

The Senate

Economics
Legislation Committee

Budget estimates 2017–18

June 2017

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Senate Economics Legislation Committee

Members

Senator Jane Hume (<i>Chair</i>)	Victoria, LP
Senator Chris Ketter (<i>Deputy Chair</i>)	Queensland, ALP
Senator David Bushby	Tasmania, LP
Senator the Hon Ian Macdonald	Queensland, LP
Senator Jenny McAllister	New South Wales, ALP
Senator Nick Xenophon	South Australia, NXT

Senators in attendance

Senator Eric Abetz	Tasmania, LP
Senator Cory Bernardi	South Australia, AC
Senator David Bushby	Tasmania, LP
Senator the Hon Doug Cameron	New South Wales, ALP
Senator the Hon Kim Carr	Victoria, ALP
Senator Anthony Chisholm	Queensland, ALP
Senator Sam Dastyari	New South Wales, ALP
Senator Richard Di Natale	Victoria, AG
Senator Katy Gallagher	Australian Capital Territory, ALP
Senator Peter Georgiou	Western Australia, PHON
Senator Lucy Gichuhi	South Australia, IND
Senator Pauline Hanson	Queensland, PHON
Senator David Leyonhjelm	New South Wales, LDP
Senator Sue Lines	Western Australia, ALP
Senator Scott Ludlam	Western Australia, AG
Senator Malarndirri McCarthy	Northern Territory, ALP
Senator Deborah O'Neill	New South Wales, ALP
Senator Helen Polley	Tasmania, ALP
Senator Louise Pratt	Western Australia, ALP
Senator Lee Rhiannon	New South Wales, AG
Senator Janet Rice	Victoria, AG
Senator Malcolm Roberts	Queensland, PHON
Senator Dean Smith	Western Australia, LP
Senator Larissa Waters	Queensland, AG
Senator Murray Watt	Queensland, ALP
Senator Peter Whish-Wilson	Tasmania, AG
Senator John Williams	New South Wales, NATS

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Chapter 1

Overview

1.1 On 9 May 2017, the Senate referred the following documents to the committee for examination and report in relation to the Industry, Innovation and Science and Treasury portfolios:

- Particulars of proposed expenditure in respect of the year ending on 30 June 2018 [Appropriation Bill (No. 1) 2017–2018];
- Particulars of certain proposed expenditure in respect of the year ending on 30 June 2018 [Appropriation Bill (No. 2) 2017–2018]; and
- Particulars of proposed expenditure in relation to the parliamentary departments in respect of the year ending on 30 June 2018 [Appropriation (Parliamentary Departments) Bill (No. 1) 2017–2018].¹

1.2 The committee is required to report to the Senate on its consideration of 2017–18 Budget Estimates on 20 June 2017.²

Portfolio allocation

1.3 The committee has responsibility for examining the expenditure and outcomes of the Industry, Innovation and Science and Treasury portfolios.³

Portfolio Budget Statements (PBS) 2017–18

1.4 The Portfolio Budget Statements (PBS) 2017–18 for the Industry, Innovation and Science Portfolio and the Treasury Portfolio were tabled in the Senate on 9 May 2017.⁴

Hearings

1.5 The committee held hearings on 29–31 May and 1 June 2017 to hear from the Department of Industry, Innovation and Science and the Department of the Treasury in relation to all outcomes as well as from relevant portfolio agencies.

1.6 The following outcomes and agencies appeared before the committee for the Treasury portfolio:

- Department of the Treasury—Secretary, Macroeconomic Group and Corporate Group;
- Department of the Treasury—Fiscal Group;
- Department of the Treasury—Structural Reform Group;

1 *Journals of the Senate*, No. 39, 9 May 2017, pp. 1311–1312.

2 *Journals of the Senate*, No. 12, 7 November 2016, p. 378.

3 *Journals of the Senate*, No. 2, 31 August 2016, p. 76.

4 *Journals of the Senate*, No. 39, 9 May 2017, pp. 1311–1312.

- Australian Small Business and Family Enterprise Ombudsman;
- Department of the Treasury—Revenue Group;
- Australian Taxation Office;
- Inspector-General of Taxation;
- Department of the Treasury—Markets Group;
- Australian Prudential Regulation Authority;
- Australian Competition and Consumer Commission with the Australian Energy Regulator;
- Australian Office of Financial Management;
- Australian Securities and Investments Commission;
- Productivity Commission;
- Superannuation Complaints Tribunal;
- Commonwealth Grants Commission; and
- Australian Bureau of Statistics.

1.7 The following outcomes and agencies appeared before the committee for the Industry, Innovation and Science portfolio:

- Anti-Dumping Commission;
- Australian Nuclear Science and Technology Organisation;
- Office of Innovation and Science Australia;
- IP Australia;
- Australian Institute of Marine Science;
- Commonwealth Scientific and Industrial Research Organisation;
- Office of the Chief Scientist;
- Department of Industry, Innovation and Science—Programme 3: Cross-portfolio;
- Department of Industry, Innovation and Science—Programme 1: Supporting Science and Commercialisation;
- Department of Industry, Innovation and Science—Programme 2: Growing Business Investment and Improving Business Capability; and
- National Offshore Petroleum Safety and Environmental Management Authority.

1.8 The committee thanks the Ministers and officers who attended the hearings for their assistance.

Questions on notice

1.9 In accordance with Standing Order 26, the committee has drawn the attention of the Departments and their agencies to the agreed deadline of Thursday, 27 July 2017 for the receipt of answers to questions taken on notice.

1.10 As the committee is required to report to the Senate before responses to questions are due, this report has been prepared without reference to any of these responses.

