

The Senate

Economics Legislation Committee

Budget estimates 2006–07

June 2006

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Senate Economics Legislation Committee

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Budget Estimates

Report to the Senate

Introduction

1.1 On 9 May 2006 the Senate referred to the committee for examination and report the following documents in relation to the Treasury and Industry, Tourism and Resources portfolios:

- Particulars of certain proposed expenditure in respect of the year ending on 30 June 2007;
- Particulars of proposed expenditure in respect of the year ending on 30 June 2007;
- Particulars of proposed expenditure in relation to the parliamentary departments in respect of the year ending on 30 June 2007;
- Particulars of certain proposed supplementary expenditure in respect of the year ending on 30 June 2006; and
- Particulars of proposed supplementary expenditure in respect of the year ending on 30 June 2006.

General comments

1.2 The committee received evidence from Senator the Hon Nick Minchin representing the Treasurer and the Minister for Revenue, Assistant Treasurer, and the Minister for Industry, Tourism and Resources; Senator the Hon Helen Coonan, representing the Treasurer and the Minister for Revenue and Assistant Treasurer; Senator the Hon Richard Colbeck, representing the Minister for Industry, Tourism and Resources; and officers from the Treasury and Industry, Tourism and Resources portfolios. The committee thanks the ministers and officers who attended the hearings for their assistance.

1.3 The committee conducted four days of hearings, from 29 May to 1 June 2006, and examined the Industry, Tourism and Resources portfolio and the Treasury portfolio. In total the committee met for 39 hours 46 minutes, excluding breaks.

Questions on notice

1.4 The committee draws the attention of all departments and agencies to the deadline of Friday, 28 July 2006 for the receipt of answers to questions taken on notice from this round. 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. The secretariat has prepared indexes for questions on notice during and after the hearings and these are available on the following website http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/bud_0607/index.htm.

1.5 The committee expressed its concern about the late submission of answers to questions placed on notice from the previous round of estimates.

1.6 The due date for submitting responses to questions arising from the consideration of additional estimates in February 2006 was Friday, 31 March 2006.¹ Yet the committee received answers from the Treasury, Financial Reporting Council, Australian Securities and Investments Commission, Australian Prudential Regulation Authority, Australian Competition and Consumer Commission, Corporations and Markets Advisory Committee, Productivity Commission, Royal Australian Mint, and the Australian Bureau of Statistics to certain questions as late as 10:09pm on 31 May 2006. This resulted in many of the answers being received after the agency appeared at this round of estimates.

1.7 A total of 60 answers, which is over 63% of questions taken on notice at additional estimates, were provided after committee members raised their concern about not having received responses. A further answer was provided in relation to a question on notice from the Australian Securities and Investments Commission on Thursday, 1 June 2006, one day after this agency appeared.

1.8 The committee notes that a similar incident occurred in relation to answers provided by the Australian Competition and Consumer Commission during the consideration of the budget estimates 2005-06.² The provision of answers to questions on notice following an agency's appearance, or only a day before an agency's appearance is not acceptable as it does not give members adequate time to consider those answers and/or pursue follow-up questions.

1.9 Furthermore, many of the agencies who submitted answers during the hearings are independent statutory authorities, and therefore the committee questions why answers to questions from these bodies are forwarded to Treasury for clearance before being provided to the committee.

1.10 The committee also notes that three answers are still outstanding from Additional Estimates 2005-06.

Record of proceedings

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

1.12 Copies of the Hansard transcripts are available through the internet at <http://www.aph.gov.au/hansard/senate/commtee/s-econ.htm>. Copies are also tabled with this report for the information of the Senate.

1 Economics Legislation Committee, *Additional estimates 2005-06*, March 2006, p. 1.

2 Economics Legislation Committee, *Budget Estimates 2005-06*, June 2005, p. 2.

Matters raised - Industry, Tourism and Resources portfolio

1.13 The committee questioned the department, IP Australia, Tourism Australia and Geoscience Australia on Monday, 29 May 2006.

