



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Estimates

(Public)

FRIDAY, 1 APRIL 2022

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ECONOMICS LEGISLATION COMMITTEE

Friday, 1 April 2022

Members in attendance: Senators Bragg, Chisholm, Cox, Davey, Gallagher, McAllister, McDonald, Scarr, Walsh and Watt.

TREASURY PORTFOLIO

In Attendance

Senator Birmingham, Minister for Finance

Senator Hume, Minister for Superannuation, Financial Services and the Digital Economy

Department of the Treasury

Dr Steven Kennedy, Secretary

Corporate and Foreign Investment

Ms Roxanne Kelley, Deputy Secretary, Corporate and Foreign Investment Group

Mrs Elizabeth Williamson, Chief Operating Officer [by video link]

Ms Cristy England, Assistant Secretary, People and Organisational Strategy Branch [by video link]

Mr Rob Raether, First Assistant Secretary, Business Liaison Unit [by video link]

Mr Hamish McDonald, First Assistant Secretary, Strategic Coordination and Communications Division

Ms Shannon Kenna, Assistant Secretary, Communications Branch

Mr Peter Johnson, Acting First Assistant Secretary, Foreign Investment Division

Ms Amelia Henty, Assistant Secretary, Policy and National Security Branch

Ms Sharon Nyakuengama, Assistant Secretary, Compliance Branch [by video link]

Macroeconomic

Luke Yeaman, Deputy Secretary, Macroeconomic Group

Mr Trevor Power, First Assistant Secretary, Macroeconomic Conditions Division

Mr Damian Mullaly, Assistant Secretary, Macroeconomic Forecasting Branch

Mr Mark Cully, First Assistant Secretary, Macroeconomic Analysis and Policy Division

Ms Vicki Wilkinson, First Assistant Secretary, International Economics and Security Division [by video link]

Ms Katherine Tuck, Assistant Secretary, Indo-Pacific and National Security Branch [by video link]

Ms Christina Garbin, Assistant Secretary, Multilateral Forums Branch [by video link]

Mr Jim Hagan, Chief Adviser International

Fiscal Group

Ms Jenny Wilkinson, Deputy Secretary, Fiscal Group

Mr Brenton Goldsworthy, First Assistant Secretary, Budget Policy Division

Mr Damien White, First Assistant Secretary, Commonwealth-State Population Division

Ms Philippa Brown, First Assistant Secretary, Labour Market, Environment, Industry and Infrastructure Division

Ms Lisa Elliston, First Assistant Secretary, Social Policy Division

Mr David Webster, First Assistant Secretary, Infrastructure and Project Financing Agency [by video link]

Revenue Group

Ms Maryanne Mrakovcic, Deputy Secretary, Revenue Group

Mr Simon Writer, First Assistant Secretary and Chief Counsel, Law Division

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

Mr Paul McCullough, First Assistant Secretary, Individuals and Indirect Tax Division

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

Markets Group

Ms Meghan Quinn, Deputy Secretary, Markets Group

Mr James Kelly, First Assistant Secretary, Financial System Division [by video link]

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

Ms Jessica Robinson, Assistant Secretary, Consumer Data Right Policy and Engagement Branch

Ms Belinda Robertson, Assistant Secretary, Data Economy and Consumer Data Right Governance Branch

Ms Emily Martin, Assistant Secretary, Regulatory Frameworks Branch,
Mr Robert Jeremenko, First Assistant Secretary, Market Conduct Division
Mr Tom Dickson, Assistant Secretary, Corporations Branch
Mr David Pearl, Assistant Secretary, Competition and Consumer Branch
Ms Lynn Kelly, First Assistant Secretary, Retirement Income Policy Division [by video link]
Ms Melissa Bray, Assistant Secretary, Advice and Investment Branch
Mr Luke Spear, Assistant Secretary, Member Outcomes and Government Branch
Mr Adam Hawkins, Assistant Secretary, Tax and Transfer Branch
Mr Peter Cully, First Assistant Secretary, Small and Family Business Division
Mr Gino Grassia, Assistant Secretary, Small and Family Business Branch
Ms Mary Jeffries, Assistant Secretary, Payments Performance Branch

Committee met at 09:01

CHAIR (Senator Scarr): I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2022-23 and related documents. For the Treasury portfolio, the Industry, Science, Energy and Resources portfolio and elements of the Infrastructure, Transport, Regional Development and Communications portfolio. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has set 14 April 2022 as the date by which senators are to submit written questions on notice and 27 May 2022 as the date for the return of answers to questions taken on notice.

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

The Senate, by resolution in 1999, endorsed the following test of relevance for questions at estimates hearings: 'Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.' I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has the discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise. The Senate has resolved also that an officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. In particular, I draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate into the *Hansard*.

The extract read as follows—

Public interest immunity claims

That the Senate—

(a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;

(b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;

(c) orders that the following operate as an order of continuing effect:

(1) If:

(a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and

(b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.

(2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.

(3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

(4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.

(5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

(6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.

(7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).

(8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(13 May 2009 J.1941)

(Extract, Senate Standing Orders)

CHAIR: Witnesses are specifically reminded that a statement that information or a document is confidential or consists of advice to government is not a statement that meets the requirements of the 2009 order. Instead, witnesses are required to provide some specific indication of the harm to the public interest that could result from the disclosure of the information or the document.

I remind senators and witnesses in the hearing room that microphones remain live unless I instruct otherwise—for example, at suspension or adjournment. I ask members of the media to follow the established media guidelines and the instructions of the committee secretariat. As set out in the guideline, senators' and witnesses' laptops, mobile phones and other devices, and personal papers are not to be filmed or photographed. I remind everyone in the gallery that they are not permitted to speak or interfere with the proceedings or with witnesses at any point during the hearing. Security is present and will be asked to remove anyone who does not follow these instructions.

Witnesses and senators who are seeking to table documents during the committee's hearing were requested to provide an electronic copy of those documents the day prior to the hearing so that the documents could be circulated electronically during the hearing. Please liaise with the secretariat if you need assistance.

Senators, departments and agencies have been provided with advice on the arrangements in place to ensure that the budget estimates 2022-23 hearings are conducted in a COVID-safe environment. The committee appreciates the cooperation of all attendees in adhering to these arrangements.

Department of the Treasury

[09:05]

The committee's proceedings today will commence with the Treasury portfolio, beginning with the Treasury's Corporate and Macroeconomic Group. The hearing will then follow the order as set out in the circulated program. I now welcome Senator the Hon. Simon Birmingham, Minister for Finance. I also welcome the Secretary of the Department of the Treasury, Dr Steven Kennedy, and officers from the Treasury, after a big week. Minister, secretary or officers, would you like to make an opening statement?

Senator Birmingham: Good morning, Chair. Good morning, Senators. It's good to be with you to talk about our economic plans and how they're working, but I shall leave that for the proceedings. I know Dr Kennedy has, as is customary, an opening statement.

Dr Kennedy: The Australian economy has proved itself resilient to the ongoing effects of the pandemic and other shocks. Throughout each successive wave, the recovery has been stronger than expected and Australians have adapted quickly to living with COVID-19. Key to this is that Australia has avoided the labour market

scarring feared early in the pandemic. In February, the unemployment rate was at four per cent and the participation rate was at a record high of 66.4 per cent. While the surges in cases associated with the omicron outbreak in January and February caused significant disruption in some industries, the effects on aggregate activity have been relatively muted. We expect that future waves of COVID will occur, and this remains a risk to the outlook. But, given our high vaccination rates and increased immunity in the community, our ability to live with COVID has improved and the impact of future waves is expected to be modest, unless a significantly more virulent strain emerges.

Two new shocks and source of uncertainty have arisen: the floods and Russia's invasion of Ukraine. The floods in Queensland and New South Wales have generated severe hardship for affected communities. Individuals and communities affected by the floods face destruction of their home or place of work, temporary displacement, loss of income, and a long road to recovery. The direct economic cost of the floods is expected to generate a drag on real GDP growth of around half of a percentage point in the March quarter. The impact will be felt through reduced activity, mainly in the local agricultural, mining, retail, trade, accommodation, food and services and construction industries. Trade will be affected, with coal exports to be relatively subdued in the quarter, although this will be to a lesser extent than in previous severe weather events—such as during and following Cyclone Yasi, when coal exports dropped by seven per cent—because coalmines have already been operating at reduced levels. Local agricultural businesses have experienced loss of livestock and output, but, at the aggregate level, exports are unlikely to be significantly affected. Over coming years, the direct and immediate costs will be partially offset by increased investment to replace and rebuild damaged housing, infrastructure inventories and household goods. The additional demand may place further upward pressure on the supply of materials and labour in the construction industry.

Russia's invasion of Ukraine and the spillover effects are creating significant headwinds for the global recovery. The invasion is having devastating social and economic impacts in Ukraine, and sanctions are causing a sharp economic contraction in Russia. For other countries, the risks include sharply higher energy and agricultural prices, further strains on global supply chains and likely further impacts on confidence, after what have been a tumultuous couple of years.

At this stage, global growth is expected to be around three-quarters of a percentage point lower in 2022, and global inflation around 1½ percentage points higher, primarily through higher oil, gas and wheat prices. The full effect will depend on the duration and severity of the conflict and the extent of energy, commodity and trade disruptions. Australia is better placed than many countries to absorb these impacts, being a net energy and commodity exporter and having little direct trade with Russia. Australia will benefit from higher export earnings. However, higher fuel and other prices will negatively affect household confidence and consumption and lead to higher inflation.

Despite this uncertainty, the outlook for the Australian economy is for strong growth and sustained low unemployment. Real GDP is forecast to grow at 4¼ per cent in 2021-22. Stronger than expected consumer spending and employment outcomes have led to an upgrade to growth relative to MYEFO. The latest data indicates strong underlying demand. Consumer spending and employment in the December quarter both exceeded expectations relative to MYEFO. Total tax receipts in the three months to February are running \$12.6 billion stronger than expected at MYEFO. Income tax withholding receipts are \$4.4 billion higher than the MYEFO profile, which is consistent with recent strength in employment and broader measures of wage growth.

As pandemic related support continues to taper, private sector activity is expected to become the main driver of growth. Real GDP is forecast to grow by 3½ per cent in 2022-23 and 2½ per cent in 2023-24. The unemployment rate is forecast to fall to 3¾ per cent in the second half of 2022 and remain low. Strong household balance sheets, low unemployment and increasing wages growth put households in a strong position to increase consumption and rebalance their demand away from goods and back towards services. Investment will be supported by strong business balance sheets, temporary business tax incentives and increasing capacity utilisation. Record prices for bulk commodities will also boost incomes and support growth in the near term.

While underlying demand remains strong, there are substantial risks, both domestic and international. Our forecasts assume that further waves of COVID-19 and new variants will emerge from time to time but that future waves will not have the same repercussions for absenteeism seen in January, yet there remains a great deal of uncertainty around the health repercussions of new variants. If a new, more virulent variant emerges, so that absenteeism reaches levels similar to the peak on 22 January, annual GDP growth could be around half a percentage point lower than forecast, with unemployment up to a quarter of a percentage point higher.

COVID-19 remains a downside risk to the global outlook. Recent COVID-19 outbreaks in China's port cities and manufacturing regions, including lockdowns in Shanghai over the past week, demonstrate the continued risk

the pandemic poses to supply chains. Economic activity in China could well be more affected by the pandemic in 2022 than it was in 2021, as China has not yet transitioned to living with the virus.

The potential for an extended conflict in the Ukraine to generate more significant disruptions is a second downside risk for the global economy. Russia is an important global commodity supplier producing 18 per cent of the world's gas and 12 per cent of the world's oil. Russia and Ukraine together supply almost 25 per cent of the world's wheat. The invasion has increased the risk of supply disruptions, pushing up and increasing volatility in energy, agricultural and metal prices. While Australia is relatively well positioned to weather these disruptions, other economies with greater reliance on energy and food imports will experience greater economic impacts. A prolonged conflict will increase the risks associated with negative terms of trade and confidence shocks for these countries.

Current events are expected to exacerbate existing supply chain difficulties and drive a further increase in the already high levels of global inflation. Currently, inflation stands at 7.9 per cent in the US and 6.2 per cent in the UK and is expected to increase further. In Australia, inflation pressures have also picked up, but by a lesser amount. Our central forecast is for inflation to pick up to 4¼ per cent through the year, in the March and June quarters of this year. Of this, around one percentage point is due to the direct effect of higher oil prices on fuel. Without the reduced excise, inflation would have been forecast to rise to 4½ per cent in the June quarter. Broader global energy price and supply chain pressures will also put pressure on prices for other consumer goods in the near term. Our forecasts assume that oil prices will reduce from the recent peak, above \$125 per barrel, but remain elevated throughout the forecast period. A more prolonged period of higher oil prices could add a further quarter percentage point to annual inflation in mid-2022.

The assumed fall in oil prices and an easing of supply chain pressures are expected to steadily reduce global inflationary pressures; however, the tight domestic labour market and the strengthening of wages growth will see headline inflation remain at the upper end of the Reserve Bank's target band for some time—2¾ per cent to June 2024 and to June 2025. Our current expectation is for wage growth to continue to increase. While wages have picked up in occupations with particularly tight labour supply, aggregate wage pressure has been slower to emerge. Nonetheless, there are signs that firms are increasing the remuneration to attract workers in a competitive market—for example, through the payment of bonuses or higher wages to new hires. The Wage Price Index increased to 2.3 per cent through the year to the December quarter of 2021 and is forecast to rise to 2¾ per cent by mid-2022 and 3¼ per cent over 2023 and 2024. AENA on an hourly basis—a measure of a worker's earnings in the national accounts—has grown faster than the WPI, at 3½ per cent through the year to the December quarter 2021. AENA per hour is forecast to grow by five per cent by mid-2022 before settling back to around 3½ to 3¾ per cent over the next two years.

At budget, Treasury reduced our assumption of the NAIRU—the level of unemployment below which inflation would be expected to accelerate—to 4¼ per cent from 4¾ per cent. Treasury has taken this stance as capacity has reduced more rapidly than expected, while wage growth has increased more slowly than is consistent with the NAIRU being at 4¾ per cent. Further, we have not seen the labour market scarring that was feared at the start of the pandemic. In contrast, the observed strength in employment means that more people in the labour force have gained and retained skills that increase their employability, favouring a lower estimate of the NAIRU. As I have noted previously, there is considerable uncertainty around the estimates of the NAIRU. In the budget, we illustrate how wages might vary with different assumptions.

Inflationary pressures in Australia are moderate relative to comparable countries; however, the balance of risks to inflation is to the upside, both in Australia and overseas. The stronger and more uncertain outlook for global inflation is raising the risk that inflation expectations in major countries may drift up, making it more difficult for central banks in containing inflation without a policy-induced hard landing. An orderly normalisation of both fiscal and monetary policy settings to support sustained low unemployment and stable inflation will be a key challenge for policymakers over coming years.

The central message from the outlook is that the domestic economy is in a strong position. We face the substantial risks that confront the global economy from this position of strength. There is an opportunity to harness the strong underlining momentum in the economy to sustain full employment and see Australians prosper through prolonged engagement with the workforce and stronger incomes. There is an opportunity for monetary policy to normalise, following a prolonged period of accommodative policy. Australia, as a net energy exporter, is well placed to manage the risks associated with higher commodity prices as a result of Russia's invasion of Ukraine. Finally, high vaccination rates and the adaptability of Australian households and businesses see the economy well placed to weather future waves of omicron or new variants.

Chair, thank you for the opportunity to provide this opening statement. Normally in the session, or immediately following, the Corporate and Foreign Investment Group attends. You will possibly have heard that the Chair of the Foreign Investment Review Board passed away yesterday. If you wouldn't mind, I have a few remarks to make.

CHAIR: Please. I think that's entirely appropriate, Dr Kennedy.

Dr Kennedy: Thank you. At Treasury we were very saddened to hear of the passing of David Irvine, the Chair of the Foreign Investment Review Board. David was one of Australia's most respected public servants and a trusted adviser. Prior to joining FIRB, David served as Australia's high commissioner to Papua New Guinea, Australia's ambassador to China, director-general of the Australian Secret Intelligence Service and director-general of the Australian Security Intelligence Organisation, ASIO. After leaving ASIO, David was appointed to the FIRB in 2015, before serving as its chair from 2017 until now.

David has led the FIRB through a period of significant change in the global foreign investment landscape amid geopolitical developments and technological change. His insights were critical in helping foreign investors and business leaders understand these challenges and the need for the government to respond. We greatly appreciated David's insights and expertise on national security matters to help, frankly, me and the department more broadly to navigate these issues, particularly in relation to foreign investment. He will be greatly missed.

CHAIR: Thank you, Dr Kennedy. We'll be proceeding in 15-minute blocks, so who's seeking the call? Senator Gallagher?

Senator GALLAGHER: Thank you very much, Dr Kennedy and your team, for coming on a Friday—and to the minister, of course. We'd like to associate ourselves with the remarks you made about David Irvine. We were similarly saddened to hear of his passing yesterday.

To the budget. There are 15-minutes, so maybe I will start with cost of living and your comments on inflation. A lot of what you said is contained in Budget Paper No. 1, in your economic outlook, so you've drawn heavily from that. Can you explain to me why you're so optimistic that Australia won't see the same pressures that we're seeing in, say, the US and UK, in terms of inflation? Also, you mentioned fuel as being a significant contributor to the inflation figures. What are the other main contributors?

Dr Kennedy: I might start at the end and then move back in. Beyond fuel, certainly in December we also saw some higher housing costs coming through the CPI. They reflect two factors in broad terms: firstly, the supply constraints I spoke about—a really large increase in the costs of some of the materials going into housing—and, secondly, just a stronger demand in that area. Underlying inflation, from memory, grew at 6.2 per cent through the year, so that was stronger underlying inflation. So there were more broadly based price pressures in the Australian economy than we had seen for some time. There were these specific effects affecting headline inflation, but it's fair to say there was a broadening of the increases in prices.

What we see as quite distinctly different from Europe and the US at the moment—one factor is common and one factor is a little different to the US. The factor that's common is that energy prices, more broadly, have risen very dramatically in the US and Europe. While we have faced higher petrol prices, domestically we have not faced higher gas prices, particularly, and other energy prices to the same extent. They're very much adding to price pressures in Europe and will add further, particularly gas prices in Europe.

The second factor that's stronger in the US than it is in Australia is that they have broader wage pressures coming through. There is stronger aggregate demand driving through their economy, leading also to very high prices and demand for cars. For example, second-hand vehicle prices have gone up very significantly. There's another key difference between us and the US. They have not recovered their participation rates, or the portion of people employed. Like us, they are facing a tighter labour market, but we have been very successful in not only getting people who are unemployed back into employment but also seeing people come in from outside the workforce. That's why we're hitting our record participation rate. Obviously, that's influenced by the fact that migration has been at very low levels as well, but we've seen a greater supply response to this increased demand for labour, driven by government policy, than they have in the US. They've seen wider wage pressures, hence their inflation is significantly higher than ours.

In some ways, we've been a little bit behind these countries in the way aggregate demand pressures are flowing through. I know there is considerable debate—and no doubt we'll talk about it today—about what might happen to wages, but we do expect wages to strengthen in the light of this very strong aggregate demand, low unemployment rates and high participation rates. I think they'll strengthen. As to the extent to how quickly they strengthen, we've got our best estimate in the forecast but, frankly, they could easily strengthen more quickly. We'll wait and see. I hope that is helpful.

Senator GALLAGHER: Yes, it is. In your forecast you have inflation at 4¼ for 2021-2022, then at three, declining in 2022-23, and declining again marginally in 2023-24 and 2024-25. Is the pressure around fuel prices the difference? Is that the one per cent between 4¼ and three? Or are there other things that you think things will ease?

Dr Kennedy: We are expecting an easing in some of those other supply constraints. The other issue is, partly, a rebalancing of the demands. What Omicron has led to—this is particularly the case in the US but it's also true here in Australia—is that people have increased their demand for goods and reduced their demand for services because we couldn't go out and participate more broadly. This has rapidly driven that demand for goods, and it has contributed to inflation in those areas. You will have heard of the shipping constraints—the cost of shipping and moving international goods around. That's not from the petrol prices but just because so many goods are being moved around and so much is passing through ports.

What we expect, if the pandemic unfolds in the way we hope, is that the substitution away from goods toward services will see some of that demand come out of goods and some of those price pressures alleviate. Some of those supply-side constraints are not because of fewer goods getting through but because they're not keeping up with the extra demand for goods that people have had because, as I said, they've demanded more goods than the normal services such as going to sport or going out for meals et cetera. That's the second part.

If I extend a bit further, because you spoke about inflation beyond that period, you can think about inflation forecast in two phases. The first is the alleviation of these shorter-term impacts, which is this 4¼ down to three. The second is some building of broader inflationary pressures, because we've assumed the unemployment rate at 3¾ is below the longer-term sustainable unemployment rate at 4¼. That should build price pressures through wage pressures. That's an assumption, and one we may well have been wrong about in the past where we assumed it was 4¾. That's why we've put in the budget a version of that sustainable unemployment rate at 4¼, one at 3¾ and one at our older number of 4¾. Because we will, frankly, see different wage and price pressures emerge as over time we unfold exactly what is the sustainable full employment level, we chose 4¼ to be internally consistent. If you're at 3¾ you expect pressures to emerge, and in the last year of the forecast we had the unemployed rate rising to four. Frankly, it is a technical assumption because we are taking it back to that 4¼. We are stabilising the economy. It is hard to forecast six months at the moment. Forecasting four years out is pretty fought. We want to be very clear to everyone how those assumptions might affect where we can settle. As I mentioned in a previous appearance, from a policy perspective, it is important for governments to test how low we can sustain this unemployment rate without those wage pressures rising because of the great value of sustaining a very low unemployment rate. In the years preceding COVID, where the unemployment rate was more in the low fives, we saw very little wage pressure. Wages were quite subdued; hence, this judgement we have taken. In effect, it is policy advice to all governments to test this unemployment rate at a lower level. We feel very confident and if we had that wrong that the macroeconomic policy settings would be flexible enough to adjust.