1.11 Responses to questions on notice and additional information provided to the committee are tabled in the Senate and uploaded to the committee's website.

Public interest immunity claims

1.12 On 13 May 2009, the Senate passed an order relating to public interest immunity claims.⁵ The order sets out the processes to be followed if a witness declines to answer a question. The full text of this order has previously been provided to departments and agencies and was incorporated in the Chair's opening statement at the commencement of each hearing.

Record of proceedings

1.13 This report does not attempt to analyse the evidence presented to the committee over the four days of hearings. However, it does include a brief explanation of the main issues that were raised during the examination of each portfolio.

1.14 Copies of the Hansard transcripts and documents tabled at the hearings are available on the committee's website.

Note on Hansard page referencing

1.15 Hansard references throughout this report relate to the Proof Estimates Hansard. Please note page numbering may differ between the proof and final Hansard.

5 *Journals of the Senate*, No. 68, 13 May 2009, pp. 1941–1942.

Chapter 2

Treasury portfolio

2.1 This chapter summarises certain key areas of interest raised during the committee's consideration of budget estimates for the 2017–18 financial year for the Treasury portfolio. This chapter of the report follows the order of proceedings and is an indicative, not exhaustive, account of issues examined.

2.2 On 29, 30 and 31 May 2017, the committee heard evidence from Senator the Hon Mathias Cormann, Minister for Finance, Senator the Hon James McGrath, Assistant Minister to the Prime Minister, and Senator the Hon Arthur Sinodinos AO, Minister for Industry, Innovation and Science, along with officers from the Department of the Treasury (Treasury) and agencies of the Treasury portfolio, including:

- Australian Small Business and Family Enterprise Ombudsman;
- Australian Taxation Office;
- Inspector-General of Taxation;
- Australian Prudential Regulation Authority;
- Australian Competition and Consumer Commission with the Australian Energy Regulator;
- Australian Office of Financial Management;
- Australian Securities and Investments Commission;
- Productivity Commission;
- Superannuation Complaints Tribunal;
- Commonwealth Grants Commission; and
- Australian Bureau of Statistics.

2.3 Senators present over the course of the three days of hearings included Senator Hume (Chair), Senator Ketter (Deputy Chair), Senators Abetz, Bernardi, Bushby, Cameron, Dastyari, Di Natale, Gallagher, Georgiou, Gichuhi, Hanson, Leyonhjelm, Lines, Ian Macdonald, McAllister, O'Neill, Polley, Roberts, Smith, Whish-Wilson, Williams, and Xenophon.

Macroeconomic Group and Corporate Group

Departmental Secretary

2.4 The Treasury Secretary, Mr John A Fraser, made a comprehensive opening statement to the committee which outlined the current state of the Australian economy, and discussed some of the factors that may have an impact on Australia's economic performance over the forward estimates and the medium term.

2.5 In particular, Mr Fraser noted that there were currently a 'number of positive signs in the global economy', citing the growth of Australia's Asian trading partners,

China, India and Japan, and a lower unemployment rate in the United States as encouraging factors.¹

2.6 Globally, Mr Fraser commented that the changing landscape of geostrategic risks would be important in our regions as the China/US relationship develops and changes.

2.7 Domestically, the Secretary indicated that generally stronger commodity prices, household consumption, wage growth and mining investment would each have an impact on Australia's economy over the forward estimates.

2.8 Mr Fraser also highlighted the impact of Tropical Cyclone Debbie on multiple aspects, noting:

there has been an impact on the mining, agricultural and tourism industries in Queensland and northern New South Wales that is expected to reduce GDP growth by about a quarter of a percentage point in the June quarter. These events will contribute to real GDP growth slowing to around 1¾ per cent in 2016–17.²

2.9 Finally, the Secretary highlighted that the budget forecasts indicate a 'return to budget balance in 2020–21', with an underlying cash balance surplus of \$7.4 billion to be realised that same year.³

2.10 Finally, Mr Fraser noted that two ratings agencies have 'affirmed our AAA credit rating following the release of the 2017–18 Budget.'⁴

2.11 The committee then discussed a wide range of topics with the Mr Fraser and officers from Treasury's Macroeconomic and Corporate Groups.

Major bank levy

2.12 The committee discussed the processes around the design of the proposed Major Bank Levy. In particular, the committee sought information about what consideration was given to other models, comparisons with similar levies in other countries, and any economic modelling of the impact of the proposed bank levy.⁵

2.13 Officers from the Macroeconomic Group indicated that:

In providing advice to the government we looked at a range of possible approaches for providing a levy to the banks. As Mr Fraser said, you could look at an asset base, you could look at a profit base, you could look at a liability base. There are at least a dozen countries around the world that have a levy on banks, and we looked very closely at those countries and

1 *Proof Estimates Hansard*, 29 May 2017, p. 5.

2 *Proof Estimates Hansard*, 29 May 2017, p. 6.

3 *Proof Estimates Hansard*, 29 May 2017, p. 8.

4 *Proof Estimates Hansard*, 29 May 2017, p. 8.

5 *Proof Estimates Hansard*, 29 May 2017, p. 19.

how they do it, informing advice that went to the government as part of the budget.⁶

2.14 Senator Cormann added that the government's decision was based on liabilities. That is to say that those banks that would be subject to the major bank levy would be those operating in Australia with \$100 billion of liabilities.⁷

2.15 The committee specifically asked about the primary purpose of the major bank levy. Mr Fraser stated that the primary purpose is to raise money to help in the process of fiscal repair. When asked about any other policy rationales, Mr Fraser said that the levy was also designed to:

Provide a more level playing field, enabling the smaller banks, and indeed the non-bank lenders, to compete more aggressively. It also recognises the general systemic risks that the major banks, which are large leverage banks, impose on the rest of the community.⁸

2.16 The committee also discussed the leak of information in relation to the proposed major bank levy prior to its release on budget night. In particular, the committee sought information about what investigations would be carried out in response to the leak.

