Additional Budget Estimates 2014–15

Report to the Senate

Introduction

1.1 On 12 February 2015, the Senate referred to the committee for examination and report the following documents in relation to the Industry and Science, and Treasury portfolios:

- Particulars of proposed additional expenditure in respect of the year ending on 30 June 2015 [Appropriation Bill (No. 3) 2014–2015]; and
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2015 [Appropriation Bill (No. 4) 2014–2015].

1.2 The committee is required to report to the Senate on its consideration of 2014–15 Additional Budget Estimates (Additional Estimates) on Tuesday, 17 March 2015.[1]

Portfolio structures and outcomes

1.3 Following the Administrative Arrangements Order issued on 23 December 2014, the Industry and Science portfolio was established. As a result of the Administrative Arrangements Order, the former Industry portfolio's responsibility for vocational education and skills policy and programs were transferred to the new Department of Education and Training. Likewise, the former Industry portfolio's small business programs were transferred to the Department of the Treasury.[2]

1.4 The Department of Industry and Science continues to have one outcome, which is:

> Enabling growth and productivity for globally competitive industries through building skills and capability, supporting science and innovation, encouraging investment and improving regulation.[3]

1.5 The complete structure and outcomes for each portfolio are summarised in the appendices as indicated below:

- Industry and Science (Appendices 3 and 4); and
- Treasury (Appendices 5).

General comments

1.6 The committee conducted hearings over two days:

- 25 and 26 February 2015—Treasury portfolio; and

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1 *Journals of the Senate*, No.75, 9 February 2015, p. 2049.

2 Industry and Science Portfolio, *Portfolio Additional Estimates Statements 2014–15*, pp. 3 and 11.

3 Industry and Science Portfolio, *Portfolio Additional Estimates Statements 2014–15*, p. 21.

- 26 February 2015—Industry and Science portfolio.

1.7 In total, the committee met for 22 hours and 40 minutes, excluding breaks.

1.8 The committee received evidence from the following ministers:

- Senator the Hon. Mathias Cormann, the Minister for Finance, representing the Treasurer;
- Senator the Hon. Michael Ronaldson, Minister for Veterans' Affairs, representing the Minister for Industry and Science;
- Senator the Hon. Marise Payne, Minister for Human Services; and
- Senator the Hon. Mitch Fifield, Assistant Minister for Social Services.

1.9 Evidence was also provided by:

- Mr John Fraser, Secretary, Department of the Treasury;
- Ms Glenys Beauchamp, Secretary, Department of Industry and Science; and
- officers from the Treasury and Industry and Science portfolios.

1.10 The committee thanks the ministers and officers who attended the hearings for their assistance.

Questions on notice

1.11 The committee draws the attention of all departments and agencies to the agreed deadline of Friday, 17 April 2015 for the receipt of answers to questions taken on notice from this round, in accordance with Standing Order 26.

1.12 As the committee is required to report before responses to questions are due, this report has been prepared without reference to any of these responses. Indices of questions taken on notice during and after the hearings are available at: http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/economicsctte/estimates/add1415/index.

1.13 Answers to questions taken on notice are tabled in the Senate. They may be accessed from the committee's website.

1.14 For the 2014–15 Supplementary Budget Estimates round, answers to questions on notice were due to be provided to the committee by Thursday, 12 December 2014 for the former Industry portfolio and Thursday, 19 December 2014 for the Treasury portfolio. The committee notes that:

- The Industry and Science portfolio submitted all their answers before the commencement of the 2014–15 Additional Estimates hearings, however only 108 questions out of the total of 212 questions were answered by the deadline set by the committee; and
- Likewise for the Treasury portfolio—although all answers were received prior to Additional Estimates, only 586 answers to 4,336 questions placed on notice were answered by the due date. Nonetheless, this response was a marked improvement

on the previous additional estimates when answers remained outstanding from previous estimates hearings up to the date the report was tabled.

Public interest immunity claims

1.15 On 13 May 2009, the Senate passed an order relating to public interest immunity claims.[4] The order, moved by Senator Cormann, set out the processes to be followed if a witness declined to answer a question. The full text of this order was provided to departments and agencies prior to the hearings and was also incorporated in the Chair's opening statements on both days of the Additional Estimates hearings.

Record of proceedings

1.16 This report does not attempt to analyse the evidence presented over the two days of hearings. However, it does include a brief list of the main issues that were traversed by the committee for the respective portfolios.

1.17 Copies of the Hansard transcripts, documents tabled at the hearings, and additional information received after the hearings (see Appendix 2 for a list of the documents) are tabled in the Senate and available on the committee's website.

1.18 Page numbers in brackets following the topics listed below refer to Proof Hansard transcripts. Page numbers in the Official Hansard transcripts, once they are produced, may differ from the page numbers in the Proofs.

Matters raised—Treasury Portfolio

1.19 On 25 and 26 February 2015, the committee examined the estimates for the:

- Treasury [Macroeconomic Group and Corporate Strategy and Services Group];
- Treasury [Fiscal Group] with the Clean Energy Finance Corporation (CEFC);
- Treasury [Markets Group];
- Treasury [Revenue Group] with the Australian Taxation Office (ATO);
- Inspector-General of Taxation (IGT);
- Australian Securities and Investments Commission (ASIC);
- Commonwealth Grants Commission (CGC);
- Productivity Commission (PC);
- Australian Prudential Regulation Authority (APRA);
- Australian Competition and Consumer Commission (ACCC); and
- Australian Bureau of Statistics (ABS).

Treasury [Macroeconomic Group]

1.20 The new Secretary of the Department of the Treasury (the Treasury), Mr John Fraser, opened with an introductory background in relation to his previous work

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4 *Journals of the Senate*, No. 68, 13 May 2009, p. 1941.

experience with the Treasury, IMF and UBS, both in Australia and overseas in the United Kingdom and the United States.