1.14 Matters examined included the following:

Department of Industry, Tourism and Resources³

Industry

- budget and expenditure of various programs administered by the department (pp. 3–16 and 37);
- staffing levels; number of full-time, part-time and contract staff; staff turnover rate; staff morale; breakdown of employee expenses; number of staff covered by Australian Workplace Agreements (AWAs) and certified agreements; performance based pay (pp. 16–22 and 35–36);
- measurement of department's performance against key performance indicators for output 1.1 Program Management Services (pp. 22–24);
- external consultants engaged by the department (pp. 24–25);
- current major research projects, including the R&D tax offset, the pre-seed fund program and the innovation investment fund (pp. 25–27);
- review of the Pharmaceuticals Partnerships Program (P3) by the Centre for International Economics (pp. 27–28);
- department's work on potential changes to the Pharmaceutical Benefits Scheme (pp. 28–29);
- establishment of a small-scale mammalian cell production facility in Australia (pp. 29–33);
- Asia Pacific Space Centre (pp. 33–37);
- special assistance package to Ford Australia (pp. 37–39);
- Automotive Competitiveness and Investment Scheme (ACIS) (pp. 40–44 and 47–48);
- programs to provide support for the textile, clothing and footwear industry, in view of an expected increase in the movement of garment manufacturing offshore (pp. 40–47);
- modelling to look at the effect of the resources boom on manufacturing; changes in the manufacturing sector and strategies to increase competitiveness (pp. 48–52);

3 Transcript page numbers for the Department of Industry, Tourism and Resources (DITR), IP Australia, Tourism Australia and Geoscience Australia refer to *Proof Hansard*, 29 May 2006 (see the index at Appendix 3 of this report).

- review of the Venture Capital Industry; Venture Capital programs: VCLP and IIF (pp. 53–58);
- government's payment policy to small business for products and services; monitoring by the Office of Small Business (pp. 58–60);
- Australian Building Codes Board – update on the progress of the access to premises standard; consultancy report on accessible housing; standards for hearing augmentation in the Building Code (pp. 67–71); and
- update on the nanotechnology task force (pp. 71–76).

Resources

- LNG Action agenda (pp. 90–91);
- condensate excise exemption for the North West Shelf joint venture; other industry assistance measures (pp. 91–93 and 95);
- potential for gas to liquids projects in Australia (pp. 94–95);
- update on the depreciated Syntroleum technology licence (p. 96);
- work of the uranium industry framework steering group; measures to promote Indigenous employment in the industry; uranium royalties for the Northern Territory (pp. 96–98);
- current status of: the proposed oil code and petrol retail reform legislation; Low-emission Technology Fund; Solar Cities program; energy reform implementation group (pp. 98–99);
- status of nuclear power in the 2004 energy white paper; economics of nuclear power compared to coal; consultation about possible sites for nuclear power stations (p. 99);
- discussion of safety issues between the National Offshore Petroleum Safety Authority (NOPSA) and Diamond Offshore, a US based company, following its decision to eliminate marine crew from its *Ocean Bounty* drilling rig (pp. 99–100); and
- progress on developing an oil and gas industry strategy (pp. 101–102).

IP Australia

- agency's performance against its key performance indicators; recruitment of additional staff; fee changes; comparison of fees with other countries (pp. 60–63); and
- agency's workload, including reasons for the decline in the number of patents granted, international work carried out for domestic customers, work for other patent offices, average processing times and insufficient number of examiners (pp. 63–66).

