



COMMONWEALTH OF AUSTRALIA

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SENATE

STANDING COMMITTEE ON ECONOMICS

ESTIMATES

(Budget Estimates)

WEDNESDAY, 4 JUNE 2008

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SENATE STANDING COMMITTEE ON**ECONOMICS****Wednesday, 4 June 2008**

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Mark Bishop, Bushby, Joyce, McEwen, Murray and Webber

Participating members: Senators Abetz, Adams, Allison, Barnett, Bartlett, Bernardi, Birmingham, Boswell, Boyce, Brandis, Bob Brown, George Campbell, Carol Brown, Chapman, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Heffernan, Hogg, Humphries, Hutchins, Johnston, Kemp, Kirk, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Polley, Ronaldson, Scullion, Siewert, Stephens, Sterle, Stott Despoja, Troeth, Trood, Watson and Wortley

Senators in attendance: Senators Abetz, Birmingham, Boswell, Bushby, George Campbell, Chapman, Coonan, Eggleston, Fierravanti-Wells, Fisher, Hurley, Hutchins, Johnston, Joyce, Ian Macdonald, McEwen, Milne, Murray, Parry, Payne, Ronaldson and Webber

Committee met at 9.01 am

TREASURY PORTFOLIO

Consideration resumed from 3 June 2008

In Attendance

Senator Sherry, Minister for Superannuation and Corporate Law

Senator Conroy, Minister for Broadband, Communications and the Digital Economy

Department of the Treasury

Dr Ken Henry, Secretary

Outcome 1—Sound Macroeconomic Environment**Output Group 1.1 Macroeconomic Group**

Dr David Gruen, Executive Director

Mr Bill Brummitt, General Manager, International Economy Division

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Jason Allford, Principal Adviser, Macroeconomic Policy Division

Ms Rose Verspaandonk, Manager, Macroeconomic Division

Mr Adam McKissack, Principal Adviser, Domestic Economy Division

Mr Phil Garton, Manager, Domestic Economy Division

Ms Jan Harris, General Manager, International Finance Division

Dr Andre Moore, Manager, Prudential Policy, Superannuation and Insurance Unit

Outcome 2—Effective Government Spending Arrangements**Output Group 2.1 Fiscal Group**

Mr Nigel Ray, Executive Director

Mr David Martine, General Manager, Budget Policy Division

Mr Gordon De Brouwer, Chief Adviser, Budget Policy Division

Mr Jason McDonald, Manager, Budget Policy Division

Ms Karen Incher, Acting Manager, Budget Policy Division

Mr Neil Richardson, Manager, Budget Policy Division

Mr Michael Willcock, General Manager, Commonwealth-State Relations Division

Ms Maryanne Mrakovcic, General Manager, Industry, Environment and Defence Division

Mr Geoff Francis, Principal Adviser, Industry, Environment and Defence Division

Ms Meghan Quinn, Manager, Industry Environment and Defence Division

Mr Rob Heferen, General Manager, Social Policy Division

Ms Peta Furnell, Principal Adviser, Social Policy Division

Mr Peter Robinson, Principal Adviser, Social Policy Division

Mr Michael Salvestro, Manager, Financial and Facilities Management Division

Ms Deidre Gerathy, General Manager, Corporate Services Group

Mr David Pearl, Social Policy Division

Outcome 3—Effective taxation and retirement income arrangements**Output Group 3.1 Revenue Group**

Mr Nigel Ray, Acting Executive Director

Mr Mike Rawstron, General Manager, International Tax and Treaties Division

Ms Jo Laduzko, Manager, International Tax and Treaties Division

Mr Jonathon Rollings, Manager, Tax Design Division

Ms Christine Barron, General Manager, Indirect Tax Division

Mr Tony Free, Manager, Indirect Tax Division

Ms Sue Vroombout, Manager, Personal and Retirement Income Division

Mr Trevor Thomas, Principal Adviser, Personal and Retirement Income Division

Mr Mark O'Connor, Principal Adviser, Personal and Retirement Income Division

Mr Tony Coles, Manager, Personal and Retirement Income Division

Mr Colin Brown, Manager, Tax Analysis Division

Mr Damien White, Manager, Tax Analysis Division

Mr Marty Robinson, Senior Adviser, Tax Analysis Division

Mr Phil Gallagher, Manager, Tax Analysis Division

Mr Matthew Flavel, Manager, Business Tax Division

Mr Anthony Regan, Manager, Business Tax Division

Mr Raphael Cicchini, Manager, Business Tax Division

Mr Graeme Davis, Principal Adviser, Business Tax Division

Outcome 4—Well Functioning Markets**Output Group 4.1 Markets Group**

Mr Jim Murphy, Executive Director

Mr Geoff Miller, General Manager, Corporations and Financial Services Division

Mr Andrew Sellars, Senior Adviser, Corporations and Financial Services Division
Mr Bede Fraser, Manager, Corporations and Financial Services Division
Ms Marian Kljakovic, Manager, Corporations and Financial Services Division
Mr Michael Lim, Acting Manager, Corporations and Financial Services Division
Ms Kate Preston, Acting Manager, Corporations and Financial Services Division
Ms Veronique Ingram, General Manager, Financial System Division, Markets Group,
The Treasury
Mr Steve French, General Manager, Competition and Consumer Policy Division
Mr Glen McCrea, Senior Adviser, Competition and Consumer Policy Division
Ms HK Holdaway, Manager, Competition and Consumer Policy Division
Mr Scott Rogers, Senior Adviser, Competition and Consumer Policy Division
Mr James Chisholm, Manager, Competition and Consumer Policy Division
Mr Brad Archer, Manager, Competition and Consumer Policy Division
Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division
Mr Paul Madden, Program Director, Standard Business Reporting
Mr Peter Martin, General Manager, Australian Government Actuary
Australian Accounting Standards Board
Professor David Boymal, Chairman
Mr Angus Thomson, Technical Director
Australian Bureau of Statistics
Mr Brian Pink, Australian Statistician
Mr Peter Harper, Deputy Australian Statistician, Population, Labour, Industry and Environment Statistics Group
Mr Ian Ewing, Deputy Australian Statistician, Macroeconomics and Integration Group
Ms Susan Linacre, Deputy Australian Statistician, Social Statistics Group
Ms Janet Murphy, First Assistant Statistician, Corporate Services Division
Mr Garth Bode, First Assistant Statistician, Social Statistics Division
Mr Paul Lowe, Assistant Statistician, Population Census Branch
Ms Debra Foggin, Chief Finance Officer
Ms Gillian Nicoll, Assistant Statistician, Office of the Statistician
Ms Beverley Forner, Chief Finance Officer
Australian Competition and Consumer Commission
Mr Graeme Samuel, Chairman
Mr Pat Walker, Commissioner
Mr Brian Cassidy, Chief Executive Officer
Mr Adrian Brocklehurst, Chief Financial Officer
Mr Richard Chadwick, General Manager, Adjudication
Mr Michael Cosgrave, Group General Manager, Communications
Mr Joe Dimasi, Executive General Manager, Regulatory Affairs Division
Mr Scott Gregson, General Manager, Enforcement, Canberra
Mr Tim Grimwade, General Manager, Mergers and Assets Sales
Ms Helen Lu, General Manager, Corporate
Mr Mark Pearson, Executive General Manager, Enforcement and Compliance

Mr Nigel Ridgeway, General Manager, Compliance Strategies
Mr Tim Holland, Acting General Manager, Mergers and Assets Sales Branch
Ms Rose Webb, General Manager, Coordination Branch
Mr Richard Hayes, Regulatory Development Branch
Australian Office of Financial Management
Mr Neil Hyden, Chief Executive Officer
Mr Michael Bath, Director, Financial Risk
Mr Pat Roccosta, Chief Financial Officer
Australian Prudential Regulation Authority
Dr John Laker, Chairman
Mr Ross Jones, Deputy Chairman
Mr John Trowbridge, APRA Member
Mr Tom Karp, Executive General Manager, Supervision Support Division
Mr Charles Littrell, Executive General Manager, Policy, Research and Statistics
Australian Securities and Investments Commission
Mr Tony D'Aloisio, Chairman
Mr Jeremy Cooper, Deputy Chairman
Ms Belinda Gibson, Commissioner
Mr Malcolm Rodgers, Executive Director, Strategy
Mr Justin Owen, Manager, Government Relations
Mr Jon Taylor, Manager, Strategic Communications
Mr Stephen Woodhill, Executive General Manager, Corporate Affairs
Ms Emma Forehan, Media Adviser
Australian Taxation Office
Mr Michael D'Ascenzo, Commissioner
Ms Jennie Granger, Second Commissioner
Mr Bill Gibson, Acting Second Commissioner
Mr Greg Burgoyne, Chief Finance Officer
Mr Neil Oleson, Deputy Commissioner
Mr Mark Konza, Deputy Commissioner
Ms Raelene Vivian, Chief Operating Officer
Mr Shane Reardon, Deputy Commissioner
Commonwealth Grants Commission
Mr John Spasojevic, Secretary
Mr Phil Parkins, Director, Corporate Services
Inspector-General of Taxation
Mr David Vos, Inspector-General
Mr Rick Matthews, Deputy Inspector-General
National Competition Council
Mr John Feil, Executive Director

Productivity Commission

Mr Gary Banks AO, Chairman

Mr Bernie Wonder, Head of Office

Dr Ralph Lattimore, Assistant Commissioner

Superannuation Complaints Tribunal

Ms Jocelyn Furlan, Acting Chairperson

Takeovers Panel

Mr Allan Bulman, Director

Mr Alan Shaw, Counsel

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics. The Senate has referred to the committee the particulars of proposed expenditure for 2008-09 and certain other documents for the portfolios of innovation, industry, science and research; resources, energy and tourism; and Treasury. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee is due to report to the Senate on 24 June 2008 and it has fixed Friday, 1 August 2008 as the date for the return of answers to questions taken on notice. Today the committee will begin by examining outcome 2 of the Treasury portfolio and then continue in the order shown on the agenda.

Under standing order 26 the committee must take all evidence in public sessions. This includes answers to questions on notice. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to the committee, and such action may be treated by the Senate as a contempt. It is a contempt to give false or misleading evidence to a committee.

The Senate, by resolution in 1999, endorsed the following test of relevance of questions at estimates hearings: any question going to the operations or financial positions and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

The Senate has also resolved that an officer of a department of the Commonwealth or a state should not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for an explanation of policies or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim.

I welcome the minister and officers. If there are no opening statements, we will turn to the first item on today's agenda, Treasury outcome 2, Fiscal Group.

[9.04 am]

Senator COONAN—Good morning, Minister and officers. And good morning to Mr Ray. You seem to be taking up permanent residence here at this estimates! I want to ask some questions about the budget presentation. Why did the budget use the CPI rather than the non-farm GDP deflator to measure real growth in the budget?

Mr Martine—It is statement 10 of Budget Paper No. 1. I will find the right reference for you. It is page 10-6. There is a little explanation provided.

Senator COONAN—Yes, I have got it here.

Mr Martine—The non-farm GDP deflator, with the current terms of trade rises, becomes quite volatile. On page 10-8 both series are provided, both deflated by CPI and the non-farm GDP deflator. If you look back in history both series are reasonably consistent, but in more recent years there is quite a bit of volatility. For example, in 2008-09, using the CPI as the deflator, real spending is projected to grow by 1.1 per cent, but using the non-farm GDP deflator, it is actually minus 1.7. Then you will see that it rises in the following few years. It is really a question of volatility; the CPI is a much more stable measure and with the current terms of trade effects it was considered that it would give a better indication of the real growth in spending. The budget papers actually provide both series.

Senator COONAN—Yes, I am aware of that. Was this the first time that the CPI has been used this way in Australia?

Mr Martine—As far as I am aware that is correct.

Senator COONAN—In as far as you know, do other countries use a consumer price index for the purpose of measuring real growth in their budgets?

Mr Martine—I would have to take that on notice. I am not too sure whether other countries use the CPI. In fact they may use different deflators, but I would have to take that on notice.

Senator COONAN—I would appreciate if you could do that. I do not know the answer to it, but I would be pleased if you could enlighten us. What percentage of Commonwealth government purchases are made of goods and services within the CPI basket?

Mr Martine—That is an interesting question. I would once again have to take that on notice. As you can see from the table on page 10-8, we do provide total payments. In terms of the breakdown, most of the details and expenses are outlined in statement 6, but I do not think that we break it down to that level. Just bear with me. I would need to take that on notice.

Senator COONAN—Yes. The proposition that I want to put to you, and you can obviously take it on notice, is that it seems that it would be a low percentage of Commonwealth government purchases that do appear in the CPI basket, and I am interested to know if that is correct when you have a look at it. And I want to know how it is reconciled with the statement that you referred to that the CPI provides a more accurate description of real government

spending growth, especially in the current economic climate. Can you reconcile that for me? I would appreciate if you could take it on notice.

Mr Martine—I will have to take that on notice.

Senator COONAN—Yes. Is it normal to change the index every time there is some volatility or economic climate change?

Mr Martine—This is the first time we have made this change. We would not envisage that this is something that you would be changing every budget but, as I said, you can really see in that table the volatility that comes from using the non-farm GDP deflator, and 2008-09 is a very good example where when using the CPI the real growth is projected at an increase of 1.1 per cent of increase in spending, but using the non-farm it is actually minus 1.7. It is quite different and that is really driven by the non-farm GDP deflator forecast in 2008-09, which is at 9¼ per cent, so it is actually quite high.

Senator COONAN—Yes. I am wondering in those circumstances whether an even narrower price index, not including any government purchases, would provide even better accuracy.

Mr Martine—The CPI is obviously a well-recognised deflator that is published regularly by the ABS. It would be a matter of ensuring that any float deflator you used was robust in that sense.

Senator COONAN—I realise in the presentation there are a lot of decisions that have to be made, but if the change is ostensibly due to recent terms of trade increases why would Treasury not use the gross national income deflator or the real net national disposal income deflator?

Mr Martine—I would have to take that question on notice.

Senator COONAN—Yes. As I have said, I appreciate that judgements have to be made about this when you are looking to present the budget, but I think they are important questions in order to understand your thinking.

Senator RONALDSON—I wonder whether the minister has got a view on that.

Senator Sherry—No. I am happy to take it on notice as well.

Senator BUSHBY—In taking it on notice, if you consider that either of those two measures are broader than CPI and would tend to encompass all of government expenditure better, but also incorporate the terms of trade effect, so if you could incorporate that as well—

Senator Sherry—I am happy to incorporate that in the answer on notice.

Senator COONAN—I am curious to know why this change that we have discussed was not flagged more prominently in the budget papers, that you have to get to page 6 of paper 10 to understand or find mention of the change.

Mr Martine—Statement 10 is where we provide the historic series.

Senator COONAN—Yes, the historic account.

Mr Martine—There may be a reference in statement 3, but I may be wrong there.

Senator COONAN—Would you like to take that on notice?

Mr Martine—I can take that on notice.

Senator COONAN—Was there any instruction to Treasury to use the CPI rather than the non-farm deflator, or was this something that Treasury decided?

Mr Ray—It was a government decision to use the CPI.

Senator COONAN—Why was that?

Mr Ray—I do not think it is a question about whether we have been instructed or not.

Senator COONAN—No. I withdraw that you were instructed, but it was a government decision. If you take the traditional non-farm GDP deflator, would it be the case that the expected growth in spending in 2009-10 would be higher than every year since 1991-92, except of course for 2000-01, when the GST was introduced?

Mr Martine—I assume you are referring to table 1 on page 10-8 and that is the table that publishes both series. If your question is deflated by the non-farm GDP deflator, real spending is projected to grow by 5.5 per cent, according to table 1, in 2009-10. Remember, though, that 2009-10 is a projection year. We are not actually forecasting the non-farm GDP deflator in 2009-10, so it is only a projection rather than a forecast.

Mr Ray—If you were going to do that, in 2008-09 spending is declining by 1.7 per cent, which is the smallest growth rate since 1989.

Senator COONAN—I am sorry. I just missed the last bit of your comment. Did you finish the sentence? I just could not hear you.

Mr Ray—Yes. If you are going to go to that series then the government spending in 2008-09 is not growing, it is falling.

Senator COONAN—Are you saying that it is not the case that the expected growth in spending in 2009-10 will be higher?

Mr Ray—Remember that 2009-10 is a projection and not a forecast. The table that you are reading shows that it is the highest rate of growth since 2000-01 when deflated by non-farm GDP.

Senator COONAN—By the GST.

Mr Martine—By the non-farm GDP.

Senator COONAN—I follow you. Yes, sorry.

Mr Ray—Both series have been presented here so that you can make these sorts of comparisons.

Senator COONAN—Is it normal to estimate second round effects and include them in costings?

Mr Ray—We discussed this yesterday.

Senator COONAN—Yes.

Mr Ray—I am quite happy to give you an answer to that. It is not normal to include second round effects when looking at costings and, as we discussed yesterday, there are guidelines on this that are set out by the Department of Finance. A way to understand those

guidelines is to look at the costing election commitments guidelines issued jointly by the secretaries to the Department of Treasury and Department of Finance and Administration, as it was in 2007. In those guidelines it states:

The Secretaries will:

... ..

- cost policies in a manner consistent with methodologies used to prepare the budget statements ...

It then goes on and sets out some of the general arrangements, and it states on page 5 of the 2007 publication:

As with existing arrangements—

that is, the existing arrangements for costing budget measures:

individual costings may take account of direct behavioural responses ...

It 'may' take account of them. We do not always. Again, we discussed yesterday in relation to the luxury car tax that we did not take account of a direct behavioural response because we judged that it would be—

Senator COONAN—You thought that there would not be any—

Mr Ray—No. We judged that it would be small and that the size of it, when you are looking across the forward estimates, is uncertain. For those reasons, we did not take account of it in the costing, but we often do take account of direct behavioural responses in costings. Generally though, costings do not incorporate second round effects. That is from the document. My recollection is that in the past decade so-called second round effects have been taken into account on three occasions.

Senator COONAN—What were they?

Mr Ray—ANTS, the Review of Business Taxation and the third one, which I always forget, was to do with changes to participation in 2001.

Senator COONAN—It is the New Tax System, the Review of Business Taxation and—

Mr Ray—The third one was on the expense side.

Senator COONAN—Is it normal for second round effects to show up in parameter variations ex-post, rather than as policy?

Mr Ray—Indeed, to the extent that they occur.

Senator COONAN—I wanted to ask you about page 257 of Budget Paper No. 2. It shows related revenue for the increase in the migration program. Is this a second round effect and is this revenue that is principally expected from income tax from the proposed 37,500 extra immigrants?

Mr Ray—No. These are not second round effects. These are first round effects.

Senator COONAN—Can you just explain that?

Mr Ray—Yes. For some time these costings have included the first round effects on expenses, for example, the family tax benefit, PBS and those sorts of things. The inclusion of the revenue is, if you like, the other side of that coin, so it is income tax, GST, excise and

receipts. It is where a migrant comes in, gets a job, pays income tax and purchases goods and services, so it is a direct first round effect. It does not include the second round effects. For example, if you increase the size of the labour force it will grow the economy et cetera. It runs right the way through the economy. It does not include those effects. It only includes the first round effects.

Senator BUSHBY—Have those first round effects, as you described them with respect to migrants, been included in budget papers in the past?

Mr Ray—No. They have not been included in the measure, but they are incorporated, as Senator Coonan said, in the parameter and other variations.

Senator BUSHBY—But they have not been included as measures in that sense?

Mr Ray—They have not been explicitly put in the costing line, no, not in the past.

Senator BUSHBY—Why are they an issue now when they have not been in the past?

Mr Ray—We think that it is more transparent to include it as part of the costing rather than for it to be taken in the parameter variations.

Mr Martine—The impact on the budget bottom line is exactly the same.

Mr Ray—Yes, there is no change in the impact on the budget bottom line. It is just clearer for people what the first round impact on the budget bottom line is by reporting it this way rather than the way it has been reported.

Senator COONAN—The purpose then is not to improve the budget surplus?

Mr Ray—No. The change in the way that this has been reported has absolutely no effect on the bottom line at all. What it does do is it makes it more transparent.

Senator COONAN—I think I got the answer from your previous response, but perhaps you could answer this question. Why isn't there similar treatment for effects that reduce the surplus, for example, the public hospital impact of the increase in the Medicare levy surcharge?

Mr Ray—Because that is a second round effect, which we discussed yesterday. I should say to the extent that there might be—

Senator COONAN—To the extent that?

Mr Ray—To the extent that there is an effect, it would be a second round effect.

Senator COONAN—Is there some suggestion that there will not be an effect?

Mr Ray—Because it is a second round effect we have not been through all of the analysis to conclude what the likely magnitude might be. The reason I am being a little cautious is that I am aware that there have been comments in the press about what the magnitude might be and I want to be cautious that we are not giving credence to those.

Senator COONAN—Why would this not be one of the second round effects that you would include in the budget?

Mr Ray—In the case of the possible impact on public hospitals and the change in the Medicare levy surcharge, it is for a number of reasons. Let me go back a step. Second round

effects tend to take a longer time to work their way through the economy and therefore back into the government budget. There are second round effects that tend to work in both directions. The reason we do not include second round effects is that generally they are highly uncertain. The cases where we have included second round effects have been cases where they have been quite—

Senator COONAN—Quantifiable?

Mr Ray—Even in those cases they were described in slightly more general terms than that, rather than something that was quantified in quite the way that we might quantify first round effects.

Senator RONALDSON—It is a very subjective judgement, is it not?

Mr Ray—What part of it, Senator?

Senator RONALDSON—Trying to ascertain whether or not the second round effects should or should not be included. If you do not mind, Senator Coonan, I will just ask a very quick question on this.

Senator COONAN—Go ahead.

Mr Ray—What I am saying is, because of the uncertain nature and the length of time that it takes for the second round to work its way through, the general approach that we have long taken is that we do not include them. As I said, in the past 10 years there have been about three exceptions. In two of those three exceptions, they involved major changes to the structure of the taxation system.

Senator BUSHBY—The Medicare levy surcharge is fairly quantifiable. Quite clearly, from the fact that you have included in the budget papers a figure for savings, there must be modelling or an assessment that would suggest how many people are likely to leave private health or let their private health cover lapse. You must be able to have an assessment of those numbers.

Mr Ray—We have assessed those numbers and we discussed them in some detail yesterday.

Senator BUSHBY—This is probably not within your department, but there must be monitoring which would suggest what impact that would likely have on public health, so it is quite a quantifiable thing to work out what the impact in terms of dollars of the second round impacts of that decision would be.

Mr Ray—That is where we depart. We have not done that modelling because we do not feel that it is easily quantifiable. As you would be aware, people without private health insurance are in the public hospital system. People who have private health insurance choose to be in the private hospital system. It is not a one-for-one thing that if someone drops their private health insurance—

Senator BUSHBY—Would there be modelling within the health department that shows how that generally tends to work? Would the answers be there?

Mr Ray—You would need to ask the health department what modelling they may or may not have. The proportion of people who drop their private health insurance and go to a public hospital in a particular year et cetera is inherently uncertain.

Senator RONALDSON—What is not uncertain is that it is going to have an impact. Did you go to Health to discuss this matter to see whether it was worthy of being one of these exceptions?

Mr Ray—Compared with ANTS and RBT, this is a very small change.

Senator RONALDSON—It was clearly obvious to some of the state premiers that this was going to have a quite dramatic impact.

CHAIR—I am happy to let you continue on with this if you choose, but we did canvass this quite extensively last night.

Senator RONALDSON—I just want to ask this question, Madam Chair, if you do not mind. I think it is relevant.

CHAIR—No. Go ahead.

Senator RONALDSON—One of the state premiers thought it was quite easily quantifiable as to what the outcomes were going to be, and that was to place enormous pressure on that state's public health system. If it were so immediately obvious to the premier, why would it not be so immediately obvious to yourselves or the federal government for that matter?

Mr Ray—I think I have answered the question.

Senator COONAN—I am interested in a few more aspects of the budget presentation. Page 124 of Budget Paper No. 2 shows that Defence is receiving initial funding because of the strong non-farm GDP deflator indexation. I am wondering whether this was intended to change the parameter variation into a policy decision of not returning money to the budget and making it appear for the purposes of presentation that a policy decision has been taken to return \$304.6 million of expenses and \$62.6 million of capital in 2008-09?

Mr Ray—This is either a matter for the Department of Defence or the Department of Finance. It is certainly not our area.

Senator COONAN—It is in your document.

Mr Ray—It is in the government's document.

Senator COONAN—Yes. You present it, don't you? Can somebody please find out for me?

Mr Ray—The expense measures are the responsibility of the Department of Finance.

Senator COONAN—Yes, I understand that. Do you have absolutely no idea?

Senator BUSHBY—The question has been directed to you not so much because it is a question about expense measures in the Department of Defence, but because it is a question about how that measure has been presented in the budget papers.

Ms Mrakovic—The thing to note here is that Defence funding is always indexed by the non-farm GDP deflator. That is one issue. The second issue is that there was a decision taken

to set up an operations reserve and the way in which that was funded was essentially from the non-farm GDP deflator and internally generated savings. They are two separate issues. It was basically a government decision that that was the way they would fund that particular decision.

Senator COONAN—Are any witnesses at the table able to comment on this proposition that the slippage rate for the Defence capital project, Reprogramming of the Approved Major Capital Investment Program, appears to have been changed to improve the bottom line for 2008-09?

Mr Ray—That is not a question for us. That is a question for the Department of Defence.

Senator COONAN—This is something that I think is for you. Since the government is now using the CPI rather than the non-farm GDP deflator, why was it that Defence did not receive a CPI indexation rather than the non-farm GDP deflator indexation?

Mr Martine—There is a difference between the way we try to calculate real growth projections at the aggregate level and how we might provide indexation for a particular program. For example, age pensions are indexed by MTAWÉ but, when we come to our calculation of growth and real spending, we do not break it down to say that part of it is indexed by MTAWÉ, that that bit will be indexed by MTAWÉ and that this bit is wage cost indexed because it is departmental et cetera. The fact that one might use the CPI for coming up with a historical series on growth in real spending is not related to a decision which relates to what we might index a particular program by, including Defence.

Senator BUSHBY—Defence is not just a program; it is a department.

Ms Mrakovic—I would just add to that. Since the 2000 Defence white paper, Defence's budget has in fact been indexed by the non-farm GDP deflator.

Senator BUSHBY—Up until this year, so was the budget.

Mr Ray—The budget is not indexed.

Senator BUSHBY—It was deflated.

Mr Martine—All the programs are deflated by a whole series of different indices. As I indicated, the age pension might be linked to CPI and MTAWÉ. The departmental running costs might be linked to some sort of wage cost index. Some are linked to non-farm and some are linked to CPI. None of that has changed. All the departmental funding and all the funding for programs is exactly the same. It is just when it comes to preparing a historical series on growth in real spending that you need to make a decision on what the relevant index is to use in aggregate. That is where both series have now been presented as CPI and non-farm. In terms of all of the indexation arrangements for all the existing programs, none of those have changed at all, including for Defence.

Senator COONAN—I notice that the government took policy decisions to increase expenditure in 2007-08 by \$3.12 billion. How much of this was a bring-forward from 2008-09? If expenditure is brought forward from 1 July 2008 to 30 June, would it increase or reduce inflationary pressures?

Mr Martine—In the budget overview glossary—which you may or may not have in front of you—appendix E gives a summary of major initiatives in the 2008-09 budget, including for the 2007-08 year. The largest new spending programs the government has introduced in 2007-08 are outlined in that table. They relate particularly to the seniors bonus, the carers bonus, the \$500 million for universities and some additional funding for education. They are probably the major measures that impact on 2007-08.

Senator COONAN—I was asking how much of this was a bring-forward from 2008-09.

Mr Martine—None of the ones that I have just mentioned.

Senator COONAN—They are from 2008-09.

Mr Martine—None of those relate to any bring-forwards. The seniors bonus and the carers bonus were new measures for 2007-08, so they were not brought forward.

Senator COONAN—So they are all new measures and none of them were bring-forward?

Mr Martine—The big ones that I have just mentioned include the \$500 million for universities. Any bring-forwards would show a positive number in 2007-08 but a negative number in 2008-09 in that table in appendix E.

Senator COONAN—I will check it, but are you saying that there are none?

Mr Martine—Off the top of my head, going through the 600-odd measures, I cannot guarantee that there are not any bring-forwards from 2008-09 to 2007-08.

Senator COONAN—Can you check it for me, please, on notice?

Mr Martine—I am happy to take that on notice.

Senator COONAN—If there are any, I would like your comment on whether it would increase or reduce inflationary pressures?

Mr Martine—That question comes back to the size of the surplus in 2007-08 and 2008-09. After taking into account all of those measures and other estimates adjustments, there is a modest tightening in 2008-09 from 2007-08, moving from 1.5 per cent of GDP to 1.8 per cent. Those numbers take into account all of those decisions.

Senator COONAN—If this spending had occurred on or after 1 July 2008 what would have been the underlying cash surpluses in 2007-08 and 2008-09?

Mr Ray—When you say ‘this spending’, is that the spending that we are checking to see whether they were bring-forwards?

Senator COONAN—Yes.

Mr Martine—Is it just bring-forwards?

Senator COONAN—Yes, just a bring-forward.

Mr Martine—We would have to take that on notice.

Mr Ray—We would have to take that on notice but, as Mr Martine said, we do not think that is going to be significant.

Mr Martine—The major measures in 2007-08 are not bring-forwards—for example, the seniors and carers bonus and education.

Senator COONAN—Would you provide the estimated budget surpluses for each year from 2007-08 until 2011-12 in both underlying cash and fiscal terms, if there had been no policy decisions taken in the budget? What I am looking for is what these surpluses would have been if there had been no decisions since PEFO. I would also like the calculations in both percentage points of GDP and in dollars.

Mr Martine—I will refer you to page 3-11 of Budget Paper No. 1 where we provide the reconciliation table for the underlying cash balance. I will not attempt to do the maths in my head, but the bottom portion of that table shows the underlying cash balance at PEFO and it breaks out the policy decisions and parameter variations to calculate the current underlying cash balance. So, if your question was, ‘What would the underlying cash balance have been if there were no policy decisions?’ then, in 2008-09, for example, it would simply be a matter of adding back to the \$21.703 the \$1.996.

Mr Ray—Subtracting.

Mr Martine—I am sorry, subtracting.

Mr Ray—The short answer to your question is that the underlying cash surpluses for 2008-09 to 2010-11 would have been smaller.

Mr Martine—That is correct. It is smaller.

Mr Ray—We can do the arithmetic.

Senator COONAN—If you would not mind, just in percentage points of GDP and dollars.

Mr Martine—The equivalent table for fiscal balance is on page 3-12.

Senator COONAN—Is it normal to describe tax increases as savings?

Mr Ray—Yes, in the sense that they are savings to the budget.

Senator COONAN—Can you provide a list of the savings—that is, reductions in expenses—over the forward estimates, please? You have probably got a table there.

Mr Martine—Broken down or—

Senator COONAN—Yes, please.

Mr Martine—in aggregate?

Mr Ray—Do you want every single one of them?

Senator COONAN—You can take it on notice.

Mr Ray—Yes. We will need to take that on notice.

Senator COONAN—There would be a table.

Mr Martine—In Budget Paper No. 2 there is a package included by the government titled ‘Responsible Economic Management’, which commences on page 321. That includes a summary table of the majority of savings measures included in the budget. That table goes on until page 337 and includes the majority of savings.

Mr Ray—Every measure is in Budget Paper No. 2.

Senator COONAN—That is right.

Mr Martine—That table includes the expense savings. So any revenue changes are included in the revenue section of Budget Paper No. 2.

Senator COONAN—Thank you. That was what I was wanting. I would like to ask about a couple of specific things. On page 351 of Budget Paper No. 2 there is a savings of \$351.7 million over three years for dismantling the Health and Medical Investment Fund. I am interested to know whether it is conventional or usual to consider that reducing an asset—in this case the HAMIF—would be considered a saving.

Mr Martine—The former government's decision to create HAMIF also involved adding to the forward estimates likely spending from HAMIF. What you see on page 351 is actually the reversal of that spending. Under the heading, 'Expenses' at the top of the little table, there is \$103.8 million in 2009-10. That is a reversal of the originally anticipated spending from the Health and Medical Investment Fund. In that sense it is a saving to the budget bottom line.

Senator COONAN—The reversal?

Mr Martine—Yes, the reversal. The government has decided not to proceed with that fund and, by implication, not to proceed with the spending of the fund. It is the spending of the fund that hits the budget bottom line, so that reversal provides the saving.

Senator COONAN—If you take out the increased taxes and other revenue enhancing measures from the budget policy decisions, what would have been the surplus over the forward estimates? Would this constitute a loosening of fiscal policy?

Mr Martine—The table on page 3-6 of Budget Paper No. 1 provides an assessment of the achievement of the fiscal target for 2008-09. That provides a split between payments and receipts. This is all on a cash basis. Once again, without doing the maths in my head, you will see in that table that receipts contributing to savings is about 1.9.

Mr Ray—And payments is 5.3.

Senator COONAN—I am sorry. I missed what Mr Ray said.

Mr Ray—That is for 2008-09. The distinction is what is worrying me in the sense that, where a government decides to do something on the expense side or through the revenue side, sometimes governments choose to meet their objectives on the revenue side of the budget and sometimes they do it on the expense side of the budget. Drawing a distinction out and asking what the underlying cash balance would have been ignoring one side of the budget does not seem to me to be that sensible from the way we would think about the budget.

Senator COONAN—No. What I am trying to ascertain from you is whether the way in which it is presented constitutes a loosening of fiscal policy. Is that a reasonable inference or conclusion to draw?

Mr Ray—I do not think that is a reasonable inference to draw at all. Our macroeconomic group colleagues can discuss the overall fiscal stance with you, but I do not think that you could say that the way the budget is presented constitutes a loosening at all.

Senator COONAN—Is it fair to say that the modest tightening that we all agree on in fiscal policy from 2008-09 until 2011-12 is due to tax increases and revenue enhancing measures?

Mr Ray—In 2008-09 the payments policy decisions are a net save to the budget bottom line. So there is a contribution from payments as well as from receipts in 2008-09.

Mr Martine—The table on page 3-6 shows that the government's savings measures in 2008-09 relating to payments—so excluding tax changes—more than offset new spending. You will see in that table that the \$5.338 million of savings to payments more than offsets the \$5 billion of additional spending. The other important point to note in this table in relation to fiscal tightening et cetera is that in 2008-09 we are starting at a position of 1.2 per cent of GDP. This table steps one through the achievement of the strategy in 2008-09, which includes an important element that the government announced, which was to bank additional revenue since PEFO. That is shown in this table towards the bottom—\$2.962. So the government has chosen to bank additional revenue since PEFO, coming through parameter variations—that is revenue surprises et cetera—and add to the surplus in 2008-09 rather than to possibly spend it.

Senator COONAN—And additional payments?

Mr Martine—The payment savings more than offset the additional new measures which are shown up as the \$5.274 billion in that table.

Senator COONAN—How will the COAG Reform Fund be accounted and will it be outside of the general government sector?

Mr Ray—No, it will not be outside the general government sector.

Senator COONAN—I will need to find my reference for the next question.

CHAIR—Senator Boswell has some questions.

Senator BOSWELL—Thank you. I would like to ask some questions on social and income support policy advice. Do we have the right people at the table?

Mr Ray—Yes.

Senator BOSWELL—In your policy advice, how many working families did you determine would have a reduced benefit for family tax benefit A as a result of the budget?

Ms Furnell—The changes are related to family tax benefit B.

Senator BOSWELL—No; family tax benefit A. The budget says that superannuation salary sacrifice and a number of other reasons will mean that people will lose their benefit under A.

Ms Furnell—I am sorry; are you referring to the changes to the income definitions relating to salary sacrifice et cetera?

Senator BOSWELL—Yes.

Ms Furnell—There have been some questions asked on this in other sessions.

Senator BOSWELL—There have been, and I asked them.

Ms Furnell—I will need to check on what information I can provide on that.

Senator BOSWELL—No. I have asked questions and I have the right to ask you the same questions. Have you got an answer to that?

Ms Furnell—I would have to check on notice.

Mr Ray—We would need to take the question on notice. We do not have that sort of number with us.

Senator BOSWELL—Have you got information on how many families will lose benefits under B?

Ms Furnell—Are you referring to the changes to the definitions?

Senator BOSWELL—Yes.

Ms Furnell—Again, I would have to get further information. I do not have the numbers relating to the changes in income definition?

Senator BOSWELL—When can you get those numbers for me?

Ms Furnell—I will check and find out.

Senator BOSWELL—When will they be able to be given to us?

Ms Furnell—I will need to check with others who are not present.

Senator BOSWELL—We get an opportunity to ask questions of public servants on very rare occasions. I have found that, once people take things on notice, the answers you get back are absolutely non-answers. I find it difficult when we come here and people who should be able to answer questions then want to take them on notice. It is trying to divert what the system is all about. These are fairly simple questions. I thought you would be able to answer them. They are absolutely fundamental questions that you must have given advice to the government on and I cannot see why they cannot be answered.

CHAIR—The answer has been given that they will be taken on notice.

Senator BOSWELL—When can I expect the answer to come forward?

CHAIR—The date for reply is 1 August.

Senator BOSWELL—Is there any way I can get an answer back today by asking people to supply you with the answer or ringing the office up? First of all, this is crazy. It subverts the whole purpose of estimates. It is a complete waste of time that we have got to do this. Can I get an answer back today?

Ms Furnell—I will need to check on that.

Senator BOSWELL—I have some more questions. The new adjustable tax income will be used to assess eligibility for a range of government assistance programs. What do these include?

Ms Furnell—A range of payments are through the transfer system such as the—

Senator BOSWELL—Can you enunciate all the programs?

Ms Furnell—I can provide you with some information and I hope these will be complete. The dependency tax offsets include income support payments paid under the Social Security Act, so that is a range of income support payments—parental income test on youth allowance and ABSTUDY, family tax benefit parts A and B, the childcare benefit, child support, the Assistance for Isolated Children scheme, exceptional circumstances relief payments,

exceptional circumstances interim income support, family help income support payments and income test for residential aged carers. That is the advice I have.

Senator BOSWELL—For each of these programs, how many working families will lose their eligibility or receive a lesser amount of assistance as a result?

Ms Furnell—I do not have estimates on any distributional impact on those specific programs. I can check to see what information is available.

Senator BOSWELL—Again, I hope I do not receive this on 1 August. I would like to receive it today. I would appreciate it if someone could get on the phone and request an answer to the questions that have been asked, and you can come back to us. Is that possible?

Ms Furnell—I will check.

Senator BOSWELL—In total, how much money will the government save by restricting eligibility using the new adjusted taxable income introduced in this budget?

Ms Furnell—Are you interested on the expenses side or the revenue side? The details are given in Budget Paper No. 2.

Senator BOSWELL—I have difficulty reading these budget papers and I always have. Can you give me both if there are two ways to look at it?

Ms Furnell—For the record, this is page 29 of Budget Paper No. 2. The savings are regarding means testing of government support and expanded definitions of income to include certain salary sacrifice contributions to superannuation. I do not have a total in this measure here, but savings in 2009-10 are \$156.8 million; in 2010-11, \$135.8 million; and 2011-12, \$145.5 million. Expanded definitions of income to include net losses from investments are, from 2008-09, \$11.3 million, \$3.7 million, \$2.9 million and \$3.8 million. They are on page 30 of Budget Paper No. 2. The expanded definitions of income to include reportable fringe benefits have only a small impact on revenue: \$9.5 million in 2010-11 and \$9 million in 2011-12. That is on page 31 of Budget Paper No. 2.

Senator BOSWELL—Budget Paper No. 2 indicates that the current approach, where the net value of reportable fringe benefits is used to calculate entitlements to family assistance, will be replaced by the use of gross value. This change will directly and adversely affect many low-income disability support workers. Can I mention that National Disability Services says that this is a direct, if unintended, assault on low-income working families in the disability sector by undermining the attractiveness of the salary packaging. Was the impact on the not-for-profit sector considered in the advice that the department gave the government?

Ms Furnell—I understand there are some changes resulting from a separate measure announced earlier under the former government that come into effect on 1 July 2008, which are unrelated to the measures announced in this budget, which affect the not-for-profit sector, so I do not have the precise details of that with me, but we may be referring to a separate measure there.

Senator BOSWELL—No. I think we are referring to the same measure. I am asking you: did you consider the not-for-profit sector in the advice that you gave to the government?

Ms Furnell—I am not aware of specific details of policy advice given on this measure.

Senator BOSWELL—How many letters have been sent out advising people of reduced benefits due to the grossing up of fringe benefits tax?

Ms Furnell—That is a question that would be more properly directed to the Department of Families, Housing, Community Services and Indigenous Affairs.

Senator BOSWELL—No. They asked me to direct it to you. Let us not toss the parcel around. They said it was Treasury's responsibility.

Senator Sherry—We will take it on notice and sort out the particular departmental area, but I agree with the officer. It would seem to me that the administration of the measure and the sending out of letters is the responsibility of a particular department. However, we will sort it out and get you an answer. We will take it on notice.

Senator BOSWELL—Yes. It will be an absolute nonanswer. They always are when they are taken on notice. As I said before, we do not get a lot of opportunities to do this and it is frustrating when we get one department that says 'go to A' and department A says 'go to B' and we are going nowhere.

Senator Sherry—I do understand and appreciate your concern. We will sort out the jurisdictional issue. Once we have sorted that out we will provide an answer on notice. I do not agree with your all-sweeping critique that answers supplied as a response to a question taken on notice are not informative. I can think of many occasions when you were in government when I did receive informative answers to questions taken on notice.

Senator BOSWELL—Thank you for that. Can I just ask you to do it with some degree of urgency, because I have been referred to another department. I would appreciate it if you could do that as soon as possible, not on 1 August. I have some other questions. Do these changes to the fringe benefits tax affect the eligibility for rent assistance?

Ms Furnell—I am not an expert in the details of the means testing.

Senator BOSWELL—Is there an expert here?

Senator Sherry—You will find that the experts on rent assistance would be in another estimates in another program. That is the difficulty that we have.

Senator BOSWELL—Again, I was told to refer these questions to Treasury, and then Treasury tells me it is another department.

Senator Sherry—We will attempt to sort out the jurisdictional issue and get you a response.

Senator BOSWELL—I will put this question on notice, but the answer will be the same. In your advice to government, how many people did you determine would have a reduced benefit for rent assistance due to changes to salary sacrifice?

Senator RONALDSON—I raise a point of order, Madam Chair. Given the circumstances where Senator Boswell has effectively been denied the opportunity to ask the officers he was speaking to from the other department to provide this information as a matter of urgency, which he may well have done had he known of today's events, could this information, in all fairness to Senator Boswell, be provided inside the time frames that have been set for the return of answers? In fairness to the senator, he was denied the opportunity to make that

request when he asked these questions previously and I think in those circumstances it would not be unreasonable for this information to be provided well inside the time frame that has been arranged.

CHAIR—The officer has indicated that she will check to see if that is available. As the minister pointed out, there are some jurisdictional issues here and I do not think that we can promise anything.

Senator Sherry—I cannot promise a specific date but what I can do is commit to making it a high priority to get this response. I cannot give you a specific date now, and that would be misleading if I set a specific date, but we will give it high priority.

Senator BOSWELL—I had a distressed community worker ring me yesterday. She receives \$15,000 tax free; I suppose you would call it a free kick. On talking to her, I was told that hospital workers receive an \$18,000 tax-free fringe benefits rate. In your policy advice did you consider the effect on hospitals?

Ms Furnell—I am not across the details of this particular matter. I think it is quite likely it is handled through another group. It is a tax matter rather than this particular matter, but we can undertake to check.

Senator BOSWELL—But you are the Treasury, aren't you?

Senator Sherry—Yes, but the tax group spent almost a day here yesterday.

Senator BOSWELL—While the tax group was here I was asking the families group who told me to refer it to Treasury. I feel like a bit of a parcel being—

Senator Sherry—When you say Treasury, it appears to me that, given the ongoing questions you are asking, it is a taxation matter—and tax was on yesterday.

Senator BOSWELL—And meanwhile I was with the families group asking questions and they did not tell me to go to the tax group; they told me to go to the Treasury group. Anyhow—

Senator Sherry—This is Treasury portfolio estimates and in Treasury portfolio estimates there is the tax area which we dealt with yesterday—very comprehensively, I might say.

Senator BOSWELL—How will the change affect nurses and hospital workers who have an \$18,000 tax-free fringe benefit level tax? You will obviously respond to that. How many hospital workers and community workers—I want a figure for each—will be affected as a result of the tax-free fringe benefit?

Senator Sherry—We will take those questions on notice and we will ensure we get a response.

Senator BOSWELL—This is the last question: have you considered the effect on the wider community of the not-for-profit sector and how many employees will be affected by the changes?

Senator Sherry—We will take those on notice and we will get our response from the tax area when we can.

Senator BOSWELL—Thank you.

Senator COONAN—Could you go to Budget Paper No. 1, pages 1-7. I am interested in asking a question about the COAG Reform Fund and also refer to statement 7 in Asset and Liability Management under the heading ‘Investment Funds’. The question is: if the government moves, say, \$1 billion into the COAG Reform Fund in 2009-10, would it be fair to say that it would show as an expense or a capital measure in 2009-10?

Mr Martine—I guess the simple answer to that question is that any transfer between funds—because they are all government funds within the general government sector—has no impact on the budget aggregates. The impact on expenses is the spending from those funds, so, if money is transferred to the COAG Reform Fund, that in itself will not create any impact on the aggregates.

Mr Ray—But if those funds are then transferred to a state—

Senator COONAN—Yes, which is what I am coming to—

Mr Ray—then it is an expense.

Senator COONAN—Having transferred funds to the COAG Reform Fund, is it a fair characterisation to say that the moneys would not need to be spent in 2009-10 by the states and territories and, in fact, they may not be used by the states and territories for some years?

Mr Ray—Mr Willcock might help you.

Mr Willcock—In addition to the references to budget papers you have already cited, there is a box on page 18 of Budget Paper No. 3 which sets out a schematic description of the three funds—the Building Australia Fund, the Education and Investment Fund, and the Health and Hospitals Fund—and the way that they can be used to feed some capital funding into the COAG Reform Fund where the government decides to provide some assistance to the states for capital investment purposes in those areas of education, health and hospitals, and physical infrastructure. Under the new federal financial arrangements, the government is proposing that those sorts of contributions to the states would take the form of what are called national partnership payments. Those payments can take the form of project support payments.

For example, it might be the case that the government decides to provide some funding support to a state for some physical infrastructure project and, in doing so, it would channel the money from the Building Australia Fund to the COAG Reform Fund and then the money would be disbursed from the COAG Reform Fund to the state to support the delivery of that particular physical infrastructure project. I would imagine that in doing so the Commonwealth government would be fairly clear, in reaching an agreement with the state, as to the nature of the project that is to be supported with that Commonwealth funding and the time frame over which that particular project is to be delivered. The short answer is to say that funding will be disbursed from the COAG Reform Fund in relation to specific project payments or reform payments that will be the subject of specific agreement between the Commonwealth and the state, or possibly all states in certain circumstances, and therefore the Commonwealth will know exactly what it is wanting to support and the time frame for the delivery of the project of the reforms that the states are committing to.

Senator COONAN—That is perfectly understandable. However, what I am interested in is when it would be regarded as spent. Let us take \$3 billion on roads as a totally hypothetical

example. For the purposes of the fund, wouldn't it be spent in a particular year even if the spending might take several years?

Mr Martine—The impact on the Commonwealth budget for spend and the impact on the budget bottom line would occur at the point that the money is transferred to the states. That is how the cash impact would occur. Whether the states—

Senator COONAN—Then spend—

Mr Martine—then immediately spend that or it is spent over a period might be different. The other thing to note is on an accruals basis there may be a slightly different impact, depending on the nature of the project and the agreement the Commonwealth might have with the states. But in terms of the cash impact and the underlying cash balance, which is our key measure, the spend would occur at the time that it is physically transferred to the states.

Senator COONAN—There has been some commentary to the effect that Mr Swan, the Treasurer, is budgeting for a 1.1 per cent rise in real spending in 2008-09 and that, despite all the talk about spending cuts, real spending growth is expected to be 1.5 per cent in the coming financial year. Is it fair to say that Commonwealth spending will be at a record level in real terms as a result of the budget?

Mr Martine—To partially answer the question, it goes back to the table we first started talking about this morning on page 10-8.

Mr Ray—I might answer that question by saying that Commonwealth spending on payments as a proportion of GDP is forecast to be 23.4 per cent in 2008-09. I am reading through the same table on page 10-8. Just looking down that column, that is the lowest level since 1989-90.

Senator COONAN—Yes, that is what we were talking about earlier.

Mr Ray—Yes. So as a proportion of GDP, which is the typical way these things are looked at, the Commonwealth is budgeting for its lowest level of payments since 1989-90.

Senator COONAN—Does that answer the question in terms of real spending growth?

Mr Ray—I think it answers the question in terms of the size of the government as a proportion of GDP. In terms of real spending growth, if it is deflated by the CPI, it is 1.1 per cent, the number you quoted. As we said before, if it is deflated by the non-farm GDP deflator, it is a fall of 1.7 per cent.