1.21 The Secretary provided a summary of economic developments since the mid-year economic and fiscal outlook (MYEFO). At the international level, he explained:

> [The] outlook for the global economy remains weak. The IMF has once again downgraded its outlook for global growth and now expects growth of about 3.5 per cent in 2015 and 3.7 per cent in 2016.

1.22 Mr Fraser elaborated:

> …a better than expected outlook for the US economy combined with the expansionary impacts of lower oil prices have not been sufficient to offset the significant deterioration in the outlook for the euro area and, importantly, China. Downside risks remain, including the threat of renewed turbulence in Europe from the evolving situation with Greece and the very sad ongoing geopolitical tensions. (pp. 5–6)

1.23 Against this international backdrop of uneven economic developments, the Secretary singled out the US economy as a 'bright spot' which was performing well across a range of indicators:

> Output is becoming increasingly broad based, the labour market continues to strengthen in the US and confidence has risen to high levels. Accordingly, the US Federal Reserve has shifted its focus to the normalisation of interest rates from the near zero levels.

1.24 This was in contrast to other parts of the world such as Europe, Japan and China, where the economy was not as robust:

> [T]he European Central Bank is about to embark on a large quantitative easing program to support growth and address persistently weak inflation. Similarly, the Bank of Japan continues to provide significant monetary stimulus. The outlook for China's growth was downgraded at the December 2014–15 mid–year economic and fiscal outlook to reflect its ongoing transition to more moderate but sustainable growth. Recent Chinese data support this revised outlook, although there are concerns about the extent to which China's economy is slowing; this has seen the authorities in China further ease monetary policy. (pp. 5–6)

1.25 Turning to the domestic economy, Mr Fraser explained economic growth was expected to remain at below–trend rates in the near term. And although the transition away from resources investment to broader based sources of growth was occurring, it was occurring at a slow pace and was constrained by weak domestic and global demand and weak confidence. He further added that the outlook for non-mining business investment was 'perhaps the greatest source of uncertainty, with firms remaining reluctant to invest'. (p. 6)

1.26 On the positive side, Mr Fraser observed:

> [T]he reduction in oil prices, the fall in the Australian dollar over the past couple of months and the recent easing of monetary policy should support consumption and demand, particularly in export-oriented and import competing sectors. (p. 6)

1.27 Mr Fraser noted that the next ABS capex survey, which provides the first estimates of firms' own investment intentions for 2015–16, would be a very important element for putting together Treasury's forecasts in the lead-up to the budget. (p. 6)

1.28 In relation to the residential property sector, the Secretary advised the sector was experiencing strong growth, with authorities closely monitoring investor activity, including the effectiveness of measures introduced by APRA in December 2014 to limit risky lending practices. He noted further that despite significant gains to household wealth, household consumption had been growing a little below trend. (p. 6)

1.29 According to Mr Fraser, labour market developments and households' confidence levels would be central to the outlook for consumption:

> While the unemployment rate has been slowly trending higher and job vacancy indicators continue to improve, ongoing subdued wage growth is assisting adjustments in the labour market. With subdued wage growth and key commodity prices, such as iron ore, coal and thermal coal, still under pressure from high supply and subdued global demand, nominal GDP growth is expected to remain weak. (p. 6)

1.30 The Secretary summarised recent economic developments as being broadly consistent with the view presented at the mid-year economic and fiscal outlook in December. Nonetheless, he cautioned that things could change in a volatile world context and Treasury could not rule out changes to the economy in the near term or, indeed, in the global economy. In his view, Treasury would be better placed to renew its outlook when the national accounts for the December quarter were released on 4 March 2015. (p. 6)

1.31 In relation to the potential for non-mining investment to fill the previous boom in mining investment levels that were now slowing, Treasury provided the following:

> [T]he mining investment boom was really of an extraordinary size compared with history. [Australia] went from mining investment of about two per cent of GDP to nearly eight per cent of GDP. When [Treasury is] thinking about the rebalancing of growth, one of the things that of course is happening is that [the country is] moving from an investment phase within the mining sector to a production phase. Part of the way in which the hole from a reduction in mining investment will be filled is going to be from an increase in the production from all of that investment. That is indeed happening. That is certainly occurring.
>
> [Treasury is] also forecasting, in the MYEFO forecast, a pick-up in non-mining investment. That is in the order of one per cent of GDP, so it is a smallish pick-up in non-mining investment. That is still a significant amount of non-mining investment. But, just to be absolutely clear, [Treasury is] certainly not expecting to get anything like the growth in non-mining investment to offset the detraction in mining investment per se. When [Treasury is] thinking about what the drivers are that will support non-mining investment, I think you are absolutely right; the lower exchange

> rate would help. Lower oil prices should also help in most of those sectors. And accommodating monetary policy would also be assisting. (p. 19)

1.32 Other topics covered during the committee's examination of the Treasury included:

- the efficacy of Australia's fiscal stimulus during the GFC and the work undertaken by Professor Makin and comparisons with other parts of the world, such as the United States and Europe (pp. 9–11 and 34–35);
- whether Treasury has conducted any modelling of the economic impacts of Australia's free trade agreements (FTAs) (pp. 11–12);
- the role of the Macroeconomic Group in relation to productivity growth projections, projections for participation rates, and how the information feeds into population projections which are the responsibility of the Revenue Group (p. 12);
- the medium term framework used in the Intergeneration Report (IGR) consistent with the framework used for projections within the budget context (p. 13);
- change in methodology since the last IGR, its application in the 2014–15 budget and the most recent MYEFO and the rationale for the change (pp. 12–13);
- any effect of the change in methodology to projections around unemployment (p. 13–14);
- implications of the medium-term framework on assumptions for growth, revenue, the structural deficit, unemployment and budget bottom line in 2017–18 (pp. 13–14);
- any risk the country could lose its triple-A credit rating based on some media commentary and the implications of that rating for state governments and banks in relation to their reliance on the Commonwealth having a strong credit rating for their easy access to capital markets (pp. 16–17);
- tools available to address problems in pockets of the housing market such as Sydney and Melbourne and its effects outside these pockets in regional areas (pp. 20–21);
- implications for real or nominal GDP growth and risks dependent on what is happening overseas, particularly China, which is going through a period of consolidation and dealing with issues of governance (p. 29);
- youth unemployment, the performance of the youth labour market and the factors which are contributing to the scale of youth unemployment (p. 31);
- the IGR and the looming issue of an ageing population which has real implications for the country's revenue and expenditure (p. 35); and
- corporate and personal taxes, World Bank's assessment of global revenue leakage (pp. 35–36).

