwC, or have there been any repercussions for any of the clients who access this information?

Mr O'Neill: In relation to the clients, I'm not sure we can answer that. It might be a question for somebody else. In relation to PwC's internal review, I can't tell you that detail. The board took action in relation to Mr Collins and PwC based on the facts and evidence we had and the law that we have available to us—the Tax Agent Services Act. At this stage, we're not aware of any other inquiries in relation to other personnel at PwC.

Senator O'NEILL: So he saw an opportunity, ran with it and took it up. The disincentive to act unethically and unprofessionally, to the point where he has now been disbarred, wasn't sufficient to stop him. In 2019 there was an independent review of the Tax Practitioners Board. That review then made a number of recommendations. Since then, to the best of your knowledge, Mr Klug or Mr O'Neill, has any legislation been introduced or passed to implement the recommendations?

Mr O'Neill: Not at this stage. Our Treasury colleagues might want to address the reform questions more generally. The previous government made some decisions in relation to a range of those recommendations in 2020, and there has been some consultation in relation to those. There has been implementation of some of the administrative recommendations, but there hasn't been legislation at this point.

Senator O'NEILL: We're talking about a 2019 report. Here we are—it's 2023—and we've got a description of a person who was sufficiently incentivised with a lack of adequate scrutiny clearly able to operate in the way that he did and a company able to facilitate his action. What should have been happening in 2019, in your view, Ms Brown? Could you refer to the processes—or is it Ms Berger-Thomson who's going to answer this question—about the legislation that needed to follow the 2019 review?

Ms D Brown: I'll start, but Ms Berger-Thomson may have some more detail that she can provide to you. The final report was completed in October 2019, as you heard. It contained 28 recommendations. The government gave its response in November 2020. It supported 10 of the recommendations in full, or in part, with a further 10 recommendations supported in principle. Treasury commenced work on implementing those recommendations, but no legislation was introduced before parliament was prorogued before the last election. Since this government was elected, the government has now consulted on exposure draft legislation that was publicly released on 18 November 2022, and that deals with five of the recommendations, I believe. Ms Berger-Thomson can take you through those five.

Senator O'NEILL: You've picked up the task of actually doing the work that needs to be done?

Ms Berger-Thomson: Yes, Senator. My division is responsible for working with the government on policies in this space. As alluded to by my TPB colleagues, there are a range of administrative recommendations that have been implemented or are in the process of being implemented by the TPB and the ATO. One of those was the setting up of the Tax Practitioner Governance and Standards Forum. I think its first meeting took place in July 2021. There are a range of other actions in the governance space which can be done without legislation and which are currently being progressed.

Then we have the bill. I understand it's being introduced into parliament today. That has five recommendations. I can go into each of the recommendations in detail if you would like, but I'll first of all take a bit of a step back and think about the review overall. The review made a number of recommendations which related to TPB independence and governance; registration and education of tax practitioners; the code of professional conduct; and TPB powers, and those include sanctions. The current bill looks at TPB independence—financial independence, in particular—from the ATO. It sets up a special account in order to facilitate that. One of the other key parts of this bill is that it gives the minister power to supplement what's called the code of professional conduct, which enables the TPB to, I guess, more effectively target emerging or existing behaviours and practices of tax agents.

Senator O'NEILL: So dodgy practices. I know that you're going to give me the wind-up in a second, Chair, so I'm going to go to just one of the elements you mentioned there, Ms Berger-Thomson. I understand recommendation 6.1 was the recommendation to increase the board's sanction powers. Clearly, there's the case of Mr Collins—and I'm sure that Senator McKim will pursue further questions about the collateral around the edge of Mr Collins's actions. How would that change the way in which you might be able to do your job in terms of sanctioning? How would it provide sufficient deterrents to people who might abuse information—which takes away fair and just taxation for Australian people, which benefits us all—and not advantage individuals who can pay a lot of money for sneakily or deceptively acquired knowledge about Australian taxation policy?

Ms Berger-Thomson: I might answer the question on 6.1. That's not one that's in front of parliament at the moment. That will likely be in a follow-up bill, potentially, but we're currently working on that with the government. Currently, there are two levels of sanctions, broadly speaking, that the TPB has. One is low-level sanctions—written cautions and further education, if you like. Then there are the high-level sanctions, which are suspensions or terminations of registration. Recommendation 6.1 proposes to give the TPB more of a variety of sanctions, particularly ones that are not low or high but somewhere in the middle, so that they can more effectively target poor behaviour by tax practitioners.

Senator O'NEILL: Thank you. Mr Klug or Mr O'Neill, do you want to supplement that answer?

Mr O'Neill: No, thank you, Senator. I think that adequately describes it. The report into the effectiveness of the TPB identified that, as a regulator, the TPB's existing range of sanctions is an equivalent to other regulators, and so it's really about making the TPB fit for purpose. So I'd agree with my Treasury colleague about that range of sanctions. We look forward to a consultation about that.

Senator O'NEILL: Just for my curiosity: when Mr Peter-John Collins attended these briefings, it was on more than one occasion—is that correct?

Mr O'Neill: Yes.

Senator O'NEILL: So he would have, on each occasion, signed a confidentiality agreement that made it very explicit that no materials should be shared—is that how it works?

Mr O'Neill: No. I think, in broad terms, Mr Collins signed three confidentiality agreements over the course of some years. They were slightly different in terms, but in the broad they all say the same thing—that this needs to be kept secret.

Senator O'NEILL: Is it possible for a person with the skill level of Mr Peter-John Collins to have misunderstood what he was signing?

Mr O'Neill: I can't speak for Mr Collins, but I think most of us would understand, on the face of a confidentiality agreement, what it entails.

Senator O'NEILL: Thank you, Chair. There's more to be asked.

CHAIR: Thank you, Senator O'Neill. Senator McKim.

Senator McKIM: Thanks, Chair. Good evening, folks. On the same issue: I'd like to start with the ATO, if I might. Was the ATO surprised at the speed with which any companies rearranged their affairs to avoid the full force of the multinational anti-avoidance laws? And, if so, which companies were you surprised about?

Mr Jordan: I think it's been reported that the former head of our international division—Mr Mark Konza, a tremendous tax official—has publicly said that he was surprised at how quickly a scheme had been developed, and in fact started to be marketed to mainly US-based multinationals, to overcome the—

Senator McKIM: Can I just ask: were they clients of PwC?

Mr Jordan: I can't say either way. Some were, and some could have been prospective clients. But it was the multinational anti-avoidance law provision that all of this consultation was on. It's very comprehensive. Normally it'd take a while for some people to look at it and see how it all fits together. Within weeks, we became aware of a scheme that was being potentially marketed to multiple companies.

Mr Hirschhorn: The multinational anti-avoidance law became operative on 1 January 2016. By April 2016, we issued our first taxpayer alert in relation to a scheme which we had identified was being marketed.

Senator McKIM: Marketed by PwC?

Mr Hirschhorn: Being marketed—I'm not going to confirm at this stage.

Mr Jordan: And that's a very short period for us to have legislation and an alert.

Mr Hirschhorn: By September, we had issued another two taxpayer alerts about avoidance structures to subvert the MAAL—which was itself an avoidance provision, so we were particularly exercised by people trying to structure to avoid an anti-avoidance provision. I think it is a matter of public record that, in 2018, PwC acknowledged that at least one of those structures related to transactions that they were promoting to their clients and conceded that this was not in line with community expectations.

Senator McKIM: Do you have an estimate of how many dollars the Australian taxpayers were ripped off by—

Mr Hirschhorn: I can answer that. I might give a little bit of context. For several years, we tracked how much extra tax came in as a result of the multinational anti-avoidance law. Like all good avoidance laws, it operated by encouraging people to structure so that it did not apply. We engaged with many overseas companies, and ultimately 44 international groups restructured their Australian affairs in a way which booked sales in Australia—the purpose of the multinational anti-avoidance law. So we dealt with those 44 companies, and we estimate that that resulted in \$100 million in income tax a year being collected in Australia and about \$80 million worth of net GST being collected in Australia each year. If these structures had been effective or had been implemented and we had not challenged them, that was the tax at risk. But I can assure the committee that we identified these schemes very early, no companies implemented those structures, and we protected the revenue so that Australia did not lose money as a result of this breach of confidentiality.

Senator McKIM: Thank you. I'm very pleased to hear that. The ATO currently has a \$12 million contract with PricewaterhouseCoopers. Are you going to blacklist PwC from any future contracts?

Mr Hirschhorn: One of my colleagues will come up, I'm sure, to talk about our procurement practices. A very important feature of the Taxation Office is that my side of the shop, the compliance side of the shop, has taxpayer secrecy. That extends to how we procure services. At this stage I will bow out and pass to my colleague Ms Bristow.

Ms Bristow: We do have a contract with PwC. It is a very specialised contract for our strategic sourcing program. It has run over a number of years, and there are future years. It is completely separate from what you've just been talking about, so, no, we wouldn't be looking to be doing anything in regard to blacklisting. Under the Commonwealth Procurement Rules, for us to cancel a contract we'd have to show breach of that contract.

Senator McKIM: Just to be clear, my question wasn't: would you cancel that contract? It was about blacklisting for future contracts. I really want to ask you: do you trust PwC? The ATO, I'm certain—in fact, I know from some of Mr Jordan's and Mr Hirschhorn's answers to my questions in the past—treats information in the strictest of confidence. PwC have at an organisational level effectively stolen confidential government information and monetised it for profit. That's what they've done. Will the ATO countenance contracting PwC for matters involving anything confidential in the future, and if so, why? How could you trust them after what they have done? This is their SOP, folks. This is how they work. How could you countenance contracting them in the future?

Ms Bristow: Under the panel rules in place that are, which are set by the Department of Finance, the Department of Finance's Management Advisory Services Panel, which we need to use for all non-commercial Commonwealth entities, is mandatory, and PwC is part of that panel.

Senator McKIM: PwC is part of that panel. Do you trust them to be part of that panel?

Ms Bristow: That is set by the Department of Finance, not the ATO.

Senator McKIM: Do we have anyone from the Department of Finance here? No—the Minister for Finance!

Senator Gallagher: We answered some questions about this last night, so I would refer you to the *Hansard*.

Senator McKIM: You actually said you wouldn't be blacklisting them because you thought they'd suffered—

Senator Gallagher: Sorry?

Senator McKIM: You said to my colleague Senator Barbara Pocock that the government wouldn't be blacklisting PricewaterhouseCoopers because you thought they'd suffered enough reputational harm.

Senator Gallagher: No, I did not say that. God! All week I've been verballed. I think we went through the fact that the work that was commissioned did not sit under the panels that Finance puts together, so there wasn't any way, through that panel arrangement, that they could terminate arrangements. I did say that they had suffered reputational damage, because I think they have, and I think they know they have.

Senator McKIM: I don't reckon they have. They're still raking it in.

Senator Gallagher: The Treasurer has expressed our extreme displeasure—I think he used the term 'ropeable'—at the fact that this happened. When you are consulting and dealing with sensitive information, you have to rely on confidentiality contracts, and so if they get breached—

Senator McKIM: Sure, so are you going to blacklist PwC from future government contracts? How can you trust them, Minister? This was at partner level.

Senator Gallagher: The Procurement Rules exist. Ministers don't make procurement decisions, and that is for good reason. Our job is to ensure that the way that contracts are let is done in accordance with the Procurement Rules and that agencies enforce that.

Senator McKIM: They are your rules, though, are they not? They're the government's rules.

Senator Gallagher: That's right, and we always look through them—

Senator McKIM: Did PwC breach any of the rules?

Senator Gallagher: to make sure that they remain relevant and, if there are gaps, that we are looking at how we address those gaps.

Senator McKIM: Mr Klug, are any members of the Tax Practitioners Board receiving any remuneration from PwC? Haven't you got a couple of former partners on the board?

Mr Klug: Yes, we do have two former partners on the board.

Senator McKIM: Are they receiving remuneration from PwC?

Mr Klug: I don't believe so, no.

Senator McKIM: You don't believe so? You must know, surely. Surely they would have declared it if they had been.

Mr Klug: They would have declared it had they been receiving it, and I don't believe that they are.

Senator McKIM: So have there been any declarations of conflict of interest at the board level on this matter?

Mr Klug: No, and we have a declaration of conflict of interest at the beginning of every board meeting.

Senator McKIM: Alright. Is Treasury inviting PwC into any confidential consultations in relation to the government's Multinational Tax Integrity and Tax Transparency package?

Ms D Brown: I need to ask Mr Robinson to come to the table.

Senator McKIM: Surely not!

Ms D Brown: That consultation occurred late last year, by my recollection.

Mr Robinson: In relation to the government's election commitments and the development of the policy that was announced in the October budget, we went through a public consultation process on the measures. PwC engaged in that public consultation process, given it was an open and public process. In terms of further work, we've been going through the process of developing the draft legislation that would enact the relevant measures.

Senator McKIM: Are PwC getting a look at that?

Mr Robinson: We are working towards release of the exposure draft legislation, which would then be available for public consultation during that period.

Senator McKIM: My questions are specifically in relation to any confidential consultation. Are PwC getting a look at that draft legislation ahead of its public release?

Mr Robinson: We haven't undertaken any confidential consultation in relation to those measures at this stage.

Senator McKIM: Do you intend to in the future? In any future consultations on any potential government measures, would Treasury invite PwC to be part of that, given they stole information from the government last time and monetised it for profit?

Mr Robinson: I guess the way I would respond to that question is to say that obviously, following the revelations, Treasury has been reviewing our processes around consultation—both public and confidential consultation—and we've identified some areas where we could potentially make some improvements to those processes. We are also in the process of engaging with a range of firms, including PwC but also other tax advisory firms and other industry associations, with which we have undertaken confidential consultation from time to time. We think it's a good opportunity, through that engagement, to look at what governance and procedural arrangements those organisations have in place to protect the confidentiality of any information that we might give to them during the course of a consultation process and also to consider issues of conflict of interest and the internal processes that organisations might have to manage that. I think it's probably too early to say, in terms of that work, whether or not we might engage PwC or indeed any other entity as a result of that further work.

Senator McKIM: Are PwC, or anyone associated in any way with PwC, currently involved in the Board of Taxation in any way, shape or form?

Ms D Brown: There is a current partner of PricewaterhouseCoopers on the Board of Taxation.

Senator McKIM: That's right. Does that concern you? Was that person privy to the information stolen from the government and leaked? We've heard evidence that partners were involved in that.

Ms D Brown: I wouldn't know, but he might not have been at PwC at that time anyway. I'd have to ask him, but he actually hasn't been a partner at PwC for all that long. He previously worked in a financial company.

CHAIR: Thank you all. The committee will break now and resume with the same witnesses at 8 pm.

Proceedings suspended from 18:59 to 20:02

CHAIR: We will now resume this meeting of the Senate Economics Legislation Committee with representatives from the ATO, the Tax Practitioners Board, the Australian Charities and Not-for-profits Commission, and Treasury's Revenue, Small Business and Housing Group. Thank you for coming back after dinner. Senator Smith, you have the call.

Senator DEAN SMITH: Thank you very much, Chair. Thank you very much making yourselves available this evening. We extend our congratulations, Ms Woodward, on your appointment as the new commissioner of the ACNC, and we also extend our appreciation for the work that Deborah Jenkins did in the acting role and acknowledge those 20-odd ACNC officials who were recognised most recently as part of the 10th-anniversary celebrations for their long service.