Senator MURRAY—These things are somewhat academic, I think, but the difficulty with your answer is, of course, that when you add indirect outlays to direct outlays, namely tax expenditures, the real impact of government is substantially more than those figures show and it is probably tax expenditures which have been accelerating at a rate ahead of the more managed direct outlays. Your answer is accurate as far as it goes but as you and I both know, Mr Ray, the difficulty with tax expenditures is both their measurement—

Mr Ray—Yes.

Senator MURRAY—and trying to integrate them effectively in an overall budget concept.

Mr Ray—I certainly agree with both of those points but, if you look at page 5-61 of Budget Statement No. 5, the projections of tax expenditures as a proportion of GDP in 2008-

09 are lower than our current estimates for 2005-06, 2006-07 and 2007-08—they are back to the level they were in 2004-05—

Senator MURRAY—Just to help you: except that the ANAO suggests there is about \$10 to 15 billion which could be included in tax expenditures but is not yet.

Mr Ray—Yes, that is true. But I was going to say that these are on a relatively consistent series and so, therefore, again tax expenditures as a proportion of GDP on that basis are lower, but we always say we need to be very careful in comparing these numbers across years on the tax expenditure side because of the measurement issues that you referred to earlier. But it does suggest that, when looked at in terms of the size of the economy, the total Commonwealth spend looks smaller not larger.

Senator COONAN—Is it fair to characterise the Commonwealth revenue at a record level in real terms as a result of this budget?

Mr Ray—Again, as a proportion of GDP, total receipts in 2008-09 are forecast to be 25.4 per cent of GDP, and that is the lowest level since 1998-99. Tax receipts, as a proportion of GDP, are forecast to be 23.8 per cent, and that is the lowest level since 2001-02.

Senator COONAN—Did the budget increase both taxes and expenses over the forward estimates?

Mr Ray—In nominal terms, yes, and in real terms, yes.

Senator COONAN—By what percentage?

Mr Ray—I think it is in Budget Paper No. 3, real growth—

Mr Martine—On the spending side, on page 3-6 the budget papers note that over the budget and forward estimates period spending is projected to grow on average by 2.3 per cent.

Mr Ray—That is in terms of total revenue, so it is tax and non-tax. Real growth on the previous year in 2006-07 is 3.6 per cent, in 2007-08 is 5.9 per cent, 2008-09 is 1.6—

Senator COONAN—Sorry, I just missed it.

Mr Ray—Sorry, 2008-09 is 1.6. So, it is 3.6, 5.9, 1.6 in 2008-09 and 2.8 in 2009-10, 1.6 in 2010-11, and two in 2011-12.

Senator BUSHBY—Mr Ray, you or Mr Martine, I am not sure who, have said that it was a government decision to use the CPI instead of the usual non-farm GDP deflator to estimate real spending growth. Were there other government decisions taken that made you deviate from the usual practice in this budget?

Mr Martine—There are a series of changes, I guess, to budget presentation that I might just briefly run through. The most significant change actually relates to the financial statements. Previously, the budget papers included three sets of financial statements. There has been a project underway by the Australian Accounting Standards Board for about the last five years to—as it is called—‘harmonise’ the two different reporting frameworks. We have got the ABS government financial statistics framework and then the Australian Accounting Standard. The Charter of Budget Honesty actually requires the government to report against both. The Australian Accounting Standards Board has completed a project and issued a new standard which enables us to in a sense bring together both sets of frameworks and for the

first time publish just one set of financial statements as opposed to three. That is probably the most significant change in terms of the presentation of the budget papers.

Senator BUSHBY—What about specifics? For example, it has been said today that it is not normal to include second-round effects, so, where second-round effects have been included, was it a government decision to incorporate those?

Mr Ray—I do not think there is a case that I can think of where second-round effects have been included in this budget.

Senator BUSHBY—In terms of what you describe as first-round effects with the change in the numbers with migration, was there a direction to include that as a measure rather than as a parameter change?

Mr Ray—I would not describe it as a direction—

Senator BUSHBY—Was it a government decision?

Mr Ray—These are the government's budget papers, so everything in them is a government decision. The government decided that in order to improve the transparency it would report it in this way, yes.

Mr Martine—As we noted earlier, the revenue related to that measure was always reported in the bottom line, so it is really—

Senator BUSHBY—I will use that as an example. What are the changes from normal past practice? You mentioned the overall thing, but I am specifically interested in where the government, since the election and since the budget paper has been delivered, may have given instructions to change from the way you did things in the past.

Senator JOYCE—When it becomes apparent that there is a possible diminution in the value of an asset, does it strike a feature on your budget papers? If we see the change in usage of an asset or the mothballing of an asset, does that now get revalued in that asset and is a change reflected in the valuation that is on the books?

Mr Martine—Those changes would flow through the financial statements. If an asset is written off, for example, you create an expense at the point that it is written off.

Senator JOYCE—If during the budget process you become aware of substantial change in usage of an asset, do you then go forward and reflect the value of that asset, especially a particular asset that has a certain very specific use in a very specific area? If that asset is changed, would that strike a feature somehow in your budget papers now?

Mr Martine—The financial statements are actually prepared by the Department of Finance and Deregulation. The way they are prepared is each of the relevant agencies puts together their own financial statements, so the extent that their asset valuations are changing or they have written-off assets would be part of their financial statements, which all get fed through to the department of finance, and they prepare the aggregate statements. In general terms what you said is correct, but we are not the experts to answer that.

Senator Sherry—I was just going to say that when I was at the department of finance estimates there was some significant discussion around this issue and the earlier issue that Senator Bushby got a response about from Mr Ray.

Senator JOYCE—The answer is that they advise you that, for instance, we are going to have a significant change in the usage of an asset and, therefore, we will probably have to reflect a change in that that particular asset's capital base on our books. That is the process and that appears in your budget papers.

Mr Martine—The process is that the relevant department would, in preparing their financial statements, be advising the department of finance. As the department of finance prepares the aggregate statements and they all get sort of fed up, I imagine there is a constant dialogue between Finance and relevant agencies on the various valuations, et cetera.

Senator JOYCE—Under the international accountancy standards now, which I suppose we are all following, you have to reflect an asset's fair market value on your book, don't you?

Mr Martine—Yes.

Senator JOYCE—That being the case, in the change of the use of the asset at Rockhampton held by the CSIRO—a multimillion dollar beef facility—that is a very particular asset. It is the biggest undercover beef facility in the southern hemisphere. Since it is now in moth balls, where is that going to be reflected on your budget papers?

Mr Martine—You are probably asking a question outside my area of expertise. The CSIRO is a government entity and therefore all its assets, by definition, have to appear somewhere in the aggregated balance sheet. Exactly where these assets sit is probably more a question for either the CSIRO itself or the department of finance, in terms of the aggregate statement.

Senator JOYCE—I am talking to the competence of the figures. Can you then take that on notice as to the fair market valuation of that asset, its diminution in value and how that is reflected in the figures that have been provided to us?

Senator Sherry—We will take it on notice in an endeavour to assist you. However, the valuation of a specific asset is not an issue for this department's estimates. That is an issue for the CSIRO and perhaps the department of finance.

Senator JOYCE—It is going to end up being filtered back through. It talks to the competency of the books. That is certainly part of the fiscal groups' oversight, isn't it?

Senator Sherry—But can Treasury be reasonably expected to have precise knowledge and understanding of that particular issue? No. The CSIRO and the department of finance would. We will take it on notice and we will endeavour to assist you.

Senator JOYCE—I hear what you say but they can certainly be expected to have a system in place that deals with such issues. If in this instance we find it has not dealt with that issue then it should lead to further questions in other areas where we would further question the competency of the books.

Senator Sherry—It is for the CSIRO and the department of finance, which has responsibility for oversighting evaluation of assets, to do that if it has a question or concern, not the Treasury. But we will take it on notice. But I am a little concerned that if you come here and expect the Treasury to give you a precise asset valuation of an individual asset—

Senator JOYCE—No, I am not. I am looking to the competency of the Treasury's oversight and whether the mechanisms they have for assessing information are up to speed or whether the information that is delivered to them is not a true reflection of the financial affairs of what is given—

Senator Sherry—The department—

Senator JOYCE—Of course, then you base your decisions on it and I want to make sure you can—

Senator Sherry—The department of finance is responsible for assessing the underlying valuation and if it has a question about the valuation of an asset it will raise it with a particular department. So it is the department of finance. As I have said, there was a discussion about this, in the broad—not as to the particular issue that you have raised—at the department of finance estimates last week.

Senator BUSHBY—I appreciate that you might not have the details to hand. I do not want to spend a lot of time going through the budget papers now, but could you please take on notice and provide me with the details of where presentation of budget papers or the accounting for measures and so on have changed from normal practice in this year's budget papers compared to past budget papers, particularly focusing on those which were not already planned as at the date of the election last year?

Mr Martine—We can take that on notice.

Senator BUSHBY—On page 33 of Budget Paper No. 1, it says:

This Budget ushers in a new era of economic responsibility, delivering a strong budget surplus...

Do you think that the forecast budget surpluses from 2008-09 to 2011-12 are so different from those from 1998 to 1999 as to constitute a new era?

Senator Sherry—I would argue they do. We gave a commitment to fiscal conservatism. We meant what we said and we have delivered in this budget.

Senator BUSHBY—How would you compare the 2008-09 and 2007-08 budgets respectively to the 1995-96 and 1996-97 budgets? Wouldn't it be fair to say that the 1996-97 budget could have been treated as a new era of economic responsibility?

Senator Sherry—I am concerned about the new era under the current government, not the so-called new era under a previous government that took office 12 years ago.

Senator EGGLESTON—A great job they did too.

Senator BUSHBY—And a great job they did too. They did usher in a new era of economic responsibility which I would suggest is not that different—

Senator Sherry—That is a point of political debate. I have made my point. You have made your point.

Senator BUSHBY—Would Treasury confirm that 21 June 2006 was national debt-free day?

Mr Martine—We probably need to take that on notice. Clearly you are talking about what you describe as net debt becoming, in a sense, negative?

Senator EGGLESTON—It is paying off government debt; it is pretty clear.

Mr Ray—We can recall the Treasurer referring to a particular day in that way and we can take on notice whether that was the date that he—

Mr Martine—On page 10-10 of Budget Paper No. 1, which provides the historic series on net debt, one season in 2005-06 is where it drops to negative. From memory, it would have been in the latter half of that financial year, just looking at the series. But trying to pin down an exact day is one of those difficult things.

Senator BUSHBY—As at 30 June 2006, according to table 3 on page 10-10, net debt was minus \$5.337 billion.

Senator COONAN—I will be brief on this, but there are a few more things I want to ask about. If you were to rank giving the \$20 billion say as tax cuts as targeted transferred payments or presenting them as government own purpose spending, which in Treasury's view is more likely to improve the productivity and growth of Australia and which the least likely?

Mr Ray—I am not quite sure that I am following your question. What are we ranking?

Senator COONAN—How do you characterise the \$20 billion tax cuts? Do you characterise it as a targeted transfer payment or is it government own-purpose spending? That was really the premise on which I put the question. Which is more likely to improve the productivity and growth of Australia and which is the least likely? Is there any difference?

Mr Ray—I think I know where you are going but if I am not going in the right direction, stop me.

Senator COONAN—Yes.

Mr Ray—Whether or not you have a tax cut or a spend, a payment, what would be the different effect?

Senator COONAN—Yes.

Mr Ray—I think you would need to look at that in the context of the overall budget. It is hard to make comments about particular elements like that. As you know, over the last few years we have been building some capacity in the department to analyse the impact on labour supply decisions of various programs, including tax cuts. The previous government and this government have published some of those estimates.

Senator COONAN—Could you take it on notice and just have a think about it, if you can provide a view? I know you have done your best now, but I am just—

Mr Ray—I probably have not done my best.

Senator COONAN—Would you do your best then?

Mr Ray—That is because you probably asked—

Senator MURRAY—Too much honesty is bad.

Senator COONAN—Mr Ray is always honest.

Mr Ray—Because I think what you are asking me for is a treatise on fiscal policy which would take a long time but I am happy to take it on notice to see what we can provide.

Senator COONAN—Short of a tome, what you could do would be appreciated. Could you please provide us with a breakdown of the effects on the fiscal and underlying cash balances, in per cent of GDP and dollars, of the changes in the accounting treatment in the budget and the reindexation on the basis of CPI rather than the non-farm GDP deflator?

Mr Martine—Just to answer the second part of your question first, as we were discussing previously, the change from non-farm GDP deflator to CPI is simply one of reflecting in the historic series to calculate real growth trends. The actual indexation of all government programs, whether it is defence or age pension or departmental costs et cetera, has remained unchanged. That is what feeds through to the budget bottom line. The discussion we are having about non-farm GDP versus CPI is simply one of how you calculate a real increase in the spending number but the actual impact on the budget remains unchanged from that.

Senator COONAN—If I understand it correctly, it is the accounting treatment—

Mr Martine—No.

Mr Ray—The indexation papers have not affected the accounting treatment at all so, as Mr Martine said, that change does not affect the bottom line at all. There is one highly technical thing in the accounting treatment though, I think. There is another presentation—this is going to Senator Bushby's point—and that, of course, is that this budget for the first time includes the GST as a Commonwealth tax.

Mr Martine—That in itself does not impact on the underlying cash balance. It is GST receipts in and payments out, so that has no impact. Coming back to the first part of your question in terms of change to accounting treatment, there are some changes and they are outlined in statement 9 of Budget Paper No. 1. Note 1 to the financial statement, page 9-13, and note 2 go through and discuss the various changes. The main change relates to a balance sheet issue which concerns the Defence assets previously in the government's accounts. Defence weapons platforms—such as warships et cetera—when they were purchased were fully expensed. That is the ABS GFS treatment. The Australian accounting standard treatment is obviously when you have purchased an asset, which actually makes more sense. If you spend \$3 billion on a warship, you have actually got an asset that is worth something. We think it has depreciated. That change in itself, as noted in the budget papers on page 9-15, is quite a significant change to net worth but it has no impact at all on either the underlying cash balance or the fiscal balance.

Senator COONAN—On the basis of your experience of these things in terms of new spending, have you anticipated what spending pressures you might expect to arise by reason of the hundreds of reviews commissioned by the government?

Mr Martine—As part of our normal advice to government, as we have been doing for many years, likely spending pressures are something that we always keep an eye on so we are always in a position to provide the appropriate advice.

Senator COONAN—Notwithstanding what might come forward from these hundreds of reviews, Treasury is always able to respond and advise appropriately?

Mr Ray—As long as I have been in this business there have always been spending pressures and we have provided advice on them.

Senator COONAN—Are there any spending pressures that you anticipate? Can you indicate where they are?

Mr Ray—No. I would not want to chance my arm indicating where they are but there are always spending pressures and we provide advice on them.

Senator COONAN—Except that is not really something that you are advising on; it is something that is a matter of fact. As part of Treasury's operations can you be a bit more specific?

Mr Ray—I do not know that it is a matter of fact because these things do not become fact until the government takes a decision.

Senator COONAN—I understand that but it is a matter of the operations of the department that this is a function and understanding where pressures are and what they are is a function—

Mr Ray—It is a function and—

Senator COONAN—I am just wondering if you could be a bit more specific.

Mr Ray—that is something that we have always done and it is something we will continue to do: to provide advice to the government on our view of the sorts of spending pressures that are around in order to assist them when they are thinking about their budget policy decisions.

Senator COONAN—What spending pressures do you anticipate?

Mr Ray—I would need to take that on notice.

Senator COONAN—You cannot indicate any at this stage?

Mr Ray—That question, as we have been saying, goes to advice to government so I would need to take it on notice.

Senator COONAN—On page 12 of Budget Paper No. 2 there is a measure entitled 'An ATO compliance dividend'. I understand that Treasury and the ATO advised the previous government in 2007 that there was no further scope for a compliance dividend from the ATO, so I am interested on what basis Treasury now considers there is scope for a compliance dividend.

Mr Ray—The Commissioner of Taxation answered this precise question at some length yesterday.

Senator COONAN—Are you able to make a comment?

Mr Ray—I do not have anything to add to what the commissioner said.

Senator MURRAY—Mr Ray, I know that in my absence yesterday evening the question of GST calculations at the federal level was contrasted with the GST calculations at the state level with respect to my state of Western Australia. Sometimes it is said that the Senate is no longer a state's house and it is a political parties' house, but that is not entirely true because we all take a very close state interest. I suspect you will have to take this question on notice. When there is a difference between two governments as to what a measure will deliver and that materially affects therefore the budget calculations, in this case as to Western Australia,

what is the mechanism for resolving that difference? I notice that under 'Outcome 2 strategy' is a dot point which says:

- leadership and policy expertise to enable Commonwealth and State Treasurers to finalise a new Intergovernmental Agreement on Commonwealth-State financial arrangements on the basis agreed by COAG on 26 March 2008; ...

It is one thing to have an agreement but if you have disputes about the interpretation of the figures that result in the end there needs to be a mechanism for resolution of that. It would seem to me that would normally be provided by somebody like an auditor-general rather than by competing treasuries or whatever. If there is not a mechanism, could you come back to the committee and advise what suggestions are going to be made as to what mechanism there should be?

Mr Ray—I will start and Mr Willcock will no doubt correct me when I get it wrong. At the end of the day the states receive all of the GST and that is distributed to them on the basis of relativities determined by the Commonwealth Grants Commission. The issue that I think Senator Eggleston raised yesterday goes to this: there may be differences in the way that we forecast or project where those relativities are going.

Senator MURRAY—That is right.

Mr Ray—At the Commonwealth level we forecast and project GST and then we estimate—and it is only an estimate—the GST relativities based on our estimate of the GST revenue and the population and our estimates of health care grants, and we use the Commonwealth Grants Commission's latest update on its relativities. We understand that some states, including Western Australia, differ from that in that they forecast a needs assessment for their own state. You can understand why Western Australia might want to do that because Western Australia is benefiting particularly from the strong terms of trade change and therefore, as you know, the fiscal needs of that state are changing relative to the other states. They are forecasting where the Commonwealth Grants Commission might go, whereas we are taking its latest assessment. But at the end of the day what matters is not so much our forecast or Western Australia's but how much GST is collected and what the Grants Commission determines the relativities to be.

CHAIR—I understand that there are other questions on this exact topic, so—

Senator MURRAY—Madam Chair, I have a difficulty because I have to go at 11 am to the Joint Committee of Public Accounts and Audit, and that is why I want to put this question on notice. With respect, Mr Ray, I think you are wrong and you are wrong in this respect: Western Australia is forecasting I think, from memory, about \$1 billion less being available for expenditure and that is materially affecting their budget. The reason I suggest you are wrong is that it is not a question of what eventually transpires; it is what they plan to do. My question to you is: if there is going to be a dispute, what is the mechanism that you are thinking about which will resolve that dispute? It is having a material affect on forward planning in Western Australia because they are at a lower estimate than you are. So it is the mechanism for resolution that I am interested in.

Mr Ray—I do not think there is a dispute. That is the first thing. Our methodology gives us a set of numbers and Western Australia—quite rationally, given the rapid change in their

relative circumstances—is endeavouring to do one thing that we do not do, and that is they are endeavouring to forecast how the Commonwealth Grants Commission will assess their strength and revenue raising capacity as a result of the strength in the resources sector in that state. I do not think there is a dispute at all. It is that they, for their own budgetary reasons—which, personally, I think is entirely rational of them—are endeavouring to forecast one element that affects the amount of GST that they receive that we are not forecasting. So, we do not forecast that component.

CHAIR—I will have to wrap it up there.

Proceedings suspended from 10.47 am to 11.02 am

CHAIR—I call the committee to order. We will now turn to outcome 2 and output group 2.1.

Senator EGGLESTON—I would like to continue on this line of questioning about the difference in the forward estimates for GST between the Commonwealth and Western Australia. In fact, over the four-year projection, the difference amounts to some \$972 million, including \$316 million in 2010-11 and \$577 million in 2011-12. That is almost a billion dollars, which is an enormous amount of money and a significant proportion of the Western Australian state budget. It is really a matter of great concern that these two governments should have such a difference in their forward estimates of GST revenue and it is something that perhaps we should seek to have resolved. Firstly, is it correct as claimed by WA Treasury officials that the states have to do their own calculation of GST revenue and that their calculations are more correct while the federal numbers are somewhat rubbery?

Mr Ray—I hope that our Western Australian Treasury colleagues did not put it quite like that, but it is the case, as I explained before the break, that we use a slightly different methodology from the methodology used by our Western Australian Treasury colleagues. On the basis of our methodology, our numbers are correct. On the basis of their methodology, their numbers are correct. As I said before the break, given what is happening to Western Australia's relative revenue raising capacity, I can understand why they would use a slightly different methodology from us and that they would attempt to forecast where the Commonwealth Grants Commission's relativities might go, which we do not do.

Senator EGGLESTON—That may be, but a billion dollars is an enormous difference and it obviously has implications in terms of what expenditure the state government might plan.

Mr Ray—I think the difference in the calculations simply reflects the enormous effects on the Western Australian economy of the terms of trade changes and what is happening in the mining sector.

Senator EGGLESTON—The real issue seems to be that the Commonwealth is estimating a higher GST revenue than the state government. Is it a matter of different methodology or is there some other factor at work? Whose numbers should the Western Australian public put their faith in, the state budget figures or federal estimates? It certainly makes a huge difference in terms of projected planning for expenditure within the state. The underlying question is: is the state government methodology wrong or are they squirreling away a billion dollars?

Mr Ray—As I said before the break, and I think I just said, given what is happening in the economy broadly as a result of the terms of trade boom and given Western Australian's relative position in the mining sector, we can appreciate why they are using the methodology that they use.

Senator EGGLESTON—On that basis would you not expect Western Australia to have a higher estimate?

Mr Ray—No, because what is happening is that Western Australia's relative revenue raising capacity is growing. Therefore, its relative share of the GST will fall.

Senator EGGLESTON—That is a little bit complicated. On face value, if you have a buoyant Western Australian economy, people are spending more money and, therefore, paying more GST. One would have thought—

Mr Ray—The allocation of the GST is not based on the consumption patterns in different states. It is done on the Commonwealth Grants Commission's relativities, which relate to the fiscal capacity of the different states.

Senator MILNE—I wanted to ask a question regarding policy advice on greenhouse gas emission reductions. I understand Treasury has been asked to provide that advice. What emission abatement scenarios are being modelled by Treasury?

Ms Quinn—The Australian Treasury has been asked to examine different scenarios around trajectories and targets, including the government's 60 per cent target. We are working with the Garnaut review and supporting modelling of mitigation scenarios from the Garnaut review and working with the Department of Climate Change on an ongoing basis. The Garnaut review is providing us with scenarios and analysis that they would like us to examine, and a lot of that information is in the interim report that Garnaut provided to the public. The precise scenarios are still under development. It is an ongoing work program.

Senator MILNE—So you cannot tell me what scenarios you are actually modelling, including whether you model reducing emissions between 25 per cent and 40 per cent by 2020, which is what was in the Bali road map as a footnote? Are you modelling that?

Ms Quinn—As I said, the intention is to model a range of scenarios over time. I cannot tell you the precise implications for different points in time yet, because the modelling has not been completed.

Senator MILNE—But you cannot even tell me whether you are modelling that scenario?

Ms Quinn—The scenarios particular to the Garnaut review have been driven by Professor Garnaut's view about the environmental objectives that he wishes to explore in terms of the parts per million concentration level for the world as a whole, and then his view about burden sharing across the different countries. The combination of those two pieces of information will give you different views at different points in time. They interact together. It is possible that it is in the set, but I cannot tell you a definitive answer at this stage.

Senator MILNE—Can you tell me whether you can or are modelling below 550 parts per million?

Ms Quinn—It is our intention. Professor Garnaut has asked us to explore 450 parts per million.

Senator MILNE—No lower than 450?

Ms Quinn—We have not been asked to do anything lower than 450.

Senator MILNE—It was reported in the media this week that the models were struggling to be able to model 90 per cent below 1990 by 2050. Was that inaccurate reporting or is that true? Can the model model 90 per cent below?

Ms Quinn—It is not an accurate reporting of the modelling that we have undertaken. These are complex models with complex exercises and take many days to solve. They are computationally very difficult for all scenarios, whether they are deep cuts or not. It is not true to say that the models have been unable to handle any of the scenarios we have currently explored, so it is not an accurate report.

Senator MILNE—So you could model 90 per cent below? It is not technically impossible with your model?

Ms Quinn—We have not found it to be technically impossible under the parameters that we have currently explored. It is possible that there are certain parameters and certain components that it may be difficult to explore. We are doing simulations out over 100 years and these models are based on historical relationships and views around the near term. It is possible that there are sets of parameters and sets of simulations that may encompass those degrees of cuts that it may be difficult for the models computationally to solve. But to date we have not found that to be an issue.

Senator MILNE—What exactly are the parameters you have been asked to explore?

Ms Quinn—We have been asked, as I said, to look at 450 parts per million, 550 parts per million and different arrangements around burden sharing on the basis of Garnaut's analysis. We are doing hypotheticals. We have not narrowed down specifically the scenarios. It is an iterative process. To date in exploring different sensitivities we have not found that the models are unable to solve. But it is a possibility. We have found it computationally difficult. We have several different models that we are putting together, and the complexity of the exercise is quite significant. It is the case occasionally that the models hit the wall in terms of a zero divided by a zero, but that is not necessarily because of the questions that are being asked; there are mathematical issues in terms of the equation solving. It is untrue to say that it is because of the 90 per cent target. The models do fall over from time to time because of mathematical issues.

Senator MILNE—In terms of the policy advice that you are giving government apart from the policy advice on the emissions-trading scenarios and the assistance to the Garnaut review, can you tell me how the government's stated objective of reducing greenhouse gas emissions is being embedded in Treasury and how was it reflected in the budget this year?

Ms Mrakovic—Can I get a bit more clarification on the question? I am not sure I actually understand what you are driving towards.

Senator MILNE—Prime Minister Rudd, as you know, has told the world that Australia wants to be a global leader in addressing climate change. He has also said that he wants to

have significant reductions in greenhouse gas emissions and that there is to be a whole-of-government approach led out of the Department of Climate Change and the Department of the Prime Minister and Cabinet. How has Treasury embedded those aspirations in its work in terms of the policy advice that it gave on the budget this year? How was any policy advice reflected in any government policy in the budget in terms of what Treasury thought about reducing greenhouse gas emissions?

Ms Mrakovcic—We play a general role in basically advising the Treasurer and through him the government on all issues, including greenhouse related issues. As various proposals went forward in the budget process we would have commented on those in the normal course of events. We have also been working closely with the Department of Climate Change in terms of addressing some of the design issues around the emissions-trading scheme as they go forward.

Senator MILNE—I understand the design issues around the emissions-trading system. But when you said that you would comment on budget initiatives as they came forward as a matter of course, have you got a greenhouse gas emissions checklist, if you like, on all budget initiatives that come forward that you look at?

Ms Mrakovcic—Again, I am not sure that I understand what the question is driving towards.

Senator MILNE—I am trying to understand how Treasury gives a view. Perhaps I will give you a specific example.

Ms Mrakovcic—Please.

Senator MILNE—With the fringe benefits tax concession on motor vehicles, does Treasury provide advice on what difference that would make or identify it as a greenhouse gas measure that Treasury could use or not use?

Ms Mrakovcic—Issues that come up essentially may have a variety of purposes or objectives to them. The measure that you have referred to is in fact a long-standing measure. It has been in place for quite a while. In that sense I do not know that there is a process that is essentially looking back historically at every single measure and trying to view it through a lens of climate change. That said, the government has in fact set up the Wilkins review, which has as its purpose to essentially look at what are complementary measures to the emissions-trading scheme. I would expect that those kinds of whole-of-government processes that are designed to look at those issues would be raised.

But there will be a broad range of measures that go across all the different departments and portfolio ministers' responsibilities, as you would expect. For every policy action there are in fact ramifications in terms of climate change through relative prices, et cetera. It would be very difficult to go through and essentially look at each individual measure in isolation from what it was actually intended to achieve. For example, there may in fact be tax related issues or revenue related issues that are pertinent to the determination of why the FBT measure was put in place. I cannot comment on that, only to note that it would not be a surprise that a lot of measures may have secondary or incidental implications for climate change.

Senator MILNE—What I am trying to get from you is: what is Treasury proactively doing in terms of government advice on what financial levers, if you like, or economic policy levers could be pulled to reduce greenhouse gas emissions, apart from emissions trading?

Ms Mrakovcic—The way that we would be involved is essentially, as I said, through these whole-of-government processes, working with other departments such as the Department of Climate Change and working with the Wilkins review. Those are the mechanisms by which we see ourselves being involved in the determination of the government's climate change strategy.

Senator MILNE—So you will wait for other people to ask you to comment rather than initiate anything yourselves?

Ms Mrakovcic—We are an active member in those different forums, but I think that we would think it appropriate that any initiatives or determinations made by government are made from processes that they have constituted and which we have been asked to be engaged in.

Senator MILNE—What is Treasury's advice on the inclusion of transport in an emissions-trading system? Has it provided advice?

Ms Mrakovcic—I think it would be inappropriate for us to comment on policy advice we have given the government.

Senator MILNE—Let me put it another way. What difference to emissions trading does Treasury think it would make to include or exclude transport emissions?

Ms Mrakovcic—I think we would start from the premise that the broader the coverage the lower the cost to the economy. I think that is consistent with what I understand have also been Senator Wong's pronouncements about maximal practical coverage.

CHAIR—We will go back, if we could, to the issue of GST. Senator Webber?

Senator WEBBER—I wanted to return to the discussion we were having about the differences between the forecasts in Western Australia and federally. Going right back to the line that Senator Murray was asking about, in terms of the obvious difference, surely there has to be some mechanism for mixing or resolving this discrepancy, because one budget paper or other is going to be found to be wrong. Do we have to wait until after the end of the cycle to work out who was wrong? That does not leave the rest of us who are in the business of looking at the management of Australia's or Western Australia's economy in a very sound position, because it is now quite a discrepancy.

Mr Ray—I do not know that I can add to what I have answered before. I obviously have not helped very well, so I will ask Mr Willcock to have a go.

Senator WEBBER—My initial and perhaps ill-informed view is I think the federal officials are more likely to be right than my state officials.

Senator Sherry—It is not ill informed then!

Mr Willcock—A fundamental thing to remember is that these are estimates of what is going to happen in the future. When you say that one will be right and one will be wrong, it may be that they are both going to be proved to be wrong in the future, especially the further

out we go. These are estimates that cover a four-year period. The further in the future you go, the more uncertainty there is and the more chance that neither the Commonwealth nor the WA Treasurer will be right in their estimates.

Could I step back a little bit and say right now, in 2007-08, a state's share of GST revenue depends on several factors. One is the size of the GST pool. One is the size of that particular state's population. This is oversimplifying, but it is making it easier for the purposes of getting the message across. One is the relativities determined for each state. The relativities are something that the CGC arrives at and recommends to government for consideration and endorsement by government by applying a so-called needs assessment to calculate each state's relativities, which means that they look at each state's relative cost of providing state government services and each state's relative capacity to raise its own revenue for doing so.

Prior to the introduction of the GST, all governments signed up to the notion that the GST revenue would be distributed to all states and territories to achieve so-called horizontal fiscal equalisation. Horizontal fiscal equalisation is a big word for saying that each state has the same capacity to deliver a standard set of services as all other states. To come to Senator Eggleston's issue about why WA's GST share would decline at a time when WA's economy is booming and there is a lot of mining and other activity, in a sense the GST is almost off-setting what is happening within WA's own state government revenue collection.

Senator WEBBER—The state government now has a greater capacity to raise revenue and pay its own way.

Mr Willcock—Exactly. The only additional gloss that I would need to put on that, which helps to explain why this billion dollars appears over the four-year period, is that the CGC relativities process and how that is applied to the distribution of the GST pool applies on a five-year averaging basis. You do not just look to see the performance of the WA economy in one year vis-a-vis all other jurisdictions—you look at what has happened over a five-year period. As the last year's relativities fall off, a new year's come in. For example, as all states that were previously strong in own source revenue-raising capacity five years ago have become relatively weaker—their strong numbers fall off and their weaker ones come in or vice versa—that affects it and blows it out.

Senator WEBBER—I understand all of that logic and I absolutely accept it, but in Western Australia we have been consistently strong for five years. I understand also the challenges that our state economy and, to a certain extent, the Queensland state economy is posing for everyone else trying to manage the Australian economy and, particularly, the inflationary pressures that the government is focused on. We are going to have consistent growth and we have consistent growth.

Mr Willcock—The WA economy has been consistently strong—or, to put it another way in terms of this particular issue, it has had consistently strong revenue-raising capacity over the last five years. More significantly, it is not just whether it is absolutely strong. It has actually been getting relatively stronger over the five years. Vis-a-vis all other states, its revenue-raising capacity has been strong but it has been getting stronger over that five-year period. Again, in simplistic terms, if a state has a high cost of service delivery relative to all other states, all other things being equal it would get a larger share of GST. If a state has a higher

capacity to raise revenue vis-a-vis all other states, it will get a lower share. That is all relatively straightforward when you know what the size of the pool is, what each state's population is and what the recommended CGC relativities are. That brings us up to right now. Going forward, however, as an estimation process you need to have assumptions on all of those things. You have to have an assumed size of the pool, an assumed size of each state's population. An assumption about what the CGC's needs assessment processes over the next four years might find in each year is the relative need, the relativity for each state. That is a tricky thing. The first two, population size and GST revenue, are more technical. The needs assessment by definition has a subjective element.

Senator IAN MACDONALD—The Western Australian government is anticipating its resources will go down; therefore, the Commonwealth's GST will come up.

Senator WEBBER—No, the Western Australian government is actually anticipating it will get less money because it will raise more revenue, obviously.

Mr Willcock—Assuming that the Commonwealth and WA estimates have roughly the same assumptions as far as the size of the pool and the population bases, the implication is that the difference can only be explained by the Commonwealth and WA having different starting point assumptions about the relativities that WA will have.

Senator IAN MACDONALD—Or the Western Australians may say that their economy is not going to grow as much; therefore, they are going to be entitled to a greater share of GST revenue.

Senator WEBBER—No. Their growth prediction is quite strong.

Senator EGGLESTON—Mr Ray pointed out exactly what you have just said. In effect, the GST allocation is not based on GST revenue collections but on a Commonwealth assessment of need under this horizontal equalisation. This discussion now about the different assessments is really quite fascinating. Western Australia is saying it will receive less, and that must have implications for their estimate of the strength of the Western Australian economy and its infrastructure needs.

Senator WEBBER—That is right.

Senator EGGLESTON—That is a fascinating thing to contemplate. One wonders which government has actually got it right and how we assess that.

Mr Ray—Our methodology is that we do not forecast a change in the needs assessment from the Commonwealth Grants Commission. We use the latest available. We do adjust it if they foreshadow that they are going to make some changes, because sometimes they do that. The Western Australian Treasury are forecasting that their revenue raising capacity is going to get relatively stronger—and as I said earlier, for quite understandable reasons, given what is happening in the economy generally. You can understand why the Western Australian Treasury might be trying to do this. They are anticipating a change in the Commonwealth Grants Commission's needs assessments, which we are not in our methodology. That is the reason for the difference.

Senator WEBBER—I accept the logic behind that. I think that is the nub of the difference. In doing its work, does the Western Australian state Treasury actually consult with you about

what your forecasts are for GST revenue? It seems to me you are the experts on that. They do not have the data that we do.

Mr Ray—That is true. I think we probably accept that. It depends on the forecast for the whole of the GST pool. It is not anything to do with Western Australian specifically. There is another complication. For example, you might have a retailer that operates in every state in Australia, but it might pay all of its GST in one head office or a particular state office. We do consult with the states.

Senator WEBBER—They consult with you before they come up with their own?

Mr Ray—They would have had an idea of where our forecast for GST was going to be, yes.

Mr Willcock—It is not as if we have a process where we have a dialogue between treasuries over this. It is more a matter where we make available to the state and territory treasuries our most recent estimates as input. It is up to them to make their own judgements about how reliable they believe our estimates are.

Senator WEBBER—Absolutely. I just want to be reassured that they were getting the most accurate and robust data available, given the underlying assumptions that they are making. The underlying assumption is of economic growth; therefore, the state government revenue stream that will come from that is not one that—

Mr Ray—I do not think we give them economic forecasts. We give them our view of total GST collections.

Senator WEBBER—There would be a way that they could work it out from there.

Mr Willcock—There can be a timing issue, too, because some states release their budgets prior to the Commonwealth budgets. Some release after.

Senator WEBBER—As Western Australia did, yes.

Mr Willcock—Those states that release after of course can look at the most recent published information that is reflected in the Commonwealth budgets.

Senator WEBBER—I have one last question on this, which you will need to take on notice. Going back, say, over the last five years, can you give me the projection of what you think you are going to give Western Australia and what you end up giving them, so I can try to work out where we are going.

Mr Ray—Yes.

Senator IAN MACDONALD—Along the same line, I would refer you to table 1.1 on page 8, with which you would be very familiar.

Mr Ray—Is this Budget Paper No. 3?

Senator IAN MACDONALD—It is Budget Paper No. 3. It shows the total payments by the Commonwealth to the states, which includes general revenue assistance, including GST, specific purpose, and a total in the current financial year of \$78.6 billion.

Mr Ray—In 2008-09, so the next financial year, it is \$78.6 billion, yes.

Senator IAN MACDONALD—It also shows that for 2011-12 it is \$91.4 billion.

Mr Ray—Yes.

Senator IAN MACDONALD—That is an increase of \$17 billion over those years. Take my word for it.

Mr Ray—I would not get \$17 billion, but, yes.

Senator IAN MACDONALD—Perhaps I am going from \$74 billion. I am looking at 2007-08, actually. \$74 billion up to 2011-12, \$91 billion, which is an increase of \$17 billion, which is 5.5 per cent in nominal terms. That is not adjusted for inflation—is that correct?

Mr Ray—Those numbers are nominal; that is correct.

Senator IAN MACDONALD—I understand in the early years of the intergovernmental agreement total resources to the state, including transfers, GST revenue, special purpose payments and own-source revenue grew by about eight per cent in nominal terms. Can you confirm or deny that. That is my suggestion to you.

Mr Ray—If you look on the next page, page 9, table 1.2, the second last column, you see the growth rate of total Commonwealth payments to the states in each year.

Senator IAN MACDONALD—That is right. In the early years of the GST they were quite substantial, but falling as they go. In those times inflation was about 1.5 per cent lower than it is now, in those years from the introduction of the GST.

Mr Ray—Off the top of my head that is about right, yes.

Senator IAN MACDONALD—What I am suggesting to you is that we are looking in total financial resources from the Commonwealth to the states dropping from five per cent growth in real terms down to one per cent over the next years, 2011-12? Take it on notice.

Mr Ray—I will take it on notice. I cannot do the arithmetic in my head.

Senator IAN MACDONALD—Let me assure you that is the calculation, done by someone far cleverer than I. It goes to the point—and the minister may want to answer this—that the states have received rapid increases in Commonwealth sourced funds over the last four or five years, but over the next four or five years payments to the states, according to your budget figures, are going to dramatically drop and barely keep pace with inflation. That is a question to the minister, if he wishes to comment. But if not, it is a question to the officials who give the advice. On what basis was the advice given that the states are going to be done in the eye across the board? This may have a relationship to what Senator Webber and Senator Eggleston were talking about previously.

Mr Willcock—The material that you see in table 1.2 reflects the state of the world as we know it now. But Budget Paper 3, amongst other things, deals quite extensively with the fact that through this calendar year there is dramatic reform to the nature of the Commonwealth's funding support to the states associated with the new COAG reform agenda. In particular, it means that for special purpose programs, those programs are being very much recast, reduced in number, changed in focus, and the government's intention is to put in place whole new funding arrangements for those special purpose programs from 1 January 2009.

In moving through the year to get to 1 January 2009, and the new financial frameworks, the government has agreed with the states that there will be funding negotiations in the second

half of this calendar year to underpin the new special purpose program arrangements. What you are seeing in the out-years, in other words, because there are quite a number of existing SPPs that are lapsing as of 30 June this year or 31 December this year or whenever, those numbers reflect money already in the forward estimates under existing funding agreements and do not take account of the fact that there is going to be a mass of funding negotiations.

Senator IAN MACDONALD—The fact of the matter is these are your figures, Treasury figures, and they are indicating that in spite of substantial increases in past years of something like five per cent, in real terms over the next five years the new government is intending to do the states right in the eye and give them barely additional funding to cover inflation in the period; if inflation is as bad as the Treasurer suggests it is going to be, there will be a negative growth rate.

Mr Willcock—It would only have that effect if you ignored the material in BP3 that indicates there is funding negotiations in the second half of the year that will change the nature—

Mr Ray—Can I go back a step, please. I am not sure how you are doing your calculations. As you know, in the budget we have a forecast for the budget year and then we have three projection years. The projections are based on basically everything growing at trend. There is a particular assumption over the first two projection years to do with an underlying part of the terms of trade. But it means that, for example, these projections are based on CPI inflation over the last three years being 2.5 per cent. I am not quite sure where you get the one per cent from. I think there are a number of things. One is that the out-years are projections, not forecasts. As Mr Willcock said, there is currently underway an intensive process with the states that is going to lead to a set of new financial arrangements that will be settled by the end of this year. That was announced at COAG.

Senator IAN MACDONALD—So you say, Mr Ray. I do not want to name names without their authority, but I have to tell you my source comes from a professor of economics giving evidence to a Senate committee, and he has done the figures and he has explained them to me and I accept them. I might also say that someone of great authority in this, George Megalogenis, also wrote about this in the *Australian* not long ago, describing the funds going to the states as being flat as the tarmac at Tullamarine. If you are arguing with me you win, but when you are arguing with people like economics professors and a respected reporter, it does seem to me that this government has been fooling the states as to where they might go. You might recall prior to the election all of the state governments thought that the election of a Labor government would produce the greatest windfall since the world was born. But it seems that the figures of your department are not suggesting that.

Mr Ray—As a proportion of the size of the economy, the last actual outcome we have is for 2006-07, when Commonwealth payments to the states were 6.5 per cent of GDP. Across the forward estimates, the average is 6.5 per cent of GDP.

Senator IAN MACDONALD—Thank you. I am not quite sure where that leads us, but I am using the figures in your budget paper. Can I move on to another area. I understand that the states, prior to the election, commissioned a report that indicated that to fix the health system—of course, this was done under the time of the old government, but I am sure the

states would not have had a gerrymandered report—you would need \$1.5 billion additional per year over the next five years, a total of \$7.5 billion, to fix the well recognised problems in the state health systems. Yet I see in the Treasurer's budget speech that the additional funding for health over the next five years is to be about \$3.4 billion, which is about half of what the states indicated was needed to fix the health system. Are those figures accurate that I have just given you?

Mr Heferen—Those numbers in the budget I do not have with me to check, but they may well be accurate. Those numbers would assume continuing indexation at the current rate of the current health care agreement. As Mr Willcock went through, the process of determining what the new funding arrangement is going to be will be discussed over the second half of this calendar year. As Mr Ray was saying, they were projections, and the projection we use is what was the previous indexation of the health care agreement that has now expired.

Senator IAN MACDONALD—What you are saying to me is that Mr Swan in his budget speech is saying there is \$3.4 billion extra for health. It might have been \$3.5 billion. I do not have it, but it is something like that. I am sure someone will have the Treasurer's budget speech to give us the accurate figure. You are saying that he was just fooling the Australian community; that it was not accurate?

Mr Heferen—No. What I would be saying is that the Treasurer would have been referring to the additional funding, discrete funding, that has been put into the health care agreements—the extra billion dollars for hospitals, and the \$600 million commitment at COAG for dealing with waiting lists. But what those numbers do not have in them is what the new baseline and the indexation arrangements will be for the agreement going forward.

Senator IAN MACDONALD—So Mr Swan was not giving the Australian public an accurate system, he was just giving part of the story and you are supplying the rest of the story today?

Mr Heferen—The rest of the story; he was being accurate in what the budget had and what the budget, as Mr Willcock went through, is making clear is that the new financial arrangements are still subject to negotiation throughout the latter half of the year.

Senator IAN MACDONALD—Thank you. I am not being insulting to you, but that is the sort of gobbledegook that ordinary people cannot understand. Someone would have looked by now. What was the figure in the Treasurer's speech?

Mr Martine—I do not have the speech in front of me.

Senator IAN MACDONALD—Someone must have it, surely.

Mr Martine—On page 1-19—the additional spending the government is allocating to the national health and hospitals reform plan is \$3.2 billion over five years. I am pretty sure that would be the figure that the Treasurer would have been referring to in the speech.

Senator IAN MACDONALD—Is it not correct that the states towards the end of last year commissioned a report by a respected economist that indicated they would need—above everything else—an additional \$1.5 billion per annum over the next five years, which according to my arithmetic is \$7.5 billion? The Treasurer in his speech has given \$3.4 billion. With all the resources of Treasury you have not been able to find the Treasurer's speech. But

thanks to the committee's secretariat, on page 8 of the speech it does show an extra \$3.2 billion over the next five years.

Mr Heferen—At the risk of prolonging the discussion—

Senator IAN MACDONALD—I would like to prolong it.

Mr Heferen—The \$3.2 billion were the measures in the budget announced to go into the health system. The national health and hospitals reform plan had the \$3.2 billion. That was measured in this budget. This budget also makes clear that there has to be the discussion at COAG to determine what the SPPs are going to be—that is, the specific purpose payments. Those discussions have not concluded. It is in those discussions that the new base of the health care agreement and the indexation arrangement for the health care agreements will be determined.

Senator WEBBER—We will not know the allocations for health until the new Australian health care agreement is signed?

Mr Heferen—That is correct.

Senator IAN MACDONALD—I could do no more than quote the Treasurer's speech:

The Government's National Health and Hospitals Reform Plan will revitalise the public health system. In this Budget we are committing to an extra \$3.2 billion ...

Is it not true that the states prior to the election commissioned a report which indicated they needed \$7.5 billion for the things which Mr Swan has committed \$3.2 billion?

Mr Heferen—We would have to take it on notice to check the state report. But when you say the state is saying \$7.5 billion for that which the government has allocated \$3.2 billion, I think on examination of that we would be comparing apples with oranges. No doubt the \$7.5 billion is about the recurrent funding from the Commonwealth under the health care agreement. As the senator has pointed out, that is yet to be determined.

Senator IAN MACDONALD—Good try. But those of us average Australians who might have voted prior to the election on the basis that the new Labor government would increase funding by \$7.5 billion as their mates in the state determined through this report they commissioned will find from the budget that they have got \$3.2 billion, which is exactly half of what is required. You can take that on notice.

CHAIR—We have just over half an hour before lunch.

Senator IAN MACDONALD—I am just winding up, as you might have noticed, Madam Chair, although I have not noticed you holding back other senators. That is your prerogative as chair. If you will take that on notice for me. Also, relative to the questions that Senator Webber and Senator Eggleston were asking, but in the broader sense, could you perhaps give me the response to my earlier question about the states expecting they would get huge increases from a Labor government but finding now that their increases in Commonwealth to state transfers are remarkably less than they were over the last four or five years—and, might I say, it serves them right.

CHAIR—Was that a question?

Senator IAN MACDONALD—Yes, it was.

Senator Sherry—That was not a question for officers. It is—

Senator IAN MACDONALD—Well—

Senator Sherry—Let me finish. It is not a question; it is a series of assertions and political claims that is not appropriate for the officers. But I will take it on notice for Mr Swan to respond to.

Senator IAN MACDONALD—I am asking the officers—they have agreed to do this before; I was just summarising—to calculate the increases in the outcomes, compare it with the increases in the last four or five years, and can they confirm or otherwise that the increases, which have been substantial in the last four or five years, to the states are now running back to one per cent or less than inflation even?

Senator Sherry—We will take it on notice.

Senator EGGLESTON—I would like to ask about emissions trading. Firstly, is Treasury of the view that a mandatory renewable energy target is inconsistent or suboptimal when implemented in conjunction with an emissions trading scheme?

Ms Mrakovic—We had a very similar discussion at last Senate estimates. I think I answered at that time, in response to a question you asked, that essentially market based mechanisms such as carbon taxes and emissions trading schemes do provide for the least-cost abatement—that is, they achieve a given emissions reduction at least cost to the economy. The way that those things work is you select the cap and you leave the industry to select the cheapest abatement choices. When you have a renewable energy target, you are obviously stipulating that a certain portion of your power generation and hence abatement comes from renewable energy technologies. It then comes down to what you set up as a counterfactual. If in fact under an ETS the market were to pick the same level of renewables or higher as under the emissions trading scheme, then in fact the renewable energy target is not a binding target and you would not in fact expect there to be any effect on costs. This comes down to a question of how you have designed your emissions trading scheme.

As we have mentioned in the past, the government has yet to finalise details on the design of the emissions trading scheme. As to the other factors that you might want to take account of in terms of setting up the counterfactual to answer that question, you might think about some of the things that the renewable energy target might be designed to achieve. For example, I know that the argument has been put forward that there can often be returns in the form of learning by doing. You basically benefit from the experience of adopting a technology perhaps at a faster pace than would be otherwise, and that can actually end up reducing the costs of abatement over the longer term.

In terms of other issues that you might want to take into account, we are already starting from a situation where we have a mandatory renewable energy target. That means that there has been a substantial amount of investment put into the renewables sector already. Essentially, you may very well have an adjustment cost to the economy in terms of resources moving out and then back in were it in fact not to be a binding target. You would need to factor in those adjustment costs. In terms of setting up that counterfactual, you would also need to think about whether in fact you were displacing a whole series of different state schemes or other announcements that might be out there. In short, it is very difficult to answer

that question practically and it will come down to the design of the ETS and what you set up as the counterfactual.