Treasury [Fiscal Group] and the Clean Energy Finance Corporation (CEFC)

Clean Energy Finance Corporation (CEFC)

1.33 The Chief Executive Officer of the Clean Energy Finance Corporation (CEFC), Mr Oliver Yates, provided an update on CEFC's activities since the last estimates appearance:

> We are continuing with our activities, as you are aware, and we are building a pipeline. The level of emissions in relation to the projects that we actually finance, obviously, is quite dependent upon the projects that we are likely to finance. At the moment we are seeing a change within that as large renewable energy projects have been slowed down with the RET [renewable energy target]. It is quite difficult for to us forecast with any precise terms the exact amount that we would be able to contribute to the overall government's objective to reduce greenhouse gas emissions, but I would be very happy to try to forecast that for you in more detail as a question on notice, Senator, when we look in more detail in relation to the outlook, and particularly if we know the outcome from the RET review. (p. 37)

1.34 Mr Yates commented on the uncertainty surrounding the renewable energy target (RET) as a significant portion of a project's revenue is made up of the RET revenue:

> Without certainty about the existence of that revenue going forward there is a delay or a ceasing of new projects in the market at the moment. The best information I can probably suggest for you to look at is Bloomberg. They did a forecast of where we are today. They indicated that this year there has been an 88 per cent reduction in projects. The amount of investment within the large sector for renewable energy is about back to the same level it was in 2002. We have gone back about 12 years, is where we are now, in terms of the current investment that is occurring in large scale renewables, whilst the market has no certainty of the outcome of the RET review. (p. 37)

1.35 Other main topics dealt with during the examination of the CEFC included:

- banks reluctant to lend on renewable projects unless they are backed by a long-term power purchasing agreement (PPA), in contrast to projects coming through in the short-term backed by the ACT government as it carries a long-term energy contract (p. 37) ;
- the government sector as an increasing sector within the CEFC's portfolio, with 1.6 per cent of projects being council-related transactions, such as street lighting, and further growth at the state government level. (pp. 37–38);
- the CEFC's dialogue with the department about ways funding activities or the skills of the CEFC could complement direct action activities, including CEFC's participation in a number of expert working groups to develop some of the methodologies for the emissions reduction fund (ERF), organised by the Department of the Environment (p. 38);

- how the CEFC addresses market failure in new technologies where banks are often reluctant to approve transactions if there has not been experience in that technology in Australia (pp. 40–41);
- CEFC lending, which is well above the government cost of funds (CEFC at 6.6 per cent compared to around 3 per cent for the government), generating $54 million in revenue with its portfolio of $1 billion worth of assets, and with $30 million to cover its operating costs of around $20 million (p. 40);
- the jobs profile of projects financed by the CEFC across the country, from the waste energy project in Port Hedland, to a sugar refinery in Queensland, and a large rare earths project in Dubbo (pp. 40–41); and
- the processes and procedures which led to CEFC's decision to provide $70 million in debt financing to Pacific Hydro for its Portland wind energy project and its compliance with planning rules (pp. 42–43).

Fiscal Group

1.36 The main topics covered during the examination of the Fiscal Group included:

- the asset recycling initiative that is worth $5 billion and its benefits (p. 48);
- advice from the Australian Government Solicitor on the legality of direct payments to states post Williams (No. 1) and Williams (No. 2) that could impact on the constitutionality of the asset recycling fund (pp. 51–52);
- the use of the general equilibrium economic models of the economy to generate the estimates of one percentage point added to GDP following the federal government's additional infrastructure investment in excess of $125 billion, and whether the estimate depended on the scale of the investment (pp. 53–54);
- work undertaken by Treasury in the previous 18 months in relation to the optimal rate of tariffs (p. 55); and
- any modelling undertaken by Treasury on jobs creation following the abolition of the carbon price and the minerals resources rent tax, and any updated work on actual household money saved (p. 56).

Treasury [Markets Group]

1.37 During Treasury's Markets Group appearance, the General Manager of Financial System and Services Division, Ms Meghan Quinn, provided an update from the previous estimates on the topic of unauthorised foreign insurers. Treasury advised that they have had discussions with regulators—APRA and ASIC, over this period. The Treasury officer explained that as the sector would be governed by ASIC and by APRA:

> ASIC regulates the insurance brokers and APRA regulates authorised insurance companies in Australia. […] Insurance brokers are governed by ASIC and so, to the extent that this change would allow people to get insurance from unauthorised insurers through an insurance broker, the

> insurance broker network and the arrangements around insurance brokers are regulated by ASIC. (p. 19)