Before I come to your opening statement, I'm interested in getting an update on the progress of the expressions of interest for the ACNC advisory panel process. I think the process was announced on 11 October 2022.

Ms D Brown: Thanks, Senator. I have 24 October in my brief. I can check. But we received 295 expressions of interest to be a member. The department has assessed those 285 expressions of interest against the statutory criteria in the act, those criteria being expertise relating to not-for-profit entities or experience and qualifications in law, taxation or accounting. Following that assessment, we provided advice to the assistant minister earlier this year, and he is currently considering who to recommend to cabinet.

Senator DEAN SMITH: When was the advice provided?

Ms D Brown: I believe it was provided on 18 January of this year.

Senator DEAN SMITH: How many positions are to be appointed?

Ms D Brown: Rather than give you the wrong number, I'll ask a colleague to come up on that one. I have got some information in the interim. The board comprises at least two and up to eight general members and any number of ex-officio members. Ms Rowbotham can expand on that.

Ms Rowbotham: I can confirm that there are eight members of the advisory board plus one representative for the states and territories. It's up to the minister's discretion as to how many positions he wishes to refresh.

Senator DEAN SMITH: So the advice that was provided to the minister on 18 January was a short list of people that he could choose from?

Ms Rowbotham: That's correct.

Senator DEAN SMITH: How many people were on the short list that he could choose from?

Ms Rowbotham: Between 30 and 40.

Senator DEAN SMITH: And from that short list he'll be able to select between two and eight?

Ms Rowbotham: Between zero and eight.

Senator DEAN SMITH: Does the advisory panel have a chair?

Ms Rowbotham: Yes, it does.

Senator DEAN SMITH: Are they determined amongst the members of the advisory panel or determined by the minister?

Ms Rowbotham: The minister.

Senator DEAN SMITH: I recall reading that the expression of interest panel invited people to make a pitch in addition to providing a resume or CV. Is that understanding correct?

Ms Rowbotham: That's correct. I think we asked for a pitch of a length of around 500 words. It was relatively short.

Senator DEAN SMITH: Did all of the 285 make a pitch?

Ms Rowbotham: I haven't read all of the applications but I suspect so, yes.

Senator DEAN SMITH: Was making a pitch part of the selection criteria?

Ms D Brown: It was used to inform against the criteria, but if a pitch wasn't there we would have read the resume to assess experience and relevant qualifications.

Senator DEAN SMITH: Is pitching for a position in addition to providing a CV or resume a common practice?

Ms Rowbotham: Yes, it is.

Senator DEAN SMITH: I'm surprised. Are you able to give us an indication of some of the more powerful pitches?

Ms Rowbotham: The pitches very much centred on the applicant's engagement with the not-for-profit sector. Sometimes there were references to qualifications, but mainly it was day-to-day involvement with the charity sector.

Senator DEAN SMITH: When the minister determines his new advisory panel, is it his intention to release the pitches as well?

Ms Rowbotham: I think that's very unlikely.

Senator DEAN SMITH: Did the names that were provided to the minister on 18 January include the pitches?

Ms Rowbotham: They included the entire application—so the pitch and the CV, yes.

Senator DEAN SMITH: When is the minister expecting to make the announcement on the advisory panel?

Ms Rowbotham: I'm not sure.

Ms D Brown: It's a decision of the minister.

Senator DEAN SMITH: I understand. I want to turn to the progress of the harmonisation of fundraising laws between states and territories.

Ms Rowbotham: That's actually run by our Markets Group colleagues, who were on earlier today.

Senator DEAN SMITH: You did tell me that last week, yes. No-one here can give me a sense? It's a rookie error on my part.

Ms Rowbotham: We could take the question on notice and pass it to our Markets Group colleagues.

Ms D Brown: Yes, we can take it on notice.

Senator DEAN SMITH: My question is to get quite a detailed understanding of the progress of the harmonisation of fundraising laws between states and territories, which was a commitment of the government when in opposition. I'm very, very keen to understand the progress of that and, where progress is still outstanding, what other mechanisms or forums there are for those matters to be further progressed and resolved.

Senator Gallagher: I can answer that bit. They were considered by CFFR, the Council on Federal Financial Relations, last Friday. The paper went there talking about progress and outlining next steps. We will provide that detail to you, but certainly it was a paper that was endorsed by CFFR.

Senator DEAN SMITH: Great. Thanks very much. Ms Woodward, I'd like to turn to your opening statement now. I should have acknowledged earlier your very longstanding not just interest but participation in the charity

and not-for-profit sectors. On the basis of that and other contributions you've made to public life, we welcome your appointment. Congratulations again.

In your opening statement you talk about charity advocacy. This has been a contentious issue in the past, and I was hoping that, for the committee, you might just restate your understanding of the regulations and the attitude that you will bring to this issue, in part because 2023 may see quite significant public debates about issues that could be contested. I was hoping you might just—I won't read it out—illuminate on your opening statement where you make reference to this.

Ms Woodward: Thank you, Senator, and thank you for your welcome. Advocacy is a permitted charitable purpose. We have guidance on the website that has been there for some time and still stands. It makes it quite clear that advocating as part of achieving your charitable purpose is a perfectly permissible activity. There are some limitations, which are contained in the Charities Act, and they deal with what would happen if it were to be for an unlawful charitable purpose or if it were in breach of the laws around trespass and things like that. So there are some limits, but certainly there is guidance there that makes it clear that it is perfectly acceptable to advocate for your charitable purpose.

Senator DEAN SMITH: As we enter 2023, how does the ACNC plan to communicate, remind and reinforce what are the regulations and guidelines around advocacy?

Ms Woodward: We will be putting out additional guidance that sits under that umbrella. It doesn't change the position, but we do think it's important to put out guidance which will be more specific around a referendum, for example, if we have a referendum.

Senator DEAN SMITH: I think we can be perfectly frank and talk about the fact that if there is a referendum then people will want to participate in that and they are free to participate in that. But for some people there are some guidelines or some regulations with regard to how they or their associations may be able to participate.

Ms Woodward: Yes, and we will have guidance ready to go quite shortly on exactly that, which will sit under the overall position. So it's not really a change of position, which I think was the point that you made before. We will have specific guidance to deal with the referendum.

Senator DEAN SMITH: Minister, are there any expectations that those regulations may change in advance of or in preparation for the referendum?

Senator Gallagher: I will take that on notice.

Senator DEAN SMITH: Great. Thank you very much. Ms Woodward, you also mentioned red tape reduction in your opening statement. Can you provide us with some additional information about how the ACNC is progressing that and what types of red tape issues charities have foreshadowed or drawn to the attention of the commission.

Ms Woodward: Yes. We see red tape as including our own internal red tape, so we're taking steps to do every efficiency we can. For example, this year we will launch a new registration form which will make sure that we avoid going back to people to get information that they have forgotten to lodge when they've made an application. It will be a form that means you're not able to lodge your application without having all the right information attached. That's an internal process that can reduce that red tape burden.

In particular, we have now, over the 10-year period, successfully made sure that we share data with every state and territory regulator so that, if you fundraise or incorporate an association in any state or territory, you can now lodge your annual report with the ACNC, and we securely share the data with each of those regulators. That's finally come into effect, with Queensland being the last state to come on board. So we can now say we've achieved that, which I think is quite an achievement. For me, as someone who started in the ACNC right back when, it's a decade later, but it is actually an achievement, and we certainly look forward to playing our part in any way we can in relation to the harmonisation of the fundraising laws that were considered at CFFR on Friday.

Senator O'NEILL: Senator Smith, I can actually remember a phrase that's associated with that; it's 'report once, use often'. That was the goal all those years ago, so it's a great achievement for Ms Woodward.

Senator DEAN SMITH: In the last few months, cybersecurity matters have been at the top of mind for organisations in Australia and, indeed, the government. What advice does the ACNC give to charities, which of course vary in size? There are very large and significant ones. What is the approach that the ACNC takes in regard to cybersecurity? In the interests of total transparency, as I have travelled around to charities in my role, some have raised, specifically, concerns about the Right Fit for Risk cybersecurity accreditation regime, which I think is in the Department of Employment and Workplace Relations. Does that in any way interface with the ACNC as an organisation and, more particularly, with individual charities and their cybersecurity obligations?

Ms Woodward: I'm not aware of that, and I'll check with my colleague in a minute, but generally—

Senator DEAN SMITH: I wasn't aware of that either until I met with one or two charities.

Ms Woodward: Generally, we certainly try to always have guidance on topical issues like that for charities, because anything that affects their good governance is relevant for us. In one of our education e-learning modules, we do have a particular part on cybersecurity. So we're trying to play that role. We also have had webinars on it. Within the ACNC itself, we have our own cybersecurity training for staff. We have the Secure Modern Desktop program. So we're doing our own part as an agency, and we're also trying to make sure that, in our guidance and our education, we support charities to understand that they do have that role as part of the overall governance standards. My assistant commissioner, Anna Longley, might be able to add to that particular initiative.

Ms Longley: Really, what our charities need to do is comply with the governance standards. There are obligations upon them and the responsible persons, and that's what we remind them of in the materials that we have: it's up to each of the responsible persons, otherwise known as the board or directors of the charity, to make sure they are aware or make themselves aware of the risks and to make decisions that are appropriate for the size of their charity and the type of data that they hold.

Senator DEAN SMITH: That was the key point that I was interested in—whether or not there was a fit-for-purpose approach to cybersecurity or whether it was a one-size-fits-all approach. It would seem quite unreasonable to expect the standard necessary for the very large charities to be applied to the smaller charities.

Ms Longley: Yes, I would agree. When you have some of the very large charities that this country has and the type of very personal, detailed information that they hold, their risks are much greater than for some of our very small charities that are convened, for instance, around a kitchen table.

Senator DEAN SMITH: Given the recent events with Optus and Medibank and others, has the ACNC engaged in a cybersecurity guidance audit of some of the largest charities in Australia, which might hold a significant volume of personal data?

Ms Longley: No, we haven't specifically addressed that as a risk. But it is something that we would look at generally when we are reviewing a charity.

Senator DEAN SMITH: Is it something that you might take away from this evening and put your mind to, as part of a risk management strategy more generally?

Ms Longley: We are definitely considering what the risks are in relation to cybersecurity and how we might address them.

Senator DEAN SMITH: Great. I might just follow that up again in May. Finally, back to the expert advisory panel, because I'm sure it's an interest for those 285 people who applied and also an interest in the sector: is it common for appointments to sit on a minister's desk for almost a month?

Ms D Brown: I don't think that's a long period. They need time to consider the large number of applications.

Senator DEAN SMITH: I totally accept that, because you did say—

Ms D Brown: There's quite a lot of paperwork there.

Senator DEAN SMITH: Yes, I totally accept that. Thank you.

CHAIR: Do you have any questions, Senator Bragg?

Senator BRAGG: Who's here from Revenue Group?

Ms D Brown: That's me. I've got others behind me.

Senator BRAGG: What sort of work have you done on modelling super changes and tax changes?

Ms D Brown: Superannuation being such a big area, it's a matter we think about regularly. The policy for super sits in Markets Group.

Senator BRAGG: I understand that.

Ms D Brown: The bit we do is the costings.

Senator BRAGG: That's why I'm asking you about costings.

Ms D Brown: I'm going to have to make a very general statement. Tax is an area that can lead to behavioural responses if people speculate on what tax reforms may be, and that behavioural change could lead to undermining integrity measures or causing distortions in the market. It has been the practice of Revenue not to comment one way or the other on tax matters that haven't been publicly decided or announced by the government.

Senator BRAGG: Have you been asked to cost any options?

Ms D Brown: I think that goes to what I was just saying. That would lead to speculation.

Senator BRAGG: I'm not asking you to detail the contents of things you don't want to tell the Senate. I'm asking you whether there's been any work done at all on options.

Senator Gallagher: It would be unsurprising to tell you that we are putting together the May budget. There is a lot of work going on across all government agencies in providing information to government. I think you saw in October that our focus was on multinational tax reform and extending some ATO compliance programs. That was the focus of the October budget. We're working through the details of the May budget now.

Senator BRAGG: That's very secretive of you, but I understand.

Senator Gallagher: It's not secretive; it's standard operating. It's exactly what every government does when they're putting together a budget.

Senator BRAGG: You're not really wanting to say much about super tax at this stage.

Senator Gallagher: I've answered your question in a general sense. The fact is a range of work is happening across government that's helping us to put the budget together.

Senator BRAGG: That's a good answer, I guess, if you don't want to tell much to the Senate. I know you're busy and I don't want to take too much time. You announced the franking change in the last budget. How's that going?

Ms D Brown: We've consulted on exposure draft legislation.

Senator BRAGG: Has it been a popular measure?

Ms D Brown: There was a large number of submissions received; I'm trying to get the exact number for you. I have it on the off-market share buybacks. Mr Robinson may know the number.

Senator BRAGG: A popular measure by lots of submissions, do you reckon?

Ms D Brown: There were submissions in support of the measure.

Senator BRAGG: Who from?

Ms D Brown: A number of academics wrote in support of the measure, saying it was a good integrity measure.

Senator BRAGG: Any investors?

Mr Robinson: I'm not sure I have information on the number of submissions we received in relation to the franking distributions measure.

Senator BRAGG: I understand you're a new government but the tax policy changes in the last budget were around the franking thing, and then there was international tax avoidance. Where is the franking one? That's the exposure draft, is it?

Ms D Brown: Yes. Two measures have been consulted on via exposure draft, and those comments have closed. One was open from 14 September to 5 October, on using capital raisings to make franked distributions.

Senator Gallagher: That was your policy that you announced in 2016.

Senator BRAGG: It might have been at one stage but it wasn't something we were going to progress because I don't think it was a very good idea.

Senator Gallagher: You announced it as part of your Mid-Year Economic and Fiscal Outlook.

Senator BRAGG: I didn't announce anything! I never announced anything!

Senator O'NEILL: Are you declaring your departure from the Liberal-National coalition tonight?

Senator BRAGG: I'm not declaring my departure from the Liberal Party. I'm just stating for the record I did not announce any of these—

Senator O'NEILL: You've been saying it pretty much all day.

Senator STEWART: Yes, there has been a fair bit of distancing.

Senator BRAGG: This is an interesting estimates hearing, where the minister is asking questions of the senators!

Senator Gallagher: I was just indicating that the capital raising one was something the former government announced in 2016-17 as part of its MYEFO.

Senator BRAGG: You're very defensive about this.

Senator Gallagher: No. We're keen to make sure we're closing loopholes where there are loopholes, and looking at integrity measures as well—which both of these respond to.

Senator BRAGG: I understand that. Setting aside the political talking points, the last government announced it a long time ago and then decided it wasn't a good idea. If you're relying on something announced years and years ago by people who are no longer part of it—is that the only rationale you've got for this?

Senator Gallagher: No. I'm responding to concerns that have been raised by the party that introduced them. It wasn't, 'We just thought of it and then thought it wasn't a good idea'; it was announced as part of a MYEFO document. That's more than just thinking it's an idea; that's in the official government budget papers.