Senator GALLAGHER: We will come back on wages because I have a longer discussion. In your budget papers and in your statement, you say that the risks around inflation are on the upside?

Dr Kennedy: That's it.

Senator GALLAGHER: On the upside, the balance of risks, could you maybe explain that a little bit, what you mean there? What are the risks you see? I mean, you do go to it a little bit but the balance of risks and how you make some of those decisions.

Dr Kennedy: One thing that feeds into our assessment there is it's good to acknowledge where things have turned out to be different than what you expected, both here and overseas. Here and overseas, inflation has come in stronger than anticipated and so, in some ways, acknowledging the risks to the upside is acknowledging the assessment in the past has missed and inflation has been stronger and, frankly, globally, considerably stronger than expected. Not many would have expected the inflation rates that are currently being experienced overseas.

Secondly, we make assumptions about, for example, the decline in the oil price back to about \$100 per barrel. As was pointed out in the speech, if it doesn't happen, we don't get the sort of disinflationary effect of petrol prices falling; they stay at the same level. They don't continue to contribute to inflation because they have to keep growing to contribute to inflation but they don't detract from inflation, so that higher price level stays in the system. The economy can still adjust to but, in order to adjust to those higher prices, you will see an adjustment in wages, profits. It is a supply side shock to the economy and it has the flow through. What is effectively happening is there is less income available to all when less of a good is available and its supply is constrained. So, yes, we're acknowledging the uncertainty, I suppose, around some of those things and the fact that inflation has been higher than anticipated. Probably the last impact is the sheer strength of the recovery not only in the US but here as well

has surprised us, which means there is more aggregate demand out there, which may well flow through to either demand for goods driving up prices. We presented some unemployment rate forecasts of the past and what we did in this budget, and at every single update we have revised down the unemployment rate predictably. Our labour market has been tighter every single update and job vacancies per unemployed person, for example, at the moment are at record highs. So when you get to these levels, you can get a little surprised by just how quickly these pressures flow through. They represent our best judgement. In some ways, you may ask: why didn't you make it higher and make them balanced? They are our best judgement but we can just see more factors that can drive higher prices than factors that can drive lower prices.

Senator GALLAGHER: When you settle on your economic parameters, as you say, there is a level of uncertainty. How do you actually resolve that? Do you have scenarios? Do you discuss that with government? I mean, are these Treasury's views, these economic parameters, after some discussion amongst all of the experts in the room? Do you make that final decision? Or is it something that you settle across government and with government?

Dr Kennedy: The budget is the government's document and so they are the government's forecasts. But the way that the process works is the scenarios presented in the budget are the ones that we came up with. We then go to government and to the Treasurer and say, 'Here are our forecasts and we recommend that you put some scenarios in.' Normally we have the iron ore scenario. This year we wanted to put in a scenario for higher commodity prices for the next six months because we're hitting another record terms of trade in these forecasts. If commodity prices were to stay where they were for another six months, it would generate a very significant increase in the national income and revenue, so we wanted to have the government illustrate, frankly, for transparency, how much those revenue forecasts could move if that conservative assumption in the way that we decline commodity prices down over two quarters to the end of September. In that decision itself, we sit around and discuss what do we think is the prudent assumption to present to government and we present it to government. It's been my experience over a long period of time that we will get asked questions about everything. But what we present to government is what you see in the budget.

Senator GALLAGHER: So you don't present a range? For CPI, it could be four. It could be $4\frac{1}{4}$. It could be $4\frac{1}{2}$. So then you go to government with a set of numbers that you have resolved?

Dr Kennedy: Yes. Of course, we discuss them in detail. And, frankly, we do try to bring out to them where there are risks. We were having a bit of trouble, frankly, settling what these commodity price assumptions would look like because they were moving around so dramatically in the run-up to budget. When we first settled our oil price assumption, literally a couple of weeks later they were \$140 a barrel, so it's a bit movable.

CHAIR: Dr Kennedy, it is not just oil prices, is it? The iron ore price has exceeded the previous budget assumptions and the coal price, thermal, met coal, and that has an impact on the budget as well, doesn't it?

Dr Kennedy: Particularly the coal prices, actually, in these forecasts. The iron ore prices are at very high levels as well, starting off at around \$134, with our assumption declining to 55 by the end of September. But metallurgical and thermal coal were at prices well above their records. They have fallen back in more recent times. Today, metallurgical coal is sitting a little above where we've forecast prices to begin to come down, and thermal coal a little below, but still at very high levels. The impact of that for Australia is that it boosts income, of course, and that income will flow through the economy but it also has implications for the exchange rate. If they stay higher for longer, you would expect the exchange rate to be higher so—

CHAIR: And also tax revenues.

Dr Kennedy: It certainly flows through to tax revenues. As we indicated in the budget, we would see a \$29.5 billion upgrade, we think, to company tax revenues if these commodity prices stayed at roughly the same levels—

CHAIR: Is quite extraordinary, 29.5.

Dr Kennedy: That is six months alone and then drop to those longer term levels immediately. That is an estimate based on all other things given, if you like. If commodity prices stayed at that very high level for a long time, we may see other adjustments such as a higher exchange rate, for example, which would moderate other influences. But we wanted to give—through the government—the public a broader indication of just how significant these influences are.

CHAIR: I'd like to ask some questions about the employment numbers, which I think are just extraordinary. You made the comment that there was a fear of scarring in the employment market when the pandemic hit. If we go back two years to when the COVID pandemic started and we look at where we are at in terms of employment, the fact that that scarring has not occurred—and I'll delve into that a bit further—is an indication, isn't it, that the

policies implemented by the government to make sure labour force participation continued and could bounce back actually worked in practice?

Dr Kennedy: Our judgement is that policy measures such as JobKeeper, for example, were very effective in people staying attached to their jobs, even if they were stood down at zero hours, for example. What I think has gone on in those countries where the measures to support the economy were less focused on those types of wage subsidies and more focused, for example, on just support through welfare payments, is that people were stood off or were let go permanently. Then there is quite a disruption in how they rejoin the workforce. I think this is one of the issues that the US is facing at this time. And it's the reason their participation rate, and their proportion of people who are employed as a portion of the population, is not back at the levels that we've seen ours recover to quite so quickly, is because they left their jobs, and now they find a new job. One of the reasons the US is seeing a bit more wage pressure may well be that, as they find a new job, they're actually seeking a higher wage, and we know turnover tends to be attached with higher wages.

So I think the composition of our policy measures has assisted in reducing that scarring, and you can see that compared to other countries. Having said that, other countries similar to Australia put enormous amounts of support into the economy, all having learnt the same lesson of past recessions: that if one doesn't even slightly overcompensate potentially for the downturn and the downturn gets ahead of you, you can spend a very long time trying to catch back up and drive the unemployment rate back down. So I think both the size and composition of our response have been important to effectively seeing little or no labour market scarring.

CHAIR: On the one hand we're talking about scarring, but on the other hand there are record participation rate figures or near record participation rate figures. Could you go into that in some detail, especially with respect to young people? I think many of us were concerned that, if there were going to be labour market scarring, it would hurt young people, in particular, and that is maybe a lesson of previous recessions; and also workforce participation amongst women.

Dr Kennedy: Firstly, starting with young people, it's nearly always the case that young people will suffer the labour market effects of a downturn more adversely than any other workers because they are looking to get their first job. So, if they're delayed in getting their job, in some ways it delays their opportunity to get on the jobs ladder subsequently on an ongoing basis.

We had seen, prior to COVID—or since the GFC—the labour market outcomes for younger people hadn't, from my perspective, been all I hoped they would be. But you are correct that in coming out of COVID we are seeing very pleasing outcomes for young people. We're seeing very high participation rates, lower unemployment rates and, somewhat related, a much lower underemployment rate.

CHAIR: I was going to ask about that. That underemployment figure is really positive, isn't it. I saw that the underemployment rate has also gone 2.2 per cent down in terms of relevant comparative periods. Is that correct?

Dr Kennedy: That's right. There has been a debate around whether that unemployment rate—the NAIRU conversation I was talking about earlier—was fully reflecting the strength or otherwise of the labour market, because we had carried higher underemployment rates for a while, pre COVID and post GFC, but they are also down significantly, as you just mentioned, following COVID. So, yes, they're frankly very good outcomes.

Just finally, you asked about the outcomes for women. The female unemployment rate is at very low levels—levels we haven't seen since the seventies, from memory—and participation is at record highs. Obviously, there's still a gap between male and female participation, but it's very pleasing to see these very strong labour market outcomes for women.

CHAIR: In terms of looking forward, one of the figures in the budget which stood out for me was the number of unemployed people per vacancy—it's also very low, at 1.6, which suggests that there are a lot of jobs still available.

Dr Kennedy: There are.

CHAIR: And the number of unemployed people available to fill those jobs is relatively low. How is that 1.6 figure, compared to other periods?

Mr Yeaman: That's absolutely right. The number of vacancies we're seeing, against the number of unemployed people, is at a record level. We are still expecting very strong—

CHAIR: How long have we been measuring that statistic?

Mr Yeaman: Since 1979.

CHAIR: So it's a record level since 1979?

Mr Yeaman: That's my understanding. And that does suggest to us, along with a range of other factors, that there is still substantial momentum in the labour market, particularly in the near term.

CHAIR: When you look at the longer term forecast—what is the current unemployment rate figure?

Dr Kennedy: It was four per cent in February, from memory.

Mr Yeaman: Four per cent.

CHAIR: We expect that to fall, down to 3¾ per cent—is that correct?

Dr Kennedy: That's right.

CHAIR: Looking forward over the next few years, what's the expectation, given we've got this momentum, as is evidenced by the number of unemployed people per vacancy being at a record low?

Dr Kennedy: At this stage, we expect it to hold at that level, and, on the other side, we expect the record participation rate to hold at around its level. Participation over time—the aggregate participation rate—will begin to become more affected by the ageing of the population, but, frankly, we have been surprised by not only how quickly the unemployed rate has fallen but also how many people have come in from outside the labour force, hence driving up the participation rate. It's a really welcome sign. It's part of the story, which you were talking about, of increased female participation, but it's true for men as well. We're effectively forecasting a holding at this very low rate, with the workforce very much fully occupied, as growth eases back towards equilibrium trend levels. If those forecasts unfold as expected, then that will be enough to hold the unemployment rate at that level. I spoke about this last time. We are saying that the sustainable rate is 4¼. It could be lower or it could be a little bit higher, but let's say for a moment that it's around there.

CHAIR: That's the NAIRU rate?

Dr Kennedy: Yes. Even if it's lower—that rate can be held with inflation at 2½, wage growth at inflation plus whatever productivity is, and growth at its longer-run levels. You do not need to grow any stronger to hold the rate at that level.

CHAIR: Excellent.

Dr Kennedy: That's the sweet spot, I guess, that all governments are aiming for for their economies. Of course, there will be shocks, as we've seen. Things will happen, and they could be positive or negative. There could be positive shocks on the terms of trade, or there could be negative shocks from other sources of global demand. But you're in such a better position if those shocks are hitting you when you're at that full employment level—you're able to get back to it more quickly than if you're not at that level.

CHAIR: Absolutely. Thank you, Dr Kennedy. Senator Cox.

Senator COX: I'd like to go to the housing affordability issue. Can you explain to me how the New Home Guarantee scheme makes housing more affordable?

Dr Kennedy: I'm very happy to do that now, Senator, but we are also going to cover it in the fiscal section.

Senator Birmingham: Whist Ms Wilkinson settles in, I will introduce it by pointing out that the primary objective of the New Home Guarantee scheme is to help Australians into the market sooner and faster than would otherwise have been the case, enabling them to not have to pay rent whilst saving for a deposit and to instead get into the market and start paying off their mortgage, instead of paying rent simultaneously. So it's an ease of entry that has proven, through the delivery mechanism of working with banks, to be an effective means of ensuring that we're supporting into the market people who can afford to pay a mortgage but who simply would have had difficulty in saving for the scale of deposit required initially.

Ms J Wilkinson: The minister has done a very good job of explaining how the New Home Guarantee scheme works. It's a scheme that allows individuals to get access to loans with a lower deposit, effectively. There are different arrangements for different parts of the home guarantee scheme. It's administered by NHFIC, the National Housing Finance and Investment Corporation. There have been a significant number of home guarantees which have been offered over the past several years, and there was a significant expansion in the budget.

Senator COX: So are you saying that allowing people to borrow more money makes housing more affordable?

Ms J Wilkinson: There are different challenges for different cohorts of people in getting into the housing market. One of the challenges is the deposit hurdle. There are people who have the income that would enable them to service a loan but who find it challenging to accumulate the sort of deposit needed to get a loan from a commercial bank, without taking out lenders mortgage insurance. Essentially this reduces the deposit hurdle for those individuals.

Senator COX: So, all else being equal, the home guarantee scheme will actually increase housing prices, won't it? If it helps people borrow more money so that they can pay more for housing, that will push housing prices up. Is that correct?

Senator Birmingham: It's not about helping them borrow more money so that they can pay for more housing; it's about helping them to be able to, in aggregate, have the funds to pay for a house sooner so they're not having to spend as much time saving for the deposit. If you're having to wait to save for a 20 per cent deposit, then it's many years of paying rent and, while paying rent, trying to build up those savings. Our government has implemented policies, in terms of the First Home Super Saver Scheme, to help people save faster, but if you can instead get into the market with a five per cent deposit, rather than a 20 per cent deposit, then you're no longer having to pay rent while trying to save for that deposit and you're instead diverting those rental costs into paying off your mortgage sooner.

Senator COX: That might be your view, Minister, but we do know that Saul Eslake, who is a hard-headed economist, says that anything that allows people to spend more money on housing than otherwise has only one effect, and that is that people spend more money on housing than they otherwise would. That means that they increase the potential for riskier debt. So, would the expansion of this home guarantee scheme actually mean that people are taking on riskier levels of debt?

CHAIR: Senator Cox, just before the witnesses answer that question, could I just ask, for the record, where you are quoting that excerpt from?

Senator COX: That's the economist Saul Eslake.

CHAIR: And where's that quote from?

Senator COX: I don't have the reference, but I can get that.

CHAIR: Okay. Are the witnesses able to answer the question?

Senator Birmingham: We can answer the question in the general—the point you were making, Senator—regardless of the quote. And I touched on that in my initial remarks in that in the home guarantee scheme we deliver, still relying on Australia's financial institutions to determine whether or not somebody can afford the loan that they're taking on. So, there's a very important check and balance there. Ms Wilkinson or others may be able to speak now, or we might need to wait for Fiscal Group, in terms of what we've seen around defaults under that scheme. But the reason we've had the confidence to expand it is that we've seen the exact opposite of what you've suggested, and that is that Australians to date who have been helped into this scheme and program have, thanks to the approaches of Australia's banks and financial institutions, demonstrated an ability to meet their mortgage obligations and enjoy that benefit of not having to pay their rent whilst saving but instead being able to pay off their mortgage. The retirement incomes review found that this is one of the fundamental pillars of setting people up for economic security throughout their lives.

Senator COX: We know that Australia has some of the highest levels of household debt in the world. So, is there any evidence that people are not borrowing more money because they have access to it? Is there any evidence that actually shows that?

Senator Birmingham: Movements in house prices are on the public record, to see that there was a period of growth. That growth has slowed in recent months. Again, in terms of people's borrowings and their position in relation to those borrowings—and officials may be able to give some information—Australia's banks are reporting at present that many Australians are actually ahead of their repayments; saving rates through the last couple of years have grown, and Australians have put themselves in a position where in fact they are repaying faster in this environment of lower interest rates than they had previously been doing.

Mr Yeaman: I could add to that answer by the minister, if it helps, with just a couple of brief points. Firstly, APRA, the Australian Prudential Regulatory Authority, published a systemic risk assessment in December 2021 which found that, while the banks are well capitalised, most Australian households remain well placed to service their debt. They also, in October, instructed banks to use an interest rate that is at least three percentage points above the loan product rate when assessing the serviceability of home loan applications. So, as Ms Wilkinson said, there are two aspects here. There's the deposit hurdle, which this scheme aims to assist people with, but then also the ongoing serviceability costs. And APRA has increased the rate at which they assess borrowers to ensure that they can meet those serviceability costs at a higher rate of interest as well. And, as the minister said, the number of people who are ahead on their home loan has also substantially increased over the past year.

Senator COX: So, there's actually been that increase. Is that right? From APRA's perspective, they said that the risky lending went from 17 per cent to 24 per cent in new home loans just last year. Is that correct?

Mr Yeaman: I don't have that figure to hand. Our colleagues in Markets Group may have more information on that, but I don't have that figure to hand. I'm not disputing it; I don't know the answer to that.

Dr Kennedy: I think that's right, Senator, and I do want to acknowledge one of the facts you raised earlier. Australia does have high household debt ratios, globally. There's no doubt about it. Australians have a very strong preference for housing asset. So we do hold relatively high levels of debt in the household sector. As APRA has made the point many times in the past, a lot of that debt is held by wealthier sectors of households. But this strong, persistent demand for housing is stronger than in many other places. And, more recently, these very low interest rates have seen higher house price growth, in some capitals, at rates they haven't experienced or had before—for example, Hobart, which I've spoken to Senator McKim about.

I just want to acknowledge that underlying factor you're talking about. I would say, though, it's a persistent feature of the Australian economy, and because it's persisting—it's something we seek to understand over time—these policies that try and assist younger people to access housing, at least in distribution, may end up still being quite important. Of course it's the fact that, as Saul pointed out, if you do something that increases demand it will, in part, flow through to higher prices. But if interventions are not made for younger people to access homeownership, for those that wish to, then these deposit hurdles—not so much the serviceability issue—particularly in capital cities, really start to see a younger generation, potentially, not able to access the housing market.

I want to acknowledge your underlying concern that there has to be a balance across all these measures. Ultimately, they would be assisted by stronger housing supply, there's just no doubt about that. The Commonwealth government doesn't happen to hold many of the levers there, but in some of those markets, and Hobart would be another example, the inability of that market supply of housing to keep up with the demand is a very strong contributor to higher housing prices, much stronger than some of the other impacts were talking about.

Senator COX: Thank you for acknowledging that, Dr Kennedy. What we do know is that housing prices have gone up by about 25 per cent, particularly since the start of the pandemic. That's more than five times wage growth over the same period. I'm trying to understand how it is that putting money into a scheme like the New Home Guarantee scheme, into the housing market, is possibly the solution to the current national housing crisis that we are facing here in Australia.

Senator Birmingham: It's certainly not the only measure that our government is doing or would like to see from other levels of government. In this budget, we provided a further \$2 billion into the National Housing Finance and Investment Corporation to increase their ability to support affordable and social housing solutions around the country. In addition, I would certainly highlight the work of my colleague Mr Falinski, from the House of Representatives, on some of the issues he's identified around supply of housing, particularly land availability and other issues that are in the domain of state and territory governments.

We have proudly acted to try to help more young Australians be able to get into the housing market sooner by addressing some of these hurdles, especially in relation to the deposit barriers that exist. It's a scheme that has been working, which is why we've expanded the scheme. I understand more than 40 per cent of participants in the scheme, to date, are ahead of their loan repayments. So even in this cohort of individuals accessing this scheme, that enables them to enter the market with a lower level of deposit, you've got more than 40 per cent of them paying off their loans faster than is required. That's a feature, as I acknowledged before, more broadly across home loans.

There are certainly supply side issues in relation to the housing market as well, and the government continues to encourage states and territories to ease some of the regulatory burdens that impinge on some of those supply issues.

CHAIR: Senator Cox, you've only got one minute left. I need to pass the call.

Senator COX: I'll go as fast as I can. I've been getting some really long answers.

Budget papers show that wages grew by 0.7 per cent last year and 2¼ per cent in the financial year. I know Senator Gallagher already asked some questions around wages. The budget also says that the average earnings per hour are expected to increase by five per cent through the year to the June quarter of 2022. How is that possible?

Dr Kennedy: The national accounts measure takes all of the remuneration being paid to workers—bonuses, sign-on bonuses, any form of payment—and then it, effectively, divides that by the number of people and the number of hours they worked. That gets you to that hours basis. The wage price index, in summary—I hope I get this right; my colleagues will correct me if I'm wrong—finds, effectively, a job and it finds out what it's being paid in the next quarter and it looks at the change. If that person—let's say it's one person for a moment—got a

two per cent increase in their wage across the course of the year but they will also be paid a bonus, it's not inside that number but it's inside the other number.

There is a wage price index inclusive of bonuses. That grew by three per cent over the year, from memory, most recently. I'll get my colleague to confirm. So that captures that bit.