1.38 The committee also examined the Treasury Markets Group on the following topics:

- communications with APRA about the impact of allowing unauthorised foreign insurers into the market not governed by APRA and consequences for the authorised insurance market (p. 19);
- difference between an authorised foreign insurer and an unauthorised foreign insurer and the usage of a broker to access an unauthorised foreign insurer—the broker has to identify the circumstances in which an unauthorised foreign insurer is to be issued in the domestic market (p. 20);
- Treasury advice to government on issues of insurance, reinsurance and pool insurance in North Queensland (pp. 21–22);
- competitiveness in the banking sector, net interest margins, and the need for banks to 'look harder to expand their balance sheets and competition' in an environment where nominal GDP is more modest (p. 22);
- a significant shift to deposit funding across the system and a reduction in short-term debt funding post the global financial crisis, which has continued until recently when it has flattened out (p. 22);
- increase in banks' tier one capital ratios driven more by a reduction in risk weightings on their home loan portfolios than on an increase in the equity capital they are holding (p. 23);
- new $10,000 fee for foreign purchases of investment properties between $1 million and $2 million, and fees from large agribusinesses, estimated to raise $200 million per year, and where the $200 million revenue will go (pp. 24–25);
- consultation paper seeking feedback on an appropriate definition of agribusiness, a $15 million threshold applying to agricultural land, and a separate proposal related to the consultation paper which looks at a different screening threshold of $55 million for agribusiness (pp. 27–29); and
- independent valuation or assessment of a foreign investor's holdings in agricultural land (p. 29).

Treasury [Revenue Group] with the Australian Taxation Office (ATO)

Treasury [Revenue Group]

1.39 During the examination of the Treasury Revenue Group, the Deputy Secretary, Mr Rob Heferen, updated the committee of the work undertaken by Treasury at the international level to address the taxation of multinationals:

> [T]here is a very detailed process going on sponsored by the G20. The Group of 20, under Australia's presidency last year, is well into working through a 15-point action plan provided by the OECD. A few years ago the G20 recognised the issue of tax avoidance by multinational corporations, particularly brought to attention by various practices of US IT multinational

> firms. The G20 wanted the OECD to do some good hard work on this. The OECD has responded with this comprehensive action plan. At the end of last year at the finance ministers meeting and again in the leaders meeting in November the G20 endorsed a range of seven action items. They are still preliminary at the moment and will be finalised along with the other eight action items throughout this year.
>
> …There is a range of work streams dealing with transfer pricing issues where companies try to purport to have a big part of their value actually in another country, whereas in reality the income is earned in country A when they are trying to purport it to be country B…Issues around deductibility for debt; if a company borrows money the interest payments are deductible, and whether or not firms do too much of that. (p. 49)

1.40 In relation to IT-based companies, the Deputy Secretary noted:

> …With more flexibility, particularly around the IT companies, to be able to assert that the activity is actually taken in an overseas country and the material is exported into the country where arguably the activity is arguably taking place, a profit is made and ought to be taxed. (pp. 49–50)

1.41 According to Mr Heferen, there were two different issues which he cautioned against conflating:

> One is the vexed but genuine issue about whether there are profits from multinational companies that in effect go untaxed, that is, they are not taxed anywhere, because of the various interactions of different countries' tax rules…To hear incredible news that certain companies might not be [paying their taxes] poses a risk to the very strong theme of voluntary compliance we have in our country that our system really needs.
>
> [The other is] the domestic story, and I do note one of the several submissions made to the committee by the tax office identified that there used to be a number of high-risk companies in Australia that the ATO would look at carefully, and now there is one. Obviously they cannot name that company, but there is one. The consistent theme is that corporates in Australia are limiting their risks and clearly deciding that the risk of playing too aggressively with the tax system or trying to push the rules too far is a risk that they should not carry. The observation is that they have not.
>
> [O]n the domestic front. I think it is fair to say that all the credible evidence that I have seen on this would suggest that our levels of compliance are not perfect, of course, and no-one is suggesting they are, but we are at the stage where the laws we have in place and the administration we have in place has those risks under control and is dealing with those appropriately. (pp. 49–50)

1.42 The committee also examined the following matters:

- the number, names and amount paid to market research companies for branding, website, market research, communication and polling services, and whether Treasury ensured that it had met the campaign guidelines if the spend amount was above $250,000 (pp. 45–49);

- the wine equalisation tax (WET) rebate, also available to New Zealand industry due to the two countries' closer economic relations agreement (p. 63);
- the Tax White Paper and the discussion paper, to be released after the IGR (pp. 70–71); and
- discussions around the Financial Systems Inquiry and capital gains tax discounts (p. 71).

Australian Taxation Office (ATO)

1.43 The Commissioner of Taxation, Mr Chris Jordan, opened the Australian Taxation Office's (ATO) appearance by restating the ATO's commitment to the OECD working groups and provided an overview of the ATO's collaborative work overseas:

> We are making a significant investment with senior people supported by their teams to go to the groups and to make a really positive contribution at those meetings. We are significantly supporting that and doing some of the leading thinking on some of these new measures.
>
> [L]ast year, for the very first time, we initiated what we call a project called the E6. It has never happened before that we got six countries together and we analysed the ecommerce industry. We shared all of our intelligence and knowledge of the industry, we pooled all of that, and we looked at the very specific profile of a handful of companies that were high profile in that ecommerce industry.
>
> That prototype has been extremely successful because each country can then take that information and do what they will. Often that has been turning into audits, because by pooling the knowledge we get a much greater understanding of what precisely happens with some of these operations. That has been taken underneath the forum, or under the umbrella, of tax administrations. Next week there is the inaugural meeting of 30 countries that have now agreed to participate in this network so that we can analyse other industries, other particular companies or particular issues. This has been unprecedented in terms of tax authority collaboration and cooperation to make sure that multinational companies are paying the right amount of tax. We have initiated this in Australia. I found it quite surprising when I came into this role. This had never happened before, that level of joint discussion and ownership of issues. We have now caused this network of 30 tax authorities. We are leading that process that is starting next week. (p. 51)

1.44 According to Mr Jordan, the ATO was not idly waiting for all of these new rules to be developed by the OECD and was testing the veracity of companies challenging the ATO's right to tax their profits. In order to do this, the ATO had undertaken audits of some of these companies. (p. 51)

1.45 Following from the audits of some higher risk multinationals operating in Australia, the Commissioner of Taxation, Mr Chris Jordan, noted the common theme:

> …of either returning the income on a sale here in Australia and having very significant payments going out for the use of intellectual property or having the service delivered digitally and saying that that does not have a source

> here. There is an activity that is said to be done overseas, and because of the way that is done we do not have a permanent establishment and their income is not sourced here in Australia. We are challenging that. (p. 52)

1.46 The ATO was examined on a range of other matters including:

- an update on the ATO's investigation of companies in the (less than pure) gold bullion industry on suspicion of GST fraud totalling millions of dollars—pure grade gold does not attract GST, whereas with less pure gold you can claim an input tax credit (p. 53);
- the work of the ATO's International Structuring and Profit Shifting Program, which was a rollover of a previous initiative, for which the ATO was funded, plus some additional money—$242 million over four years and expected to run out in 2016-17 (p. 53);
- of the 41 audits currently undertaken by the ATO relating to multinational tax avoidance, with an expectation over the four year program of raising over a $1 billion (p. 54);
- the ATO auditing 72 companies and raising $15 million as a result of a leaked copy of the HSBC Swiss accounts in 2010; a further $15 million was raised from 27 voluntary disclosures (pp. 55–56);
- over 100 information exchange treaties with countries around the world, including Australia's tax treaty with Switzerland last year (p. 57);
- staffing levels in the ATO, 3000 jobs lost through voluntary redundancies, 590 people from the auditing work area (p. 59);
- the revenue collected from the farm-out arrangements in the exploration industry (p. 61); and
- failure of overseas companies operating in Australia to identify their subsidiaries (pp. 60–61).

Inspector-General of Taxation

1.47 The Inspector-General of Taxation (IGT), Mr Ali Noroozi, commenced the hearing with some important information about the government's announced change to the management of compliant handling for tax matters in the 2014–15 budget—which sees the transfer of this function from the Commonwealth Ombudsman to the IGT. Mr Noroozi, outlined some advantages arising from this change:

> [T]he transfer will leverage the Inspector-General's Office specialised tax expertise and provide an improved focus on resolving taxpayer and tax practitioner complaints as well as improving the tax system more broadly. I believe that the move towards a specialised, centralised scrutiny of this kind is an important recognition of the tax system's complex nature and corresponding need to have specialist expertise to assist individuals experiencing difficulties with it.
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> …
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> The nature and scheduling of my work program in future will be greatly enhanced once the legislation is enacted. The Inspector-General of Taxation

> will have greater flexibility in work design and related reporting options. It will ensure that I am able to respond promptly to individual or personal concerns, which I have been unable to do previously. It will also provide faster insights on issues or concerns that are emerging and allow me to direct resources towards the systemic implications more promptly.
>
> The new reporting structure will also allow me to report on a broader range of areas for improvement in real time. Where a possible recommendation is made for ministerial consideration the existing reporting rules will be maintained. I would like to assure the committee and other members of the public that my office's policy of confidentiality is unchanged. All matters will be treated confidentially.
>
> While I may self-select broader or systemic matters for investigation, my office will also continue its history of engaging directly with the community to better understand their concerns. This consultative approach often draws attention to issues that may not otherwise be heard and ensures optimal application of my officers' resources in delivering improvements through an open and transparent process. (p. 56)

1.48 Other matters examined during the IGT appearance included the following:

- the status of reviews from the IGT's current work program, covering the management of tax disputes, ATO's administration of valuation matters, delayed or changed ATO issues, and ATO's implementation of agreed recommendations in five previous reports (p. 57);
- KPMG's report on illicit tobacco in Australia, in which it identified $1.2 billion worth of lost revenue per annum (p. 57);
- an explanation on how the IGT's work program runs between 12 to 24 months (p. 58);
- the IGT's report looking into the ATO's use of risk assessment tools, of which the ATO's risk rating system for assessing the compliance potential of major corporations, is one such tool (p. 59); and
- the transfer of systems and the way the Ombudsman currently deals with complaints (p. 61).

Australian Securities and Investments Commission (ASIC)

1.49 The Chairman of ASIC, Mr Greg Medcraft, opened ASIC's appearance before the committee by providing an overview on the need to lift standards in the financial advice sector and what ASIC had done in this space:

> …ASIC has been saying for some time the financial advice industry is a high-risk sector. We have been saying and we have been proving it for a long time, as have others…This has been in parliamentary inquiries in the past, in the present and those that are going to report probably in the future.
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> …We also raised it in our submissions to the Senate inquiry into ASIC's performance, into the financial system inquiry and also at the PJC inquiry about lifting standards in the financial advice sector. In the future, for example, we will raise it again through our contribution to the Senate

> inquiry on the scrutiny of financial advice, another inquiry which is currently in place.
>
> Some of our suggested reforms have been implemented by government, for example FoFA was brought in with its best interest duty for financial advisers and, importantly, the enhancements to ASIC's banning powers. Some reforms are currently being implemented, such as the Financial Advice Register, which will come very soon. There are some reforms which we would like to see in the future that have been recommended by the financial system inquiry, such as those to give powers to ban managers and executives from financial advice firms. A lot has been implemented, and there are probably as many things awaiting decision.
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> …
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> In the last five years we have actually removed 69 financial advisers from the industry temporarily or permanently. We have secured 19 criminal outcomes. We had 23 licences cancelled and we have entered into over 25 enforcement undertakings. We have also had a range of enforcement outcomes that are actually underway. We have got four matters before the courts at the moment and we have got 17 criminal matters being investigated. In response to the problems in the financial advice sector we have actually set up a specialist wealth management project to focus on the large advice entities—the four major banks, Macquarie and AMP—and we have significant work underway targeting these entities, including NAB Wealth. (pp. 80–81)

1.50 Mr Medcraft noted that ASIC allocated additional resources to work in the financial advice area despite a cut in its budget and the agency's reduced resources. Extra funds have also been allocated from the enforcement special account. Mr Medcraft added:

> We are doing what we can to actually not only manage within our budget, but actually try and see this as a high-risk area. (p. 81)

1.51 Mr Medcraft also referred to media coverage regarding the NAB Wealth management business in the financial services sector, indicating that ASIC had acted as soon as possible to ensure all allegations and issues raised were investigated:

> In relation to the NAB Wealth media coverage and our response, we are already expanding the work in response to the weekend's media coverage. We have started information gathering from NAB Wealth using our formal legal powers and the bank has been cooperative. I received a call last night from Andrew Thorburn assuring me—and that has been the case—that we will get whatever cooperation we need. ASIC has also initiated discussions with NAB Wealth about reviewing the remediation provided to financial advice clients. (pp. 80–81)

1.52 The remaining topics covered during the committee's examination of ASIC included:

- the number of rogue planners identified by NAB and terminated, and ASIC's request for further information from NAB (p. 89);
- threshold for breach reporting (p. 87);

- several issues raised around the timeliness of reporting—when the obligation to breach report arises, as it does not necessarily arise when there has been a misconduct by an individual adviser but does when there is a significant breach of a licensee's obligation; there is also the issue of the licensee failing to breach report, when it should breach report, and what action can be taken against a licensee (p. 88);
- the usefulness of an additional item on the register to indicate if a person was summarily dismissed or terminated (p. 99); and
- the licensing structure of NAB which has six licenses and 1,700 advisers (p. 99).

Commonwealth Grants Commission

1.53 The committee examined the Commonwealth Grants Commission on the following topics:

- GST distribution to Australian states, with some states getting an additional share and some states receiving a significant reduction in their shares of GST, such as Tasmania and the Northern Territory receiving significantly less and Western Australia receiving a significant increase (p. 103);
- modelling on the impact on state budgets of moving to a shorter assessment period from the current three-year average of potential income (p. 103);
- National Commission of Audit recommendations and its proposal to move to GST distribution based on population (p. 104); and
- discussions and consultations with states and territories about changes to the current system (pp. 104–106).

Productivity Commission

1.54 During the Productivity Commission's (the Commission or PC) examination, the Chairman, Mr Peter Harris, explained the reasons for the Commission focusing its attention on various topical issues for its workplace relations framework inquiry. He noted the inquiry's terms of reference, stating that the Commission would 'look comprehensively across the system, primarily because of that requirement for consideration, as I think the terms of reference say':

> A key consideration will be the capacity for the workplace relations framework to adapt over the longer term to issues arising due to structural adjustments and changes in the global economy. (p. 106)

1.55 According to Mr Harris, the remit for the Commission's inquiry into the performance of the workplace relations framework would be broad and necessarily cover a wide range of areas. The issue of minimum wage, for example, is included in the terms of reference as a 'safety net':

> [The] *Issues Paper 1* contains the terms of reference. The second dot point says:
>
> fair and equitable pay and conditions for employees, including the maintenance of a relevant safety net. (p 106)

1.56 On issues of penalty rates, individual flexibility, and unfair dismissal, Mr Harris further elaborated:

> We will look at any of the pay and conditions that we thought were most likely to be pertinent. But, because penalties rates have been a highly topical issue in workplace relations in recent times, we have given it its own, if you like, category. But that is not to exclude any other terms and conditions that we will get submissions on. We will look comprehensively across the system, primarily because of that requirement for consideration. (p. 106)
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> …
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> Individual flexibility has been stated as being a strong objective of some parties in the workplace, and that is not just employers. Individuals have, as I understand it, a reasonable degree of uncertainty about how [individual flexibility agreements] might actually be solicited from their personal perspectives. So we are expecting to get submissions on that particular aspect of it from numerous sources, and so we have drawn some attention to it. (p. 107)
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> …
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> Unfair dismissal comes up because of, again, continuing topicality or contention over whether the system is achieving the purpose for which it was designed, and so that efficacy, if you like, would be a normal part of us examining any business regulation or any consumer related regulation in any inquiry we would undertake. So this is clearly a regulatory structure designed for a purpose addressing the concerns of individuals should they face dismissal. We are primarily going to ask the question: does it achieve its purpose and is there a better way to do so? But it would not be sceptical as to whether or not there would be a requirement for such a system. (p. 107)

1.57 Other matters also covered during the Productivity Commission's examination included the following:

- how the Commission will conduct its inquiry into the workplace relations systems, and the processes and procedures it usually adopts in building up an analysis (p. 108);
- the timetable for the Commission's round of consultations with various stakeholders, submissions closing date and final report date (pp. 108-109); and
- the Commission's report on child care and early childhood learning (pp. 111–114).

Australian Prudential Regulation Authority

1.58 During the committee's examination of Australian Prudential Authority (APRA), the Chairman, Mr Wayne Byres, clarified that APRA's role did not include targeting house prices:

> We wrote to all [authorised deposit-taking institutions—banks, credit unions and building societies] in December with our views on what we

> thought would be good practice in terms of maintaining sound lending standards.
>
> …
>
> [W]e are not targeting house prices. We do not pretend to know what the right level of house prices is. We do not have it within our mandate to target house prices. What we are trying to achieve is that, wherever house prices go, wherever interest rates go, wherever broader economic conditions go, lending by the banking system—particularly for the purposes of housing but I guess for all sorts of lending—is conducted on a sound and sensible basis. So we are very much focused on making sure that the banking system is resilient and that lending remains sensible and prudent, so that the system withstands whatever happens in the housing market or other aspects of the economy. It is not our job to target house prices. (p. 116)

1.59 The committee covered the following topics during is examination of APRA:

- an update on APRA's communications and investigations relating to Trio Capital and the Ulan investment (pp. 114–116);
- number of authorised deposit-taking institutions (ADIs) affected APRA's macro-prudential policy (pp. 116–117); and
- update on the implementation of Basel III standards in Australia (p. 118).