Senator BRAGG: I won't repeat myself because we have limited time. The department's Senate estimates brief, provided through FOI, on pages 2 and 3, under the 'Sensitivities' heading, says, 'The policy is effectively a tax increase for a winding back of dividend imputation.' Is that how you're presenting that policy to the public?

Senator Gallagher: I don't know what you're talking about. I haven't seen that document.

Senator BRAGG: Does that sound like a document of the Treasury?

Ms D Brown: You'll have to re-read it, sorry.

Senator BRAGG: 'The policy is effectively a tax increase for a winding back of dividend imputation.'

Mr Robinson: I don't think that's something that would be in our—

Ms D Brown: That doesn't sound like how we would express it.

Senator BRAGG: How would you describe it, then?

Senator Gallagher: Which part? The capital raising or the off-market—

Mr Robinson: Are you talking about the off-market share buybacks?

Senator BRAGG: Yes.

Mr Robinson: Under the current rules for off-market share buybacks, companies are able to split the buyback between a capital and dividend component. That enables delivering franking credits as part of the buyback, which allows companies to be able to effectively buy back shares at below-market prices.

Ms D Brown: It's aligning the treatment between on-market and off-market share buybacks. There's no reason to have a distinction anymore.

Senator BRAGG: I note you mentioned changes to franking credits. So you accept it is a change to franking credits?

Ms D Brown: There is no change to franking credits.

Senator BRAGG: Mr Robinson just said there was.

Mr Robinson: What I was saying was: the current treatment allows the user franking credits to permit repurchase of shares at below-market prices. For example, when BHP repurchased \$8½ billion worth of shares in 2018 using an off-market share buyback they only had to outlay \$7.3 billion to make that purchase, with a lot of the difference being made up through those franking credits. What this treatment does is align the treatment, as Ms Brown said, with on-market share buybacks to remove that distortion from any decision by those organisations around return of shareholder capital. Of course, the companies are still able to make special dividends and return shareholder capital, and to associate franked dividends with that return of shareholder capital. So it's not changing their ability to deliver franked dividends to shareholders.

Senator BRAGG: Will it increase the cost of capital?

Ms D Brown: No. This is about returning capital rather than raising capital, so it should not have an impact on the cost of capital.

Senator BRAGG: You don't think it will increase the cost of capital? That's your position?

Ms D Brown: Yes.

Senator BRAGG: Okay. What do you think that does to the relative attractiveness of Australia as an investment destination? Do you think it makes a difference to that? Does it make it easier or worse?

Ms D Brown: Maybe it will help if the scale of the transactions are understood. In 2019-20—that was the largest number of off-market share by buybacks—the amount of franking credits involved was 0.2 per cent, which is a very, very tiny proportion. In terms of the number of companies involved, based on tax data from 2006, there are only 32 listed companies that have used this and they've undertaken a total of 47. To give you a sense of the

proportion of what 32 companies means, there are currently 2,100 listed companies. So it's a small proportion of both quantity and in the number of companies.

Senator BRAGG: So you think it's immaterial?

Ms D Brown: It's very, very small, and it's consistent with the principles of imputation that people should be getting imputation credits in proportion to their economic interest in the company. It's preserving that very principle.

Senator BRAGG: What do you say to the investors that have flagged this as a problem? Is your position that this is the policy, and you're not prepared to amend it? Or will you look at some of the issues that have been raised in your consultation?

Ms D Brown: It's always a decision of the companies whether they do a buy-back. They could equivalently decide to return the money as a dividend. As the imputation credits haven't changed, those shareholders would be able to claim the franking credits. If they're eligible for refunds now, they would continue to be eligible for refunds.

Senator BRAGG: So, you think it's immaterial in the capital markets?

Ms D Brown: It's very small.

Senator BRAGG: What's the value to the budget of doing this in the medium term?

Ms D Brown: It can be quite substantial.

Senator BRAGG: Okay.

Senator Gallagher: Off-market share buy-backs: \$200 million per year.

Senator BRAGG: From 2023-24?

Ms D Brown: Do you have the number?

Mr Robinson: It was \$550 million over the forwards.

Senator BRAGG: So \$200 million a year?

Ms D Brown: It comes in spikes as well. It usually involves very, very large companies.

Mr Robinson: Budget Paper No. 2, page 13, contains the measure. The estimated gain to revenue in 2023-24, is \$150 million, then it's \$200 million of each of 2024-25 and 2025-26.

Senator BRAGG: Okay. My last question with this is: what do you say to those people who've said that APRA had encouraged companies to go out and raise capital under these arrangements, and now, with this change, that would be unfair?

Senator Gallagher: Who's saying that APRA encouraged that?

Senator BRAGG: There are obviously investors that have raised some issues to your consultation who have raised the issue of APRA incentivising companies to raise capital under the arrangements that exist today. If this change you are proposing was legislated, then they would have a different set of arrangements. I'm asking the officials what their view is on that.

Ms D Brown: There have been references to one bank in relation to the other measure—the franked distributions of dividends funded, and whether that was caught, but it's not intended to capture that bank.

Senator BRAGG: So it has prospective application?

Ms D Brown: It currently does, but there was feedback on that from stakeholders and that's being considered now by government.

Senator BRAGG: What's the timetable?

Ms D Brown: For introduction?

Senator BRAGG: Yes.

Ms D Brown: That's always a matter for the ministers, but consultation on that closed last year, so it's under active consideration.

Senator BRAGG: Thank you.

Senator DEAN SMITH: I have something on a different matter.

CHAIR: A bit of timekeeping: we are due to move to Fiscal in 10 minutes. I think we're broadly on track to do that, Senator Smith.

Senator DEAN SMITH: At a general level I made an inquiry with the Parliamentary Library on a matter. They drew to my attention that the Treasury doesn't make submissions publicly available. It was put to me that this might have been a new feature or initiative. It didn't make sense to me. Is there any background or anything?

Ms D Brown: It's not making sense to me.

Mr Robinson: Unless it's around the timing. Normally in the course of a consultation process, either in relation to policy development—it might be a consultation paper—or in relation to exposure draft legislation, we would receive submissions through the course of that process. Those submissions are generally not made public during the period that Treasury is going through and making an assessment of the submissions and providing a summary and advice to government. Normally at some stage after that advice has been provided the submissions would be made public in the ordinary course of events and published on the Treasury website.

Senator DEAN SMITH: So what's the rationale for only Treasury being able to see those submissions that are being made in advance of a Treasury process? What's the downside of letting everyone see everyone else's submission—there is public contestability—while Treasury is going through its own analysis?

Mr Robinson: I could only say that it is really just to enable that time for Treasury to be able to review the submissions and formulate advice to government on the basis of submissions. It generates that space. That's something that has been a consistent approach with various governments.

Senator DEAN SMITH: So that is a policy position consistent over a period of time, and it relates to every public process or just some?

Mr Robinson: If you're asking me whether we might have had a consultation process at some point in the department where we didn't publish submissions, I would have to check that.

Senator DEAN SMITH: No, my point is more specific. Are there certain types of consultation processes in regard to some matters—that might be the preparation of a bill or might be consulting around a draft regulation—as opposed to seeking people's views on an issues paper? I'm keen to understand: is that the policy for all consultation processes, or is it a policy for a certain set of processes?

Ms D Brown: I think you'd say it's a general policy. It often is a decision of the minister to release the submissions. That might cause some variation. Generally I'd say it's a fairly consistent practice to disclose submissions once a decision has been made across all parts of Treasury and all parts of its work.

Mr Robinson: I might just add that during those public consultation processes we do give people the opportunity to make confidential submissions. Those confidential submissions would generally not be published, on the basis that confidentiality has been requested by the person or organisation that's making the submission.

Ms D Brown: I can be quite quick. I have just been handed by a colleague a paragraph on our website around Treasury submission guidelines. It reads:

In the interests of informed public debate, Treasury is committed to transparency in its processes and open access to information. For this reason, Treasury aims to publish submissions on its website where it is appropriate to do so. However, Treasury reserves the right to edit (for example, remove defamatory material or, where appropriate, de-identify personal or sensitive information), publish or not publish submissions on its website at its own discretion.

I'm very happy to pass that to you.

Senator DEAN SMITH: That's quite okay. It's quite a qualified commitment to transparency. Is it the practice for submissions to get published once the final legislation is introduced? Is there a standard policy position on that, or is it case by case?

Ms D Brown: It varies. There's probably an aspiration.

Senator DEAN SMITH: There are two issues: why shouldn't there be a consistent policy, and why shouldn't submissions be made publicly available once final legislation is prepared?

Senator Gallagher: I was just going to say: because you need flexibility. There are a range of different consultations on different matters. Some would be more sensitive than others, I would imagine. I know we'd like to live in a world where the rules are all the same all the time for everything, but the extent of the consultations and the range of matters that the Treasury deal with would rely—

Senator DEAN SMITH: I appreciate what you're saying, Minister. I'm just looking for a more consistent rationale. Ms Woodward, sorry to come back to your opening statement, but there was a question that I wanted to ask you. After you talk about the charity advocacy and the clearness of the regulation, you make this statement:

Senators and the public can be assured that checks and balances exist.

What are the checks and balances that you refer to?

Ms Woodward: I think you've got an earlier draft of my opening statement. That's fine. I'm still happy to take the question.

Senator DEAN SMITH: A word of warning: I do read them.

Ms Woodward: That's great. Thank you. Part of the range of checks and balances is in the legislation itself. The Charities Act, as I said earlier, has a section regarding what is a disqualifying purpose in relation to advocacy. We also, in our guidance, try to set out examples so charities and people involved in running charities know how to swim between the flags of what's acceptable or not. We specifically give examples in the guidance. There were examples prior to the last election that were in there, about what is okay and what is not okay.

Senator DEAN SMITH: So, by 'checks and balances', you mean they're known, they're public and they're readily available.

Ms Woodward: Yes. Consistent with our regulatory approach statement, we would always start with education and guidance. We know that most charities are trying to do the right thing and that people can't do the right thing if they don't understand what the rules are.

Senator DEAN SMITH: Thanks for that.

CHAIR: Senator O'Neill has a couple of questions.

Senator O'NEILL: Thank you—and a couple of minutes, by the looks of things. Can I just go back to a couple of questions about the matter that we were discussing with regard to PwC and the partner Mr Peter-John Collins and his interaction with the Tax Practitioners Board. Thank you for your answers to Senator McKim; that filled out a little more detail. I appreciate the evidence from the ATO with regard to that, and the confidence that money was not lost.

My question really goes to the implications for PwC as an organisation. That this confidential material was sufficiently shared to create a product designed to enable profit-making by PwC means that not only was Mr Peter-John Collins involved but there also must have been other people, presumably fairly senior people, engaged in the process of creating that product, which created the need for the ATO to respond, as you said, in April—quite quickly afterwards—to circumvent what was leaking as a tax-avoidance strategy by large multinationals, essentially. Mr Klug, what's the consequence for PwC as an entity?

Mr O'Neill: As a result of the board's decision in respect of PwC, PwC has undertaken to do certain things in relation to its management of conflicts of interest. The first part is ensuring the education of its staff; the second is around ensuring the coordination of registration of conflicts; the third is around a better governance and reporting system within the firm; and the fourth is that semi-annually—twice a year—they'll report back to the TPB on the progress of the changes they'll be making. So that's the change PwC is making, consistent with the order of the board.

Senator O'NEILL: Are you confident that that set of practices that you say are underway, which I'm assuming you're monitoring, is sufficient to change a culture where a senior partner was sufficiently excited to go back with a confidential document and say, 'Look what I've got; let's see how we can turn it into some dollars'? Is there sufficient scrutiny to bring about the change that you're talking about, and was anybody else punished, really, by the Tax Practitioners Board?

Mr O'Neill: There were no other sanctions like the sanctions imposed on Mr Collins. I can't really talk to the culture of PwC. The board's decision, I think, should help us and PwC be more confident in dealing with those issues around integrity, conflicts and confidential information. But we will be closely monitoring this over the next two years, and we will be in negotiations and discussions with all the large firms in relation to their practices.

Senator O'NEILL: How high up in PwC did this go? Who was complicit with Mr Peter-John Collins? At what level were the executives at PwC?

Mr O'Neill: There were partners and staff both in Australia and internationally who were involved in these discussions, from the evidence we have available to us.

Senator O'NEILL: How many?

Mr O'Neill: From the evidence we have, maybe 20 or 30.

Senator O'NEILL: Twenty or 30 people?

Mr O'Neill: Twenty or 30 people, as is evident from the documents we have available to us. As to the degree of involvement of those people, we couldn't say, but 20 or 30 people are involved, on the face of the evidence that we've seen.

Senator O'NEILL: That's a lot more than the one person who's been singled out for punishment. What is the punishment that Mr Peter-John Collins has received?

Mr O'Neill: Mr Collins's registration with the board as a tax agent has been terminated.

Senator O'NEILL: For how long?

Mr O'Neill: The termination is permanent. Sorry, he's terminated, and he can't reapply for admission to the board for two years. There's not an automatic readmission after those two years. At that time, Mr Collins will have to satisfy the board as to the conditions in the Tax Agents Services Act that he's a fit and proper person—that he's of good fame, integrity, character et cetera.

Senator O'NEILL: So in two years he could be back as a partner at PwC?

Mr O'Neill: If he satisfies the statutory criteria, he could be reregistered with the TPB as a tax agent.

Senator O'NEILL: And there has been no action at all about the 20 or 30 other people at PwC, as high as partnership level, nationally and internationally?

Mr O'Neill: Yes, there would be no action by the TPB at this stage. I couldn't speak for any other agencies. The action by the TPB is based on the facts and the evidence we have available to us. As we mentioned before, there are certain sanctions that are available to us in the Tax Agents Services Act, and, based on the evidence, the board has made the sanction decisions it had available to it.

Senator O'NEILL: Is this the most significant sanction that you could choose from? How does this rate in the scale of sanctions—losing the opportunity to practise for two years but being able to reapply after two years despite having basically taken information from the federal government after signing confidentiality agreements? It's extraordinary to me.

Mr O'Neill: We're certainly very disappointed in the conduct, and that's why we invested a lot of time and energy in the investigation—and not just in the investigation in this case but in drawing out the underlying issues around the investigation. The most serious sanction the board has available to it at the moment is termination, and the maximum period of exclusion is five years.

Senator O'NEILL: Was there a reason why you chose two years instead of five years?

Mr O'Neill: The decision is made by a disciplinary subcommittee of the board. Three members of the board had regard to the facts and circumstances. They also had regard to the fact that some of this misconduct happened some years ago and there were referee reports in support of Mr Collins.

Senator O'NEILL: I'm sure there were. He had 20 or 30 people at least supporting him, didn't he?

Mr O'Neill: There were some referee comments; I don't think there were 20 or 30. And in the course of the investigation Mr Collins did indicate some genuine remorse, so the board took into account some of those factors in concluding that two-year exclusion period.

Senator O'NEILL: Thank you for your evidence. I remain a little gobsmacked, frankly, at the whole saga and the level of impediment. It seems extremely generous.

CHAIR: I believe we're in a position now to release the revenue, small business and housing group and the ATO, the Tax Practitioners Board and the Australian Charities and Not-for-profits Commission with our great thanks. Thank you for answering all of our questions.