The other bit that's not quite caught—it's sort of following a fixed group of jobs, from memory. I'll confirm all of this for you on notice. If there are changes in the composition of jobs, they are not going to be picked up as quickly in the WPI as they are in the other measure, which is just adding up all of our wages, all the compensation we get paid and everyone else, labour gets paid, and dividing it in that same way. One of the reasons people tend to focus on the WPI and not the national accounts measure is it strips out some of the noise. Things can be moving around a lot. The WPI is still an important measure of wages, but, if you want a full sense of what labour workers were compensated, you go to the national accounts measure. Mostly, economists tend to look at the WPI measure because it strips out some of the noise.

Sorry, this is a long answer. The last thing I would say is: the AENA measure tends to pick up the strengthening in wages prior to the WPI measure, because a strengthening in compensation typically comes through non-regular payments before it comes through regular payments, like a bonus to stay at work or something like that. We presented a charting budget which shows the deviation in those two measures and how it changes over time and how it settles down, and that's what our forecast suggests—that AENA eases off and it WPI comes up and then they start to grow, with the gap but at similar rates. I will have drawn heavily on old history in that answer. I'll confirm on notice for you that I got it all right.

Senator Birmingham: The difference between AENA and the WPI was never going to be a short answer!

Senator COX: Yes. It sounds like it is very, very complex. I'm just trying to understand. In the next three months, which happens to be the election as well—how timely!—the wages growth will actually spike at 1.5 per cent but then go back down after the election. Is that correct, or have I missed something in that?

Dr Kennedy: The AENA forecast, do you mean?

Senator COX: Yes.

Dr Kennedy: To be honest, it is just our forecast based on what we've seen in the last recent national account and how we expect it will play out. The other reason it's relevant is it's the number that drives the tax upgrade, not the WPI. So, if we need to be transparent about why Treasury think income tax receipts are going to rise by around \$90 billion across the forward estimates, it's that AENA number plus employment that drives the upgrade, not the WPI number, because AENA is actually the measure of labour income, the actual measure that income tax is paid on. So that measure is always there. Given the significance of the size of the income tax upgrades, we thought it was important to draw it out. That's what we did.

Senator GALLAGHER: So that's your explanation for why AENA features prominently in your economic outlook, statement 2, is it, as a way of explaining some of the upside on income tax receipts?

Dr Kennedy: It's partly that story. It's also partly that when I talk about upside risks to inflation, for example, that come from domestic sources, I expect them to be seen in AENA before I see them in WPI because that measure it is a slow-moving measure—let me put it that. While the RBA will do its own piece, it's a measure that we're talking a lot more about because, if wage price increases come through, given where the unemployment rate is and other things, they could come through quickly. That's where they will turn up first, and so we're starting to watch it closely; we've always watched it. We certainly thought people would want to understand how it is that you could get a \$90 billion upgrade to income tax receipts and only have wage increases of 2¾ per cent or 3¼ per cent et cetera and employment where it is because, frankly, that wouldn't add up. It only adds up if you use the AENA number and the employment number to get to that wage upgrade.

Mr Yeaman: If I could add one extra point—and I fully agree with that answer—the other aspect from a macro senses is that during the pandemic we saw quite a drop-off in labour mobility because people hunkered down during the pandemic and wanted to hold onto their job. We've seen quite a significant pick-up in labour mobility as the emergency supports have come off and as the labour market has picked up, and so there's a lot of job shifting and a lot of people moving into higher paid roles and seeking those higher wages in different roles and opportunities. Again, that's not going to show up immediately in the WPI; it's going to show up in AENA, so there is a dynamic in the labour market at the moment which AENA better reflects than the wage price index because of those compositional factors that Dr Kennedy mentioned.

Dr Kennedy: The last thing I'll say is that AENA didn't really tell us anything through the pandemic itself because the compositional changes were so dramatic. Employment was falling and hours were falling because of the pandemic, so it will only now reveal information through the pandemic itself that was a measure. We were

watching it swing around because of those movements in the national accounts. Composition was so dramatic: hours were falling so dramatically when the lockdowns were occurring that you couldn't read it. You can only begin to read it now, but it's a crucial part of our revenue forecasting.

Senator GALLAGHER: Does the data you get through AENA give you other information, like what sectors of the labour market have seen benefits or increases in pay or bonuses? Are you able to pick out some of that information? What do you know from that?

Mr Yeaman: We can, across a range of measures, see where the greatest tightness is and where the greatest pressure is coming. I'll draw out some figures, but certainly professional services at the moment across the board are growing quite strongly. The construction market is another area where we're seeing particularly strong wages growth. Those are the two that stand out, and I'll provide more if I find any others. Those are the two markets that have probably seen the greatest amount. Particularly in the area of bonuses in the professional services sector, there's a lot of competition currently in the market, and we're hearing this also through our liaison streams. For the big accounting firms and the professional services firms there's a lot of competition in that market. Construction is the other one that sticks out to me.

Senator GALLAGHER: What about at the lower-pay parts of the labour market, so workers on minimum wages?

Dr Kennedy: Hospitality?

Senator GALLAGHER: Yes, and aged care or the care economy more broadly, supermarkets, cleaners. What's happening there?

Mr Yeaman: I'll see if I can provide anything further. We don't have wage measures that break it down by income—

Senator GALLAGHER: No, alright. You slot them into the industry category.

Mr Yeaman: I'll double-check this, but in the hospitality sector we are starting to see more competition for workers as we've emerged from the crisis. There's certainly an area there and in accommodation, food services and retail where there is increased competition. Again, we're hearing that through liaison sources. Some of the heavily dominated public sectors obviously have their own EBAs and other arrangements that take a little longer to roll through in terms of wage increases as a general rule, including state based—

Senator GALLAGHER: That's in the public sector, did you say?

Mr Yeaman: Yes, public sector wages. I'll see if I can find anything further, but those are the ones that stand out: construction, professional services, and some of those hospitality and retail services.

Senator GALLAGHER: By the sounds of that, you're not seeing much in the public sector because of enterprise agreements and things like that.

Dr Kennedy: And decisions people made. State governments froze wages—

Senator GALLAGHER: and the Commonwealth.

Dr Kennedy: The wage-setting situation in the Commonwealth is to follow the private WPI, which means public wages will lag a year, whatever the private WPI is doing. So, in a strengthening wage situation, they will be growing at the level of the previous year till the next year, then they go up again. So that was the arrangement. Governor Phil Lowe has spoken about this issue. Public wages are a little lower through this cycle. In the past they've tended to stick at a pretty constant rate, and private wages have gone up and around them, but they have come down a little, not surprisingly given that private wages were so subdued for some period. Again, they are pulling down the aggregate wage measure, and as—

Senator GALLAGHER: Public wages—yes.

Dr Kennedy: And they'll probably respond with a lag. How they respond will depend on that dynamic that we've got going in the next year or two. But they are at least 20 to 30 per cent of wages, so it's an important consideration.

Senator GALLAGHER: Yes, sure.

Mr Yeaman: I can add a couple of additional points. Certainly, I've confirmed that accommodation, food services and retail trade are areas that are seeing relatively stronger growth, currently. Manufacturing is also seeing some growth. In the public sector, healthcare and social assistance are ones where we have seen slightly higher growth than in some of the other aspects of the public sector, and particularly that healthcare sector related to the emergency response, I think. As I said, professional, scientific and technical services have as well.

Senator GALLAGHER: In terms of wages in general, Dr Kennedy you have spoken before this committee a number of times, I think, about the link between wages growth and productivity and how important productivity is in underpinning or ensuring that there is appropriate wages growth. You haven't mentioned it in your comments or your speech today. What's your view now?

Dr Kennedy: It's the same as in the past. In this sort of equilibrium that I was talking about earlier with the chair, the growth in real wages is pretty much entirely driven by productivity. So, if we had zero productivity growth, wage growth consistent with stable inflation of 2½ would be 2½. If we have productivity growth of one per cent a year, wage growth consistent with inflation of 2½ would be 3½. If we had 1½, it would be four. That's what we've seen in the past. Our view is that productivity will be crucial to driving real wage growth in the future. It isn't always the case that those increases in productivity have flowed through to real wages. I've seen some research which has shown in the past that some of the increases in productivity pre-COVID across that decade were not finding their way fully into wages, which has led to this debate about wage-setting behaviour and the shape of the labour market. My own view is the second factor at play there is that there may have been insufficient aggregate demand. In other words, not having the employment rate as low as it can be to generate that sort of virtuous productivity cycle and the return to labour income. Hence my ongoing focus on ensuring that we test and see how low we can sustain that low unemployment rate. I also think that is important, frankly, for what happens in productivity. When you are fully employed, firms are competing hard for labour; firms have to work hard. They might have to invest more in other capital to put against those people who are working there. When they put higher quality equipment next to people, they will earn more money and they should get higher wages. So, again, there's a virtuous cycle when we do the best to ensure our economy is at full employment.

We assume—and I may as well jump to this because I think that's where we are headed—over the medium term that productivity goes back to its 30-year average of 1.5. But we haven't had productivity growth at 1.5 for a number of years now. In the last productivity cycle, which is what the ABS recommends that we look at to understand the most recent trend in productivity, it was 1.2, not 1.5. We have chosen to stick to 1.5 because, frankly, it's the way we have assumed productivity growth at least since I've been involved in it since the early 2000s in the IGRs, and it is a very apparent way of driving a longer-term trend. But, if that longer-term trend is lower, then real wages are lower over the longer term.

Senator GALLAGHER: Did you just say that over the medium term it is 1.5?

Dr Kennedy: Yes.

Senator GALLAGHER: What does that mean for the next three years?

Dr Kennedy: The forecast?

Senator GALLAGHER: Yes.

Dr Kennedy: In some ways, you can get a broad sense of it by looking at the gap between, let's say, the WPI and GDP growth, which I think is around 2.5 by the end of the forwards, and the WPI is around 3.5. So that is strengthening towards about one percentage point productivity, roughly speaking. Once again, I am going off the top of my head, but I will confirm it for you. Roughly speaking, that implies a productivity growth rate of around one per cent in that period, strengthening towards that 1.5 over the medium term. We don't jump productivity back to 1.5 straightaway because, frankly, it is not there in the data at the moment. We grow it back towards that medium term, which encompasses a whole range of assumptions about what the economy looks like as it grows in a stable way over time. To finish, given the likely future events, the focus on productivity by governments is crucially important to future real wages, in my view.

Senator GALLAGHER: Sorry; I missed the beginning of that.

Dr Kennedy: The focus on productivity is crucial to future real wage growth, from my perspective.

Senator GALLAGHER: What do you think would deliver that?

Senator Birmingham: Senator Gallagher is asking for an opinion, but I know—

Senator GALLAGHER: Well, you opened the door. He did say 'from my perspective'.

Senator Birmingham: Well played, Senator Gallagher.

Senator GALLAGHER: The door was slightly ajar. Can you give me a bit more of your perspective, Dr Kennedy, if you are allowed?

Dr Kennedy: I am looking forward to seeing all of the ideas that are presented in the upcoming period.

Senator McALLISTER: I suppose the point is, Dr Kennedy, that we did have the Productivity Commission produce an extensive report, *Shifting the dial*. We talked about it the last time we were in estimates. That report hadn't received a response at that time. Has the response been provided to *Shifting the dial* yet, Minister?

Senator Birmingham: Off the top of my head, no.

Senator McALLISTER: Has there been any progress on the next Productivity Commission review that has been commissioned, after you didn't respond to the last one?

Senator Birmingham: Our responses in terms of policy settings and what we are doing was and is built on through successive budgets. So the work which you can see yielding dividends in this budget around the full expensing measures to encourage business investment shows very strong projections for business investment, particularly non-mining business investment this year and next year. The work in the skills agenda and the infrastructure agenda that you can see running through successive budgets, and particularly this year, again, are measures to lift capacity across the economy and improve productivity. So in that sense, the government takes that advice from such reviews and acts on it in different ways through the actual policy measures that we are implementing.

Senator McALLISTER: Mr Joyce does that, does he?

Mr Yeaman: I can confer with my colleagues but it is my understanding that the next five-yearly review from the PC has now been commissioned by the Treasurer. The terms of reference have been released and it is to report next year in January.

Senator GALLAGHER: Yes, that is good. For the last eight years or so, wages have flatlined, stagnated. Why do you think that was the case? Why haven't wages grown at the historic average? Is it just the fact that our borders have essentially been shut, so demand for labour has increased here on the supply side that is actually driving it? Are you able to look back and think, 'Why did this happen, even with an unemployment rate of five per cent?' Why weren't we seeing wages growth?

Dr Kennedy: On past wages growth, just so we are clear, they grew at lower rates than what we have seen in the past. They didn't not grow; growth was subdued. We have to acknowledge also what we think is a domestic and a global influence. This was true around the world. We saw a slowing in global productivity, a slowing of productivity in Australia, for example, and more subdued wages growth here and around the world. We did see pre-COVID some strengthening in wages in some countries that had lower unemployment rates, which goes to my issue about the level of aggregate demand, exactly where the unemployment sits and where you would expect wages to strengthen. But there was and there still is an ongoing healthy debate about this unemployment and wages trade-off—was it changing over time? Why weren't we seeing the wages? But in the US, New Zealand and the UK, where they hit lower unemployment rates than us, they saw wages strengthening and they have seen them, particularly in New Zealand, strengthening when they got to these lower unemployment rates than we have.

In understanding why this global activity slowed down and spilled through to Australia and what is the future, unfortunately, most of productivity is a bit of a mystery because it is the bit left over at the end that we can't explain. I'm always surprised at how confident people are at explaining productivity, because it is residual. It is actually the thing that our economics doesn't explain; hence, why I use longer term trends as a guide to where we might go. A long debate then ensues about why is productivity slower now than it has been in the past and is it likely to strengthen? Looking forward, we have lost part of the labour market through having fewer temporary workers here, those sorts of issues. I think that has only assisted in part and, frankly, a small part. The most significant thing driving improved labour market outcomes at the moment is the extent and composition of the fiscal policy response, which has really increased significantly the demand for labour. While it is tapering out, I think that kind of virtuous cycle that gets set up will persist as migration recovers. It just takes me back to those two things that I talk about a lot—keeping that unemployment rate low. That will, in and of itself, help productivity. But then also the measures—and apologies for bursting out into laughter when you asked me that question. In broad terms, there is a common set of areas that everyone is going to be aware of and that are going to assist this country improve its productivity relative to others: the quality of your workforce—investing in skills; the quality of your infrastructure; and the quality of your markets—how efficiently they allocate resources amongst markets. It's all those sorts of things.

More broadly, Australia is not going to drive global productivity. We should accept that. We can get closer to that frontier, but global productivity is, in some ways, given to us by how quickly productivity is growing in the US, where some of the productivity leaders and the very large-scale economies are producing innovations. What Australia always wants to be is as close as it possibly can be to the frontier. That will depend on how skilled its workforce is, on how efficient its capital stock is being deployed from the private sector to energy and transport

infrastructure, and on whether we put impediments on allocating resources to markets that give us the best return. I'm sorry it's a very general response.

CHAIR: Dr Kennedy, there's one point that was referred to in the budget papers in relation to the increase of wages for workers who changed jobs and what Single Touch Payroll is indicating. It's on page 57. Can you address that issue quickly? I think that's an important point in terms of the evidence on wage growth.

Dr Kennedy: I'll address the broad trends and then I'll ask Luke to draw out the specific numbers. What we saw post-GFC, up until the COVID period, was a lower proportion of people leaving their jobs for other jobs. There was a little less dynamism in the labour market than we'd previously seen. It dropped down below what it was pre-GFC and then stayed at that level. What we've seen post-COVID-19 is that it's picking back up to where it was and actually popping up a bit higher. Some of that may be catch-up, but we're hopeful it indicates some further dynamism. Going to Senator Cox's earlier question, the way a lot of wage increases happen for individuals is by changing jobs. Part of it may be whatever you get every year through the EBA, but a lot of people will go to a better job or to the same job paid more in another place. That's the competitive effect that's going on.

CHAIR: That's the importance of labour mobility?

Dr Kennedy: Going to my earlier comments about when the unemployment rate settles—when you're confident about the labour market, you're confident to change your job. Hence, you'll move to a better job, firms will compete harder for you and you'll see that increase.

Mr Yeaman: We have a data source in Single Touch Payroll, which allows us to track individual workers as they move through jobs. We can see what happens to their salary. The reference you mentioned from the budget papers is that during mid-2021, when we started to see a picking up of this dynamism, workers who did change jobs were typically experiencing pay increases of between eight and 10 per cent.

Senator BRAGG: I've asked you about this at prior appearances, Dr Kennedy: what is the proportion of the real-wage increases that will be eaten up by the compulsory super guarantee increases?

Senator GALLAGHER: Oh, come on!

Senator BRAGG: What's so funny?

Dr Kennedy: I'll tell you what our assumption is. In the past I think I told you it about was 80 per cent. Is that right, Luke?

Mr Yeaman: What I have here is that in the near term it's taking around 0.4 per cent off the wage price index in a given year.

Senator BRAGG: How much of that is the proportion of the real wages increases?

Mr Yeaman: About 80 per cent.

Senator BRAGG: In the forward estimates?

Mr Yeaman: I'll just double-check.

Dr Kennedy: I'm pretty sure it's the same as the answer I gave in the past, which builds up to about 0.8, from memory. There's the effect in the year that you're in, which might be a bit lower—that might be about the 0.4 per cent that Luke's talking about—but in the next year it flows through. As I've spoken to you about in the past, Senator, compensation for workers is compensation for workers, and if it goes into another means it goes into another means.

Mr Yeaman: Senator, I can confirm it's that 0.8. It's around 80 per cent.

Senator BRAGG: In the forward estimates?

Mr Yeaman: Yes.

CHAIR: Thank you, Senator Bragg. Senator McDonald, I'm treating this block of time as government senators' time.

Senator McDONALD: Truly? If I'd known that, I would have been poking him!

CHAIR: Please finish your questions by 10:45, if that's possible.

Senator McDONALD: Oh, dear. Well, we're going to be very targeted in our questions and hopefully our answers too. Dr Kennedy, in your opening remarks you said:

... Australia is relatively well positioned to weather these disruptions, other economies with greater reliance on energy and food imports will experience greater economic impacts—

and you go on. I'm intrigued as to why you're hiding your light under a bushel. Australia's AAA credit rating is an extraordinary achievement, given what the world has just gone through. Do you want an opportunity to shine?

You've not talked about it in your opening statement. There are some references in the budget, but I think it's something that is truly significant.

Dr Kennedy: Yes. I think the confidence of the rating agencies in, particularly, the sustainability of our fiscal position—in light of the size of the shock that the country has experienced—is a very good outcome. What rating agencies are often focused on is two things. They're looking at the rate of consolidation of the deficit, and they're looking at the level of debt. And both of those improved very significantly in this budget, and faster than we anticipated, and almost fully reflecting a stronger, more robust economy than we anticipated. We shouldn't ignore the fact that we get a little bit of upside—or even quite a lot of upside—when commodity prices are spiking, but it also hurts to have higher petrol prices in the country, as we've seen through the cost-of-living response. The point I was trying to make is that that's a negative part of the shock. And it's difficult for individual families, but we are well placed to absorb it in the macro level because of this robust growth that we're seeing and, frankly, improvement in fiscal sustainability.

Senator McDONALD: That leads me to my second question, which is around the deficit reductions. You were very cautious, or conservative, in the forward commodity price projections, but that's played out to a really significant reduction of debt in the forward estimates.

Dr Kennedy: Certainly, throughout the whole pandemic, we've tried to be cautious in our approach in the way it flows through on the fiscal side, because we want people to understand, frankly, the consequences of the very significant decisions they were making and the potential for things, perhaps, not to go as well as they could. But what we've seen at every stage is an improvement, from the very start of the pandemic. I should acknowledge another impact—that is, Australia's handling of the health situation of the pandemic has also very significantly contributed to the positive economic outcomes. We try to point that out in our part of the budget document as well. I'm not saying it wasn't a very significant impost on the community through the lockdowns and other measures that were required, but the confidence given to the community in the way the health situation was managed has no doubt contributed to very positive economic outcomes.

Senator Birmingham: Senator McDonald, Dr Kennedy referenced before that, over the forward four years, the \$90 billion improvement in revenue was associated with stronger labour market outcomes. If you look at revenue improvements, which are the significant part of the reduction in deficits, compared with what had been forecast last year, around 90 per cent of those revenue improvements over the forward four years are exclusively in that labour market category because of the assumptions that remove the higher commodity prices by September this year. The sensitivity analysis Dr Kennedy spoke of before has very significant upside potential if those commodity prices were to continue even for as short as a six-month period. That would itself then realise a further material improvement in the deficit position.

Senator McDONALD: The investment in this budget that I don't think has been called out enough is the investment in where we make our money, the regions—the \$2 billion accelerated growth fund and the regional hubs. You touched on the health impact. The regions were less impacted; in fact, they continued to operate as if COVID had a very small impact. I'm excited about that investment. I'm a regional person and I believe in growing these regions. Is that another element of being conservative in building Australia's future? How would you describe that—because I think this is a key part of our next stage of Australia's prosperity.

Dr Kennedy: There is, as has been happening over a few years, a real strengthening in the economic prospects for the regions. For example, I remember many years ago people talked about the opportunity in agriculture and food production for the growing Asian middle class, and it hadn't seemed to turn up, but it does really appear to have turned up. Obviously, there are very good seasons at the moment, so that helps a lot. When you're not in drought, that's really all the difference. But Senator Cox earlier spoke about house prices. It's been a long time since we've seen really strong growth in regional house prices, and there are concerns about people being able to access housing in some regions, because they are growing so robustly. While there was a lot of focus on the capital cities and the service sector economy in the past, we're seeing a real strengthening process for the regions, which, given my background, I find very pleasing. It is important that the infrastructure that is going with the growth opportunity goes with it and goes to the right place, of course, and that final decisions are made mindful of the best return for a dollar.