2.17 Mr Fraser indicated that once he became aware of the issue, he spoke with Mr Greg Medcraft, Chairman of the Australian Securities and Investments Commission (ASIC), who referred the matter to the Australian Federal Police (AFP) for investigation.⁹

Super Saver Scheme

2.18 The committee sought information from Treasury in relation to housing affordability measures announced in the 2017–18 Budget, in particular around the proposed Super Saver Scheme.

2.19 Senator Cormann clarified that the measure announced in the budget differed from another proposal in relation to superannuation discussed earlier in the year. He informed the committee that the measure would not give individuals access to superannuation funds previously accumulated; rather, the system would allow an individual to put savings into their superannuation account, with the benefit of the associated tax incentives. Further, individuals would only be eligible to withdraw that saved amount from their account for the purpose of putting a deposit on a house.¹⁰

2.20 The Super Saver Scheme was also discussed with the Fiscal Group. The committee asked about the effect the scheme might have on house prices, noting concern that it may increase demand which in turn may increase house prices.

6 *Proof Estimates Hansard*, 29 May 2017, p. 19.

7 *Proof Estimates Hansard*, 29 May 2017, p. 19.

8 *Proof Estimates Hansard*, 29 May 2017, p. 19.

9 *Proof Estimates Hansard*, 29 May 2017, p. 26.

10 *Proof Estimates Hansard*, 29 May 2017, pp. 41–42.

2.21 Officers of the Treasury indicated that:

Overall I do not think it will have an inflationary effect on prices in the context of the package overall. The overall intent of the housing affordability package is to place downward pressure on prices. Whilst it is hard to be quantitatively precise about the impact, I think that is the overall direction, because we have measures that go to increasing supply and we have measures that go to taking some of the benefit to investors out of the system, so I do not think it will be inflationary overall.¹¹

Fiscal Group

Funding of the National Disability Insurance Scheme (NDIS)

2.22 The committee asked officers of Treasury's Fiscal Group about Commonwealth funding for the NDIS. Specifically, the committee asked about the funding gap and how measures in the 2017-18 Budget would address this issue.

2.23 The officers indicated that the 0.5 per cent increase to the Medicare Levy, announced in the 2017-18 Budget, would be reserved for funding of the NDIS when it goes to full rollout from 1 July 2019. Officers from Fiscal Group further explained that:

The proposal is that the NDIS savings fund will be credited with one-fifth of the Medicare levy. The increase in the Medicare levy is formally hypothecated, pending the passage of legislation in the parliament, both the legislation to give effect to the Medicare increase and the legislation to create the savings fund. That one-fifth of the Medicare levy would flow into the savings fund or be credited into the savings fund.¹²

2.24 Senator Cormann, the Minister representing the Treasurer at the table, further noted that the budget papers said:

'these sources of funding are not sufficient to cover the Commonwealth's NDIS contribution in full scheme, leading to a \$3.8 billion shortfall in 2019-20, accumulating to \$55.7 billion over the medium term, which is to 2027-28'¹³

Medicare Guarantee Fund

2.25 The committee discussed the establishment of the Medicare Guarantee Fund with the Fiscal Group officers, specifically enquiring as to how funds would enter and leave the fund over the forward estimates.

2.26 Fiscal Group stated:

The amounts that will be accredited to the funds are, essentially, the portion of the Medicare levy that is not attributable to the NDIS, and a share of personal income tax revenue, such as would make up the full cost of the

11 *Proof Estimates Hansard*, 29 May 2017, pp. 54–55.

12 *Proof Estimates Hansard*, 29 May 2017, p. 50.

13 *Proof Estimates Hansard*, 29 May 2017, p. 51.

Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme, which was in the order of \$34 billion.¹⁴

2.27 The committee noted that the costs of the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS) were variable amounts which could exceed the amount set aside in the Medicare Guarantee Fund.

2.28 Fiscal Group acknowledged this, however, noted that in this circumstance, 'a greater share of personal income tax revenue would be credited to the fund. Officers also noted that in the case of a smaller spend on the MBS and PBS, that any excess would be retained in the fund.'¹⁵

Structural Reform Group

2.29 This was the first estimates appearance of the newly-formed Structural Reform Group. The Deputy Secretary of the group, Ms Meghan Quinn, provided the committee with an overview of the group's role and purpose as well as highlighting a number of the group's current projects.

2.30 The Deputy Secretary said that 'the reason for creating the group is to ensure that we are looking at things in a holistic way' and gave the following example:

When we are looking at, say, regional development, we draw together taxation, expenditure, legislation, in terms of thinking about the policy. It was happening before, but it is true that if you reorganise organisations you get a different focus on issues. It is a reflection of the desire for our focus on structural reform going forward as a department.¹⁶

2.31 Ms Quinn also explained to the committee that the group carries out work around five topic areas:

- Energy and climate change;
- Infrastructure, Communications and workplace relations;
- Industry, innovation and regional development;
- Regulatory reform; and
- Competition.¹⁷

2.32 The committee sought information on how the structural reform group was staffed. Ms Quinn informed the committee that the group is made up of 42 staff, drawn from other Treasury Groups. Further, Ms Quinn noted that the group was staffed with a 'more senior cohort of capability', with six SES officers and a large number of executive level 2 officers.¹⁸

14 *Proof Estimates Hansard*, 29 May 2017, p. 71.