Department of the Treasury

[20:56]

CHAIR: The committee will resume with representatives from the Department of Treasury's fiscal group. Welcome; thank you for being with us this evening.

Senator BARBARA POCOCK: Thanks, everyone, for being here. I have a couple of questions about the wellbeing budget statement, if I'm looking at the right people—good. Could you outline the key themes that have emerged from your consultation on the 'Measuring what matters' budget statement that closed on the 31 January?

Ms Elliston: As you mentioned, there was a public consultation process. It did close for written submissions on 31 January, although we did grant some extensions through into early February for people who were requesting extra time to produce their submissions. We received over 160 written submissions, and we are still working through the process of evaluating and reading all of those submissions at the moment. The sorts of feedback that were provided were fairly diverse, with a range of views both on the high-level themes, approaches and things people considered to be important to be included in the statement and in some cases people also offering views even on particular choices of indicators or suggested areas of information and data we could go looking for.

Senator BARBARA POCOCK: Can you give me any insight, then, on what issues are emerging that are of interest and where you're heading?

Ms Elliston: There's definitely an interest in the concept of inclusion, distributional impacts and thinking about the distribution of cohorts and people's experiences, so things around inclusion in the economy but also social indicators. Indicators of social wellbeing and safety have come up. There were some submissions related to environmental indicators and an interest in environmental and sustainability issues as well. I will check with my colleague Ms Thomas, who has also been looking at these submissions, and see if she has anything further to add.

Ms Thomas: Just to add to what Ms Elliston outlined, the submissions also go into issues of intersectionality and how we can consider the needs of our First Nations communities and people with disability and other diverse lived experiences—things like gender—but very much thinking about how we can take that into account in an Australian context, particularly when it comes to things like environmental and climate indicators and measures.

Senator BARBARA POCOCK: Thank you. What's your view about a specific measurement on inequality—a very different concept to how people are going at the bottom; but a comparative measure of how people are going at the top and the bottom. Is it something that is high on your list? How is that shaping up?

Ms Elliston: It is still early stages in terms of choices of indicators. There are a variety of measures and ways of looking at inequality, but, absolutely, we are very much looking at a range of indicators that would be able to explore the issue of distributional analysis, really recognising that there is likely to be interest in a distributional lens over anything that ends up in the statement. That distribution could be a geographic distribution, in some instances; it might be a distribution that was related to differences in income, or it might be a distributional analysis as it relates to particular cohorts of the community.

Senator BARBARA POCOCK: The world?

Ms Elliston: Yes, potentially.

Senator BARBARA POCOCK: Have you considered any measurement of unpaid care work?

Ms Elliston: I'll just check with Ms Thomas.

Ms Thomas: I think the specifics are still being worked out, and I would just add to what Ms Elliston mentioned that we are also very much trying to learn from other countries, from jurisdictions that have wellbeing frameworks—including Wales, in particular. The issues of inclusion and things like care are very much things that they've grappled with as well. So we are very much learning from those experiences and making our way through those written submissions and talking to a lot of people.

Senator BARBARA POCOCK: Is it likely to include some kind of measure around housing—housing security and access to housing?

Ms Elliston: There are indicators related to housing in the OECD framework, which is the starting point, as was set out in Budget Statement 4 in October. So we do expect that there would be consideration of housing and security of housing, given the importance of that issue.

Senator BARBARA POCOCK: In the coming budget, do you expect to have specific measures of wellbeing, as opposed to the general review of possibilities that we saw in the last budget papers?

Ms Elliston: On the issue of timing: the government is committed to producing a standalone *Measuring what matters* statement that will be released this year. The precise timing of that is still to be established, as to how that will feed into specific budget cycles and other government reports.

Senator BARBARA POCOCK: I've got a couple of questions also about the employment white paper—is that appropriate?

Ms Anderson: I think so.

Senator BARBARA POCOCK: I'm looking for an update on the progress of the white paper and whether it's on track to be released, as I understand, by the end of September.

Ms Anderson: We—I, along with Dr Heath and a couple of other colleagues here—are responsible for the white paper. Yes, it is on track to be released by the end of September this year. At this stage, we have received submissions. The submissions process has closed. Obviously, it all started with the summit and a range of other consultation activities. Terms of reference were released at the end of September. A consultation process followed, with public submissions closing at the end of November. We did offer quite a few extensions to a range of people, and we expect those submissions to be made public very soon. We're in the process of briefing the Treasurer on those submissions, and then, along with a range of other consultations that we're doing with the

states and territories and a range of other groups, we will be, I guess, moving into a more intensive drafting phase for that work.

Senator BARBARA POCOCK: Treasury's website indicates that the paper will have:

... an overarching focus on the objectives of full employment and productivity growth for the benefit of all Australians, along with women's economic participation and equality.

How do you factor unpaid care into productivity? How is that entering your thinking?

Ms Anderson: I am going to ask Dr Heath to help me out a little bit here, but I would just note that valuing unpaid care has come up quite significantly in the submissions that we have seen, so it is something we're looking at quite closely. Alex, did you want to add anything?

Dr Heath: Sure. When we're thinking about gender equality, the distribution of unpaid care is clearly a really important issue that we need to think about. We're not just thinking about how women can access employment, and in some of the better paid industries; we're also thinking about some of these care issues, because ultimately equality is about both sides of the coin being balanced. Some of the analysis that we're likely to be doing in that space is around the Time Use Survey information from the ABS, to try and basically benchmark what we know from the most recently published set of data that really give us the most information on that.

Senator BARBARA POCOCK: So you are making your own analysis of the time use survey data?

Dr Heath: That's correct. I'll hand over to Dr Rawlings, who's in charge of the team doing that work.

Dr Rawlings: That's right. In looking at women's economic participation, we are thinking about unpaid care and doing our own data analysis, including on things like the motherhood penalty and the flexibility penalty, including for men and women. We hope to be able to show some of that analysis through the white paper.

Senator BARBARA POCOCK: Great. The reason I ask about the time use survey is that I've heard from academic colleagues that they're having trouble getting access to all of the data for analysis purposes. I'm glad someone's making good use of it from inside the department. It's such important data. I hope it gives us better results than it has in the last 30 years. I'm conscious of the recommendations we'll be making shortly through the Senate Select Committee on Work and Care. What opportunities do you think there may be in your work for taking account of the recommendations that arise from that select committee? I'm here with my deputy chair.

Senator Gallagher: It's probably a timing matter, I would say.

Senator BARBARA POCOCK: On 9 March it will be tabled in the Senate.

Senator Gallagher: Then we should be—

Ms Anderson: That's absolutely right. As the minister was saying, there are a range of processes ongoing, both parliamentary processes and government-only processes, that we will be taking account of, as long as that occurs in the time frame that allows us to think about that and incorporate that into the white paper. That would absolutely fall in that category.

Senator BARBARA POCOCK: Terrific. We'll be watching out for that.

Senator O'NEILL: It's been a great piece of work.

Senator BARBARA POCOCK: A lot of work.

Senator O'NEILL: It's an amazing contribution to so many people in civil society. It's been fantastic.

Senator BARBARA POCOCK: Yes, all around the country. How have you found the data available for the work that you're doing? We found a lot of data gaps in our analysis. Are you finding there are gaps in what you need to know to do a good paper on employment?

Ms Anderson: I think we always would like more data points and data sources. I think that goes without saying. Obviously, as government users we are able to access some things a little more easily than perhaps some of the academic community. I think the example of the time use survey is probably one of those. However, we are trying to plug a few gaps, but also we are looking at thinking about, in the context of the white paper, what data sources would more usefully help us measure things like: What is full employment? What is job security? Those sorts of issues are really—I guess there's a paucity of data that helps decision-making and policymaking in that area. Even where we can't get access to data I think we might be able to have something to say about where data could make a difference to policymaking in a range of different areas but particularly in the social policy type realm.

CHAIR: I'd like to share the call in a moment.

Senator BARBARA POCOCK: A last question?

CHAIR: Yes.

Senator BARBARA POCOCK: In terms of the road map you're creating, you're aiming to build a bigger, better trained and more productive workforce. Who will be carrying out the work that arises from the white paper, and how does it intersect with the work of the JSA, who are also developing an annual strategic plan?

Ms Anderson: The JSA is a partner of ours already. They're part of our interdepartmental committee that we have across almost all government agencies. We're very conscious that there's a lot of good work going on in the JSA, and the last thing we want to do is duplicate that. Treasury, as a central agency, will not own a lot of the areas that are instigated as a result of the policy reforms, and other things that may or may not be instigated as part of the white paper. I don't want to pre-empt what they may be. As you can imagine, there's an employment and workplace relations department with a lot involved in this particular white paper, a lot of common policy ground. There's home affairs, in terms of the migration system. The skills and education system forms part of it. We see this as really a galvanising document that brings together a whole range of policy intent on part of the government as to how it views the future labour market and how it wants to ensure that the labour market is resilient to the structural change that we're going to see in the economy. We're really seeing ourselves as an umbrella. There may be things that Treasury itself does, especially in terms of pursuing full employment and how we think about full employment and advise the government about full employment within its fiscal policy, but there will be a range of quite specific things that we expect all ministers with skin in the game would have responsibility for taking forward.

Senator BARBARA POCOCK: Thanks for all your answers.

CHAIR: Senator Smith.

Senator DEAN SMITH: I would like to stay on the Jobs and Skills Summit also. I'd like to start with question on notice No. 159 and just confirm that that's now been answered.

Ms Anderson: Yes, that's right. I think the answer was tabled yesterday.

Senator DEAN SMITH: Just on the eve of today.

Ms Anderson: Yes, that's right.

Senator DEAN SMITH: Why did that take so long?

Ms Anderson: I think, firstly, that question on notice was a fairly considerable task in terms of just coordinating where all different portfolios were up to in the implementation of the outcomes of the summit, so it took us a while to get that together. Then I think we made some revisions towards the end to update that and make that accurate, which is why it was a little bit later than we would have liked and, I'm sure, you would have liked as well.

Senator DEAN SMITH: It took some time to speak across government to work out the status of those 36 outcomes?

Ms Anderson: Yes. We coordinate on a regular basis with other departments. I think I mentioned the interdepartmental committee before. So we consult with all of those departments and make sure we have the most up-to-date information, and that obviously changes over time. With the introduction of things like legislation, including last week, there are updates to be provided. So we made the call to be as up to date as we could, which obviously meant there was a bit of a delay in tabling that.

Senator DEAN SMITH: So, despite the fact that the estimates hearing today was known at the end of last year, there was a rush to the finish line?

Ms Anderson: I think there was a rush to update at the finish line, yes.

Senator DEAN SMITH: What is the process? Perhaps take me through the process. How does an answer to a question on notice get tabled before the committee?

Ms Anderson: I can talk to the process that I'm personally involved in, but there will be elements of this that are undertaken by our corporate area in the department, in liaison with the ministers or the Treasurer's office.

Senator DEAN SMITH: Why don't you explain the process and identify those areas that you and your team are responsible for and those other areas and who's responsible for those other processes?

Ms Anderson: That's right. The corporate area of the department is responsible for receiving the questions on notice from the committee. Sometimes they are verbally taken on notice, and sometimes they're put on the notice papers and provided, so they don't necessarily come in one batch.

Senator DEAN SMITH: This was on 28 November?

Ms Anderson: Yes. I believe that was the spillover estimates day for Treasury. I'm not sure exactly who does this and where, but there's a Parliamentary Document Management System that they're entered into. Then those will be allocated to the relevant area of Treasury and allocated, ultimately, to a drafting officer. That drafting officer will prepare a response. In this case, obviously, there was a degree of coordination involved in that response, so it wasn't simply a matter of sitting down and writing the answer. Once that information is collected and verified as being correct, that then goes through a clearance process including the senior executive, which is the team here in the case of the white paper and the employment task force, I should say. That is then submitted back, I think, via our parliamentary area to the Treasurer's office.

Senator DEAN SMITH: Ms Anderson, are you the last official in your area to see the answer and then sign off on the answer before it goes to, I'm assuming, your parliamentary or departmental liaison team that acts as the transmission between the Treasury and the Treasurer's office?

Ms Anderson: It depends on the topic. Often that would be cleared, for example, by Dr Rawlings or Mr Latimer in my team, so it's not always to me. But, yes, a senior executive is the last to sign off on those responses within Treasury.

Senator DEAN SMITH: When did it go from Treasury to the Treasurer's office?

Ms Anderson: Initially a draft was sent on 13 January. It was revised on 9 February and again yesterday, the 14th.

Senator DEAN SMITH: So it was an iterative process.

Ms Anderson: It was.

Senator DEAN SMITH: What were the changes between 13 January and 9 February and yesterday?

Ms Anderson: Primarily they related to updates provided—so requests from the office to check that this was the latest information. We then checked, and it wasn't, so they were updated. It was about the status, really, of all of those summit outcomes in the case of this particular question on notice.

Senator DEAN SMITH: Does the Treasurer's office say, 'We think this answer is incomplete; please go and check that it is complete,' or does the Treasurer's office say, 'Here is information to complete the answer'?

Ms Anderson: I think the former for the most part.

Senator DEAN SMITH: Thank you very much. The substantive matter is the 36 concrete outcomes. I think the Treasurer has remarked frequently on there being 36 concrete outcomes. So, after that iterative process going backwards and forwards—13 January, 9 February et cetera—where are we up to on the 36 concrete outcomes?

Ms Anderson: At this point in time, as per the answer to the question on notice—and I'm not sure if you've had a chance to look at it, Senator—we have 20 that are in the realm of, we would say, being completed, and the remainder are in progress. Dr Rawlings is kind of the expert in this area, so we're happy to go through any detail you'd like, further to what I've said.

Senator DEAN SMITH: Before we do that—just to be sure—does 'complete' means completed, finished?

Ms Anderson: Yes. We've been quite careful to look at the language of the outcome and make sure. If, for example, a tasking was required to do something and that tasking has been done, it has been listed as complete. To be precise, 'completed' is the language we've actually used in the document—it is 'completed'. That doesn't mean that the work is not ongoing in some way, but the thing that was required from government in order to give effect to the outcome has been done.

Senator O'NEILL: Could I just ask for a clarification of the QON so that I can have a look at the document?

Senator DEAN SMITH: It's SBE159. So, Dr Rawlings, can we talk about the 16 in progress? Just to be clear again: what does 'in progress' mean, and does 'in progress' have a number of subsets—'partly in progress', 'completely in progress', 'started in progress'?

Dr Rawlings: I can start by running through those that are in progress, the 16 out of the 36.

Senator DEAN SMITH: So 'in progress' is a classification without any subsets?

Dr Rawlings: We do have another category for some, which is 'significant progress made—ongoing'.

Senator DEAN SMITH: 'Significant progress made—ongoing'? I don't want to be unkind, but it does sound rather bureaucratic.

Dr Rawlings: I understand that.

Senator DEAN SMITH: Is 'significant progress—ongoing' the verge of 'completed' or the beginning of 'in progress'?

Dr Rawlings: It's a lot of progress. It's more than 'in progress'. What we mean, for example, is that what we're calling outcome No.—

Senator DEAN SMITH: If it were early in the morning, I would torture everyone and go into that, but we'll keep proceeding.