Australian Competition and Consumer Commission (ACCC)

1.60 During the ACCC's appearance, the committee examined the following matters:

- petrol pricing from retailers (p. 121);
- the ACCC's submission to the committee's inquiry into asset recycling (pp. 121–123);
- ACCC's role in regulating a monopoly (p. 124);
- ACCC's role in sectors where there is not a competition problem (p. 125);
- an update on the number of faulty cables recovered from homes and actions taken (p. 125);
- ACCC's ability to recoup money spent on resources dedicated to recalling faulty products from importers, manufacturers and other parties in the supply chain (pp. 125–126);
- misleading product claims, Australian Industry Group's (AIG) submission to DFAT concerning increased sub-standard products under an Australia–China FTA, and lack of identification of foreign manufacturers or producers of recalled products (pp. 125–127);
- ACCC's court case against Coles based on unconscionable conduct rather than misuse of market power—damaging upstream suppliers does not fall under the definition of misuse of market power, which requires damage to competitors (pp. 127–129);

- mandatory and voluntary codes of conduct, and Australia Post and its relationship with franchisees (pp. 131–132); and
- structure of cattle market, and buyer power in relation to Primo and JBS Swift and other players (pp. 129–130 and 133–135).

Australian Bureau of Statistics (ABS)

1.61 During the committee's examination of the Australian Bureau of Statistics (ABS), the new Australian Statistician, Mr David Kalisch, commenced with an overview of the environment in which the ABS operates. He noted:

> The ABS operates in a very dynamic information environment where there are growing expectations around what we could deliver, where the cost of traditional survey collection methods has been increasing over time and where new information opportunities are emerging, both in terms of new data sources and expanded ways to use data that provide new insights…The ABS is part of this information age but will need to adapt to ensure that it remains at the forefront of delivering its mission. There is a desire for more timely and more accurate information that, desirably, costs less and is less intrusive and less costly on households and businesses to supply the information. Information collected by governments and businesses in the course of their operations is increasingly seen as information resources. Previous ways of collecting information are being progressively replaced by new, more efficient and more accurate means, just as we have seen transformation of the information-rich retail and financial services sectors. (pp. 7–8)

1.62 Mr Kalisch also offered the committee with some comments on the challenges faced by the agency, including an ageing infrastructure:

> [Complex] policy problems generally require more complex data and analysis that deal with the complexity of people's lives and the array of services they receive. The ABS is part of an interconnected information sector, and partnerships with other information producers and users will be more important for us in the future. I have observed over past months that the ABS statistical infrastructure is aged and fragile, which increases the risk of the ABS making errors and having less efficient processes. The current business model is primarily run by bespoke cottage industry approaches to our different statistical collections, where best practice would be a consistent enterprise-wide approach to data capture, production use and dissemination. Despite these systems constraints, the ABS has a professional and expert workforce who are committed to delivering the key information that Australia needs. (p. 8)

1.63 The committee also examined the ABS on the following matters:

- the recent capability review of the ABS and the reforms progressing from the review's recommendations (p. 8);
- over 100 significant information and data systems with varying levels of complexity used by the ABS (p. 8),

- the adequacy of the ABS's current ICT hardware systems in contrast to the limits of its software systems which are 'not well-positioned to be…adapted further to meet the future challenges' (pp. 8–9);
- the efficacy and cost of the current five-yearly census (p. 10);
- change from five-yearly censuses to a longer frequency, such as 10-year censuses, with reference to comparable international counterparts such as the United States, United Kingdom, New Zealand and Canada (pp. 10–14); and
- difference between short form and long form censuses (p. 10).

Matters raised—Industry and Science portfolio

1.64 On 26 February 2015, the committee examined the estimates for the:

- Office of the Chief Scientist;
- Australian Institute of Marine Science;
- Commonwealth Scientific and Industrial Research Organisation (CSIRO);
- Department of Industry and Science [Cross-portfolio/ Corporate/ Programme 4: Programme support];
- Department of Industry and Science [Programme 2: Supporting Science and Innovation]; and
- Department of Industry and Science [Programme 3: Encouraging Investment] with the Anti-Dumping Commission.

Office of the Chief Scientist

- The Chief Scientist, Professor Ian Chubb, provided the committee with an overview on the current expenditure on science by the Commonwealth:

> The present Commonwealth spend is about $9.2 billion per year. That includes approximately two that is earmarked for the tax incentive scheme, for R&D. The rest of it is allocated out for a variety of purposes: ARC, CSIRO, ANSTO and various agencies and organisations like that and, of course, some of it ends up in the universities for the R&D that they do.
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> …
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> Overall, if you look at the total research and development spend, it is a bit over $18 billion a year. That puts us at around 2.1 per cent of GDP, and by OECD measures that is not a bad proportion in total (pp. 75–76).

1.65 Other matters covered during the examination of the Office of the Chief Scientist included:

- the Chief Scientist's extension to the end of the year (pp.75 and 77);
- an update on Australia's science strategy (p. 76);
- make up and function of the Science Council and its secretariat (p. 76);
- over 12 million hits on the Chief Scientist's website, with 462,401 of those hits from unique visitors for the full year (pp. 77–78); and

- the Clark research infrastructure review, which falls under the auspices of the Department of Education and looks at 'the strategic provision of research infrastructure to support Australian research on a national collaborative basis' (pp. 78-80).

Australian Institute of Marine Science

1.66 During the Australian Institute of Marine Science (AIMS), the committee examined the following topics:

- effect on AIMS's strategic research due to AIMS's reduced budget (pp. 81 and 84–85);
- the National Sea Simulator and its value to marine science (p. 81);
- research undertaken on the tolerance of different tropical organisms to different types of dredged soil or dredge impact (p. 82);
- the transferability of the research work for the Western Australian Marine Institution to the Great Barrier Reef and Darwin (p. 82); and
- the Dredge Synthesis Panel and the synthesis report (pp. 82–83).