Senator EGGLESTON—It is very complex. I agree with that. Do you feel that you will be able to set up an ETS without adversely affecting the Australian economy by 2010? It seems there are a lot of variables there.

Ms Mrakovcic—I think I would try to address the reasons why it would be difficult to basically unambiguously answer that question. The government has announced that it is going to have an emissions trading scheme and the government has announced that it intends to have a renewable energy target. We will be working to implement government policy.

Senator EGGLESTON—Have you been asked to model the distribution of income by the year 2100, and is it realistic to expect that you could get sensible numbers from such an exercise?

Ms Quinn—Treasury has been asked to look at macroeconomic and distributional impacts of an emissions trading scheme, different trajectories and targets. We have been asked to look at the distribution across industry and distribution across households. We have not been asked to do that over 100 years. It is unrealistic to expect anyone to be able to do that over 100 years because individuals alive in 100 years time will be different from the individuals alive now. It is very difficult to project that distribution analysis very far into the future, given the difficulty of tracking who is in which cohort in income distributions over time changes quite substantially. In terms of the tools and analysis that are available, they focus much more on the near term rather than over significant points in the future.

Senator EGGLESTON—Have you done modelling out to 2010?

Ms Quinn—Certainly the ability to project forward over a number of years is a possibility. The further you go into the future the more you are basing your view on different assumptions and you need to think about sensitivity analysis. But it is certainly possible at this point to have a view in the next few years. It is a matter of judgement about how far you want to go forward and how you assess the reliability of those estimates.

Senator BUSHBY—What is accepted as a reasonable term that you could put forward with modelling?

Mr Ray—This is for the distributional modelling? I just want to clarify which bit of the modelling.

Senator BUSHBY—I am talking in a general sense. The answer we just received from Ms Quinn was that for 100 years the value of what you get out of that is not too high because of the variables that might change in the meantime. You said that in the short term you can get reasonable answers but not in the longer term; that is far too long. But Ms Quinn was referring to the distributional modelling.

Ms Quinn—Household income distributional modelling. There are different types of distributional analysis. Thinking about industrial structures and things like that, you can go much further forward. But if you are thinking about the composition of a household with two parents and two kids and things like that, those characteristics of households change over time, and the income distribution analysis is a matter of judgement. You can physically push

forward on the assumption of the current characteristics of the Australian population and go forward, and you can do analysis on that basis. The question is how far forward can you try and predict how the distribution characteristics of the household factor change.

Senator BUSHBY—In that area is there an accepted period that you could go forward whilst still getting meaningful results?

Ms Quinn—Ultimately it is a matter of judgement about how quickly you think the characteristics of the Australian population change and the household formation changes.

Senator BUSHBY—Has Treasury made that judgement?

Ms Quinn—Not that I am aware of. The revenue analysis area has done distributional analysis in the past. They may be able to provide you with more information.

Senator EGGLESTON—Have you projected 10 years ahead, for example?

Ms Quinn—My understanding is that 10 years ahead has not been done by Treasury, but I am not certain of this.

Mr Ray—On a distribution of household income?

Senator EGGLESTON—Yes.

Mr Ray—My recollection is that we have not projected 10 years ahead, no. But we do have models that project various things. We use cohort models to do things, for example, in the superannuation and retirement income area, and those are quite detailed, complex models that can go 40 or 50 years ahead.

Senator EGGLESTON—On the issue of modelling, is it true that the Treasury modelling timetable for climate change has been slipping?

Ms Quinn—I am not sure what you mean by ‘slipping’ in terms of timetables. Treasury has had a program of ongoing work. We have been exploring these issues for some time and working with different people at different points in time. It is not true to say that the timetable has slipped in the sense that we have had an ongoing program of work feeding in. The previous government asked about trajectories and targets. We then joined together with the Garnaut review to provide input into that process, and the ongoing nature of the government in terms of ETS design. The nature of what we have been asked to do has changed over time. As things have changed the complexity of the task and as additional requests have been made of us, we have been fitting the program of work to the time available and resources available. It is not clear to me that there has been any delay or slippage in the timetable. It is merely that the process has been an ongoing, evolutionary one.

Senator EGGLESTON—So that is perhaps a little more uncertain in terms of other factors coming in such as the Garnaut review and his projections?

Ms Mrakovcic—When the modelling task was initially set up under the former government, the task set was basically to look at targets and trajectories with a view to essentially informing the dissemination of a long-term target. There was no fixed time line given and it was sort of consistent with this idea of essentially perhaps having a long-term target decision made some time in 2008, I think it was at the time. Since then I think that that task of looking at targets and trajectories has changed somewhat with the election of the new

government. Basically, we have had the government come in and it has set a long-term target and it has announced that it intends to introduce the emissions trading scheme in 2010. We have also had the Garnaut process, which was tasked with doing its own analysis of the costs of action and inaction. Essentially what we have had to try to do is adapt or, as Ms Quinn said, evolve the task to essentially fit the ability to undertake modelling around the targets and trajectories, the modelling of the Garnaut team and also to assist in the design of the ETS. That is quite a change in terms of the complexity of the task that has been put. Essentially, starting from the point of view that there were no clear time lines and the task has changed and evolved, we have been working with all parties and specifically the Garnaut team and the government to try to ensure that we are delivering to them the products that they need in a timely manner.

Mr Ray—I should go back and adjust my earlier answer. I cannot quite remember your question, but we do project the distribution of income out some years into the future—quite a few years. The distributional analysis that Ms Quinn was referring to, though, about, say, what the impact of the introduction of an ETS would be on different types of households requires a much more complex model because you have to look at both the income and the expenditure side. That is the bit that we do not go way out into the future on, but we can project the distribution of income quite a way out.

Senator EGGLESTON—Just getting back to emissions trading itself, what are the relative merits of an ETS to a carbon tax?

Ms Mrakovic—They are both market based mechanisms. Essentially they are both designed to deliver you least-cost abatement. I think that often the choice comes down to whether in fact you place a greater value on setting a cap on the quantity of emissions and allowing the price to set itself or whether you wish to, in fact, have price certainty or set the price and essentially allow the quantity of emissions to be set by the market. They essentially achieve the same outcome in terms of least-cost abatement. They just go about it differently by either setting the price or setting the quantity. You will find different people have different views as to the relative merits of them.

Senator EGGLESTON—We seem to be going down the emissions trading scheme or pathway, though, do we not? Would you agree with that?

Ms Mrakovic—The government has announced an emissions trading scheme will be in effect in 2010.

Senator EGGLESTON—Exactly. That is the way we are going. Do you think as Treasury that an ETS will have impacts on inflation? Will it add to costs and so on?

Ms Mrakovic—The way that in fact either a carbon tax or an emissions trading scheme works is by essentially forcing a change in relative prices or encouraging a change in relative prices. You have these relative price shifts occurring in the economy and essentially the implications of that will depend on a whole range of factors that depend on a number of decisions the government will be making in the context of designing its emissions trading scheme. I do not think it is possible to be categorical on those points. It will have to depend on the actual design of the emissions trading scheme.

Mr Ray—In terms of inflation, of course there is monetary policy.

Senator EGGLESTON—Could you just repeat that?

Mr Ray—In terms of inflation, there are policy instruments at hand or a policy instrument.

Senator EGGLESTON—Which are?

Mr Ray—Monetary policy.

Senator EGGLESTON—Nevertheless, there seems to be a view that emissions trading is going to add to costs across the board in Australia or to the Australian community.

Mr Ray—I think as Ms Mrakovic said, emissions trading will change the relative prices in the Australian economy quite profoundly, and in those relative price changes some will add and some will detract.

Ms Quinn—The definition of inflation is an increase in aggregate prices, and relative prices in and of themselves do not generate aggregate inflation. But it is a matter for how the scheme is designed and what else is happening.

Senator EGGLESTON—But they do contribute to the aggregate really, do they not, because they are components of various issues. What are the likely transitional costs to implement an ETS and how long do you think in Treasury it will take for these transitional costs to dissipate?

Ms Mrakovic—I think those issues go to the actual design of the emissions trading scheme. Those matters are still to be determined by the government.

Senator EGGLESTON—So you really cannot make a meaningful comment on implementation costs at this stage? Does Treasury have concerns about the volatility of emissions permit prices and the effect on the stability of the Australian economy from this?

Ms Mrakovic—I would refer you to my earlier answer again. It will depend on the design details of the emissions trading scheme.

Senator EGGLESTON—Is Treasury aware of the progress on the introduction of emissions trading schemes in other countries and, if so, would you like to make any comment about what is happening in other countries in comparison with what we might adopt in Australia?

Ms Mrakovic—I have a peripheral knowledge of what is happening in terms of occasionally reading articles or trying to catch up with what is happening in terms of emissions trading schemes in different places. I think the best general answer I could give is that emissions trading schemes are largely in a phase of development in a number of countries and in most places the design details have yet to be settled. For example, I know that the EU had a phase 1 of its emissions trading scheme and it is now thinking about future phases of its emissions trading scheme and the design details of those. Likewise, New Zealand is also giving some thought to its design details. But I do not think I could offer any general views on it.

Senator EGGLESTON—Do you have a view about whether petrol and other liquid fuels should be exempted from an emissions trading scheme?

Ms Mrakovcic—I think we addressed this issue earlier. These are matters for the government to determine what is in and what is not. The government has yet to make decisions on these issues.

Senator EGGLESTON—This is a specific question that I wanted to get an answer to. Can you confirm that the timetable to meet the 2010 deadline for the ETS includes release of a green paper in July setting out preferred options?

Ms Mrakovcic—I think that question should probably appropriately be put to the Department of Climate Change, which will have responsibility for that.

Senator EGGLESTON—And to all other issues I suppose you would give the same answer—stakeholder consultations, review of submissions, a draft bill and explanatory memorandum by December 2008, bill introduced to parliament by 2009, in March, consultation on draft regulations in 2009 and establishment of the scheme in 2010. Can you comment on any of those as being the schedule?

Ms Mrakovcic—To most of those I would say, yes, to Minister Wong and her department. I guess that the only two points that I would note is that we have had some engagement with industry in the course of our modelling efforts. We think it has been important to try and engage with industry in the context of doing the best job we can on the modelling. The other issue to note is that there is a set of issues around reporting and taxation that will involve our department, the Treasury Department, but it is not actually Fiscal Group that is responsible for those.

Senator EGGLESTON—What are the short to medium-term costs that you anticipate to the Australian economy from an ETS, including effect on growth rate, productivity growth, employment and, as previously mentioned, inflation? Are you able to comment on any of those points?

Ms Mrakovcic—Only to the effect that they will depend on the design of the emissions trading scheme.

Senator BUSHBY—You mentioned that you could not comment on the timetable that has been set because that is properly in another department's hands. Presumably you are aware that there has been a timetable set, even though you cannot confirm what the time lines are. Has Treasury been asked to deliver its part of the overall ETS regime presumably based around the modelling by a certain time to fit in with that timetable?

Ms Mrakovcic—You would have to ask that question of other areas of Treasury that are more directly associated with that.

Senator BUSHBY—Maybe the minister can answer that. Has Treasury been asked?

Senator Sherry—I would need to take that on notice.

Senator JOYCE—As you know, emissions trading schemes is an area that a lot of people are truly in the dark about. My questions will try to clarify that ambiguity. Will an emissions trading scheme be put into place?

Mr Ray—The government has announced that, yes.

Senator JOYCE—Will that be by 2010?

Mr Ray—That is correct.

Senator JOYCE—This is an obvious question, but it has to be asked. In the meantime, what happens if all of a sudden the world starts getting colder and wetter? What do we do?

Ms Mrakovcic—There are two challenges around climate change. One is that it is actually what we term a global externality in the sense that often the effects of climate change can be felt in a location quite different from where perhaps the emissions that led to increased greenhouse gas concentrations were made.

The second point is that there is quite a significantly long lag between when you have the emissions and the way that they feed through into greenhouse gas concentrations. One would not actually expect there to be an immediate reaction in terms of a fundamental change in the climate by essentially addressing something within a space of six months or a year or two years.

Senator JOYCE—Not to put myself up as a sceptic, but what I am looking for is whether there is a contingency plan if we find in the future that what we initially thought to be true was not so or it was not so to the degree to which we thought it was true.

Mr Ray—I think you are going to the science of climate change, which is not our area of expertise.

Senator JOYCE—Has anyone advised your department and said, ‘If this all turns around, this is our plan B?’

Ms Mrakovcic—This is really an area that goes to risk management. Essentially there is a fairly strong body of evidence to suggest that climate change is an issue. But as with most such exercises there is always a degree of probability or uncertainty. It would be fair to say there is a significant amount of uncertainty around the impacts of climate change, including the magnitude of those effects and whether they are going to be significant. Perhaps one way to look at it is that the investments that one undertakes today can be thought of in the sense of catastrophe risk insurance.

Senator JOYCE—Fair enough.

Ms Mrakovcic—Because the consequences of not doing something are so significant, you may wish to take in some account some policy to avoid that.

Senator JOYCE—I understand. The simple question was: is there any part of the plan that says, ‘If we are wrong, this is what we’ll do?’ I understand what you are saying. This is an insurance policy and we are presuming that everything we say is right. That is all right and that is all I need.

Ms Mrakovcic—Some people look at it that way. It depends on your views around uncertainty.

Senator JOYCE—These questions are pretty straightforward. Will the government make any money out of the emissions trading scheme?

Ms Mrakovcic—I would label that under the heading of design details of the emissions trading scheme.

Mr Ray—The government will have a revenue stream. The quantum of that will be a function of the design of the scheme and then the government will decide. There are policy decisions, obviously, about what to do with that revenue stream.

Senator JOYCE—If the government has a revenue stream and it will make money out of the revenue stream, the question that it obviously raises is whether out of necessity they could influence what that revenue stream is through all facets of the economy? An emissions trading scheme will be in all facets of the economy.

Mr Ray—The scope of the scheme has not yet been settled.

Senator JOYCE—Are there discussions about making sure that it is only revenue neutral for the government?

Mr Ray—These sorts of details really depend on the way the scheme is designed. That has not yet been settled.

Senator JOYCE—That is important. Obviously people have a concern that certain people use certain arguments to push a barrow, but the barrow always leads back to Treasury.

Senator Sherry—With due respect to Treasury, Treasury is very important in terms of its input, but there will be significant input from a whole range of areas.

Senator JOYCE—And from people concerned about the government; just using it to take money; maybe I will be more direct and say that. Where are the areas in your discussions so far that you feel the price will go up? It is anticipated that the only direction price will go on a range of items by reason of this emissions trading scheme is up, is it not? Is there nothing where the price is going to fall because of the emissions trading scheme?

Ms Mrakovcic—Essentially the way the emissions trading scheme works is through changing relative prices, so you may very well find that the price effects will vary. I do not know if Ms Quinn wants to add anything to that.

Ms Quinn—Hypothetically, if you put a price on emissions, then those goods that are emissions intensive will go up. If you have an unchanged income, your budget has not changed and you have less money to spend on other goods, and you would expect the price of those goods to fall. That is how you get the relative price change. That is based on—

Senator JOYCE—Basically, what you are saying, in summary, is that the emissions trading scheme will put up the price of goods. People's buying power will be reduced because they have to pay more and, because they have less money left over, the price of other goods may well go down.

Ms Mrakovcic—What we are saying—this goes back to some of the points made earlier—is that ultimately these issues depend on the totality of the design of the emissions trading scheme. Ms Quinn's point went to a hypothetical point, and I think it is important to see it in that context. The key thing is that the way that the emissions trading scheme works is actually through a change in relative prices.

Senator JOYCE—If you are putting a charge on something that was never there before or never had to be paid for before, it would stand to reason that someone somewhere is

collecting the charge and that the price is going up. The crux of my question is: will this be inflationary?

Ms Mrakovcic—As we pointed out, your demand for goods that are lower in terms of emissions intensity may actually increase. You have a degree of flexibility in terms of the choices you make and your consumption bundle. If the price of good A rises, your response to that may in fact be to reduce your consumption of good A but increase your consumption of good B.

Senator JOYCE—I know what you are saying about your consumption bundle.

Mr Ray—Just moving away from an ETS to the more general point you were making about a tax, depending on assumptions about incidence, let us assume it has all moved forward and it puts the price up; it is a price level change, not a change in the inflation rate. You have to distinguish between a change in the price level and a change in the inflation rate.

Senator JOYCE—When you referred to your consumption bundle, you were using the proposition that the price of some goods will go up and it would determine that they are a part of the family budget; the family's capacity to pay for other items will go down. Therefore, the price will have to go down by reason that the capacity to pay for them is not as great.

Ms Mrakovcic—The consumption of some goods will go up and the consumption of other goods will go down. People will respond to the change in relative prices.

Senator JOYCE—We are going round and round the bush here, but let us be more direct. Emissions trading will be a charge on some items definitely, won't it?

Ms Mrakovcic—Yes.

Senator JOYCE—Will there be other items where there will be an emissions trading discount, where money will be given to sell certain goods, therefore forcing down the price of goods and subsidising them? Are there equivalent subsidies to meet the charges?

Mr Ray—I think the short answer to your question is that, as Ms Quinn said, hypothetically you put a price on a carbon, and that will affect relative prices in the economy. Some will go up and some will go down. Exactly how that works will depend on the design of the scheme. One of the things that we will do, as part of this process, is model how that works.

Senator JOYCE—In your modelling, seeing as we are going out to beyond 2010—I am referring to figures for your three-year rolling out—what sort of inflationary impacts have you put into the budget in years 2011-12 by reason of the emissions trading scheme, or has that yet to be put in the budget?

Mr Ray—As we discussed a little earlier, the years 2010-11 and 2011-12 are projection years, and those projections are based on CPI inflation being 2.5 per cent—

Senator JOYCE—Without an emissions—

Mr Ray—which is in the middle of the Reserve Bank's band.

Senator JOYCE—Without an emissions trading scheme?

Mr Ray—With or without an emissions trading scheme.

Senator JOYCE—So you are saying—

Mr Ray—It is a projection.

Senator JOYCE—Intrinsically there was either an emissions trading scheme component put into that modelling or there was not.

Mr Ray—No. These are projections built on the basis of aggregates in the economy growing at trend.

Senator JOYCE—At trend at the moment is based on an historical position of no emissions trading scheme?

Mr Ray—Again, there is a question between level changes in prices, relative prices and inflation. They are different things.

Senator JOYCE—Let us be more specific. If the emissions trading scheme is involved with fuel, would the price of fuel go up or down or stay the same?

Ms Mrakovcic—That goes, again, to the detail of the emissions trading scheme.

Senator JOYCE—I think we know what we are getting at here.

Senator BUSHBY—Does Treasury consider it likely that the prices of goods and services other than those that will be affected by the emissions trading scheme will fall sufficiently to offset the increase in prices of carbon based products and the flow-on costs, for instance, for goods and services that are dependent on transport and those types of things? Is it likely that the fall that you suggest, Ms Quinn, would actually fully offset the increase in prices on carbon products?

Mr Ray—I think the answer is a bit similar. The reason we are having difficulty is that we do not want to mislead the committee. We would prefer to see the final details of the design of the scheme, do our modelling around that and then discuss it.

Senator JOYCE—In your emissions trading scheme, in your investigation so far, you are talking about a charge to compensate for carbon. You cannot just have a scheme going along merrily when no-one is actually sequestering or holding carbon to give the scheme its bona fides. Where are the sorts of places that this carbon is going to be sequestered and held? Does it include rural property?

Ms Mrakovcic—In terms of those kinds of details, they are probably questions that should be asked of the Department of Climate Change, which is in fact involved much more intimately in the detail of these specific design elements.

Senator JOYCE—Let us go through the economic modelling of it. Are there certain caveats that will become ever more present on certain assets that will have another implication in this modelling, such that certain caveats will make certain assets less saleable, their capital base less worth while? Have these issues been dealt with in your modelling?

Ms Quinn—Once again, it depends on the design elements of the ETS, which have not been settled.

Senator JOYCE—Just on holistic modelling, including the emission trading scheme, will such things as the luxury car tax put the price of those goods up or down?

Mr Ray—On the luxury car tax, that will depend on what you think the incidence of that tax is.

Senator JOYCE—Is the effect of the luxury car tax to increase the price, reduce the price or keep the price where it is?

Mr Ray—If you assume that the tax is passed forward, you would expect that it will increase the price of some motor vehicles. That is the first-round effect. It is such a small change in the context of the whole economy that you would not see it—to go into the second-round effects would be quite—

Senator JOYCE—Would things like the alcopops tax be inclined to put the price of drinks up or down or keep them the same?

Mr Ray—The purpose of that measure is to put the price of those drinks up.

Senator JOYCE—Finally, will this troika of emissions trading, the alcopops tax and the luxury car tax, all of which are at the forefront of this government's current suite of policies to the Australian people, be inflationary?

Mr Ray—This goes back to my earlier point that the luxury car tax and the RTD change, to the extent that they pass forward into prices, is a level change, not a change in the rate of inflation. It is a change in the level of prices.

Senator JOYCE—I look forward to that debate.

Proceedings suspended from 12.30 pm to 1.31 pm

Senator Sherry—Yes. In fact the start of the quote you have just read was actually raised at Finance estimates, just as the same questions you are raising were raised at Finance estimates, so I am in a position to answer. Yes, that quote is correct. Is it consistent with the announcements in the budget? Yes it is, because the quote refers to the existing Future Fund at that time.

Senator BUSHBY—The quote refers to the Building Australia Fund.

Senator Sherry—It referred to the funds that existed at that time.

Senator BUSHBY—I have got here that they were talking about your promise to implement a new Building Australia Fund. It says:

... Labor's Building Australia Fund policy does not involve raiding anything.

The rest of that quote flows from the Building Australia Fund.

Senator Sherry—I have already explained that the reference referred to the existing Future Fund at that point in time.

Senator BUSHBY—Just so I can understand what you are saying, are you saying at that time—

Senator Sherry—The allegation from the former Treasurer was we were going to 'raid'—that was his political description—the then existing Future Fund.

Senator BUSHBY—Which Chris Bowen was referring to as the Building Australia Fund.

Senator Sherry—No, I do not think that is right.

Senator BUSHBY—That is in his quote. The quote says:

... Labor's Building Australia Fund policy does not involve raiding anything.

Senator Sherry—We are not going to raid the existing Future Fund. That is what I believe the quote refers to. The only issue, which we had announced, was the use of Telstra shares for the broadband infrastructure policy.

Senator ABETZ—Isn't it said that the first robbery is always the hardest?

Senator Sherry—But we are not robbing anyone.

Senator ABETZ—The first is the hardest one; each one after that becomes successively easier.

Senator BUSHBY—It seems pretty clear to me that Chris Bowen in this quote is referring to the Building Australia Fund policy, not the Future Fund. He is talking about your policy for what you would do once you were in government.

Senator Sherry—I have answered your question—whether you agree or disagree is up to you—and it was answered in Finance.

Senator BUSHBY—We will move on and I will head back to the officers. Is it feasible that the BAF might crowd out private sector investment?

Dr Henry—It is certainly not the intention of the BAF that it crowd out private sector investment. More likely the intention of it is that it will be complementary with, be supportive of, or encourage private investment. That would be the intention.

Senator BUSHBY—Is it feasible that it could crowd out?

Dr Henry—The question goes to the macroeconomic implications of government activity. It is technically possible, of course, that government activity of any sort—for example, a tax cut, an increase in a transfer payment, an increase in spending on an asset, either the purchase of an asset or the construction of a new asset—could, in particular macroeconomic circumstances, have the effect of crowding out some element of private sector expenditure. It could have the effect of crowding out private consumption expenditure; it could have the effect of crowding out private investment expenditure; and it could, of course, have the effect of crowding out private exports. It could do so by affecting either the exchange rate, interest rates or the domestic price level. In concept, anything that government does can crowd out any and several elements of private sector activity.

Senator BUSHBY—That is right. Thank you for that. That is a very comprehensive answer, and in concept it is good to hear the facts, but what we are talking about here is the spending of \$40 billion, which is a rather large sum in the context of the Australian economy.

Dr Henry—It is. I do not think the government has suggested that it would be spending \$40 billion in one year; in fact, quite to the contrary. The government has also indicated that in determining the profile of the spending from these various funds, the government would have regard to prevailing macroeconomic circumstances at the time.

Senator BUSHBY—What effect will spending the capital of the BAF have on inflation, interest rates and wage and cost pressures in the industry in which the money is being targeted?

Dr Henry—It is the same answer.

Senator BUSHBY—Potentially it could introduce inflationary pressures?

Dr Henry—The answer is: in determining the profile of the spend from the various funds, the government would have regard to the prevailing macroeconomic circumstances at the time. Therefore, it would have regard to advice provided to it about inflation, wages growth and so on.

Senator BUSHBY—As we have seen from recent media reports, the government does not always pay a lot of heed to advice that it gets if it is in conflict with an election policy. We currently have a situation in Australia where there are skills shortages in many areas, and construction is probably one of those areas. Is it possible that in spending the capital of the BAF you could find that you are exacerbating wage costs and pressures?

Dr Henry—I do not think that I can add anything to the answer that I have already given, which is that the decisions the government makes at the time will be informed by an assessment of prevailing macroeconomic circumstances.

Senator BUSHBY—What other countries have a sovereign welfare fund/Future Fund type arrangement?

Senator Sherry—Again, the same question was asked at Finance estimates. In Finance we agreed to take it on notice and provide a list with a bit of a description. It is pretty long.

Senator BUSHBY—It is very helpful having you here, given that you were also at Finance.

Senator Sherry—I am not sure it is helpful asking the same questions at two estimates, but that has a flow-on impact for your ability to ask questions in other areas. That is your call. I will take that on notice. We will provide the information on sovereign wealth funds and a description of that, because they do vary in terms of their structure and purpose from country to country.

Senator BUSHBY—Whilst doing that, could you also provide information as to which of the SWFs in those countries have a draw-down of capital provision and for what purposes capital is permitted to be deployed?

Senator Sherry—We will endeavour to get you that detail. I will not absolutely commit to it, because I am not sure of the extent of the research or, in fact, even the degree to which that information would be available in terms of some of the operations of the sovereign wealth funds. We will certainly endeavour to obtain it.

Senator BUSHBY—Presumably you will be able to tell me when that is not available. Is there any macroeconomic modelling of accumulating these funds and then spending them? Have you conducted any economic modelling on the effects of it, or of the accumulation and then the spending in a broad sense?

Dr Henry—In supporting the development of our macroeconomic policy advice to government we use economic modelling and so, in the development of the macroeconomic advice to government in the lead-up to each budget, we always provide governments with

advice on the prevailing macroeconomic circumstances, informed in part by our macroeconomic model.

Senator BUSHBY—I presume that any such modelling that you may have done, as you say, is advice and you would not be in a position to release it?

Dr Henry—It is entirely up to the Treasurer as to what part of our advice to him he wishes to release into the public domain.

Senator Sherry—I will take that on notice.

Senator BUSHBY—Thank you. Are you able to tell us today what types of infrastructure the BAF would potentially be used to fund? Are we at that point yet?

Dr Henry—No, except in general classes of infrastructure.

Mr Ray—There is a list in the budget papers:

... critical economic infrastructure in transport and communications, such as road, rail, and ports facilities, to ease urban congestion and enable growth in trade, and broadband.

Senator BUSHBY—Will the BAF invest using debt or equity instruments, or both?

Mr Martine—They are matters still to be sorted as part of its investment mandate.

Senator BUSHBY—I imagine that would probably be the case. Does Australia currently have an infrastructure shortage? From a Treasury perspective, are there infrastructure issues that are affecting productivity and, if so, where?

Dr Henry—I suspect the answer to that question will always be yes.

Senator BUSHBY—Where do you consider the key problems are?

Dr Henry—There has been much commentary over a large number of years about the quality of the nation's transport infrastructure, ports in particular. I am not indicating with these comments the degree of seriousness of the deficiencies in those areas, but there has certainly been a lot of commentary by well-informed commentators about deficiencies in our infrastructure in those areas. That is in the transport area. There have been comments from well-informed commentators for a long time about inadequate investment in certain bits of the communications infrastructure in this country.

Senator BUSHBY—In part of another inquiry that the economics committee is carrying out at the moment, I have seen representations that investment in infrastructure which facilitates overseas trade like ports actually exacerbates our terms of trade problem and could help lead Australia towards the Dutch disease. Is that something you would like to comment on? I would like to take advantage of your expertise while we are here.

Dr Henry—Let me get this right. Is the argument if we facilitate trade across our borders it can actually make us worse off?

Senator BUSHBY—The argument was that you are better off focusing on improving productivity within the nation and improving the domestic situation so that we can be more productive.

Dr Henry—Whether it is generally well accepted or not, it certainly would be the view of the treasury department for a very long time that economic performance is in general

enhanced by opening the economy up and facilitating, or at least removing obstacles to, international trade and investment flows.

Senator FIERRAVANTI-WELLS—Mr Henry, if you are setting aside \$40 billion you must have worked out where the bottlenecks are and where the problems are. You must have done some work on it.

Dr Henry—Who, me? These are of course government decisions and the government has set aside \$20 billion in the Building Australia Fund to invest in transport infrastructure and communications infrastructure. That \$20 billion could be seen against—I think it is—something of the order of \$50 billion of public infrastructure spending that the states have in their budgets, or are likely to have in their budgets, for the next year or two.

Senator FIERRAVANTI-WELLS—That is state spending. I am asking about federal spending. Are you planning to subsidise the states? Is that what I should read into what you are saying?

Dr Henry—Subsidise? As you would know, Commonwealth governments have not historically allocated much to infrastructure spending directly and the government has indicated that it wishes to do so.

Senator FIERRAVANTI-WELLS—I would like to understand this correctly. The government is about to set aside \$20 billion for infrastructure? Somebody somewhere must have worked out where the bottlenecks are or where the problems are and must have done at least some work to ascertain that \$20 billion was a figure, or at least a starting figure, to address the problems. I would have thought you would have had to have known what the problems are before you could at least assess a starting point, or at least a figure to set aside for investment. That is my question. It is a pretty simple one actually. You are about to set aside all this money for infrastructure, but nobody has worked out where the problems are.

Dr Henry—You would be aware that the government has established Infrastructure Australia to provide advice to it on what the infrastructure deficiencies are and then to provide advice to government on the priorities that should be attached to various infrastructure projects. If you find it incredible that the infrastructure deficiencies in Australia could be as large as \$20 billion, that is your view.

Senator FIERRAVANTI-WELLS—That is not what I said. I am just saying that \$20 billion has been set aside—

Dr Henry—Let me just answer the question in this way—

Senator FIERRAVANTI-WELLS—and I was interested to know how you arrived at that figure.

Dr Henry—I think that \$20 billion could be allocated to highly-prospective infrastructure projects, that is projects that have benefit-cost ratios that would be quite significant. I do not see much risk of there being an insufficiency of projects, rather I suspect that when it comes down to the government taking decisions it will have in front of it many multiples of \$20 billion of projects that it will be asked to fund.

Senator FIERRAVANTI-WELLS—Will part of that be looking at the responsibilities of who currently is responsible for infrastructure? I come from New South Wales. Yes, I do agree

that there are lots of infrastructure deficiencies, but they are mostly the responsibility of the New South Wales government. I am interested to know how much of the federal taxpayers' money is going to be allocated to meeting deficiencies that are not being met by the New South Wales government or other state governments around Australia in terms of infrastructure. That is where I am coming from.

Dr Henry—I think I have answered the question.

Senator FIERRAVANTI-WELLS—Have you?

Dr Henry—This government has indicated that it is prepared to contribute funds to infrastructure projects that might historically have been described as the responsibility of state and territory governments.

Senator FIERRAVANTI-WELLS—Thank you.

CHAIR—Senator Joyce, was your question on this?

Senator JOYCE—Yes. Dr Henry, what has been your anticipation of the cost appreciation on capital projects? Has the cost put into major capital projects such as roads been going up lately by 10, 20 or 30 per cent? What are your views on that?

Dr Henry—I do not have the figures at my fingertips, but my understanding is that the rate of appreciation of construction costs depends upon the sort of project you are talking about and upon where in the country the project is being undertaken. There is not one number that I would suggest that you use in coming to an answer on that question.

Senator JOYCE—Can you go to any specific area and give us a rough estimation? Can we talk about Sydney?

Dr Henry—Sydney, I do not know. I do not have those figures at my fingertips.

Senator JOYCE—Brisbane?

Dr Henry—Again, I do not know. It would depend upon the project.

Senator Sherry—I am not sure this is the appropriate estimates. I would have thought that it would be perhaps Finance or Transport.

Senator JOYCE—What is the anticipated rate of return on the \$21 billion fund that we are going to put aside? We are appropriating for the 'construct Australia' or whatever it is called.

Senator Sherry—This is the Future Fund where the monies will be invested?

Mr Martine—This is the new fund.

Senator JOYCE—What is your anticipated rate of return on that?

Mr Martine—At the moment the budget estimates assume the cash rate of return pending the finalisation of an investment mandate.

Senator JOYCE—Would that be about eight per cent?

Mr De Brouwer—It is 7¼ per cent.

Mr Martine—Once the investment mandate is finalised by government that rate of return could be different.

Senator JOYCE—You can take this on notice. If the inflation rate of the costs of constructing the capital projects is going up more than the rate of return of the fund, surely it would be more appropriate to spend the money now than to wait until you can buy less with it later on.

Dr Henry—You may be of that view. It strikes me that it is a view at some variance from the proposition that Senator Bushby was putting earlier. What happens to the growth of construction costs depends, among other things, upon the construction demand at the time. I did not answer this directly, but I think an implication of my answer to Senator Bushby's earlier question was, for example, were the whole \$40 billion spent in one year, that might increase construction costs further.

Senator BUSHBY—In the last part of your answer you actually mentioned that it was a question that I put rather than a view, because all I was doing was asking questions. I was not putting any views as to what it was. I was just trying to find out the answers. I have a couple of questions on the Medicare surcharge. What would now be the income level of the \$50,000 if indexation had applied to the threshold since it was first introduced?

Mr Ray—We were asked specific questions on this yesterday. I do not have the figures at my fingertips. It is around about \$78,000. We did put the exact number on the record yesterday. That was if it had been indexed at MTAWA.

Senator BUSHBY—My apologies. Given the questions that we had yesterday, I might move on to labour market regulations. Would you agree that the direction of labour market reform over the past 15 years or so until 2007 has been to progressively reduce the regulatory burden and to progressively liberalise labour market regulation?

Dr Henry—Are you happy for me to answer that?

Mr Ray—I am very happy for you to answer that.

Dr Henry—In general, yes.

Senator BUSHBY—How important has labour market reform been to reducing the sustainable unemployment rate?

Dr Henry—Enhanced labour market flexibility is one of a number of economic reforms that has contributed to our ability to have sustainable lower unemployment rates—that is, without igniting accelerating prices.

Senator BUSHBY—In terms of the reduced sustainable unemployment rate that we currently enjoy, those reforms have been a fairly important factor in delivering that outcome.

Dr Henry—I do not want to comment on any particular policy change. I would prefer to confine my remarks to generalities.

Senator BUSHBY—That is what I am asking you at this point.

Dr Henry—In general policies that have had the effect of liberalising labour markets have contributed positively to our ability to sustain low rates of unemployment without causing inflationary pressures.

Senator BUSHBY—What would you say are the key features of a liberal labour market?

Dr Henry—Is that a small ‘l’, liberal labour market?

Senator BUSHBY—Yes, a small ‘l’ liberal; not a capital—liberalised. What are the key features of a liberalised labour market?

Dr Henry—In answering the question I would say that we did not have a liberalised labour market when wages and other terms and conditions were centrally determined by judicial or quasi-judicial means, and so any move that has taken us away from that position can be, and in my view should be, regarded as labour market liberalisation.

Senator BUSHBY—That answers the question in part. What I was asking is not so much specifically about our national labour market, but in general what are the key features of a liberal labour market, as opposed to the Australian market and what we may or may not have done here?

Dr Henry—I do not know how I can answer that question when you are asking me an absolute. A liberal labour market is an absolute. I think I can only answer it with a relative proposition: any move which takes one further away from a centralised wage determination system, which is where wages are determined by people other than those who are on either the employer or employee side of the employment arrangement, would have to be regarded as amounting to illiberalisation.

Senator BUSHBY—That is helpful. Dr Henry, what do you see as the risk to Australia’s economic outlook if our labour laws were to be made more restrictive? I am not asking you to comment on any particular policy, but if they were made more restrictive what risk would that pose to the economic outlook of the nation?

Dr Henry—Answering that sort of question is rather difficult, because I am not quite sure what you mean by ‘more restrictive’.

Senator BUSHBY—Illiberalisation, to use the term that you used.

Dr Henry—Macroeconomic conditions would be rather more challenging were we to still have the same centralised quasi-judicial wage setting arrangements that we had, for example, in the 1970s which, as you would be aware, is the last occasion on which the Australian economy was affected by a significant terms of trade increase. The terms of trade increase on that occasion, of course, was much smaller than the one we are presently experiencing, but that is a bit beside the point perhaps.

Senator BUSHBY—You touched on the question, but I think it is a fairly simple question to answer really. If you were to place further regulation in the way of the way our labour market works—once again I am not pointing at any particular policies; it could be the Calathumpian Party that introduces policy changes that make our labour market more restrictive—what risk would that pose to the economic outlook of Australia?

Dr Henry—Again, the difficulty that I am having is that I am not sure what you mean by ‘restrictive’. I do not wish to answer the question in such a way that somebody else might think that what I had in mind in answering the question referred to a particular set of restrictions that I do not know are in your mind or would be in the mind of somebody who was going to read the transcript of these proceedings. I would prefer not to answer a question as non-specific as that. This may be helpful. I would say that if we were, today, to have a set

of labour market arrangements such as existed in Australia in the early 1970s there is little doubt in my mind that we would be confronting significantly more challenging inflationary consequences of the present terms of trade increase.

Senator BUSHBY—Yes. I was going to raise that. The terms of trade situation that we faced in the 1970s, given our labour market, created problems that in a more deregulated labour market, as we currently enjoy, would not necessarily exist to the same extent.

Dr Henry—I agree with that proposition.

Senator BUSHBY—We had a similar problem in the 1950s, as I understand it?

Dr Henry—That is correct.

Senator BUSHBY—We will move on now. What economic analysis or modelling has been provided to the government on its workplace relations policies to assess the likely impact on unemployment, employment, labour productivity, real wages, income distribution—especially effects on the less skilled—economic growth, inflation and interest rates?

Senator Sherry—It is a long list.

Senator BUSHBY—Lots of areas could be affected.

Senator ABETZ—A very important list that we trust was considered.

Senator Sherry—We need to have the list maybe one by one.

Senator ABETZ—I am sure that Senator Bushby could go through them seriatim.

Senator BUSHBY—I am very happy to do that. What economic analysis or modelling has been provided to the government on its workplace relations policies to assess the likely impact on unemployment and employment? Do you want to go?

Dr Henry—Yes. Given that you have asked the question, I think I do want to go.

Senator Sherry—That is what I was trying to work out.

Dr Henry—This is the signalling system that we worked out beforehand. Because you are talking about advice that may or may not have been provided to the Treasurer, I would seek the committee's indulgence to consult the Treasurer on what details of that advice he might want to make available.

Senator Sherry—I am happy to take it on notice and seek such a request from the Treasurer.

Senator BIRMINGHAM—Dr Henry, has the Treasury undertaken modelling on the impact on unemployment or employment?

Dr Henry—I do not know the answer to that question.

Mr Ray—The Treasury has forecasts of unemployment and employment which take into account existing policy settings.

Senator ABETZ—Can I come in there?

Senator BUSHBY—Yes.

Senator ABETZ—What matters were the forecast of an increase in unemployment of 134,000 in the budget papers predicated upon?

Dr Henry—I stand to be corrected on this, but I do not believe the budget papers contain that figure of a 134,000 increase in the number of unemployed.

Senator ABETZ—You might be right that the budget papers per se do not say that, but it has clearly been in the public domain that there will be an extra 134,000 on the unemployment list, and that is part of that which has been factored into budget calculations in other areas.

Dr Henry—I do recall reading in the press the 134,000 figure, but I do not know the source of it.

Senator ABETZ—Are you saying that it is not—

Dr Henry—No. I will finish answering the question. It is certainly the case that the budget papers reveal in the economic forecasts a modest increase in the unemployment rate through 2008-09, but that is a consequence of a slowing in aggregate economic activity. As you would have noticed in reading that particular statement in the budget papers and looking at the economic forecasts, for 2008-09 we are forecasting a slowing in aggregate economic conditions and that has an employment consequence of course.

Senator ABETZ—Is part of that slowing that is predicted predicated on further restrictions in relation to the labour market? I know you do not like the term ‘restrictions’ or ‘restrictive’, but you did seem to respond to the term ‘liberalisation’, so what is the opposite of liberalisation of the employment market or employment regime?

Dr Henry—As Mr Ray said, our economic forecasts attempt to take into account as much as we possibly can, but the dominant influence on that slowing in aggregate growth is explained in statement No. 2 in the budget papers. It is a consequence of a number of things, some of which have to do with macroeconomic policy settings, both monetary policy—

Senator ABETZ—With respect, we understand that there are a whole host of factors that would play into that. What I am asking specifically about is one of those factors, if you like, which is back tracking as we would say on the issue of the labour market reforms, going down the road of re-regulation or less flexibility.

Dr Henry—That is pretty unlikely. I can explain why. It is that whatever changes have been made, are being made or are in the process of being made to industrial relations laws—I know this is using quite general language, but I think this is a good conceptualisation of it—you are referring to changes to reverse policy changes that have themselves been taken in the recent past and would not have themselves had the opportunity to have a significant impact on macroeconomic performance. Therefore, the reversal of those changes would not, in and of itself, be found to have had a significant impact on macroeconomic performance. To detect the sort of change that you are asking me about, I would have to say firstly that the changes that the former government had introduced had had a significant upward impact on economic growth in 2007-08, and the reversal of those changes has a significant impact in the opposite direct in 2008-09, and I cannot support either of those propositions.

Senator ABETZ—That is all very well, but I think we all understand that the turnaround in industrial relations legislation is not just the winding back of Work Choices, it is, as many economic commentators have said, winding back all Howard government reforms and in fact some of Paul Keating's reforms in this area as well. Therefore, we are not only talking about the small window of the last couple of years, but we are also talking about the deregulation that has occurred over the last 1½ decades that has washed into our economy. I think most commentators agree that it has led, at least in part, to our economic growth. It just seems to me that if you then wind back the clock, not only pre-Work Choices, but also pre-Howard and pre-Keating, as it is intended to, then it would stand to reason that if we are forecasting some economic decline, it might be as a result of this winding back of employment reforms.

Dr Henry—I can certainly confirm to the committee that in our forecasts we have not anticipated such a wind back. I can confirm our forecasts do not reflect an assumption that the Australian labour market is going to go back to pre-Keating conditions.

Senator ABETZ—Let us cut to the chase: has any modelling been done on that specific point as to what would happen if you were to wind back labour market reforms?

Dr Henry—I doubt it very much.

Senator ABETZ—That is fine.

Dr Henry—I do not think that we would model that.

Senator ABETZ—If you have not modelled it, then clearly it cannot be in the suppositions underlying your budget predictions.

Dr Henry—Yes.

Senator ABETZ—If that makes sense.

Senator BUSHBY—Your answer on modelling which you gave to me and your answer to Senator Abetz illuminates the situation a bit further, but can I take it that you have also done modelling on the impact of the government's work relations policies on labour productivity and real wages? You indicated that you had done it on unemployment and employment; have you done modelling on labour productivity and real wages?

Dr Henry—The answer that Mr Ray gave to the earlier question was to the effect that our forecasts take account of the institutional arrangements for labour markets and, of course, all other markets to the extent that we can. Those effects such as they exist would be implicit in our forecasts, but beyond that I do not think we have figures here and I do not believe we have figures elsewhere that would allow us to identify the specific impacts on labour productivity of various changes or even a particular change to labour market institutional arrangements.

Senator BUSHBY—Has income distribution been modelled?

Dr Henry—It would be the same answer.

Senator BUSHBY—Economic growth?

Dr Henry—The same answer.

Senator BUSHBY—Are you saying that the modelling that you have done and provided to the Treasurer to assess the impact of the government's workplace relations policies does not necessarily directly address economic growth?

Dr Henry—Again, you are asking about advice provided to the Treasurer.

Senator BUSHBY—I was asking whether you have done economic modelling that addresses that? I am not asking what the results of it were or the resultant advice, just where the modelling was done to look at the impact on economic growth of the government's workplace relations policies.

Dr Henry—I would have to take that question on notice.

Senator FISHER—I would like to refer to an article in the *Australian* newspaper by Sid Marris during May this year which indicated that some 38 pages of Treasury advice that had been provided to the government was provided to the *Australian*, in response to an FOI request, with significant parts of it whited out. I have a copy of a Treasury minute provided in response to the freedom of information request. I am happy to, through you, Chair, provide a copy of the minute, but I am sure Dr Henry is aware of it. I am wondering to whom this minute was provided?

Mr Heferen—I will be able to help you there.

Senator Sherry—We had better have a look at the minute. We should not talk about minutes without actually seeing it. We had better make absolutely sure that we are talking about the same document.

Mr Heferen—We are talking about a minute that was released under FOI to the ABC?

Senator FISHER—Yes.

Mr Heferen—And it is headed 'To the Treasurer'?

Senator FISHER—Yes.

Mr Heferen—That was provided to the Treasurer.

Senator FISHER—Mr Heferen, can you inform the committee of the title of that heading, as I have just released my copy?

Mr Heferen—The title of the minute is 'Transitional arrangements for workplace relations' and it was dated 13 December 2007.

Senator FISHER—A minute from Treasury on 13 December 2007 was provided to the Treasurer. Can you remind us what the topic was?

Mr Heferen—The topic was 'Transitional arrangements for workplace relations'.

Senator FISHER—Given that at that time the Australian government had been elected and had as part of its policy platform Forward With Fairness in reforming workplace relations and the first plank of Forward With Fairness was a transitional bill to deal with workplace relations, how can that advice have been about anything other than at least the first stage of the government's planned workplace relations reforms?

Mr Heferen—As you can see on the copy of the advice, some of it was released and some of it was not.

Senator FISHER—Is that in response to the FOI request?

Mr Heferen—Yes.

Senator FISHER—One paragraph essentially of that particular minute was released.

Mr Heferen—I guess on balance you could say more was not than was.

Senator FISHER—I think so, one paragraph with some ABS figures.

Mr Heferen—As you go through the minute there are annotations as to what that refers to in a particular section under the FOI Act that I use as a decision maker to decide not to release the information. Section 34(1)(d) is used in several places. You may be aware that section 34(1)(d) is the provision which exempts material that is going to cabinet, so I guess in putting the material together it is not hard to conclude that this is a minute to the Treasurer on matters which were the subject of a cabinet discussion.

Senator FISHER—And indeed would have been the subject of cabinet consideration. Who did Treasury consult in the preparation of this briefing?

Mr Heferen—Do you mean the actual briefing that was provided?

Senator FISHER—The preparation of the minute.

Mr Heferen—Say this came out of my Social Policy Division—

Senator FISHER—Did your division prepare the minute?

Mr Heferen—yes, that is correct—we would have consulted with our particular colleagues in the macroeconomic group.

Senator FISHER—Within Treasury?

Mr Heferen—Yes, the Domestic Economy Division, and we would have had very close consultation with the Department of Education, Employment and Workplace Relations.

Senator FISHER—Did you say very close consultation?

Mr Heferen—Yes.

Senator FISHER—Can you give me more detail as to what very close consultation with DEEWR would have meant?

Mr Heferen—As is the normal process with the cabinet deliberations of every government that I have been involved with, a cabinet submission is prepared. It is prepared on instruction by the relevant minister, and it is usually worked up by the department. The department will undertake some discussions and consultations with other agencies that it may think have a close interest. In relation to workplace relations, we have a very good working relationship with DEEWR—that is, the old DEWR and then, with the change of government, DEEWR. We would have had some discussions. We would have received an exposure draft, and sighted an initial draft of the submission to have a look at. We would have had an opportunity to provide some comments, usually in the nature of the questions, if we think there are issues that need to be further explored to facilitate the cabinet deliberation. We would have gone through that process. That is what I meant by the close consultation.

Senator FISHER—Can you be any more definitive about that consultation, because in answers to questions at Senate estimates earlier this week from the Department of Education, Employment and Workplace Relations the answers given at those estimate proceedings would not necessarily seem to be consistent with your answer just given. Can you give any more detail about the consultation that occurred between Treasury and the Department of Education, Employment and Workplace Relations in respect of the preparation of this Treasury minute?

Mr Heferen—When I say in respect of the minute, it is not as if we draft our minute and provide it to another agency to have a look at. I was talking more in terms of the minute being in relation to a matter for consideration by the government. It is that process that we would be consulting around. It is not as if we draft a minute and then we provide that minute for someone else for consultation, but consultation would be on the subject of what the minute is about. I apologise if I gave the impression that we would provide someone else with our minute to comment on, because it is rather the reverse.

CHAIR—Senator Fisher, do you have long on this? We were interrupting our line of questioning from Senator Bushby.

Senator BUSHBY—I do not mind if Senator Fisher continues.

Senator FISHER—Given Senator Bushby's preparedness I would prefer to finish my questioning if I may, Chair.