Tourism Australia

- commercial-in-confidence arrangements surrounding the departure of the head of Tourism Australia's London office (pp. 76–77);
- market testing of the international marketing campaign 'Where the bloody hell are you?' (pp. 77–78);
- budget allocation for Tourism Events Australia (pp. 78–80);
- industry feedback relating to the Cairns tourism industry; update on the agency's role in Indigenous tourism (pp. 80–82);
- review of the passenger movement charge (pp. 82–83);
- response to the National Tourism Investment Strategy which identified future labour shortages in the tourism industry; government initiatives to address training and skills issues (pp. 83–86);
- monitoring of inbound tour operators under the Approved Destinations Scheme (p. 86);
- industry concerns about an ATO ruling requiring up-front GST payments on deposits held for future tourism activities by international purchasers (pp. 86–87); and
- expenditure relating to the Minister's overseas visits (pp. 89–90).

Geoscience Australia

- program priorities in relation to pre commercial data gathering and the evaluation of new frontiers for oil and gas exploration (pp. 102 and 104); and
- funding for the year 2 geoscience component of the Australian tsunami warning system (pp. 103–104).

Matters raised - Treasury portfolio

1.15 On 30 May 2006, the committee questioned:

- Treasury – outcome 3: effective taxation and retirement income arrangements; and
- Australian Taxation Office.

1.16 On 31 May 2006, the committee examined:

- Takeovers Panel;
- National Competition Council;
- Australian Office of Financial Management;
- Australian Securities and Investments Commission;
- Australian Prudential Regulation Authority;
- Productivity Commission;

- Treasury – outcome 2: effective government spending arrangements; and
- Treasury – outcome 4: well functioning markets, together with the Financial Reporting Council.

1.17 On 1 June 2006, the committee heard from:

- Corporations and Markets Advisory Committee;
- Australian Accounting Standards Board;
- Australian Competition and Consumer Commission; and
- Treasury – outcome 1: sound macroeconomic environment.

1.18 Matters examined included the following:

Treasury⁴

Outcome 3: Effective taxation and retirement income arrangements

- forecasting of revenue, and income from taxation (pp. 5-12);
- petroleum resource rental tax and the inflationary impact of petrol prices (pp. 13-17);
- analysis undertaken by the department into income tax -v- petrol tax cuts (pp. 17-19);
- abolition of the Fuel Sales Grants Scheme (pp. 21-22);
- impact of personal income tax cuts announced in the budget with respect to revenue (pp. 23-27);
- whether the department has estimated changes in wages, income and tax raised as a result of the implementation of the Work Choices legislation (pp. 27-29);
- Treasury's budget superannuation package (pp. 29-33);
- Superannuation: taxation changes, abolition of the exit tax, limits on superannuation contributions (pp. 43-60); and
- number of people over the age of 60 in existing pension annuity products (pp. 60-63).

Australian Taxation Office

- ATO change program (pp. 67-68);
- auditing of self managed superannuation funds (pp. 69-72);

4 Transcript page numbers for the Treasury outcome 3 and ATO refer to *Proof Hansard*, 30 May 2006 (see the index at Appendix 3 of this report).

- employer superannuation guarantee (pp. 75-78);
- lodgement with the ATO of insufficient employer contributions paid to Ms Sue Underwood (pp. 78-80);
- superannuation contribution splitting (p. 86);
- State superannuation funds (pp. 90-92);
- lost superannuation (pp. 96-99);
- choice of superannuation fund (pp. 101-102);
- origin of paper used in the ATO (pp. 107-110);
- relationship between the ATO and the Department of Public Prosecutions for prosecution guidelines (pp. 110-113);
- facilitation payments and whether the ATO has launched a crackdown on corporate tax deductibility payments made on international contracts (pp. 114-116);
- cash economy high risk industries (pp. 120-122); and
- simplified tax system (pp. 122-124).

Takeovers Panel⁵

- number of personnel on Takeovers Panel (pp. 3-4).

National Competition Council (NCC)

- procedural delays in dealing with matters before the NCC (pp. 6-8).

Australian Office of Financial Management (AOFM)

- details of excepted Treasury bond insurance by the AOFM (pp. 12-13).