15 *Proof Estimates Hansard*, 29 May 2017, p. 71.

16 *Proof Estimates Hansard*, 29 May 2017, p. 92.

17 *Proof Estimates Hansard*, 29 May 2017, p. 91.

18 *Proof Estimates Hansard*, 29 May 2017, p. 105.

2.33 The committee also discussed a number of the group's current projects including the climate change review being led by the Department of Environment, the ACCC gas market inquiry, the group's input into the Finkel review, and the monitoring of the NBN. The committee sought a comprehensive list of the Structural Reform Group's projects on notice.

Australian Taxation Office (ATO) and Revenue Group

Commissioner's opening statement

2.34 Mr Chris Jordan, Commissioner of Taxation, made a detailed opening statement to the committee; the focus of which was Operation Elbrus.

2.35 Mr Jordan explained that Operation Elbrus was a joint investigation coordinated by the ATO and AFP, which was looking into the matter of a 'syndicate allegedly involved in tax evasion and organised crime'.¹⁹ On 17 May 2017, a number of warrants were executed and arrests were made in relation to the operation. Mr Jordan noted that further to this, allegations of wrongdoing by officers of the ATO had also been reported.

2.36 The Commissioner addressed the reported allegations against Mr Michael Cranston, a deputy commissioner with the ATO at the time, citing Commissioner Colvin's statement that Mr Cranston was 'not being considered for conspiracy to defraud the Commonwealth'.²⁰ Mr Jordan reinforced this view stating that:

[At] no time did Michael Cranston directly access taxpayer data systems, or access the audit cases under this investigation. And there is no evidence of actual intervention or influence on the audit cases or of money being refunded or of tax liability being changed.²¹

2.37 Mr Jordan also provided the committee with an update on the issue of last year's ATO portal failures. He noted that the ATO would publish a report on the reviews that had been conducted into the matter and that the ATO had reached a commercial settlement with Hewlett Packard Enterprise (HPE) which: 'recoups the key costs incurred by the ATO and provides us with additional and higher-grade IT equipment, giving the ATO a world-class storage network'.²²

Code of Conduct review

2.38 The committee asked ATO officers about the current code of conduct review being undertaken by Barbara Deegan. ATO confirmed that this independent review was into three officers, one of whom is Deputy Commissioner Michael Cranston; and

19 *Proof Estimates Hansard*, 30 May 2017, p. 5.

20 *Proof Estimates Hansard*, 30 May 2017, p. 6.

21 *Proof Estimates Hansard*, 30 May 2017, p. 7.

22 *Proof Estimates Hansard*, 30 May 2017, p. 8.

was being completed as quickly as possible, likely to be finalised in the next four weeks.²³

2.39 ATO confirmed that it would wait for the outcome of the review before determining whether to take any action in relation to those officers under investigation.

Petroleum Resource Rent Tax (PRRT)

2.40 The committee discussed the details of the Petroleum Resource Rent Tax (PRRT) with officers from Revenue Group. In particular, the committee sought information about the amount of PRRT credits budgeted for over the forward estimates.

2.41 Officers noted that the forecasts were for \$900 million in 2016–17 and the same for following years. Revenue Group further explained:

Our models for forecasting PRRT revenue are reasonably simple base-and-growth models. We have a small number of taxpayers paying PRRT. We consult with the industry, the department and sources in the private sector to get a sense of volumes of production from those projects, what is happening with prices, and we feed those into the growth rate we apply to the current receipts. I am conscious that much more work was done on the longer term PRRT collections as part of the recent review.²⁴

Inspector-General of Taxation

2.42 Mr Ali Noroozi, Inspector-General of Taxation (IGT) made a brief opening statement to the committee, in which he stated that one of the principle purposes of the IGT is to improve tax administration, further noting that:

[His] team seeks to foster trust and confidence in the tax system by championing effective engagement with taxpayers and tax professionals, enhancing voluntary participation and providing assurance over the integrity and fairness of the Australian Taxation Office and Tax Practitioners Board administrative actions. We seek to achieve this primarily through investigating complaints regarding the ATO and the TPB and by conducting reviews into broader tax administration issues.²⁵

2.43 The committee asked Mr Noroozi about a potential review of the matters arising out of the ATO's Operation Elbrus. Mr Noroozi acknowledged the significant public interest in the matter and indicated that he had not commenced any inquiry at that stage noting both the AFO and ATO investigations as well as the court proceedings that are currently underway; he explained:

23 *Proof Estimates Hansard*, 30 May 2017, pp. 9–10.

24 *Proof Estimates Hansard*, 30 May 2017, p. 45.

25 *Proof Estimates Hansard*, 30 May 2017, pp. 59–60.

I will be very up-front with you and tell you exactly the two different factors that are uppermost in my mind. On the one hand I do not want to prejudice court proceedings. I also do not want duplication of effort.²⁶

2.44 The IGT also advised the committee that an inquiry into the matter could be commenced in a number of different ways including through self-referral, a request from the committee or a direction from the Minister.²⁷

Australian Securities and Investments Commission

Chairman's opening statement

2.45 Mr Greg Medcraft, Chairman of the Australian Securities and Investments Commission (ASIC), highlighted the agency's major outcomes over the last three months, since their last estimates appearance. These outcomes included:

- the Queensland Supreme Court ordered ex-officers of the former fund managers MFS to pay \$205 million in compensation and banned them from managing companies;
- the former managing director Steven Noske was jailed for 18 months and fined \$20,000 for insider trading;
- Queensland car-yard lender Channic was ordered to pay over \$1.2 million after breaching consumer credit laws and dealing unjustly with vulnerable Indigenous consumers; and
- Citibank refunded \$5 million to around 230,000 customers for failing to properly disclose information on international credit card fees.²⁸