Having said all of that, there are also adjustments that we may need to make to where we do certain food production, because of the changing climate, and that may require different investments—for example, in water and other areas. As long as they're well done and well planned, they could deliver very significant returns.

Senator McDONALD: At the last estimates, I asked questions of the RBA and ABARES around the idea of a regional CPI. We've talked about wages this morning; certainly, the AENA figures better reflect the experience that I've seen regionally of people working more than one job, working a lot of overtime, picking up bonuses and

those sorts of things. I would also touch on the banks requiring a 60 per cent deposit to buy a house in many regional areas. Do you think that there might be an opportunity to consider regional CPI data to receive these signals to the economy earlier?

Dr Kennedy: I haven't discussed it with the statistician. I don't know if you have—David Gruen—

Senator McDONALD: They directed me back towards Treasury.

Dr Kennedy: I am more than happy to take it up with David and have a chat. Our CPI, unlike other countries, also comes on a quarterly basis rather than a monthly basis. The other opportunity that I have talked to David about in the past is the opportunity to exploit—and I know he is doing this—other administrative data rather than surveying and those types of things. I will undertake to take it up with him.

Senator McDONALD: I appreciate that because it is a pet project. Finally, I want to touch on this productivity issue. I am really concerned because I am seeing what can only be called price gouging from some of the privatised ports. I've had a message this morning about increasing container park booking fees from \$70 to \$95 per container. This is going on every week. Of course, these prices are generally passed back to farmers and other exporters who can't pass those prices onto anyone else, so again it takes money out of regional Australia and the places that we're trying to encourage. I believe the Productivity Commission is doing a report into the productivity of the ports.

Dr Kennedy: I think it is an important development. I am confident that the PC will do a good job. You are drawing attention to an important issue around productivity growth. There are parts of the economy that if they are not productive and if they are not near world's best practice they spill over and constrain other parts of the economy. The transport network, and particularly ports, is a very good example of that. The ACCC, from memory, in its stevedoring inquiry detailed some of these issues. I know there was some contest around those issues. But, nevertheless, I agree with you that it's a very important area for the PC to dig into and get on top of. It has national consequences if our transport network is not as efficient as it could be.

CHAIR: Senator Cox, I will give you an opportunity to formally table this document and then I'll go to Senator Walsh.

Senator COX: Thank you, Chair. Just for the reference it's the *Saturday Paper* from 2017. I'm tabling that document.

CHAIR: Thank you, Senator Cox. Senator Walsh.

Senator WALSH: Thank you. I have a couple of questions for the minister about wages. The budget projects that we will end up this financial year with a minus 1.5 per cent drop in real wages and then going forward pretty low real wages growth. We've got the minimum wages annual review underway at the moment. That affects a couple of million Australians who are working on awards. One of the things that government could do to support real wage growth is to explicitly support a rise in those award wages. Will the government do that this year?

Senator Birmingham: There will be a rise in award wages. I am confident of that because in assessing the annual wage case the Fair Work Commission ultimately always applies some form of rise. And, particularly in relation to an environment where we are seeing the inflation impacts from around the world being felt in different ways in Australia, I am sure they will consider those issues. The government will continue with our standard policy, which is to help the commission by providing relevant information about economic conditions, and the type of analysis that is contained in the budget for the commission to make its independent assessment in relation to what it determines in that wage case. That's about backing the independence of the commission and ensuring that it has the evidence to make a determination.

Senator WALSH: So you could support a rise to minimum award wages in an environment of flat and backwards wage growth, but you are choosing not to do that?

Senator Birmingham: No, Senator Walsh, that's not the case as you characterise it. We don't think it's the role of government to try and put a figure on what the commission should determine. We think it's the role of government to help to inform the commission around the economic circumstances conditions and to help them then make an independent and expert determination based on all of the evidence before us.

Senator WALSH: If you won't submit a specific number, will you submit support for significant increases to award minimum wages this year?

Senator Birmingham: I am not sure that that sort of gesture politics aids the outcome relative to actually providing the evidence as we do. It's a process the government has engaged in—

Senator WALSH: Is it gesture politics for people to know whether the government supports an increase to minimum award wages? Do you support an increase to minimum award wages?

Senator Birmingham: As I said, I fully expect there to be a determination that increases minimum award wages. I fully expect that to be the outcome. What the scale of that increase will be is something the commission will independently determine, and they will determine that based on the evidence that is before them. The government will make sure that we provide the type of evidence that is here in the budget papers. We clearly, in this budget, have sought to make sure that when it comes to people's disposable incomes and the things that we can directly influence in relation to people's disposable income, we have taken action. We've taken action in response to the oil price spikes by providing a reduction in the fuel excise. We've taken action in providing additional targeted payments to deal with these spikes we are seeing at present for low-, middle- and fixed income earners. These actions come on top of the things we have done to lift disposable income, most notably being the stages of tax cuts, two of which have been implemented today.

Senator WALSH: There is a range of submissions to the minimum wages review, including a submission from the Master Grocers Association, on behalf of retail employers, that there be a flat-out freeze, no increase this year. Then there are other submissions from employers and their associations for very low increases which would, in effect, be real wage cuts if those submissions were successful. Do you support those submissions for a freeze or a real wage cut?

Senator Birmingham: No, we won't be putting in submissions in support of those submissions either. We will be putting in a submission that presents the evidence around economic observations—

Senator WALSH: What would you like to see happen? Why can't you tell the Australian people what you would like to see happen to the wages of 2.5 million Australians covered by awards?

Senator Birmingham: I do note that the last time the Labor Party was in government you didn't actually even make a submission at all, and yet now you're saying—

Senator WALSH: Nine years, and this is your response?

Senator Birmingham: Sorry, I am just making that observation.

CHAIR: Sorry, Minister. We just need to keep the line of demarcation between the question and the answer for Hansard.

Senator Birmingham: I am just making that observation, Senator Walsh, because you are seeking to somehow hold the government to a different standard from the way in which—

Senator WALSH: Seeking genuinely on the behalf of people who would like to know: does the government support them having a pay rise?

Senator Birmingham: As I've said, I fully expect the commission to make a determination that will lift those minimum wage rates. The government will provide information and analysis to assist the commission in making that determination in an environment that maintains the jobs growth we have seen in Australia and the strength of the labour market overall, that helps us to maintain the economic strength we have seen in Australia, and that fairly reflects the inflation conditions being faced by Australians. The government has acknowledged those inflation conditions in the budget handed down this week. Mr Albanese last night didn't propose anything additional to address cost-of-living pressures on Australians. His budget reply speech was absent—

Senator WALSH: Mr Albanese—

CHAIR: Let the minister finish his answer and then you can have a follow-up question.

Senator Birmingham: We've handed down a plan this week that shows very clearly how we are directly helping Australians with the oil price spikes seen as a result of events in Europe at present and how we are directly assisting Australians in terms of the growth in jobs. You can see how that flows into wage price index rises, as Dr Kennedy has talked us through today. We've had the exploration today, in far greater detail, around not just the WPI elements that you asked me about in your initial question but also the AENA assessment showing perhaps a stronger growth in wages across the economy. In terms of the minimum wage case, we will do as I have indicated, and that is assist the commission to make a determination that I am sure will see increases. But the commission will be the ones who independently determine what those increases are.

Senator WALSH: I note that that was an answer to a question about whether you support a pay increase for a couple of million Australians that will be decided in the minimum wage review. And that is your answer? You can't say that you do?

Senator Birmingham: I'm saying I fully expect to see one and that that increase will be informed by the type of evidence and analysis the government gives.

Senator WALSH: Real wages have gone backwards by 1.5 per cent. And you can't say you support a wage increase for 2½ million Australian workers who are dependent on that increase? You can't say you support that today?

Senator Birmingham: Whether it be on that matter or on the grandstanding in relation to aged-care wages that Mr Albanese engaged in last night, how meaningful is it when you won't say how much? What is the point of running around the country saying 'We support an increase but we won't tell you how much of an increase we actually support?' You're simply trying to play politics with the issue without actually putting—

Senator WALSH: No. You're asking me some questions and I do have some questions for you about that.

CHAIR: Order! Minister, I'll take those as rhetorical questions because you're not in a position to ask questions of members of the committee. Senator Walsh, you have the call, but could I ask all senators to try and keep that line of demarcation between the questions—

Senator GALLAGHER: If the minister would stop baiting, and telling things that aren't true—

Senator Birmingham: Which bit of that statement is untrue?

CHAIR: and the answers, for Hansard's benefit. Senator Walsh, you have the call.

Senator WALSH: Mr Albanese announced last night that Labor will support and fund an increase in the wages of aged-care workers through the Fair Work Commission.

Senator Birmingham: How much?

Senator WALSH: What is your position? Do you support a pay rise for aged-care workers—

Senator GALLAGHER: And will you fund it?

Senator WALSH: and will you fund it?

Senator Birmingham: Once again, we will back the independent process of the Fair Work Commission. There's a case there, and that case will reach an outcome.

Senator WALSH: They've asked you for your position actually.

CHAIR: Senator Walsh, you need to let the minister finish his answer.

Senator WALSH: Minister, they've asked you for your position.

Senator Birmingham: The shadow Treasurer, Mr Chalmers, was pushed on this this morning. He said: 'We don't typically nominate. That's the job of the Fair Work Commission.' So, as I reflected before, your side of politics is trying to have its cake and eat it too—

Senator WALSH: But do you support an increase?

Senator Birmingham: You're going out there saying you want an increase, but you don't actually have the courage to say—

Senator GALLAGHER: No. We're saying we will fund the outcome.

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

Senator GALLAGHER: He's a very interventionist referee!

Senator WALSH: Labor is explicitly calling for an increase to aged care workers' wages and saying we will fund the outcome.

Senator Birmingham: But doesn't have the guts to say how much.

Senator WALSH: Do you have the guts to say you support an increase? Do you have the guts to say you'll fund it?

Senator Birmingham: We're just not going to play politics in this space. There is an independent Fair Work Commission, and we back the independence of the Fair Work Commission. That's what we have done consistently. The fact that the Labor Party is going out there in dangling some sort of unseen and unknown carrot in front of people, saying, 'We support an increase but we won't say how much that increase will be,' is some of the most shameless politics I've seen.

Senator WALSH: I mean—

CHAIR: Senator Walsh, you have the call.

Senator WALSH: So much is wrong with that! I think that people are getting all the information they need to know from you about what your position is on people's wages today. So I actually appreciate the answers. Your predecessor—

Senator Birmingham: When—

CHAIR: Order! Senator Walsh, do you have a question?

Senator WALSH: Your predecessor, obviously and famously, said that low wages were a deliberate design feature of your government's strategy. Does the Morrison government today want the wages of Australian workers to grow in real terms? Is it a policy objective of this government for workers wages to grow in real terms?

Senator Birmingham: Absolutely it is. It is, and we had a discussion before about some of the areas in terms of trying to pursue and assist productivity growth. We have invested significantly in those areas, be that the skills agenda, which you can see in this budget, or the support in the areas of trade skills and for apprenticeships—not only in commencements but also completions. Or there is the work more broadly in the skills agenda or our investment in infrastructure and our \$120 billion pipeline to drive productivity and to increase the efficiency across a range of different sectors of the economy. Or be it the transition in this budget from the economy-wide drivers of investment which I spoke about earlier, which are lifting, particularly, non-mining investment across the country and which will increase the productivity and competitiveness of those businesses through into this budget and the measures that we've announced for small business to provide tax incentives for skilling and their investment in digital technologies. These are things that, again, will drive improved outcomes across the economy—

Senator WALSH: So—

Senator Birmingham: that help to underpin real wages growth, which you can see in this budget is forecast to be achieved from 1 July this year. We've had the extensive discussions that the WPI presents, perhaps, a low-side estimate of that when compared with the alternative measurement of AENA.

Senator WALSH: So, essentially, we've moved from low wages being a deliberate design feature to a trickle-down approach. Everything that you've just described will just trickle down to better wages for people. Do you have a specific policy objective of real wages growth? Do you have a specific wages policy that you can point us to?

Senator Birmingham: Senator Walsh, I just took you through some of them. Now, it's a contrast—

Senator WALSH: So, it's trickle-down—

Senator Birmingham: Sorry—

CHAIR: Senator Walsh, let the minister finish—

Senator Birmingham: I actually gave you a relatively serious answer just before when we were going through—

Senator GALLAGHER: 'Relatively serious'?

Senator Birmingham: specific policy areas that the government is pursuing that are drivers in the economy that have helped to achieve a four per cent unemployment rate, which is forecast to go to 3.75 per cent—the lowest unemployment that the nation has seen in close to 50 years—that create the environment that gives us the opportunity to forecast, as we do, increases every year in the incoming budget and forward estimates period of real wages. These are the measures that we have detailed and that we are taking.

That's stands in quite strong contrast to the fact that Mr Albanese simply says that a Labor government will write a letter to the Fair Work Commission, saying, 'We'd like to see increases.' He won't put a figure on it or follow through with any detail, and didn't last night detail any areas of an economic plan that would actually help to drive wages growth—

Senator GALLAGHER: Not true.

Senator Birmingham: or help to drive productivity. They were missing from last night's speech and they're missing from the fact that Labor doesn't have a plan in that area. We have demonstrated it. Our plan is working in terms of what it has done for unemployment and jobs growth across the country. You can see, when you look at both the WPI assessment going forward and also what's happening with AENA already, that it is also moving to deliver additional benefits in terms of wages. And in terms of what households have available to them, what we've done in cutting income taxes to date is putting around \$1½ billion dollars extra per month into the pockets of Australian households, helping with their disposable incomes—

Senator WALSH: Oh, thank you—

Senator Birmingham: And what we did in this budget addresses the oil price spikes that the world is seeing in a very direct way.

Senator WALSH: Thank you, Minister. Labor has substantial economic policy out there already: we've released a skills plan and we've released a plan around the National Reconstruction Fund. You've chosen, after nine years in government, to completely misrepresent Labor policy, instead of being able to defend your own strategy on wages. The RBA says that wages are, in part, going backwards due to public sector pay rise caps and enterprise agreements that lock in low wage increases for a number of years. Your government employs 150,000 Australians. Why won't you use your weight in the employment market to encourage wages growth? Why are you using your influence to keep wages down?

Senator Birmingham: As was canvassed earlier, the government's public sector wages policy position has been to move to a pegging of public sector wages to private sector WPI measures. As we see the growth in relation to the wage price index and, particularly, in the private sector, the public sector will move in tandem with that. We think that's a fair approach in terms of ensuring that neither public sector wages fall behind growth in the private sector nor that government provides some sort of preferential treatment to the public sector. The tone of your question suggests to me that a Labor government may vary that and that its policy would be to prioritise growth in public sector wages. What we're prioritising is growth in jobs right across the economy and, from that, driving growth in wages right across the economy in both the private and public sector.

Senator WALSH: Before going back to Senator Gallagher, I have one final question. You're not supporting wages moving in the public sector. You're not supporting wages moving for 2½ million Australians. You can't point to any specific policy that you have that results in real wages growth. People's wages have been flatlining under you for nine years. Why should Australians believe that you care about their wages or that you have any plan to get real wages moving?

Senator Birmingham: When we came to government, unemployment was 5.7 per cent. It's now four per cent and tracking to 3.75 per cent. When we came to government, real wages had fallen in three of the six years of the previous government. As I said before, you didn't even bother to make any submission to the Fair Work Commission in the last of the wage cases. We do have very clear, very detailed policies that are about the economic strength of Australia and, through that, creating more jobs—1.7 million of them—which we've done incredibly successfully. And creating an environment that pushes us towards the theoretical limits of full employment and, from that, driving wages growth further. Each of the forward estimates here show real wages growth as we hit those limits of full employment across the economy. We're backing areas in terms of lifting the capabilities in the Australian economy, from infrastructure to skills, digital technologies and capabilities. We're not going to see an Australia that is richer or wealthier through the Labor Party policies, which are either letter-writing campaigns to the Fair Work Commission or simply driving public sector costs—

Senator WALSH: We are at Senate estimates, asking the government about your policies.

Senator BIRMINGHAM: We are, and we're also weeks away from an election, and last night was a pretty shallow and empty effort by Mr Albanese compared to the details of the government's economic plan.

CHAIR: Thank you, Minister. Senator Gallagher, we will finish where we started with you. You've got until 11.15.

Senator GALLAGHER: Thank you. I've got a question for Dr Kennedy before he leaves. Firstly, Minister, the aged-care wage case before the Fair Work Commission will hand down a decision after the election. If you win the election, will you be funding the outcome of that case?

Senator Birmingham: If there are implications from the outcome of that case, then the government will respond to it in future budgets as necessary.

Senator GALLAGHER: Right. So, you will fund the outcome of the wage case that comes down after the election?

Senator Birmingham: We'll work through the implications of that. As is well known, we provided an increase—some \$10 a day, if my memory is correct—in last year's budget in terms of support for care of elderly Australians, residential aged care—

Senator GALLAGHER: Yes, that was the daily fee increase.

Senator Birmingham: and also, through that, provided increased support for the sustainability of aged-care services and encouragement for them in terms of their remuneration and otherwise of their staff through those services. We will continue to respond to that. We've put \$19.2 billion of additional funding into aged care in the past 12 months—not just residential aged care, as was the sole focus of last night's speech, but also, crucially, supporting the home-care sector to provide effective choice to senior Australians.

Senator GALLAGHER: Okay, so, you will fund the case? That is a commitment from you: when the wage case comes down, the government will fund it.

Senator Birmingham: We'll respond to it and analyse it as necessary, ensuring the sustainability—

Senator GALLAGHER: So you might not fund it? You'll 'analyse it'.

Senator Birmingham: Ensuring the sustainability of the aged-care sector is an important part of our government's position. So, we will respond to any such circumstances that come along once we've seen the details of them.

Senator GALLAGHER: Okay. So, we are agreeing to fund the outcome. It sounds like you are agreeing to fund the outcome. Yes? I'm not sure.

Senator Birmingham: The difference is that you're running around the country saying, 'We're going to say there's an increase, but we won't say what we think the increase should be.'

Senator GALLAGHER: Well, the commission hasn't made a decision yet, Minister, as you know.

Senator Birmingham: I just can't quite tell, Senator, whether you're trying to say that there's a difference in our positions or that our positions are identical.

Senator GALLAGHER: Well, we are trying to work it out from you—

Senator Birmingham: We back the independence of the commission.

Senator GALLAGHER: because you're criticising us for committing to fund an outcome that either government—whoever wins the election—will have to fund. You are criticising us for that. So I'm trying to understand: is your position that you're not funding it, or is your position the same as ours, that you are funding it?

Senator Birmingham: We'll ensure the sustainability of the aged-care sector, as we've done. We'll analyse whatever decisions come from the Fair Work Commission or other impacts across the sector.

Senator GALLAGHER: Okay. Does anyone get what that is? Is that a yes to funding, or a no to funding? I just don't know why it's so hard. You know you have to fund the outcome, don't you?

Senator Birmingham: Well—

Senator GALLAGHER: Yes. You do.

Senator Birmingham: There are many cost drivers in sectors like aged care—

Senator McALLISTER: Like food.

Senator Birmingham: Indeed, and that's part of why funding was increased last year, part of why there is so much more flowing into the aged-care sector now—to respond to those things from the royal commission. So, this sense that you're trying to paint that \$19.2 billion worth of additional investment and support across aged care doesn't change the dial is just completely misleading.

Senator GALLAGHER: Well, you had to do it. The system was in crisis. Our policy is to actually fix the missing bit that you didn't deal with. That's the reality. Yes, your system was in such crisis that you had to inject that money. You had no choice. But you failed to do the bit that actually enables people who are living in residential aged care to have a dignified existence and for carers to have the support they need to deliver. I don't know how long it's been since you've been to an aged-care facility. But to get somebody out of bed to clean them, to get them changed, to give them breakfast—most carers have eight minutes to do that. That's the system at the moment, and that's what needs to change.

Senator Birmingham: And the changes we put in place last year in terms of ensuring 200 minutes of guaranteed care time per resident per day and 40 minutes of guaranteed care time from a nurse per resident per day, on average, are very important changes that took a substantial increase in budget funding, and we delivered it.

CHAIR: Senator Gallagher, we've only got Dr Kennedy for two more minutes, so, if you've got any questions for him—

Senator GALLAGHER: My question—it's different to aged care—is about net overseas migration, and the figures in the budget paper that have the forecasts, for the end of this year, of I think 41,000 but going to 213,000 in 2023-24. Who comes up with those numbers? Is that through Home Affairs? How do you land on that and is that an ambitious number to reach in two years time?

Dr Kennedy: We come up with the numbers through our population centre, but we work with Home Affairs about what the size of the program will be. We make the judgements about how quickly net migration will move, when students are likely to turn up. We have a conversation about that, in there, when other parts of the nominal

calculation turn up. We have upgraded it substantially. I wouldn't describe it as ambitious or optimistic. It is just our best guess of what we think the net flow of people will be. We do note in the budget also that Australians travelling—this is a different issue—overseas will, in some ways, detract a little bit from growth. Jenny can outline it for you. Do you want to know, in effect, what the migration assumptions are that underpin the net migration?