Treasury

Outcome 2: Effective government spending arrangements

- Australian government sector underlying cash balance estimate (pp. 17-20);
- Dr Henry's address in Sydney to Australian business economists on Australia's fiscal and economic outlook (pp. 23-26); and
- Treasury officials' evidence to a housing inquiry by University of Sydney economist Professor Patricia Apps (pp. 29-32).

5 Transcript page numbers for the Takeovers Panel, NCC, AOFM, Treasury outcome 2 and 4, FRC, ASIC, APRA and PC refer to *Proof Hansard*, 31 May 2006 (see the index at Appendix 3 of this report).

*Outcome 4: Well functioning markets; and
Financial Reporting Council*

- foreign investment trade policy (pp. 33-37);
- reports from the superannuation industry to the department on entry and exit fees in superannuation products (pp. 49-50);
- budget estimates for actuarial services (pp. 55-56);
- abolition of the urgent issues group (p. 38);
- establishment of the Audit Quality Review Board (pp. 38-39);
- audit independence provisions (pp. 39-43); and
- FRC's review of the retention of separate public sector accounting standards (pp. 43-46).

Australian Securities and Investments Commission (ASIC)

- whether funding for enforcement activities and the investigation of exceptional matters of public interest is sufficient (pp. 58-59);
- Westpoint scheme: when concerns about Westpoint's operations were first raised; how many Westpoint projects were established between the initial concerns being raised and its eventual collapse; the current level of monies owed by Westpoint and the number of people affected; (pp. 60-65);
- advertising of high risk financial products (p. 65-67);
- Westpoint: financial planners associated with Westpoint; size of commissions paid to financial planners who sold Westpoint investments; online superannuation advertising campaigns run in metropolitan areas; changes to the way that the Westpoint Group conducted fundraising activities and dealt with investors; compensation from auditors of Westpoint for negligence (pp. 68-80);
- Paridian Property Development Fund (pp. 80-81);
- Sovereign Capital Ltd (pp. 81-82);
- tactics used for targeting individuals into investing monies into self managed superannuation funds (pp. 84-85);
- effectiveness of product disclosure statements (pp. 91-93);
- progress of the James Hardie investigation (pp. 94-97);
- PJC corporate responsibility inquiry (pp. 97-99); and
- hedging of executive remuneration options (pp. 99-102).

Australian Prudential Regulation Authority (APRA)

- staff increases and staff turnover (pp. 104-106);
- regulatory oversight into self managed superannuation funds (pp. 108-110);

-
- proposed implementation of the Basel II recommendations (pp. 111-114); and
 - APRA licensing process (pp. 115-121.)

Productivity Commission (PC)

- The Commission's investigation into Tasmanian freight (pp. 127-128).

Corporations and Markets Advisory Committee (CAMAC)⁶

- CAMAC's current inquiries: long-tail liabilities (which arose from the Jackson report into James Hardie Industries); corporate social responsibility; corporate duties below board level; and personal liability for corporate fault (pp. 3–5, 6 and 7–8); and
- consideration of the business judgement rule (pp. 5–7).

Australian Accounting Standards Board (AASB)

- adoption of international accounting standards by Australia (pp. 8 and 12–14);
- accounting standards of not-for-profit organisations (pp. 8–9) and small and medium enterprises (pp. 14–15);
- abolition of the Urgent Issues Group (pp. 9–10);
- disclosure of executive remuneration, in particular, options (pp. 10–12); and
- how Australia's public sector accounting standards fit into the international framework, including the treatment of heritage assets (pp. 15–18).

Australian Competition and Consumer Commission (ACCC)

- development of guidance on the commission's approach to cross-media mergers and media markets, in the context of the government's media ownership reform proposals (pp. 21–24 and 31–44);
- ACCC's legal powers in relation to mergers that it believes breach section 50 of the Trade Practices Act (TPA); differing interpretations of the courts, the Australian Competition Tribunal and the ACCC; difference between a total welfare test and a consumer welfare test to assess the benefits of a merger (pp. 24–31);
- performance of the Telecommunications Competition Regulatory Regime administered by the ACCC; number of active access disputes (pp. 44–46);
- status of ACCC's negotiations with Telstra on its proposal to roll-out a fibre-to-the-node network in the five mainland capital cities (pp. 46–56);
- ACCC's cartel policy (pp. 56–57);

6 Transcript page numbers for CAMAC, AASB, ACCC and Treasury outcome 1 refer to *Proof Hansard*, 1 June 2006 (see the index at Appendix 3 of this report).