2.46 Mr Medcraft also emphasised to the committee that ASIC is principally an enforcement agency, as that is where 70 per cent of its funding is allocated. He also noted that the current review into ASIC's enforcement regime would give them new powers to deal with not only the symptoms, but the causes of a number of problems relating to financial misconduct. More specifically, Mr Medcraft said:

ASIC see this power as being vitally important, and it is crucial to our effectiveness of such a banning power that triggers allowing us to ban management that is inappropriate. It will not be affective if we can only ban those who themselves have directly committed breaches of law because we largely have that at the moment. The role of managers should be about taking reasonable steps to ensure compliance with the law by the people they are managing. We need to be able to remove managers who fall seriously short of that standard and whose management failings have contributed to misconduct in a firm and thus losses to investors and consumers and, therefore, loss of trust and confidence.²⁹

26 *Proof Estimates Hansard*, 30 May 2017, p. 63.

27 *Proof Estimates Hansard*, 30 May 2017, p. 63.

28 *Proof Estimates Hansard*, 31 May 2017, p. 2.

29 *Proof Estimates Hansard*, 31 May 2017, p. 3.

Major bank levy

2.47 The committee asked ASIC about its investigation into the leak of information relating to the major bank levy before the Budget was delivered on 9 May 2017.

2.48 Mr Medcraft indicated that Treasury, the AFP and ASIC each became aware of the issue the day of or after the Budget was delivered, and that an investigation was initiated on 10 May 2017.

2.49 Ms Armour, head of the market surveillance division of ASIC, specified that ASIC officers had noticed some changes to the share prices of the banks on 9 May 2017 as part of their standard market surveillance. However, the variation of between 2.3 and 3 per cent was not considered to be significant.³⁰

2.50 It was subsequent to the news of a leak surfacing that this variation in the markets appeared more significant. At that point the investigation was initiated. Ms Armour further noted:

We are a little bit reluctant to go into details, but obviously, we have been examining accounts that traded in the five stocks in the period before the rumours commenced. We are looking to see if anyone did profit in a way that is unexplained or unusual. We are talking with Treasury and are gaining information about who knew about the proposal and the processes that we use, and we are working with the AFP in connection with that.³¹

2.51 ASIC officers noted that at this stage, it was unclear when the investigation might be finalised.

Superannuation Complaints Tribunal

2.52 This was the first estimates appearance of the Superannuation Complaints Tribunal (SCT). The agency was represented by Ms Helen Davis, Chairperson of the SCT.

2.53 Ms Davis talked to the committee about the SCT's role, explaining that the statutory body was established in 1992–93—around the same time as compulsory superannuation was introduced—as a dispute resolution body for superannuation disputes. She also noted that the SCT does not deal with systemic issues in the superannuation system, rather, they focus on individual cases, stating that:

A superannuation complaint is essentially any complaint about a decision of the trustee, so it is something the fund did or did not do. Our jurisdiction covers the regulated funds and some of the public sector funds that have been elected in.³²

2.54 The committee asked questions in relation to SCT's activities as well as its staffing and funding. Ms Davis informed the committee that SCT currently has

30 *Proof Estimates Hansard*, 31 May 2017, p. 4.

31 *Proof Estimates Hansard*, 31 May 2017, p. 4.

32 *Proof Estimates Hansard*, 31 May 2017, p. 59.

32 staff, and was dealing with between 2300 and 2600 complaints each year with 1600 open complaints at the present time.³³

2.55 In relation to the SCT's funding, Ms Davis explained that the Superannuation Complaints Tribunal is resourced through ASIC, which is in turn funded by the APRA Levy. This means that staff who work at the SCT are employed by ASIC. Ms Davis also clarified that the SCT's budget for 2017–18 is \$5.1 million.³⁴

Commonwealth Grants Commission

2.56 The committee spoke to the Commonwealth Grants Commission (CGC) about its role in the distribution of GST revenue between the states, known as Horizontal Fiscal Equalisation or HFE.

2.57 The committee raised concerns that certain states were not receiving an adequate allocation of GST revenue. In particular, the committee noted that in 2016–17, GST revenue was allocated at a level of \$759 per individual in Western Australia, whereas in the Australian Capital Territory allocation sat at around \$2896 per individual. Officers of the Grants Commission acknowledged this difference and explained that HFE takes into account different factors affecting each state or territory. In this instance, officers noted that Western Australia is a 'fiscally strong state' and that the royalties received from mining have contributed to its wealth outside of the GST distribution system.³⁵

2.58 The committee also asked the CGC whether it had any involvement in the Productivity Commission's review into Horizontal Fiscal Equalisation. Officers indicated that the CGC had not made submission to the review.³⁶

Other topics raised

2.59 The committee discussed a wide range of topics during the three days of hearings with the Treasury portfolio. The above reporting of discussions is not complete. Other topics discussed by the committee included:

- Wage growth disparity across Australia
- Housing affordability
- Household debt and its impact on consumption
- Major bank levy—design process and consultation; leak of details before Budget night; impact on small banks, shareholders and taxpayers; and economic modelling
- Medicare Levy budget measure
- First Home Buyer Super Saver Scheme

33 *Proof Estimates Hansard*, 31 May 2017, p. 58–59.

34 *Proof Estimates Hansard*, 31 May 2017, p. 60.

35 *Proof Estimates Hansard*, 31 May 2017, pp. 67–68.

36 *Proof Estimates Hansard*, 31 May 2017, p. 69.