Dr Rawlings: An example of that is what we call outcome No. 12 from the outcomes document, which is—

Senator DEAN SMITH: Sorry to do this to you, but, as Senator Gallagher will attest, I'm happy with the granularity. Why don't you go from one to 16 of those that are in progress, just name them, and then give me 'in progress', 'substantial progress—ongoing' or whatever the various categories are? That would be great.

Dr Rawlings: Certainly. What we call outcomes 1, 2 and 3 are 'completed'. The first one in the outcomes document that we call 'significant progress made—ongoing' is outcome No. 4 in our tracker, which is:

Establish the Jobs and Skills Australia work plan in consultation with all jurisdictions and stakeholders, to address workforce shortages and build long term capacity in priority sectors.

The lead department for implementation of that outcome is the Department of Employment and Workplace Relations.

Senator DEAN SMITH: Because there are documents floating around showing who the various leads are, I think you could just identify the 16 and then give me the status.

Dr Rawlings: The status of that outcome is:

JSA—

Jobs and Skills Australia—

has drafted its annual work plans for the remainder of 2022-23 and for 2023-24, as well as a proposed process to develop one annually from 2024-25. JSA will consult on these with tripartite partners through the JSA Consultative Forum on 13 February 2023.

There was also a budget measure associated with that one.

If I may, I'll move to the next one that's in progress. We move to outcome No. 8, which is:

Increase the duration of post study work rights by allowing two additional years of stay for recent graduates with select degrees in areas of verified skill shortages to strengthen the pipeline of skilled labour in Australia, informed by advice from a working group.

The status of that one, we say, is 'in progress', and we say:

Advice from the Working Group to examine implementation was provided to Government on 28 October 2022. The Ministers for Home Affairs and Education have considered the advice and are settling the Government's response.

If I may keep moving through, the next—

Senator DEAN SMITH: Dr Rawlings, it sounds like you have a table in front of you.

Dr Rawlings: Yes.

Senator DEAN SMITH: To assist the discussion between yourself and the committee, can you table that document?

Dr Rawlings: That is the question on notice, so you'll have all that detail.

Senator DEAN SMITH: I see what you're saying, absolutely.

CHAIR: Senator Smith, just a bit of timekeeping—we are meant to be in a break now and then going until 9.30. I'm advised that we will need a five-minute break somewhere.

Senator DEAN SMITH: I might move to a different element of this, and, if time allows, we'll come back. I want to turn to the matter of the evening event at the jobs summit.

Ms Anderson: The dinner? Yes.

Senator DEAN SMITH: We know that the band cost \$7,930.

Ms Anderson: That's right. I think Mr Latimer gave evidence at the last estimates around that.

Senator DEAN SMITH: We know that the MC cost \$15,000.

Ms Anderson: That's correct.

Senator DEAN SMITH: Just remind me who the MC was.

Ms Anderson: Helen McCabe.

Senator DEAN SMITH: And the food and drink for the event cost?

Ms Anderson: It was \$63,783.98 for catering for the entire event.

Senator DEAN SMITH: So the total cost for the summit dinner was \$44,890?

Ms Anderson: Do you want to take that, Mr Latimer?

Mr Latimer: The cost for dinner alone was \$21,976.50. That's a subset of that \$63,000 figure which Ms Anderson mentioned.

Senator DEAN SMITH: The \$63,000 figure is the total cost for the event?

Mr Latimer: The full cost for catering for the entire Jobs and Skills Summit, including the dinner.

Senator DEAN SMITH: I'm interested in knowing what the dinner cost is.

Mr Latimer: The dinner cost alone is \$21,976.50.

Senator DEAN SMITH: So the total cost for the dinner was?

Mr Latimer: \$21,976, and that was a dinner and—

Senator DEAN SMITH: No, but you had a band at the dinner—the dinner event.

Mr Latimer: Sorry; I misunderstood. If you add—I'm not going to attempt mental maths in estimates, but, yes, the band was \$7,930.

Ms Anderson: There is a question on notice, SBE161, that goes to some of these costs, if it's helpful.

Senator DEAN SMITH: Yes. This is a trust and verification exercise.

Senator O'NEILL: That was very smooth, Senator Smith!

Senator DEAN SMITH: It's not my own; I did borrow it from someone else. Thanks very much. There was a jobs and skills roundtable summit held on the Sunshine Coast, I understand?

Senator Gallagher: There was a range of meetings that happened before the Jobs and Skills Summit in a range of places.

Senator DEAN SMITH: My first question goes to the Sunshine Coast skills summit. Did any Treasury staff attend that event?

Ms Anderson: No, we did not.

Senator DEAN SMITH: The northern Tasmanian jobs and skills summit hosted by Minister Jones—did any Treasury officials attend?

Ms Anderson: No.

Senator DEAN SMITH: The Rankin jobs and skills summit—did any Treasury officials attend?

Ms Anderson: No.

Senator Gallagher: If we're going through all 100 of them, I think we can safely say that they were managed by members of parliament. I attended one in Tasmania, but there weren't any other officials. There were over a hundred of them, I think. There were a number of them.

Senator DEAN SMITH: Okay. Thank you.

CHAIR: That concludes our questions for the Fiscal Group. Thank you very much for answering our questions. You go with our thanks.

Proceedings suspended from 21:25 to 21:35

Productivity Commission

CHAIR: We welcome the Productivity Commission and its representatives. Welcome, Mr Brennan. Would you like to make an opening statement or just proceed to questions?

Mr Brennan: I'm fine, thank you, Chair. I'm happy to proceed to questions.

CHAIR: Excellent. Thank you very much. Senator Smith.

Senator DEAN SMITH: Welcome, Mr Brennan, and welcome, officials, at this late hour. Thank you very much for participating. On Sunday morning on the *Insiders* program, the Treasurer put up in lights the Productivity Commission's most recent review which was presented to him. While he's digesting all the 1,000 pages of that, are you able to give us a sense of how many recommendations are in the report?

Mr Brennan: I wouldn't ordinarily—

Senator DEAN SMITH: I think the Treasurer said in the interview—

Mr Brennan: Yes, I wouldn't ordinarily give that figure. I think the Treasurer in his interview did mention a number, which was in the order of 70, I'm pretty sure. So that's in the public domain.

Senator DEAN SMITH: Great. Thank you very much. Are you able to give the committee a sense of how many of those recommendations are in the domain of the federal government and how many of them might be in the domain of the state government or other levels of government?

Mr Brennan: I think it's probably better to await the publication of the report itself. The Treasurer did mention his intention to release the report. He has a period of time under the statute within which to table it in the parliament, and he flagged an intention to potentially do it a bit earlier than that. It's probably better to await that. There will certainly be some recommendations that are squarely in the remit of the Commonwealth. There will be some that go more to state action and some that go to more cooperative action. I couldn't give you a split, to be honest, off the top of my head. I'd also be a bit reticent about talking about that in great depth before the report itself is out.

Senator DEAN SMITH: Does the report canvass or repropose the case for a revitalisation of federation issues or federation reform matters?

Mr Brennan: I think inevitably these issues—you might recall that the *Shifting the dial* report from 2017 devoted some quite concentrated attention to the workings of the federation. I think it's difficult to have a broad-ranging, wide review of productivity and the policy response to flagging productivity growth without going, to some extent, to questions of Commonwealth-state cooperation. But I'll probably leave it until the report's out.

Senator DEAN SMITH: Are there any lessons from the pandemic to be learned about the strengths or weaknesses of federal-state cooperation?

Mr Brennan: Not ones that we've probably drawn out to a great extent. There are certainly lessons learned from the pandemic in general or implications of the pandemic and its aftermath that have bearing on Australia's productivity performance, including uptake of digital technologies, fiscal pressures and the temporary interruptions to skilled migration—those sorts of things. Those are certainly themes that were explored a bit in some of the interim reports that we put out last year. I think it's reasonable to expect that they will feature again in the final report. I probably shouldn't really comment in greater detail about what's in the final report. It will be tabled. Inevitably there are some implications that go to Commonwealth-state cooperation.

Senator DEAN SMITH: Is productivity reform more urgent now than it has been in the past?

Mr Brennan: I wouldn't necessarily say 'more urgent'. I think the contours of the debate do change, over time. I think the nature of the challenge alters. In particular, some of the things that we noted in the interim reports were the rise of the services economy and the significant impact that that potentially has on productivity growth. That's not a new phenomenon, but it's a gradual and longstanding development.

Arguably both the pace of productivity growth and the ease with which it's achieved and the ways in which it's achieved look a bit different, potentially, in service sectors than they have in some other traditional goods sectors like manufacturing and agriculture and mining, for example, in the 20th century. So that's certainly a challenge that is a rising challenge. Within that, the productivity growth in the non-market sectors, including government services, we believe is a significant priority.

There are contextual factors. When *Shifting the dial* was released, the context was a bit different then. The macroeconomy today looks a bit different to what it did then. I think the global order looks a bit different to what it did in 2017. Those things change. They change the nature of the challenges governments face. I don't know whether they make the challenge more urgent or less urgent. But it's always an important priority, productivity growth, because it is the underpinning of rising living standards. I think the nature of the challenge just changes and evolves over time.

Senator DEAN SMITH: People remark that the low-hanging fruit of productivity gains in our country have been realised. Is that true?

Mr Brennan: I hesitate to say that because there's an implication in that that past reforms were relatively easy, and I don't think they necessarily were. The history of reform in Australia has always been one of often taking quite challenging decisions. But I do come back to this point, and it's not so much about government policy and what was available to past governments versus the opportunities available to current governments, but just that point that very, very significant productivity growth was achieved in the course of the 20th century on the back of mechanisation, and the application of science in areas like agriculture.

I'm fond of pointing out that the agricultural sector in 1900 employed about 25 per cent of the Australian workforce. Today it's under five per cent but it's producing vastly more output. There was a really significant rise

in productivity over that century. When you think about how that happened, it was largely the substitution of capital for labour and the application of new scientific discoveries in the form of fertilisers, pesticides, new crop types et cetera.

I think it's interesting to ponder, of the large employing sectors that we have in the economy today, are any of them, over the next several decades, likely to do what agriculture did in the 20th century? Is health likely to do that—dramatically decrease employment but increase output by many factors? It's hard to see. In that sense, it's not about low-hanging fruit. It's just the sense that the productivity challenge might look a bit different, given the composition of the economy today compared to what it was five, six decades ago.

Senator DEAN SMITH: It's been remarked by significant people that the geopolitics that we're witnessing is leading to a weakening of the benefits of globalisation and multilateralism and those sorts of things. Do you think that's true? Just an observation. And does that make the case for productivity reforms and the pace of reforms more urgent?

Mr Brennan: On the first part of the question, I think that is true. I think it's hard to deny that there has been a significant shift in not only some sort of exogenous shocks like pandemics and other supply chain interruptions—wars et cetera—but also just a shift in the policy focus. The United States policy community has shifted considerably. The Inflation Reduction Act is quite a protectionist piece of legislation in terms of its resort to subsidies, local content rules et cetera, and its desire to bring manufacturing activity back to the United States.

So I think it's undeniable that there has been a shift in the general support for the rules based multilateral trade order. The implications for Australia in that have to be thought through very carefully. It's not necessarily in our interests to join the kind of arms race of industry subsidies, so I think we do need to think clearly about our own comparative advantage and where we sit within that. But, yes, I do think that, when I consider the gains that were achieved in the decades following World War II in terms of the opening of the global economy and the free movement of goods and investment, that was a significant source of growth and productivity across the Western world and, indeed, for emerging economies too. Does it increase the need for strong policy in Australia? Possibly it does, in a sense. You always want good policy irrespective of the circumstances, but, yes, perhaps it does place some premium on good, productivity-enhancing policy.

Senator DEAN SMITH: You've referred to digital innovation through non-market services. Are you able to share with the committee our quantum in terms of the productivity gains that Australia could possibly experience as a result of productivity reforms in that area?

Mr Brennan: I won't.

Senator DEAN SMITH: Is it in the report?

Mr Brennan: We have, in the report, made some effort at quantification where possible. The general comment I will make about that exercise is that it's difficult, because even in respect of technologies which are known—communications technologies—and particularly those that are emerging, such as AI, for example, quite what the potential is is difficult to spell out qualitatively and it's very difficult to quantify. So I think the task of identifying the scale of the prize on offer is pretty tough.

Senator DEAN SMITH: In the commission's Australian industry report, you reflected on the level of industry support, particularly in manufacturing, being at very high levels. Is the high level of industry support sustainable?

Mr Brennan: This is in the *Trade and assistance review*?

Senator DEAN SMITH: Yes.

Mr Brennan: I'll get Professor Robson to talk to this in a minute. He's a bit more familiar with the detail of that publication. In general, one of the key themes of the *TAR* is that there's been a very significant reduction, of course, in assistance to industry over the last few decades. Whether that's in the form of tariffs or other trade related forms of assistance, that's right down. But it is true that in manufacturing it's a little higher than it is for other sectors of the economy. An emerging theme, I think, is that more and more of the industry assistance that we observe is not in the form of tariff barriers or import quotas or even those behind-the-border type trade barriers. It's more in the form of direct fiscal outlays, use of the government balance sheet, tax expenditures and tax concessions. In a way, the traditional view of organisations like ours was that that was a preferable way to provide assistance because it was more transparent. But perhaps, when you read the *Trade and assistance review*, the logical conclusion is that there is a lot of this stuff going on. It was heightened during COVID, but there is a lot of this sort of stuff going on. In some ways, yes, the costs and benefits of that do need to be considered closely. Do you want to add anything to that, Alex?

Prof. Robson: The latest *Trade and assistance review* we put out was for the 2020-21 year, and it's an accounting exercise of the kinds of assistance that Michael mentioned. I think your question went to sustainability.

Senator DEAN SMITH: Yes.

Prof. Robson: It doesn't comment directly on those kinds of issues. It's more of a tracking exercise, reporting exercise or transparency exercise. The main goal of the *TAR* is to report these things and see how they track over time for different categories of industries.

Senator DEAN SMITH: Having achieved that transparency, what's your view about sustainability?

Prof. Robson: In the *TAR* we don't take a view on that.

Senator DEAN SMITH: Do you have a view on that?

Prof. Robson: I'm not going to share it with you today!

Senator HUME: Good try, though!

Senator DEAN SMITH: I don't know if you're allowed to say that, but I know what you're saying. The Labor Party platform has a policy commitment to commit to a branch and route review of the Productivity Commission. Commissioner, or Deputy Commissioner, can you give us an update on whether government has consulted with you on that and shared with you its thinking with regard to what review might look like?

Mr Brennan: Not referring back to the Labor Party platform specifically, but, as you're aware, the Treasurer has publicly discussed his ambition to renew and revitalise the commission, and I've had some discussions with the Treasury around some ideas around that. I think that's an exciting prospect. I don't think there's anything untoward about that. I think in general that's something to be welcomed. We—

Senator DEAN SMITH: The review will bring out many fans and supporters of the commission, I suspect, as well.

Mr Brennan: It could. It could identify some areas where we could improve as well.

Senator DEAN SMITH: Or revitalise.

Mr Brennan: Yes. I do note that we've been in existence in our current form for 25 years. As it turns out, the productivity review that we've recently submitted is our 100th inquiry. I was interested to learn that our immediate predecessor, the industry commission, actually did 61 enquiries, so it had less longevity than we've had to date, and likewise its predecessor, the industries assistance commission. I think it is reasonable to review these things from time to time and make an assessment about what works well and what could work better. We are certainly happy to contribute to that process.