Senator BUSHBY—I am happy to concede to her finishing her line of questioning.

CHAIR—We have other senators as well. Have you finished, Senator Bushby?

Senator BUSHBY—No, I have not finished, but if we have time I will come back with some more.

Senator GEORGE CAMPBELL—I would like to follow up on this point.

CHAIR—Yes.

Senator GEORGE CAMPBELL—Just for clarification, Mr Heferen: I understand from what you just said that this is a minute prepared for the Treasurer on material that will go before the cabinet.

Mr Heferen—That is correct.

Senator GEORGE CAMPBELL—Is it possible that the Treasurer may not even use this material in a cabinet discussion?

Mr Heferen—Of course. This is material that the department provides to the Treasurer.

Senator GEORGE CAMPBELL—Is it possible it could have been the subject of discussion before the cabinet? Is it also possible that it may not have been the subject of discussion before the cabinet? The issue would have been—

Senator Sherry—It is—

Senator GEORGE CAMPBELL—I understand that. So the specific material contained in your minute may not have seen the light of day in a cabinet discussion?

Mr Heferen—That is completely true. This minute would be about providing material that we think we ought to provide to the Treasurer to enable the Treasurer to facilitate the cabinet discussion. We would canvass a range of issues here that may or may not come up. Obviously, not being in cabinet, we have no way of knowing whether something did or did not come up. Your point is correct.

Senator FISHER—Mr Heferen, you have indicated to the extent that there are section 34(1) exemptions?

Mr Heferen—Yes, section 34(1)(d).

Senator FISHER—Is that exemption claimed on the basis essentially of cabinet privilege?

Mr Heferen—That is correct.

Senator FISHER—So is one entitled to presume that the matters the subject of that part of the exemption were certainly intended to be considered by cabinet?

Mr Heferen—Yes.

Senator FISHER—One would be entitled to presume that they were in fact considered by cabinet?

Mr Heferen—You can see from the minute and some other documents here. For argument's sake, at the top of page 5 there is some text that says 'Treasury coordination comment'. As is usual practice, the department would provide a coordination comment on the matters going to cabinet. You will see that there is a dash and then it says 'Section 34(1)(d)'. What would have happened is that has provided some information about what was actually in the coordination comment, and so that is a document that has gone to cabinet. Then there is obviously some text underneath it, which is exempted under another ground.

Senator FISHER—You said 'department' in the answer you just gave. Are you referring to the Department of Employment, Education and Workplace Relations?

Mr Heferen—No, the Treasury.

Senator FISHER—I will take you back again to your comments about consultation with the Department of Employment, Education and Workplace Relations. If there were matters to be considered by cabinet, would Treasury have consulted with the Department of Employment, Education and Workplace Relations as part of the coordination comment process?

Mr Heferen—Yes. In the normal course of events that is what would occur.

Senator FISHER—On the matters the subject of this minute?

Mr Heferen—Yes.

Senator FISHER—I have to hand the *Hansard* of the Senate committee estimates questioning to the Department of Employment, Education and Workplace Relations on Monday, 2 June, where I took the department to the minute provided by Treasury. In response to my questioning, the Department of Employment, Education and Workplace Relations indicated that they were not aware of the advice and indicated that Treasury does not consult with the Department of Employment, Education and Workplace Relations on many matters.

They indicated that Treasury's advice is fundamentally a matter for Treasury. I am still waiting to hear from you the extent to which Treasury consulted with the Department of Employment, Education and Workplace Relations in respect of matters addressed by this minute.

Mr Heferen—I may have inadvertently created a misunderstanding that when we prepare advice or minutes that we provide to our ministers, like any other department providing advice to their minister, it is unusual for the actual document to be passed over and be the subject of consultation. But on the subject matter of which the minute is about, as in the transitional arrangements for workplace relations, in respect of the topic 'Transitional arrangements for workplace relations', we would have discussions about those arrangements and how they are being proposed to be put in place by the relevant minister.

When officers from DEEWR say, perhaps a little unkindly, that we do not consult, if there were an issue of substance we would. But when they say there was no consultation on the minute, what they would be referring to is that with respect to the briefing we provide to our ministers we would not in a normal course of events provide that to officers in DEEWR to look at to see what we are saying. I am not saying that never happens. There may be some cases where it might be useful to do that. But in the ordinary course of events my division would not do that. That is not to say the issue on which we were briefing on would not have been the subject of some discussion.

Senator FISHER—What would the minute be referring to when it refers to 'Transitional arrangements for workplace relations'?

Mr Heferen—The government has already introduced and it may have passed its first tranche of—

Senator FISHER—Transition to Forward With Fairness?

Mr Heferen—Yes.

Senator FISHER—Would the subject matter of the minute been in part what is now the government's March amendments to the federal Workplace Relations Act?

Mr Heferen—I am not sure which month, but the request from the ABC was on any documents on the impact of Labor's new industrial relations legislation and policy paper 'Forward With Fairness' on inflation and wages growth and any modelling done by Treasury on the new federal industrial relations system proposed by the Labor government, Forward With Fairness. So they asked for documents for that. In the normal course of events when an FOI request comes in, we have a practice through the department that it comes in through our FOI area and then it is sent off to the relevant general manager in charge of a particular policy area. As in normal practice that message would be distributed to a range of divisions that might have some impact in saying, 'Are there any documents that are relevant? Can we please have them? We have a 30-day time line', and then that material is collated by one of the units in my division. We would then go through the process of saying, 'What is relevant here? What is relevant to the request and what is outside the request?' We always like to err on the side of being very careful and making sure that we do not leave anything out, because there is an obligation to make sure that everything is considered. We then go through the process of what

is relevant. In respect of a particular document, there may be elements that are not relevant, in which case they will be exempted under section 22.

We start from the premise that, if something is relevant to the request, the spirit of the FOI Act is that it should be released. We start from that premise that it should be released and then we go through whether there are exemptions that the decision maker needs to turn his or her mind to, to say, 'In respect of that exemption that means that I cannot release that particular document or that part of the document.' We go through this and say, 'There are some exemptions that apply'—in this case either section 34(1)(d) or section 36. So we then go through the process of saying, 'Here is material that is either for cabinet' or, in respect of section 36, 'is a document produced by the department where it is believed it would in contrary to the public interest'. It is a complex matter trying to play out that public interest test, but there are guidelines put out by the government solicitors. The decision maker needs to have regard to a range of things. The decision maker would go through those and say, 'Should this thing be released under FOI or not?' That is broadly the approach we take and end up in a situation where we go through and we say it is obvious that it should not be released because the FOI clearly contemplates that it should not.

Senator FISHER—Thank you. The topic of the minute being 'Transitional arrangements for workplace relations', clearly would have been in contemplation, as you have indicated, of the government's first round of workplace relations reforms, now known essentially as the transitional amendments to the Workplace Relations Act, but would have also been in the context of the government's future plans for reform, which is of the labour market relating to further legislation to be introduced later this year. Do you agree?

Mr Heferen—In respect of this one, my recollection is that this was just on the first tranche of reforms.

Senator FISHER—Transitional arrangements are in a context. This may be step one and clearly there was and is contemplation of step two—but I take your answer in that respect. I would like to clarify my understanding of what you have indicated. You have indicated that the document the subject of the FOI request, or one of the documents, indeed the main document, the Treasury minute, was provided to the Treasurer. Was the bulk of the document that was blanked out, blanked out on the basis that the bulk of the information in this document was to be the subject of cabinet consideration?

Mr Heferen—As you go through the document, the section 36 outweighs the section 34. These are sometimes quite fine points of distinction, but my understanding is that section 34—and I have had the good fortune of being an FOI decision maker—is about documents that actually go to the cabinet. In that respect, if there is a title, that it is actually the title that is going to cabinet or what is more usually the case here, our coordination comment.

Senator FISHER—Yes.

Mr Heferen—The Treasury coordination comment, like all other departments' coordination comments, would be attached to the submission that the relevant minister will bring forward. So that is clearly a document that is prepared and brought into existence for the purpose of going to cabinet. That would always be exempt under 34(1).

Senator FISHER—There is significant reference to that section throughout the document in terms of the deletions.

Mr Heferen—Yes.

Senator FISHER—We have a minute that was sent to the Treasurer. One reading this is entitled to presume that significant parts of this minute related to matters subsequently considered by cabinet. You have indicated that the topic of the minute was, at the very least, the government's transitional workplace relations reforms.

Mr Heferen—I am sorry. It says 'Transitional arrangements for workplace arrangements'.

Senator FISHER—Exactly. It clearly does.

Mr Heferen—Indicating or suggesting, it is right there.

Senator FISHER—You have also confirmed that this document was provided in response to a freedom of information request about economic advice provided to the government in respect of inflation and wages impact of the government's workplace relations reforms—in fact, in response to questions about any modelling done by Treasury on the new federal workplace relations system proposed by the Labor government and called Forward With Fairness and, secondly, any documents on the impact on inflation and wages growth of Labor's new industrial relations legislation and Forward With Fairness. Is all that correct?

Mr Heferen—Yes. It is just the last bit regarding the FOI request. It is the general practice that when we have an FOI request we try not to be deliberately obtuse and take a very prescriptive meaning of the request. It may be that with an extremely literal interpretation of the request we have very little to offer. So what we often do is either have a discussion with the applicant or think about how to read the request in such a way that it gives it some meaning. And we make sure that when we are doing our FOI search through the department in the event—as you are probably aware, if an applicant asks for material and a decision maker makes a decision, it is in the FOI Act that the applicant can come back and request an internal review. The applicant might decide that we are not giving access to some documents and they want to test that, so that would typically be done by a more senior person in the department. If the applicant is still not satisfied there are rights to take certain decisions on review to the Administrative Appeals Tribunal, and then of course if they think there is an error of law it can continue and so forth.

We always want to guard against the accusation that you are reading something down too much. So we do not want to read things down. In this context what we have thought is that if we have put advice to the Treasurer or to discussions with other departments, which I think some of the material here was about, our discussions with DEEWR and there was a reasonable—

Senator FISHER—To the extent that there were consultations with DEEWR, there would presumably have also been consultations with Prime Minister and Cabinet?

Mr Heferen—There would have been, although we were only asked for documents. There would have been a range of meetings and discussions, but the only documents here that relates to another department, as was discussed at the other committee hearing, were some emails between DEEWR and Treasury, and there were no documents between us and PM&C.

That may well have been from conversations. We always want to guard against the argument that, if it went to a further stage, we were being too prescriptive in the way we looked at a request. So what the applicant is clearly after here is information about Forward With Fairness and, to the extent we have that material, that needs to go into the net and it needs to be judged as to whether or not it can be released.

Senator FISHER—Nonetheless, it is a Treasury minute and one would be reasonably safe to assume that a Treasury minute would address matters with economic impact including employment, wages and inflation.

Mr Heferen—As both Dr Henry and Mr Ray have said, as to the idea of being able to have something as finely granulated to say, ‘Here are some specific policy changes’, and what impact that would have on the macroeconomy, I am not sure how one would go about that. Our macro colleagues, who will follow after, may be in a better position to talk through that sort of modelling process, but my understanding falls very much in line with Dr Henry’s—that is, that they would say, ‘Here are the institutional arrangements and what does that then mean?’

Senator FISHER—Thank you.

Senator COONAN—I would like to ask a question. With FOI advice, it is normally the practice that it is referred to the relevant minister. So your FOI decision would have been referred to the Treasurer for concurrence, would it not?

Mr Heferen—Normal practice that I have undertaken with successive governments is on the basis that when material goes out in the public domain I find it is often the relevant minister who is getting the calls and the questions, so I make sure in the material that I am doing that I keep the Treasurer’s office informed of the material that I intend to release. Of course, again with successive governments, it is not to say, ‘I am going to release this. Is this okay?’; it is to say, ‘I have got this request. I have gone through the process. This is the material that is going to go out in the public domain’, and so they are aware of what is going to occur.

Senator COONAN—Is the view sought of the relevant minister before you send things out? Is it for their view or is it just a matter for information only?

Mr Heferen—Information only. I think the FOI Act is quite explicit. The FOI Act refers to the decision maker and in this case the decision maker is the departmental secretary, who delegates that to other officers. It is generally quite specific that if you are delegated a power to do something, then it has to be your decision and of course you cannot be directed to release or not release something.

Senator COONAN—It is just my recollection from personal experience that there can be some consultation on the approach that is going to be taken by the decision maker. It is not at the end of the line, so to speak, that you just get informed.

Mr Heferen—Of course. I recall ones in the past where I have had to deal with people on a minister’s staff who might say, ‘What does this mean?’ So you take them through it and they understand the reasons why the material is not going to be exempt, because if it was exempted it typically would get to see—

Senator COONAN—Was the Treasurer informed on this occasion?

Mr Heferen—I am not aware of that.

Senator COONAN—I just have a couple of questions before Senator Bushby resumes. I may have misheard the earlier evidence, but is it correct to say that Treasury made no forecasts or undertook no modelling of the impact of changes to workplace relations policy changes, or that you made forecasts without first modelling the impact of changes?

Mr Ray—You probably should be talking to our macro colleagues who are responsible for these forecasts. These forecasts are for 2008-09 and I think it is right that the government has announced a package of policy changes in this area that will not take full effect until some time after that, but the forecasts will take account of all of the relevant institutional arrangements that apply during the forecast period and the effect of previous things that are working their way through the economy, but we do not break those forecasts down and say that a particular thing is going to have a particular impact. The forecasts are done at an aggregate level, but they take account of all of these things, including in this case the relevant policies.

Senator COONAN—I did understand your colleague, Mr Tune, at estimates in February saying that no modelling had been done, so he would not have been referring to the specific breakdown. Is that right? Would he be referring in the aggregate?

Mr Ray—I would have to take that on notice and check what particular question he was answering.

Senator COONAN—All right. I have a couple more questions, but I will defer to someone else.

CHAIR—Senator Joyce.

Senator JOYCE—I had a question for Dr Henry and it is obscure, but it will come together in the end. Do you believe that monetary policy is still a good mechanism for controlling inflation?

Dr Henry—I consider that monetary policy is an appropriate mechanism for controlling inflation over time.

Senator JOYCE—Do you see any deficiencies in using monetary policy as a mechanism of controlling inflation?

Dr Henry—I may be anticipating where you are going, but I am not trying to do that. The particular monetary policy framework that we have in Australia, which is of course directed at controlling inflation, that monetary policy framework has served the country very well for a long time now.

Senator JOYCE—Do you think that monetary policy is particular in how it controls inflation in that it has different effects for different people?

Dr Henry—That is certainly the case, because it is one instrument, the official cash rate of interest, and of course that has effects on prices of other financial instruments throughout the economy and it obviously has effects on other prices in the economy. It will have a differential impact on people in the economy, depending upon how exposed they are to

interest rates and what their exposures are to those other financial and other prices in the economy.

Senator JOYCE—Do you have a strong involvement in modelling that comes forward in budget figures? Do you have final oversight over that? Are you intrinsic in what comes out of the budgetary process?

Dr Henry—In the economic forecasts?

Senator JOYCE—Yes.

Dr Henry—No. Let me put it this way. Some may disagree, but I do not see myself as one of the principal analysts in the department. That is not my role. I do not aspire to that role. Obviously I take executive responsibility for the product that comes out of the department, including taking executive responsibility for the forecasts that are contained in the document. Bear in mind that these are not departmental forecasts. Of course they are the government's forecast, but they nevertheless have been prepared by the department and I very happily take executive responsibility for the forecasts, even though with respect to these numbers, I am not the person who has sat down in front of the computer and generated the numbers.

Senator JOYCE—You would peruse over them and have a good understanding of the general dynamics of the nation, especially in forward forecasts. wouldn't you?

Senator Sherry—Before Senator Joyce goes on, we seem to have wandered into macro.

CHAIR—Yes, very much so.

Senator COONAN—I have a lot of question on that later.

Senator JOYCE—Fair enough.

Senator Sherry—It is up to the committee, but there are officers waiting. Whether it is convenient or not for committee members, I do not know, but it would be nice to have an order followed so that the officers could plan ahead.

Senator JOYCE—That is fair enough. I will continue my questioning later.

CHAIR—Senator Boswell, do you have questions?

Senator BOSWELL—Yes.

CHAIR—We are still in Fiscal, we are coming to Markets and then we will do Macro.

Senator BOSWELL—I have a couple of questions for Dr Henry. Does your role of Treasury Secretary include making public statements about your opinions of government or opposition policy?

Dr Henry—Not often.

Senator BOSWELL—Are you aware of several newspaper articles recently entitled 'Henry slams Libs for truck tax block', 'Treasury chief slams coalition', 'Treasury head hits Howard's failures', and 'Henry lets fly at past water policy', to name a few?

Dr Henry—I am not aware of all of those. I do not read everything that has been written. I have seen some of those headlines.

Senator BOSWELL—Is this opinionated criticism in your job description, or is it your job to give private, impartial advice to the government of the day?

Dr Henry—I did not write those headlines.

Senator BOSWELL—You obviously made the comment. Do you stand by the comments that led to the headlines?

Dr Henry—I certainly stand by whatever comments may have led to the headlines, but I do not take responsibility for the headlines.

Senator BOSWELL—There was a predecessor of yours, John Stone, who had the courage to come into this parliament, because he wanted the freedom to exercise his views. He sat with the National Party and I found him an absolutely terrific guy, but I had to admire his courage, because he wanted to get in the game and he was prepared to stand out of Treasury and get in the game and come over this side of the table. Would you like to earn \$127,000 and come and sit here?

Senator Sherry—I do not think that is called for. Is that a question?

Senator BOSWELL—Yes, it is a question.

Senator Sherry—No, it is not.

Senator BOSWELL—It is a question, but I will withdraw the question if you do not find it acceptable. Dr Henry, we can just look at one specific accusation as reported by Tim Colebatch in the *Age* on 21 May this year when he wrote:

Dr Henry also slammed the Coalition for using its Senate numbers to block the National Transport Commission's findings that heavy trucks should pay higher road user charges to pay for the damage they do to the roads.

That is an article and it is an opinion. When you issue opinions from your highly exalted Treasury Secretary position it is putting undue weight on it. I do not believe that is in your role. I do not believe it is the role of any public servant to criticise either the government—

CHAIR—Can you get to the question?

Senator BOSWELL—Can you give us a guarantee that you will not go down this path again of criticising the opposition, or the government for that matter? Do you think it is part of your job description to criticise the opposition?

Dr Henry—I do consider that with my job there is an opportunity to inform people who are interested in these matters about economic matters of public significance. I do not go out of my way to make comments that are overly critical of governments or oppositions, but I have certainly from time to time commented on factors that will in my view have an impact on Australia's economic performance going forward. And on occasion those comments have been seen by people to have been either impliedly or directly critical of policy positions of governments or of oppositions. As I say, I do not set out to be characterised as being critical of government or opposition positions, but I cannot give a guarantee that I will never at some future time make a comment about circumstances affecting the future economic performance of the Australian economy. I think that is a part of my role. It is a part of my role that, I might say, I take very seriously. I try to play that role responsibly and I will continue to do so.

Senator BOSWELL—That is your prerogative to do that, but I do think you are endangering the Public Service in not being bipartisan. But if that is the course you want to set—

CHAIR—Have you any further questions?

Senator BOSWELL—Yes, I have. Were you again—

Senator Sherry—This again is macro. I thought we were finishing fiscal group—

Senator BOSWELL—This is my group.

Senator Sherry—Are we going to continue on with macro?

Senator BOSWELL—My further questions are micro.

Senator Sherry—Senator Boswell can raise whatever issues he likes—

Senator ABETZ—These are direct questions to the secretary so it does not really matter when, unless he needs particular officials at the table to assist—

CHAIR—I guess it is a matter of the officials and also which minister has representative authority and which aspect of the Treasury portfolio it relates to, so we do need to vaguely stick to the outlined timetable because some of it is Senator Conroy and some of it is Senator Sherry.

Senator BOSWELL—These questions I have are directly to Dr Henry. Were you aware that the higher road user charges mentioned do not necessarily go to fixing road or transport infrastructure? In fact, there is no compulsion on the parties to spend the revenue thus raised on roads at all?

Dr Henry—Yes, I am aware of that.

Senator BOSWELL—Are you also aware that 75 per cent of Australia's domestic freight is moved by trucks on our roads? Doesn't an increase in charge on freight cost increase the final price paid by the consumer and doesn't that have an inflationary effect?

Dr Henry—In normal circumstances an increase in that charge would flow through to some extent into consumer prices. One would expect so. The particular increase that the Senate disallowed on this occasion was, as you know, a rather small increase. What impact would it have had on the CPI? I have not done that calculation but it would have been trivial in magnitude. Trivial is probably the wrong word. I withdraw that. I should say 'insignificant'.

Senator BOSWELL—I think it was \$15 a week, wasn't it?

Dr Henry—Sorry, I have forgotten the second part of the question.

Senator BOSWELL—Were you aware that it has an inflationary effect?

Dr Henry—I do not think that is an inflationary impact. Maybe now is the time to have this conversation, maybe it is not. But one should be careful to distinguish between price increases that are one-off in nature and price increases that are inflationary in nature. For macroeconomic purposes there is a rather significant distinction to be made. So, for example, were one to adjust an excise rate either up or down, that would have a one-off impact on prices without necessarily having any impact on inflation.

Senator BOSWELL—Were you aware that the higher road use charges encourage less environmentally friendly outcomes by diverting truck operators away from efficient B-double rigs to semitrailers, thereby encouraging more greenhouse gas emitting vehicles on our roads?

Dr Henry—No, I was not aware of that.

Senator BOSWELL—Were you aware that the productivity would actually drop as a result of this market distortion? For example, the registration charges for a B-double will increase from \$8,000 to \$14,340, including the multicomination prime-mover charge at \$7,050. B-triple charges will skyrocket to \$20,300, including the multicomination prime-mover at \$7,050. Were you aware of those figures?

Dr Henry—Sorry, where is the market distortion?

Senator BOSWELL—Because you are forcing people to use inefficient semitrailers as against B-doubles or B-triples.

Senator Sherry—I am sure this is not fiscal group and I do not think we are macroeconomic group; we are in transport, trucking policy—

Senator ABETZ—There has always been a tradition of flexibility—

Senator Sherry—I do appreciate that and I understand that but there are other witnesses waiting.

Senator ABETZ—This is a committee for senators, not for officials. At the end of the day, whilst we try to fit them in and make it as convenient as possible for them I think the imperative of Senate estimates is not the convenience of officials but the capacity of senators to inquire—

Senator Sherry—Perhaps we should invite Senator Watson to come up and start asking questions about markets and—

CHAIR—Minister, we are endeavouring—

Senator Sherry—If that is the way you want it to happen.

CHAIR—We are endeavouring to try to keep to a rough schedule—

Senator Sherry—It is pretty rough.

CHAIR—because we need officers at the table and because that is the program that the committee agreed on.

Senator BOSWELL—I will just finish with this one, then, if you will allow me to. Are you in favour of using fuel excise indexation as a policy instrument, because that is what we voted against. This policy that you condemned us—

CHAIR—I think that was a policy question, so—

Senator BOSWELL—I am sorry. The legislation you attacked us for used excise indexation as a policy instrument. Are you in favour of excise indexation as a policy instrument?

Dr Henry—That is a policy question.

Senator Sherry—We will take it on notice.

Senator BOSWELL—You criticised the—

CHAIR—Senator Sherry has said he will take it on notice.

Senator ABETZ—Can I make this point to Dr Henry—

CHAIR—No, I do not think so.

Senator ABETZ—Can I ask this question of Dr Henry, then? Can you see the difficulty that you get yourself into when you make a speech about policy critical of in this case the coalition's policy? We then ask you about that policy and you say, 'Sorry, I cannot answer at Senate estimates because that is a policy issue.' But you give yourself free rein to talk about policy issues at the public forum—

CHAIR—I will say to Dr Henry that he should not answer that question because the issue of whether policy questions are asked at estimates is a matter for this committee and I read in the opening statement that policy questions were not to be answered.

Senator BOSWELL—But this is not a policy question.

CHAIR—The minister has said he will take it on notice.

Senator BOSWELL—I did not ask the minister. I asked Dr Henry.

Senator Sherry—And I am taking it on notice, as is my right.

CHAIR—It has been taken on notice. As that is your last question, Senator Boswell, I will turn to Senator Bushby.

Senator BUSHBY—Dr Henry does not need this protection. He can stand up for himself. He is a senior public servant.

Senator ABETZ—Chair, have you ruled my question out of order.

CHAIR—I do not know that it was a question but I was saying to you that it is not for Dr Henry to answer what questions the officers have said, because the committee has made that decision and I read that out in an opening statement in the beginning.

Senator ABETZ—But what we are asking Dr Henry to do is to comment further on policy pronouncements and policy judgements made by him in a public speech which have been reported. He feels free to do that. We then ask Dr Henry about the soundness of those policy enunciations—

CHAIR—What is your question.

Senator ABETZ—But we are then told, 'Sorry, that is a policy question and Dr Henry cannot answer it.' Therefore if your ruling is maintained we have a situation that Dr Henry or indeed any public servant—

CHAIR—You said you were asking a question of Dr Henry and I have not heard the question yet.

Senator ABETZ—I asked whether or not you had ruled my question out and I thought you said yes.

CHAIR—I asked if you had asked a question and so far I have not heard the question.

Senator ABETZ—If I am allowed to ask the question, I repeat the question again: can Dr Henry understand the position he gets himself and indeed the department into when he makes public commentary on policy issues and then comes along to Senate estimates and when challenged about those statements he says, ‘Sorry, that is a policy issue, I cannot comment on it.’ Can you understand the difficulty?

CHAIR—I think Dr Henry has already answered that question from Senator Boswell, but if he chooses to answer it, he may.

Senator ABETZ—He has not answered it.

Senator BOSWELL—He is just about to.

CHAIR—He has not been given a chance.

Senator ABETZ—If he has not been given a chance he has not answered it. You cannot have it both ways.

CHAIR—He has not been given the chance because you spoke before he was able to.

Dr Henry—All I was going to say is that I was going to agree very much with your ruling and for this reason: the Senate has taken the view in resolutions of the Senate for a very long time that it is not appropriate for public servants in Senate estimates to offer opinion on matters of policy. That is very clear and I am going to abide by that resolution of the Senate unless and until it changes.

Senator ABETZ—Can I ask Dr Henry then please—

CHAIR—No, Senator Bushby has the floor.

Senator BUSHBY—I am happy for Senator Abetz to ask that question and then come back to me after that.

Senator ABETZ—Would you like to tell us what the Australian Public Service rules and guidelines are and do you consider that they apply to yourself?

Dr Henry—They are numerous.

Senator ABETZ—Do they apply to you?

Dr Henry—Absolutely they do. Whatever they are they apply to me.

Senator ABETZ—Do you think that those rules allow public servants to publicly offer commentary on the political and policy decisions of the various political parties in Australia?

Dr Henry—I would refer to my earlier answer. They do not prevent public servants from offering commentary publicly about matters that affect the policy environment within which the Public Service operates. It is certainly not appropriate for public servants, myself included, to behave in a partisan manner but, of course, one cannot rule out the possibility that some comments made about matters of policy interest may be interpreted as being critical of one or other side of politics. Were I to take the view that I should avoid all risk of any of my public comments being seen as critical of either the government or the opposition, I would not be able to make public comments other than those that would be of interest to very few people.

Senator COONAN—In your speech for the Australian Business Economists on 20 May 2008 you said in reference to the road user charge:

But on Wednesday of last week, following the Budget, and before the Leader of the Opposition had delivered his speech in reply, Opposition Senators disallowed the regulation.

This should have been front page news. But it wasn't. In fact, I have been able to find only one reference to it in the nation's print media: a tiny side-bar piece of 52 words with an AAP by-line buried on page 26 of Friday's *Australian Financial Review*.

On reflection, do you think that that statement accords with the strictures that you have just put on yourself as to what is an appropriate way to comment on matters of public interest?

Dr Henry—Yes, I do not have any problem with those remarks.

Senator COONAN—You think it is appropriate to castigate opposition senators for decisions that they may take in the parliament as part of your role as the chief of Treasury?

Dr Henry—That particular passage of the speech was referring to the media coverage that the events received. I thought at the time that it was quite extraordinary and I continue to think that it was quite extraordinary, given the significance of the decision that was taken.

Senator COONAN—You go on to say:

The road user charge for heavy vehicles is not the most important structural policy matter likely to confront the nation's parliaments this year. But it would be one of the easiest. And it is a pre-condition for other, more important, land transport reforms.

What are they?

Dr Henry—We were discussing some of those earlier, actually, and they go to, among other things, road transport infrastructure provision and decisions that governments will have to take, Commonwealth and state, about land transport infrastructure investments. I was simply drawing the rather important nexus between such investments and pricing of access to infrastructure.

Senator COONAN—Forgive me if I am wrong about this but I do not recall you having the same publicly expressed concern in any speech of yours that I have read—I may be wrong about it—on matters such as the sale of Telstra, reform of the waterfront, the 2005 tax cuts or even Fuelwatch, among other reforms.

Dr Henry—I cannot recall whether I have said anything in a speech either directly or indirectly referring to those matters. I am pretty sure I have not said anything in a speech concerning Fuelwatch but the others, I cannot be sure sitting here today whether I have or have not.

Senator ABETZ—Can you see the nuance in making the comment 'opposition senators disallowed the regulation', that that is very much a partisan type comment as opposed to simply observing the Senate disallowed, or the parliament disallowed the regulation? When Senator Sherry and I are in the public forum we, of course, say 'the government has done this' from my side, he says, 'the opposition has done these things' from his side. Somebody who comes into the place in a completely non-partisan way would be talking about the parliament, or the Senate, not passing or not doing something, but this clearly has a partisan flavour about it in anybody's language.

Senator Sherry—It would seem to me that Dr Henry was stating a fact: the opposition did disallow it.

Senator JOYCE—But—

Senator Sherry—Hang on. Let me finish. The opposition did oppose the measure. If you were looking for a political comment, my political comment would be pointing out the hypocrisy of the way you voted because you had actually designed the measure when you were in government. I think that would be a political comment.

Senator ABETZ—Can I say I agree with you—

Senator Sherry—Dr Henry was stating a matter of fact on the public record.

Senator ABETZ—I agree with you. You are a partisan political player, as am I. You and I pretend to be nothing else. Dr Henry pretends to be something else—

CHAIR—Senator Abetz—

Senator ABETZ—Sorry, I was saying that in reference to Senator Sherry and I not pretending to be anything else and I withdraw that. Dr Henry is supposed to be bipartisan, bound by APS rules and obligations, et cetera, and the sort of reaction that we have got out of Senator Sherry on this is highly politically charged, et cetera—and I am not complaining about that because that is what Senator Sherry and I are engaged in—but with great respect, Dr Henry, you should not be and you should be separated from it. Can you recall how the independents voted on the road user charge? Did you bother to research that? Did you bother to find out what their view was? Did you bother to put that into your speech or was it just designed to have a quick passing whack at the opposition without taking into account how the independents voted in the Senate?

CHAIR—I think if you want officers of the department to answer factually then it would be useful if you did not use such charged language in your questions.

Senator JOYCE—It is a very important point. We believe the independence of the Senate—

CHAIR—Dr Henry, would you like to answer that? I would be happier—

Senator Sherry—I think Dr Henry has well answered the questions. The points have been made from the point of view of the opposition.

Senator WEBBER—I have a question for the minister. It was essentially the reintroduction of legislation from the previous government, wasn't it?

Senator Sherry—Yes. It was monumental hypocrisy from the current opposition to vote against a measure they, in fact, designed. That is my political observation. But I do not think I should be making any observation about this because I do not actually think it fits into fiscal, well-functioning markets or even a sound macroeconomic environment.

Senator ABETZ—Can I then ask Dr Henry whether he believes or understands that increasing excises and other indirect taxes would result in a one-off increase in the CPI?

Dr Henry—I have already answered that question.

Senator ABETZ—Can you remind us of the answer?

Dr Henry—It was only a few moments ago.

Senator ABETZ—Yes, can you remind us of it, please?

Dr Henry—I indicated that increases in excises could have a one-off impact on consumer prices.

Senator ABETZ—Could have or necessarily do have?

Dr Henry—Could have.

Senator ABETZ—We can have the potential of increasing excise taxes thus increasing prices of a particular good or commodity without impacting inflation?

Dr Henry—Yes, but that is not actually the question you asked.

Senator ABETZ—That is the question I am asking now. I am sorry I was not clear enough.

Dr Henry—You have asked several questions. Okay, let us unpack it a bit. Your first question, as I recall, was would an increase in an excise rate or an indirect tax have a CPI impact, or words to that effect.

Senator ABETZ—Yes, a one-off increase.

Dr Henry—And I said it could have. You then said, ‘Could have; surely if an excise rate increases and increases price that must have’, or words to that effect. Not every excise rate increase will result in an increase in price.

Senator ABETZ—Can you give us an example?

Dr Henry—Anything that has a perfectly inelastic supply.

Senator ABETZ—Such as?

Dr Henry—What about the condensate measure in the budget?

Senator ABETZ—We have not been able to experience that at this stage but in relation to, let us say, luxury car tax, alcopops and—

Mr Ray—I might help you because I think condensate is a very good example. Earlier—

Senator ABETZ—But we do not know the impact yet, do we?

Mr Ray—We do.

CHAIR—Could you allow Mr Ray to finish? He has only just started to answer you.

Senator Sherry—Could you allow him to please answer the question he has been asked. He has been bombarded with two or three more questions before he completes his answer.

Mr Ray—We have been around this particular park several times in the last two days and the reason I say condensate is a good example is that it is the opposite of the examples where we were talking earlier about the incidence of a tax being shifted fully forwards onto consumers. In the case of condensate, because of the way energy prices are set in global markets, we expect that the incidence of that tax will be shifted fully back onto the owners of the capital. In that case, there will be no effect on the price.

Senator ABETZ—That is a forward projection. We will have to see whether that prediction is correct or not, but can we go back to the excises that we have been talking about and experienced in more recent times—

Mr Ray—With respect, I think it is quite difficult to see that the condensate measure will affect the global prices for energy.

Senator ABETZ—I might agree with you that it might be difficult but let us wait and see. We are projecting into the future. What I am asking you to do is give us a real, live example that is already in the economy where you would say that has not occurred.

Mr Ray—That example is alive and in the economy. I think it took effect from budget night.

Senator ABETZ—Do you have any modelling or assessment as to what the impact of this measure has been from 13 March to 4 June? No.

Dr Henry—I am pretty sure it has had no impact on price.

Senator ABETZ—Yes, thus far.

Mr Ray—We would not bother spending taxpayers' money on a model to demonstrate it.

Senator BOSWELL—Is it not the fact that you were critical of the opposition's decision to defend its constituents because National Party constituents pay much more with any increase in excise or road user charge? Are you in favour of fuel excise indexation being used as a policy instrument?

Dr Henry—I am sorry, I cannot answer that question of policy.

Senator BOSWELL—You did answer it. You—

Dr Henry—I am sorry, in this—

CHAIR—Senator Boswell, we have been through that and that was the decision.

Senator JOYCE—You talked about the successful passage of the road user charge being a precondition. How is the successful passage of the road user charge through parliament a precondition for other reforms? Why is it a precondition for other reforms; that is the question I am getting at?

Dr Henry—I have answered that question.

Senator JOYCE—Why is it a precondition?

CHAIR—Given the fact that many senators have indicated that they have questions on specific Treasury issues—

Senator JOYCE—With due respect, I do not think you have answered it.

Senator BUSHBY—I go back to the question I asked with a very long list of potential measures that may be impacted upon by the government's workplace relations policy. We did not finish getting through those—

Senator Sherry—No, I notice we did not. We seem to have got sidetracked for the last hour—

Senator ABETZ—We have been exploring other issues.

Senator BUSHBY—Can you confirm whether economic modelling has been done by Treasury to assess the impact of the government’s workplace relations policies on inflation and interest rates?

Mr Ray—I do not think we can add anything to the answers we have already given.

Senator BUSHBY—The other answers were specific to other measures. In terms of inflation and interest rates, I want to know whether any modelling was undertaken on this issue.

Mr Ray—Other than the compilation of our macroeconomic forecasts, I do not think so, no, but I am happy to take it on notice to double-check.

Senator BUSHBY—It is interesting that you are not sure. I would have thought that, if you had done that, you would know whether you had.

Mr Ray—I have not been in the job very long. That is why I was here yesterday.

Senator BUSHBY—In respect of the economic modelling that you have done on the impact of these policies, when was it prepared and by which agency, or did you use external consultants?

Mr Ray—In terms of our forecasts?

Senator BUSHBY—You have answered that you have completed economic analysis or modelling in respect of unemployment and employment at least, and you are not sure about other areas that we mentioned. In respect to those ones that you are sure of, when was it undertaken and by whom?

Mr Ray—I think we might be talking slightly at cross-purposes and I apologise for that. What I said earlier was that when we construct economic forecasts we take into account everything that is going on in the economy. That is possibly not where you are heading here. You might be asking a slightly different set of questions, and therefore I apologise, as to whether or not we have modelled and singled out the impact of a particular policy on various macroeconomic variables. I think the answer to that is that that is not the way we do it, but I am happy to take it on notice and check for all the variables you have listed.

Senator BUSHBY—I thought my question was fairly clear. The government has fairly well outlined workplace relations policies which were to implement a number of changes in the regulation of workplace laws, and I asked whether you had conducted any economic analysis or modelling which you then provided to the government. We went through one after the other. In respect of the first ones you said that you had.

Mr Ray—Whether we provided economic analysis is I think a broader question than modelling—

Senator BUSHBY—So you have provided analysis?

Mr Ray—As Senator Coonan reminded me earlier—and which I now recall—some specific questions on modelling of various elements of these policies were asked at the last estimates, and I think that the evidence provided was that we had not done that specific modelling going from a policy to a macro variable. That is slightly different from the more generic answers we gave earlier about how we construct our forecasts where we are by

definition doing economic modelling and all that sort of thing. That is one set of things. Economic analysis can be done with and without modelling, so it is a broader question. We will take it on notice and check.

Senator BUSHBY—You are not sure whether you have done any economic modelling on any of that?

Mr Ray—I am quite sure that we have done some economic analysis, because that would have underpinned our advice.

Senator BUSHBY—You are not sure whether that included modelling?

Mr Ray—I am not sure whether it included specific modelling, no.

Senator BUSHBY—Modelling specific for the impacts of the government's workplace relations?

Mr Ray—That is right.

Senator BUSHBY—Could you take it on notice to find out whether you have provided analysis, including modelling. When you do, could you also provide us with information on when it was prepared, by which agency, or whether an external consultant was involved, and whether Treasury considers that the analysis is sufficiently rigorous, detailed and comprehensive to be definitive.

Senator FISHER—And to whom it was provided?

Senator BUSHBY—And to whom it was provided. Senator Fisher referred to the minute and asked a series of questions about the minute which was apparently leaked to Dennis Shanahan at the *Australian*—

Mr Ray—The minute was released under an FOI—

Senator BUSHBY—Sorry?

Mr Heferen—Could I clarify because there was some misunderstanding. A minute was released by the Treasury under FOI, which Senator Fisher circulated. I know there was a story in the *Australian* newspaper; I think I have a reference to it—

Senator BUSHBY—My mistake; I misunderstood. I thought that the FOI of the minute had maybe occurred after—

Mr Heferen—No, they are unrelated. There was a—

Senator BUSHBY—Can I refer then to the Treasury minute that was apparently leaked to Dennis Shanahan at the *Australian*? Excerpts that were apparently from that minute were disclosed on 7 May 2008 in articles in the *Australian* entitled 'IR sleeping dragon about to breathe fire' and 'Treasury slams Labor's IR plan'. Is it correct that, in that minute, the Treasury said that the abolition of AWAs and the return of guaranteed penalty rates will cut jobs, put upward pressure on prices, create more flow-on wage claims from sectors such as mining to less productive sectors and allow unions to bid wages above their market level?

Mr Ray—That is advice that was provided to the former government.

Senator BUSHBY—Yes, but nonetheless this is what—

Senator ABETZ—Does Treasury's view depend on who the government is? It seems to.

Mr Ray—What I am saying is that normally we are asked about advice we provide at the current—

Senator Sherry—There are about three questions going at once here.

CHAIR—Yes. For the sake of Hansard, in particular, can we keep it at one at a time?

Mr Ray—Normally we would take on notice questions about advice provided to government and this is advice provided to government, but in this case it is rather awkward because it is advice provided to the former government.

Senator BUSHBY—I am fairly new to this process, I admit, but I think my colleagues around the table who have been here for a lot longer than I have would confirm that questions are constantly asked in estimates about matters that go back a number of years. It does not necessarily have to fall within the time period of the most recent government for a question to be asked.

Senator ABETZ—Absolutely right.

Senator BUSHBY—All I am asking is—

Senator Sherry—You would expect me as a minister to be able to respond to advice given to a former government and have access to that?

Senator BUSHBY—I am asking whether that advice was given.

Senator Sherry—If that is where you want to go. It is certainly not a route I am going to go down.

Senator BUSHBY—You can try to twist it all you like, but that is not what I am asking.

Senator Sherry—I am not twisting it. You are opening up a principle that I do not think you or anyone would want to go down, if you seriously think about it.

Dr Henry—I can probably be helpful here since I have been attending Senate estimates committees for a very long period of time. Officials attend Senate estimates committees in order to assist governments in their accountability to the parliament. When you ask me or any of my colleagues a question on advice provided to government I will not answer the question unless the Treasurer—that is, today's Treasurer—has had an opportunity to review that advice. Before answering your question I would want to make sure that all the advice provided to the former government relating to the question was in turn provided to the present Treasurer so that the present Treasurer could indicate to me how he wishes me to handle that question in this committee. That would be a very big step indeed.

Senator BUSHBY—I hear what you say on that and I will not take that aspect of the issue any further, but I would ask the minister to see whether we can take that question on notice and have it answered via the Treasurer.

Mr Ray—By convention, we do not provide copies of advice we have provided to a previous government to a new government. We just do not do that, and that is that—

Dr Henry—That is what I meant. That is why I would not. That is why it is a big step.

Mr Ray—That is a rather big step.

Senator BUSHBY—I will not ask the minister to put that before you because you do not have it yourself. Could I ask Treasury: do you stand by all advice you have given on this issue in the past?

Dr Henry—I am not trying to be tricky on this. There is a difficulty in putting questions to officials in Senate estimates that go to advice provided to former governments because we are attending this committee as officials to do nothing more than assist—and it is a rather important thing so I am not trying to diminish it. To explain our role: we are here to do nothing more than assist ministers discharge their accountability to the parliament. That means that we must operate under the general guidance of ministers of today. In order for us to be able to answer questions like that, we would need to give the Treasurer of the day an opportunity to review that material. As Mr Ray has said, we have never provided a Treasurer with copies of advice tendered to a former government and I do not propose breaking that longstanding convention which I am sure has operated since Federation.

Senator BUSHBY—I am not asking you to break that convention but I am asking you whether the Treasury stands by all the advice it has given in the past.

CHAIR—I think your continuing questioning on this is actually going against that longstanding convention.

Senator BUSHBY—It is a simple yes or no. It is not actually asking to show anybody anything that they have not seen.

Dr Henry—Can I try it this way: I do not consider that we are assisting the Treasurer of the day in meeting his accountability obligations to the parliament by commenting on advice that we might have provided to a former government. I fail to see the nexus.

Senator BUSHBY—In answers to my questions about whether you had done modelling on the impact of the workplace changes policies you indicated that you may well have provided advice without first modelling the impact, but based on analysis rather than modelling. That is backed up by evidence, I think you mentioned, given by Mr Tune at estimates in February, which said that no modelling had been done at that point. Do you agree that you have a professional and ethical obligation to provide forecasts in your best professional judgement?

Mr Ray—Indeed.

Proceedings suspended from 3.45 pm to 3.59 pm

CHAIR—I call the committee to order. We are still on Treasury outcome 2. Senator Coonan?

Senator COONAN—I know we have talked about modelling versus economic analysis for the impact of workplace relations policy changes, and earlier I had put a question that was being answered by Mr Ray. In fairness, I will quote the transcript of my exchange with Mr Tune from February. The question I asked Mr Tune was:

Has the government sought advice on the inflationary impact of its proposed workplace relations reforms?

Mr Tune—Not that I am aware of.

Senator COONAN—You do not think so?

Mr Tune—No.

Senator COONAN—I would take it from that that Treasury has not done any modelling in relation to the inflationary impact of those reforms?

Mr Tune—No, we have not.

Senator COONAN—Of the economic impacts?

Mr Tune—No.

I am sorry to be tedious, but could I have clarified what was done and what was not done prior to forecasts being made about the impact of changes to workplace relations policy?

Mr Ray—I think you are going to need to talk to our macro colleagues. When they put a forecast together they take into account all relevant information, including the policy settings. They would have taken into account announced policy changes that would affect potentially things in 2008-09, when they put the 2008-09 forecast together, which they did after February. But in terms of whether we in Fiscal Group have had any specific modelling done, I think the answer remains no.

Mr Heferen—What Mr Tune was talking about in that discussion was, if you like, modelling around the specific effects.

Senator COONAN—The inflationary impacts?

Mr Heferen—But the effects of that particular set of policies abstracted from everything else. And we have not.

Senator COONAN—No, have you done it in the aggregate, as from your earlier answer?

Mr Heferen—The modelling, as Mr Ray is saying, is then at the aggregate level.

Senator COONAN—As I say, I am sorry about that, but I did not want to leave that question hanging without checking.

Mr Ray—I am sorry if my answer was confusing.

Senator COONAN—I wanted to ask Dr Henry, before we go on to markets: which would have less inflationary impact, wage bargaining at an enterprise level or wage bargaining at an individual level?

Dr Henry—It depends. Sorry for having paused for so long. It depends on macroeconomic circumstances and it also depends upon the distribution of those macroeconomic circumstances in the economy. I would not want to answer the question in general. Obviously I can see where you want to go with this question. Another way of asking the question, I guess, is whether enterprise bargaining provides a sufficient level of wage flexibility in order to secure a low unemployment rate with an acceptable level of inflationary impact, or is there a need to go beyond enterprise bargaining to achieve that sort of outcome? That is an interesting question that economics analysts will ponder for quite some time. I think there is substantial evidence—and this goes to an earlier question—to support the proposition that the labour market liberalisation that the Australian economy has thus far experienced has been quite helpful in allowing the macroeconomy to experience a low unemployment rate with pretty moderate inflation. There I am talking about the labour market liberalisation that the economy has thus far experienced. I think I would want to leave my comment there.

Senator COONAN—Finally, is there any evidence that individual employment agreements have a lesser impact on inflation than enterprise level agreements, if I can put it in those terms?

Dr Henry—I am not personally aware of empirical studies on this. I do not know whether any of my colleagues are, but I am not.

Mr Heferen—In response to previous questions on notice from this committee in past years, the same sort of question was asked and we provided answers to the committee. It will be on the *Hansard* I think for the year before last. That was a survey of some international evidence. It seemed from the survey of the evidence that there was no real distinction between the outcomes of a firm-level deregulation and at an individual level. That material has been provided to the committee in past years. The committee secretary may be able to find that to assist the committee.

Senator COONAN—Perhaps if it is not inconvenient I might ask you if you would kindly provide it again.

CHAIR—There are no further questions on outcome 2, Fiscal Group, so thank you very much for your attendance here today. I now call officers from outcome 4, Well functioning markets, Markets Group.

[4.08 pm]

CHAIR—I welcome the officers.

Senator COONAN—What would you describe as Treasury's core competencies in providing advice on well-functioning markets?

Mr Murphy—I would suggest that the Treasury would provide economic analysis of policy options for the government in particular in terms of well-functioning markets, microeconomic reform, industry structures, governance arrangements in the financial sector and in the corporate sector.

Senator COONAN—Does that also include modelling?

Mr Murphy—We would analyse economic modelling if it was put before us to support a case for a certain government policy position or a change in regulation or policy. If we thought necessary we might seek to refer matters to other areas of Treasury or get some modelling done for us.

Senator ABETZ—So you would do the analysis, not the modelling?

Mr Murphy—We would do analysis. If we could have a concrete example I think I could go through it. There is a range of policy proposals put to the government. A lot of commissions that come to the government have economic modelling or analysis included with them. It is our job to analyse that and see whether we consider it stands up to tests.

Senator ABETZ—Of that submitted to you that has modelling attached to it, from where within the Treasury department would that modelling have been done?

Mr Murphy—I am primarily talking about from outside bodies. Other agencies to support a policy position would attach economic modelling.

Senator ABETZ—So if the Treasurer were to say, ‘Treasury, please do some modelling for me,’ would it be going to your section for that modelling or to another section?

Mr Murphy—It depends on the depth of analysis that is needed and how you define ‘modelling’ and how you define ‘analysis’. We would do some—

Senator ABETZ—I was going to ask you that.

Mr Murphy—and then we would coopt the resources of the Treasury.

Senator ABETZ—Where are the modelling resources of the Treasury housed? In this area or—

Dr Henry—It is not housed in one place. There is a significant modelling capability or competency in the Treasury and it embraces a variety of forms of economic models. For example, we have macroeconomic models that are overseen or are the responsibility of people who work in the Macroeconomic Group in the department, principally our short-term macroeconomic forecasters. They contribute to the economic forecasts that I am sure we will have an opportunity to consider later in the committee’s deliberations. That is one class of economic modelling in which the Treasury has competence.