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- National Housing Infrastructure Facility
 - Skilling Australia Fund and the associated levy relating to temporary visa workers
 - The process relating to the production of Budget papers including the 'Women's Budget Statement'
 - Energy policy including the Future Security of the National Electricity Market (Finkel) review
 - ASBFEO's small business loans inquiry and the implementation of its recommendations
 - ASBFEO's Payment times and practices inquiry
 - Medicare Levy and Medicare Guarantee Fund
 - Update on the Panama Papers and related investigations
 - Taxation of loose leaf tobacco
 - Foreign and domestic investment in residential housing through Managed Investment Trusts
 - GST on particular items including salads and feminine hygiene products
 - Processes and consultation in the development of the Bank Levy budget measure
 - APRA's engagement with the superannuation industry
 - National Broadband Network pilot program
 - ACCC's dairy inquiry
 - ASIC's report 499 Financial Advice: Fees for no service
 - ASIC's REP 515 Financial advice: Review of how large institutions oversee their advisers
 - FOI emails—Greg Kirk correspondence with CBA 15 May, Emails 2006–2015
 - Macquarie Bank 2013 enforceable undertaking
 - Update on the Productivity Commission's inquiry into Horizontal Fiscal Equalisation
 - Alternative default models for superannuation systems
 - Role and funding of the Superannuation Complaints Tribunal
 - Discussions around the Commonwealth Grants Commission's role in determining the amount of GST revenue received by States and Territories, in particular, Western Australia
 - Catholic Education Commission's report and ABS's response
 - ABS' data integrity

Chapter 3

Industry, Innovation and Science portfolio

3.1 This chapter summarises certain key areas of interest raised during the committee's consideration of budget estimates for the 2017–18 financial year for the Industry, Innovation and Science portfolio. This chapter of the report follows the order of proceedings and is an indicative, not exhaustive, account of issues examined.

3.2 On 31 May and 1 June 2017, the committee heard evidence from Senator the Hon Arthur Sinodinos AO, Minister for Industry, Innovation and Science, and Senator the Hon Matthew Canavan, Minister for Resources and Northern Australia, along with officers from the Department of Industry, Innovation and Science (the Department) and agencies including:

- Anti-Dumping Commission;
- Australian Nuclear Science and Technology Organisation;
- Office of Innovation and Science Australia;
- IP Australia;
- Australian Institute of Marine Science;
- Commonwealth Scientific and Industrial Research Organisation;
- Office of the Chief Scientist; and
- National Offshore Petroleum Safety and Environmental Management Authority.

3.3 Senators present over the course of the day's hearing included Senator Hume (Chair), Senator Ketter (Deputy Chair), Senators Bushby, Carr, Chisholm, Ludlam, Ian Macdonald, McCarthy, Pratt, Rice, Roberts, Waters, Watt, Williams, Xenophon.

Australian Nuclear Science and Technology Organisation

Opening statement

3.4 Dr Adi Paterson, Chief Executive Officer of the Australian Nuclear Science and Technology Organisation (ANSTO), highlighted a number of the agency's recent achievements. In particular, Dr Paterson talked to the committee about collaboration between ANSTO and the Sri Lankan presidential taskforce for the prevention of chronic kidney disease. Together, they have been undertaking research into chronic kidney disease of unknown aetiology, which poses a 'major public health concern' in many countries and can be fatal.¹

1 *Proof Estimates Hansard*, 31 May 2017, p. 99.

3.5 Dr Paterson also talked about ANSTO's expertise and landmark research infrastructure, which includes the Australian Synchrotron and the Australian Centre for Neutron Scattering.²

National Measurement Institute

3.6 The committee asked ANSTO about the possibility of the National Measurement Institute (NMI) moving from within the Department of Industry, Innovation and Science to being a part of ANSTO.

3.7 Ms Glenys Beauchamp, Secretary of the Department, indicated that no decisions to relocate the NMI had been made but that any potential move would require consultation with staff and stakeholders. Ms Beauchamp further noted, however, that ANSTO and the NMI had some 'like issues' in terms of the skills and capability required.³

3.8 Dr Paterson added that:

ANSTO is responsible for a scientific standard of measurement—the becquerel; it is the measure of radioactivity. That is under an agreement that we have with the Chief Metrologist. ANSTO has for many years looked after the becquerel for Australia because of the competence that we have in that area. More broadly, if you oversummarise our scientific capabilities, we have physics capabilities, we have chemistry capabilities and we have biology capabilities. It is my understanding from the meetings that I have had over the years with NMI that there is a good alignment of physics, chemistry and biology activities, but that has not been studied in any detail by ANSTO.⁴

457 visas

3.9 The committee sought information from ANSTO in relation to the number of employees holding 457 visas. Dr Paterson noted that there are currently nine ANSTO staff on 457 visas.

3.10 The committee expressed concern that the recently announced changes to Australian visas might have an impact on ANSTO's ability to secure enough employees with the required expertise to satisfy ANSTO's requirements.⁵

3.11 Senator Sinodinos informed the committee that consultations were in progress to ensure that there are no 'unintended consequences' arising from the changes.⁶

2 *Proof Estimates Hansard*, 31 May 2017, p. 99.

3 *Proof Estimates Hansard*, 31 May 2017, p. 100.

4 *Proof Estimates Hansard*, 31 May 2017, p. 100.

5 *Proof Estimates Hansard*, 31 May 2017, p. 103.

6 *Proof Estimates Hansard*, 31 May 2017, p. 104.