Senator DEAN SMITH: Are you able to share with this committee ideas about improvements, enhancements or revitalisation of the commission that you might have garnered over your experience?

Mr Brennan: I don't think I would opt to do so at this point. It's probably a process better handled in some initial discussions, and no doubt Treasury will provide some advice to the Treasurer about some options in relation to that.

Senator DEAN SMITH: A review conducted by one person compared to a review conducted by two or three people—do you have a view about what would be a more optimal process?

Mr Brennan: No. I really have no view on that.

Senator DEAN SMITH: Finally, from my part, there were two interesting remarks made today: one by the secretary of the Treasury and the other by the governor of the Reserve Bank. The secretary of the Treasury's comments were made in his opening statement, and the governor of the bank spoke in response to a question. I'll read from Treasury's opening statement. It goes to productivity. I didn't get an opportunity to ask him, but you might have a view or an insight into what the secretary of the Treasury is saying. On the last page of the statement, in the second-last paragraph—I'll read the whole paragraph; it's only two sentences—says:

The projected structural deficit throughout the medium term makes the need for fiscal consolidation clear.

I had an opportunity to ask him some questions about that. The second sentence says:

Further, that improvements to the cost effectiveness and productivity of government services and government funded services are crucial to lowering cost growth.

Do you have an insight or a view in terms of what the secretary is referring to there?

Mr Brennan: I think it follows logically that if for a given dollar spent you can achieve more with it, and therefore you can achieve a given set of outcomes for less money over time, that will feed directly into the fiscal

position. That can be a source of fiscal consolidation. I think that's right. I think it underscores that, in a way, productivity and productivity growth are feeding into the fiscal position in two ways. That's firstly via the general growth in the economy, which can bolster tax receipts and thereby help to close that fiscal gap. I think it's a critical area of focus, to identify that productivity growth within the government sector. That's very important, because, to the extent that a greater efficiency can be achieved in the delivery of government services, then, yes, that can play a key role in helping to solve that fiscal challenge without cutting back on the services that the community demands.

Senator DEAN SMITH: So, rather than depriving the community of a service, it's delivering that service more efficiently. Does your report to the Treasurer—your hundredth report of the commission, but this report to the Treasurer—canvass how to achieve better efficiencies in government and the delivery of government services?

Mr Brennan: You may have to wait and see, Senator! But these issues were canvassed to some extent in the interim reports that we put out in the course of 2022.

Senator DEAN SMITH: Thank you, Mr Brennan, and the commission, and I'll happily put my hand up and say I'm a fan of the work of the commission and I read the reports with great interest, and I've quoted them on occasion in the *AFR* as well. So I thank you very much for everything you do.

CHAIR: Thank you, Senator Smith. I understand that Senator Canavan has some questions.

Senator CANAVAN: Does the Productivity Commissioner have a view on the use of price caps to control increasing prices or inflation generally?

Mr Brennan: No, I don't. I wouldn't say I have a kind of blanket view. I think that if we were asked to look into a particular instance or a particular policy instrument then we would do that, and we'd make an assessment of the costs and benefits of any particular concrete proposal or existing policy.

Senator CANAVAN: Notionally, though, from a theoretical perspective, capping the price—providing it's below the equilibrium or prevailing equilibrium price—would distort the market, wouldn't it, in a way that potentially would create shortages, you'd expect? Just talking about it theoretically—

Mr Brennan: Yes, it's fair to say that that's the logic of a normally operating market—that, yes, there can be some cost or some perhaps unintended consequence associated with that.

Senator CANAVAN: There has been lots of experience with price caps in the past. Has the Productivity Commission done any work before on the experience of governments using price caps?

Mr Brennan: I'm sure we've looked at markets in the past where there's been a degree of price intervention. I'm looking over at my colleagues—

Senator CANAVAN: Some of them have been there a bit longer than you, Mr Brennan; they might know.

Mr Brennan: Ms Bell and Dr Lattimore, to remind me, where, in the past—

Senator CANAVAN: Some of them have grey hair—not Ms Bell, but Dr Lattimore; you've been there a while.

Dr Lattimore: I have, but I can't recall them.

Senator CANAVAN: Well, I can't recall governments doing it recently, admittedly, but this government has decided to resort to price caps—the sorts of policies from the 1970s.

Senator Gallagher: Well, it would be a temporary price cap—

Senator CANAVAN: Did the government—

Senator Gallagher: as you know—

Senator CANAVAN: It's not temporary, Minister.

Senator Gallagher: in a very unusual set of circumstances.

Senator CANAVAN: And you know it's not temporary. Don't mislead the Senate.

Senator Gallagher: It is temporary.

Senator CANAVAN: Well, we can go through this chapter and verse, and maybe I'll come back to that. But did the government ask the Productivity Commission for any advice on its proposal to introduce the temporary price cap and also the long-term reasonable price cap on gas?

Mr Brennan: No. The ACCC was providing some direct advice to government, and no doubt the Treasury as well, but the Productivity Commission wasn't involved in that process.

Senator CANAVAN: Okay. You are the government's premier micro-economic advisory body, though. Did you find it a little strange that the government didn't seek advice from the Productivity Commission?

Mr Brennan: Not necessarily. There's always a judgement about, 'Where's the best entity to provide the relevant advice?' in any given circumstance—noting that our staple is a slightly longer-form process, so, often, we're undertaking inquiries that go for up to a year. The policy in this instance was being worked through in a shorter time period than that. So, no, it wasn't necessarily a surprise to us as to where that advice was sought.

Senator CANAVAN: Is the Productivity Commission doing any work on energy markets at the moment?

Mr Brennan: No, we're not.

Senator CANAVAN: The government hasn't asked for any advice more generally? There are obviously a lot of things going on in that area. Did your five-year review, which you recently provided to the government, cover off on any issues in the energy market?

Mr Brennan: Again, that'll be revealed when the report itself is tabled in the parliament.

Senator CANAVAN: I'm not asking you for the detail of the recommendations. I'm just asking if you discussed energy markets in the five-year review. That would hardly be a matter that would give rise to a public interest immunity claim for you not to reveal it.

Mr Brennan: I think it's reasonable to expect that some of the policy content that was discussed in the interim reports in the course of last year remain an area of focus in the final report. We certainly had a significant treatment of climate policy, and that included some discussion of energy.

Senator CANAVAN: I haven't had time to read through those, sorry. I've probably read my fair share in my time. Did those interim reports cover off on energy issues?

Mr Brennan: To an extent.

Senator CANAVAN: I don't know if you've had a look at the government's detailed proposal. The minister tried to claim before that there were no price caps long-term; that is not correct.

Senator Gallagher: It is correct.

Senator CANAVAN: The government's legislative changes, forced through within a matter of days last year, put new provisions into the Competition and Consumer Act which effectively provide price regulation for gas over the long term.

Senator Gallagher: They do not.

Senator CANAVAN: I realise you weren't asked to look at these in particular, but I know the Productivity Commission has a long history of reviewing other parts of the Competition and Consumer Act that relate to price regulation, telecommunications, line of shipping and part IIIA more generally. What are some of the generic recommendations that the Productivity Commission has made when price regulations have been used—particularly in regard to making sure that incentives for investment are maintained while there is a degree of regulation of prices?

Mr Brennan: I think I'd have to take it on notice because I think it goes to where we've looked at similar markets in the past where there's been a degree of price regulation, either proposed or existing. So, yes, I'd have to go back and have a bit of a look—

Senator CANAVAN: I'd like to hear Dr Lattimore's view on this. I'm sure he has ideas. Just generally, tell me about telecommunications. There's a specific part in the Competition and Consumer Act on telecommunications. I know the Productivity Commission has looked at this issue greatly. What are the risks of regulating telecommunication prices—the risks to investment, particularly—and how are they mitigated by proper design or best-practice design of that price regulation?

Mr Brennan: I think I'll take that on notice.

Senator CANAVAN: I wish you could be more brave, Mr Brennan. There's obviously been the public announcement of deferred investments in the gas sector since the government's price intervention, across almost all of the eastern states. There is no mention of the word 'investment' in the government's price regulation at all—unlike, say, the telecommunication section and part IIIA, which specifically require any price regulation under those parts to take into account incentives on investment. Do you think it's right and proper that, when governments do regulate prices, there is an explicit consideration of their impact on investment incentives?

Mr Brennan: I think, in principle, all such interventions will want to take into account a range of implications, of which that's one, no doubt.

Senator CANAVAN: We'll see how this plays out. Just turning—

Senator Gallagher: I don't really want to—I'm tempted to engage in a conversation here, but—

Senator CANAVAN: Go for it; let's go. I'm happy to, let's—

Senator Gallagher: You would have preferred no action be taken, Senator Canavan, after listening to you all day.

Senator CANAVAN: As we revealed earlier today, future prices for electricity have gone up since the government's intervention. I would have preferred prices to go down. If you're happy that your intervention has led to higher electricity prices for Australian households, then you can explain that to the Australian people. I'm happy for you to have the floor, Minister, to explain why—

Senator Gallagher: But that's not what we've found, is it?

Senator CANAVAN: That's exactly what has happened.

Senator Gallagher: No; it's not.

Senator CANAVAN: Well, the evidence that's tabled here today—

Senator Gallagher: I should have remained with my instinct, which was not to engage. You've been in a very difficult mood today, Senator Canavan.

Senator CANAVAN: Well, that's because you have been a very difficult government for many Australian people, and particularly for the Australian economy.

CHAIR: I'd just like to do a time check.

Senator Gallagher: But it isn't. It's an emergency temporary measure in light of the very significant increases that we were seeing—

Senator CANAVAN: It's not temporary! Stop misleading the Senate.

Senator Gallagher: It is for 12 months, with a six-month review. So let's just put that on the record.

CHAIR: Senator Canavan, we did a bit of a time check together before, and since then I've advised that—

Senator CANAVAN: Yes, I'm happy to hand over.

CHAIR: Thank you very much. Senator Barbara Pocock.

Senator BARBARA POCOCK: I've a switch of topics here. Thank you for being here. I understand that Treasury has commissioned an independent review into sexual harassment and discrimination in the Productivity Commission, after staff complaints were not addressed. Is that correct?

Mr Brennan: It's true that Treasury has instigated an investigation along those lines, yes.

Senator BARBARA POCOCK: Are you aware of the complaints that were made?

Mr Brennan: I'm not aware of the detail of those complaints. At this point, it is early in the process. We are fully cooperating with that process. There is an external investigator who has been appointed to undertake that, and that individual is working through the issues. At some appropriate point in the process, we might be made aware of the precise nature of the claims that have been made, but we haven't as yet.

Senator BARBARA POCOCK: How many complaints have been made?

Mr Brennan: I'm not sure what it is that has prompted this investigation. All I can comment on is what we know in terms of complaints that have come to us over the years. I'm aware, over the four years that I've been the chair of the Productivity Commission, of a very small number of complaints that have been made, not necessarily relating to sexual harassment per se. We're talking two to three in number.

Senator BARBARA POCOCK: What actions were taken within the commission under your leadership to address these recent complaints?

Mr Brennan: It's a bit difficult for me to canvass that here, given that there is this investigation and this process underway. I think, at least for now, that is the appropriate channel through which we need to focus these things. Suffice to say that, whenever we have received a complaint or any sort of allegation, we have investigated it and appropriate actions have been taken, but that can take a range of forms.

Senator BARBARA POCOCK: Was any action taken following the speech by the commission's communications director in 2021 calling out the cover-up culture that protected perpetrators within the organisation.

Mr Brennan: Again, I'd like to respect the process that's underway. No doubt these are issues that are going to be canvassed in the course of that investigation, and I think it's appropriate that we focus our responses through that.

Senator BARBARA POCOCK: This question is not about any complaint or any employee; it's about whether you took action after a public communication by your communications director in 2021. Did you do anything after that public speech?

Mr Brennan: We've done a range of things on an ongoing basis in relation to promoting a positive culture within the commission, dealing with complaints and concerns as they've arisen. I'll say yes, but I am uncomfortable about going into the detail of specific action that we've taken in this forum, when we've also got an investigation underway.

Senator BARBARA POCOCK: Don't you think it's important for employees to know, though, in an open communication, what steps you're undertaking? I've been in many institutions where events like this happen and people want to know what you're doing.

Mr Brennan: Yes, I think that is true.

Senator BARBARA POCOCK: But you're not communicating about that internally to your staff?

Mr Brennan: We do. We communicate very regularly with our staff about broad issues of what our desired culture is, the processes we have in place to deal with complaints as they arise and the workplace behaviours that are expected of staff. There is a regular stream of communication in respect of all those things.

Senator BARBARA POCOCK: You've said that you'll cooperate with the investigation. Will you also undertake a parallel review of the mishandling of complaints?

Mr Brennan: Again, without replicating the existing process, that is all part of the investigatory process that's underway.

Senator BARBARA POCOCK: Have you been part of the voluntary WGEA reporting pilot for Commonwealth agencies?

Mr Brennan: No, not to my knowledge, but I'll take that on notice.

Senator BARBARA POCOCK: You'll have new reporting obligations coming, of course, around wages and associated matters. Those requirements ask you to report on measures, including the prevalence of sexual harassment and actions taken in your response. You haven't done any preparatory work for that? Are you aware of those requirements?

Mr Brennan: I'll take that on notice. It's likely that we have done work on that. All agencies have some benchmark data in respect of the proportion of staff who purport to have observed bullying and harassment in the workplace, for example. That's an item in the APS census, so we have results on that. They show that the results for us, while not zero—and that's always a concern, because you want to be at zero—are low by APS standards. They're lower than comparable agencies and they are at historic lows for us.

Senator BARBARA POCOCK: So you're doing regular morale culture reviews. Do you feel that the Productivity Commission is doing well?

Mr Brennan: I think we have a strong culture; I absolutely believe that, yes. That has been a very strong focus for me. That happens in a variety of ways, both via the kinds of communications that happen across all staff and via the individual conversations that I have in small groups and with individual staff. You should be under no doubt that a strong, respectful, professional, inclusive, egalitarian culture has been a very strong priority for me.

Senator BARBARA POCOCK: That's good to hear. Have you discussed with Treasury the time frame for the review and whether the results are going to be made public?

Mr Brennan: I haven't discussed that latter point. The Treasury has commissioned this; it's a Treasury process. The timing, at least initially, is relatively short, but I think that's going to be a function of the time that's required for the process to work its way through.

Senator BARBARA POCOCK: I might switch to a different topic. I understand the commission is undertaking an inquiry into the economic and social impacts of allowing informal carers to take extended unpaid leave from their work to care for older people who are living at home. I'm chairing the Select Committee on Work and Care at present, with my deputy chair alongside me. We've had very contrasting perspectives put to us on this question. Can you give us any indication about where your report is headed and the direction of the findings that you're thinking about?

Mr Brennan: I can give you some indication, within the bounds of where we're at in the process, because the draft report is not too far away. I'm going to ask one of my colleagues exactly when we intend to put the draft report out, roughly. They can take that on notice. We actually appeared before the Select Committee on Work and Care, albeit remotely, some time back. You would recall that this inquiry comes about pursuant to a

recommendation of the aged care royal commission, which made the recommendation that there be inserted in the National Employment Standards an ability to take—it was not necessarily specified in terms of parameters—a period of unpaid leave with a right of return to the workplace. That's the issue that we've taken on board and that's the subject of this.