- monitoring of guidelines for the publication of newspaper and magazine circulation figures following allegations of deceptive practices (p. 57);
- failure of half of the babies' dummies tested by the Australian Consumer Association to meet Australian standards and whether the government is planning to issue a recall of these products (pp. 57–60);
- streamlining of the authorisation process for smaller businesses to bargain collectively with one or more larger businesses (pp. 61–62);
- sale of Telstra (p. 62);
- the use of peel-off health warnings and colour coding on cigarette packets (pp. 62–63);
- the merger between the Stock Exchange and the Sydney Futures Exchange (pp. 63–66);
- amendments to section 46 of the Trade Practices Act (pp. 66 and 68); and
- the Toll-Patrick merger (pp. 67–68).

Treasury

Outcome 1: Sound macroeconomic environment

- the government's superannuation plan and whether it is sustainable in the long term (pp. 70–79);
- modelling of the effects of the government's workplace relations reforms (pp. 79–81);
- staffing levels and funding for the Business Tax Base Unit (p. 81);
- measurement of the stance of fiscal policy and changes in stance (pp. 81–83);
- labour market participation rate (pp. 83–86);
- effect of increased crude oil prices on inflation forecasts and profit margins (pp. 86–88);
- Treasury's indicators of a recession; planning for and modelling of a recession (pp. 88–90);
- the relationship between education and productivity (pp. 90–92);
- the Treasury Secretary's duties as a member of the Reserve Bank board (pp. 92–94);
- the work of the Macrodynamic Unit, including the wellbeing framework and the three Ps framework for economic growth—productivity, participation and population (pp. 94–100);
- the role of the Domestic Economy Division in revenue forecasting (pp. 100–101);
- implications for the manufacturing sector, if the terms of trade remain at present high levels (pp. 101–103);

- inability of the resources sector to respond to increased demand for resource exports, including skills shortages (pp. 103–104);
- reasons for significant variations between export budget forecasts and outcomes over the last six years (p. 105);
- Australia's current account deficit, including comparative analysis with the performance with other countries (pp. 105–8); and
- the trend in national saving (p. 109).

SENATOR GEORGE BRANDIS

Chair

Appendix 1

Documents tabled

30 May 2006

- Received from Senator the Hon Nick Minchin, representing the Treasurer: Media Release 'Major downpayment on Australia's transport future', APM4/2004, 22 January 2004, joint media statement by the Hon John Anderson MP and Senator the Hon Ian Campbell, and related documents.
- Received from Mr Greg Farr, Second Commissioner, ATO: document showing a model of release 2 of the Change Program system.

31 May 2006

- Received from Mr Jeffrey Lucy, Chairman, ASIC: Report 'Better Regulation ASIC initiatives', April 2006, and his opening statement to the committee.

Appendix 2

Abbreviations

AASB	Australian Accounting Standards Board
ACCC	Australian Competition and Consumer Commission
ACIS	Automotive Competitiveness and Investment Scheme
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWA	Australian Workplace Agreement
CAMAC	Corporations and Markets Advisory Committee
FRC	Financial Reporting Council
GST	Goods and Services Tax
IIF	Innovation Investment Fund
LNG	Liquified natural gas
NCC	National Competition Council
NOPSA	National Offshore Petroleum Safety Authority
P3	Pharmaceuticals Partnerships Program
PC	Productivity Commission
R&D	Research and Development
TPA	Trade Practices Act
VCLP	Venture Capital Limited Partnerships Program

Appendix 3

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