Senator GALLAGHER: Yes, and I'm happy to do it in the next section, if that's okay, if it fits more properly under Ms Wilkinson's group. I'm happy to follow it up after that.

CHAIR: Thank you, Dr Kennedy. I also thank you for placing on record the contribution that Dr David Irvine made in terms of his service to this country. I had one interaction with him, in his capacity as chair of FIRB, and I found him extraordinarily professional and responsive. So our thanks to you for raising the issue.

Proceedings suspended from 11:16 to 11:30

CHAIR: We welcome back the minister. We're now in the Fiscal Group. Who's seeking the call? Senator McAllister.

Senator McALLISTER: I just have a couple of questions, and they're probably for you, Mr Yeaman. Obviously, the last term of government has been bookended by very significant natural disasters, and I note that Budget Paper No. 1 canvasses the macroeconomic impact of those disasters and the nature of the government's response. Has Treasury done any evaluation or review of any kind about the continuing suitability of the overall framework for economic support for disaster affected communities? Has there been any kind of review of the arrangements that are in place?

Mr Yeaman: Just to clarify, Senator: are you asking about the specific disaster recovery arrangements themselves that kick into action when a disaster hits? The policy response?

Senator McALLISTER: I'm asking about the economic dimensions of the overall policy settings for disaster affected areas. Obviously, Budget Paper No. 1 recognises the capacity for natural disaster to have a significant impact on the performance of the Australian economy. Given the significance of natural disaster over the past few years, I'm trying to understand whether Treasury has undertaken any policy review, internally or externally, to assess the adequacy of the current governance framework for responding to economic impacts of natural disaster.

Mr Yeaman: The short answer is not to my knowledge, no. We deal with the analytical side of the forecast, and there's no doubt, as you say, that natural disasters have had a material impact on our forecasts at different points over the past decade and more. And we've got advice around that in the budget documents.

In terms of the best way to deal with that in an ongoing sense, I'll defer to my colleagues who will be on next, in Fiscal Group, who deal with natural disaster response in the broad, so they may have more knowledge than I do. But, to my knowledge, no, we haven't done a formal review.

Senator McALLISTER: Okay. That probably finishes my line of questioning, because I'll wait till Fiscal Group, Chair.

CHAIR: This is Fiscal Group.

Senator GALLAGHER: No, this is macro.

Senator McALLISTER: This is still macro.

CHAIR: We're still on macro? Sorry.

Senator GALLAGHER: But macro and corporate appear together, don't they?

Senator Birmingham: Yes.

CHAIR: I don't have any more questions for macro and corporate, so—

Senator GALLAGHER: I have one small set, and then they can be released.

CHAIR: Okay. Senator Gallagher, you have the call.

Senator GALLAGHER: In relation to the budget for 2022-23, is there an advertising campaign linked to it?

Ms Kelley: Not specifically, but I will get Ms Kenna to give you the detail.

Ms Kenna: There isn't a specific budget advertising campaign, no.

Senator GALLAGHER: When you say 'specific', what does that mean—that there isn't one?

Ms Kenna: There isn't.

Ms Kelley: There was no funding allocated.

Senator GALLAGHER: So there won't be any ads or anything appearing in the next few days advertising the budget?

Ms Kenna: No.

Senator GALLAGHER: Okay. What was the other campaign you did post COVID, again? What was it?

Ms Kenna: The economic recovery campaign?

Senator GALLAGHER: Yes. Is that still ongoing?

Ms Kenna: Yes, it is.

Senator GALLAGHER: Last time, I think you talked about the buy for that campaign. Can you update us on what's happening with that campaign?

Ms Kenna: The third phase of the campaign was approved to launch on 4 March and commenced across radio, digital, social, out-of-home and press on the week commencing 6 March, and we've had some staggered rollout of creative material since then across television and other media.

Senator GALLAGHER: So it started on 6 March; what have you bought for that campaign?

Ms Kenna: The media buy at this stage is due to go through to 16 April, but that's an indicative date only, because we obviously stop advertising as soon as the federal election is called.

Senator GALLAGHER: You say you've got radio, TV, social media—

Ms Kenna: Out-of-home—

Senator GALLAGHER: What's 'out-of-home'?

Ms Kenna: Outdoor advertising, like—

Senator GALLAGHER: Billboards?

Ms Kenna: Street furniture, billboards—that sort of thing.

CHAIR: Buses.

Senator GALLAGHER: Buses—

CHAIR: Telephone booths.

Senator GALLAGHER: Senator Scarr, you're being very helpful! Telephone booths—I'll put them in there. Cinemas—yes?

Senator Birmingham: I don't know whether Senator Scarr was accurate on the telephone booths!

Senator GALLAGHER: Well, we're putting them in there; Senator Scarr's nominated them!

Ms Kenna: I can't confirm if cinema is in there, but I can come back to you on that one.

Senator GALLAGHER: Is there any mail—direct household information?

Ms Kenna: No.

Senator GALLAGHER: So what have I missed?

Ms Kenna: Digital.

Senator GALLAGHER: And for the third phase, what's the cost of that?

Ms Kenna: I can give you expenditure to date. I don't have that tallied up at the moment. Again, I can go across each contractor if you'd like.

Senator GALLAGHER: Yes I would, thank you.

Ms Kenna: On research, we've spent \$224,180. We have also spent—and this is a bit of a complicated one because some of the costs came under the previous phase and some of them are for this phase—a further \$262,600 on research. Then our evaluation research is \$52,703.20. Creative is \$1,081,587.60. And on the actual advertising and the media placement, it's \$2,384,203.54.

Senator GALLAGHER: And that's for phase 3, is it?

Ms Kenna: Correct.

Senator GALLAGHER: Phase 3, on both the creative and the advertising spend?

Ms Kenna: Yes, that's correct.

Senator GALLAGHER: So it's almost \$4 million, by my quick adding up.

Ms Kenna: That sounds about right.

Senator GALLAGHER: For six weeks, potentially?

Ms Kenna: That's expenditure to date.

Senator GALLAGHER: Oh—that's expenditure to date! So that's to—where are we? We're at 1 April. So—

Ms Kenna: To the end of March or so.

Senator GALLAGHER: So it's \$4 million in the last four weeks?

Ms Kenna: The campaign has been live since 6 March, but there are development costs that come prior to that.

Senator GALLAGHER: So it's about \$1 million a week in spending on that campaign?

Ms Kenna: That's if you're applying it against the media buy.

Senator GALLAGHER: And it stops when—

Ms Kenna: When an election is called, or 16 April.

Senator GALLAGHER: The research components of it: What are they? Are they focus groups?

Ms Kenna: That's correct—it would be focus groups. We also did some quantitative research; that's online or computer-assisted surveys that we do with members of the public.

Senator GALLAGHER: And they were done in March, were they?

Ms Kenna: No. There were some that were running in December last year, and some more in January and February.

Senator GALLAGHER: Is that assessing phase 2 or the earlier phases of the campaign? So, in those focus groups, you show them the ads and you say, 'What do you think?' and then you get feedback, or is it actually testing concepts with them?

Ms Kenna: It's more of the forward-looking work that is looking at what we are looking at doing next. It wasn't assessing phase 2. It was obviously doing that with reference to the fact that phase 2 had happened, but we were actually showing them new material, new ideas and getting their views on how the situation is looking at the moment.

Senator GALLAGHER: What's the campaign called?

Ms Kenna: It's the economic plan campaign.

Senator GALLAGHER: Did you make changes from phase 2 to phase 3 with the ad?

Ms Kenna: Yes.

Senator GALLAGHER: What were the changes?

Ms Kenna: It's new creative. The previous phases of the campaign were using the 'our comeback' tagline. This phase of the campaign has moved on and is using new creative, which is more appropriate to the position that Australia is in at the moment.

Senator GALLAGHER: What's the tagline for it? I haven't seen the ads, I'm sorry. Lucky I wasn't in your focus group! So we've moved on from 'our comeback', because that wasn't really working into—what have we moved into?

Ms Kenna: This phase of the campaign—

Senator Birmingham: Actually, 'comeback' has been working very well.

Senator CHISHOLM: Not according to the focus groups!

Senator GALLAGHER: They've changed it, so something has happened. What's the tagline?

Senator Birmingham: It's been better than that, actually.

Ms Kenna: This phase of the campaign is called 'the next steps'. 'We're taking the next step.'

Senator GALLAGHER: I'll have a look. Is it on your website?

Ms Kenna: There's an economicplan.gov.au website set up specifically for the campaign. It's not on the Treasury site.

Senator GALLAGHER: Great. I think you said these focus groups were in December to February—is that right?

Ms Kenna: That's correct.

Senator CHISHOLM: Who conducted them?

Ms Kenna: The contractor was Whereto Research.

Senator GALLAGHER: Do you have how many groups you did and where they were?

Ms Kenna: I don't have that. I might have to take that on notice.

Senator GALLAGHER: Are you in charge of the campaign?

Ms Kenna: Yes, that's correct.

Senator GALLAGHER: Were groups done in every state and territory, for example?

Ms Kenna: We don't do every state every time. What we tend to do for a round of research is look at two capital cities and a regional centre—it might be we do Brisbane, Melbourne and Bendigo, or something like that. In the next round of research we'll select another couple of cities and another regional area, so we get full coverage of Australia through that.

Senator GALLAGHER: Presumably, those research reports went to the committee of cabinet that looks at that?

Ms Kenna: That's correct.

Senator GALLAGHER: What is it called? The SDCC?

Ms Kenna: That's correct.

Senator GALLAGHER: All research goes there, doesn't it?

Ms Kenna: Yes.

Senator GALLAGHER: What for? Do they consider it and make decisions, or do you just send it to them for information purposes?

Ms Kenna: It's part of the process to inform their decisions as well.

Senator GALLAGHER: Because ultimately they have to tick off the advertising campaign—is that right?

Ms Kenna: They review the campaign and determine whether they are happy with the direction it's taking, but it's ultimately the department and then the responsible minister that sign off on the campaign.

Senator GALLAGHER: When did those reports go to the SDCC?

Ms Kenna: Progressively over those months. I'd have to take that on notice.

Senator GALLAGHER: So it was getting a fair bit of research between December and February?

Ms Kenna: Yes.

Senator GALLAGHER: In terms of the advertising: when you say 'creative', is that the design and finalising the materials?

Ms Kenna: That's the advertising agency. It's the people that actually come up with the concept and produce the ads for us.

Senator GALLAGHER: So it's the labour costs and other costs associated with that. On the advertising: I think last time you talked about how you buy slots and things. How has that been weighted over the last month? Is it accelerating in terms of the buy, or is it standard?

Ms Kenna: I think it's—not flatlined—but fairly standard throughout. We don't tend to buy media to try and accelerate. It's more that you try and buy or start a campaign with a larger buy, and then you tend to decline over time. I'd have to check how we've actually weighted the buy, but it's not going to be an accelerated buy.

Senator GALLAGHER: In terms of the breakdown, I think last time you were able to give me the breakdown of the cost for TV, the cost for radio, the digital campaign cost, the out of home—'out of home' is what you called it?

Ms Kenna: Yes. I can't give that to you at the moment because the campaign is still live and so the costs are still accruing over time. I can come back to you a notice with how much we've allocated in the budget to each of those media, but I'd have to, again, take that on notice.

Senator GALLAGHER: Thank you very much, Ms Kenna. I'd appreciate that.

CHAIR: That brings us to the end of corporate and Macroeconomic Group, so thank you very much for the attendance of the relevant officials for that section.

[11:45]

CHAIR: We'll now move to Fiscal Group. Welcome, Ms Wilkinson. Senator McAllister, you have the call.

Senator McALLISTER: You probably heard me ask Mr Yeaman about disaster response. Its impact on our national economic performance has obviously been a very significant feature of the last three years, but it obviously impacts very acutely in particular parts of the country. I am interested to understand whether Fiscal Group has undertaken any reviews, internally or externally, to assess the adequacy of current arrangements for economic support for natural disaster affected areas.

Ms J Wilkinson: The short answer is we haven't conducted any internal or external reviews. There was a PC review in, I think, 2016, which was a review of all of the disaster funding arrangements. That took place at a time when many of the current features of the arrangements were in place, such as the disaster recovery payment and disaster recovery allowance. I haven't looked at that review for some time. I'm very happy to take it on notice, if you want to come back and have a discussion about that, but the short answer is that we haven't in recent times undertaken a review of those arrangements.

Senator McALLISTER: I note that the budget papers emphasise what I would describe as individualised payments to households and also to businesses for capital and those kinds of things. Is Treasury satisfied that the level of coordination between the federal and state governments in administering those kinds of payments and other forms of economic support is going to produce the necessary results in these communities? I'm thinking particularly of communities where a very significant proportion of the economic assets in those communities has been almost entirely destroyed.

Ms J Wilkinson: There are a lot of different elements to the current arrangements. The support to individuals through the disaster recovery payment and the disaster recovery allowance, which is the ongoing payment, is obviously delivered directly by the Commonwealth. I think it's fair to say that, if you wanted to ask about how that actually works, questions to Services Australia would be most appropriate. But, frankly, over the course of the pandemic I think we have refined and improve the speed with which we have been able to make those sorts of payments and have learnt a lot through those experiences. So those payments can be triggered and can then go out extremely rapidly.

When I think about the suite of other support that's provided by government, there are a set of arrangements which are provided through state governments, who, by and large, work more closely with the individual communities; they've got services that they can actually deliver on the ground. All of the category D disaster recovery arrangements are arrangements where the Commonwealth pays fifty-fifty but does rely upon states to actually administer that support. Some of that support is to individuals, some of it is to businesses and some of it is for clean-up and recovery. So there are a range of different elements required in any sort of a recovery package. Then there are some other specific supports the Commonwealth has provided where the Commonwealth has a lead. I guess, when I think about it, in the most recent budget, the announcements around things like mental health support, and the financial capability and wellbeing assessments, are all services which the Commonwealth provides across the nation, and therefore the Commonwealth is best placed.

I think it is always going to be the sort of situation where you're going to need to have different parts of both states and Commonwealth governments working together in order to most effectively get the support to the people who need it, when they need it, through the most efficient mechanisms, and that's what the current arrangements attempt to do. The National Recovery and Resilience Agency, and Emergency Management Australia, are much closer on the ground to how these are actually all flowing. So, in terms of how the specific suite of supports has worked in this most current phase, I think questions of details would probably be most usefully explored with them.

Senator McALLISTER: Sure. The reason I'm asking Treasury is more specifically around the economic recovery questions rather than the emergency response phase of a disaster. It's not unrelated to the questions asked earlier by Senator McDonald, actually, about some of the spatially differentiated economic impacts of natural disasters and the way that, combined, states and territories and the Commonwealth are able to respond to that. Thank you. That is all I have for that, Chair.

CHAIR: I have some questions. Ms Wilkinson, I wanted to ask some questions about the movement in the underlying cash balance since MYEFO. I'm not sure who you need at the table for that. It seems to me that one of the outstanding features of the budget has been the improvement in the underlying cash balance in that period between the MYEFO and when the budget was brought down this week, which I think is approximately just under a four-month period. Statement 1 in the budget overview, on page 1 of the budget—I did get further than page 1, but I was impressed; this leapt out at me on page 1—states:

Since MYEFO, the estimated underlying cash balance has improved by a substantial \$103.6 billion—
in that less than four-month period—

over the 5 years to 2025-26.

What are the drivers for that improvement in the underlying cash balance?

Ms J Wilkinson: In an overarching sense, the drivers are the improvement in the macroeconomic outlook that you discussed with Dr Kennedy and Mr Yeaman in the earlier session. They then flow through to the underlying budget position. I might ask Mr Goldsworthy to walk you through the breakdown of how that improvement has occurred.

CHAIR: Mr Goldsworthy, take me for a walk.

Mr Goldsworthy: As Ms Wilkinson said, the improvement in the UCB since MYEFO really does come on the back of a stronger economic recovery than we expected, in particular in the labour market. As you would have heard this morning, employment growth is a lot faster than we anticipated at MYEFO, and so too is wage growth. What we have seen is a large upward revision in household incomes. That flows through into an upgrade to personal income tax receipts, and also on the back of the stronger labour market we have seen a reduction in outlays for unemployment benefit recipients. We have some figures if that would be helpful.

CHAIR: Sure.

Mr Goldsworthy: As you pointed to, in terms of the UCB, there is a \$103.6 billion improvement over the five years to 2025-26. I will give you the breakdown, as you would be familiar with, in terms of parameter variations and policy decisions. Parameter variations have increased tax receipts since MYEFO of \$158.2 billion over the five years to 2025-26.

CHAIR: So that is just on tax receipts, on Australian families having more income and, as a consequence of that, the government receiving more tax revenue. I draw a distinction here between the concepts of tax rates and tax revenue, knowing that greater economic growth and activity promotes an increase in tax revenue, and that can even occur when tax rates are falling—is that correct?

Mr Goldsworthy: Yes, that's right. It's on the back of strengthening household incomes as opposed to changes in tax—

CHAIR: Then there are the company tax receipts as well, which have presumably increased; they are forecast forward to increase as well, arising from things like the increase in commodity price, yes?

Mr Goldsworthy: My Revenue Group colleagues, who I think are appearing this afternoon, can go into further details, but the bulk of the upgrade in tax receipts is due to personal income tax, for the reasons we just discussed. We also have elevated commodity prices in the near term compared to MYEFO, so there is some support being provided through company income tax collections. From memory, we're also seeing a little bit of strengthened GST collections, which, of course, doesn't impact the underlying cash balance, because there is an offset on the payment side.

CHAIR: Alright, thank you. I want to quickly change tack, if I could. Mr White, I see you're the First Assistant Secretary, Commonwealth-State Population Division.

Senator Birmingham: Senator Scarr, just while Mr White is coming to the table, I encourage you to move deeper into Budget Paper No. 1—as I'm sure you have—particularly page 79, which shows, quite visibly, the improvement in the underlying cash balance and how that rolls right out through to the medium term and in fact is a halving of what the UCB had been projected to be.

CHAIR: That's important, isn't it? It leaps out when you look at chart 3.2, in terms of halving—it's an order of magnitude in terms of the change, isn't it, Minister?

Senator Birmingham: It is a material improvement, for sure, and, in fact, the pace of consolidation in the underlying cash balance from its peak in 2020-21 through to what is forecast just over the forward estimates period is the fastest pace of consolidation in the UCB seen in more than 70 years. We're seeing very significant improvements there, and, as we have canvassed earlier, that is without making any assumptions, other than very conservative ones, when it comes to commodity prices, going forward.

CHAIR: That's a key point—that the assumptions underpinning those forecasts and projections are conservative. Is that correct?

Senator Birmingham: Especially in that sphere of the commodity prices. We have seen the upside dividends of that in the current financial year and over previous years, but we're not banking on them for the forward estimates or beyond.

CHAIR: Ms Wilkinson, do you have anything to add on that point?

Ms J Wilkinson: The only thing I would add is that this very significant recovery, since the peak in 2021, reflects the fact that the vast majority of that spending was genuinely temporary and very targeted. It has, in turn, supported such a strong recovery in the economy.

CHAIR: Excellent. Mr White, the reason I was keen for you to come to the table is that my good friend Senator McDonald raised some very good points earlier this morning in relation to a number of initiatives which are going to progress investment in our regions. There appears to be quite a material increase in the number of people moving from our capital cities to the regions, and from, for example, Victoria and New South Wales to my home state of Queensland. I'm just wondering: from your perspective, what are you seeing in that regard, and how does it impact the budget?

Mr White: When we do our population forecasts, we have capital cities and we have 'rest of state'. 'Rest of state' is the closest we have to regions. 'Rest of state' includes some areas that most people would probably not think of as regional: cities like Newcastle, the Sunshine Coast and those sorts of things.

CHAIR: The Gold Coast?

Mr White: The Gold Coast. Traditionally, cities had mostly grown faster than non-capital city areas. That changed during the course of the COVID-19 pandemic, mostly because cities grew much more slowly, which was mostly a result of our international borders being closed. A lot of migrants who come to Australia settle—first, at least—in cities. As for regional areas, their growth rates and population held up much more. They had a slight fall. Part of that was people in those regions not leaving those regions at the same pace as they would have traditionally. Lots of people, especially at the end-of-school age—late teens or early 20s—would move, either for study or for work, from regions to cities. We saw that slow down a lot.

We've also seen a little bit of people leaving cities to go to the regions. We've especially seen that in Victoria, where it seems that the effect of lockdowns in Melbourne has led to people making decisions about wanting to move, at least temporarily, from Melbourne to regions, often in Victoria. It has happened a bit in New South Wales as well.

As to your other point: yes, Queensland has been the state that has had the fastest population growth over the last couple of years. It has benefited a lot from interstate migration—people moving from other states to Queensland. So we've seen some of that.

As to the economic impacts, it's a bit harder to tell. The economic impacts that we look at are really at the level of the aggregate population of Australia. As we've seen, the growth rate in aggregate population has slowed down, and of course that feeds through into the economic growth forecasts and those sorts of things. We really haven't done any work on the question of the economic impacts of the distribution of population around the country, though.

CHAIR: How up to date are your figures for that growth in Queensland's population or the net migration to Queensland?

Mr White: Population figures come out relatively slowly. We've just had a release, I think, of the September quarter last year. I think it came out this week; it could have been last week. So those are the latest figures we have. We obviously weren't able to include them in the budget forecast, because they came out right then. So we probably had ones up to the June quarter of last year when we were doing the budget numbers, but I think the September ones show a continuation of that sort of trend for the moment.