It's fair to say that you can expect the draft report to do two things. Broadly, it will put up what a model for that could look like. This is a draft report, so we do want to give stakeholders a model with which to grapple. As I think we reflected when we appeared before your committee, it was a little difficult early on for all stakeholders to be providing good, robust feedback when they weren't too sure what exactly it was that was going to be proposed. Talking about some of the design features of what it could look like is one element, and then talking through the nature of the costs and benefits of such a model is another. It will be a draft report and we hope that it will elicit feedback and get a bit of discussion going among all of those relevant stakeholders. That will then inform a final report.

Senator BARBARA POCOCK: Included in your assessment, will there be a consideration of the impact of gendered participation in work on earnings over the life course and so on? As we've seen a lot of material, unpaid work really disadvantages women in particular and sets them further back. That's a real concern for us in considering this issue.

Mr Brennan: Yes, that issue has certainly arisen in the course of the consultations and the submissions that we've received to date. Yes, I think it's fair to say you can expect some treatment of that issue.

Senator BARBARA POCOCK: When might that report be available?

Ms Bell: It goes to government at the end of February for release shortly thereafter.

Mr Brennan: It's really imminent, so I shouldn't really talk about it at all, but there you go.

Senator BARBARA POCOCK: Thanks for your answers.

CHAIR: Thank you very much, Senator Pocock. You have one quick question, Senator Canavan?

Senator CANAVAN: I just wanted to go to the *Trade and assistance review*. I hear constantly that the mining industry is the beneficiary of enormous subsidies. I note your latest *Trade and assistance review* states:

... the mining sector received only 4 per cent of allocatable assistance (\$476 million), despite accounting for 11.5 per cent of value added—meaning it was the least assisted sector relative to its size.

I would like to confirm on the record: is it true that, of all the sectors you've looked at, the mining sector receives the least amount of government assistance?

Mr Brennan: I think that is an accurate statement about the findings of the *TAR*, but I will look to one of my colleagues to confirm that.

Senator CANAVAN: Maybe one of your colleagues might be able to confirm that. Would someone else like to? Nods aren't on the record.

Dr Lattimore: It is the finding, but you'll see quite a lot of analysis of the different methods that different agencies use when assisting these things; the IMF uses a different framework as well. But the way we do it indicates it's very low.

Senator CANAVAN: Thank you.

CHAIR: I believe that concludes all of the questions that we have for the Productivity Commission. Thank you very much, Chair. Thank you very much, representatives of the PC. You go with our thanks.

Australian Bureau of Statistics

[22:18]

CHAIR: The committee welcomes the Australian Bureau of Statistics and its representatives. Welcome back, Dr Gruen. Would you like to make any opening comments or just proceed straight to questions?

Dr Gruen: Just proceed straight to questions, Chair.

CHAIR: Excellent. Thank you. We'll proceed in 10-minute blocks. Senator Rennick, you have the call.

Senator RENNICK: Could you explain why mortgage rates or mortgage costs aren't included in the annual CPI figure?

Dr Gruen: I can give you some explanation. There are different ways of calculating the Consumer Price Index. They are included in cost-of-living indices, but mortgage cost is a cost incurred for buying an asset. In other words, what you're talking about is buying an asset rather than a consumption item. That's the technical reason it is not in the CPI. But it is included in, as I said, cost-of-living indexes, which we also publish.

Senator RENNICK: But the RBA generally tracks the CPI and bases its interest rate decisions on the CPI, so—

Dr Gruen: The RBA looks at everything. The RBA does not look just at the CPI. They have a commitment to keeping inflation between two and three per cent, on average, over the medium term but they're not just looking at the CPI.

Senator RENNICK: Okay. Well, with the RBA increasing interest rates—they're going to be virtually double, so they've jumped by a hundred per cent, and for many people that's 30 to 40 per cent of their cost of living—if that figure were included in the inflation rate it would actually show that increasing interest rates is also increasing inflation, would it not?

Dr Gruen: There is no question that putting up interest rates increases the cost of having a mortgage. In a former life I could have given you an explanation for why raising interest rates reduces inflation over time, but it's not my role these days. If you want to have that conversation you really should have it with Treasury or the Reserve Bank.

Senator RENNICK: No worries. I did ask the ABS if they tracked death by vaccination status, and the ABS replied that they didn't. Given that we've had a jump—excess deaths are up 20,000 people this year and were up 8,000 last year—can you tell me why the ABS isn't going to the Australian Immunisation Register and getting COVID-19 vaccines dated so that the Department of Health can track temporal association between vaccine dates and those deaths?

Dr Gruen: That's a policy question, which you really should talk to the Department of Health about. We are very happy to provide information for the Department of Health if they request it. We did link the Australian Immunisation Register with the people centred data asset MADIP. That has been done, so it is possible to do research on a wide range of things to do with information on the Australian Immunisation Register. That would be a piece of research that someone could do if they wanted to apply to do it, but we don't tend to do that research ourselves.

Senator RENNICK: What's the name of that again, sorry? 'MADIP', did you say?

Dr Gruen: I said 'MADIP', yes. 'MADIP' is an acronym, but the way to think about it is that it's an integrated data asset with a lot of information about people in it.

Senator RENNICK: And that's on your website, the ABS website?

Dr Gruen: MADIP is on our website, yes, as are all the projects that are currently being performed using that integrated data asset.

Senator RENNICK: Thanks. I have one other question, which is in regard to when you report your monthly mortality statistics. You have an age-standardised death rate—

Dr Gruen: Yes.

Senator RENNICK: and I note that that was about 43.9 per 100 in September—

Dr Gruen: Per hundred thousand.

Senator RENNICK: Yes, per hundred thousand, sorry. That works out at about 12,000 per month, which extrapolates out to about 144,000 a year, and the overall mortality rate looks like it's going to end up at around 180,000 this year. What exactly is that standardised death rate?

Dr Gruen: If you want to compare death rates across time, you don't want the changing age distribution of the population to be a confounding factor. You're interested in: for a given age distribution, how has the death rate changed? So we hold the age distribution constant through time in order to calculate an age-standardised death rate. I think the age distribution we use is 2001, but that's something that's easy to confirm.

Senator RENNICK: Thanks. I might get you to give a bit more of an explanation of that on notice, if you don't mind. I'll put that on notice, Chair.

Senator ROBERTS: My questions are brief. Thank you for attending this evening. Can I sort out an issue I'm contacted about all the time? Very frequently it concerns people and it bothers us. On the provisional mortality statistics page of your website there's a statement on the timeliness and completeness of data to ensure the data is represented accurately, which is worth site visitors reading—we accept that.

Dr Gruen: Say again? Which is what?

Senator ROBERTS: Worth the site visitors reading. That statement indicates 95 per cent of doctor certified deaths are available two months post, and autopsy data, a much smaller part of the data, can be much longer, but that longer delay holds back two per cent of the monthly data, which is why it is called a provisional dataset. It's

useful to calculate trends of the composition of current, and catch-up should be fairly constant month to month—that's what we assume. Do we agree so far?

Dr Gruen: I didn't catch the final sentence.

Senator ROBERTS: The provisional data holds back—the autopsies hold back—about two per cent of the data.

Dr Gruen: The coroner certified deaths, yes.

Senator ROBERTS: That's why it's called a provisional dataset?

Dr Gruen: Yes.

Senator ROBERTS: It's useful to calculate trends as the composition of current, and then catch-up should be fairly constant month to month.

Dr Gruen: That I'm not sure of. It's probably not that different, but we capture all those deaths that we have, as you said, over the next two months. The proportion that we're missing—I think we've looked at that—doesn't change that much.

Senator ROBERTS: That's what I was getting at. It's fairly consistent, and the catch-up would be fairly consistent too.

Dr Gruen: I think that's true.

Senator ROBERTS: So my question is this. The data is now almost five months post—not two months but five months. So why the delay?

Dr Gruen: I think we had a reduced publication in January, and we will go back to catching up in February. I think that's the only reason.

Senator ROBERTS: So we'll get back to two months delay?

Dr Gruen: I think so, yes.

Senator ROBERTS: Why two months? I can go to the Victorian state statistics website and see provisional death data usually two weeks post. You're at five months, and you want to come back to two.

Dr Gruen: I think the answer to that is that what we're trying to capture is—there's a trade-off. If you had only a month's delay, you wouldn't get 95 per cent of doctor certified deaths; you'd get substantially less than that. I'm not aware of the Victorian data. I presume it's not as expansive as ours, but I'm not aware.

Senator ROBERTS: Doctors report deaths in this country.

Dr Gruen: Other than when it goes to the coroner.

Senator ROBERTS: Yes, thank you for that correction. Are doctors' reports taken as factual when it comes to the cause of death?

Dr Gruen: We use what the doctor certifies as the cause of death, yes. We do not second-guess that.

Senator ROBERTS: Thank you. So they'll be coming back to two months soon?

Dr Gruen: Yes.

Senator ROBERTS: Moving to live birth data—this is my last question, Chair—live birth data can also be rendered as provisional, but it's not. Live births inform planning decisions across all levels of government, as well as providing an essential check on health measures. It's really a health or COVID KPI. It did not impact on live birth rates, so it tells people what's happening with the COVID KPI. The latest data available for live births is to December 2021.

Dr Gruen: Yes.

Senator ROBERTS: And that dataset is marked 'next release unknown'. Why don't you produce provisional live birth data monthly or even quarterly?

Dr Gruen: Well, we haven't had a request to do it more frequently. I guess in the context of COVID we made the judgement that there was public benefit in producing much more up-to-date deaths data because there was a considerable amount of interest in it. We have limited resources, of course, so we are publishing it with the frequency that we've always published it. I must say the pattern which you have drawn attention to, of much lower births in December, is a pattern that we have seen every year, and it is not untoward in any way. What it is is that people can take some time to register a birth, so, if you go back and look at the data, the first time we produced the December birth numbers for the last four years, they're very low. Then, when we revise those numbers, they go back to substantial numbers. That's a piece of information that's been in the public domain for

quite some time. So it's simply misleading to suggest that the December data says anything other than that the results are preliminary. There is nothing untoward in the results that we've got for the first release for December; it's simply the fact that people take some time to register births.

Senator ROBERTS: The December 2021 live births number came out about October 2022, from memory—I might be wrong on that. I would've thought they'd be corrected by then.

Dr Gruen: I can find out when the final numbers come out, but, if you look at the first numbers for the last four years, they were 6,000 in 2018, 7,000 in 2019, 6,000 in 2020—these are rounded—and 6,000 in 2021. The revised numbers are 23,000, 23,000, 22,000—

Senator ROBERTS: That's about the monthly norm.

Dr Gruen: Yes, exactly. What I'm saying to you is: the fact that the first release of December birth numbers is way below average monthly numbers is not something we don't understand; it's completely normal.

Senator ROBERTS: In previous years, when was the first release?

Dr Gruen: We can find that out.

Senator ROBERTS: I think, from memory, the first release of the 2021 figures was around October 2022.

Dr Gruen: I'm happy to provide you with the dates of release.

Senator ROBERTS: If you could, please. There is a major concern amongst obstetricians and gynaecologists about miscarriages in this country. Some studies are showing they have dramatically increased since the COVID injections, and that's replicated overseas.

Dr Gruen: I'm not going to have a discussion with you about—

Senator ROBERTS: I know that. I'm just expressing my concern.

Senator Gallagher: I think that can be Health tomorrow, Senator Roberts.

Senator ROBERTS: Well, Health have not been very healthy with their advice.

Senator O'NEILL: I just want to reassure you that babies born on the 21st of the 12th are great for both mother and child!

CHAIR: Senator Pocock.

Senator BARBARA POCOCK: Thank you for being here. It's nice to be able to thank a statistician in person for all your work. I have a few questions, but my first one is about the resources available to you. I know you have the source of resources sitting next to you, but I hope you can nonetheless be straightforward about what your resources are and their adequacy to the demands on you. I remember not so many years ago there being changes to wages data collection because the resources were constrained. What would be your assessment now about how adequately you can rise to all the challenges?

Dr Gruen: Well, we do the best we can with the resources available. I think the answer is: all departments and agencies have to live within their means. The demands on us—we have lots of people saying, 'Why don't you measure this? Why don't you measure it more frequently?' There is a sense in which we make judgements about what we think is appropriate given the resources available. I'm not here to complain about the resources that we've got. We have a substantial appropriation, which we do our best to use wisely.

Senator BARBARA POCOCK: Amazing!

Senator Gallagher: Dr Gruen gets a medal for that answer!

Senator BARBARA POCOCK: Yes, I was going to say! Can I ask what your view is, in particular, about the adequacy of your employment and wages data for these times? Do you think they are fit for purpose for where we're at now?

Dr Gruen: There have been some significant enhancements to our employment data with the introduction of the Single Touch Payroll System, which we introduced in April 2020. The Labour Force survey, which is the main source of information about employment, unemployment et cetera, is world standard. It's the biggest survey we run. We, along with all statistical agencies, are suffering from declining response rates, but our response rates look very good in comparison with other countries. We have taken steps in that survey to, if you like, use more modern techniques. Something like 40 per cent of people now fill it in on the web when it suits them, and another substantial proportion do so by telephone, so the number of people we have to actually visit in their homes is much lower than it would otherwise be.

On employment, I think we've got a wide selection of data. On wages, likewise, we have the Wage Price Index and we also have average weekly earnings measures from the national accounts. There is a new measure that we will be introducing later this year which uses Single Touch Payroll to give a monthly measure of earnings.

Senator BARBARA POCOCK: Do you think the data that you're collecting and the categories you're using to collect it are adequately capturing the changing forms and nature of employment?

Dr Gruen: There are benefits, obviously, in collecting data in a way that is internationally comparable. One of the things that often come up is: how can you call someone employed if they work one hour a week?

Senator BARBARA POCOCK: Good question.

Dr Gruen: I can answer the question. About one in 1,000 people work one hour a week, and most of them don't want more hours, which is something that surprises people. They get asked, 'If you could have more hours, would you like them?' Most of the people who work one hour a week don't want more hours. Obviously, there aren't many people working one hour a week. I don't think I know anyone working one hour a week. The internationally comparable standard is that lots of countries measure that, but if you picked a different threshold, such as five hours a week, it would make almost no difference to the patterns that we see. It would change the numbers very slightly.

Senator BARBARA POCOCK: What about forms of employment, such as gig work and self-employment?

Dr Gruen: We are working on looking at those things. I think we published something on that just recently.

Ms Van Halderen: Yes. We've had several questions, particularly from the Senate Select Committee on Job Security, and we endeavoured to unpack this issue of labour hire workers. In December last year, we released a publication called *Labour hire workers* that included estimates of the prevalence of labour hire work, complemented by compositional breakdowns of key characteristics such as sex, age, occupation and earnings. We also have a regular publication called *Characteristics of employment* that has hours worked, country of birth, casual status and job stability. So there is quite a lot of rich information about the different forms of employment, which came out most recently in December last year.