We have computable general equilibrium models that are being used inside the department at the moment. There is a team of Treasury people, with some people from outside of the department who have been seconded to that work, who are working with those computable general equilibrium models to model the economic consequences of an emissions trading scheme and other climate change policies. That is a fairly discrete group within the department at the moment.

We have a micro simulation modelling capability. It is quite an extensive micro simulation modelling capability these days that is located principally in Revenue Group that has the capacity to look at the static incidence effects of changes to the personal income tax system and to the transfer payments system and also has the capacity to explore the workforce participation effects of changes to the tax and transfer system. Those are fairly significant modelling capabilities. They involve fairly sophisticated economic models that we maintain.

If the Treasurer were to direct a question to Mr Murphy asking for some modelling to be done on a particular policy issue that was within the purview of Markets Group—and I guess he really should be answering this question—my expectation of Mr Murphy is that he would consider whether the modelling that was being requested could be done by any one of those bits of modelling capability around the department. If he was of the view that it could, then he would ask that other group in the department to undertake that modelling. If his view was that the capability was not present because the sort of modelling required would go beyond the capability of the existing modelling capacity, then he could decide to seek modelling work to be done outside of the department. I should say that that is rare in our place; it is rare for the Treasury to do that—it is not unknown, but it is rare. Or he might decide to establish an essentially one-off project internal to Markets Group to undertake the modelling work. Without knowing the precise issue that you are asking about, those are the options available.

Senator ABETZ—Do you live up to Dr Henry’s expectations?

Dr Henry—I can answer that question. He does very well.

Senator ABETZ—Dr Henry said that he expected that that which he has just outlined is what your group in fact does. It would just be handy for *Hansard* to have that confirmed.

Mr Murphy—I would accept that. That is just due process.

Senator ABETZ—You would be a very brave man to not agree with that assessment, but I just thought it would be helpful for *Hansard* if you could agree with that.

Mr Murphy—Yes, I agree. That is due process within the department. It is expected of everyone in my position.

Senator ABETZ—Thank you.

Senator COONAN—It is certainly a core competency of Treasury, I suggest, to routinely provide practical, realistic advice to government that incorporates or is based on modelling.

Dr Henry—We do not model everything. A lot of advice is made more effective by including quantification of options. Some advice does not need quantification. Some advice would not really benefit from quantification of impacts. We do not model everything. We do not attempt to quantify the economic impact of every piece of policy advice that we tender to government. We simply do not have the capacity to be able to do so.

Senator Sherry—Of the numerous requests and advices from Markets Group that I receive with my responsibilities, I do not think I can recall one occasion where it has involved modelling.

Senator COONAN—Does that include superannuation payments? I suppose you haven't got there yet.

Senator Sherry—Superannuation has some relevance to Markets, but it is mainly in the other area, retirement incomes.

Senator COONAN—Treasury was responsible for preparation of the cabinet submission on Fuelwatch that we now know was not supported in the submission by other core departments; is that correct?

Dr Henry—Yes, it was our responsibility to prepare the submission since it was a submission of our minister.

Senator COONAN—To inform the work on preparation of the cabinet submission, what work did Treasury undertake on the impacts of Fuelwatch and options?

Mr Murphy—We provided a rigorous analysis of the ACCC's report over a number of months to the government.

Senator COONAN—This is the December report?

Mr Murphy—Yes. In effect, not only reviewing the policy and the proposals contained in them but also working with the ACCC on working through and verifying to our satisfaction the modelling approach the ACCC had taken in appendix X in the report. As you would know, the ACCC report was not definitive as to what it was recommending, so it left a fair bit of work to analyse the options put forward. That work continued over a three- to four-month period. There was extensive analysis done of the ACCC report.

Senator COONAN—We might get back to that a little later. How many officers within Treasury have been involved in working on Fuelwatch?

Mr Murphy—Roughly half a dozen.

Senator COONAN—When did Treasury officers receive drafting instructions for the Fuelwatch legislation?

Mr Murphy—Treasury officers prepare drafting instructions for the Fuelwatch legislation.

Senator COONAN—When did you prepare that?

Mr French—I believe we were preparing drafting instructions in the period leading up to early May and I think they were sent to the Office of Parliamentary Counsel on 6 May.

Senator COONAN—What was the date or were there any instructions as to what date it was to be available for introduction into the parliament?

Mr Murphy—As you are probably aware, there is a listing of priorities as to drafting, as to what bills are proceeded with. This particular bill had high priority T status.

Senator COONAN—So there was a reordering?

Mr Murphy—Yes. The legislation was prepared in as speedy a fashion as possible. It is not a very big bill. It is realistically quite a simple piece of legislation.

Senator ABETZ—When was it tabled?

Mr French—On 29 May.

Senator ABETZ—Tabled on 29 May at about 6 pm or something in the evening?

Mr French—Yes.

Senator ABETZ—The drafting instructions were sent to the Office of Parliamentary Counsel on 6 May. Was that the initial set of instructions? Were there any follow-up instructions after 6 May?

Mr Murphy—In the course of drafting a dialogue occurs between the allocated drafter and the department. There would have been oral instructions following up on the written instructions.

Senator COONAN—Was it necessary to get additional policy advice at any stage?

Mr Murphy—No. The matter was discussed extensively in cabinet and ERC before that. It was reasonably clear as to what the policy decisions were. But as with all pieces of legislation, there are often twists and turns along the way. When you see what you get, oftentimes ministers decide they want to do something differently.

Senator ABETZ—The legislation was sent to the Office of Parliamentary Counsel on 6 May?

Mr Murphy—No, the instructions.

Senator ABETZ—What did I say?

Mr Murphy—The legislation. The drafting instructions.

Senator ABETZ—They draft the legislation, so they would not have been sending the legislation; thank you for that. The instructions for the legislation were sent on 6 May. Was that accompanied, at that time, with the suggestion that it would be introduced into the House as early as 29 May?

Mr Murphy—There is a program determined by the parliamentary business committee, and usually I think they meet weekly. First, a bill gets a classification as to its importance or urgency for the government. This was given a high status. Then it is drafted and then it is decided by the government. They decide when they want to introduce the legislation.

Senator ABETZ—Yes, but what can also happen is the instructions get sent to the Office of Parliamentary Counsel, sit there and after its arrival all of a sudden it is determined it is a matter of urgency and then it is worked on with great expedition, let us say, within a 24- or 48-hour period. That is why I am asking whether when the instructions were sent on 6 May those instructions were sent with a request as to by what date or time the legislation should have been drafted?

Mr Murphy—My understanding was that the government had decided that it wished to introduce the legislation this session.

Senator ABETZ—That would have included the next two weeks as well?

Mr Murphy—Yes.

Senator ABETZ—When it was sent to the Office of Parliamentary Counsel it was not sent with a message, ‘This has to be ready by 29 May 2008?’

Mr Murphy—No.

Senator ABETZ—It had to be ready for tabling in the parliament by the end of this session. Who can assist me as to when this session—

Mr Murphy—23rd-24th June.

Senator ABETZ—Thank you. About one month later. Given the huge workload in the Office of Parliamentary Counsel, are you able to advise when Treasury sent them the advice that this was now a matter of urgency so the matter could be introduced on 29 May?

Mr Murphy—The government determines its priorities as to when it introduces legislation.

Senator ABETZ—I know that.

Mr Murphy—I cannot comment on the workloads in the Office of Parliamentary Counsel. It is a matter for discussion between either Treasury and Parliamentary Counsel or ministers and Parliamentary Counsel as to what they expect from Parliamentary Counsel as to the timetable for the introduction of bills.

Senator ABETZ—That is right. You represent Treasury; this was a bill in your area. Did Treasury say to the Office of Parliamentary Counsel at any stage, ‘This bill now needs to be prioritised, pulled out from the in-tray and put on the top’?

Mr Murphy—We do not have the authority to determine the priorities for the Office of Parliamentary Counsel. The priorities are determined by the government of the day, which determines what priorities they want to give any legislation.

Senator ABETZ—Yes, but I thought you had said that Treasury might be a conduit for advising the OPC of that. Allow me to try another track with you. Are you aware as to when the drafting of the bill was finalised?

Mr Murphy—The drafting of the bill was finalised—

Mr French—It was finalised just prior to the introduction of the legislation.

Senator ABETZ—Whilst you tell us it is a relatively short bill, which it is, at best four pages, and it was provided on 6 May, we are now being told it was in fact only finalised on 29 May, the date of its introduction; is that correct?

Mr Murphy—Yes.

Senator ABETZ—Can you advise me whether any officers of Treasury went over to the Office of Parliamentary Counsel to assist in the drafting of this bill?

Mr Murphy—Yes, officers of Treasury went there.

Senator ABETZ—When did those officers of Treasury go over to the Office of Parliamentary Counsel to assist with the drafting of this bill?

Ms Holdaway—The bill has always been given a priority by the government. As we released the drafting instructions to the OPC on 6 May, we were under instructions to ensure that this is given a priority. Right throughout that whole period we had been consulting with OPC to try and raise the priority of the bill. The week of 6 May when the drafting instructions were sent, we had actually organised the meeting with the OPC to discuss the nature of the bill and further details. A number of those conversations took place over the phone. The final meeting to nut out the details was actually organised in that week for 29 May.

Senator ABETZ—What day in the week of 29 May was that meeting to nut out the details to which you have referred?

Ms Holdaway—The meeting itself was actually held on 29 May. But it was organised in the week that we actually sent the drafting instructions, and the discussions had been taking place to ensure that this was given a priority.

Senator ABETZ—It has taken a while to get to this point. Just so I am absolutely clear on this. Treasury officers actually physically took themselves, is that correct, to the Office of Parliamentary Counsel—

Ms Holdaway—That is correct.

Senator ABETZ—on 29 May to finalise the legislation?

Ms Holdaway—No, it was actually the 28th.

Mr French—It was earlier in that week. I cannot quite remember the date.

Senator ABETZ—Sorry, we were told the week of the 29th. I thought I then asked what day of the week of the 29th and I thought the evidence was that it was on the 29th?

Ms Holdaway—My apologies. It was actually the 28th on which the meeting was organised.

Senator ABETZ—A huge difference; sorry, yes, that was the day before. So we have this meeting on 28 May. What time of the day?

Ms Holdaway—It was during the day.

Senator ABETZ—There are 24 hours in the day; especially, as we know, under this Prime Minister, there are 24 hours in a day. I want to know when it started.

Ms Holdaway—It was 10.30 am.

Senator ABETZ—It started?

Ms Holdaway—Yes.

Senator ABETZ—When did it finish?

Ms Holdaway—It finished at 2 pm, I believe.

Senator ABETZ—2 pm on the 28th?

Ms Holdaway—Yes, on the 28th at 2 pm.

Senator ABETZ—And this was in circumstances where the legislation did not have to be introduced originally until 24 June?

Ms Holdaway—No, we were told by the government to have the bill ready as fast as it can be right from the beginning.

Senator ABETZ—I thought the evidence was within the session?

Mr Murphy—It was within the session.

Senator ABETZ—And the session, I think we agreed, finishes on 24 June.

Mr Murphy—Yes, but we do not work to deliver things on the last minute of the day. We have an agenda, and this is important legislation. We do not have many things that have T status. We will complete that as soon as drafting resources become available to us, because we want to be ready, if the government reorders its priorities, which we were.

Senator ABETZ—Clearly, the government had reordered its priorities and that is why you had this meeting the day before the legislation was introduced. I am not critical of Treasury officials in relation to this, but I am trying to get a timetable and then get the indication as to who may have been driving this timetable. I am not saying that Treasury drove the timetable—

Mr Murphy—As I think I have pointed out—but I will say again—there is a parliamentary committee of ministers, to my understanding, who meet with the First Parliamentary Counsel and they determine the bills that will be introduced in the forthcoming week or the two-week period. Our job, once the government decides what it wants to do, is to expeditiously get that drafted.

Senator ABETZ—Of course.

Mr Murphy—And then it is up to the government, the ministers, to decide whether they want to introduce it this week, Monday, Friday or the following week.

Senator ABETZ—Of course it is. We have no dispute about that whatsoever. All I am trying to do is get the timetable. At the meeting that finished at 2 pm between OPC and Treasury officials, was the bill completely drafted at that stage, word for word, comma for comma?

Ms Holdaway—It was drafted shortly afterwards.

Senator ABETZ—So by 2 pm on 28 May the bill had not been fully drafted? We know that much; is that correct?

Ms Holdaway—At what time?

Senator ABETZ—At 2 pm on 28 May. We are agreed with that.

Mr Murphy—Usually the way we work—

Senator ABETZ—Well—

Mr Murphy—No, I will clarify. The way we work, we would talk to the drafter about certain issues in the bill.

Senator ABETZ—That is right.

Mr Murphy—I do not dictate to the drafter. We discuss the issues, we leave it with them and they carry out their work.

Senator ABETZ—You are making my point very well and I thank you for that intervention, Mr Murphy. We have a situation of the Treasury officials going to OPC, giving the instructions, finishing giving the instructions at 2 pm on 28 May. The Treasury officials then left?

Ms Holdaway—Yes.

Senator ABETZ—Or did they stay around in OPC waiting for the draft?

Ms Holdaway—We left.

Senator ABETZ—Did Treasury officials see another draft of the legislation before it was tabled in the parliament?

Mr Murphy—Yes, we have to.

Senator ABETZ—At what time of which day did you see that draft?

Mr French—This would have been on the same day as the meeting.

Senator ABETZ—At what time?

Mr French—I would be struggling to remember precisely.

Senator ABETZ—You were very precise with 10.30 am and 2 pm. I have a funny feeling we might be getting into the latter hours of the day. But I will not make that assertion now but I would invite you to refresh—

Mr Murphy—These things are continuous.

Mr French—It was around close of business, normal close of business.

Senator ABETZ—I am sorry, what is the normal close of business? Because we have been told it is 24/7.

Mr Murphy—6 or 7.

Senator ABETZ—6 or 7 pm. Can I tell you, with great respect, most people listening in and myself talking close of business would be thinking about 5 pm, 5.30 pm, and that is why I was wanting this precision. You are telling me that 6 or 7 pm is when you then saw the first draft of that which you had finished discussing five hours earlier at the OPC? Is that right?

Mr French—Yes.

Senator ABETZ—Who in fact were the officers that went to the OPC?

Ms Holdaway—It was myself and—

Senator ABETZ—That is what I was thinking. I was going to say, if they are not officers at the table, I do not need their names. I would have thought, having heard Mr Murphy's evidence that this was a T classification bill—you do not often get T classification bills—that this would be a bit of a special bill and the timetable might be still relatively fresh in your mind. As to the proximity of the event to today's date, today is 4 June and so we are only talking about events six or seven days ago. You got to see that first draft then; would that be a correct description of the document, just so we can identify the document at that particular stage of its evolution? At 7 pm, was that the first time you saw a full draft of the bill?

Ms Holdaway—A full draft, yes. But when we arrived at the meeting with the OPC it was clear to me that the drafter had progressed the bill substantially.

Senator ABETZ—I am sure they had. What do you want to call the document you saw at about 7 pm on 28 May? What do we call that, the first draft?

Ms Holdaway—The first draft.

Senator ABETZ—The draft bill. Let us use the term 'draft bill'. That was the first time you saw it, at 7 pm?

Mr Murphy—No, we had seen a draft earlier.

Senator ABETZ—Sorry, I was asking that the document that was seen at 7 pm be identified by certain terminology. The witness said 'draft bill'.

Mr Murphy—Call it the '7 pm draft bill'.

Senator ABETZ—All right. Let's call it the '7 pm draft bill'. So the 7 pm draft bill—now that we have called it that clearly—was first seen by you at 7 pm on 28 May. You read it?

Ms Holdaway—Yes.

Senator ABETZ—Analysed it? Did you need to pass it by any other people in Treasury?

Ms Holdaway—There were other colleagues working on the bill as well as myself. So, yes, we consulted on the bill.

Senator ABETZ—You had consultations. How long did they take?

Ms Holdaway—It was a fairly straightforward bill, as we commented before. The consultation itself did not take very long and we were able to get back to the OPC with our minor comments.

Senator ABETZ—Not very long. Can we put a time on that?

Mr French—An hour or so.

Senator ABETZ—So about 8 pm. We are getting way past normal working hours now. We are into 8 pm on 28 May you had finalised looking at this bill. When did you then communicate with the OPC again about the bill?

Ms Holdaway—It was around that time.

Mr French—The OPC provided us with a draft that evening, around 8 o'clock from memory, and that was the last time we communicated with them that day.

Senator ABETZ—Sorry, you got the 7 pm draft on that day. You then looked at that 7 pm draft for about one hour. You then communicated again with the OPC at about 8 pm, yes.

Ms Holdaway—It was about 7.30.

Senator ABETZ—So instead of about an hour now we are back down to half an hour now but, whatever.

Mr Murphy—Four pages.

Senator ABETZ—I am not the one giving the evidence. I was told an hour. Now we have been given exactly 50 per cent of that time, but not much hinges on 30 minutes. But the comment about 'four pages', that is fine; it may have only taken you half an hour and I am happy with that. So, it took you half an hour to analyse. Do you want to revise your evidence as to when you got back in touch with the OPC? When would that have been? Was that still at 8 pm?

Ms Holdaway—Yes, it was about 8 pm.

Senator ABETZ—So you talked to the OPC at 8 pm about this bill. Did your discussion with the OPC indicate or require you to suggest any amendment or raise any questions about the 7 pm draft of the bill?

Ms Holdaway—Yes, it did.

Senator ABETZ—How many questions did you raise? Can you recall? Or how many issues?

Ms Holdaway—I could not remember.

Mr French—I think they were of a fairly minor nature.

Ms Holdaway—Minor.

Senator ABETZ—So they were raised—

Mr French—They were able to act very quickly to clarify any of the issues.

Senator ABETZ—You raised those at 8 pm or thereabouts with OPC. Was that over the telephone or did you go back to the OPC officers?

Ms Holdaway—It was over the telephone.

Senator ABETZ—How were the changes or questions transmitted to the OPC?

Ms Holdaway—It was over the phone. All the questions that we raised, the OPC was able to address them over the phone.

Senator ABETZ—And amend the draft accordingly?

Ms Holdaway—Yes.

Senator ABETZ—Did you then get to see the amended 7 pm draft at a later stage that day?

Mr French—They transmitted it to us almost instantaneously.

Senator ABETZ—What does ‘almost instantaneously’ mean? Clearly, you had a discussion at 8 pm. They must have made some changes and then transmitted it back to you by, what, 8.30 pm or 9 pm?

Mr French—We do not necessarily account for every single minute of the day, but it was a very quick turnaround from the OPC.

Senator ABETZ—Can you put some sort of time on it?

Mr French—I cannot recall off the top of my head. It was very quick.

Senator ABETZ—What time did you get home that night? Sorry, I withdraw that question. What time did you leave the office that night? I do not want to know about your private life, but I do want to know about your professional—

Senator Sherry—We do want to know when the murder took place that we are building up to.

Mr French—Are you asking me?

Senator ABETZ—Yes.

Mr French—I would have left at around 9.30 pm.

Senator ABETZ—9.30 pm.

Mr French—Something of that order.

Senator ABETZ—The reason you have stayed until 9.30 pm was to see a further or the final version of the draft bill?

Mr French—No. We would have seen it before that time.

Senator ABETZ—So it was amended and you saw it by about 8.30 pm. Did you then have further discussion or consultation within the department or within Treasury that all your concerns had been addressed in the draft?

Mr French—My understanding was that some of the officers looked at it and that was correctly incorporated by OPC.

Senator ABETZ—Did you have a meeting to consult to ensure that the changes you had requested were in fact incorporated?

Mr French—I personally took advice from the officers in my division.

Senator ABETZ—When did you receive that advice?

Mr French—It would have been between 8 o’clock and the time I left. I would say it is probably within the space of half an hour.

Senator ABETZ—And you were then satisfied that all the amendments and requirements the Treasury had had been fully incorporated?

Mr French—I was satisfied on the basis of the advice from my officers.

Senator ABETZ—So who then communicated back to OPC that this legislation was all in order from the Treasury perspective?

Ms Holdaway—It was one of my colleagues, who was also working, and that was communicated back shortly around 8.30, around that time, when we had received the amended bill from the OPC. We had the opportunity to go through to make sure that the amendments were made in accordance with our discussion, and I recall that it was around 8.30.

Senator ABETZ—Around about that time. We had the national Fuelwatch (Empowering Consumers) Bill; is that right?

Ms Holdaway—That is correct.

Senator ABETZ—And the National Fuelwatch (Empowering Consumers) Consequential Amendments Bill?

Ms Holdaway—That is correct.

Senator ABETZ—When I have been talking about the bill and its progress are we talking about both bills?

Ms Holdaway—Yes.

Senator ABETZ—So both bills were being dealt with simultaneously?

Ms Holdaway—Yes. That is standard practice with consequentials.

Senator ABETZ—You say you proofread, what, about 20 pages of legislation, and did it have any accompanying explanatory memorandum with it?

Ms Holdaway—Yes.

Senator ABETZ—Were amendments required to the explanatory memoranda?

Ms Holdaway—Only marginally

Senator ABETZ—Only marginally. So you proofread the explanatory memoranda as well?

Ms Holdaway—This was happening concurrently. Because obviously we have a number of officers, as Mr Murphy indicated, working on the bill and therefore working on the explanatory memorandum material as well.

Senator ABETZ—And how many pages were the explanatory memorandum? Can you remember that?

Ms Holdaway—I do have a copy here, but I could not recall offhand.

Senator ABETZ—If you could quickly check. The chances are we are looking at a fair number of pages all up of the two bills.

Mr Murphy—Thirty pages.

Senator ABETZ—That 30-page explanatory memorandum, was that in relation to both bills?

Mr Murphy—Yes.

Ms Holdaway—Yes.

Senator ABETZ—So we are dealing, in rough terms, with about 50 pages of documents that you say the department basically considered, proofread and put back to the OPC within a matter of 30 minutes.

Ms Holdaway—We do not have to put explanatory memoranda back to the OPC. What we do provide to the OPC are our suggestions on the bill itself. But the EM is generally prepared by the department and it does not require OPC's clearance.

Senator ABETZ—When was the explanatory memorandum finalised in the form that it was tabled in the parliament?

Mr French—On 29 May.

Senator ABETZ—At what time on 29 May?

Ms Holdaway—About one o'clock.

Mr French—It was around noon.

Senator ABETZ—Around noon on 29 May. What would be its track then? Off to the Treasurer's office? What happened after you finalised it?

Mr French—The bill and explanatory memorandum is provided to the Assistant Treasurer.

Senator ABETZ—You corrected me, thank you. The Assistant Treasurer—whose responsibility it was then to table it six hours later? The department undoubtedly prepared a brief for the Assistant Treasurer containing the bills and the explanatory memorandum. Is that correct?

Ms Holdaway—Yes.

Senator ABETZ—When was the brief finalised?

Mr French—We would need to check that. It would have been on the 29th.

Senator ABETZ—I would have assumed, because you could not have prepared a brief without a finalised version of the explanatory memorandum. The EM was finalised at midday. Therefore, we must have the brief at some time after midday. Then how does the brief get itself from your offices to the Assistant Treasurer's office?

Mr Murphy—It just goes through the normal system. If they wanted to see it quickly we might send it to them electronically. But it would go through the normal system.

Senator ABETZ—You were in charge of this, Mr French? Can you recall how the brief was transmitted to the Assistant Treasurer?

Mr French—I think there was some briefing provided in the morning. There was also oral briefing.

Senator ABETZ—Sorry, I am talking about the paper brief, or the brief that accompanies the bills and the explanatory memorandum covering both bills to the Assistant Treasurer. Was it physically taken by the departmental courier, for example?

Mr French—I think it would. There was paperwork sent forward on the morning of the 29th electronically, I believe.

Senator ABETZ—Wait a minute. Surely Treasury does not brief its minister on something dealing with a document that has not been finalised? We have been told that the explanatory memorandum was finalised at midday, so it would be hardly likely that you would be sending him a brief with the explanatory memorandum prior to midday.

Mr French—It partly reflects the fact that, to the extent that the minister would like to examine the bill, then we can make further changes. That is what I was referring to when I said that it was finalised around noon.

Senator ABETZ—Let us track this further. The minister may have been briefed in the morning. From that briefing were any further amendments required to the bill or the explanatory memorandum?

Mr French—Yes.

Senator ABETZ—Thank you. Further amendments were required by the minister's office on the morning of 29 May. Did that require the bill to go back to the Office of Parliamentary Counsel?

Mr French—The Office of Parliamentary Counsel was involved, yes.

Senator ABETZ—Right. In other words, did officers of Parliamentary Counsel then go somewhere to make the amendments to the bill being requested out of the minister's office?

Mr French—It is the responsibility of the Office of Parliamentary Counsel to finalise the drafting of the bill.

Senator ABETZ—Yes, of course it is.

Mr French—And they did that.

Senator ABETZ—Was that undertaken physically in the offices of the Parliamentary Counsel or at Parliament House offices? Where was that done?

Mr French—There were some final changes made in Parliament House.

Senator ABETZ—To the bill in your presence, Mr French?

Mr French—That is correct.

Senator ABETZ—In the minister's office?

Mr French—That is correct.

Senator ABETZ—At what time were those changes made or discussed in your presence?

Mr French—The material was finalised, as I have mentioned earlier, around noon that day.

Senator ABETZ—When were those discussions held in the minister's office? In the morning?

Mr French—In the morning of 29 May.

Senator ABETZ—And those discussions were finalised at about midday on the 29th?

Mr French—That is correct.

Senator ABETZ—The bill then had to be amended further as a result of those discussions that finished at midday?

Mr French—It was completed at that stage.

Senator ABETZ—What, you had a finalised bill immediately after the discussion? No, the Office of Parliamentary Counsel had to go away, did they not, and redraft and put in the amendments?

Mr French—They immediately redrafted/made some amendments to the bill following that discussion.

Senator ABETZ—Following that discussion. So after 12 noon when the meeting finished they made some amendments to the bill. Did you then see another copy of the bill after your discussion which finished at 12 noon on 29 May?

Mr French—We saw the final version of the bill, yes.

Senator ABETZ—At what time did you see the final version of that bill?

Mr French—I would be struggling to remember the precise time. But it was very shortly after that point.

Senator ABETZ—I am struggling a bit when you say ‘shortly after’, because we were told about close of business at one stage and that sort of then expanded a few hours out, so I would be obliged if you could provide some precision to your answer. We know it is past midday. Can you tell us how far?

Mr French—I cannot recall the precise time.

Senator ABETZ—It was six days ago. Come on.

Mr French—But it would have been of the order of an hour, or something like that. It was around noon, around 1 pm.

Senator ABETZ—All right, 1 pm. Was Mr Bowen involved in those discussions in the minister’s office?

Mr French—The minister approves the bill and explanatory memorandum.

Senator ABETZ—Was he involved in the discussions?

Mr French—With the OPC?

Senator ABETZ—Yes, that you were involved in that finished at midday.

Mr French—We sat with the OPC.

Senator ABETZ—Was the minister in the meeting that suggested further changes to the bill? Come on, surely you know whether your minister was in the room.

Mr French—No.

Senator ABETZ—He was not. Thank you. As a result of those discussions that finished at midday were changes required to the explanatory memorandum as well?

Mr French—Yes.

Senator ABETZ—Those changes would have been made in the department; is that correct?

Mr French—They were made in Parliament House.

Senator ABETZ—In Parliament House. When were the changes to the explanatory memorandum finalised?

Mr French—Around the same time that the bill was completed.

Senator ABETZ—Around about, what, the 1 pm mark?

Mr French—That is correct.

Senator ABETZ—So that was when all of this documentation was finalised? Did the department then provide the minister with a brief concerning the 1 pm version of the bills and the explanatory memorandum?

Mr French—We orally briefed the minister.

Senator ABETZ—At what time?

Mr French—I do not recall.

Senator ABETZ—You do not have much choice. The bill was introduced or tabled at 6 pm. We know that documents were finalised at 1 pm. So you have a choice of about five hours.

Mr French—It would have been early afternoon that Minister Bowen signed off on the final—

Senator ABETZ—Well, question time goes—

Senator Sherry—Senator Abetz, just a moment. I think the officers are trying their best. It is not easy for anyone—

Senator ABETZ—And I am encouraging them.

Senator Sherry—Just let me respond. You are having a good go. It is not easy for anyone, frankly, I would submit, to remember precise times of precise documents even two days ago let alone six days ago. You should give them, by the measure of your tone, a little understanding and latitude while they try and recall the precise hours to the best of their ability.

Senator ABETZ—Minister, you are right.

Senator Sherry—Let me finish.

Senator ABETZ—I am agreeing.

Senator Sherry—They are trying their best.

Senator ABETZ—I agree with you. I suppose I get a bit frustrated when officials struggle in remembering whether their minister was actually in the room discussing changes to the

bills and explanatory memoranda. With great respect, I do not know why that would cause a struggle, but—

Senator Sherry—With respect, the issue that they were struggling with when I intervened—

Senator ABETZ—I accept what you are saying.

Senator Sherry—The issue they were struggling with when I intervened went to a precise time that you were seeking. That is what the issue was about.

Senator ABETZ—The difficulty is, Minister, if a witness is forthcoming with other information very quickly and then says, ‘Oops, on this one I am not sure’, you are more likely to accept that. But when they even struggle with the issue of whether the minister was in the room, that is what tests my patience and it should not have tested my patience, and you are quite right. Let us get back to when you briefed the minister about the final version of the EM and the two bills.

Mr French—It was early in the afternoon of the 29th.

Senator ABETZ—We know that early in the afternoon from 2 pm till 3.30 pm the minister would have been ensconced in the House of Representatives in question time. As I understand the *Hansard* of that day, he may well have been in the parliament during that one and a half hours.

Mr Murphy—So it must have been 3.35 pm.

Ms Holdaway—No, I think it was 1.30.

Mr French—I think it was around 1 pm.

Senator ABETZ—Come on. The documents were finalised at 1 pm?

CHAIR—I think one of the problems is that the officers are saying that it was about a particular time and then you are holding them to that particular exact time.

Ms Holdaway—Yes.

CHAIR—And that is causing great difficulty for the people at the table. I hesitate to use the word ‘badgering’, but they are having great difficulty with that aspect of it. I am just trying to be helpful here.

Senator ABETZ—Thank you for that assistance. We were told that the bills were finalised and the explanatory memorandum miraculously at about the same time by both OPC and the Treasury; is that right?

Mr French—That is correct.

Senator ABETZ—Did OPC officers leave the minister’s office to finalise the bill or to make whatever changes were necessary?

Mr French—No.

Senator ABETZ—They did that in the minister’s office?

Mr French—That is correct.

Senator ABETZ—Once those changes were made, Mr French, you would have been duty bound to re-read the legislation to ensure that all those amendments had been incorporated?

Mr French—We were working in the room at the same time. So, yes.

Senator ABETZ—Did you re-read the final bill to ensure that all the amendments that the minister's office requested had been incorporated?

Mr French—Yes.

Senator ABETZ—How long did that take?

Mr French—It is quite a short bill. So it would not have taken a long time.

Senator ABETZ—There were 20 pages of it.

Mr Murphy—But only certain parts of it were amended.

Senator ABETZ—Yes, I know that.

Ms Holdaway—It really did not take very long, because obviously we were familiar with the bill, having seen different versions.

Senator ABETZ—And then the explanatory memorandum, did you personally amend that, Mr French?

Mr French—I did not personally amend it. Some of my staff did.

Senator ABETZ—So you then would have been required to reproof-read that explanatory memorandum?

Mr French—My staff proofread the explanatory memorandum, and I was involved.

Senator ABETZ—And reported to you?

Mr French—I was involved as it was being redrafted.

Senator ABETZ—So you were involved in the suggestions of the redrafting. Then an officer did the redrafting, reported back to you with a redraft?

Mr French—That is correct.

Senator ABETZ—And then let us say some time before question time these matters were resolved on 29 May. Are you sure that you briefed the minister before question time on 29 May? Mr Murphy did suggest 3.35 pm at one stage?

Ms Holdaway—I thought it was before question time.

Mr French—I am fairly certain it was before question time.

Senator ABETZ—Before question time?

Ms Holdaway—It is fairly certain.

Senator ABETZ—Then when the minister saw bills and the explanatory memorandum did he suggest or request any changes?

Mr French—No, at that stage it was finalised.

Senator ABETZ—It was finalised at that stage. Then did you provide a written brief to the minister to accompany this at any stage?

Mr French—There was a written brief earlier in the day.

Senator ABETZ—No, I am asking about the final version.

Mr French—And we provided the minister with oral briefing on the final bill.

Senator ABETZ—So there was never a written brief to the minister about the final version?

Mr French—We provided him an oral briefing.

Senator ABETZ—My question was whether there was a written briefing. So I assume the answer is: no written briefing was provided to the minister in relation to the final version of the bill and the explanatory memorandum.

Mr French—We provided him with the bills and explanatory memorandum and orally briefed him at that point.

Senator ABETZ—If it was oral we assume it was not written. I do not know what the reluctance is. But, fine, let us move on. Did the minister need to initial the bill or initial a brief to allow the transmission of the bill and explanatory memorandum to the Table Office?

Mr French—My recollection is that he did do that.

Senator ABETZ—You remember him doing that?

Ms Holdaway—Yes.

Mr French—Yes.

Senator ABETZ—What time did he do that?

Mr French—It was prior to question time to early afternoon.

Senator ABETZ—Some time, so early afternoon?

Mr French—At the point we gave him an oral briefing.

Senator ABETZ—So immediately after the oral briefing he signed off on it; is that correct?

Mr French—That is my recollection.

Senator ABETZ—Which would not have given the minister much time to have actually read the explanatory memorandum, the 30 pages and the two bills.

Mr Murphy—But all these things had already been seen. The amendments were minor. We provided a briefing in the morning. The bills, the explanatory memorandum, we pointed out, ‘This is the change, da, da, da, da.’ These things are not complete from start to scratch every time you look at it. You are amending something that you have already seen. The minister was very much across the bill. So was the government. The bill represents the government’s position.

Senator ABETZ—I accept all of that.

Mr Murphy—I think you should accept it.

Senator Sherry—We just spent a long time getting here.

Senator ABETZ—It is not in dispute, Mr Murphy.

Mr Murphy—In terms of timing, my people have been here since 10.15 am, and the day just drifts. If you ask me what I was doing I would not know.

Senator ABETZ—I have been here since 7.45 am—

Mr Murphy—Well, actually we were here briefing ministers at 7.45 am.

Senator ABETZ—There we go. We arrived at the same time so we should both have smiles on our faces.

Mr Murphy—That is right.

Senator ABETZ—The good news is you only have to front up for two days of Senate estimates. Some of us have to front up for two weeks.

Senator Sherry—Some of us have been doing it for 18 years.

Senator ABETZ—We must try to play violins to each other, Mr Murphy.

Senator Sherry—And rarely have I heard such a thrilling set of questions as I have heard in the last hour and a quarter.

Senator ABETZ—I am sure anybody listening is getting the tissues out for both of us.

Senator Sherry—Minute by minute, hour by hour, day by day, blow by blow, and I am still not sure when the murder took place, Senator Abetz! But, anyway, we will get there.

Mr Murphy—What we know is a bill was introduced. We have done our job.

Senator ABETZ—Sorry?

Mr Murphy—The bill has been introduced.

Senator ABETZ—Thank you for that helpful information, Mr Murphy.

Mr Murphy—That is right.

Senator ABETZ—Believe it or not, I was aware of that. How long did the oral briefing take?

Mr French—It would have been fairly short. I cannot recall precisely.

Senator ABETZ—Five minutes, half an hour?

CHAIR—Senator, it would really help if we knew why such precision was required. Is roughly five minutes not enough and why not?

Senator ABETZ—Chair, you can wonder about that, and that is fair enough, but I am entitled to ask my questions as I see fit as long as they are within standing orders, and they clearly are. I am asking the witnesses if they can exercise their minds as to how long they think the oral briefing meeting took with the minister.

Senator Sherry—And get it right to the nearest second, too! I think we have to have precision!

Mr French—Fifteen minutes, something like that. It is very difficult to recall these things to this degree of precision.

Senator ABETZ—If I were to give you a range, was it more like five minutes or more like half an hour? You cannot tell?

Mr French—I have just said around 15 minutes.

Senator ABETZ—Sorry, I did not hear that. My apologies. So it was around 15 minutes. All right. I accept that. Thank you very much. Can you remember when the bill was actually introduced on that day?

Mr French—It was around 6 pm.

Senator ABETZ—In fact, Mr Bowen was speaking about the bill at 5.41 pm; would that be right?

Ms Holdaway—That sounds right.

Senator ABETZ—That could well be right.

Senator Sherry—They were nine minutes out!

Senator ABETZ—Nine? I do not think so. But we will not go into your maths.

Senator Sherry—I am shocked!

Senator ABETZ—In what form was the bill tabled in the House of Representatives, and by ‘form’ I mean was it in A4 format or was it in the A5 format in which bills are usually presented? Are you able—

Mr French—I do not know the answer to that.

Senator ABETZ—I can tell you it was the A4 version, which indicates the rushed nature of this particular legislation. But that is undoubtedly a matter for the Office of Parliamentary Counsel and you were not necessarily in charge of that. As you understand it, after the minister signed off on this bill, it then would have taken whatever course to the Table Office and then the minister was speaking on it at 5.41 pm on that same day?

Mr French—That is correct.

Senator ABETZ—It was a pretty rushed and intense exercise—I withdraw that. That is commentary for me to make. Thank you very much for that and your patience and forbearance.

Senator BIRMINGHAM—Can I jump back, right back to the 29—

CHAIR—I am sorry—

Senator Sherry—Could you give us the precise time Senator Abetz actually asked the question you are going to go back to? We really have to get this down finely so we know which particular question we have been asked about for the last hour and a half!

Senator ABETZ—We can understand your sensitivity. You rushed something in which is turning into a dog’s breakfast for you.

Senator Sherry—I am not sensitive; I am just amazed—

CHAIR—Order! Senator Abetz, you have finished your line of questioning?

Senator ABETZ—At the moment. I am more than happy to cede to Senator Birmingham.

Senator BIRMINGHAM—Can I go back to the meeting at 10.30 am on 28 May with the Office of Parliamentary Counsel. Were the Treasury officials attending that meeting aware,

prior to their attendance at that meeting, that the legislation was to be tabled in the parliament the following day?

Mr French—Was this the meeting on 28 May?

Senator BIRMINGHAM—The meeting on 28 May with the OPC.

Mr French—I am not sure.

Mr Murphy—I understand that we had been informed that possibly the bill would be introduced on the 29th. When they had the meeting on the 28th they were aware that possibly the government wished to move speedily, move quickly and introduce the bill the following day.

Senator BIRMINGHAM—When were you informed of that?

Mr Murphy—That morning, by the minister's office.

Senator BIRMINGHAM—So Treasury was only informed by the minister's office on the morning of 28 May that the bill was to be introduced into the parliament on 29 May?

Mr Murphy—My understanding is we were told it may be. It is not unusual. I go back to the point that the government determines its own legislative priorities. Often we were asked to prepare things under the previous government—less so with this government because they have not been here that long—because they wanted to move speedily, and then they did not; it is their decision. We are asked to do things and we do them to try to put them in a position where they can act if they wish to.

Senator BIRMINGHAM—To be very clear, the bill for which Senator Abetz went through this process, the bill that had been referred to Parliamentary Counsel—

Senator Sherry—Bills. Let's be precise: two bills.

Senator BIRMINGHAM—Thank you for that assistance.

Senator Sherry—We don't want to get that wrong.

Senator BIRMINGHAM—I am also relatively new, so I appreciate the guidance. For the bills that had been referred to the OPC on 6 May and the meeting that had coincidentally and conveniently been established for 28 May some time prior to 28 May, it was only on that morning that Treasury was informed—

Mr Murphy—That is right, yes.

Senator BIRMINGHAM—that the bills might need to be suddenly ready for the following day?

Mr Murphy—The point I am making is that that is not unusual—not unusual.

Senator ABETZ—Do not worry whether it is usual or not. All we want to do is get the time line.

CHAIR—The officer was answering the question. We do not need commentary.

Senator BIRMINGHAM—I am just seeking to fill in some of the gaps there. In the 30 minutes to an hour or so after you had been provided with the 2 pm draft bill, as I think we refer to it as—

Mr Murphy—There is no 2 pm draft bill.

Senator BIRMINGHAM—Sorry, 7 pm draft bill.

Senator ABETZ—No, there was also then a further version that was finalised at about 1 pm.

Senator BIRMINGHAM—That is right—the 7 pm draft bill. When you were provided with the 7 pm draft bill, in the 30 minutes to an hour that you had to assess that bill before providing comments back, who did Treasury consult with in that time?

Mr Murphy—No-one—

Mr French—We consulted the ACCC.

Mr Murphy—The ACCC—all right, sorry.

Senator BIRMINGHAM—You consulted with the ACCC. Is that all?

Mr Murphy—Yes.

Senator BIRMINGHAM—At any stage during that day in the drafting of the bill did Treasury seek advice from the Attorney-General's Department or the Australian Solicitor General or the like?

Ms Holdaway—Yes. We did consult with Attorney-General's Department and also with AGS.

Senator BIRMINGHAM—At what stage of the process did you consult with them?

Ms Holdaway—That had actually been taking place for a while. However, there was also consultation on the day of 28 May when the discussion was taking place.

Senator BIRMINGHAM—Which discussion?

Ms Holdaway—The discussion with the OPC.

Senator BIRMINGHAM—So, during that 10.30 am to 2 pm meeting, is that when you are saying consultation took place with AGS?

Ms Holdaway—Yes, in addition to other consultation that took place prior to that, once we had drafting instructions in place.

Senator BIRMINGHAM—Were AGS present at that meeting?

Ms Holdaway—At the OPC meeting?

Senator BIRMINGHAM—Yes.

Ms Holdaway—Yes.

Senator BIRMINGHAM—They were. Did that consultation go to matters of constitutionality of the legislation?

Senator Sherry—That is advice to the government.

CHAIR—Senator Birmingham, have you any more questions?

Senator BIRMINGHAM—Not at this stage.

Senator ABETZ—Wait a minute. We can ask whether advice was sought on the constitutionality. We cannot ask what that advice was.

Mr Murphy—Advice was sought.

Senator ABETZ—On the constitutionality?

Mr Murphy—Yes, and the bill. Also, I think what we were talking to AGS and Attorney-General's about were the civil penalty provisions.

Senator COONAN—When was that received? When was that advice received by Treasury?

Mr French—From the Australian Government Solicitor, do you mean?

Senator COONAN—Yes. Was that the only source from which advice was sought as to the constitutionality or the power for the scheme?

Mr French—We had been in ongoing touch—

Mr Murphy—Consultation.

Mr French—with AGS about these issues for some period prior to the drafting of the bill.

Senator ABETZ—When did you get your final advice? If it was ongoing consultation, when did you get your final advice?

Senator COONAN—When did it start and when—

Senator Sherry—Hang on, please; one question at a time.

Senator COONAN—That was something to try and clarify the question.

Mr Murphy—I do not think it does. What are you asking questions on? What are we on now, please, senators?

Senator ABETZ—The question is: you had sought Australian Government Solicitor's advice. We were told that it was part and parcel of the consultative process with AGS. That is fine. We are now asking: when was the last AGS advice provided in relation to this bill? We are not asking what it was.

Mr French—I cannot recall the precise date. We can take that on notice.

CHAIR—You can take that on notice, if you like, Mr French.

Senator ABETZ—Can I ask: was the AGS involved in the consultations and discussions that took place on 28 May?

Mr French—Yes.

Senator ABETZ—Were they involved in discussions on 29 May?

Mr French—No.

Senator ABETZ—At what stage on 28 May was the last advice received from the AGS?

Ms Holdaway—We had received legal written advice from AGS in the week—

Mr French—It was some time ago.

Ms Holdaway—It was some time ago. I can provide you with that date on notice.

Mr French—We will take that on notice. The AGS was participating in the meeting and it was in the nature of an oral discussion.

Senator ABETZ—On the 28th?

Mr French—On 28 May.

Senator ABETZ—That was up until I think what time?

Ms Holdaway—2.30 pm.

Senator ABETZ—2.30 pm on the 28th.

Senator BIRMINGHAM—That participation related to the civil penalties, as Mr Murphy said before?

Mr French—The Australian Government Solicitor's?

Senator BIRMINGHAM—Yes.

Mr French—It was associated with the drafting of the bill and the advice they had given us in writing previously.

CHAIR—Have we finished this line of questioning?

Senator ABETZ—No.

Senator JOYCE—Are you coming back after the break?

Senator Sherry—The break is not due for some time yet.

Senator BIRMINGHAM—When was the last advice received from AGS relating to constitutionality?

Mr French—In terms of written advice?

Senator ABETZ—No, any advice.

Senator BIRMINGHAM—Let's do both written and verbal.

Mr French—I have said previously we would take on notice when the written advice was provided to us. They were involved in the discussions that Ms Holdaway was having at the OPC on 28 May.

Senator BIRMINGHAM—So the written advice was prior to 28 May?

Ms Holdaway—Yes.

Senator BIRMINGHAM—The discussions at the OPC involving AGS did involve constitutionality? Is that correct?

Mr French—We were taking advice from them in relation to the drafting of the bill.

Senator BIRMINGHAM—Including constitutional issues?

Mr French—Any issues associated with the drafting of the bill.

Senator COONAN—Can I clarify with Mr French, please, a question I asked earlier that got subsumed by others. When was advice first sought on this matter?

Mr French—From the AGS?

Senator COONAN—I am coming to whether there was other advice; but when was advice first sought from the AGS?

Mr French—I cannot recall that. I would have to take that on notice. It was some time ago.

Senator COONAN—Self-evidently it would be, but I am just trying to put it within the time frame of policy authority or drafting instructions, which was early May—was it?

Ms Holdaway—That is right.

Mr French—We were in discussion with them in advance of the drafting instructions.

Senator COONAN—How many written advices from AGS were there?

Mr French—There are ongoing discussions with them. There may have been email correspondence. I would need to take on notice the nature of those communications.

Senator COONAN—I want to know whether there were communications—you have said there were—with AGS, how many, when they commenced, when they finished and how many pieces of advice or communications were received in writing.

Mr French—We can take that on notice.

Senator COONAN—In addition to that, I want to know how many meetings at which AGS was present and there were some consultations about the subject of this bill.

Mr French—We can take that on notice.

Senator COONAN—Was advice sought from any source other than AGS?

Mr French—In what respect?

Senator COONAN—In relation to constitutionality or legal effects or implications of the scheme?

Mr French—No.

Senator COONAN—No? So you did not get Senior Counsel's advice, for instance?

Mr French—No.

Senator COONAN—Did AGS get counsel's advice?

Mr French—I do not know. We could check that for you and take that on notice.

Senator COONAN—So you do not recall having seen any other advice in writing other than from AGS?

Mr French—No.

Senator COONAN—Who has got a copy of any written advice between AGS and Treasury—any other departments?

Mr French—I would need to check that. I will take that on notice. We need to check our records.

Senator COONAN—It just seems that the Attorney did not seem to be aware that there was all of this consultation going on between AGS and Treasury.

Senator Sherry—They are taking it on notice.

Senator COONAN—This is not anything to do with advice that you may have received or not have received, but as Treasury officials what head of power is relied on by Treasury in relation to the constitutionality of a national scheme?

Mr Murphy—Corporations power.

Senator ABETZ—Just a quick clarification. Mr French indicated he left the office at 9.30 pm. Ms Holdaway, what time did you leave the office that evening of 28 May?

Ms Holdaway—I did not leave that evening.

Senator ABETZ—Sorry?

Ms Holdaway—I did not leave the office that evening, Senator.

Senator ABETZ—If it is a personal matter as to why you did not leave, that is fine. Was it for a work related reason that you stayed at the office all that evening?

Ms Holdaway—Yes.

Senator ABETZ—Was it for a reason related to this legislation that you remained at the office all that evening?

Ms Holdaway—Partly, Senator, yes.

Senator ABETZ—When you say ‘partly’, is that ‘mainly’?

Ms Holdaway—Yes, mainly.

Senator COONAN—She was under the pump.

Senator ABETZ—And when did you leave the office? Well, you did not leave the office on 28 May. Did you first leave the office on 29 May to go to the minister’s office?

Ms Holdaway—I left the office on the 29th at 7.15 to go to the minister’s office.

Senator ABETZ—7.15 am?

Ms Holdaway—Yes.

Senator ABETZ—And was the reason you went to the minister’s office at 7.15 am to discuss the Fuelwatch bills, if I can use that term?

Ms Holdaway—Yes.

Senator ABETZ—You had discussions with a minister or members of his staff?

Ms Holdaway—Both.

Senator ABETZ—You had a previous discussion with the minister earlier on 29 May and then another one after 1 pm on 29 May with the minister. Is that correct?

Ms Holdaway—Yes.

Senator ABETZ—Mr French, you were gone at 9.30 pm. I thought there was some more information to be had, but your going at 9.30 pm, I confess, threw me for a while. You left at 9.30 pm. When did you come back to the office?

Mr French—It was prior to going to meet with the minister.

Senator ABETZ—You would have got in prior to 7 am?

Mr French—Correct.

Senator ABETZ—Early in the morning?

Mr French—It was early in the morning.

Senator ABETZ—Would it be fair to say that you guys were genuinely burning the midnight oil, working 24/7 or at least 24 hours around the clock without a break, especially for you Ms Holdaway, to rush this legislation in for introduction on 29 May?