Commonwealth Scientific and industrial Research Organisation (CSIRO)

3.12 The committee discussed a wide range of topics with officers of CSIRO including in relation to peer review processes, enterprise agreement negotiations, funding over the forward estimates, the centralisation of CSIRO staff in capital cities, and Data 61.

3.13 The committee sought an update on CSIRO's enterprise agreement (EA) bargaining process, noting that the previous agreement expired in 2014. Officers from CSIRO noted that significant progress had been made in negotiations with staff, moving from only five to 79 agreed clauses. Officers informed the committee that the proposed agreement had been lodged with the Australian Public Service Commission (APSC) and that, subject to APSC's approval, the proposed EA would be released for formal consideration and that a vote would take place subsequently.⁷

3.14 The committee also discussed how the recently announced changes to Australian visas might impact on staff at CSIRO, pointing to the possibility that certain expertise may no longer be as readily available.⁸

3.15 CSIRO currently employs 198 individuals on 457 visas, who are recruited due to their specialist knowledge and skill in certain scientific fields.

Office of the Chief Scientist

3.16 The committee discussed a number of topics with Dr Alan Finkel AO, Chief Scientist, including the independent review he has conducted into the Future Security of the National Electricity Market, the national STEM partnership, public investment in R&D, and climate change data and policy.

Finkel review

3.17 The committee asked Dr Finkel for a progress update on the independent review he is conducting into the national electricity market. Dr Finkel informed the committee that the inquiry had attracted approximately 390 submissions, and that as part of its work, the review had modelled various scenarios for the operation of the electricity system 'over the next three decades'. Dr Finkel noted that the report was due to be presented to the Council of Australian Governments (COAG) in June 2017.⁹

3.18 The committee pointed out that consultations conducted during the review had revealed that many organisations felt there was a lack of clear policy in this area.

3.19 Dr Finkel responded noting that:

I am certainly agreeing with the statement that the submissions are indicating that, and there is a lot of reason to agree with the sentiment there. What we are hearing, loud and clear, is that the lack of clarity in the future policies around the electricity sector is giving great concern to investors,

7 *Proof Estimates Hansard*, 1 June 2017, p. 33.

8 *Proof Estimates Hansard*, 1 June 2017, pp. 12–13.

9 *Proof Estimates Hansard*, 1 June 2017, p. 40.

and that discourages them from making the necessary investment that will bring on the new generation for low emissions and reliability that we require. That is a key consideration in our minds as we are formulating our recommendations.

[...]

We are certainly going to recommend a blueprint which is a framework for securely, reliably and affordably running a low-emissions electricity system into the future.¹⁰

3.20 Dr Finkel further noted the Australian Competition and Consumer Commission (ACCC) were also undertaking an inquiry into the retail aspect of the electricity market and suggested that 'the combination of a predictable, well-designed electricity system for the future will intrinsically lead to price impacts that are lower than they would otherwise be. It is very hard to say exactly what prices will be'.¹¹

Paris Agreement on climate change

3.21 The committee discussed the impact of the possible decision of the United States to leaves the Paris Agreement on climate change, noting that it may have an effect on the future of the commitment.

3.22 Dr Finkel indicated that if the United States left the agreement, it would be a 'blow to the accord, but it is not fatal'.¹² He further noted that:

The other countries have indicated that they are absolutely committed because of the evidence-based logic of the accord. All people who I have spoken to are not mixing with the presidents of European countries and other developed countries—well, of any countries—other than ours as a leader. Most of them say: 'It is one president for one or two terms. Things will change.'¹³

3.23 The committee then asked Dr Finkel more specifically about Australia's role in the Paris Agreement, noting that Australia produces less 1.3 percent of global carbon emissions.

3.24 Dr Finkel acknowledged this fact, however, pointed out to the committee that although the reduction of less than 1.3 per cent of the global emissions would not have an effect on the climate, Australia is a well-respected country and that it has to show leadership in this field.¹⁴

10 *Proof Estimates Hansard*, 1 June 2017, p. 41.

11 *Proof Estimates Hansard*, 1 June 2017, p. 42.

12 *Proof Estimates Hansard*, 1 June 2017, p. 52.

13 *Proof Estimates Hansard*, 1 June 2017, p. 52.

14 *Proof Estimates Hansard*, 1 June 2017, p. 53.

Department of Industry, Innovation and Science—Programme 2

Northern Australia Infrastructure Facility (NAIF)

3.25 The committee sought information from NAIF in relation to existing processes for dealing with a conflict of interest of a member of the NAIF Board. In particular, the committee inquired as to whether any current board members were being investigated in relation to a potential conflict of interest.

3.26 Ms Laurie Walker, the Chief Executive officer of NAIF indicated that she was not aware of any such investigation and further noted that:

[Board members] understand their duties and obligations, particularly regarding conflicts of interest under both the PGPA and the NAIF policy. Various conflicts have been declared by various directors. I have absolute confidence that those board members have declared conflicts in compliance with the act and the policy, which require disclosure of material personal interests. The NAIF does not publicly disclose which directors have recused themselves, because we are obliged under Privacy Act provisions to maintain that information as personal information and not disclose it. Directorships are publicly disclosed. The other reason that we do not disclose publicly which directors have recused themselves is (1) that it is done as part of board deliberations, which are commercial in confidence and (2) a conflict arising could disclose particular projects that are before the board for deliberation. That would reveal commercial in confidence.¹⁵

3.27 The committee put a further series of questions to Ms Walker regarding conflict of interest. In this instance, Minister Canavan interceded taking the questions on notice as they related directly to the NAIF.¹⁶

3.28 The committee also asked NAIF about when any announcement in relation to project funding might be made. Ms Walker indicated that there were four projects in the due diligence stage, noting that the first deal should be closed in the third quarter of 2017.¹⁷

3.29 The committee also asked questions around the NAIF's Indigenous engagement strategy. Ms Walker noted that NAIF would be publishing its Indigenous engagement strategy online soon and that this document would outline the agency's policies relating to employment, participation and procurement.¹⁸

National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA)

3.30 The committee asked NOPSEMA about an offshore oil and gas well leak that occurred off the coast of Australia over two months. The spill, which was reported in

15 *Proof Estimates Hansard*, 1 June 2017, p. 114.