The question will be what happens when we go through the last bit of the pandemic and we get back to what we might see as normal afterwards—whether those trends continue or go back to the sorts of trends we saw beforehand. That is an interesting question that we're following.

CHAIR: Thank you very much, Mr White. Do you have anything to add to that, Ms Wilkinson?

Ms J Wilkinson: No, that's all.

CHAIR: Thank you.

Senator GALLAGHER: Can I ask some questions about the Paid Parental Leave policy measure? I presume, Ms Wilkinson, that you and your team provided advice on this measure.

Ms J Wilkinson: We worked with the Department of Social Services. Yes, of course we provided some advice on this measure as well.

Senator GALLAGHER: Can you tell me what you are assuming in terms of changes in access to this entitlement? There's been some commentary that it might result in less uptake of the two weeks of dad and partner pay and more women taking the 20 weeks. What do you understand? Is that the case? What change did you see happening with this increase of two weeks?

Ms J Wilkinson: Again, we'll see how far we can go in terms of helping you. It might be the case that more detailed questions have to be taken up with DSS.

Senator GALLAGHER: Sure.

Ms J Wilkinson: In broad terms, about 180,000 people access the Paid Parental Leave scheme every year. These new arrangements will provide additional benefits to about 120,000 of those people. Obviously they're not the same families from one year to the next, because it depends on when you have had your child. It is estimated that the change to the assets test means that of the order of 2,000 families will get access to paid parental leave from the government that they wouldn't otherwise have been able to get access to.

Senator GALLAGHER: So you're bringing in more people who are currently not eligible—2,000?

Ms J Wilkinson: That's right. I'll just pass to Ms Elliston, who will explain how the new means testing arrangements work and why they bring additional people in.

Ms Elliston: The change to the income test arrangements is to introduce an either/or test. In addition to the individual test that exists at the moment for the primary claimant to have income under \$151,000 we now have a household test of \$350,000. If the primary claimant's income is above \$151,000, they would not have been eligible under the previous system, but under the new system we can move to a family test. If the family income or household income is below \$350,000 then that family becomes eligible. As Ms Wilkinson said, the estimate is that around 2,000 families will become eligible as a result of this change.

Ms J Wilkinson: Continuing on, then we have about 9,000 single parents who access Paid Parental Leave every year.

Senator GALLAGHER: They'll get an extra two weeks.

Ms J Wilkinson: They will be eligible for an extra two weeks. Then we have families who access Paid Parental Leave—some of them also access the dad and partner pay arrangements and some of them don't. There are changes to the flexibility arrangements around the Paid Parental Leave scheme: removing the distinction between primary and secondary carers, so removing a sense that there is one parent that is, if you like, more eligible for a payment than another; folding dad and partner pay into the Paid Parental Leave scheme so that exactly the same access arrangements are provided to men as to women; and increasing the flexibility for how it can be taken—for example, allowing families to decide if they want to split over the course of a week three days for one parent and two days for the other parent. All of those things we think should make it more attractive for both parents to access Paid Parental Leave than under the current arrangements where there are tighter constraints on access to the dad and partner pay arrangements.

Senator GALLAGHER: So there is that flexibility. Sorry, this might be for DSS, so just let me know. You're saying that you can genuinely share the 20 weeks. You could take 10 weeks each?

Ms J Wilkinson: Yes.

Senator GALLAGHER: You could take 19 weeks and one week?

Ms J Wilkinson: Yes. It's completely flexible in terms of both the total quantum and how it's distributed. There are a range of reforms that DSS are putting in place to streamline how you actually access the payment to make it easier for individuals to access the arrangements.

Senator GALLAGHER: You said you think these changes make it more attractive. As a part of costing this, what is the assumption? I presume the cost is tied, essentially, to funding the proportion of people who are currently taking it and who will be increasing it to 20 weeks. Is that right?

Ms J Wilkinson: Yes. That's right. Again, I think I might need you to talk to DSS about the specifics of the costing, or to Finance when they are here next week. But I don't believe that it's the case that when we do the costing we make an assumption about exactly what this split would be between men and women.

Senator GALLAGHER: No. But in order to get that figure, that cost comes with an increased uptake of the 20 weeks.

Ms J Wilkinson: That's right.

Senator Birmingham: You're assuming at that point, I imagine—and, again, refer to others for specifics. But it would be hard to imagine why somebody who met the eligible criteria under the reforms would not now access the full 20 weeks, in whatever combination they sought to access it. They'd all now be eligible. You have the single parents who previously were entitled and eligible for only 18 weeks. They'll all expand out. But, of course, then there is the situation where you would have had a proportion of couples who accessed only 18 weeks before and will now also access the 20.

Ms J Wilkinson: That's right.

Senator GALLAGHER: This might be a question for DSS but I'm going to ask it anyway just in case it had been part of the assumptions you were working through. Do you think the policy will lead to an increase in the taking up of the entitlement by men?

Ms J Wilkinson: The new policy certainly makes it more attractive for men to take up the entitlement. It also makes it more attractive for families overall, in terms of the streamlining. We have looked at a range of different evidence that's out there. It's always quite hard to assess exactly what the implications of a change will be where you are making a number of different changes to the arrangements. Private companies like Deloitte and PwC have relatively recently made their parental leave policies much more flexible between men and women, and the take-up by men has gone up quite considerably. So I think it is a combination of things: removing a perception of who should take the leave, which is a barrier; making it more attractive financially; and making it more flexible. All of those things should encourage the uptake of paid parental leave and make it easier in those circumstances for women to maintain connections to the workforce and/or share the care with their partners.

Senator Birmingham: In some ways, Senator, I like to think of it as removing that perception, that sense of predominantly the male being the afterthought in the equation: 'Oh, yes, there's two weeks.' Whereas, now, couples can actually have a serious conversation about whether it is 10 weeks each or what the actual arrangement will be that best suits their circumstances. I particularly expect that, amongst a number of families where men would have been accessing those two weeks, there will be the motivation and the incentive for that to perhaps be more than two weeks now. How many more men you get is a function of a whole range of different circumstances.

Senator GALLAGHER: Sure. I was just wondering whether you had had that assessed or whether that had informed part of the decision. The policy motivation behind this is increased flexibility, essentially, and, then, for people to make up their mind about how it suits them, rather than a desire by the government to encourage more men to take parental leave.

Senator Birmingham: It is increased flexibility, increased support and increased choice. But, also, as you look at the data, we think it shows that we have been making inroads into closing the gender pay gap. It's not closed by any means, but we have been making inroads across society. Feedback from different circumstances was that, where the model as it was perhaps had an element of trying to engineer an outcome, it was actually having a perverse result in some cases where it was limiting the amount of time that dads were taking, rather than providing the opportunity to maximise it.

Senator GALLAGHER: And questions about the implementation of it are for DSS?

Ms J Wilkinson: Yes.

Senator GALLAGHER: I won't put you through those questions then. I want to ask about the Veterans' Affairs measure for processing claims. It appears as a two-year measure in the budget papers—in 2022-23 and 2023-24, I think—for \$22 million over those two years. We're told that there is actually \$96 million for this measure. Ms Wilkinson, what can you tell me about this? What's your understanding of the measure? Was it your understanding that it was a two-year measure at \$22 million?

Senator Birmingham: Senator, I can take you through, if you like, the year-by-year UCB for the combined aspects of the measure. We did discuss this yesterday, in terms of the \$22 million that's on page 175 of Budget Paper No. 2, and I outlined that further resourcing was provided following late decisions. That is there and will be provisioned from the contingency reserve. But I can take you through the year by year of that, if you wish, to get to that \$96 million.

Senator GALLAGHER: Yes. Where would I find it in the budget papers?

Senator Birmingham: Given that some of it's in the contingency reserve, you can't find all of it in the budget papers in as much detail as I can take you through. It's \$42.3 million in 2022-23, \$36.1 million in 2023-24, \$10.5 million in 2024-25, and \$7.2 million in 2025-26. There's the element of \$22.8 million that we discussed yesterday, which is for the additional staff to help clear the backlog. Some of the other measures that are supplementing that include the expansion of computer-based claims processing, investments in streamlining forms, some applications around diagnostic protocols, and some additional resourcing to assist veterans in the completion of the claims, or the forms, as distinct from the processing of the forms.

Senator GALLAGHER: Yesterday, you acknowledged, I think—and I don't want to verbal you.

Senator Birmingham: Don't make me laugh again, Senator.

Senator GALLAGHER: I'm trying to understand. The budget was signed off. There was \$22.8 million over two years printed in BP 2. You'd obviously done your work on that. It was signed off. The minister was told. A ministerial tantrum ensued, calls were made, commitments were given, and \$42 million extra—actually, it must be more than that; about \$74 million extra—was then found in the contingency reserve. Is that a correct assessment of how this mess has happened?

Senator Birmingham: I wouldn't use all of that language, but—

CHAIR: Would you use any of it?

Senator GALLAGHER: But it's accurate, I think, isn't it?

Senator Birmingham: As I said yesterday—

Senator GALLAGHER: It's an unusual—

Senator Birmingham: They were late decisions taken in the budget process.

Senator GALLAGHER: Like on the weekend?

Senator Birmingham: The completion of the review that the Department of Veterans' Affairs had commissioned from McKinsey was relatively late for the budget process. Some submissions were made and some decisions were made in terms of the initial visioning. Yes, then the case was made for extra. Extra was provisioned. I've taken you through what that is in terms of what it looks like. It was provisioned from the contingency, given the lateness, and it was too late to reflect in the printed budget papers. The detailed implications of that in terms of it showing like it does in the budget papers will show in PEFO when that's released.

Senator GALLAGHER: So when I use the words 'ministerial tantrum' you use the words 'a case was made', but we're talking about the same event, aren't we, which is the Saturday morning when a media conference was called and there were threats of resignation and much outrage?

Senator Birmingham: As I said, there were a number of discussions about the DVA case. Significantly more was provisioned last year to increase DVA's resourcing and ASL numbers to help with the backlog. This is supplementary to all that was done last year.

Senator GALLAGHER: I think what you're saying is that the budget cabinet decision was \$22.8 million and then you've struck this arrangement post the publication of the budget. Is there a provision in the contingency reserve just for fixing up problems like this? What else is sitting in the contingency reserve?

Senator Birmingham: To answer the last question first: what's in the contingency reserve is actually stepped through in a fair bit of detail in these budget papers, and any implications for the contingency reserve other than those that are not for publication, due to commercial sensitivities, national security reasons or whatever, will be plain for all to see when PEFO is published in the next few weeks. But the contingency reserve, for example, includes \$3 billion of anticipated additional expenditure in the flood response. That's there. That's identified in the budget papers along with a number of other elements. Now I'm trying to remember the first part of your question, Senator!

Senator GALLAGHER: But there was obviously room in there to allocate \$74 million for this payment of the ministerial tantrum.

Senator Birmingham: There's always some minor headroom provided to enable for certain decisions that need to be taken to be taken.

Senator CHISHOLM: Normally that would happen a while after budget, though, wouldn't it?

Senator Birmingham: We obviously had extensive discussions around the CR in MYEFO last year, and subsequently you saw that a lot of those 'decisions taken but not yet announced' elements of that were for things like the Antarctic investment, the Great Barrier Reef, or, as they've flushed through in this budget, the women's safety package and so forth. CR is comprised of its different elements, the conservative bias allowance and specific provisioning for different expected expenses like the floods. There are the decisions taken but not yet announced but then there's also some degree of flexibility usually provided too.

Senator GALLAGHER: And the fact that it's not in the decisions taken but not yet announced category is because it wasn't a decision taken through the budget process; it was a deal that was made after the budget?

Senator Birmingham: It's a decision that was taken before the publication of the budget but after the printing of the budget. It's why I can provide you with all of the details of what the decision is right now.

Senator GALLAGHER: Can you tell me about that again? It was a decision taken before—

Senator Birmingham: The publication of the budget but after the documents themselves had gone to print.

Senator GALLAGHER: Okay. Got that. On the specific measure itself, from what I understand the claims processing—it's 60,000 claims waiting to be processed, this \$96 million? Ms Wilkinson, you would have been involved in the costing—although that's Finance as well. Sorry, I know you're going to redirect me.

Senator Birmingham: I was just about to hand you back to Ms Wilkinson.

Senator GALLAGHER: Yes, I can do it myself. Presumably the \$96 million equals dealing with this backlog. Why then did the government make a decision to not properly fund it at the beginning? Why did we end up in this mess? If you valued veterans' access to compensation and having their claims processed, why didn't the government deal with it in the normal way, which would be to fund that measure properly through the budget process? It looks like you want to attack a third of it but not deal with the big problem, and that's why Minister Gee lost his temper.

Senator Birmingham: There's an intersection here between simply clearing the backlog and some of the technology and other improvements that this measure will fund. As I said, last year we provided significantly more than this total amount to support DVA in employing additional staff to clear the claims backlog. DVA have employed most of those staff and are working through it. We accepted the argument that they still need some more staff to improve the momentum in clearing that backlog, and that is why the decision that you can see in Budget Paper No. 2 is there.

Senator GALLAGHER: Okay.

Senator Birmingham: There were then additional elements that I just took you through in terms of some elements of technology and streamlining of forms and different things. At the late stage of the budget cycle, it was a question of whether to do those immediately or to look at those in a MYEFO context with a bit more scrutiny. Ultimately, in the backwards and forwards of the issue, a decision was taken to do them immediately.

Senator GALLAGHER: In terms of the original \$22.8 million, how many claims was that going to process? Do you have that information?

Senator Birmingham: I'd have to defer that to DVA, I suspect.

Senator GALLAGHER: If \$96 million does 60,000, presumably it would be around less than a third of that.

Senator Birmingham: It's not proportionate. As I said, there is a difference between the number of staff simply clearing the backlog versus different elements that go to upgrading the way their systems work, which will help, over time, with the backlog but also hopefully build a better system for them for the future—the technology.

CHAIR: Capital investment.

Senator Birmingham: That's right; that sort of thing.

Senator GALLAGHER: Minister, have you ever seen this happen this way before in your time as a minister?

CHAIR: He would have seen it all!

Senator GALLAGHER: It is a unique set of circumstances, where a minister goes outside the Cabinet, does a media conference, says he's demanded more money and he's been given assurances it's going to be there after the budget has been finalised. Have you ever seen that happen before?

Senator Birmingham: I think Senator Scarr is right: I've seen a lot of things from different ministers and others before. It's only my second budget as finance minister.

Senator GALLAGHER: But you've been a senior minister for a long time.

Senator Birmingham: I have. I've been a minister who had to argue with finance ministers and Treasurers to secure funds for my portfolio.

Senator GALLAGHER: So have you seen this before, where a minister gives a media conference to demand more money, is given that money and the fix is done afterwards?

Senator Birmingham: Not—

Senator GALLAGHER: No.

Senator Birmingham: Not that I can recall off hand in terms of the precise set of circumstances, but in every budget there are ministers disappointed who thinking that their case was one that should have been acknowledged. If the Australian people make what I think would be an erroneous decision to elect an Albanese government, no doubt you'll have plenty of ministerial colleagues disappointed with you if you're in my shoes.

Senator GALLAGHER: Yes; well, good problem to have.

Senator Birmingham: It is, Senator. I hope to continue to have it.

CHAIR: Better than the alternative!

Senator Birmingham: I'll take the disappointment of my ministerial colleagues in the next budget cycle very happily if I'm given the chance.

Senator GALLAGHER: I'd hope to not have a repeat of what happened with Minister Gee. Again, on the original decision to fund it, the government must have taken a decision to reduce but not to eliminate the backlog in processing claims. Would that be a fair assessment—you wanted to come part way but not the full way?

Senator Birmingham: No, I don't think it is a fair assessment. As I said, we made a very substantial additional commitment to DVA last year. When presented, fairly late, with the proposal for this year, which was informed by, I gather, a review that DVA had undertaken, we agreed to the additional staff elements of the proposal, because that's where we could immediately, consistent with what we had done the year before, see the opportunity to speed up claims processing. The areas of investing in terms of their technology and those sorts of transformational elements will, we trust, also add to that. But some of them do go to longer-term capabilities, not just shifting the dial on the next 12 months or so.

CHAIR: Senator Gallagher, I need to share the call.

Senator GALLAGHER: Sure. That's fine.

CHAIR: Senator McDonald?

Senator McDONALD: I have already outed myself as being very excited about the regional spending in this budget.

CHAIR: I am too, Senator.

Senator McDONALD: Thank you very much for your support, Senator Scarr. That's terrific. In 2019, the much for your support. So we want to go back to that, in 2019, the AgriFutures winner, Jo Palmer, estimated that, if we could access the partners of people, primarily women, who move into regional areas, it would be worth a billion dollars a year. I know it is an extraordinary number, primarily because a lot of them are white-collar workers who can't have matching jobs in regional spaces. One of the exciting things about COVID has been that we have moved to this online digital world and people are able to work remotely, with the Regional Accelerator Program, the regional hubs and all the supporting programs that have been identified in this paper. Also, I believe there is another document like this but for the regional programs.

Ms Brown: There is.

Senator McDONALD: I'm struggling to get my hands on it. If anyone has a spare one and would give it to me, I'd appreciate it.

Ms Brown: I am sure we can get one to you.

Senator McDONALD: Terrific. The important part about getting this right—so, hurray; money allocated—is going through a master planning process similar to what is happening in northern Australia with the northern Australia master planning process. If you are not aware of it I'd recommended it to you. Northern Australia is very excited about it. With all things being equal, and in the first part of the term of the next government, how would you see this being mapped and unfolded? Is that something you have turned your mind to, or is that something where regional areas should be coming to the Treasurer with programs and ideas?

Ms J Wilkinson: Senator, you are absolutely right that planning carefully is going to be really important for both the Regional Accelerator Program and also the regions package more broadly. Responsibility for actually implementing those programs is spread across the Department of Infrastructure and then a number of different portfolios. The Regional Accelerator Program—the \$2 billion investment in growing regions—has been quite deliberately designed to use existing programs and to have in those programs an additional spend that is more focused on regional areas. It leverages the approach the government used through COVID, in terms of where possible using existing programs that you know work in order to drive those outcomes. It does mean that across the public service, across all of those different areas where the Regional Accelerator Program will be rolled out, there is going to be the responsibility to be thinking carefully about how that part of the investment can be managed most effectively.

I am sure the minister can add, but my recollection is that the actual process for distributing these funds and making decisions within the individual programs then has to be managed centrally so you can think about the connections between them all. That's the key responsibility that the minister for the regions has. Minister McKenzie has that key role of approving how all of that is working and making sure that it all works together. As you know, it's a big task to coordinate across different portfolios and then also different layers of government. And in relation to the regional investment package, coordinating with industry as well, because there is an

important partnership here for the Commonwealth government, for state governments and for industry to work together so that the most can be leveraged from these very significant investments.

Senator McDONALD: Were you going to add something to that, Minister?

Senator Birmingham: To echo what Ms Wilkinson has said, the uplift in using what have been proven to be successful areas for government investments, such as the Modern Manufacturing Initiative, the Australian apprenticeships initiative, the Critical Minerals Accelerator Initiative, Export Market Development Grants, the Recycling Modernisation Fund and Defence industry program—they are all areas where the government has demonstrated an ability to effectively support economic growth and to activate further private sector investment across the economy. That is where the vision here of saying let's make sure that these programs, which have supported regional Australia to an extent in the past, now have some dedicated streams that guarantee investment in regional opportunities to ensure they don't get squeezed out by bigger or other city based applicants, but have the opportunity to yield the same benefits and to build the type of stronger regional growth that we have heard before is shifting population dynamics and housing dynamics in positive ways across the country.

Senator McDONALD: I think there was a requirement for urban congestion expenditure of—I think, from memory, it was estimated at \$10 billion a few years ago. It seems to me that moving populations into places where there are greater lifestyle and economic benefits to the nation is very attractive. I say that as a regional person, so I continue promoting that. I came to this parliament with the belief that growing the regions is not just a nice thing to do it's actually critical for the prosperity of the nation, particularly as we move to make it good for Australians. I think FIFO is a terrible blight on our societies and what it does to communities and families is awful. That is an opinion not a policy—

Senator Birmingham: Speaking as FIFO workers of sorts, as we are.

Senator McDONALD: Exactly. I'm interested in understanding how Treasury will approach the modelling. We have identified these billions of dollars to grow Australia, to grow Australia's prosperity, it just happens that most of it will come out of the regions. How will you look to be modelling this to support the investment, because I'm keen that, should there be a change of government, this doesn't slip away? It's such an important agenda for Australia to grow into the future.

Senator Birmingham: Others may want to add to this, but I think it means there are the specific investments that will now be undertaken—certainly, if our government is re-elected—in terms of delivery of these programs. And then there are the broader benefits and assessment of what happens there. The department of infrastructure and regional development will play the driving role in terms of ensuring for the infrastructure piece and the energy security piece that where those investments occur in the centres across regional Australia there is thorough analysis of the different pieces, whether they be in port infrastructure, or road infrastructure, or rail infrastructure or water infrastructure. The different parts that are identified there will each have to stack up to meet the assessment and then receive that funding and the transformation that will deliver for those regions.

These regions identified under the Regional Accelerator Program will have to meet the grant conditions and guidelines for the different streams that it will support. But then there is the aggregate of how this is continuing to shift the dial into the economic performance, and particularly the economic performance for regional Australia. The big drivers of this, as I know you appreciate, are the export and wealth generation elements for the country. Regional Australia generates around 67 per cent of the nation's total exports and about 82 per cent of Australia's goods exports. So investing in the areas that are currently our wealth generators for not just the regions but all of Australia is about cementing that future, especially in areas of expanding the agricultural exports for the nation to meet our \$100 billion agriculture 2030 strategy or growing the potential of new energy and resources activities, from critical minerals to hydrogen, and seeing that potential realised too.