Mr French—I am not sure that is a question you want an answer—

Senator ABETZ—Allow me to re-phrase that question. You had been given an imperative by the minister's office that the legislation had to be introduced by 29 May. Is that correct?

Mr Murphy—I suppose from the minister's office—

Senator ABETZ—Sorry?

Mr Murphy—The minister's office would have said to us that they would like to—not imperative—that they would like to introduce—

Senator ABETZ—The minister did not say 'I need' or 'I want the bill'. He said, 'If you could please, possibly, perhaps, get the bill in on the 29th, that would be nice'—

Mr Murphy—No, I did not say that. In any government if the ministers wish to introduce a bill we seek to meet that—

Senator ABETZ—Absolutely, and there is no criticism of you—

Mr Murphy—No, no. It is—

Senator ABETZ—No, it is not.

Mr Murphy—I would say that it is a very exceptional circumstance that we would have officers working through the night to produce something—a very exceptional circumstance.

Senator ABETZ—I would like to think so, which begs the question—and this is not for you to answer; that is why the chair was asking where this line of questioning is going to—and I ask this of the minister: what was the imperative, what was the great urgency, to make officers work around the clock, more than 24 hours in a day, just to get this bill in on 29 May when it could have been introduced a week later without any impact other than, of course, on somebody's political agenda, wanting to get something else into the newspapers to change some of the things that the media were concentrating on? What was the imperative to make officers work like this?

Senator Sherry—Are you finished with the rhetoric?

Senator ABETZ—I am.

Senator Sherry—What I am pleased to note is that we have an exceptional team of dedicated officials—

Senator ABETZ—I agree.

CHAIR—You are interrupting the minister.

Senator Sherry—Are you finished, Senator Abetz? What I am pleased to note is that we have a dedicated team of officials who, under great time pressure, met the request of the minister—in this case, Minister Bowen, the Assistant Treasurer. In one case, I note, impressively, an officer worked all night and into the early morning hours and continued to work for the rest of the day. I think that is greatly appreciated and is to be commended because it is a sign of the commitment and dedication of officers to meet the request of the Assistant Treasurer.

Senator ABETZ—I have no criticism in any way, shape or form of the way the officers have conducted themselves in this matter, the way that they have met the requests of the minister. The question was: why did the minister make this quite—if I might suggest—unreasonable demand on the officers when there does not seem to have been a genuine reason as to the urgency? What would have happened if this bill had been introduced a week or a fortnight later?

Senator Sherry—I am sure there have been previous occasions—I do not know about under this government—under your government where there were very tight time lines. I do not know the precise reason—

Senator ABETZ—Of course there have been. I am asking about this particular one—

Senator Sherry—And you keep interrupting—

CHAIR—The minister was attempting to answer.

Senator Sherry—You just cannot resist it. I am sure there were previous occasions when you were in government where there were tight time lines set and there were officials who worked in a very dedicated and committed way. I am sure that there were similar requests made when you were in government. As to the reasons for Mr Bowen, the Assistant Treasurer, setting that deadline and the precise terms in which he set the deadline, I will take it on notice and ask for his response.

Senator ABETZ—Thank you very much. That is all that I wanted to know. Ms Holdaway, I assume you were not ensconced in Treasury by yourself during that evening and early morning? How many other staff were burning the midnight oil with you on that occasion?

Ms Holdaway—There were two other staff.

Senator ABETZ—From Treasury, with you?

Ms Holdaway—Yes.

Senator ABETZ—Were there any people from the Office of Parliamentary Counsel with you?

Ms Holdaway—No.

Senator ABETZ—Did you have any communications with the Office of Parliamentary Counsel or AGS between 9.30 pm and 7 am—that is, 9.30 pm on 28 May and 7 am on 29 May?

Ms Holdaway—No.

Senator ABETZ—Mr French indicated to us that there was a draft bill, things had sort of been finalised and he had left at 9.30 pm on the evening of 28 May. What other matters needed to be attended to in addition to what has been described to me by Mr French and others as two very short bills?

Ms Holdaway—It was basically the finalisation of the explanatory memorandum, quite a bit of which was already done following the release of the drafting instructions. Perhaps we worked very slowly.

Senator ABETZ—Please do not sell yourself short. You stayed there from 9.30 pm right through to—I would imagine—at least 6 am. You worked about nine hours, I would assume, or, even with breaks, seven hours, on 30 pages of explanatory memorandum. Methinks the chances are the majority of it had not been predrafted before 9.30 pm but that the majority was, in fact, drafted by you and your two officers that were with you during the period 9.30 pm through to 7 am the next day. That is a more accurate reflection, do you think?

Ms Holdaway—Certainly, you cannot finalise the explanatory memorandum without the bill, so we did actually need to see the final bill, or the draft bill, before we could finalise it. So, yes, a lot of that time was spent on finalising the explanatory memorandum.

Senator JOYCE—Just out of curiosity, what time did you leave work on 29 May?

Ms Holdaway—The following day, I believe it was about 7 pm.

Senator ABETZ—And when did you arrive at the office on 28 May, just roughly? Don't tell me you did not leave on the 27th?

Ms Holdaway—I did.

Senator ABETZ—Good, good. Otherwise we would have been getting into 24/7.

Ms Holdaway—I usually arrive at work around 9 am, but that particular day I did have an early meeting so it was a bit earlier than that.

Senator BIRMINGHAM—What time was the request received from the minister's office for this legislation to be prepared for the following day?

Mr French—We had the request early in the morning, around 10 am.

Senator BIRMINGHAM—It was 10 am on 28th, so about half an hour before the meeting with the parliamentary counsel?

Senator COONAN—Have we finished this line of questioning now?

Senator BIRMINGHAM—About 10 am?

Senator Sherry—Are we still on 'markets' or are we going on to 'macro'?

Senator ABETZ—Yes, still on this: are you aware of when the other two staff that were with you had commenced working on 28 May?

Ms Holdaway—I cannot recall exactly but I think it was around 9 o'clock; 9.00 or 9.30.

Senator ABETZ—When did they leave the office on 29 May?

Ms Holdaway—It was shortly after 6 pm.

Mr French—We would have returned to Treasury following the introduction of the bill.

Senator ABETZ—Sorry, 6 pm?

Ms Holdaway—Yes, it was pm.

Senator ABETZ—It was pm? I did not hear whether it was 6 am or 6 pm. At least three officials worked from in rough terms 9 am for 35 hours straight, or in your case Ms Holdaway, it would have been about 37 or 38 hours straight; is that correct?

Mr French—The staff did take breaks. I mean, 35 hours straight is not correct.

Ms Holdaway—We did take breaks.

Senator ABETZ—Really: Mr French, thank you for that intervention. Were you on either Treasury premises or in the ministerial office for a period of about 35 hours other than for the short period of time when you were on some tarmac or asphalt between the Treasury building and the minister's office and then returned from the minister's office to the Treasury? Would that be right?

Mr French—I personally was not—

Senator ABETZ—No, I am not asking you because we know you left at 9.30 pm, but you had three officers working and I just wanted to check with Ms Holdaway that she was on Treasury premises or in the ministerial office—apart from two short trips to and from Parliament House—for a period of about 35 hours; is that correct?

Ms Holdaway—Yes.

Senator FIERRAVANTI-WELLS—Were those officers within your section?

Ms Holdaway—Yes.

Senator ABETZ—They spent the same period of time other than on 28 May when they clocked on about an hour or two after you did; is that correct?

Ms Holdaway—Yes.

Senator COONAN—Were they largely also working on the EM?

Ms Holdaway—Yes.

Senator JOYCE—Funnily enough, constitutionality is one of the issues, but I want to still talk about Fuelwatch. As there is no recommendation in the ACCC petrol report, where did the Fuelwatch recommendation come from?

Mr Murphy—If you look at the report, it says that if you wish to address issues concerning the lack of information of consumers and the imbalance between the information between petrol retailers and consumers you have various options. One of those options which was set out was Fuelwatch—

Senator JOYCE—So, who recommended it?

Mr Murphy—I will get you the reference. Another option was to legislate in terms of Informed Sources, who provide information to petrol retailers. Another option was to try to get better information through the ACCC. That is page 17.

Senator JOYCE—You are saying the recommendation came from page 17 of the—

Mr Murphy—No, it raised the options.

Senator JOYCE—Who recommended it, or did it just come from an option?

Mr Murphy—It was recommended largely by the ACCC—

Senator JOYCE—Largely by the ACCC?

Mr Murphy—Yes, the recommendation being that if you wish to address this imbalance of information—

Senator JOYCE—To be completely precise, the ACCC did not recommend it?

Mr Murphy—In discussions with the government, the chairman of the ACCC recommended that we should introduce a Fuelwatch scheme.

Senator JOYCE—Are you saying that the chairman of the ACCC—

Mr Murphy—Yes and I think he is on the public record as recommending it.

Senator JOYCE—You can find me where it says it was recommended? I know you have said you are going to tell me it was an option, but it was not recommended.

Mr Murphy—No, the report does not specifically recommend it. It recommends, ‘If you want to address retail price transparency here are your three options.’

Senator JOYCE—Apart from that option in the report, there is really no written recommendation from anybody?

Mr Murphy—Other than the briefing and the public statements that the chairman of the ACCC has made.

Senator JOYCE—Okay. So the chairman of the ACCC made a statement?

Mr Murphy—Yes.

Senator JOYCE—Has Treasury done any modelling regarding Fuelwatch?

Mr Murphy—Treasury has examined the economic modelling, which was provided in the report, to test the robustness of the methodology that was undertaken to come to the conclusions that were taken.

Senator JOYCE—Are you saying it has done modelling?

Mr Murphy—We have not done modelling. We tested the modelling that was done in the report. We tested the methodology.

Senator JOYCE—You have not done modelling but you have tested the methodology?

Mr Murphy—Yes and we felt that—

Senator JOYCE—Why didn’t you do modelling?

Mr Murphy—We did not see the need to do the modelling. If we felt that the methodology was robust and we had meetings with the ACCC to discuss their economic modelling, to test it and to give them suggestions on further modelling, which they have done, that was sufficient for us.

Senator JOYCE—Were you asked to do modelling?

Mr Murphy—No.

Senator JOYCE—There was no recommendation and you were not asked to do modelling. Is it appropriate from an economic testing point of view for the ACCC's modelling, or whatever you want to call it, to only look at posted prices and not to do a full analysis of the price actually paid by motorists and the volumes sold at those prices?

Ms Holdaway—Obviously, the data that the ACCC used to do their econometric analysis at the start, which was reported in their December report, used the nominal price, as you say. Unfortunately, the volume sold at each price is something that is not currently captured. In order to test that, the ACCC's further analysis that has recently been released actually does some what we refer to as a stretch test to take into account some of, if you like, the worst and best scenarios of that data. One of the scenarios that they actually use is the lowest price point of the week. So rather than using the average price, which is not weighted, they have actually used the lowest price of each week as the point for the price.

Senator JOYCE—Sorry to bore people, but do you feel there is statistical veracity to doing that without a volumetric attachment?

Ms Holdaway—Yes, I think that can still provide results that show that it is statistically significant. A lot of the econometric analysis is really about testing the hypothesis and in that case it is actually testing whether there is still enough impact of Fuelwatch even if you take the point of lowest price of the price cycle.

Senator JOYCE—The reason I bring this up is, as you know, two-thirds of petrol sold in Sydney is currently sold at prices at the lowest 30 per cent of posted prices, but in Perth only one-third of petrol is sold for prices in the lowest 30 per cent. So that would imply that the Western Australian motorists are worse off under the WA FuelWatch scheme.

Mr Murphy—We would have to go back to the analysis and from the economic modelling—there are two sets of modelling—it seems pretty clear that they have proved that, with the introduction of FuelWatch in Western Australia, people were not worse off in terms of petrol prices. We cannot prove whether they were better off but we are pretty certain if we look at the modelling that they are not worse off.

Senator JOYCE—In Sydney, how often do people get the cheapest price? Is it every week? In Sydney, how often do motorists get the cheapest prices? If the cheapest prices go in a cycle, which is once a week, you get the cheapest prices?

Mr Murphy—Yes, Tuesday.

Senator JOYCE—How often do they get the cheapest prices in Perth?

Ms Holdaway—The ACCC report certainly indicates that the price cycles in WA may be longer.

Senator JOYCE—About every two weeks?

Ms Holdaway—Yes.

Senator JOYCE—Using the volumetric model, you would say that if two-thirds of people buy petrol in Sydney at the lowest 30 per cent then they are obviously going to be in a far better position, aren't they?

Ms Holdaway—I might just go back to a further analysis that the ACCC have done on this. The regression that they have run on the lowest price day of the week makes an assumption that everyone purchases at the lowest price of the week, so not just 30 per cent but 100 per cent of purchases—

Senator JOYCE—Are you saying that in your modelling that you did you were inferring—

Ms Holdaway—No, the ACCC's further analysis, that has been tabled—

Mr Murphy—It was tabled on 29 May; they put out a release on the further analysis.

Senator JOYCE—Do you think that it is valid that everybody buys at that price?

Ms Holdaway—That regression actually showed that, even if you put an assumption that everyone purchases at the lowest price of the week, there is still a 0.7c per litre fall in the price margin of WA's price compared to the eastern capitals.

Senator JOYCE—But the reality is that everybody does not buy at the lowest price, and that is borne out by when people buy petrol in WA. Has there been a reconciliation of the differences between the ACCC modelling and the Informed Sources modelling?

Mr French—We have not undertaken that that sort of work.

Senator JOYCE—Has Treasury reviewed the modelling by Informed Sources that suggests that prices will rise under Fuelwatch?

Mr French—We do not have access—

Ms Holdaway—We have not reviewed that.

Senator JOYCE—Did Treasury look at any alternative to Fuelwatch?

Mr Murphy—We looked at options of how you could try to redress this information symmetry between the consumers and the retailers. One of those options was to see what you could do about Informed Sources.

Senator JOYCE—You are aware of Informed Sources?

Mr Murphy—We are aware of Informed Sources but we have not got their data.

Senator JOYCE—When you were looking at Informed Sources, surely you would have done a reconciliation between your modelling and Informed Sources modelling?

Mr Murphy—No. We were looking at a different point of view. What we were looking at was to say: how can you redress this information imbalance between the retailers and the consumer? And the reason there is an imbalance is that the retailers have all subscribed to Informed Sources. They get the information; the consumer does not.

Senator JOYCE—In your other options how much work did you do towards alternatives to Fuelwatch? I will be completely frank: were you just given a policy and told, 'This is it. You have got 36 hours to get it in and off you go'?

Mr Murphy—No. For three months work was done in Treasury to test the information that had been put together by the ACCC in their inquiry. Options were put forward and those options were: Fuelwatch, the option of doing something about Informed Sources—but that is

a private company; it is a big thing for a government to put a private company out of business—and doing a Fuelwatch-lite by just having information publicised by the ACCC—

Senator JOYCE—Was there a quantum of work done on that?

Mr Murphy—Yes, a fair bit of work. But this went over a number of months. We came to the conclusion, which we have publicly stated, that if you want to address that information imbalance the only way you are going to do it is through Fuelwatch. If that is what the government wants to do, that is the only thing that will work.

Senator JOYCE—In the integrity of your examination of alternative policies, did you spend a quarter of the time looking at alternative policies in that three-month period? What sort of examination did you do on alternative policies?

Mr Murphy—I would say we did quite a rigorous examination. We do not go into these things lightly and we are trying to give the best possible advice to the government. It has always been, and still is, a very contentious issue. That makes us even more alert to making sure that we give them the best advice.

Senator JOYCE—Since you have got Fuelwatch, have you seen any problem with just getting the Informed Sources data and making that available to the motorists immediately so that you have immediate transparency to find the cheapest price?

Mr Murphy—It is a different system and we would have to buy—

Mr French—I think the government's objectives were about intra-day volatility as well as ensuring that there is readily available information through price transparency. The only option that would have addressed those issues was the Fuelwatch system.

Senator JOYCE—The government's advice in their concentration on intra-day volatility precluded looking at such things as Informed Sources as a viable option giving immediate transparency?

Mr French—There were a variety of options raised in the ACCC's report and we examined those options.

Senator JOYCE—A variety of options—three options?

Mr French—Correct.

Mr Murphy—Yes.

Senator JOYCE—Of which we accepted one, so there are only another two? This is obvious, I know, but doesn't Fuelwatch prevent discounting during the day?

Mr French—You are required to notify the price the previous day and you are required to sell the fuel at that price the following day.

Senator JOYCE—My final question is one that you have already heard: at this point in time do you see any constitutional problems and has Treasury had any advice on any constitutional problems with regard to Fuelwatch?

Mr Murphy—We have sought advice and we have taken advice from the appropriate authorities that the bill is constitutional.

Senator ABETZ—Ms Holdaway, in your evidence you said as you worked around the clock on 28 and 29 May that you were mainly working on the explanatory memorandum. Were you also working on the bills?

Ms Holdaway—No.

Senator ABETZ—Is the explanatory memorandum checked, vetted or proofed by AGS or OPC?

Ms Holdaway—No.

Senator ABETZ—Can I commend you, Ms Holdaway and other staff, Mr French and Mr Murphy. I have no criticism of the way you worked and performed. Indeed, I am sort of tempted to make a job offer and say you have only got to work 18 hours a day, but can I ask the minister or Dr Henry: when does Fuelwatch kick in? Isn't it 30 November 2008?

Mr Murphy—There are a lot of administrative arrangements but the ACCC has got to set up—

Senator ABETZ—But a week was neither here nor there in the scheme of things, was it? You could possibly take that on notice when you ask the minister what the urgency was to require these excellent, dedicated staff to work around the clock. Mr Murphy, in all the circumstances that have now been revealed I do think it was unfortunate—I will try to use as neutral a term as possible—that you should seek to chide the committee that we were keeping staff here that had been here since early this morning and that they might be kept here till 11 pm. Given the circumstances of people working 35 hours flat and you being aware of that—

CHAIR—Senator Abetz—

Senator Sherry—Thanks for that, Senator!

CHAIR—Order! Order!

Senator ABETZ—I think that it was a very unfortunate statement to make.

CHAIR—I think, Senator Abetz, that was a comment, not a chiding of the committee, by Mr Murphy. It was a passing comment.

Senator FIERRAVANTI-WELLS—He took exception to it.

Senator ABETZ—Yes, he took exception to us—

CHAIR—No. There is no need to enter into—

Senator ABETZ—The point has been made.

CHAIR—Are there more questions?

Senator JOYCE—Going back to Fuelwatch, do you think that Fuelwatch—

Senator Sherry—On that issue, I think you are right to refer indirectly without describing it. Informed Sources have a vested interest because they are the organisation that, I am informed, provide the secretive information for the sharing website by petrol retailers to check out each other's prices, so they clearly have a vested interest, and Informed Sources are engaged in—

Senator JOYCE—You are acknowledging—

Senator Sherry—Let me finish. You have asked the question.

Senator JOYCE—It is a very long answer.

Senator Sherry—I will finish. Informed Sources is the organisation that is engaged in a practice described by the ACCC as ‘conducive to anticompetitive coordination’. That is in the ACCC’s inquiry report on page 241 and the ACCC said of Informed Sources: ‘The role of informed sources raises particular concerns for the relative levels of price transparency between retailers and consumers.’ That is on page 241 of their report.

Senator JOYCE—It is quite obvious that you are hedging your bets.

Senator Sherry—You have asked a question and I going to answer it.

Senator JOYCE—Informed Sources are going to go out of business.

Senator Sherry—Informed Sources does have the most to lose from the introduction of Fuelwatch, because it is engaged in what the ACCC describe as ‘conducive to anticompetitive coordination’ by providing the secret information that some petrol retailers use to check out each other’s prices. They have clearly got a vested interest.

Senator JOYCE—My question was purely: do you believe that Informed Sources is going to be put out of business? You obviously think it is.

CHAIR—Members of the committee, can we move on to Outcome 1?

Dr Henry—Chair, could I—

CHAIR—Dr Henry.

Dr Henry—I was going to seek the indulgence of the committee to make some remarks concerning the line of questions and answers that we have just had. With your indulgence—and I will stop as soon as you want to cut me off—all I wanted to say is that, as senators would be aware, the *Hansard* of this committee will be widely read in the department and there is a risk that some of my staff might interpret the proceedings of the committee in the wrong way and, in particular, might draw from what they have heard some conclusions about work practices in the department that I would prefer they not draw.

With your indulgence, can I simply make the point to senators that in all the time I have been in the department, getting on for 24 years, events of the sort that we have had related to us this evening are, I would have to say, not uncommon. I would of course wish that it were otherwise. The department has, I think I could say, a culture of serving successive governments with absolute professionalism and dedication to any sort of deadline that successive governments have set. I would wish that we could find ways in the parliament and the Public Service of ensuring that public servants did not have to work such hours.

Senator JOYCE—When was the last time that three people worked 35 hours straight to try to provide—

CHAIR—Senator Joyce, can we—

Senator JOYCE—I think it is a relevant question.

CHAIR—I am told that there are a lot of other questions on this area and I would like to—

Senator JOYCE—Does this happen often?

Senator Sherry—It would certainly be relevant in macroeconomic policy, but we are not there yet.

Senator JOYCE—Do you know of another time when three people have worked for 35 hours straight?

CHAIR—Dr Henry has just said that there are a number of times when—

Senator JOYCE—That is a relevant question.

Dr Henry—I am happy to answer the question, Chair. With every budget over the last years—I do not know how many, but maybe as many as 10—a significantly larger number of people than three would have worked at least that many hours without a break.

CHAIR—Thank you. Can we move on to other questions?

Dr Henry—Maybe 10 times that number of people.

Senator ABETZ—I would like to ask Dr Henry, as secretary of the department, if he would see those sort of working hours that were worked by excellent, professional, dedicated staff as in general terms being undesirable.

Dr Henry—I have said that I would wish that we could find ways of avoiding the need for people to work those sorts of hours.

Senator ABETZ—Of course, in this particular case the timetable and the urgency came from the minister's office and that is why I have asked the minister and he will answer on notice what the imperative was to make these people work these undesirable hours for a scheme that is going to start on 30 November.

CHAIR—The committee has APRA coming in at 8.30. We still have one more outcome to go through before then. I would like to get on to those other areas in Outcome 4. Senator Coonan.

Senator COONAN—Yes, of course. I just want to say that I am not entirely confident that we will have reached APRA by 8.30, and for that I apologise. You never like to keep officials waiting, but I cannot necessarily be bound by it. I will be as quick as I can.

Senator Sherry—I accept that. This has happened before when we were in opposition. My only concern is that APRA is an interstate agency and perhaps you could consider over the dinner break whether in fact we will actually get to them and, if we do, whether they would need to come back tomorrow morning so that they can at least make arrangements.

CHAIR—Yes.

Senator COONAN—Certainly. That is more than reasonable. Once again I apologise to them. I am sure they are watching or listening. I wanted to go to a few questions about the operation of the scheme and the analysis. First of all, there have been some questions as to the constitutionality of using the corporations power and insofar as it would bind sole traders or individual operators. No doubt this is a matter of legitimate public interest. I am going to ask the officials or the minister whether or not you would consider releasing the legal advice, or whatever series of legal advices that have been committed to writing, so that we could have confidence more broadly that this scheme is constitutional?

Senator Sherry—I will take that on notice.

Senator COONAN—Thank you.

Mr Murphy—If you looked at recent High Court cases the extent of the corporations power is fairly clear.

Senator COONAN—I understand that. Therefore, there should not be much problem in confirming it and I think that would be appropriate. I know that there are occasions where it is not appropriate to release legal advice, but if it is not much of an issue and it has been well and truly canvassed, which you say it has, we will look forward to—

Senator Sherry—I will take your request on notice. I am just trying to think when you released legal advice as a minister. I am just trying to cast my mind back. Anyway, I will take it on notice.

Senator ABETZ—I am sure you were highly critical.

Senator COONAN—If it is not contentious or is fairly straightforward, as Mr Murphy says, perhaps some of the usual caveats about releasing legal advice might be overcome. I would like to ask Mr Murphy or whoever is the appropriate official: was Treasury asked by the ACCC to review the three pages on econometric work done on FuelWatch by the ACCC that is attached in appendix S of its original report?

Mr Murphy—We reviewed it as it came in. Our job was to review it, talk to the ACCC about it and to understand the conclusions that they reached.

Senator COONAN—Did any part of Treasury engage any earlier than the furnishing of the December report on matters to do with FuelWatch?

Mr Murphy—No. The government commissioned the inquiry. We got the report and then we took it from there.

Senator COONAN—Can you tell me when you received the report?

Mr Murphy—In December, shortly before they released it.

Mr French—We could take that on notice.

Senator COONAN—Were you given an opportunity to comment before it was released.

Mr French—No.

Mr Murphy—No.

Senator COONAN—Can you give us a description about what work you undertook? If you will forgive me for putting it in very simplistic terms, it was not the kind of work that simply checked additions. It was a review—correct me if I am wrong—that would have involved using the ACCC's data and starting from the ground up, from your earlier answer, and coming up with your own analysis, methodology and econometric tests.

Mr Murphy—We tested their methodology.

Senator COONAN—Would you mind just describing what you did, please?

Ms Holdaway—I can answer that. The ACCC sent us the data set that they created to be used as part of the econometric analysis. That was in the form of a starter software that allows

you to run these programs. I, myself, actually use Eview and was not able to do that so, as Dr Henry mentioned before, I referred to one of my colleagues in MEG who has the expertise of this software and I asked him to basically run exactly the same regression equation that was provided in the ACCC's analysis and to check to make sure the results were identical and that it provided statistically significant results. He confirmed all of that.

Senator COONAN—Did Treasury also review the further results that were contained, appended or referred to in the ACCC's press release dated a few days ago, 29 May 2008?

Ms Holdaway—We have not had the opportunity to do that.

Senator COONAN—Will you be doing that?

Mr Murphy—My understanding is that Treasury was one of the causations for that work to be released, because we asked questions about that and we felt that further work could be done that would clarify the efficacy or the benefit that you could get out of Fuelwatch. That further work actually came from discussions with Treasury.

Senator COONAN—Are you able to give me some idea of when the ACCC was asked to clarify their earlier data?

Mr French—Can you please clarify?

Mr Murphy—The meetings we had with the ACCC.

Mr French—Do you mean when we met with the ACCC following the report?

Senator COONAN—Yes.

Mr French—It was early in this calendar year, but we could take it on notice if you wish.

Senator COONAN—Yes, thank you very much. I am just interested in the progression to the ACCC doing further work or further results, as they describe it, and when Treasury's consultations with the ACCC prompted that work to be undertaken, if I understand you correctly.

Mr Murphy—That is correct.

Senator COONAN—You think that was early this year?

Ms Holdaway—Yes.

Senator COONAN—Could you have a stab at which month?

Mr French—We would have to check our records, so we will take it on notice.

Senator COONAN—At that time were you preparing the cabinet submission?

Mr French—We would have been in discussions with the ACCC prior to that.

Senator COONAN—Forgive me. I am not trying to test your recollection unreasonably, but it is important to understand the sequence and time frame of how this contentious piece of work that has somehow or other jumped your office and superseded every department which normally does this work, how this comes to be the preferred modelling of the government. You can appreciate I am interested in what consultations you had with the ACCC on the shortcomings, if I can put it that way, of their original work.

Mr Murphy—We will give you the dates and the times of our meetings with the ACCC. That is what we did; that is where we were. We did not find any shortcomings in their work. In their initial work we found the methodology that they used was robust and we felt that if you ran further regressions that you could get a better case or justification of what you were trying to do. We did not find fault. We thought if more work was done, then they could get clarification as to the results that will occur through introducing a Fuelwatch scheme. That is all.

Senator COONAN—Is it correct to conclude that from the original report the results are inconclusive?

Mr Murphy—We would say that, yes.

Senator COONAN—At that stage were you working on the implementation of Fuelwatch as a policy recommendation?

Mr Murphy—Yes.

Senator COONAN—Had you received policy authority to get on with preparing the cabinet submission?

Mr Murphy—Yes. However, as well as the report, there had been presentations by the ACCC to senior ministers who had the opportunity to test the proposals and the recommendations of the ACCC on this, after being briefed by their departments.

Senator COONAN—Were you present at any such presentation?

Mr Murphy—No.

Senator COONAN—Do you know when the presentations took place?

Mr Murphy—We can seek to clarify.

Senator COONAN—They will be here tomorrow anyway.

Mr Murphy—They can comment on that.

Senator Sherry—They may be here tomorrow morning.

Senator COONAN—You gave the evidence that as part of the sequence they presented to senior ministers. Was this presentation before or after Treasury asked the ACCC to do some further work to clarify what their data showed?

Mr French—We would need to check our records on that. We could take that on notice.

Mr Murphy—We will have to get you the date.

Senator COONAN—Subsequently the ACCC of course did some further work and, following the events of last week when there was some question as to whose analysis was relied on and whose was rejected, there was a press release by the ACCC. The press release, dated 29 May, states:

The main event identified by all of these tests was the decrease in price margin from around the time of the establishment of the WA Select Committee on Pricing of Petroleum Products and the establishment of Fuelwatch.

Are you able to tell me when the WA inquiry began and when did it conclude?

Mr French—That would be a question to put to the ACCC.

Senator COONAN—You do not have any knowledge of that?

Mr French—We would not have that information in front of us.

Senator COONAN—Do you know whether the ACCC also had reference to or allowed for other petrol inquiries, for example, in Victoria and Queensland that have occurred over the years?

Mr French—That is a question you should put to the ACCC.

Senator COONAN—I am just checking to see where you come in. What was the name or the descriptor—I think they referred to it in their press release but I will ask you—of the econometric test that the ACCC carried out that is referred to in its May 29 press release?

Ms Holdaway—The endogenous.

Senator COONAN—Is that its full name?

Ms Holdaway—No, it is not. It is called the endogenous selection of structural breakpoints.

Senator COONAN—Are you in Treasury familiar with analysing that type of econometric testing?

Ms Holdaway—I personally am not.

Senator COONAN—Was your colleague the one who did it? Is that what you referred to your colleague?

Ms Holdaway—No. This analysis we have not had the opportunity to review.

Senator COONAN—Was the econometric testing that you referred to your colleague in Treasury the same kind of econometric testing?

Ms Holdaway—That was along the same lines. It was dealing with time series, but we were reviewing what was attached to the December 2007 report.

Senator JOYCE—Was that a form of structural testing?

Ms Holdaway—We checked the regression that took place with the 2001 or what we refer to as a dummy variable. When we ran that, just as the ACCC reported, it was shown as statistically significant that there had been enough change as a result of that structural break.

Senator COONAN—Would it be usual practice in an econometric exercise of this kind to set out the details of statistical significance?

Ms Holdaway—It would be standard practice.

Senator COONAN—Can you see if the details of statistical significance were provided in the press release? You can go to page 4.

Ms Holdaway—It is provided on page 2, but when they refer to the three different regressions it is not provided.

Senator COONAN—That would not be good econometric practice, according to your earlier answer.

Ms Holdaway—I was just referring to standard reporting of econometric results.

Senator COONAN—It is not standard reporting of econometric tests to not include details of statistical significance?

Ms Holdaway—No. Based on the ACCC's regional analysis, I work on the basis that these are statistically significant or otherwise it would not have been concluded this way.

Senator COONAN—How are we to know if it has not been included?

Mr French—That is a question for the ACCC.

Senator COONAN—With respect, it is not, because you are the department with the expertise to provide rigorous analysis of what is being put to government by an agency and you are telling me that is a significant piece of information that you do not have.

Mr Murphy—That is right.

CHAIR—Senator Coonan.

Senator COONAN—What was the answer?

CHAIR—That is right.

Senator COONAN—I want to ask you about the Treasury regulatory impact statement on Fuelwatch if you could have that handy please. Paragraph 14 of the RIS states:

The ACCC identified intraday price volatility as a contributing factor towards the lack of transparency that exists across Australian retail petrol markets.

Did the ACCC report provide any numerical details of intraday price volatility?

Mr Murphy—Yes.

Ms Holdaway—There was no numeric as such, but the main input to the report was the survey that was carried out by the independent body.

Mr Murphy—ANOP carried out a survey.

Ms Holdaway—It indicated that intraday price volatility was a major source of anxiety for consumers. In the past the ACCC have also said that, on average, intraday volatility can happen three to four times.

Senator COONAN—Would it be correct to describe it as the report adopted, or took into account, the intraday volatility evidenced from ANOP?

Mr Murphy—Yes, the market research.

Senator COONAN—The ACCC report was published in December 2001. Is that a 2001 report?

Senator JOYCE—Early 2001.

Senator COONAN—It was *Reducing fuel price variability* and contains a table 2.13 on page 26 which provides details of the average number of times that retailers change prices during a 24-hour period and the average duration of posted prices. Have you got that?

Mr Murphy—We do not have that report in front of us.

Senator COONAN—You can take it from me, for the purpose of these questions, that the report shows that in Sydney in late 2000 and early 2001, for example, the average retailer changed his prices less than once a day. The figure reported is 0.89 times per day, with average retail prices posted for 15.7 hours and the situation in other cities is similar. You can take this as an accurate description for the time being. It means in my submission—and I would like you to comment—that intraday price volatility in 2000 and 2001 was really quite low. Would you agree with that?

Mr Murphy—It may be. You would have to factor in more recent information. I cannot give you the date, but you would have to factor in when the Informed Sources program started, because that gives the retailers the opportunity to change prices.

Senator COONAN—The situation changed or at least was impacted so far as you know by the intervention or the commencement of the Informed Sources?

Mr Murphy—It may. You are referring back to a 2001 report. It is on public record that the ACCC has changed their position on this. Back then they were sceptical and now the market developments and the availability of the Informed Sources information has changed people's view as to petrol pricing and the information imbalance between the retailers and the consumers.

Senator COONAN—When you say 'changed people's view', it has not changed a lot of people's view, has it?

Mr Murphy—It changed the view of people who were officially asked to review this. We can all have anecdotal evidence and we can all have a view, but the ACCC has done a weighty and professional report. A lot of people have looked at it, questioned it, reviewed it and we find it stands up.

Senator COONAN—The second table, table 2.14 on page 27, shows that most intraday petrol price changes are negative and that when prices do increase the increases are not more than 10c on average. For example, in Sydney in late 2000 the average retailer increased prices 31 per cent of the time with the average price increase of 4.5c per litre. My question is: would this data then support the following proposition that motorists drive past a petrol station in the morning and notice the price, only to return in the afternoon to find a 10c per litre jump in the price of petrol that afternoon or that evening, so do the figures in the ACCC report tend to lend support to that proposition?

Mr Murphy—I am unclear as to the report. You refer to the 2001 report. All I can go on is the more up-to-date report of December 2007. In that report there is a firm conclusion that intraday volatility of prices is of concern to consumers.

CHAIR—At 6.30 we will go to the dinner break and resume at 7.30 with outcome 4. Can the committee let me know how we are going?

Senator COONAN—Just to help the APRA officers, even if we went straight to APRA after dinner or tried to interpose them they would still have to stay overnight, because the last flight out is 8 o'clock, so I just thought it might be very helpful for them to know that.

CHAIR—Senator Coonan, are you proposing that we change the program?

Senator COONAN—No, I am not. I am saying that they will not be able to leave no matter what we do to the program, so they would unfortunately need to stay overnight.

Senator Sherry—I understand that. Would they be needed in the morning? It is just that they may have some arrangements later in the morning in Sydney that they might need to change.

Senator COONAN—I will just have to check with my colleagues. It is not for me, but I will check.

Senator Sherry—Thank you.

CHAIR—The committee will take the dinner break.

Proceedings suspended from 6.31 pm to 7.30 pm

CHAIR—We will recommence with outcome 4, Treasury portfolio.

Senator COONAN—I have a couple of further questions on the point that I was on before the break, and then I want to go on to a couple of other issues. Given the nature of the weekly price cycle, how often would a 10c jump in the price of petrol occur in the same day? Wouldn't it only be likely to occur on the most expensive day of the week, which we know to be Thursday?

Mr French—I do not think we can answer that.

Mr Murphy—If we can go back and look at the papers we will provide you with a written answer on that. But we cannot answer that.

Senator COONAN—You cannot answer that now?

Mr Murphy—No, not tonight.

Senator COONAN—I am interested to know whether or not the situation has changed. If you would not mind taking—

Mr Murphy—Are you referring to some—

Senator COONAN—The earlier report—the report that I was on before.

Mr Murphy—The 2001 report?

Senator COONAN—Yes.

Mr Murphy—Certainly.

Senator COONAN—I am interested to hear your answer to this. If most price changes are downwards, how would reducing intraday volatility actually help consumers?

Mr Murphy—As to intraday volatility, I suppose it is of great benefit to consumers if prices move down. But it seems that the intraday volatility is an issue in itself, whether prices go up or down. The issue of certainty seems to be one of the concerns of consumers. That is what the studies seem to show.

Senator COONAN—Just going back to the earlier analysis, the appendix and the report on petrol prices and Australian consumers, and in particular the econometric analysis that was examined, did the analysis examine consumer prices at pump or retail price margins?

Ms Holdaway—Basically, it captures the prices at the pump, and in order to work out whether FuelWatch had an impact on the relative price margin in WA—

Senator COONAN—Retail price margins?

Ms Holdaway—It captured that and then took away the standard wholesale price. Mogas is the standard that we use as a benchmark. In effect, it starts with the raw data that is at the pump price but reduces it to a price margin so that you can actually have a meaningful result.

Senator COONAN—This particular report—not the revised report but the original report, the December report—does not find that final pump prices would fall under Fuelwatch, does it?

Ms Holdaway—It finds that the relative price margin in WA, relative to the eastern capital, falls as a result of introduction of FuelWatch.

Senator COONAN—Did the report that I have referred to recommend that Fuelwatch be introduced then at a national level?

Ms Holdaway—The report of December 2007? I think we covered that previously. It recommends that three different options be looked at more carefully, with Fuelwatch being one of those options, and it specifies that lack of intraday volatility and price transparency is a real issue for the retail market.

Senator COONAN—Does the option for Fuelwatch recommend, if it were accepted, that it be introduced nationally?

Ms Holdaway—I think the option highlighted by the ACCC suggests that it has to be implemented nationally.

Senator COONAN—I know you have not analysed this, but can you confirm now—and, if not, can you confirm for me when you have had a chance to consider it—that the results on page 4 of the further analysis released by the ACCC on 29 May appear to show that there was a structural break eight months before Fuelwatch was introduced?

Ms Holdaway—Just looking at the table that is provided, it highlights that it was around May 2000 where the structural break commenced or occurred.

Senator COONAN—That was eight months before FuelWatch was introduced?

Ms Holdaway—I am not sure of the exact time that FuelWatch was introduced in WA and how much of it was discussed beforehand.

Senator COONAN—Can you take this on notice: is it not a fact that the results of the analysis appear to show that there was a structural break eight months before FuelWatch was released in WA? I think you will find that the answer to that is yes, but I will wait for you to confirm it. Can you tell from the table where the changes that are reported are statistically significant?

Ms Holdaway—I am not familiar with the actual running of this test. I think I have mentioned that previously.

Senator COONAN—You did.

Ms Holdaway—So as a result I am not sure whether in this case such statistics are required.

Senator COONAN—Can you ascertain that from the data?

Ms Holdaway—It is not provided in that table before us.

Senator COONAN—So you cannot tell from the table whether or not it is statistically significant?

Ms Holdaway—Once again, I am not familiar with the test, so I am not sure whether that is a requirement of the test.

Senator COONAN—I understand that. But certainly the table does not tell you, does it?

Ms Holdaway—No.

Senator COONAN—That is all I am asking. Would using an average of the number of fuel stations rather than a weighted average by volume of sales call into question the validity of the results?

Ms Holdaway—This was the point that I think Senator Joyce raised before.

Senator COONAN—Yes, he did.

Ms Holdaway—In the absence of such data, which clearly shows how much was sold at what price, one can go about trying to do a stretch test for the validity of your regression. My view is that the ACCC's further analysis has done exactly that. They have actually made some extreme assumptions to see whether they still get relevant results that are statistically significant.

Senator COONAN—Is there any reason why Treasury has not tested the further report?

Ms Holdaway—It is a time issue.

Senator COONAN—Does it indicate anywhere when the report was completed?

Mr Murphy—I think you would have to ask the ACCC. I would make the point we made earlier—that this further work was actually raised with them in discussions with us.

Senator COONAN—Yes.

Mr Murphy—But we have not had the time to relook at that.

Senator COONAN—Just to be perfectly clear, you said you have not had the time to look at it. Do you intend to?

Mr Murphy—Yes. We are doing other things, but we will look at it. Now that we have got it, we will look at it and talk to the ACCC about it again.

Senator COONAN—When did you receive it?

Mr Murphy—On 29 May.

Senator COONAN—Did you have any further consultation or conversations with the ACCC between the date when you originally asked them to test it and run it again to get greater clarity and 29 May, when you received your report in writing?

Ms Holdaway—Yes.

Mr Murphy—Yes.

Senator COONAN—When was that?

Ms Holdaway—I cannot give you a specific date. There were probably a number of phone calls and discussions that took place, certainly at my level. There were also meetings held between officers higher than me and the ACCC. I could not give you exact dates.

Mr French—But we could take that on notice if you want the dates.

Senator COONAN—I am very interested to know the dates. If I can have another run at this; I do want, as soon as possible, please, the date that you made the request of the ACCC to run the extra testing.

Mr Murphy—If we can hit a date. It was in discussions we pointed to questions about the original analysis, and in discussions these issues came up. But we will give you the date when that occurred. This is a dialogue going on over a period of time. It is not like we write a request for advice to the ACCC.

Senator COONAN—I absolutely appreciate that, but forgive me if I draw on my own experience for the moment. You as the lead department were busily engaged in preparing the cabinet submission for advice to government—

Mr Murphy—Yes.

Senator COONAN—on this and you did not have a resolution at the time or at least you had not seen this additional work that you had asked the ACCC to undertake prior to the cabinet decision.

Mr Murphy—But even when we prepared the cabinet—

Senator COONAN—Is that right?

Mr Murphy—Yes, this is additional work.

Senator COONAN—So—

Mr Murphy—But even without that work we recommended that the government adopt the Fuelwatch option.

Senator COONAN—Yes, I understand what you recommended.

Mr Murphy—This work is helping to clarify things, but we would say the initial work was good enough for the government to make a decision on it.

Senator COONAN—Yes, except it was not good enough, as we now know, for the co-ordinating departments, the four other departments, including the Prime Minister's department.

Mr Murphy—They looked at the analysis themselves. They make their own calls. I do not know whether they looked at the econometric analysis.

Senator Sherry—Cabinet makes its decision based on a range of views and it did so.

Senator COONAN—I am not saying it does not.

Senator Sherry—It did.

Senator COONAN—I am really trying to ascertain when what is now said to be the definitive work by the ACCC was available to Treasury, and it obviously was not prior to the cabinet decision.

Senator Sherry—Hang on. They have agreed to take it on notice and find out. They are going to take it on notice, and we will get back to you with the date if we can.

Senator COONAN—Before we all get excited about this, there is no great mystery about the fact that you got the additional work on 29 May, right? There cannot have been any problem or at least any difficulty with establishing that cabinet must have signed off on the submission—in other words, adopted something, whether it was your recommendation in total or some other variant of it—before 15 April, because it was announced. It would not have been announced without cabinet consideration, would it?

Mr Murphy—No, but what I am saying is that the report itself and the analysis in it stands up, and government was in a position to make a decision on the basis of that information—an informed decision.

Senator COONAN—We know that a range of concerns about the material that was going to cabinet were expressed, including a letter from the minister, Minister Ferguson, on 14 April 2008. We know that, notwithstanding his misgivings and the misgivings of other ministers and four departments, the material from the ACCC that you thought—that is, the Treasury thought—was not rigorous enough and should be tested further was considered in about the middle of April and a decision was made without the further material being provided.

Senator Sherry—Is there a question here? The officer and the department have done the job required of them. They have put in their advice. They carried out their analysis and worked very hard to do so, as we heard earlier this evening. Your ‘question’ is a political statement.

Senator COONAN—I do not think it is, Senator Sherry, if you will forgive me. I have been in these positions, so I know the pressures on departments and I know how difficult it is to get everybody coordinated and all the information you need together. But I am also aware that, if information critical to a decision that you are going to rely on—namely, one agency and the information it has provided—has been asked by the writer of the submission, namely, Treasury, to do some more work, it seems to me to be quite extraordinary that cabinet would have proceeded without that work having been made available.

Senator Sherry—That is your interpretation. That is your view. That is your political statement. You are entitled to make it.

Senator COONAN—And I am entitled to make it.

Senator Sherry—But is there a question here somewhere?

Senator COONAN—The question here is the sequence of events. That is what I have been trying to establish. We know that we have a report. We know there have been many conversations, apparently, between the ACCC and Treasury as the lead agency and the true expert in terms of analysis of this data. We know that it was incomplete at the time.

Senator Sherry—Is this building up to a question?

Senator COONAN—Yes, it is. We know that it was incomplete at the time that cabinet considered it. My question is: why didn't Treasury seek to have access to this further work prior to the matter being considered by cabinet?

Mr Murphy—It may not have been done.

Senator COONAN—Did you check?

Mr French—There are certain deadlines for preparing cabinet submissions.

Senator COONAN—So it was the cabinet deadline that was the problem, not the fact that the data was not completed?

Mr French—We completed the RIS. As Mr Murphy was pointing out, that concluded that the Fuelwatch option was the most appropriate.

Senator COONAN—I know what it says.

Mr Murphy—No, I think there is a misinterpretation of what people have said, to be fair. You are saying the information which went to cabinet was incomplete.

Senator COONAN—Well, it certainly—

Mr Murphy—No, it is not. I am saying that additional information which clarified certain issues was put forward by the ACCC on 29 May. What I also said was that the information which was put together for the cabinet was a thorough analysis of the proposal in terms of a cabinet submission on Fuelwatch. It was a complete bundle of information which in my experience a government was very well informed enough to make a decision which way it wanted to go. I am not saying the information was incomplete; I am saying additional information was provided. But on the day they considered this matter—and my understanding was there was a lot of consideration given to it—they had fulsome information available.

Senator COONAN—I do not doubt that there was a lot of information available. What I am interested to know is what they did not have available that is now available that was undertaken because of requests from Treasury.

Mr Murphy—It is a matter of public record that the further economic analysis undertaken—and it is called 'further economic analysis'—was tabled on 29 May.

Senator COONAN—Yes, it certainly was not part of the consideration of cabinet or Treasury at the time the decision was made.

Mr Murphy—I think you should address some of those questions to Mr Samuel.

Senator COONAN—Yes, I will.

Mr Murphy—No, because my understanding was Mr Samuel briefed the cabinet. He is the owner of his report and he may have—I am not sure—discussed the further work he was doing. But I was not there at the time.

Senator COONAN—I am not for a minute doubting what has been said publicly by the government about what they have relied on and the sequence of events to them. What I am concerned about is that this was not material that Treasury had analysed at the time.

Mr Murphy—I am saying—

Senator COONAN—And I think that is incontrovertibly the case.

Mr Murphy—All I can repeat—and I do not want to appear to be discourteous—is that the material that was prepared by Treasury for cabinet was a fulsome analysis of the information that was around at the time. As I say, in my experience, there was sufficient information there for cabinet to make an informed decision, and I cannot say any more.

Senator COONAN—I understand your evidence. But what was not around at the time was the further justification for the ACCC's position that they have now adduced in the further minute or the further press release and methodology that they have now released. That was not available to Treasury, was it?

Mr Murphy—I have no further comment.

Senator COONAN—It was not available to Treasury. It cannot be if you did not get it until the 29th.

Mr Murphy—I cannot keep repeating myself. I do not want to be discourteous, but we know that. And I cannot give—

Senator Sherry—The witness has made his position clear. If you wish to follow it up with Mr Samuel and the ACCC tomorrow, hopefully first thing, there will be an opportunity.

Senator COONAN—Thank you for that. I just want to be very clear about this. You do not know when this additional material was asked for. What was asked for, again?

Mr Murphy—We are repeating ourselves, but we will just go through it again.

Senator COONAN—Yes, I just want to be clear.

Ms Holdaway—I think Mr Murphy explained before that through our discussion with the ACCC, which often happens as a form of dialogue, this analysis was discussed and I think we posed questions about certain aspects of the original analysis, and that was around the fact that it did not take into account volumes sold at each price. I think that was the nature of the further requests or further discussion with the ACCC about the nature of the econometric analysis.

Senator COONAN—Why did you need that?

Ms Holdaway—I did not catch that, sorry.

Senator COONAN—Why did Treasury think that that was required or would assist?

Ms Holdaway—We have already tabled the regulatory impact statement with the bill, and we actually touch on this aspect of it in terms of not the methodology but the interpretation of the result not necessarily being conclusive—firstly, because it did not take the volume sold into account. Therefore, we talked about the weighted average price rather than nominal average price. The other issue was around the structural break that was tested as the dummy variable. This is already highlighted in the ACCC report, which states that 'while this was showing a statistically significant structural break, of course you can't dismiss other factors that may have affected that'. It was on those grounds that we raised questions about the interpretation of the results, not the methodology, which we felt was appropriate.

Senator COONAN—I will come back to this. Does anyone else want to ask a question for a minute?

Senator BIRMINGHAM—Turning to the first tranche of ACCC modelling, Ms Holdaway, you indicated before the dinner break that the programming was provided or the modelling was provided in an electronic format, in the program format, to Treasury; is that correct?

Ms Holdaway—Yes, that is correct.