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

1.67 The new Chief Executive, Dr Larry Marshall, commenced the committee's examination of the Commonwealth Science and Industrial Research Organisation (CSIRO) with some comments about his background and vision for CSIRO. He stated:

> I am a scientist, turned entrepreneur, turned CEO and later investor. I want to take the great people that make CSIRO what it is on part of my personal journey. You will see some great things from CSIRO this year and in the years to come but this year, in particular, you will see inclusion and collaboration, a more inclusive team with richer, deeper partnerships with universities, researchers and with industry. So, perhaps somewhat ironically, this will not be about the 'I', it will be about the we and the us of CSIRO. (p. 86)

1.68 Dr Marshall also acknowledged the work ahead for him and CSIRO:

> Any time there is change in any organisation it can bring about uncertainty; it can affect staff morale; it can raise questions about the future, and that can cause instability. I think the way that you stabilise an organisation is to communicate a clear message about the future and to actively engage staff so that they get back to the mission that they are there for. (p. 86)

1.69 Other topics canvassed by the committee during the Commonwealth CSIRO's appearance included:

- technology mining of CSIRO's 3,900 patents to 'create solutions that improve the lives of all Australians' (p. 86);
- CSIRO's engagement with small to medium businesses and the role the SME Engagement Centre will play in this engagement strategy (p. 87);
- CSIRO's budget (p. 87);

- CSIRO's role in an agricultural boom in science (p. 91);
- forty per cent of CSIRO's revenue from non-government sources (p. 91);
- update on staff morale, staffing levels and leakage of expertise (pp. 92–93);
- possible merging of National ICT Australia (NICTA) and the CSIRO, and the future of the 300 PhD students hosted by NICTA (p. 94);
- CSIRO's study *Field measurements of fugitive emissions from equipeny and well castings in Australian coal seam gas production facilities*, released mid last year and its current work on the potential impacts of coal seam gas in order to provide new technologies and solutions (pp. 95–99); and
- CSIRO's Australian Telescope National Facility Steering Committee and its replacement, and whether the role of international adviser will be filled (pp.100–101).

Department of Industry and Science [Cross-portfolio/corporate/Programme 4]

1.70 Under examination by the committee, the Department of Industry and Science's cross-portfolio, corporate and Programme 4 areas were questioned about the timeliness of responses to questions on notice from the previous supplementary estimates, and the number of late responses to the committee. The Secretary of the Department of Industry and Science elaborated:

> [The department] took 212 questions on notice. Two of those were answered on the day of the hearing, 23 October. Part of those 210 remaining questions, in a sense they were 1,422 parts, to provide some context. Of the [210], 108 were provided on time and a further 100 were tabled within seven days of the deadline. (pp. 101–102)

1.71 Other areas of examination by the committee included:

- information on program costing (pp. 90 and 103);
- information on the trial of open data program and the National Facilitator Growth Fund (p. 103);
- update on the *Australian Innovation System Report* and the *Australian Industry Report*, and potential overlap in the two reports' themes for this year (pp. 103–104);
- difference between industry policy and innovation policy (p. 104); and
- the Pharmaceutical Working Group and the function of the Sectoral Growth Policy Division (pp. 106–107).

Department of Industry and Science [Programme 2: Science and Innovation]

1.72 The Department of Industry and Science's Programme 2 was examined by the committee on the following topics:

- R&D tax incentive, and the processes of AusIndustry and Innovation Australia for companies planning their R&D work in future years (pp. 110–111);

- the $25 million grant to CO2CRC over five years under the Carbon Capture and Storage Flagship Program, and whether there was an independent evaluator (pp. 116–123);
- level of staffing in the automotive branch in the department (p. 121);
- update on the number of firms currently registered with the automotive transformation scheme (ATS) (p. 122);
- whether the department has prepared a submission to the inquiry into the future of the automotive industry (p. 123); and
- the Prime Minister's Prizes for Science and the different categories, including four for science research and two for science teachers (p. 120).

Department of Industry and Science [Programme 3: Encouraging Investment]

1.73 During the Department of Industry and Science's Programme 3 appearance, the committee examined departmental officers on the soon to be released Energy White Paper. The Secretary, Ms Glenys Beauchamp, noted:

> There has been much interest in the energy white paper and the green paper that was provided on 23 September 2014, subsequently getting over 200 submissions. This has provided quite a depth of material to finalise the white paper, acknowledging that there are a number of issues that do need to be sorted out over the next little while. But we are looking at a white paper that is long term and sustainable, and that provides a really good framework for any changes that might arise with those other processes. (pp. 128–129)

1.74 The committee was informed that the report was in the process of being finalised and put to government—that the budget for white paper was $1.2 million, and in addition to receiving 200 submissions, the department engaged an expert reference panel as well as consultations with stakeholders. (pp. 129 and 131)

1.75 Other matters also covered during the department's examination by the committee included:

- an update on the department's work since the release of the Gas Market Development Plan and the Eastern Australian Domestic Gas Market Study (p. 129);
- each state having its own regulatory regime, including titles administration, environmental approvals and its own technical regulatory space, creating impediments to a unified approach to policy (p. 129);
- update on the process of selecting a national facility for radioactive waste and whether the department would prepare a submission to South Australia's royal commission on nuclear energy (pp. 131–132); and
- fuel security, Australian refineries using imported crude oil, with the majority sourced from Singapore (p. 133).

Anti-Dumping Commission

1.76 During the committee's examination of the Anti-Dumping Commission (the Commission), the committee dealt with the following matters:

- update on the Commission's investigation into the alleged dumping of certain PVC flat electric cables exported from China (pp. 136–137);
- process of an applicant's claims of anti-dumping (pp. 137–138); and
- the role of the International Trade Remedies Advisory Service and the Commission's obligations under the world trade organisation (WTO) agreements on anti-dumping subsidy and countervailing measures (pp. 138 and 141).

Senator Sean Edwards

Chair