16 *Proof Estimates Hansard*, 1 June 2017, p. 121.

17 *Proof Estimates Hansard*, 1 June 2017, p. 123.

18 *Proof Estimates Hansard*, 1 June 2017, p. 129.

an Annual offshore performance report by NOPSEMA in April 2016, is estimated to have released 175 litres per day over 60 days, totalling 10 500 litres.¹⁹

3.31 The committee inquired as to whether any investigation or punitive action had taken place in response to the incident. Mr Stuart Smith, Chief Executive Officer of NOPSEMA indicated that no investigation had been commenced nor any fines issued. He further noted that:

Because the leak itself had no material environmental impacts. It posed no safety impacts. The company acted in accordance with the permissioning documents. When they discovered the leak, they stopped it immediately. They then changed their practices to ensure that it could not be repeated in future events, and there simply were not grounds for prosecution. The company, in fact, had done everything it is required to do and, in the absence of material impacts, it is hard to see what action could be taken against them if we had sought to pursue an enforcement action.²⁰

3.32 Mr Smith also commented that this type of leak was not a common occurrence.

Other topics raised

3.33 The committee discussed a wide range of topics during the two days of hearings with the Industry, Innovation and Science portfolio. The above reporting of discussions is not complete. Other topics discussed by the committee included:

- Dumping of products on the Australian market including tomatoes, cement, copy paper, aluminium and steel
- Impact of 457 visa holder restrictions on ANSTO's workforce
- ANSTO—proportion of isotopes produced and used domestically vs internationally
- Research and Development tax incentive
- AIMS's Great Barrier Reef Long Term Monitoring Program
- CSIRO's operating loss in the previous financial year and funding over the forward estimates
- CSIRO's peer review process
- Closure of the Hazelwood power plant
- De-centralisation of government agencies
- Data manipulation by the Goddard Institute for Space Studies within NASA
- Procurement processes of the Department of Industry, Innovation and Science
- Country of origin food labelling

19 *Proof Estimates Hansard*, 1 June 2017, pp. 145–46.

20 *Proof Estimates Hansard*, 1 June 2017, p. 145.

- Cooperative Research Centres
- Advanced Manufacturing Growth Fund
- Progress update of the commerciality review of the North West Shelf
- Health and Safety incidents within NOPSEMA

Senator Jane Hume
Chair

Appendix 1

Tabled documents

Treasury portfolio

1. Opening Statement tabled by Mr John Fraser, Secretary of the Department of the Treasury, 29 May 2017
2. Reserve Bank of Australia and US Federal Reserve data, tabled by Senator Malcolm Roberts, 29 May 2017
3. Table: Infrastructure and Defence spending, tabled by Senator Peter Whish-Wilson, 29 May 2017
4. Table: Funding Allocation, tabled by Senator the Hon Mathias Cormann, Minister for Finance, 29 May 2017
5. Opening Statement tabled by Mr Chris Jordan, Commissioner of Taxation, Australian Taxation Office, 30 May 2017
6. Opening Statement tabled by Mr Ali Noroozi, Inspector-General of Taxation, 30 May 2017
7. GST-free Supply (Health Goods) Determination 2011, tabled by Senator the Hon Mathias Cormann, Minister for Finance, 30 May 2017
8. Opening Statement tabled by Mr Wayne Byres, Chairman, Australian Prudential Regulation Authority, 30 May 2017
9. Table: Australian Government bond yields, tabled by Mr Michael Bath, Australian Office of Financial Management, 30 May 2017
10. Chart: BBSW Sectoral Impacts and Transmission Mechanisms, tabled by Mr Greg Medcraft, Chairman, Australian Securities and Investments Commission, 31 May 2017
11. Opening Statement tabled by tabled by Mr Greg Medcraft, Chairman, Australian Securities and Investments Commission, 31 May 2017
12. Opening Statement tabled by Ms Helen Davis, Chairperson, Superannuation Complaints Tribunal, 31 May 2017
13. Appointees to the Superannuation Complaints Tribunal, tabled by Senator the Hon James McGrath, Assistant Minister to the Prime Minister, 31 May 2017

Industry, Innovation and Science portfolio

14. Opening Statement tabled by Dr Adi Paterson, Chief Executive Officer, ANSTO, 31 May 2017
15. Opening Statement tabled by Mr John Gunn, Chief Executive Officer, Australian Institute of Marine Science, 31 May 2017
16. Letters relating Senate Procedural Order 15, tabled by Ms Glenys Beauchamp, Secretary, Department of Industry, Innovation and Science, 1 June 2017
17. Newsletter from Senator Sinodinos, 8 May 2017, tabled by Senator Chris Ketter, 1 June 2017
18. Opening Statement tabled by Ms Laurie Walker, Chief Executive Officer, Northern Australia Infrastructure Facility, 1 June 2017
19. Tables: Project Lifecycle and Governance & Transparency, tabled by Ms Laurie Walker, Chief Executive Officer, Northern Australia Infrastructure Facility, 1 June 2017
20. List of receipts for donations to the LNP, tabled by Senator Murray Watt, 1 June 2017