Senator BIRMINGHAM—You had one of your other officers run that model within Treasury?

Ms Holdaway—Yes, that is correct.

Senator BIRMINGHAM—Did you alter the variables in the running of that model at all?

Ms Holdaway—I am not sure exactly what you mean. We ran the same equation that was provided by the ACCC. We also tested other structural breaks.

Senator BIRMINGHAM—Did you vary any of the assumptions made by the ACCC?

Ms Holdaway—No.

Senator BIRMINGHAM—But you did vary some of the inputs into the model?

Ms Holdaway—No.

Senator BIRMINGHAM—What exactly did you vary in the testing of that model?

Ms Holdaway—All the analysis was basically a matter of checking what was done and clarifying that the results were identical to what was provided in the ACCC's report.

Senator BIRMINGHAM—To your knowledge, was the model independently verified anywhere else?

Ms Holdaway—Not to my knowledge.

Senator BIRMINGHAM—No.

Ms Holdaway—I do not know.

Mr Murphy—It is their work.

Ms Holdaway—It is their work, yes.

Senator BIRMINGHAM—Mr Murphy, we can ask the ACCC that. Did Treasury ask whether it had been independently verified?

Mr Murphy—No.

Senator BIRMINGHAM—No.

Mr Murphy—No.

Senator BIRMINGHAM—You do not think that is a reasonable question to ask?

Mr Murphy—No. We checked it ourselves. We went through and checked the methodology and we took the view that it dealt with what it purported to deal with, and there were reasonable assumptions. It stood up.

Senator BIRMINGHAM—You did not test altering any of the assumptions or any of the inputs?

Ms Holdaway—No.

Mr Murphy—It was set to do a certain thing.

Senator BIRMINGHAM—Would Treasury not normally undertake its own modelling in these instances?

Mr Murphy—No, not really. If a government agency is doing modelling, it is on a very narrow piece of work, a very narrow field. As long as we run the ruler over it and check the methodology and it is a reasonable result, I do not see the need to do that. It is a very narrow cut of things. It is petrol prices. It is not trying to model what is going to happen to the rest of the world. They had put forward this analysis and we checked it.

Senator BIRMINGHAM—Did any other parts of the analysis undertaken by Treasury result in estimations around pricing or the impact on pricing or the impact on the market?

Mr Murphy—No.

Ms Holdaway—No. I am not sure what you are asking there. As we said, what was undertaken by Treasury were the regressions that were run by the ACCC in their December 2007 report. In doing so, we received the data set that they had created using the definition of price margin. You talked about changing assumptions. We would have only done that if we felt that the creation of this data called price margin was inappropriate. But we did not feel that that was inappropriate, because, by taking away the price margin of eastern capitals from the WA's price margin, what they were in effect doing was really narrowing down the factor that could have only affected WA, not the whole nation. They have then also taken into account the taxes and the fuel standards, which are different between different states. They also, if you like, undid it to put them on equal footing once again to take that away from the analysis. There was no basis for us changing any of the assumptions and all we did was really re-run the same regression, if you like, and confirm the same results that were actually produced and also confirm that they were statistically significant.

Mr Murphy—If you look at the report, which we have to do, and go through it, there are a host of appendices on fuel prices—what the prices are, the seven-day rolling average in every capital industry and gross retail margins. It is just not the economic analysis. This is what you would probably call econometric analysis. There is all this information about petrol prices.

Senator BIRMINGHAM—Thank you, Mr Murphy, and thank you for that very detailed description, Ms Holdaway. That was very helpful. I understand from your answers of course that you say you undertook no separate modelling and that you simply ran the same variables through the ACCC model. Did Treasury undertake any other further analysis independently—not necessarily econometric modelling but analysis of what the economic impact and the impact in markets would be of the Fuelwatch scheme?

Mr Murphy—I think our advice is what we would consider an economic analysis of the impact of Fuelwatch, and that is what we would set out in advice to the government and we would set out in documentation for cabinet. We did that, and those are our views.

Senator COONAN—The ACCC said, as I understand it, that it had not analysed how the scheme would work in regional Australia; is that right?

Mr Murphy—There is an issue about regional Australia, how the scheme works, yes.

Senator BIRMINGHAM—Did any of that analysis you undertook go to the price impact on petrol of Fuelwatch?

Ms Holdaway—While there was no modelling as such, obviously within Treasury we apply an economic framework. Where you have a market that may not be functioning as efficiently as it can because there is information asymmetry, I think you can conclude that the correction of that so-called imbalance could lead to a more competitive market. But we also highlight in our RIS that there can be situations where having very few players within a market—and we cannot really talk about market as the whole petrol industry, because obviously we are talking about the geographical market within which people can choose physically between different retailers—can actually lead to anticompetitive effects. It can give the limited number of retailers the opportunity to informally price coordinate. We highlight that this can be a risk in remote and rural areas where you may not have as many retailers in competition.

Mr French—That issue has been addressed.

Ms Holdaway—Yes, that issue has been addressed.

Mr Murphy—It has been addressed in the design of the scheme in the bill.

Ms Holdaway—That is right. As a result of that, the government has put on the table a scheme in which the rural areas will not be covered—they will be captured by the scheme only with the minister's declaration of the locality. The factors that he has to take into account in determining that are on competition grounds.

Senator BIRMINGHAM—In applying an economic framework and working out the impact of redressing that information asymmetry—as you put it—did you come to any conclusions on what the impact on price or other factors would be on average?

Ms Holdaway—I think we can only conclude at a theoretical level. If the scheme addresses information asymmetry, that can lead to a more competitive market, which can lead to—

Senator BIRMINGHAM—I appreciate the theoretical level. Did the analyses undertaken by Treasury move beyond the theoretical level into the estimation of price impact in a numerical sense?

Mr Murphy—Our impact analysis, which we set out in the regulatory impact statement tabled with the legislation, dealt with the three options—consumer benefits, anticompetitive impacts, consumer costs arising from transition to the new scheme, plus the scheme administration costs, the enforcement costs, the business compliance costs, regional and rural consumers and consumers' expectations. That is the Treasury analysis.

In terms of prices, we would agree with the position that the ACCC reached that FuelWatch in Western Australia did not lead to any increase in prices. It is hard to specify whether it led to decreases in prices, but that is the position we have reached.

Senator BIRMINGHAM—Can I just touch on one other issue before I give the floor back to Senator Coonan or Senator Bushby. In terms of the issue of requesting the further analysis by the ACCC that Senator Coonan was pursuing—and I note you have taken on notice exactly when that request was made—did the requests in the discussions you were having with the ACCC occur prior to the 15 April announcement?

Mr French—We were having a dialogue with the ACCC on an emerging basis, on an ongoing basis. I think Mr Murphy has actually highlighted this already and indicated that it is not one particular date that a particular request has been made. It was more an issue of having an ongoing discussion with the ACCC.

Senator BIRMINGHAM—An ongoing discussion—

Mr French—And raising questions.

Senator BIRMINGHAM—So was Treasury raising questions in that ongoing discussion with the ACCC prior to the 15 April commitment to the introduction of Fuelwatch scheme?

Mr French—Yes, we would have.

Senator BIRMINGHAM—Yes?

Mr Murphy—Because we are trying to get the best advice to government. It is a niche thing. It is a complex matter. The ACCC did the work and the analysis.

Senator BIRMINGHAM—I note that. I also note that government acted before obviously receiving all of that best of advice you were trying to muster for it, Mr Murphy.

Senator BUSHBY—If the government was to fix the price of a loaf of bread, what effect would that have on the supply and availability of bread? That is just a general question.

Senator Sherry—Very general and very hypothetical.

Senator BUSHBY—It is a hypothetical, but in terms of the expertise. As a matter of fact, what would that do to the supply and availability of bread?

Dr Henry—If a government were to fix the price of bread at what level?

Senator BUSHBY—At a given level.

Dr Henry—It depends.

Senator BUSHBY—Say it said, ‘We think it is a bit too high so we would like you to set it a bit lower than what it is’ and then said ‘that is the only price you can sell it at’?

[8.07 pm]

Dr Henry—So the question is: if a government were to legislate a price for a product that was below the market clearing price, below the price that would emerge in a competitive market? Is that the question?

Senator BUSHBY—That is a question, yes, that I would like to know the answer to.

Dr Henry—There would be an excess demand, typically, not always, because it depends upon the relevant elasticities of demand and supply. In extreme cases of course there would not be an excess demand for the product. But typically there would be an excess demand for the product.

Senator BUSHBY—Presumably that means that some people may miss out on bread in that situation?

Dr Henry—The definition of excess demand is of course that—

Senator BUSHBY—Demand exceeds supply.

Dr Henry—Yes.

Senator BUSHBY—Would it be fair to say that fixing the price of bread would reduce competition?

Dr Henry—Not in and of itself. It does not in and of itself reduce the degree of competition among bread sellers. Of course, it is possible that it affects the number of bread sellers in the market. It depends on their cost structure. But in and of itself I do not think it affects the competitiveness of the behaviour in the market.

Mr Murphy—If they were making an adequate return.

Dr Henry—If there is still an incentive for bread sellers to find ways of reducing costs so that they can increase the volume of bread supply at which they can continue to be profitable.

Senator BUSHBY—But in general would you say that government interfering in prices of goods and services, in a general sense—I am not talking about fuel specifically yet—and the levels that they may be set at is a positive thing for the economy or a negative thing?

Dr Henry—No. I am on record on numerous occasions as suggesting this. Of course, there are numerous areas in Australia even in the largely deregulated economy that we have these days where governments do control prices and in those cases in general—maybe in all of those cases but certainly as a general proposition—better economic outcomes could be achieved if the market were allowed to operate, provided no significant externalities such as information asymmetries that we have been discussing tonight were present in the market that warranted government intervention to correct in order to ensure that the market was indeed an efficient market. That is a general proposition.

Senator BUSHBY—I understand it is a general proposition. Obviously the government has a different view, but do you think that a measure by government that removes the ability of businesses to lower the price of goods and services that they were offering, whether it be for 24 hours or any other period, has the potential to deliver some of the negative outcomes that we are talking about in general terms?

Dr Henry—That one is hard to answer in generalities because, for example, as you know, predatory pricing behaviour is outlawed under the Trade Practices Act. There is a reason for that. That outlaws a particular form of price cutting because that particular form of price cutting is seen as being in and of itself anticompetitive. So it depends, and I would not want to answer that question in the way of a general proposition.

Senator BUSHBY—Finally, is there anything in the Fuelwatch legislation that you are aware of that will stop petrol retailers colluding to fix their prices prior to posting them in accordance with the website?

Mr Murphy—There would be nothing. But that is against the Trade Practices Act.

Senator BUSHBY—There has been the allegation that one of the effects of the asymmetric issues that we have is that that is potentially going on in the industry at the moment. Theoretically this legislation is designed to reduce that tendency, at least in part. Does any aspect of the way that this program will be delivered, in your view, actually decrease the ability of operators to collude?

Mr French—There is a whole new bill that the government is planning to introduce which deals with criminalisation of cartel behaviour. The government actually has some draft legislation exposed at present.

Senator BUSHBY—I look forward to seeing that in due course.

Mr French—The government is actually taking action on another front to deal with serious cartel conduct and to criminalise that behaviour.

Senator BUSHBY—That is good to hear and I look forward to seeing that in due course, as I said. But there is nothing in these bills themselves that in effect you think would decrease the ability of operators to collude?

Mr Murphy—It may be easier to prove if there were collusion, because everyone has got to nominate a price. And if prices themselves start coming in together, it would raise suspicion and you might then be able to, as an investigatory agency, target better—I do not know—because everyone has to nominate a price.

Senator BUSHBY—I understand that. Driving around Melbourne or Sydney you often see the prices change to the same price miraculously within a very small length of time, anyway.

Mr Murphy—That is why I think the general community is quite frustrated about this. Intraday volatility seems to be a very big issue with the community.

Senator COONAN—Turning from watching petrol prices to watching grocery prices—the measure provides for \$12.9 million over four years, which is even more of course than for the petrol commissioner, at \$11.4 million. What is the profile for how the money is to be spent? Can you tell me that, please, for each year?

Mr French—I am not sure we have that in front of us.

Senator COONAN—It is page 289 of Budget Paper No. 2, if that helps.

Ms Holdaway—The allocation of that expenditure is for the purpose of the ACCC's monthly survey of grocery prices, which was announced by the minister on 22 January 2008.

Senator COONAN—Are there any other costs apart from the ACCC's monthly survey associated with the measure over the forward estimates? In other words, setting it up, monitoring it, and presumably enforcing it? I am just wondering what the profile is as to how the money will be used.

Mr French—If you ask the ACCC this question tomorrow you will have more detailed information about the underpinnings of that.

Senator COONAN—Let us move on to things that would be things you would probably know. What are the food outlets that will be included? I am just not sure whether it is every corner store or is it some defined group of supermarkets?

Ms Holdaway—It will be a monthly survey of the prices of typical grocery baskets across Australia and it will be provided in a dedicated website.

Senator COONAN—Thank you. I appreciate that. I am just wondering what food outlets will be, if you like, surveyed for a typical basket of groceries? Is every corner store involved in this or is it supermarkets only?

Mr Murphy—A reasonable approach would be taken, a commonsense approach.

Senator COONAN—What is that, then?

Mr Murphy—It is in the eye of the beholder, is it not, what is a commonsense approach?

Senator COONAN—You are Treasury.

Mr Murphy—I am Treasury and I would expect the ACCC, which has still to report on its inquiry, as part of that inquiry will tell us, ‘If you want to put some observation of grocery prices in the community’s interests, here is the best way to do it.’ Again, as we did with the petrol one, we will review that and the government will then make a decision.

Senator Sherry—Surely this is a matter of detail for the ACCC?

Senator COONAN—It may be.

Mr Murphy—They have not reported yet.

Senator COONAN—Yes, I understand that. You have costed a measure and presumably there had to be some input from Treasury as to whether it was complete pie in the sky or whether it was going to actually achieve its outcome? You do not just do it in mid-air.

Mr Murphy—The government wishes the ACCC to do work in the grocery prices area. We would have discussed with the ACCC what would be a reasonable price to buy their services to undertake that work. That is what is set out.

Senator COONAN—I gather from your answer—correct me if I am incorrect in asserting this—that Treasury would not have done any particular analysis of what this measure is all about or what it is going to cost?

Mr Murphy—If it is a budget measure—and I personally have not looked at it—it would be reviewed by the Treasury, and by the Treasurer before it was put forward. And Finance would have run the ruler over it as well. This was a budget where they were seeking to save money. Obviously a case is put forward for the community’s benefit that, if they do this work, we will get some good results.

Senator COONAN—At the moment you do not have any detail at all?

Mr Murphy—No. But we can get you that. We will get it. But all budget proposals have a policy proposal that goes with them. We can dust that off and provide you with some written information. We have to do that. We will convert that into some meaningful information for you and provide it.

Senator COONAN—I am not quite sure what ‘meaningful’ is, but I gather, just to be clear about it, that what you will do is try to give me what information you can about how this would in the broad term be implemented?

Mr Murphy—Yes.

Senator COONAN—What it is going to involve, what kind of items it will include, where it will be, that sort of thing?

Mr Murphy—Yes.

Senator COONAN—It is a national scheme?

Mr Murphy—Yes. I will see if I can get down to the fruit and veg and whatever as best I can.

Senator BUSHBY—I have a follow-up question on petrol—just another matter I am interested in. With the 24-hour rule that is contained in the bill, do you consider that there is any risk that, if somebody sets a price which is considerably lower than others, that could lead, due to the vagaries of ordering and setting prices, to queues and an inability for operators to plan ahead in terms of how much they are going to need because when they set their price they do not know what other people are setting and so they do not know what the consequences will be for the volume they are going to sell? How is that going to play out with queues and shortages and things like that?

Mr Murphy—I do not think it will. I think it just throws another variable into the equation that the retailers have not had to comply with or worry about. All this is doing is putting a bit of balance back towards the consumer. I think the retailers will cope very effectively.

Senator BUSHBY—By interfering in the market?

Mr French—As demonstrated by the operation of the scheme in Western Australia.

Senator BUSHBY—That is why I asked that question. I have some questions on grocery pricing as well but it sounds like they would be better asked tomorrow. I have one question on first home saver accounts. Would it be fair to say that the first home saver account is effectively a demand side measure to address housing affordability?

Dr Moore—That is actually a question that is better addressed to revenue group, which was on this morning, I think. We could take that on notice.

Senator BUSHBY—Dr Henry, are you not in a position to shed some light on that? Would you say the first home saver account is essentially a demand side measure?

Dr Henry—I would want to take some advice from my revenue group colleagues on that.

Dr Moore—But we could take it on notice.

Mr Murphy—We will give you something on that.

Senator BUSHBY—And also in the context of that, could you advise whether you consider it would have any supply side benefits?

Dr Moore—We will take that on notice.

Senator EGGLESTON—I would like to ask about sovereign wealth funds and their activities in Australia. Of course we have seen in recent times some sovereign wealth funds buying into Australian industries, such as Singtel, which is owned by the Singapore sovereign wealth fund, buying into Optus, and more recently Chinese companies buying or seeking to buy into iron ore companies. We do have a lot of foreign investment in the resources industry, in particular from Switzerland, the US and the UK, and Korean and Japanese interests, but we

have never had sovereign wealth funds who are not only seeking to purchase the companies but are also representing countries that buy the iron ore. Is Treasury concerned about the risk to the Australian economy from foreign government controlled sovereign wealth funds taking interests or controlling interests in Australian resource companies?

Mr Murphy—The Treasurer made an announcement recently where he set out some principles that he said should apply to investments in Australia by sovereign wealth funds and state owned enterprises. If you look at those principles, they basically seek to meet the concerns all governments have had with the operations of sovereign wealth funds. That is the government's official position.

Senator EGGLESTON—He set out a set of special rules?

Senator Sherry—No, six principles. They include independence, commerciality, corporate governance, competition, impact on revenue and national security. They apply to all foreign governments. We are not picking out any particular source of foreign investment.

Senator EGGLESTON—You are pre-empting my questions.

Senator Sherry—We can, because this was discussed I think a little earlier. It was also discussed with Finance in the context of the Future Fund. There was a discussion about sovereign wealth funds. It has had a pretty good work-over during estimates.

Senator EGGLESTON—This is the first opportunity I have had.

Senator Sherry—I wish you all the best. It is your prerogative. You go ahead.

Senator EGGLESTON—I am would like this discussion to occur. I was aware of the fact that the government had laid down six principles. But where do they stand in relation to the role of the Foreign Investment Review Board? Have you any comment to make on that?

Mr Colmer—The principles that were released by the Treasurer in February are the principles that the Foreign Investment Review Board has used for quite some time in assessing foreign government investments. They were released primarily as an aid in transparency so that people could understand the sorts of things that we were already looking at when we were assessing applications to invest in Australia.

Senator EGGLESTON—So they only apply to foreign government investment funds, sovereign funds, in other words?

Mr Colmer—The specific principles have been put out in the context of interest in foreign governments. Some of those six principles are specific to foreign governments and some of them are of more general application. The Treasurer's press release was specifically directed at foreign government investments, but it actually says that they are generally applicable. The first one is independence from foreign governments. That one is clearly something that relates primarily to government owned entities. An investor is subject to and adheres to the law and observes common standards of business behaviour; that is generally applicable to all foreign investors. There are some specific concerns around the relationship between a foreign entity and its government owner and that is the one that is of particular interest in those situations.

Senator EGGLESTON—Do they include national security considerations in terms of those resources, for example, like uranium?

Mr Colmer—The Foreign Acquisitions and Takeovers Act basically relies on the concept of national interest. National interest is a broader concept than national security but clearly national security is a component of that. So, yes, indeed, they do have an interest in national security issues.

Senator EGGLESTON—Lastly, does the Treasury feel there are any risks to the global financial sector, which has already been affected by the subprime crisis, from the growth of sovereign wealth funds and their activities around the world, being as they are government controlled?

Mr Colmer—There are probably other people who may have a more specific financial sector perspective on that. But I think the evidence from around the world to date has been that sovereign wealth funds have been a stabilising influence in the current financial turmoil around various parts of the world. For example, they have taken some stakes in a variety of US financial institutions and that has helped maintain their liquidity and that is generally considered to be a good thing.

Senator EGGLESTON—That is an interesting answer.

Senator Sherry—I think it might have been in Finance we gave an undertaking to provide some analysis of wealth funds and their structure. When that becomes available from Finance we will make it available to this committee as well.

Senator EGGLESTON—Thank you very much, Minister.

Senator Sherry—But they are quite different in their structure and their governance and ownership and investment profile and guidelines, et cetera.

Senator EGGLESTON—I am sure the committee will be very grateful for that.

Senator PAYNE—I just need to clarify something based on information from some of my colleagues. I had in fact wanted to pursue some questions relating to the introduction of the first home saver accounts and had aimed to do that in outcome 4, Markets, particularly in terms of the relationship with the housing market and the impact on the housing market. Am I able to pursue those questions this evening?

Senator Sherry—That was Revenue Group.

Senator PAYNE—Is there nobody who can help me?

Mr Murphy—We could take them on notice for you, but there is no-one here at the moment. This is from another group. We could get you some written responses.

Senator PAYNE—What if I tried a couple of them and if you could help me at all, Mr Murphy?

Mr Murphy—I would be speculating. If you really want the best information, good answers, it would be better for us to take them on notice.

Senator PAYNE—I am obviously keen to—

Mr Murphy—We have not had responsibility for it.

Senator Sherry—The difficulty is—I know, because I was involved to some extent in some design issues, which is a limited involvement—there is some quite specialised work done by officers who are just not here; they are in the Revenue Group.

Senator PAYNE—I appreciate that. You would appreciate as well the difficulty of juggling committee obligations.

Senator Sherry—I do. I certainly do.

Senator PAYNE—You are well experienced in that. I could ask some Defence questions while I am here perhaps and see how that goes.

Senator Sherry—I understand the difficulty. If the committee wants a private briefing from the revenue people, I am sure we can set that up in the next sitting fortnight.

Senator PAYNE—I will discuss that with my colleagues. I will certainly put some questions on notice, and I appreciate your advice and will try and refine the application of the questions more finely perhaps for the next occasion.

Senator Sherry—The offer stands. Let us know and if you want a face to face with one or more of the officers directly involved in the evaluation; we are happy to organise it.

Senator COONAN—I think it is fair to say on the record that I do not think it was Senator Payne's mistake. I think there were some misunderstandings as to when she would be in a position to put her questions and where it was appropriate to do so. I just record that.

Senator Sherry—We understand.

Senator COONAN—I have one more question and then that is it for some very tired markets people. And then just to give everyone—

Mr Murphy—The night is only young.

Senator COONAN—Sorry?

Mr Murphy—The night is only young.

Senator Sherry—You want to be going till 7 in the morning; is that what you are asking?

Senator COONAN—I can start again.

Mr Murphy—I was going to offer to the committee to continue on tonight.

Senator COONAN—In fairness to the officers, I wanted to give you an idea of what I had left. I cannot speak for my colleagues. I have one more question or possibly two, depending on the answer. Then with macro I have a few questions for Dr Henry and then I will be out of everybody's hair. I do not know where that leaves APRA. I think they will get on tonight. I just know that some of my colleagues have questions. I hope that helps.

This question is also on the price of petrol. The ACCC said in its submission to the 2006 Senate Economics Legislation Committee inquiry into the price of petrol in Australia:

First, consumer welfare analysis suggests that, in general, consumers in aggregate are better off with variable prices than they are with a fixed (simple average) price. When the price is fixed, consumers have to pay that price and that price alone. However, if the price is variable around this fixed price, consumers can buy at the lower price—and they will tend to buy more at the lower price and restrict

their purchases when the price is high. The opportunity to do this will tend to make consumers better off.

I was interested to know whether Treasury agrees with that view?

Mr Murphy—That is the basis of their analysis. I would have to think about it and go back and look at its more recent report. That was their view in 2006. They were then commissioned by the former Treasurer to look at all of this. The sense I get from what you are saying is that it would be less advantageous if you fix prices, is that what you are saying, from the consumers' point of view?

Senator COONAN—That is what they are saying.

Mr Murphy—I do not know. I would have to think about that in light of this report, which is more updated information.

Senator COONAN—Would you perhaps give that a more considered look?

Mr Murphy—Yes.

Senator COONAN—And give me your view?

Mr Murphy—Certainly.

CHAIR—Are there any more questions on outcome 4? I thank the officers.

Senator Sherry—Senator Conroy is now taking over for macro, and I may be back for APRA.

CHAIR—We look forward to seeing you again.

[8.37 pm]

CHAIR—I welcome to the table officers of the macroeconomic group. We will now be dealing with outcome 1, Sound macroeconomic environment.

Senator CHAPMAN—I wish to follow up some questions I asked at the February additional estimates hearings. Is it sound macroeconomic policy to place the long-term financial viability of many in the farming community in jeopardy by reversing the previous government's legislation relating to family trusts, which legislation allowed all lineal descendants of the test person under a family trust declaration to receive trust distributions without incurring penalty tax?

Senator Conroy—Given that you have asked an opinion—'is it sound?'—I am sure if you rephrase your question you will be able to get the question asked, but you cannot ask it in that form. You have actually asked Treasury an opinion. Do you want to rephrase the question?

Senator CHAPMAN—Can I ask whether Treasury has considered the long-term implications of that legislation on the viability of farming families?

Dr Henry—I am sure one of my colleagues will correct me if I am wrong on this, but I doubt very much that our macroeconomic assessments, which is what your question was about, I think, have explicitly considered the macroeconomic impact of the measure to which you refer.

Senator CHAPMAN—Can I ask whether you could consider that in relation to the farming community?

Dr Henry—Perhaps another way of putting the answer is that implicitly our macroeconomic assessments, as I was saying a couple of hours ago, take into account all of the policy and institutional settings in the economy in the year for which we are forecasting. Implicitly it is being taken into account.

Senator CHAPMAN—Minister, can I ask you the reason for this change? Other than saying it is policy, what was the reason?

Senator Conroy—As you know, it is not my portfolio area and I am happy to take that on notice and get back to you.

Senator CHAPMAN—It might be appropriate if I put a series of questions on notice. Can I ask in that context why the questions, other than one question, I put on notice in February have not been answered? It is now four months.

Senator Conroy—How many questions were not answered? I am happy to chase that up for you. I did not know that there were outstanding questions. I am happy to chase up that matter.

Dr Henry—I did not, either. I apologise. We will chase those up.

Senator CHAPMAN—I have some further questions that I am happy—

Senator Conroy—Perhaps I will get an answer reasonably quickly. I will chase it up for you.

Senator CHAPMAN—Sorry?

Senator Conroy—I will chase it up as fast as I can for you.

CHAIR—Minister, I understand there are seven questions outstanding.

Senator Conroy—I will see if I can find out where they are for you.

Senator CHAPMAN—It might be more appropriate if I put these questions on notice as long as I can be assured of a prompt answer.

Senator Conroy—Yes.

Dr Henry—Yes.

Senator COONAN—I wanted to ask a few questions on a couple of matters. Do government policies that increase prices lead to upward pressure on inflation? Similarly, do government policies that reduce prices put downward pressure on inflation? For example, do tariff cuts put upward pressure on inflation?

Dr Henry—This is a very interesting question. The answer to this is not obvious.

Senator COONAN—How do I know?

Dr Henry—It depends upon the policies that you are talking about and it depends on the products for which the prices are being increased or being reduced.

Senator Conroy—It depends whether demand has increased.

Dr Henry—Some price increases that are occasioned by a government policy change, for example, a change to an excise rate either up or down, their effect might generally be in the nature of a one-off change in price, unless there are extraordinary circumstances that are

coincident with that change, and might generally not have any ongoing inflationary impact. For example, you will recall—and this was a rather large event—when the GST was introduced and replaced the wholesale sales tax and excise rates on certain products were cut, there was a significant impact on the CPI in the September quarter 2000. But it turned out to be, as we predicted or forecast, a one-off change to the price level and it had absolutely no impact on inflation at all—no impact on inflation, properly understood.

A cut to tariffs, on the other hand, can have an impact on inflation and not just a one-off impact on the price level, the reason being that the tariff cut can have the effect of enhancing the level of competition in the economy, not just in product markets but indeed the level of competition in factor markets. I think it is fair to say—certainly it would be my view—that the tariff cuts of the late 1980s and early 1990s, those tariff cuts in particular, did quite a bit to enhance the competitiveness of both product and factor markets, including the labour market, in Australia and I think you could say that those tariff cuts did not just have a one-off impact on the price level but in fact have had an impact on inflation for quite a long period of time.

Senator COONAN—We talked about the GST index. How about an increase in the luxury car tax? Does that put upward pressure on inflation?

Dr Henry—I think that would be in the nature of a one-off change to the prices of those particular products.

Senator COONAN—It is a one-off?

Dr Henry—I do not see that that would have an ongoing inflationary impact.

Senator COONAN—Thank you. I think we had some earlier questions about that. What about increases in alcohol excise? Does that put upward pressure on inflation?

Dr Henry—The same answer as for luxury car tax.

Senator COONAN—And does fuel excise put downward pressure?

Dr Henry—The same answer. In general, all of these things are going to be in the nature of a one-off change in the price level for the product that you are talking about.

Senator BUSHBY—In the CPI indexation measure for that period?

Dr Henry—That is correct.

Senator COONAN—Yes?

Dr Henry—Yes.

Senator COONAN—Can you confirm that the effect of a government policy on the CPI can be calculated by multiplying the percentage price change due to government policy by the share of that item in the CPI? For example, fuel is about 3.8 per cent of the CPI. A five per cent increase in fuel prices will increase the CPI by 3.8 per cent times five per cent or I suppose that would be 0.19 percentage points. Would that be broadly right?

Dr Henry—Yes, I think that is how the arithmetic would work.

Senator COONAN—Can you provide an estimate of the percentage price increase due to the following policy changes—I will do them one by one because I do not expect you to keep it all in your head—the increase in the luxury car tax and the effect on car prices?

Dr Henry—I am not going to be able to do the mental arithmetic. Anyway, I do not know the weights. I do not know the percentage price increases, either, for that matter. I do not have the information available to perform the mental arithmetic and so I think I am going to have to take these questions on notice.

Senator COONAN—I will run through them and note that you will take them on notice. The increase in excise on pre-mixed drinks, the increase in the passenger movement charge, the increase in the passport application fee and the increase in visa application fees. Can you now provide an estimate of the proportion of the CPI that is made up of each of these items—that is, cars, pre-mixed drinks, passenger movement charge, passport application fee and visa application fee?

Dr Henry—We will have a go at that. Seriously, I cannot promise anything in respect of that second question, because there are not that many weights. The CPI weights are not at that level of granularity, as I am sure you would understand. I could be wrong, but I doubt very much that the passenger movement charge has a weight in the CPI.

Dr Gruen—I have a couple of those numbers for you, if you would like them. For the price of ready-to-drink beverages, the direct estimated increase in the CPI is 0.042 percentage points. For the increase in luxury car tax the estimate is 0.024 percentage points. The others I do not have.

Senator COONAN—Take those on notice if you can get them. Thank you for giving me the ones that you had. For those items that you can estimate a price increase and estimate the proportion of the CPI for that item, can you confirm that the effect of that policy on the CPI is the price increase times the contribution of that item to the CPI. Is that right?

Dr Gruen—That is correct.

Senator COONAN—I am just checking because I am not quite as familiar with it as you are. Could the increase in the CPI from any or all of these measures contribute to ongoing inflation?

Dr Henry—I have answered that question.

Senator COONAN—Most of the measures that we have talked about were said to be part of responsible economic management with the emphasis on reducing inflation. But we have seen that if these measures increase the CPI they cannot simultaneously lead to reduced inflation, can they?

Dr Henry—Yes, they can, and that is why it is important in considering the macroeconomic consequences of tax changes to keep in mind the distinction between one-off changes in the price level of a product and inflation, which is an ongoing phenomenon. The effect of measures such as these and other measures taken in the budget will contribute to a larger surplus than otherwise. The fiscal implications of that budget surplus may well have an ongoing effect on inflation. There is a need to think through both the one-off price impact and the ongoing impact on inflation that comes from a larger than otherwise budget surplus.

Senator COONAN—Taking specifically the change in the Medicare levy surcharge, can you confirm that the industry estimates that premiums will rise by around 10 per cent? How much of this is reflected in the government estimate?

Dr Henry—I am sorry, I cannot confirm industry estimates.

Senator COONAN—Does anyone know the answer to that?

Senator Conroy—Sorry.

Senator COONAN—Let me rephrase it: does the government have an estimate or does Treasury have an estimate as to the extent to which premiums will rise by reason of the changes in the Medicare Levy surcharge?

Dr Henry—If we do—and I really do not know—it would not have been an estimate produced by the people at the table. I am sorry, but I will need to take that question on notice.

Senator COONAN—What percentage of the CPI is private health insurance?

Dr Henry—I do not know. We will have to take that on notice.

Senator COONAN—Can you also take on notice the extent to which this measure will directly increase the CPI—that is, by what percentage?

Dr Henry—Certainly, we can take that on notice.

Senator COONAN—There are a number of government policies that increase prices more generally. Do you have an estimate of the effect of the following policies on the CPI: the effect of the road user charge for heavy vehicles?

Dr Henry—No, but I am sure that would be minuscule. I am sorry, I cannot have heard you correctly. The effect of?

Senator COONAN—The effect of policies on CPI. The increase in the road user charge for heavy vehicles?

Senator Conroy—I would have thought the most significant factor on the CPI was the overall budget position rather than an individual item.

Senator COONAN—You could well be right. But—

Senator Conroy—You might want to ask the Treasury whether they think I am right.

Senator COONAN—I will ask the questions I want to ask, but I thank you for that contribution. What about the emissions trading scheme?

Senator Conroy—What about it?

Dr Henry—What is the question?

Senator COONAN—Have you estimated the effect of the emissions trading scheme on the CPI?

Dr Henry—Of which emissions trading scheme?

Senator COONAN—Any proposed emissions trading scheme.

Senator Conroy—That would go to advice to government and I am afraid, as you well know from telling me many times, that would be advice to government.

Senator COONAN—You remember.

Senator Conroy—I do; you told me it so many times I could not forget.

Senator BUSHBY—I do not think she was asking what the advice was, just whether advice had been formulated.

Senator Conroy—She changed her question to any of the types, which became a more broad-reaching question as to advice about the different types of emissions trading systems.

Senator BUSHBY—Have you estimated?

Senator Conroy—No, but she asked—

CHAIR—Senator Bushby, thank you for doing my job but I think Senator Coonan is quite capable of formulating her own questions.

Senator COONAN—No doubt you will tell me that the same would apply to any consideration of the effect on the CPI of a plastic bag tax or a ban. Is that right?

Dr Henry—I am absolutely certain that we have not estimated that.

Senator COONAN—You have not even put your head in one?

Dr Henry—No, I have not done that either. I understand it is not recommended behaviour.

Senator COONAN—How much will a 5c per litre reduction in fuel excise on petrol and diesel cost the federal government?

Senator Conroy—We are happy to take that on notice, but I am not sure that we are here to do your modelling for you and I am not sure what that has to do with Senate estimates.

Senator COONAN—Let us just continue a little bit. Just indulge me for the sake of it or otherwise we will be here forever. How will it affect the GST revenue to the states?

Senator Conroy—There is no proposal before government to do that, so I am not sure—

Senator COONAN—That is right. We have the tax review, have we?

Senator Conroy—I am not sure what that has to do with budget estimates. There is nothing wrong with your asking me the question, but it is just that I am not sure that it is relevant to why we are here tonight.

Senator COONAN—We are asking about the operations of Treasury and no doubt that is something that they would consider. I have a few more questions. Can you confirm that a 5c per litre reduction in excise will reduce prices at the pump by about 5.5c per litre with the GST included?

Dr Henry—I can answer that in a conceptual way. If that is all that happened and there were no impacts on wholesale or retail margins, then that would be the automatic effect. Those are significant qualifications.

Senator COONAN—Fuel prices feed through to many other prices in the economy.

Dr Henry—Yes.

Senator COONAN—Do you have any estimate of this indirect effect of higher or lower fuel costs on other goods and services?

Senator Conroy—Budget estimates is not for you to ask Treasury to analyse the opposition's policy initiatives. It is for you to ask about government policy.

Senator COONAN—I can ask—

Senator Conroy—You can ask, but I am not sure it is relevant.

Senator COONAN—I can understand—

Senator Conroy—We are happy to take on notice your questions about your opposition policies.

Senator COONAN—They are not policy questions. They are perfectly straightforward questions to Treasury.

Senator Conroy—They are perfectly straightforward but they are not relevant to budget estimates.

Senator COONAN—Yes, they are. I think you and I have had this conversation many times: Treasury estimates relate to the operations of a department, and this is the sort of work they do.

Senator Conroy—No, but you are asking them to reveal information that would properly be, if they have done it, advice to government.

Senator COONAN—They have not actually said that.

Senator Conroy—But if it is not actually government policy that they have been working on, because it is your policy, then—

Senator COONAN—Let me ask whether or not they have done any work, and that is exactly what I did ask.

Senator Conroy—No, you asked them to confirm as to why it would happen.

Senator COONAN—I withdraw that. This is what you used to do. I was trying to be a bit quicker for them. Have you done any work that estimates the indirect effect of higher or lower fuel costs or other goods and services in the economy?

Dr Henry—We will have to take it on notice. I am not personally familiar with such work in recent times.

Senator COONAN—I am sorry, Dr Gruen, did you want to say something?

Dr Gruen—I was just going to say that we obviously model the determinants of the CPI. We have models in Macroeconomic Group that determine CPI. Those models include cyclical variables, unit labour costs, import prices and oil prices. But they do not attempt to answer the question of the price of which particular good goes up and by how much. They help inform our forecasts for inflation over the period over which we—

Senator COONAN—That is exactly what I thought you did.

Dr Gruen—have to forecast inflation.

Senator COONAN—In your forecasts do you take into account higher or lower fuel costs?

Dr Gruen—We feed into the forecasts an assumption for the US dollar price of West Texas Intermediate. We convert that into Australian dollars, and that feeds into our forecasts. That is actually stated in some detail in a footnote to budget statement No. 2.

Senator COONAN—Did the budget put maximum downward pressure on inflation and maximum downward pressure on interest rates?

Senator Conroy—Did you just ask for an opinion?

Senator COONAN—No, I did not. I am asking for the facts.

Senator Conroy—Could you repeat the question?

Senator COONAN—Yes, as a matter of fact. Did the budget put maximum downward pressure on inflation and maximum downward pressure on interest rates?

Senator Conroy—I am sorry, but that is an opinion, not a fact, that you are seeking from Treasury. You are asking them to give an opinion on government policy. The government policy as it relates to budget and the macroeconomic settings within the budget are government policy and you are now asking Treasury to give an opinion on that. As you know, you cannot ask officers their opinions.

Senator COONAN—I am not asking for their opinion. I am asking for—

Senator Conroy—Please.

Senator COONAN—I am asking for their position in relation to the budget. I think I am perfectly entitled to ask Treasury their position in relation to whether—

Senator Conroy—Their position is an opinion. It is not a fact.

Senator COONAN—It can be.

Senator Conroy—I appreciate that you are changing the phrasing of your questions, but you are fundamentally asking the Treasury an opinion on government policy.

Senator COONAN—No, I am not.

CHAIR—Senator Coonan—

Senator Conroy—She is entitled to try and reword. I appreciate that she can try.

CHAIR—I said nothing. I asked her for her next question.

Senator COONAN—I can ask this, as a matter of fact. What did the budget do to put downward pressure on inflation and downward pressure on interest rates?

Dr Henry—I can really only tell you what the government has said in presenting the budget—that the budget is estimated to have a mildly or moderately contractionary effect on the economy through the increase in the size of the budget surplus, and through that higher budget surplus or moderately contractionary effect on the economy that comes with that higher budget surplus there would be downward pressure exerted on inflation.

Senator COONAN—The Treasurer said before the budget that it is going to put maximum downward pressure on inflation and maximum downward pressure on interest rates. It appears that it has fallen a bit short, does it not?

Senator Conroy—I am interested that you want to quote the Treasurer. I am confused about statements of the opposition in this area. We had Mr Turnbull say:

We have heard a lot of fairy stories about the important challenge of inflation, the really important challenge of inflation, too important to be embellished by Mr Swan into a political myth

Senator COONAN—Unfortunately you are not bringing down the budget, Senator Conroy.

Senator Conroy—He said:

It is an inevitable consequence of a strong economy to have inflationary pressures—
and that Wayne Swan is trying to create a myth. I just wish you could make your mind up. Either there is an inflationary problem or there is not an inflationary problem.

Senator COONAN—What we can say is that the Treasurer made the very bold claim that this budget would put maximum downward pressure on inflation and maximum downward pressure on interest rates. It is the government's budget and I think—

Senator Conroy—What I am struggling to understand is this: if you try, as you indicated you will, to block a number of revenue-raising measures, how do you think that is going to keep maximum pressure on interest rate reductions and downward pressure on interest rates? How exactly will that work in your fairytale land of economics?

Senator COONAN—We have had this conversation over the years. Unfortunately for you, you and the witnesses are there to answer questions, not me, so—

Senator Conroy—You asked me.

Senator COONAN—Yes, but you are asking me questions, or purporting to. I will move on to this question: it is true, isn't it, that the relative fiscal stance from one year to another is measured by the final budget outcome of these two years?

Dr Henry—As you know, there is some controversy amongst economists, as there is over most things, about how one should appropriately assess a change in fiscal stance one year to the next. But there is a reasonable consensus that one can get at least a rough order of magnitude by comparing the outcome in one year with the outcome in the immediately succeeding year.

Senator COONAN—How large a change in fiscal stance would be required to have a significant effect on inflationary pressures?

Dr Henry—That really is a matter that calls for an expression of opinion, and on that there are a whole range of views of economists.

Senator COONAN—I am sure that is right. I think this was probably mentioned when I was not here, and I am sorry if you have been asked it, Dr Henry, but Glenn Stevens says that monetary policy is the most important determinant of long-run inflation performance; is that your view?

Senator Conroy—I think again you are asking for an opinion from Treasury. I am sure Mr Stevens is passionate in his belief that monetary policy is as he described it.

Senator COONAN—Yes. I can understand that you are a bit sensitive about this, but I was trying to give Dr Henry an opportunity to be able to deal with the questions that I want to put to him shortly. I will proceed to that. In the Pre-election Economic and Fiscal Outlook, Dr Henry and Dr Watt signed off on the statement that the information in the PEFO:

(i) reflects the best professional judgment of the officers of the Treasury and the Department of Finance and Administration;

(ii) takes into account all economic and fiscal information available;

Do you recall that?

Dr Henry—Yes.

Senator COONAN—In the PEFO it was forecast that the CPI would grow by 2¾ per cent in 2007-08 and in 2008-09 and then fall to 2½ per cent in 2009-10 and 2010-11. I am not for a minute not accepting what your judgement is on these matters, Dr Henry. You obviously did use your best professional judgement in arriving at these forecasts. But in the light of recent data I think it would be fair to say—and correct me if I am wrong—that the upswing in inflation was unforeseen at the time. Or perhaps a better way to put it is that there were unforeseen events that have impacted since you formed that judgement.

Dr Henry—I have one correction of something you said. I do not think this is a major point, but it is nevertheless important to understand that the out-year figures—that is, the figures for 2009-10 and 2010-11—that you quoted are not forecasts; they are projections. We have had this discussion, I know—

Senator Conroy—I have had it with you myself.

Dr Henry—Yes, indeed. The story there is that we do not forecast major economic variables and certainly we do not forecast the rate of inflation that far out and so what we do is we use, and we are quite explicit about this, assumptions of values for those variables to make projections that we then use—and this is the only reason we do it—in order to underpin the estimation of the budget parameters, which of course are needed if one is going to make projections over a multi-year period of government outlays and government revenues. They are projections. One should not interpret the PEFO or the inflation numbers in it as indicating a view of officials about the likely course of inflation over that time period. However, it is the case that for the year 2008-09, where we forecast an average rate of inflation of 2.75 per cent a year, that was certainly our best professional judgement at the time that the pre-election economic and fiscal outlook is published.

Senator COONAN—Do you agree with the proposition in the light of recent data that it would be reasonable to say that the upswing in inflation that became evident after the election was caused by unforeseeable events?

Senator Conroy—‘Do you agree with the proposition’ sounds like you are asking an opinion, to me. I am happy for you to try to rephrase the question, Senator Coonan, but the way it is phrased at the moment it is directly asking an opinion of a Treasury official.

Senator COONAN—It is going to take a very long time, because I have to go back then to the basics, and I will go away and get a whole lot of material. All I want to know is whether there were unforeseeable events that impacted on the judgement that you brought to bear on PEFO?

Dr Henry—I am happy to try to answer that question. I do not know whether they were unforeseeable events as such, but it is the case that since preparing the PEFO we have come to the view, based on new data certainly becoming available, that inflationary pressures were stronger than we had in mind at that time.

Proceedings suspended from 9.14 pm to 9.29 pm

CHAIR—We are continuing with outcome 1, Sound macroeconomic environment.

Senator BUSHBY—I will just continue on from the question we just had from Senator Coonan about inflation. In the budget the forecast for inflation has been lifted significantly from—I am not sure of the word that you said—those that were included in the PEFO and then we used forecasts, which you took some objection to, that were in there. The budget forecasts the CPI to now rise by four per cent in 2007-08, up from 2¾ per cent of PEFO, and 3½ per cent in 2008-09, up from 2¾ per cent in PEFO. Can you discuss the major drivers of the increased CPI forecasts?

Senator Conroy—I would like to make a couple of points before Mr Henry goes through that. Underlying inflation picked up from 2.4 per cent in 2005 to 2.9 per cent in 2006 and 3.6 per cent over 2007. This is not some mysterious event that transpired in the last six months. It had been rising consistently under your government, and you have left us with the highest rate—4.2 per cent—in 16 years.

Senator BUSHBY—For a start, you are mixing your indices. What we have just heard from Dr Henry is that, as at 22 October last year, to the best of Treasury's knowledge and on their best professional judgement, the predictions for inflation in the coming years were not as high as they are now and were well within the target band of the Reserve Bank.

Senator Conroy—Perhaps I could refer you to the second paragraph on page 230 of the budget to give you more of an explanation around that. But to pretend, as you are now trying to do, that there is a mysterious event that transpired on 25 November is to actually ignore the upward trend that your government was responsible for. It was not this fairytale that the current opposition are maintaining.

Senator BUSHBY—All we are trying to do is to ask the Treasury to answer and supply some facts as to what has happened and what is the case.

Senator Conroy—We have heard a lot of fairy stories about the important challenge of inflation—

Senator BUSHBY—You can put any spin you like on this but—

CHAIR—Can you not speak over each other, senators. It makes it difficult.

Senator BUSHBY—I have a question of fact for the Treasury and I would like the Treasury to answer that.

CHAIR—The minister is entitled to answer any questions. Can you go on to the next question, please, or rephrase the question.

Senator Conroy—I am happy to pass over to Dr Henry. I said I would pass over to Dr Henry after I had answered.

Senator BUSHBY—Thank you.

Dr Henry—I do not like doing this. I am sorry, Senator; could you repeat the question?

Senator BUSHBY—Basically I am interested in what the major drivers are that have led to the change in the CPI forecasts. What has changed internationally? What additional information is there?

Dr Henry—As I indicated earlier, the most significant thing that has led us to change our view is the data that has become available about actual inflation outcomes since the PEFO. It turns out that we had been underestimating the inflationary pressure in the system and, as subsequent CPI figures have been published, we have realised that those figures are higher than what was implicit in our forecast. The most significant thing has been the publication of new data, essentially relating to the past, as published data always does. We have, of course, thought long and hard about the factors that would explain inflation being stronger than we had previously been forecasting, and fundamentally it is due to domestic demand pressure—that is, domestic demand growth exceeding the supply capacity of the economy. That is not to say that there have not been some international factors that have contributed to price increases for a whole variety of products that affect the price level in Australia, and we have discussed some of those. An obvious example is petroleum products, with the world price there. Domestic demand conditions have no impact on those prices. Those prices have been going up and, of course, those prices do feed into the measured CPI. That is a factor, but we would say that the most important factor has been stronger domestic demand growth. It has just been growing stronger than we had in our forecasts.

Dr Gruen—I would like to add to that answer. At the time of putting out MYEFO and PEFO last year, we had a run of CPI outcomes which included two particularly benign outcomes in the December quarter of 2006 and March quarter of 2007. Those two numbers had been particularly benign. So we had a run of somewhat higher numbers and then we had two benign ones and then one more worrying number. On the basis of that, we took the view that, while there were risks, the inflationary pressures as they had presented themselves at that stage, while they were building, were not as strong. As we said at the time, we forecast inflation in the upper half of the Reserve Bank's band for the two relevant years, 2007-08 and 2008-09. Subsequent to the situation we had then, which was that we had one worrying number, we then had three subsequent numbers and each was worrying.

Senator BUSHBY—When were they?

Dr Gruen—I will answer that. The run of numbers, if you look at underlying inflation—which is properly a better measure of ongoing inflation than the headline, simply because a lot of things like bananas can affect the headline in ways that make it difficult to get the signal—we had data in the December quarter of 2006 and March 2007 with numbers like 0.5 and 0.6. Then we had a one in June 2007, which was released before MYEFO and PEFO. The day after PEFO, we had another one. I am only reading you the weighted median numbers. The other ones are very similar, but they do not make much difference. So we had on the weighted median 0.5 and 0.7, which we took to be reasonably benign. Then there was a one, then another one, then a 1.1 and then a 1.3.