Senator BARBARA POCOCK: Thank you for that. This is my last question. I've just come from the Australian Institute of Family Studies, who were also talking about data. They talked about the longitudinal studies that they're in charge of: the Longitudinal Study of Australian Children, the study of migrants and now the study of Defence personnel. I asked them about HILDA, which is such an important longitudinal set of data. We're engaged in looking at the changing nature of work and care in a select committee at present. The deputy chair, Senator O'Neill, is here with me. One of the things we've noticed is that there's an enormous amount of cross-sectional data but there is actually not a lot of longitudinal rich data which approaches the question of the workplace and the experience of work over time in the way that HILDA does from the household perspective.

Dr Gruen: Yes.

Senator BARBARA POCOCK: So I'm interested in whether you see any useful potential in establishing something which is more workplace based so we can look at things like what difference it makes when people get extended paid parental leave and what happens within a household when one leaves work and another doesn't—all of that internal stuff—along with the characteristics of the workplace, to allow that kind of rich analysis. What's your view about that?

Dr Gruen: I think HILDA is a fabulous resource. It is run by the Melbourne Institute. It's been running for—I don't know—20 years, maybe longer. I think there is definitely a place for analysis using longitudinal datasets. The other way that you can get at some of these questions is via integrated data assets, which I was talking about with Senator Rennick. MADIP, which is this integrated data asset, has a lot of information over time about people. That's another way that you can analyse these things, but that's microdata. It's about individuals. It's deidentified. You can't take identified information out of that for privacy reasons, but it's a powerful way of analysing labour market developments. But I completely agree with you that longitudinal data assets, and HILDA being a prominent example, are very powerful.

Senator BARBARA POCOCK: Going to your example of linked-up data, that uses tax and social security and so on—

Dr Gruen: Yes.

Senator BARBARA POCOCK: but it doesn't give you a lot of workplace data. You're not going to know the characteristics of the nature of the work, the workplace of the person, to put all that together, are you?

Dr Gruen: I'm pretty sure that single touch payroll is now linked into MADIP; we can check. That has at least some information on the employment experience of people and what industries they are in.

Ms Dickinson: We also have a linked data asset about businesses, business performance and business characteristics. We haven't done much of this yet, but we now have the ability to link across the two. From the business, we can see how long the individual has been working for a particular business, what role they're in and, with the single touch payroll, their earnings and so on. That's going to be really quite powerful to be able to look at linking between businesses and individuals.

Senator BARBARA POCOCK: Thank you. That's extremely useful.

Senator DEAN SMITH: Thank you very much for making yourself available at such a late hour. On 1 February, the ABS released the selected cost-of-living indexes. I was wondering if you could share with the committee a summary of what that latest round of cost-of-living indexes revealed?

Dr Gruen: I don't have the numbers in front of me. Conceptually, what a cost-of-living index is doing is looking at households with different characteristics and then matching price increases to their mix of consumption. In other words, people who are retired tend to consume different things than a household with a mortgage. That's why you get different numbers depending on which of these indices you're looking at. Do you have the numbers with you?

Ms Dickinson: No. That's one I don't have. I've got pretty much every other one, but not that one. I'm sorry.

Senator DEAN SMITH: I've found them as well. Sorry, Dr Gruen; I thought you might have come a little bit—

Dr Gruen: No, I don't have them. They're in the public domain.

Senator DEAN SMITH: Just on that, before we look at them in more detail, why do they not receive as much media attention as the CPI?

Dr Gruen: This is beyond my area of expertise, but I'm willing to—

Senator DEAN SMITH: But you do issue a press release?

Dr Gruen: Yes.

Senator DEAN SMITH: Great.

Dr Gruen: I mean—

Senator DEAN SMITH: And you do have a communications team?

Dr Gruen: We do. I think it is that the CPI, the consumer price index, is the measure of consumer prices, whereas the cost-of-living indexes are trying to capture—as I was talking about earlier, one of the differences is that, when mortgage interest rates go up, they feed into cost of living as defined, but you're not buying a consumption item. I'm happy to defer to you on why they get less media coverage.

Senator DEAN SMITH: Perhaps they might start to get more, given that cost-of-living pressures are real. My observation is that the selected cost-of-living index is quite a valuable tool. If you were to google—does anyone have a laptop in front of them?

Dr Gruen: No.

Senator DEAN SMITH: Okay. The selected cost-of-living index before us here—I think Senator Canavan has it before him as well—has five categories: the pensioner and beneficiary LCI, the employee LCI, the age pensioner LCI, the other government transfer recipient LCI and the self-funded retiree LCI. Underneath it, it has the Consumer Price Index. The percentage change of the Consumer Price Index—this is the document that was released on 1 February—correlates with the CPI figure that was released publicly and got a lot of attention, 7.8 per cent. But, when we look at the pensioner and beneficiary LCI in the December 2021 to December 2022 period, the percentage change is 7.4; for the employee LCI, the percentage change is 9.3; for the age pensioner LCI it is 7.3; for the other government transfer recipient LCI it is 7.4; and for the self-funded retiree LCI it is 7.6.

Dr Gruen: Yes.

Senator DEAN SMITH: What are those figures telling us?

Dr Gruen: Well, they tell you that different household types purchase somewhat different items, and therefore, in calculating these indices, you take into account the basket of goods and services that these different households consume and then calculate the change in the price.

Senator DEAN SMITH: The Consumer Price Index had a 7.8 per cent change.

Dr Gruen: Yes.

Senator DEAN SMITH: The employee LCI had a 9.3 per cent change.

Dr Gruen: Yes.

Senator DEAN SMITH: What is that telling us?

Dr Gruen: I think I just answered that question.

Senator DEAN SMITH: That employee households experienced a 9.3 per cent increase—

Dr Gruen: In the way this is calculated. It's mortgage interest charges that are contributing to the higher number.

Senator HUME: So it's essentially saying that people who live in an employee household are actually experiencing inflation in an amplified way compared to people who live in a pensioner's household, for instance, or in aged care?

Dr Gruen: Yes.

Senator DEAN SMITH: So this is a powerful demonstration that those mortgage cost increases are being felt in the cost-of-living experiences of this employee LCI category?

Dr Gruen: Yes.

Senator DEAN SMITH: When is the next dataset released?

Dr Gruen: They're released quarterly.

Senator DEAN SMITH: Will you hazard a guess at what that percentage change might look like?

Senator Gallagher: You're not into guessing games!

Dr Gruen: Will I hazard a guess? I think that's an easy question to answer, Senator.

Senator DEAN SMITH: Are you expecting it to go down?

Dr Gruen: I'm not expecting. I came from a world where I had to make these forecasts, but I've left that world.

Senator DEAN SMITH: You did, Dr Gruen. Thank you very much for that. Are you able to give us a summary of what the most recent selected living cost index said? Do you have that in front of you now?

Senator Gallagher: Scroll away. I think I've got the right page.

Ms Van Halderen: I think you did a very good job yourself a moment ago explaining what it was telling us there. If you have a look here at the graph which has got the employee households, on this release we did actually focus on the employee households, and it showed you the largest contributors to that. For instance, mortgage interest was a 26.6 per cent contribution, recreation and culture was at 5.5 per cent, housing was at 2.2 per cent, food and alcohol beverages were at one per cent and so on. So this is a really great complementary set of indexes to the CPI. As Dr Gruen explained before, because the CPI doesn't have the mortgage interest charge in it, this gives you that extra information on the contribution of that.

The other contributions there are by, as you say, the different household types, so the pensioners and beneficiaries, the employees, age pensioners, other government transfer, and the self-funded retirees. If you're trying to look at the different cohorts of households that we have in Australia, you can see, as you've said before, what are the contributions from each of those groups, and—I really don't want to use the word 'inflation'—what's affecting their spending capacity, essentially.

Senator DEAN SMITH: I'm just looking at the bar graph, which runs from left to right horizontally. Is the 26.6 per cent increase in mortgage interest to be read as indicating that, compared to the previous index, there was a 26.6 per cent increase in the mortgage interest contributions as a part of the index?

Ms Van Halderen: That's correct. Compared to the previous quarter—

Unidentified speaker: In a quarter or a year?

Ms Van Halderen: This was a quarterly movement. Mortgages were the largest contributor to the quarterly movement for the employee household index.

CHAIR: Senator Smith, I'm conscious that Senator Canavan also has questions in a few minutes.

Senator CANAVAN: That's okay. It's not the end of the world.

Senator HUME: Can I just clarify something. Is the basket of goods that you are using to calculate these indices the same as for the CPI? It's just weighted differently—is that right?

Ms Van Halderen: No, it's a different basket of goods. For instance, the selected living cost index has mortgage interest charges in it, whereas the CPI does not.

Senator DEAN SMITH: There's a statement further down. It says:
Over the past twelve months all LCIs—

so that's all of the five groups that we mentioned earlier—
rose by between 7.3% and 9.3%.

Is that to be read as indicating that the household groupings that we talked about earlier—pensioner and beneficiary, employee, age pensioner, other government transfer recipient and self-funded retiree—all rose between 7.3 per cent and 9.3 per cent?

Ms Van Halderen: Yes, on an annual basis. We're now on an annual basis, not quarterly.

Senator DEAN SMITH: So would it be correct to say there's been a cost-of-living increase of between 7.3 per cent and 9.3 per cent across those five categories?

Ms Van Halderen: Across those five groups. But I have to be very careful here, because the 'cost-of-living pressure' phrase that's being used there can't be used in the same context as the Consumer Price Index—

Senator DEAN SMITH: Agreed.

Ms Van Halderen: because we have a different basket of goods here.

Senator DEAN SMITH: Yes, that's right. Thank you very much.

Senator CANAVAN: I think Senator Smith has very well canvassed most issues with the cost-of-living indexes, but I want to make the point that the employer cost index is quite a bit higher than the age pensioner or government transfer recipient index.

Dr Gruen: Employee.

Ms Van Halderen: Employee.

Senator CANAVAN: Did I say 'employer'? Sorry, employee. Thank you. The pensioners and transfer recipients obviously get their payments linked to inflation—not, I think, to these indices but to inflation figures—so they will be largely made whole. But employees, of course, don't go up with the 9.3 per cent increase. Their wage growth is much, much lower than that. So do you actually measure what the real change for people is, taking into account wage or transfer payment increases?

Dr Gruen: You could calculate it, but I don't think it's in that publication.

Senator CANAVAN: No, it's not in that one. You don't yourself have a real cost-of-living index as such?

Dr Gruen: No, because you would want to take things into account other than wages, because obviously these groups also have other earnings. But, no, we don't calculate that.

Senator CANAVAN: Okay. I'm just trying to learn here. When I've seen other real series created—not by you—I believe they have used your Wage Price Index. That's something you do have—is that right? That's your product?

Dr Gruen: Yes.

Senator CANAVAN: And obviously you produce CPI.

Dr Gruen: Yes.

Senator CANAVAN: So using the two of those conceptually could get you to a real figure of some kind?

Dr Gruen: Indeed.

Senator CANAVAN: I want to keep on the inflation theme. We now have a monthly series, and I very much welcome the monthly series you are putting out. How long has that been going for now?

Dr Gruen: Only a few months.

Senator CANAVAN: Just a few months? Just to add to the confusion, as Senator Smith was saying before, the last monthly series I've got in front of me said that the CPI was actually 8.4 per cent.

Dr Gruen: That's right.

Senator CANAVAN: Of course the quarterly figure is at 7.8.

Dr Gruen: That's right.

Senator CANAVAN: Just explain to me: why is there such a difference in those two figures?

Dr Gruen: The monthly series, as we have explained, does not update the whole basket every month; it updates around two-thirds of the basket every month; and there's a difference depending on whether it's the first, second or third month of the quarter—it depends which bits you're updating. Conceptually, even if we were updating the whole thing, there's no reason why the year to one particular month increase should be the same as the year to a quarter. So they're conceptually different.

Senator CANAVAN: Even if you had the same basket?

Dr Gruen: That's right—even if you calculated them on the same basket. But obviously we introduced it in a world where inflation is running much higher than it has for quite a long time. We thought that this was a piece of information that was extremely valuable, and so, even though we can't update the whole thing, we thought it was still worthwhile to produce something that would give you more timely information.

Senator CANAVAN: I very much agree with that. For our purposes, trying to interpret this, as you said, there is a conceptual difference, or a base difference, I suppose. The quarterly index—and the quarterly year-on-year change; the 7.8 per cent from the December quarter—is effectively, if I'm not incorrect, taking information as far back as September 2021?

Dr Gruen: October.

Senator CANAVAN: Sorry; October 2021—in measuring the percentage change.

Dr Gruen: That's right.

Senator CANAVAN: The monthly one obviously only goes back to December 2021.

Dr Gruen: That's right.

Senator CANAVAN: Is the monthly indicator, therefore, more of a leading indicator, in the context of inflation going up very high, or changing a lot, or increasing, or decreasing? Would you want to put more weight on the monthly rather than the quarterly?

Dr Gruen: We have, now, I think, about three years' history of the monthly.

Senator CANAVAN: You were sort of road testing them?

Dr Gruen: Exactly—or we didn't want to put it out until we had at least some history.

Senator CANAVAN: Fair enough.

Dr Gruen: We think it's more timely, but we're not confident that the last month of a quarter gives you a higher number. We're not confident that tells you anything about the next three months.

Senator CANAVAN: It doesn't tell you anything more than the quarterly figure?

Dr Gruen: Yes.

Senator CANAVAN: That's very interesting. I note that the next monthly series is due out on 1 March, so effectively it's a month after—this is the January figures; they are out on 1 March; it is a month's delay. I noticed that overnight the US—

Dr Gruen: The US published theirs; that's right.

Senator CANAVAN: CPI came out for January, so only two weeks or so delay. Is there a reason why our figures are four weeks or a month delayed and the US can do it in a fortnight?

Dr Gruen: There probably is, but I don't know what it is. It is partly that we've only just started to do this and, as I say, we don't update the whole index, but I don't know the answer about—

Senator CANAVAN: The US have done it for a long time, haven't they?

Dr Gruen: They have.

Senator CANAVAN: They've had monthly data—

Dr Gruen: They have. They also put out their labour force numbers earlier than we do—as in, each month—but one of the things that happened in 2014, as a consequence of some quite substantial volatility in the labour force numbers, was that a review was done and it was recommended that we take an extra week to quality-assure those numbers. So there's a trade-off between accuracy and timeliness.

Senator CANAVAN: Yes. I think it's a great thing you've done, to have the monthly series. Given the reason we're doing this, for timeliness, the quicker we can get it the better; there is a benefit from that. Are there any plans to consult your American colleagues or any other countries that do a monthly series on inflation and perhaps get it out quicker than we do?

Dr Gruen: We do consult, on that and on everything else, and we make judgements about when it's safe to put it out—when we've quality-assured it sufficiently that we're willing to stand behind it.

Senator CANAVAN: Alright. I'll leave it there. Thank you very much.

CHAIR: Thank you, Senators. Thank you very much, Dr Gruen, and the representatives of the ABS. You are released, with our thanks. There being no further questions, the committee's consideration of the 2022-23

supplementary budget estimates will suspend until tomorrow. I thank the minister. I thank the officers of the Treasury portfolio. Thank you also to Hansard and broadcasting and to the excellent committee secretariat.

Committee adjourned at 23:00