CHAIR: Just on that, Minister—with your indulgence, Senator McDonald: it seems to me that there also needs to be interaction with the state and territory governments in relation to the deployment of those funds. You mentioned critical minerals. In my home state of Queensland there might be critical mineral deposits that are relatively isolated and which need an improvement in infrastructure—roads, ports or whatever—in order for them to be accessed to unleash opportunities. That's not just to access the critical minerals but also for employment opportunities, including in disadvantaged communities—Aboriginal and Torres Strait Islander communities. There's going to be that piece of interaction with the state governments as well so that we can leverage every dollar that's in the Regional Accelerator Program.

Senator Birmingham: Necessarily so. As is often the case with infrastructure projects, it's a partnership arrangement. For any major road infrastructure projects in regional Australia we have adopted, in general, a forward-leading position, where the Commonwealth undertakes an 80 per cent funding split compared to 20 per

cent for the state or territory. In urban areas we do a more conventional fifty-fifty split. In these sorts of projects there'll often be an infrastructure side in areas of water and ports and the like, negotiated depending on the circumstances of different projects. If you take the investment in the Northern Territory as an example, the NT government has been firmly promoting the benefits of the Middle Arm Industrial Precinct and the energy, advanced manufacturing and other developments that they seek to leverage growth from in that region. We trust that this allocation from the Commonwealth will help to achieve a step change in terms of their ability to realise those visions.

Senator McDONALD: Tom Gilmore was the mayor for Mareeba up on the Atherton Tablelands outside Cairns. When he was leaving office he made the point to me that under current Infrastructure Australia guidelines, a project like Tinaroo Falls Dam wouldn't be built under a 30-year ROI program. And yet after 50 years that's generating half a billion dollars worth of food and fibre in that region and employment activity; it's close to our near neighbours as an export market I'm probably just making an observation on the way we measure infrastructure, particularly long-term infrastructure like dams, rail and roads. The years pass so quickly. We have to think about what a good number is to have all that surrounding infrastructure spring up. It doesn't happen overnight. Industry and technology have to change for a good return on investment. That's probably a comment, unless you have something to add to that.

CHAIR: The point Senator McDonald makes is very important. Take my example of a critical minerals deposit. One deposit may be identified and a case done on the basis of that deposit, but that doesn't take into account how that area or region might be liberated through the provision of that infrastructure, such that other deposits are identified and other opportunities are realised. If you just take a plain, vanilla ROI internal rate of return analysis based on the known opportunity, you don't sufficiently take into account the opportunities, which you're reasonably confident will flow but which can't necessarily be identified with particularity in the first instance. How do we make sure we get the balance right in that regard, Ms Wilkinson?

Senator Birmingham: How long have you got?

Ms J Wilkinson: It is genuinely the case that Infrastructure Australia try to take into account broader societal impacts of these decisions. I think it is always important to remember that the straight return on investment calculation, which can feel a bit cool and clinical, is one input into decisions around where funds should be spent. But in these exercises you also do need to think about what the broader societal impacts are. Is there a strategic fit? What are the delivery challenges? There are lots and lots of different things which go into a proper planning and assessment process around projects. I don't think I'm adding anything; I think I'm just reiterating that that's really important.

To come back to your original question: from a Treasury perspective, how do we think about this? One of the things that we always focus on is making sure that the money that's committed is spent well—it's spent on projects where there is a rigorous assessment and where we are confident about the returns. These are the points that the secretary was making earlier. The quantum is important, but also how it's spent is important, and that's one of the lenses that we would look through.

Senator McDONALD: That rigour question is one that we regional Australians reflect on: if the rail project from Normanton to Cloncurry had been built at the turn of the last century, how would that have changed the development of the north? I'll start waxing lyrical if I go on.

The final thing I want to ask you about—

Senator Birmingham: It's not a precise science.

Senator McDONALD: No. The CopperString Project in Queensland, which the Queensland and federal governments are working on, is that kind of forward-looking, long-term infrastructure to open up known reserves of critical minerals and agricultural value-add. I think that's a good example of something that doesn't immediately return on investment—and it will possibly be some time—but is important.

What I want to ask you about finally is this. I listened to those numbers on the unemployment rates for women being at the lowest point for 48 years, turning to 50 years in the near future, but the interesting part is the gender pay gap. Each year I've heard what the amount is narrowing by. Do you have an updated figure for where that's up to?

Ms J Wilkinson: Women's unemployment is currently at 3.8 per cent, so it's below the national average, and it is at the lowest level since 1974. The gender pay gap is currently 13.8 per cent. I'm sure that Ms Elliston has the figure on exactly what that gap is. This is, again, the lowest level. It's come down from nearly 18 per cent in about 2013, and, in terms of converting that into quanta, I'm pretty sure that Ms Elliston can do that.

Senator McDONALD: While Ms Elliston finds that, I've been an accountant working in business for over 30 years now and I reflect back to the conversations you used to have putting on men and women. I remember people saying, 'Oh yes, that woman's going to the same job as the bloke we employed a month ago, but she's the second income in that household,' so you pay less. It's a way of thinking that, fortunately, has disappeared. But it was real.

Ms J Wilkinson: It's moving.

Senator McDONALD: Yes, you're right, it hasn't disappeared.

Ms J Wilkinson: In the Women's Budget Statement, on page 28, we've got a discussion of the national gender pay gap. We do highlight the gap, and chart 2 is quite instructive. It remains the case that female graduates get paid less than male graduates when they enter the workforce. It's improving over time, but there is more work to be done.

Senator McDONALD: Yes, there's more work to be done. It's an interesting graph showing that it actually peaked in November 2013, so there would be some unusual things to unpack.

Ms J Wilkinson: Compositional changes in the workforce have quite a big impact on the estimate of the gender pay gap over time. That's why you want to look at broader trends rather than a movement from one point to the next. I've just found that figure for you. With the current gender pay gap of 13.8 per cent, that means that women are earning on average \$255.30 per week less than men.

Senator McDONALD: Thank you, that completes my questions.

Senator CHISHOLM: I assume this would be for revenue group as it's a question around the cut to the beer exercise.

Ms J Wilkinson: That would be for revenue group, yes.

Proceedings suspended from 12:52 to 14:16

CHAIR (Senator Scarr): We are now up to Revenue Group.

Senator CHISHOLM: I saw reports mid-February that the budget will contain a cut to beer excise. Was any work done on a potential cut to beer excise?

Senator Birmingham: I am sure Ms Mrakovcic has a standard answer she gives in these situations about the range of different policy work that is done in the context of a budget to help inform decisions. We don't generally go through the hypotheticals of what could or couldn't have been in a budget. The final decision is as outlined in budget papers.

Senator CHISHOLM: I am sure you are aware of some of the media speculation on it, Minister. Is that something that was in the budget at some stage or was under consideration at some stage? I am trying to get an idea of how it ended up. I can recall multiple reports—one in TV, one in print—saying that it was going to happen. I certainly know the hotels industry is certainly disappointed.

Senator Birmingham: There were multiple reports. I recall seeing some of those. I recall at a doorstep one day a few weeks ago saying rather pointedly that anybody who thought they knew precisely what was in the budget was probably seriously mistaken and should be careful about making such prognoses. That was in response to a range of reports. There is always lots of speculation on different things. Yes, it is public knowledge that certain sectors were lobbying for different areas of tax relief and that beer excise was one of those sectors. I understand very genuinely the concerns advanced by the Hotels Association, brewers and others in that regard. We know that some of those businesses have been through tough times during COVID-19 and we have helped to support, from JobKeeper, small business payments and targeted payments through the states and territories at different times to assist those businesses as we have other hospitality businesses and other businesses in general affected by COVID. Ultimately, budgets are about decisions that you have to make and the priorities you have to set, and the prioritisation we undertook was ensuring that our economic plans for the future were well supported in driving forward small business investment, skills development and infrastructure, as we have spoken about already, that we address some of the real cost of living spikes that Australians are feeling from the shocks in Europe and that we lowered the level of projected deficits going forward. We did each of those things in the budget. It wasn't possible to meet, of course, the demands of everyone else for everything else.

Senator CHISHOLM: I had some questions also on company tax. The budget overview notes a big jump relative to MYEFO on predicted company tax receipts in 2022-23, which then starts to fall away. There is an upgrade of \$10.3 billion in 2022-23. Overall, for the four years to 2025-26, the upgrade is \$9.8 billion. And particularly the 2024-25, the budget estimates a fall in company receipts relative to MYEFO. I want to try and get a sense of what is behind that.

Senator Birmingham: I suspect the commodity price assumptions are playing a fairly big role there.

Ms Mrakovic: That is correct. It is commodity prices that are a large part of the story, specifically the fact that commodity prices have been so strong in recent times. That is combined with the assumption that is made in the budget statements, that essentially we do expect for those very high commodity prices to actually come down. Those assumptions around commodity prices are set out in statement No. 2. Essentially, you have iron prices, met coal and thermal prices are very high at the moment and have been in the recent past. They are factored into, obviously, larger than expected company tax payments that we are to some extent already seeing and expect to see in the next year or so. But then, as the assumption kicks in around a return in those commodity prices to lower levels, you essentially have that short-term effect dissipate. I don't know if Ms Di Marco has anything to add.

Ms Di Marco: No, that's right. Because of the mechanical way that those conservative commodity price assumptions have been applied over many years, you do find that general pattern where you do get that lift in the first budget should prices be higher than the base assumption and you see that flow through. Because of the timing of the company tax system, you do see that drip through over a number of years.

Senator CHISHOLM: Is that a trajectory that goes beyond '26?

Ms Di Marco: Basically, there is an assumption that you have the prices are on a kind of downward path to, I believe, around the September quarter of 2022. After that, they are held flat. Post the forward estimates, we actually rely on the medium to longer term economic projections. I won't go into detail but it is a question best put to macro economic group, because they start thinking about the evolution of the terms of trade and forward considerations beyond that point.

Senator CHISHOLM: You can't come and say I have to ask questions to the ones who were on earlier.

Ms Di Marco: The other way I will answer that is to say I would not anticipate commodity—

Senator CHISHOLM: although we are back on Wednesday.

Ms Di Marco: price variability to be playing any role in the medium term.

Senator Birmingham: If you look at table 2.3, on page 65, it gives quite a good sense of the timing of the different commodity price assumptions. That sensitivity analysis is basically moving the fall in prices back six months. It shows that, if that were to occur, as Dr Kennedy said earlier, barring any other impacts across the economy you'd see most of the additional revenue from those higher commodity prices realised in what would be additional company tax receipts in the next financial year. But then, because you have a tapering factor and a timing factor around company tax receipts, there is still a substantial amount in 2023-24 and it comes down to effectively nothing by 2024-25.

Senator CHISHOLM: If we take the booming commodity prices out of the equation, what does the rest of the corporate mix look like? Can you give us an overview of any other notable changes since MYEFO?

Ms Di Marco: I would point you to page 118, which doesn't split it out by commodities and mining versus non-mining. If you have a look at table 4.4 and the line of gross operating service, which covers company profits, you can see that pattern, which is then reflected in chart 4.4, where you have a falling gross operating service in 2022-23 and 2023-24, which is largely driven by your commodities story, and it is growing again at 4¼ per cent fairly flatly over 2024-25 and 2025-26. You can see profits growing in line broadly across the economy at that point in time.

Senator CHISHOLM: Budget Paper No. 1 notes the continuing volatility of the commodity prices that underpin the big jump in company receipts. That jump wasn't anticipated as recently as MYEFO, so what's the probability that it either doesn't materialise or we get a drop off sooner?

Senator Birmingham: The whole point here is that we assume that it drops off—and drops off quite sharply in terms of the assumptions—as we have done previously. The reason why there is a big dividend for this financial year is in part because of the company tax receipts from commodity prices; we had assumed they would drop off in their levels earlier. The reason there is no real dividend realised in the budget papers from the company tax effects of higher commodity prices by the time you get out to 2023-24 or 2024-25 is that we assume they have already come back to previously assumed levels. So the fact that that is a six-month trajectory for them to come back to much lower levels—I think the budget language is 'unwind' over two quarters—is a pretty steep downward trajectory. I think there are far more commentators out there who would suggest there is more likely to be an upside from that scenario than a downside from that scenario.

Ms Mrakovic: Some of those stronger commodity prices have already been reflected in company tax collections coming in stronger than reflected in what we have seen since MYEFO. In just the three months of information that we have, collections have been running at more than \$12 billion stronger than we anticipated at

MYEFO. I'd say that company tax collections, in large part associated with commodity prices, are part of that story. So we are basically already seeing those company tax collections come in. And because of the way the company tax system works, with instalments paid in some respects contemporaneously but some with a lag, that also accounts for some of the expectation that we have in terms of stronger company tax receipts into 2022-23 as well.

Senator CHISHOLM: There's also some uncertainty around the extent to which companies will use losses incurred during the COVID-19 pandemic to offset future profits. Did you model the bounds of that?

Ms Di Marco: I think what we've already seen to date this year, in part—and as Ms Mrakovcic referred to—is the strength of company tax being led by commodities. In part, it's also being led by collections—payments made for income from the 2020-21 year being much stronger than we thought. What we've actually seen is those losses not being as deep and so companies returning to profitability sooner. We've seen that flow through company tax collections.

That's always a risk, because we've yet to see the full amount of 2020-21 returns come in. We won't really know what that 2020-21 position looks like until mid this year. But at this stage we're seeing very strong returns coming in from companies across the economy for the 2020-21 year.

Senator CHISHOLM: Just specifically in terms of how you model that: do you have upper and lower expectations? How does that actually work?

Ms Di Marco: Primarily we run with the central expectation, based on the collections we've seen. The forecast is based on a central estimate; we don't have an upper and lower based on losses in these forecasts.

Senator CHISHOLM: Is there any more detail you can give me about what that uncertainty is based on? Particularly: is it a question of the attitude of company taxpayers—that is, can they offset, but, given they may have received JobKeeper or other supports, will they be mindful of public scrutiny? Or is it a question of whether their performance makes the offsets available?

Ms Di Marco: I wouldn't describe it as an attitude thing at all. When we characterise that risk, what we saw after the global financial crisis was that losses were deeper and that they took a long time to work their way through the system but what we've seen in the post-COVID world is that those losses have been much shallower than we expected. In part, that's driving the upgrades that we're seeing and which we have seen over successive budget estimate updates. I think the secretary talked through that a bit earlier. But I wouldn't describe it as a choice thing.

Senator CHISHOLM: I have some questions about the overview on company tax. The \$0.6 billion in that bump on company tax receipts since MYEFO is due to the new measures—mostly the extension of the Tax Avoidance Taskforce. Does that simply reflect the ongoing impact of the task force's established activities, or were there incorporated changes to policies or settings in that space?

Ms Mrakovcic: The assumption is that the program continues, in effect, for another two years. It's basically an extension of that program. Obviously, the level of activity and the kind of impact on revenue are a conversation that we have with the ATO in terms of undertaking the costing of the measure and how much they anticipate will actually return as high a revenue, basically, in that activity. But it is, in effect, the continuation of the program.

Senator CHISHOLM: Okay. What proportion of the other \$1.5 billion comes from each of the other entities that the task force targets—large public and private groups, trusts and high-wealth individuals?

Ms Di Marco: I'd have to take that on notice. It may also be a question better directed to the tax office.

Ms Mrakovcic: Yes.

Senator CHISHOLM: I have some other on questions, which I'll put—

Ms Mrakovcic: I think that if it comes to the detail around the different subprograms and the allocation of effort then those questions are definitely better put to the ATO.

Senator CHISHOLM: Okay. Will that extended funding involve new work programs, recruitment of new skills and new tools or policy settings? Or will it just be business as usual?

Ms Mrakovcic: Again, I think it's a question which would be best put to the ATO.

Senator CHISHOLM: On the OECD time line, in the context of international signals, around the delayed start dates, has Australia expressed a view to the OECD about when we'll be ready to commence implementation of pillar 1 and pillar 2?

Ms Mrakovcic: The way I would categorise that is that Australia is fortunate enough to sit on the steering group, and we participate in the discussion that's happening at the OECD level around essentially trying to progress both the pillar 1 and pillar 2 components to their current time lines. We've always said—the OECD has always said—that it's a very aspirational, ambitious time line, but, nonetheless, we continue to focus efforts on essentially trying to achieve that time line. I'm aware that there has been speculation or conversations around the fact that some important time lines are approaching and whether the work will be done, and conversations around different countries expressing concerns with some components of the measures. But certainly, from my perspective—and I will ask Mr Robinson if he has anything to add—as we sit on the steering group, we continue to make best efforts towards the time frames that were set out originally. In fact, I can tell you that we're meeting tonight at 10.30 with yet another steering group.

Senator CHISHOLM: At 10.30!

Ms Mrakovcic: Yes. We're very lucky here in Australia; our participation generally occurs between 10.30 pm and 2.30 or 3 am! I can tell you that in order to meet the very ambitious time frames in the middle of the year, we have had as many as six to eight meetings set up in the course of March and April, so that has been a fascinating thing to try and balance at the same time as putting a budget together. There are definitely a lot of hours being spent in committee, trying to progress these, and certainly the focus remains on trying to achieve those pillar 1 outcomes that are very much focused on the second half of this year and pillar 2 outcomes which have a start date of 2023. We are making best efforts towards that. Mr Robinson.

Mr Robinson: There's probably not a lot more to add to what Ms Mrakovcic has already said. I think, as she noted, back in October when the high-level framework received endorsement by the G20 from the OECD proposal, there was a very strong endorsement by political leaders globally around the desire to have the pillar 1 and pillar 2 reforms commence very early, so there's that strong political commitment to the beginning of 2023 for both pillars to take effect. The OECD has been driving a very hard program on doing everything it can to ensure it delivers on the trains of work in that time frame. As Ms Mrakovcic said, we've spent many long nights, the team has been highly involved in negotiations around pillar 1 and pillar 2, and we're certainly working towards those time frames.

Senator CHISHOLM: I'll go a bit more on this. There are countries proposing a delayed implementation, but you've made the point here today—I think it'd be fair to say consistently—that every country is dealing with different challenges in implementation. How would you contextualise Australia's challenges compared to other countries who may be suggesting that they delay? Would it be fair to characterise Australia as keen to push ahead and get this implemented, or are we a bit hesitant in terms of our engagement?

Ms Mrakovcic: You might recall that the whole process that we're actually engaged in—I'd separate it into two factors that have been important to us for some time. The first is the approach that Australia has generally taken to the base erosion and profit shifting program of the OECD. Since basically the start of the program in 2013 or 2014, Australia not only has been strongly supportive but, in fact, in 2014, actually did a lot of the driving of the decision to move to BEPS being undertaken by the OECD. So we've been very strong supporters in that, and Australia has actually implemented pretty much most, if not all—I think it's a very large majority—of the action items under BEPS.

The second thing I'd say is that there was a lot of discussion at one point around the possibilities of digital services taxes. As a result, there was a consultation process that was run in Australia. The very strong feedback from stakeholders at the time, which I think has influenced the government's decision, was that basically it was best not to have a whole raft of unilateral measures in individual countries and that we would be part of a multilateral consensus or multilateral negotiation at the OECD.

So, with that end in mind, we entered into the process. That process very quickly devolved into a pillar 1 and pillar 2 process. Pillar 1 is normally categorised as the reallocation of some of the income from the taxing jurisdictions to the market economies, where some might argue that value has actually been created by the existence of the market. Pillar 2 is sometimes categorised as that global minimum tax rate. The important thing to note is they have been seen very much as two pillars of the one arrangement, so it's been important for various stakeholders to see them being progressed together or at least in a lateral move to each other. In that regard, we've always seen progress on both pillar 1 and pillar 2 as part of that negotiation. As I said, it also fits into the view that we have generally taken around the importance of base erosion and profit shifting participation.

That's all a very long way of essentially getting to the heart of your question, which is to say that, yes, every country will have its own individual challenges in terms of implementation. We have been very focused on being a party to an agreement and, as part of that agreement, implementing both pillars to the best of our ability. We have been engaging with stakeholders. We have tried to understand the concerns of companies in Australia, and

we are doing our best to address those concerns through our interventions and the comments that we're providing to the OECD. But we have also been at pains to explain to stakeholders that we are one of very many countries participating in a multilateral consensus, and, while we do our best to represent Australia's interests and the interests and concerns of those companies, at the end of the day it's also about a negotiation. But, in terms of the implementation, we have worked and will continue to work very closely with Australian companies to essentially ensure that we take their concerns into consideration as best as possible.

Senator CHISHOLM: I think it was in February at estimates when you said we are still aiming for that 1 January 2023 date, whilst there are jurisdictions pushing for the delay. Would it be correct to say there are still other countries who are likely to stick to that start date of 1 January 2023?

Ms Mrakovcic: Certainly, to the best of my understanding, there are still countries—indeed, quite a few countries, many countries—that are sticking to implementation in 2023. There is one element around the undertaxed payments—

Senator CHISHOLM: France and Germany?

Ms Mrakovcic: Yes. I've seen the speculation in the press. I've seen the commentary in the press around some countries expressing concern. I don't know how those concerns will land, but I would only go back to saying that we've always understood that it is very ambitious in terms of the timeline and that we are making best efforts towards implementation, consistent with what we understand to be still the timeline that has been agreed at a high level at the OECD.