Senator BUSHBY—The first of those ones was prior to PEFO?

Dr Gruen—Indeed.

Senator BUSHBY—The remainder were after?

Dr Gruen—Exactly. The point was that, at the time of putting together MYEFO and PEFO, if we looked at the last three quarterly releases, two of them were benign and one was more worrying. After another quarter, two were worrying and two were benign. After another

quarter, three were worrying and two were benign. As we got more data, it seemed more and more likely that the two benign numbers were a false signal. That was not so clear in October last year.

Senator BUSHBY—But it has the comparisons.

Dr Gruen—Yes.

Senator BUSHBY—That is why the numbers have now been revised.

Dr Gruen—Indeed. With the benefit of the latest data, it becomes clearer that inflationary pressures have been building for some time. It was just that the signal was not as clear at that point. Hindsight is after all the most powerful analytical tool we have, and so with the benefit of hindsight it turns out that we have a different read on what was happening at the time than we did at the time.

Senator BUSHBY—That answers my question. In the budget, Treasury has also revised down its forecast of employment growth and GDP growth. Would you please outline to the committee which factors are principally behind this domestic and international slow down.

Dr Gruen—You are asking about the reduction in economic growth and the reduction in employment growth?

Senator BUSHBY—Yes.

Dr Gruen—As you would be aware, since the middle of last year, as a consequence of the gathering pressures on inflation, the Reserve Bank has raised interest rates four times: in August, during the election campaign, and then twice this year. On top of the 100 basis points of official rate rises there has been what now amounts to another 50 basis points of increases in margins between the official cash rate and the standard variable mortgage rate, as a consequence of the higher funding costs that banks have had to pay on their funding. As at the MYEFO and PEFO we had had one interest rate rise, we had had a 25 basis point rise and now we have had a 150 basis point rise in terms of borrowing costs. Given the indebtedness of the household sector our assessment was, and is, that that will have a significant impact on economic growth. Exactly how substantial that impact will be is a matter that requires careful judgement, but our judgement is that the rise in borrowing costs is significant and will have a material impact on economic growth and on employment growth.

Senator BUSHBY—Thank you. That is very helpful. If the forecast for employment, unemployment and the participation rate eventuate that is contained in the budget—and you may need to take this on notice—how many more people would be unemployed at that point than there are today?

Dr Gruen—The unemployment rate currently is 4.2 per cent and our forecast for the June quarter of 2009 is 4¾ per cent. I do not have the increase in the number of unemployed in front of me. It is not published in the budget. We can take it on notice.

Senator BUSHBY—I am happy for that. I imagine that the answer to this is probably very similar to the question before that one. What are the major factors behind the significant slowing in total business investment, which is forecast to grow at 9½ per cent in 2007-08 and fall to 4½ per cent in the four quarters to June 2009?

Senator Conroy—The 10 interest rate rises that occurred in your government!

Senator BUSHBY—As I suggested, the ones that are continuing under your government. I imagine they are the similar drivers?

Dr Gruen—Let me just say that business investment is already running at an extremely high level. If you look at business investment as a share of the economy, the level of business investment is around 30-year highs currently. It is partly a consequence of the fact that there is a huge amount of investment going on already and so a continuation of investment at the rates that we have forecast in the budget is still a significant increase. We have an increase of 9½ per cent year average for 2007-08 and 8½ per cent year average for 2008-09. Those are continuing substantial increases off a very high level.

Senator BUSHBY—How concerned is Treasury that the recent bailing out of certain international banks, for example, Bear Stearns in the US and Northern Rock in the UK, is planting the seeds of future financial strife because of moral hazard?

Senator Conroy—Can you rephrase that? You have asked an opinion.

Senator BUSHBY—That is fine.

Senator Conroy—I am comfortable for you to rephrase it, but the way it is phrased at the moment is an opinion.

Senator BUSHBY—We are very lucky that you are so particular on these things, as is the estimate process in general. Is the recent bailing out of those two banks by the governments concerned an issue that could lead to an increase in moral hazard with banks in general?

Senator Conroy—Is and could tend to lend towards an opinion.

Senator BUSHBY—Will it? Will that lead to risk for future financial strife because of moral hazard?

Dr Henry—Our view would be that, in those two cases, the risk of moral hazard being created—and one cannot completely discount that there is a moral hazard element to it—is considerably smaller than the damage that would have been done to financial system stability in those two economies had those two entities been allowed to fail. Whatever the impact on moral hazard, in our view it would have—

Senator BUSHBY—Is it the lesser of two evils?

Dr Henry—Yes.

Senator BUSHBY—We have seen a lot of commentary from some financial commentators suggesting that the shrinking of liquidity in the world's financial markets has acted as a de facto tightening in monetary policy. Has this reduced the need for the Reserve Bank to increase official rates as much as they might otherwise have been required to?

Dr Henry—I do not like talking about factors that have influenced thinking in the Reserve Bank Board. That is because I do not regard it as my job to do so. It is the governor's job to speak for the board and, of course, the parliament gets an opportunity to—

Senator BUSHBY—Can you speak on the first half of the question?

Dr Henry—I am not trying to duck the question.

Senator BUSHBY—I can understand the gravity of comments you might make, as well.

Dr Henry—This is a factor that I am sure central banks around the world, and certainly Australia's central bank, have been thinking about. It is a very difficult thing to judge, of course. The impact a tightening in credit conditions globally might have on macroeconomic outcomes in Australia, including the downward pressure that might be exerted on inflation going forward, certainly is something that Australian authorities are thinking about.

Senator BUSHBY—Can you provide the outcomes of the normal measures for productivity growth for Australia in the 2006-07 year?

Dr Henry—We can.

Dr Gruen—Do you want that for the market sector or for the economy as a whole?

Senator BUSHBY—All measures of productivity growth, if that is possible. If you have got something tonight it would be very useful, but I am happy to take it on notice.

Mr T McDonald—One of the problems with productivity measures is that, when data get revised then the productivity measures also typically get revised as well, and because the national income expenditure and production accounts have only just been released earlier today, the material that I had prepared is potentially out of date. While the data is unlikely to have changed substantially for 2006-07, there is a risk that it could have done so. I would be happy to take that on notice.

Senator BUSHBY—If you have the material here today, would you be prepared to give it to me on the caveat that it may change on that basis?

Mr T McDonald—That would be a bad practice to get into, given that the data may well not be correct as of now. I will have to check. Perhaps my colleagues may have data that has been updated.

Mr Allford—I have the national accounts, which were released today. The GDP per hour worked in the market sector, which is the ABS's preferred measure of productivity, increased by 1.0 per cent in the 2006-07 financial year.

Senator BUSHBY—Do we have any figures for the current year?

Mr Allford—I have the quarterly growth numbers for the current year.

Senator BUSHBY—Yes.

Mr Allford—For the September quarter 2007, it increased 1.0 per cent; the December quarter 2007 is 0.2 per cent; the March quarter 2008 is 1.0 per cent.

Senator BUSHBY—Thank you very much for that. That is probably all I need, so there is no need to take that on notice. At the House of Representative Standing Committee on Economics on 4 April 2008, the RBA Governor said the following:

... we are most like to get the best productivity performance when firms and their employees are able to bargain pretty widely across the whole range of practices. That is, I think, where productivity comes from.

Do you agree with this statement?

Senator Conroy—Even as you were asking that question, I am sure that you worked out that you were asking for an opinion.

Senator BUSHBY—It was worth a try. I do not know how I can change that one around.

Senator Conroy—No. I think you are right.

Senator BUSHBY—Is it the case that increasing minimum employment conditions can reduce the ability for employers and employees to bargain?

Senator Conroy—That is more of an industrial relations question.

Dr Henry—I do not think it reduces the ability of employers and employees to bargain, but I guess it does have an impact on the feasible set of outcomes from the bargaining—if that is not too obscure. Is that right?

Dr Gruen—It sounds good. I do not think it is obscure. I can understand your saying that.

Senator BUSHBY—I will leave that one there. Do you agree that pattern bargaining is likely to put upward pressure on inflation and unemployment?

Senator Conroy—That is a hypothetical. You are asking an opinion on a hypothetical event.

Senator BUSHBY—Is it the case that pattern bargaining can place upward pressure on inflation and unemployment?

Senator Conroy—That depends on your definition of pattern bargaining. It depends whether there are productivity issues in the pattern bargaining.

Senator BUSHBY—There are certainly a number of variables, but I am asking whether it can and not whether it always will.

Senator Conroy—You are asking us to speculate on what is contained in the pattern and that is well outside the matters before Senate budget estimates.

Senator BUSHBY—I will move on then. Is it the case that requiring award wages to increase at the rate of inflation can put upward pressure on wages and hence inflation?

Senator Conroy—Now you are just asking for speculative opinions.

Senator BUSHBY—Dr Henry looks like he is thinking. I am waiting to see if we are going to get an answer.

Senator Conroy—Unfortunately, your questions are probably too pointed. You need to sneak up on them a bit more rather than going for the throat.

Senator BUSHBY—We will move on a bit then to Reserve Bank board appointments. The government has promised to introduce a new register of eminent candidates for appointment to the Reserve Bank board. The Treasurer included the following words in the statement of conduct of monetary policy between the Treasurer and the Governor of the RBA, which was signed on 6 December 2007:

... the Secretary to the Treasury and the governor will maintain a register of eminent candidates of the highest integrity from which the Treasurer will make new appointments to the Reserve Bank board. This procedure removes the potential for political considerations in the appointment process and ensures that only the best qualified candidates are appointed to the Reserve Bank board.

How is this register maintained?

Dr Henry—There is a register and it is maintained by agreement between the governor and me.

Senator BUSHBY—How does the maintenance of this register differ from past practice?

Senator Conroy—It is broader than the Liberal Party donor list.

Senator BUSHBY—The Liberal Party what, sorry?

Senator Conroy—Donor list.

Senator EGGLESTON—It must be huge.

Senator BUSHBY—It must be a very wide one.

Senator Conroy—I do not think there was a list previously.

Dr Henry—Not always.

Senator Conroy—Did you keep one in your desk?

Dr Henry—From time to time we did have a list of candidates that I would have proposed and a list of candidates that the governor would have proposed, and there was a fairly large intersection of those two sets. However, I think the most significant thing in the Treasurer's statement is that he has committed himself to choosing from the intersection of those two sets. That is a significant change.

Senator BUSHBY—As you have indicated and as I understand—I think your statement has just confirmed it—in the past, Treasury did provide a list of possible candidates, which probably came from you, for the RBA board, including the governor and deputy governor, and there was some intersection with those. Are you saying that the main difference now is that the Treasurer is undertaking to appoint only from the list of names that you or the governor put up?

Dr Henry—In fact, that the governor and I put it up.

Senator BUSHBY—To your knowledge, has an appointment ever been made from outside the list of names that you and/or the governor have put up?

Dr Henry—I would prefer not to answer that question.

Senator Conroy—That goes to advice to government.

Senator BUSHBY—That is fine.

Dr Henry—It goes to advice to a former government, indeed, so I am not able to answer.

Senator Conroy—I would like to know where you found Rob Gerard, but I will not ask that question.

Mr T McDonald—Perhaps I can assist. One of the changes that has happened with the register being maintained is that these issues are being addressed in a systematic manner. By having a register of candidates and criteria that are defined—they are outlined, I believe, in the Treasurer's press release of 7 May announcing the reappointment of Ms Broadbent—the process that you are discussing with the secretary is on a clearer, more structured basis.

Senator BUSHBY—That is very helpful. Will the register be made public?

Dr Henry—No. I think that is very unlikely, and I think there are pretty good reasons for not making the list public.

Senator BUSHBY—Such as?

Senator Conroy—I would not have thought the individuals would necessarily want to be known to be on the list, particularly if they miss out.

Senator BUSHBY—I think that most people involved probably would be quite chuffed if they were included on the list of eminent persons.

Senator Conroy—If they just sat there for years and years, would they still be chuffed?

Senator BUSHBY—I think, on the whole, most would consider it better to be on there than not at all.

Senator EGGLESTON—It is like being on the rich list.

Senator BUSHBY—It is like being on the rich list.

Senator Conroy—Being on the Reserve Bank list.

Senator BUSHBY—Dr Henry, do you have anything to add to the reasons why you might not? There may well be more reasons.

Dr Henry—Certainly that is the most cogent reason. There is also the risk that we could get unhelpful public debate about the names of people who should be added to the list. It could be that names are added to the list over time reflecting factors other than those that the governor and I would consider to be important. It is not that I want to be overly secretive about this, but I think public debate on these things can at times be quite unbalanced.

Senator BUSHBY—There are some valid points in there; I appreciate that.

Senator Conroy—Just before you ask your next question, I would like to do some housekeeping. We still have APRA waiting out the back. Do you think we will get to them?

Senator BUSHBY—I think we will. Do you have any questions for Macroeconomic?

Senator EGGLESTON—No, none, although I could find some.

Senator BUSHBY—How frequently will the register be updated? How do you make sure that the list is relevant?

Mr T McDonald—We maintain the information on the register on a progressive basis. As you would appreciate, it is in somewhat early days. Of course, the next scheduled appointment to the Reserve Bank is not for some time; I believe it is not until 2010, from memory. We would hope that it would not be required before then. Nevertheless, we will be maintaining the information on the register to ensure that it is current, so in the event we would be able to provide the Treasurer with that information on a progressive basis. Amongst other things, that requires us to ensure, for example, that none of the members on the register would have involvement in an authorised deposit-taking institution, which would be an automatic disqualifier.

To come to some of the points that Dr Henry was talking about on whether you would want this register to be public, one of the sensitivities, given that one of the criteria is the integrity of the individuals on the list, comes when we or the bank reach the view that it would no longer be appropriate for a member to be on the register. One can imagine that the removal of a person in such circumstances, or speculation that the removal was for such reasons, as opposed to other much more benign reasons, would not be terribly helpful to that person or their reputation.

Senator BUSHBY—You are saying that effectively it will be a moving feast. You will not have periodic reviews by the secretary and the governor.

Mr T McDonald—We are intending a periodic, probably an annual, review of the members on the list. Nevertheless, at any given point in time, the bank and we would update the information on the register to make sure that it was current.

Senator BUSHBY—Looking at whether they had become involved in a deposit-taking institution or something like that—

Mr T McDonald—Yes. One would not want to speculate too much, of course.

Senator BUSHBY—such as things that may make them ineligible.

Mr T McDonald—Yes.

Senator BUSHBY—Would it be possible for persons who consider themselves suitably eminent to nominate themselves or for others to refer people who they consider suitably eminent to the attention of the secretary and/or the governor?

Dr Henry—Yes.

Senator BUSHBY—For instance, if Senator Conroy in a post-political career decided that he would like the honour, he could put his name forward for consideration.

Senator Conroy—That is very kind of you, but I cannot see it happening.

Senator BUSHBY—Just as an example.

Dr Henry—Sure. But, for obvious reasons, there would—

Senator JOYCE—You do not have to explain.

Senator Conroy—I think 11 years of my torturing him here rules me out of getting his nomination.

Dr Henry—For obvious reasons, we would not be able to indicate to the nominee whether they were on the list or not.

Senator BUSHBY—That is another question. The people who are named on your list are not aware of that fact. Is that correct?

Mr T McDonald—Yes.

Dr Henry—That is right.

Senator BUSHBY—Will the register or any aspect of it be made a legislative requirement?

Mr T McDonald—That is not the intention. The Treasurer appoints members to the board, under section 14(1)(d), and the Treasurer's joint statement on the conduct of monetary policy and the Prime Minister and the Treasurer's joint press release of 6 December indicated that the Treasurer and the government have committed to make appointments from the register. However, amendments to the Reserve Bank Act to give effect to that decision are considered unnecessary.

Senator BUSHBY—Will people be added to the register by virtue of positions that they hold?

Mr T McDonald—Ex officio?

Senator BUSHBY—Yes.

Mr T McDonald—No.

Senator BUSHBY—I do not want to use an example, but take someone like the ACTU president or secretary. In the past, people who have held those positions have ended up on the Reserve Bank Board.

Dr Henry—Perhaps I can cut to the chase. Neither the governor nor I have received any guidance of any sort from the Treasurer about the sorts of people whose names should go on the list.

Senator BUSHBY—I think that answers the question.

Dr Henry—Rather, the guidance is going in the other direction.

Mr T McDonald—Indeed, one of the key elements of the dynamic of the board has been that members have been appointed and operate on the board on the basis of acting in the broader national interest rather than as representatives of any particular group or section of the community. Indeed, that is part of why the dynamic of the board, albeit unusual by international standards, has served Australia well.

Senator BUSHBY—Since the register will not be made public and despite the assurances of the Treasurer that appointments will only be made from the list, what assurances, if any, does the public have that appointments, when they are made, have come from that list?

Mr T McDonald—I believe the Treasurer has stated that the reappointment of Ms Broadbent was from the register, and that certainly was the case.

Senator BUSHBY—I have some concerns. I think the idea is fine in concept. I understand from evidence tonight that the main difference between past and present practice is that the Treasurer is required to select from that list. But it is not legislated; it is private. There is no way for anybody sitting around this table to ascertain whether an appointment, when it occurs, has come from the list other than our being told of that when it happens. What guarantee is there that all future appointments will come from that list when we have no way of ascertaining whether that is the case? Presumably, if we asked you guys sitting around at estimates, you would say that was a matter of advice and you would not tell us either.

Senator Conroy—I think you have got it.

Senator BUSHBY—So there is no guarantee?

Dr Henry—Do you mind if I take that question on notice?

Senator BUSHBY—That is fine.

Dr Henry—I would like an opportunity to consult with the Treasurer on the answer to that question.

Senator BUSHBY—I appreciate that. I have some other questions that I could ask on the enhanced independence bill, but they are largely questions that were asked last week. In the interest of brevity, I might hand over to Senator Joyce, who has a question or two.

Senator JOYCE—In your job at Treasury, how many fortnights are there in a year?

Dr Henry—I think it is 26.07.

Senator JOYCE—That is exactly right—26.07. It is 364 days in fortnights. Why is it that pensioners, when we appropriate Centrelink money, only get paid for 26 fortnights and not for the extra period?

Senator Conroy—That is, firstly, an opinion. It is probably an opinion on government policy.

Senator JOYCE—It is not an opinion. It is a fact; it is what happens.

Senator Conroy—Just because you ask for their opinion on a fact does not mean that you are not asking for an opinion. I am not sure what it has to do with Treasury estimates.

Senator JOYCE—Treasury is where the money comes from.

Senator Conroy—That is a policy matter properly asked in a different committee.

Senator JOYCE—I just want to have it on the record that you said there were 26.07 fortnights in a year. I am glad I have got that from Treasury. We can now use those facts when we are talking to other people as to why some people are out of change by \$160 at the end of the year. On what information do you base your budget three-year rolling out forecasts?

Dr Henry—Forecasts of which things?

Senator JOYCE—Taxation revenue by source.

Dr Henry—We build a set of macroeconomic forecasts for the economy, which cover the key macroeconomic variables, and then develop a set of budget parameters that are derived from those macroeconomic forecasts. Those budget parameters would go to things like employment growth, wages growth, growth in profits—so company profits—and so on. It is off that set of budget parameters, which are based on the macroeconomic forecasts, that the revenue projections principally are made. There are other considerations that go into the production of budget revenue parameters. I am less familiar with what happens on the expenditure side of the budget, but there would be other considerations there beyond those that come from those broad economic parameters.

Senator JOYCE—I am just looking at the taxation by revenue source at this stage.

Dr Henry—Yes.

Senator JOYCE—You would have a close liaison with government departments. You would be talking to them. You would be scanning the horizon for issues that the new

government would consider to be at the forefront of their ideas and implying them into your projections, wouldn't you? Especially as it is tax and it is coming from the government, you would want to be talking to the government about what they are proposing to tax into the future. Is that correct?

Dr Henry—The projections on the revenue side of the budget are based on announced tax policy settings. If the government had an intention to do something and we happened to be aware of it but it had not been announced as policy, then we would not reflect that in revenue projections.

Senator JOYCE—Would you put them as notes to the accounts? That is what we always had to do.

Dr Henry—There is a qualification there. Very rarely would we make a provision in the budget. It is not so rare on the expenditure side of the budget, where we have a contingency reserve that makes provision for some government decisions that have not been finalised by the time of the budget. On the revenue side of the budget, it would be unusual. However, in this budget, for the year 2011-12, we do make such a provision and it relates to prospective unannounced personal income tax changes.

Senator JOYCE—I am interested that part of your department has come here and told us that there will be a positive revenue stream from the emissions trading scheme, which I have noted does not feature in your financials.

Dr Henry—Yes.

Senator JOYCE—I want to know where that is.

Dr Henry—The reason why it would not be in there is because the design of the emissions trading scheme has not been settled.

Senator JOYCE—They are wise enough to tell me that it is revenue positive. They must have enough information to determine it is revenue positive. As it is revenue positive, it should be in here.

Dr Henry—It certainly will have some positive revenue. I am pretty sure that it will not be revenue negative.

Senator JOYCE—I am pretty sure of that too.

Dr Henry—The question is how much. We would not put a number in the budget, even in a contingency reserve, unless and until we had significantly more information about tax design.

Senator JOYCE—Are you receiving that significant information in any way, shape or form? You do not have to tell me what it is; just tell me if you are receiving it.

Dr Henry—This is an area of policy development that is very much under consideration by government at the moment.

Senator JOYCE—Have there been discussions that they believe it is going to be significantly positive or not significantly positive?

Dr Henry—As I said, I cannot add further to what I have said already. Until we have considerably more detail about the design of the emissions trading scheme, we would not be in a position to put numbers into the budget.

Senator JOYCE—We have also had information tonight—I do not know what the exact dictum was—that you will be putting a charge on certain products and there will be no subsidisation of others; therefore, as I see it, there is only money coming in and not going out. So it would be significant. If it is to affect the buying intentions and aspirations of the consumer, it is going to be quite a significant increase to revenue.

Dr Henry—I think we will have to wait and see the specific design details of the emissions trading scheme before making that sort of judgement.

Senator JOYCE—When you get those details, how soon will it be before we get a foreshadowed update in the budget estimates?

Dr Henry—It depends on whether those design details are available before the Mid-Year Economic and Fiscal Outlook that will be published towards the end of this year. If they were available, we would incorporate the revenue impact in—

Senator JOYCE—Before the mid-year outlook?

Dr Henry—The timing of that is not known at this stage, but let us say it will be in November.

Senator JOYCE—If the government makes an announcement on the emissions trading scheme before the mid-year economic statement, would I be ready to see an update in the financials?

Dr Henry—I just wonder if I am missing anything here. I think you would see some revision on the revenue side recorded in the MYEFO, if that were the case.

Senator JOYCE—I look forward to that. It has been spruiked as a major government policy and I think the Australian people have a right to know the effects of it. Going back to those macroeconomic issues that we were talking about previously, do you believe that monetary policy is an effective tool in the management of the economy?

CHAIR—I think that is an opinion.

Dr Henry—That seeks an opinion.

Senator JOYCE—Is monetary policy a mechanism for controlling inflation?

Dr Henry—Again, that seeks an opinion. I am happy enough to say—

Senator JOYCE—What do we use monetary policy for?

Dr Henry—Indeed. I am happy enough to indicate that there is broad consensus amongst economists that monetary policy settings do influence inflation outcomes.

Senator JOYCE—The government has a big interest in monetary policy?

Senator Conroy—I am not sure if that was a question. If it was, it was seeking an opinion about government policy.

Senator JOYCE—This is not seeking an opinion; this is seeking a fact: does the government have an opinion on monetary policy?

Senator Conroy—That is a question to be put to the government.

Senator JOYCE—Do you have an opinion on monetary policy?

Senator Conroy—Monetary policy is something that the Reserve Bank takes very seriously. We have a fiscal policy that is running consistent with monetary policy, as opposed to your government, where you had a monetary policy and a fiscal policy at odds—which is why we have inflation at this record 16-year high.

Senator JOYCE—It is interesting to know that three things in your suite of trinkets for the Australian people are an emissions trading scheme, which puts up inflation; an alcopops tax, which is inflation; and a luxury car tax. They are all inflationary. So much for a government that is worried about inflation.

Senator Conroy—Unfortunately, we did have a lengthy discussion on these issues with Senator Coonan, when she was here earlier.

Senator JOYCE—So you do have an opinion on monetary policy.

Senator Conroy—It has long been the case that governments do not—

Senator JOYCE—I do not know why you are dodging the question. It is so easy.

Senator Conroy—speculate about the stance of monetary policy.

Senator JOYCE—You do not speculate?

Senator Conroy—There has been a long convention, including under your government, although I do confess near the end it did become a regular argument—

Senator JOYCE—I am asking you the question: you do not speculate; your government does not speculate?

CHAIR—Senator Joyce, we have APRA waiting.

Senator Conroy—We support the Reserve Bank's—

Senator JOYCE—What is the problem with asking a question, Madam Chair?

Senator Conroy—monetary targets.

CHAIR—I am just saying that I think the time—

Senator JOYCE—You support monetary targets?

Senator Conroy—We support the Reserve Bank's—

Senator JOYCE—You support the Reserve Bank's monetary targets?

Senator Conroy—I think we have signed—

Dr Henry—Yes.

Senator Conroy—a signed a letter to that effect.

Senator JOYCE—You just had to check with the Secretary of the Treasury as to whether you support monetary targets.

Senator Conroy—I was fairly confident that we had signed it. I just wanted to make sure that—

Senator JOYCE—You wanted to make sure that you got it right.

Senator Conroy—it had been signed recently.

CHAIR—I think we need to wrap it up there, really.

Senator Conroy—I think he needs to wrap it up because he is in hot water. I think that is what is happening, really.

CHAIR—Have you concluded?

Senator Conroy—I think we promised that we would get onto APRA.

Senator JOYCE—I think you should get onto APRA; you might get yourself out of some trouble.

CHAIR—Thank you to officers of the Treasury for coming this evening.

[10.21 pm]

Australian Prudential Regulation Authority

CHAIR—I call the officials of the Australian Prudential Regulation Authority. Do you have an opening statement?

Dr Laker—In my opening remarks tonight, I would like to update the committee on global financial market developments and their implications for APRA and the financial institutions under our supervision. I would also like to offer some comments from the perspective of a prudential regulator on two market practices that have come under a stronger spotlight over recent months, namely, margin lending and securities lending. In late February when I last spoke to this committee, I noted that global credit and equity markets had been subject to a prolonged period of turbulence which showed every sign of persisting. So it proved. Market sentiment deteriorated even further over ensuing weeks but, more recently, sentiment has begun to improve. The turning point appears to have been the US Federal Reserve's intervention in support of a major US investment bank, Bear Stearns, in mid-March. Nonetheless, in the face of sharply higher oil prices and uncertainty over the strength of US and global economic growth, market sentiment remains fragile and financial asset prices may not yet have found a firm anchor.

Throughout this recent period, the fundamental strength of the Australian financial system has continued to assert itself. This positive assessment applies to authorised deposit-taking institutions, ADIs, affected most by increases in wholesale funding costs and the drying up of securitisation markets. It applies as well to the other industries that APRA supervises—insurance and superannuation—that have, to varying degrees, been affected by declines in equity and other asset markets. Four main factors have been underpinning the strength of the ADI sector. Firstly, ADIs have continued to enjoy solid, double-digit growth in both business and housing lending, supported by an economy which still has considerable forward momentum. That said, rates of balance sheet growth have been slowing in response to the recent tightening in financial conditions. Secondly, ADIs have generally been able to meet their funding needs in 2008 through more aggressive pursuit of retail deposits and through

wholesale market raisings, though often at shorter maturities than preferred. Securitisation markets, however, remain moribund, but some flickering of the eyelids has been observed recently.

Thirdly, the asset quality of ADIs remains generally strong, although, as expected in a higher interest rate environment, arrears rates have begun to edge up again, albeit from an historically low base, and some problem corporate loans have emerged, particularly corporates needing to refinance high debt levels in the current difficult environment. Finally, ADI profitability and capital levels remains sound. Increases in funding costs and higher levels of provisioning against distressed borrowers have brought the run of record profits to an end for some ADIs but not for others. ADIs that have sought to strengthen their capital levels have been able to access capital markets without difficulty. APRA remains in a heightened state of alert and it is far too early to heed any call to stand easy. We have been able to step back from our previous day-to-day monitoring of ADI liquidity positions as market conditions have improved but we continue to work closely with ADIs on their funding plans and we have strengthened reporting arrangements in this area. Our goal is to ensure that ADIs have articulated specific and realistic expectations for the funding of their planned asset growth, looking 12 months ahead.

The change in reporting arrangements forms part of an enhancement to APRA's prudential framework for liquidity risk management that will be released for industry consultation later in 2008. It will take into account a review of international standards in this area by a working group of the Basel Committee on Banking Supervision in which APRA is participating. Earlier this week the government announced a range of actions that are being undertaken by APRA, including this work on liquidity risk management, and by other Australian financial authorities in response to the recommendations of the Financial Stability Forum, a global body established to promote international financial stability. APRA will continue to work closely with our fellow authorities to ensure a coordinated approach to Australia's contribution to global reform initiatives and in implementing the Financial Claims Scheme also just announced by the government.

APRA has been active on a number of other fronts as well that are additional to its normal supervisory activities. As part of the so-called pillar 2 process of the new Basel II framework, we have been reviewing the capital management plans of ADIs to ensure that they are holding adequate capital buffers against risks. We have been closely monitoring lenders mortgage insurers, LMIs, in Australia, which have significant exposures to credit risk on housing lending. Recent claims experience has been readily manageable and the LMIs continue to perform well, reporting solid underwriting profits that support the strong capital base of the industry in Australia. While the major rating agencies have downgraded the parent companies of two foreign-owned LMIs due to reported group losses, the agencies have also acknowledged the strength of the Australian subsidiaries and of APRA's prudential framework for lenders mortgage insurance. We have sought information from both life and general insurance companies on the sensitivity of their capital buffers to adverse movements in equity markets and interest rates. Generally speaking, this information has confirmed that equity markets would need to fall significantly below their 2008 lows before the capital adequacy of insurers would be threatened.

Finally, in this period of prolonged market volatility we have been emphasising to superannuation fund trustees the importance of maintaining adequate liquidity in the different investment classes to meet potential demands from members to change their investment mix or to transfer to other funds. After experiencing strongly positive cash flows over the last few years, superannuation funds in coming reporting periods may be delivering negative returns to members for the first time since choice of fund was introduced.

Let me turn now to margin lending and securities lending, in which I know members of this committee have a particular interest. Margin lending and securities lending are long-established market practices. APRA does not have specific policy requirements for these practices nor does it supervise them directly or routinely. Rather, as a prudential regulator, APRA's role is to ensure that regulated institutions participating in these activities identify the counterparty, legal and other risks involved, manage these risks appropriately and, where relevant, hold capital against these risks. As a general point, APRA also expects regulated institutions participating in these activities to understand the legal framework for their transactions and to comply with all applicable laws.

Margin lending is a specialised business undertaken by the major bank groups, some smaller bank groups and some other institutions not supervised by APRA, such as investment firms and securities brokers. Margin lending is conventionally thought of as lending to a retail investor for the purpose of purchasing a portfolio of shares or other financial products; wholesale lending by banks to brokerage firms or other lending that may be fully or partially secured by shareholdings of the borrower generally falls outside this definition. In aggregate, margin lending currently constitutes only about two per cent of the total loan portfolio of ADIs in Australia. This share was around one per cent for a number of years but it rose during 2006 and the first half of 2007 to a peak of nearly 2½ per cent, coincident with the strong rise in equity markets.

APRA expects banks that provide margin lending to manage their lending exposures within a comprehensive risk management framework that, amongst other elements, focuses on the capacity of the borrower to service the loan and on the value of security. Banks have generally taken a conservative approach to this form of lending, with relatively prudent criteria for shares they will lend against and low loan-to-valuation ratios—around 50 per cent or lower. APRA monitors the banks' approach to this form of lending but does not set detailed prudential requirements. Decisions, for example, regarding the timing and need for margin calls are made by the bank as part of its normal business practices. APRA expects banks to have clear policies around these aspects of their margin lending activities. For those banks with material margin lending portfolios, APRA assesses the adequacy of lending policies and controls during regular on-site credit risk reviews. However, APRA does require ADIs to hold regulatory capital against their margin loans as a buffer against unexpected losses. In fact, APRA recently exercised its national discretion and departed from the new Basel II framework, which does not include any capital on margin lending because of the historically very low risk in this activity. APRA imposes a 20 per cent risk weight—equivalent to a 1.6 per cent capital requirement—on ADI margin lending.

As I advised the committee in February, banks have reported to us that they have not incurred any material lending losses in their retail margin lending. While recent market

volatility has led to significant increases in margin calls, our discussions with banks indicate that borrowers are normally able to meet them. It is worth pointing out that recent highly publicised events involving liquidation of securities positions do not involve banks' retail margin lending business but more complex lending arrangements secured by individual shares or wholesale funding to brokers for their own margin lending activities.

Let me turn, finally, to securities lending, which is also a well established market practice in Australia and overseas. As the Reserve Bank of Australia noted in a recent report, 'both short-selling and securities lending are critical to the efficient functioning of the equity market'. For market participants, the practice adds to market liquidity and to the efficiency of pricing, and facilitates on-time settlement of trades. For holders of securities, securities lending is a means of increasing overall investment returns while retaining long-term exposure to the underlying securities. In the case of superannuation funds, share lending reduces the overall cost of asset custody and is often associated with reduced fees from custodians rather than direct income to the fund. Superannuation trustees are responsible for managing their portfolios in the best interests of beneficiaries, as we know, and that includes addressing any custody-related risks that could arise in securities lending arrangements.

APRA has examined this practice in the past and did not consider it to pose a significant prudential risk to superannuation funds or their investments. Normally, share lending is conducted by the custodian as part of its routine operations and under standard terms and conditions, so trustees are aware of and agree to the lending of their fund's shares. The arrangements are also well collateralised. Superannuation trustees have not advised us of any recent losses arising out of this practice. APRA expects superannuation trustees to have policies governing exercise of share voting rights that ensure votes are exercised in the best interests of fund members and that take into account the implications of securities lending. Our understanding is that entities that wish to vote their shares on a particular matter generally have a right to recall any shares that have been lent. Like any other investor, a superannuation trustee could instruct its broker to short-sell shares within the ASX's rules for short-selling.

Superannuation legislation does not impose quantitative controls over investments, including short-selling. However, our understanding is that superannuation trustees generally do not engage directly in this form of activity, although some funds may have investments in hedge funds that include short-selling in their trading strategies. Such investments need to be consistent with the investment strategy that all superannuation trustees are required to have for the fund that takes into account the risk and likely return from investments, the diversification of those investments, liquidity requirements and the ability of the fund to discharge its liabilities. Trustees must also have a formal risk management plan for the funds which identifies the risks to its investment strategy and which must be reviewed at least annually. My colleagues and I are now happy to take the committee's questions.

Senator MURRAY—In terms of opening statements in the estimates process, that is amongst the best statements we could ever have. So I am glad it was both long and full. Thank you very much.

Senator EGGLESTON—I would like to ask some questions about the four-pillars policy and the proposed Westpac takeover of St George, which has been getting a lot of press lately,

with people like Terry McCrann supporting the four-pillars policy; the *Australian Financial Review* saying that it is on its swan song; Allan Fels saying competition is the real issue we have to be concerned about; and Gordon Renouf saying decreased competition and increased fees may be the outcome. Since time is short, I will make my questions very brief. What is the track record of the four-pillars policy and how effective has this policy been in achieving its objectives? Has it failed in any way?

Dr Laker—As Chairman of APRA, I really cannot engage in the policy question of whether four pillars is the appropriate policy. That is a matter for government. What I can say and what I said in the opening statement is that we have a very strong banking system. We have strongly capitalised banks, large and small. It has been a major focus of APRA over the last five or six years that their approach to lending is conservative and that is reflected, I think, in the summary I gave you tonight as well. We, as a prudential regulator, look at each institution to make sure that it can hold its own in the tough competitive marketplace in which it operates and, on that score, I think we in APRA are proud of the Australian financial system at this point. It has weathered a tough storm well.

Senator Sherry—The only comment I would make about four pillars—I would confirm what Dr Laker has said—it is a government policy. It has just been reiterated, reannounced, earlier in the week and it was obviously the policy of the previous government. The Treasurer has made a statement as part of the announcement relating to the Financial Claims Scheme that he also detailed earlier in the week.

Senator EGGLESTON—One can read much into both of those sets of comments. What presentations, if any, have been made to APRA about the proposed merger between St George and Westpac?

Dr Laker—I think you will find my answers frustrating, but I cannot talk publicly about our dealings with regulated institutions because the parliament has quite wisely charged me to respect confidentiality. What I can say in general about mergers of this type, and we have dealt over the last few years with a number of large mergers, is that we work very closely with both parties to a merger. We normally require a project team on our part to assess the implications of any merger. Our focus is to ensure that the resulting entity, the merged entity, is robust, well-capitalised and well-governed and has a strong board, strong fit and proper standards within the institution. We also place considerable emphasis on the actual integration process itself because that can expose the entities to considerable operational risk and distraction of management time and resources while a merger, or takeover, is being implemented. We will work closely with merging parties through a merger of any scale. This possible merger on the scale of St George and Westpac is clearly quite resource intensive for us. But we need to ensure that, when we allow institutions to run onto the field, they are fit and they are strong, and they know the rules of the game and they are capable of playing it as hard as they need to in the marketplace.

Senator EGGLESTON—I have one other question which you may or may not feel able to answer: could you outline the implications of not having any Australian-owned banks and, if this scenario were to occur, would sufficient mechanisms exist to protect our domestic interests?

Dr Laker—I think you can appreciate that is a speculative question because government policy, as stated, has been the preference for Australian banking to remain predominantly in Australian hands. I think that was how the previous government had expressed the view. We have comprehensive mechanisms to supervise any institution, whether it is foreign-owned or Australian-owned, and we work closely with overseas regulators where there is a sharing of responsibility between a host and a home supervisor. An example of that at work is the role of the Australian banks in New Zealand.

Senator BUSHBY—I have a question about Members Equity Bank. I understand that a few months back, Standard and Poor's placed the bank on credit watch but they have since made some arrangements which have alleviated some of the matters that led to that. Would you like to comment on that, please?

Dr Laker—I cannot comment on individual cases.

Senator BUSHBY—Has APRA read the Parliamentary Joint Committee on Corporations and Financial Services Report into the structure of the superannuation industry?

Dr Laker—Very closely.

Senator BUSHBY—What is APRA's view on the committee's recommendation for mandatory unit pricing?

Dr Laker—Can I ask my colleague who handles superannuation matters.

Mr Jones—APRA does not have a view itself on whether unit pricing is better than crediting rates. APRA's principal objective here is to ensure that there is the appropriate application. We put out a unit pricing guide jointly with ASIC and we have seen a significant improvement in the quality of the responses to unit pricing over the past 12 months in terms—

Senator BUSHBY—When were those guidelines put out?

Mr Jones—They would have been out 12, 18 months ago. They have actually been quite well received by the industry—

Senator BUSHBY—Do they apply to all funds?

Mr Jones—Yes, all the—

Senator BUSHBY—As to unit price?

Mr Jones—They are guidelines. They are not requirements. It is simply best-practice guidelines.

Senator BUSHBY—What percentage of super funds have implemented daily unit pricing?

Mr Jones—We do not collect information on the percentage because it is not a prudential matter. Probably, though, the easiest way to think about this is that we do collect information on retail and public offer funds. Most retail funds and most public offer funds engage in unit pricing. In terms of the number of funds that APRA regulate, it is probably about a third of them but in terms of—probably a more interesting number would be the number of members, rather than the actual number of funds. Given that there are more people in public offer funds, this is top-of-the-head stuff because we do not actually collect accurate information, but I

would suggest it is probably between two-thirds and three-quarters of the APRA regulated membership would be in retail public offer type funds that unit price.

Senator BUSHBY—Would that translate roughly as well to the percentage of super funds under management?

Mr Jones—Not necessarily.

Senator BUSHBY—Would you have any idea of the percentage of super funds under management—

Mr Jones—In dollar terms?

Senator BUSHBY—No, you mentioned that a better way of looking at it would be the number of members, as opposed to the number of funds—

Mr Jones—Yes.

Senator BUSHBY—Would that same percentage that you hazarded a guess at, or an estimate, transfer across roughly also to the percentage of the total super funds under management?

Mr Jones—No because we only supervise the prudentially regulated sector. Self-managed super funds are not regulated by APRA and they represent about a quarter of the total funds, the \$1.1 trillion worth of funds, in the industry.

Senator BUSHBY—That is a good and useful point. What are the trends showing in terms of funds moving to daily unit pricing? Is it increasing as a trend or is it—

Mr Jones—Again, we do not collect that information. I could only give you information in terms of the trends, say, in terms of public offer and retail. So, for example, if the percentage of the market controlled by retail funds was rising, in all probability we would assume that the numbers that were in unit pricing were also following that trend. But, in fact, given that we do not collect the information, I could not be any more accurate than that.

Senator BUSHBY—For the record, what process do funds that do not daily unit price follow?

Mr Jones—They use crediting rates and those crediting rates could be done on an annual basis, quarterly basis, six monthly basis, according to—

Senator BUSHBY—The amount of information going to members as to what has happened with their funds is not as great, effectively?

Mr Jones—I am not sure because, in the cases of many of the assets, many of the assets may not need to be valued daily in terms of members who are in funds for long periods of time.

Senator BUSHBY—You mentioned that you have issued guidelines on appropriate procedures for unit pricing. Are there guidelines on appropriate procedures for funds that do not unit price?

Mr Jones—No, there are not.

Senator BUSHBY—How does APRA ensure that member equity prevails in funds where daily unit pricing is not applied?

Mr Jones—The equity issue with all these things is the valuation of the assets, so when we do our supervision we look at the way in which these things have been evaluated but, of course, there is always the issue of the notional idea of equity between members when members come and go, as members enter the fund and members leave the fund, and that occurs across all funds.

Senator BUSHBY—Are there any prudential risks that arise when funds do not use daily unit pricing? We have touched on that, I think, but I am asking the question specifically.

Mr Jones—I do not think there are necessarily any more prudential risks associated with crediting rates than there are with unit pricing. Unit pricing can be fairly complicated, and one of the things that we found, for example, with unit pricing guidelines is that we are finding some unit pricing errors which had significant dollar values, not significant necessarily for every individual member but in total the unit pricing error has been some actual numbers in aggregate, and what we have found in the past 12 months is that they seem to have decreased. It is a very positive sign.

Senator BUSHBY—Is it not possible that an individual who leaves a fund that does not daily unit price at a time when asset values are falling could disadvantage the members who remain?

Mr Jones—It is possible in all circumstances with members who leave at any particular time because of changes in any evaluations, share markets or anything else. That is always a possibility.

Senator MURRAY—I took the precaution of asking you some questions in advance, which you very kindly covered at length in your remarks, and thank you for that. Thank you for the thoroughness. It was very helpful. The other day I asked questions of the Future Fund concerning the issues of their policy with respect to margin lending and various types of short-selling, securities lending with respect to profit taking and for voting. In some categories they were very clear as to their policy and in others they had not developed policy and undertook to go back and ask their board what the policy should be, my prime position being that anyone engaged in this very large-scale activity should have a policy which guides them. As I understand it, that is what you have indicated is APRA's approach. What I want to check with you is how do you check that the policy exists with respect to each of those areas? Is there a tick-a-box kind of questionnaire, or do you go and look, or what happens?

Mr Littrell—We have something called the APRA supervision framework which outlines the areas of interest in a supervisory visit. We also have extensive off-site work but that is not so relevant here. The general answer to the question you raised is that, when our supervisors go into a super fund, that is one of the things they look at. It is not necessarily a tick-a-box literally in the sense of—it is not like there is a series of fine detail of regulation of how these things work but there is a general approach of how you would go about, for example, ensuring that if someone had an agreement with a custodian to lend scrip that it was properly collateralised and managed.

Senator MURRAY—You would establish that the policy was not that of an operational procedure which simply managers adopted but it was that which had been properly developed by the trustees or the board, whichever applies in the particular case?

Mr Littrell—In this particular case, most custodians have developed a reasonably standardised approach and agreement. Most trustees would sign up to something that looks like that agreement. It is one of many areas we would look in satisfying ourselves that a trustee was covering its risk. It is not one that is a particularly great focus for us.

Senator MURRAY—Apart from its topicality, my interest in this is the sheer scale. It really did take me by surprise. I am not as close to the market as some but I am close enough. I was startled by the scale of it and that is why I think it matters.

Dr Laker—I was just going to add to Mr Littrell's response that, when we went through the process of superannuation licensing, what trustees needed to have developed is an investment strategy and a risk management plan for their fund. We went through those in very careful detail before a licence was granted and, in the couple of years since, we have gone back and satisfied ourselves that these are living documents, that they are applied and that they are fully understood throughout the organisation. We have been following up to see whether the elegance of the plans and the thoroughness as written are actually implemented in practice. As you say, this issue has become topical and we have been talking to some of the larger superannuation funds about their approach and whether they have been revising and rethinking that approach. We have been talking to them about this particular issue.

Senator MURRAY—I would indicate to you that, in conversations and questioning I have had of associations in some funds, it seemed to me that some, in their responses at least to me, were much more up to the mark and more current and more focused than others. But I just make that comment for what it is worth. The last question I have is relative to banks and the superannuation funds. I have the impression with respect to these three categories I have outlined that banks have pretty well protected their interests and have not been exposed to excessive risk. That is my impression. But I have the impression that superannuation funds, by virtue of the way in which they are engaged in the market, have been more exposed to risk.

Dr Laker—This is in the process of securities lending?

Senator MURRAY—Securities lending in particular. I just want to hear from you whether that is an accurate impression and, even if the superannuation funds are more exposed to risk, in your view they are still well managed and manageable.

Dr Laker—I can only confirm what I have said, that, firstly, the practice predates APRA. In Australia, my understanding is that it was really in the 1970s and 1980s that it was first established officially, but the practice of securities lending goes back into the 19th century in other countries. Secondly, our superannuation funds are natural participants in that market because they are holders of the securities that can be lent. Thirdly, I think the point you need to remember is that the superannuation funds are long-term holders of these securities in general, so their main focus is to take a long-term view about the price of shares. They use the securities lending facility, as Mr Littrell said, under established Australian Master Securities Lending Agreements. There is a very well-established template for lending. It has not come on our radar as a source of risks that are not well managed.

Senator MURRAY—Do they get the general approval of the ultimate beneficial owners, which are the superannuants themselves, for their policy?

Mr Jones—No.

Dr Laker—Not in this specific case but the trustees act in the best interest of their members. In general, I think the relationship would be between the trustee and the custodian.

Mr Jones—It is also a similar example say when some of the lending has gone on and there are issues, say, regarding the voting. The trustee still has an obligation to ensure that any voting of shares is in the interests of members and so, of course, the circumstances are always that the trustee can call back those notionally linked shares under those circumstances.

Senator BUSHBY—Given that we are very short on time, I will change off unit pricing. There has been some discussion in the public, in the media and otherwise regarding the performance gap between retail and industry funds and I understand—and I think it was fairly recently—that Mr Jones made the statement that ‘the profit motive may diminish the alignment of interest between a fund and its beneficiaries’. Would you care to expand on that statement, and what you mean by that?

Mr Jones—Could you repeat the question?

Senator BUSHBY—I am reading from a media report from 25 May this year. It says:

Last week APRA released research backing the claims of not-for-profits. ‘APRA data collection since 1996 suggests systemic differences in investment returns,’ APRA deputy chair, Ross Jones, told an industry forum in Melbourne. Most controversially Mr Jones suggested that ‘the profit motive may diminish the alignment of interests between the fund and its beneficiaries’.

Mr Jones—The context was two things. We have been doing two sets of research. One, which does go back over 10 years, shows the performance. Our statistics show that the performance of the retail funds over the decade—we put out something last year called ‘Celebrating Ten Years of Superannuation Data Collection 1996-2006’. In that publication, it showed that the retail funds significantly under-performed compared with the other types of funds. The second part of the research that I think that quote probably refers to is that we then did some follow-up work which we published a few weeks ago, and I would imagine that is where that came from, which was looking at some more subjective factors such as governance and trying to look at whether there are any sorts of links. At various times we have speculated—and I certainly have in speeches—as to the reasons for the significant under-performance. One of the things that has been made clear is that, in fact, retail funds do need to make a profit. It is simply a statement of fact. Retail funds are for-profit funds. They are a business. On the other side of it, they will argue, quite justifiably, that they have a capital backing that some other funds do not have, and they have a reputation. And some of these things will have an impact.

Senator BUSHBY—You are saying that there are a number of things or factors—and this may be one of them—that lead to the performance gap?

Mr Jones—There are all sorts of things. One thing that we do not have, for example, through our statistics is strong information on costs. We have very good information on net returns and that is what we publish, but we do not have a great deal of information on costs, for instance.

Senator BUSHBY—You will look to add to your information store—

Mr Jones—It is certainly something that we have been trying to do. In fact, interestingly enough, we are holding a major seminar or conference in the first week of July looking at our statistics collection, and that is one of the issues that I hope will be raised by all participants.

CHAIR—I thank APRA officers for attending this evening and I adjourn this committee until 9 am tomorrow.

Committee adjourned at 10.59 pm