Senator CHISHOLM: Would you say that Australia is ready to join with other countries pushing to keep the 1 January start date?

Ms Mrakovcic: I think that we would be part of the active conversation, in terms of trying to understand what the concerns are. I don't want to get ahead of things here, but I'm just trying to think my way through the issues. For example, if it was raised at a steering group meeting that a number of countries were having difficulties or that there were problems occurring that would challenge those timelines, I think that we would be very keen to listen, understand the issues, and try and get a feel for what the problems are and whether they were actually going to be a problem that would result in a significant number of countries perhaps not being able to join very large countries. And then we would have to think about where we would sit in that overall scheme of things. But, to date, I can tell you that we have spent far more time focused on 'how do we actually prepare ourselves and make this happen?' than on thinking about 'what are the opportunities for it not happening or being on a delayed schedule?' We are focused on, basically, achieving the timelines that are currently set.

Senator CHISHOLM: I have another question on this—

CHAIR: Hopefully you can foreshadow the answer you're looking for in your question!

Senator CHISHOLM: That's not a reflection on the answers I've already got.

CHAIR: No; I understand.

Senator CHISHOLM: When it comes to stopping multinational tax avoidance, the sooner this is implemented, the better—with the message that it sends to other countries as well. I imagine there will come a point where some countries that are ready to start may end up doing that before all countries are going to sign on.

Ms Mrakovcic: I might ask Mr Robinson to reflect on that.

Mr Robinson: I guess it's important to think about the two pillars, in responding to that question. Pillar 1, which, basically, relies on the redistribution of some of the profits of the largest and most profitable multinationals—between the current taxing and market jurisdictions—also relies on quite a coordinated global approach to implementation. From that point of view, having countries being ready and prepared to implement the pillar 1 reforms at the same time is going to be very important, firstly, from a tax administration point of view, because there's a lot of information that will need to be shared amongst tax jurisdictions in order to calculate the redistribution of the profits and which jurisdictions they go to, and then for the tax jurisdictions in those countries that receive the additional profits to then apply the taxation arrangements. And then, secondly, from a global corporate point of view, having that implementation globally is going to be very important for them in order to give them certainty. So that's something we're certainly very focused on in the approach to the negotiations in the OECD, and the OECD is very alive to this issue, as are the participating countries.

Pillar 2 is slightly different, in that it doesn't necessitate all countries implementing the pillar 2 arrangements. Whilst I think 137 of the 141 countries that form the inclusive framework group endorsed the pillar 2 framework, it's then up to those countries to make subsequent decisions about, firstly, going ahead and implementing pillar 2, and, secondly, the timing with which they implement pillar 2. The objective is to have pillar 2 implementation

from 1 January 2023, and certainly no earlier than that, but some countries that may choose to defer the implementation, or not implement at all, would have the right to do that. The countries that do implement from 1 January 2023 could then start exerting taxing rights on undertaxed profits globally. In some sense, there's actually going to be an interest for many countries to implement, certainly from the time that the OECD rules allow.

Secondly, going to the broader point I made in relation to pillar 1, there's also very strong interest from a business perspective for good global coordination in the introduction of the rules. From a business perspective, the feedback we've been hearing from stakeholders and businesses that we've consulting with to date is that an introduction of the pillar 2 rules, where they're staggered across different countries and particularly when you have companies that have presences in lots of different countries, would just add to complexity.

The key point is that there's no particular rule governing when countries introduce those pillar 2 rules, but we're certainly working towards that January 2023 time frame for both pillar 1 and pillar 2, in terms of the work we're progressing.

Senator CHISHOLM: On pillar 2 specifically, there's not necessarily a need to wait for other countries, or is there even some incentive to be one of the first to operate?

Mr Robinson: That's right. It's certainly fair to say that there are lots of benefit to be had in being part of the group that implements early when the rules permit. Some countries may choose to delay implementation for various reasons, and they all have their own reasons for doing that.

Ms Mrakovic: But I think what you're also seeing is a number of countries moving ahead of that to increase their corporate tax rates, so that it doesn't provide an opportunity for other countries to exert a taxing right on payments that might have been undertaxed in those jurisdictions, hence—

Senator CHISHOLM: Is that something the current government are looking at?

Ms Mrakovic: Sorry, I might've missed the question.

Senator CHISHOLM: I was being smart. That's alright.

CHAIR: Well played, Deputy Secretary!

Senator Birmingham: I think that could be an open invitation to respond to different things we've already put in place to—

CHAIR: You entered very well, Deputy Secretary.

Senator BIRMINGHAM: minimise national tax avoidance in Australia, where we have moved ahead of different parts of the world. As you've heard from officials there, Australia certainly wants to see time lines met and is moving to make sure that, as far as possible, we meet them, and that we work in ways that encourage others to meet them.

CHAIR: Senator Cox, I'm going to give you the call. Before I do, I just want to apologise. I didn't realise in the first session that the only reason you were waiting was so you could table the document. I thought you were also going to ask some questions, so sorry I kept you delayed.

Senator COX: That's okay. I didn't have anywhere better to be!

CHAIR: As an expression of my regret, you have the call, Senator Cox.

Senator COX: Thank you. I'd like to ask some questions around the PRRT. With the recent boom in gas prices, this will mean that the gas companies will chew through their PRRT credits quicker; is that right to say?

Ms Di Marco: All other things being equal that's true.

Senator COX: Do you have an updated estimate on the value of the carried-forward tax credits? I have previously asked this question.

Ms Di Marco: I think the total carry-forward expenditure, as at the 2019-20 income year, was \$282.2 billion for offshore projects only.

Senator COX: Previously you forecasted that you don't expect any significant tax revenue from gas companies until the mid-2030s. Again, with the recent boom in gas prices, do you expect that that time line may be brought forward?

Ms Di Marco: We haven't updated that medium-term estimate. I think that estimate was provided as part of the Callaghan review, as I best recall it, and we haven't remodelled and updated that estimate. There is an increase in expected PRRT receipts in this budget, which, again, is largely a function of the higher oil prices over that period, but we haven't remodelled when we expect some of those LNG projects to be coming into the NEG, but that's not over the forward estimates in these forecasts.

Senator COX: Okay.

Ms Mrakovcic: I will just add that, when it comes to making assumptions about commodity prices and current elevated levels of prices, we're actually quite conservative, in terms of assuming—I don't know whether it's conservative or not but we basically have an assumption that they don't stay at the current high levels. So the approach that one takes to the way that one thinks about what we've done to revised estimates of PRRT or, indeed, even company taxes over the forward estimates period would be quite different to an approach that we may take if we were to actually update our medium- and very long-term estimates.

Senator COX: So there's not been a discussion about a time line or about when that will happen?

Ms Mrakovcic: We haven't updated the medium- and long-term estimates since the Callaghan report.

Senator COX: Excellent. You previously talked about PRRT credits being trapped, effectively, and about them never going to be used. I had that conversation at the last estimates. Again, given the recent boom, has this affected the value of the credits that you consider to be trapped, which were quoted at \$282 billion?

Ms Mrakovcic: There was a conversation around this, but it was very much informed by the ATO, and I think, when it comes to that issue, they're probably the ones who are best placed to talk about that issue.

Senator COX: We can refer that to them. That's all from me.

CHAIR: Deputy Secretary, on the issue of the petroleum resource rent tax, what was the revision to receipts generated from the petroleum resource rent tax between MYEFO and the budget? What has been the increase?

Ms Mrakovcic: I think it was \$4 billion.

Ms Di Marco: That's correct. It's \$4 billion.

Ms Mrakovcic: That's over the four years.

Ms Di Marco: Yes, that's right—between 2022-23 and 2025-26.

CHAIR: So it's over four years.

Ms Di Marco: It's over four years.

CHAIR: So it's essentially increasing \$1 billion per year?

Ms Di Marco: That is exactly it.

CHAIR: What percentage increase is that? Has it increased by 20 per cent or 30 per cent?

Ms Di Marco: Of all the tables I didn't bring, it was the one with percentage increases.

Ms Mrakovcic: But we should have the PRRT base.

Ms Di Marco: It's substantial. I do have it here; it has changed from MYEFO. For 2022-23, it's higher by 71.4 per cent.

CHAIR: A 71.4 per cent increase in the revenue under the petroleum resource rent tax. That's quite material. Presumably, that must be one of the largest percentage increases in receipts across all the different revenue categories, I would have thought.

Ms Di Marco: In percentage terms, that's correct.

CHAIR: I should declare that I say this as a shareholder of some oil and gas companies, and they've been on a bit of a ride since those substantive investments in those huge LNG projects. So that increase in the oil and gas price will presumably accelerate their move into a taxpayer position, given their revenues will have increased so substantially. Is that correct?

Ms Mrakovcic: One of the challenges for us, of course, is that we don't actually know the ins and outs of all the individual companies. The ATO, even though they obviously cannot ever speak to individual taxpayers, at least have a sense of what is going on in perhaps a little more practical or intimate detail. We basically rely on the information they're giving us at a very broad level, so I just don't think we have the granularity to be able to answer that in detail.

Ms Di Marco: Because it's a project-specific based tax, we do rely quite heavily on that kind of intelligence. All other things being equal I think that's correct, but it is led by a range of things—project costs, oil prices, foreign exchange movements—all those things can swing around the PRRT.

CHAIR: Theoretically it would appear to be—

Ms Di Marco: Yes. All other things constant.

CHAIR: Ceteris paribus.

Senator Birmingham: As Dr Kennedy referenced earlier today.

CHAIR: Senator McDonald, do you have any questions in this stream?

Senator McDONALD: I don't. I'm holding my specific questions for the ATO next week.

CHAIR: I hope the Commissioner's listening!

Senator McDONALD: I'm sure the tax commissioner won't be leaving next week over my direct questions.

CHAIR: Senator Chisholm, do you have any more questions for the Revenue Group?

Senator CHISHOLM: This is a continuation from what I was asking before, and following some searching questions to yourself from Senator McAllister from estimates in February, around how much these reforms will return to Australia's tax base. Are there any particular sectors that you've prioritised or have been particularly proactive in your direct consultations around the proper integration with the Australian tax system?

Ms Mrakovic: Is this in relation to Pillar One, Pillar Two or both components?

Senator CHISHOLM: I will say both.

Ms Mrakovic: I might ask Mr Robinson, who has been leading quite a bit of the consultations, to answer.

Mr Robinson: I wouldn't say we've been focusing our consultations on any sectors in particular. We've had a number of consultation sessions. The most recent one, in fact, was only a couple of weeks ago, with our digital tax working group. We have quite a broad involvement right across different sectors—financial services, mining, oil and gas, manufacturing and so on. We're obviously very keen to hear from all sectors on how the Pillar Two reforms might impact them and certainly their views around integration of those reforms in the Australian tax system. So it is quite broad engagement.

Senator CHISHOLM: In February you were waiting for the OECD to release its commentary on the Pillar Two rules before you could get stuck into the revenue questions. With the commentary having been released on 15 March, has that work now started?

Mr Robinson: That's right. The commentary was indeed released on, I think it was 15 or 20 March. We will continue to engage with business and consult both on the model rules and the commentary. Obviously, with the upcoming election period, we will need to be conscious of what the caretaker conventions will imply for our ability to consult on those. Certainly the consultation would continue right throughout 2022, both on getting views from business on the application of the model rules and integration to domestic legislation, and then later in the year, for example, at the time that we might have draft legislation, further consultation at that point. So we anticipate an ongoing close consultation with business through the process.

Ms Mrakovic: But just to go to the specific question you asked, as we are getting more granular information it is enabling us to start trying to think about how we would go about devising the costing models that we will need to have in place to be able to answer those questions that you are asking. As part of that, I can say that there have been preliminary conversations. I would say they are still at a very early stage, but basically it will be Ms Di Marco's division which does the costings and quantitative analysis, working together with Mr Robinson's division, which is devising the policy, obviously, in consultation with the OECD process and the ATO's specific knowledge around the tax system. Basically, we're all working together to make sure we're building the models we need to cost proposals.

Ms Di Marco: Could I add one thing to that. This will continue to evolve, as Ms Mrakovic referred to earlier, as other countries choose to respond by perhaps lifting their statutory corporate tax rates. That will, of course, impact the amount that is able to be reallocated under the rules. So, whilst there is obviously model-building work done on the rules and how we would implement them domestically, developments globally will matter substantially for what the ultimate cost will come out as.

Senator CHISHOLM: Was any consideration ever given to including notional revenue from pillar 1 or pillar 2 in the forward estimates in the budget?

Ms Mrakovic: No. We haven't made any allowance or factored that in. At this point in time it's a high-level agreement and we're still trying to understand the policy implications of it. There will come a time when there might be what you might call a formal decision-making process but we don't see it at that point as yet.

Senator Birmingham: Senator Chisholm, within that, the extent to which policy changes applied in Australian law drive any revenue differential, which is likely to be limited, versus policy changes applied across the OECD membership, which is more likely to derive benefits for countries like Australia which already have fairly strong tax regimes in place—in that sense, the upside revenue benefit for us is the work that the officials do at all hours of the night to get the other countries to come to the party, not so much anything we can change in our own laws.

Senator CHISHOLM: I've got a question along those lines. One of the elements you pointed to previously is the ability for low-tax jurisdictions to lift their own minimum tax rate and effectively claim segments of tax revenue that parent jurisdictions might have otherwise claimed. The problem there is that, without knowing what's going on in all those jurisdictions, any estimate could easily be thrown out. As a general principle, though—simply thinking of a jurisdiction like Australia taking the initiative and being at the front of the pack and implementing—there would be less of that going on the earlier you move on implementation, wouldn't there? Would that be an incentive to implement earlier?

Ms Mrakovic: Just to clarify: I'm sure I would never have said we would 'throw something out'. We cost policies on the best information at a point in time. But, often, the world turns out slightly differently. To the extent that that happens, you see changes crop up in parameter variations. In terms of the specific question: we are already seeing, in advance of the actual implementation of pillar 2, a number of countries announcing proposed increases in their corporate tax rates. The way I would answer that question is to say that, when consideration of pillar 2 and pillar 1 as potential components of a package of measures in this space comes forward for a policy decision, that would be the point at which, on the information we had available at that point in time, we would do our best to cost the proposal. I'm speaking hypothetically here, but, on the basis of announcements by other countries and indications they had given, we would pull together all the information we had to come to a view as to the implications of that for revenues in the Australian tax system. As Mr Robinson mentioned earlier, I don't know that it does influence being a first mover or waiting a bit. I think that, in effect, this is actually going to be quite a big change to the way all countries have operated in the international tax system, and I don't think that we've really lived in a world where countries have had the ability to, for example, look at some operations in another country and come to a view that they're undertaxed in that jurisdiction and, therefore, they have the ability to actually apply an additional tax. That's going to be quite a change in the way that the international tax system is operating. So I don't know that we can answer that question in that kind of strategic way. It is 140-odd countries basically working together to essentially try and put in place a global minimum tax rate. It's not really about trying to, in essence, necessarily capture revenue from another jurisdiction. It's actually about trying to avoid a race to the bottom, where, essentially, you are seeing jurisdictions compete against each other for those tax revenues.

Senator CHISHOLM: So, leaving the revenue aspect aside, do you think that the first cohort of jurisdictions implementing will play an important role in creating momentum across the other signatories to actually implement the legislation?

Ms Mrakovic: I would imagine that the more countries that join—I think it will be important for some countries with relatively low corporate tax rates at the moment to ensure that, essentially, if activities remain in those jurisdictions, they are not giving other countries the opportunity to tax some of the taxes they would otherwise be entitled to. And that's what I think you will see in terms of a driver of those jurisdictions perhaps below the global minimum tax rate lifting their tax rate.

Senator CHISHOLM: So there is an incentive for them to act to get to the 15 per cent minimum?

Ms Mrakovic: I would have thought that there would have been an incentive for those jurisdictions to move to that situation, particularly where you imagine that those activities would stay in that jurisdiction, because, of course, that will be the other issue as well. Companies will have to think to themselves about where they actually choose to locate their activities once tax considerations or perhaps tax differentials are not as large as perhaps they are at the moment.

Senator CHISHOLM: Thank you for that. I will come back to the consultation questions, which I think Mr Robinson was answering. In those consultations that you mentioned, which I think it's fair to say were pretty wide ranging, have you been indicating a likely time line for the stages from legislation through to implementation?

Mr Robinson: Senator, largely what I told the committee earlier—so the nature of the discussions has been broadly along the lines, particularly in relation to pillar 2, that we have model rules and commentary, which are currently out for consultation by the OECD. We're seeking input from business on their views around that. We would expect that consultation to continue possibly through to the middle of the year. Then, in the second half of the year, we would be looking to try and settle draft legislation and look to have that introduced through parliament in the latter part of the year, in ideal terms, in time for commencement in 2023. Of course, as we've mentioned earlier, as well, it's an ambitious time line that the OECD is holding us to and that we're working towards, so we're doing our best towards those sorts of time frames.

Senator CHISHOLM: Would you be able to identify the top three sectors that would likely be affected?

Senator Birmingham: Internationally?

Senator CHISHOLM: Operating out of Australia.

Ms Mrakovcic: I think it's probably best if we take that on notice.

Senator CHISHOLM: Among the affected parties you've been consulting with, would it be fair to say that there's an attitude that the implementation of pillar 2 is inevitable?

Mr Robinson: From a business perspective, do you mean?

Senator CHISHOLM: Yes.

Mr Robinson: Well, I think there's certainly a realisation that once governments internationally—as I mentioned before, 137 of 141 countries—agreed to the high-level framework, and we now have the more concrete form of what the rules are going to look like in the form of the model rules and the commentary, I think it's becoming more apparent for business that this is moving along. And with other countries announcing plans to implement and raise their tax rates and those sorts of things, I think there's certainly a view emerging amongst business that this is actually happening.

Ms Mrakovcic: I'd say the way that they are engaging with us, the concerns that they're bringing to our attention and the issues that they want us to be active in thinking about and to raise with other countries, leave me to suggest that they are working on the presumption that it's going ahead.

Senator CHISHOLM: Okay. Has any consideration been given to public consultation—when that would begin and what that would look like?

Mr Robinson: We are looking at a public consultation. I probably can't indicate any particular time frame at the moment. We would hope to undertake that very soon. We would anticipate at some point that we would have some kind of paper that we would release for consultation that would go alongside and complement the papers that are out there with the OECD. As I mentioned before, there's the pillar 2 model rules and the commentary which is currently out for consultation by the OECD. On pillar 1, there are a number of consultation papers out there relating to some of the building blocks, as we call them, or key elements of pillar 1. There's still further work being done to negotiate the other elements which will subsequently be released by the OECD for consultation as well. So we basically see a rolling consultation process both between what the OECD is putting out and what we would expect to be doing.

Senator CHISHOLM: What about potential legislation.

Mr Robinson: As I mentioned earlier, I would anticipate legislation is going to be something that would come out later in the year. In terms of time frames, I can't be too precise; there's quite a lot of work that needs to be done. We're assessing approaches to legislation.

Senator CHISHOLM: Thanks for your help on that.

CHAIR: Senator McAllister?

Senator McALLISTER: I think these questions should be directed here, but I'm not certain. They relate to the budget measures Small Business Skills and Training Boost and Small Business Technology Investment Boost. I'm really just trying to understand the basis on which the impact on receipts has been calculated. This is one of those tedious processes that would be best done on notice; however, if I do that, I won't get any information for a long time, so unfortunately I'm just going to have to ask you. For those companies with a turnover between zero—or less than zero, perhaps—and \$50,000, what is the average revenue forgone over the forward estimates in that category?

Ms Di Marco: If I take one quick step back, there are many, many costings that we do in Tax Analysis Division that are done on a micro basis: we have individual firms, and we project that forward. Neither of these two costings are one of those. The reason for that here is that, in these cases, there isn't a line in the tax return where you observe the exact expenditure on either of these two items. So, rather than going firm by firm, we've gone top-down, and it's a more macro based costing.

Senator McALLISTER: Could you step me through how you did do the costing because that would help me understand what information will likely be available and what isn't.

Ms Di Marco: I might start with the technology boost. For that, we have used a combination of data that we have on tax returns about investment in categories like ICT. We have confronted that with data from companies like Xero that have estimates of ICT expenditure using micro data they have through their business systems. We have taken that data, produced an estimate of expenditure on these items and have projected it forward consistent with macro parameters for investment launch on machinery or equipment more generally.

Senator McALLISTER: In terms of the baseline, have you assumed a certain number of firms would access the concession or have you taken it as a proportion of total revenue lodged by firms in these categories? I am trying to understand what the baseline is.

Ms Di Marco: Absolutely. We haven't assumed it by firm because it isn't the nature of the data that we had available. Instead, we focus on the amount of expenditure we expect to be eligible for the program, projected that forward and a whole bunch of other different tax timing things that mean it appears and returns in different years. But it isn't one of those costings where we have an estimate of a number of firms that will take it up.

Senator McALLISTER: What is the baseline for expenditure?

Ms Di Marco: I will have to take that on notice.

Senator McALLISTER: What is it derived from? I am sorry to be—

Ms Di Marco: No, that is okay.

Senator McALLISTER: As I understand it, you have calculated the level of expenditure in the pool of taxable businesses that would be likely to be eligible. I am trying to understand a little more about what that baseline looks like and how you get to a delta that tells you what the impact on receipts is.

Ms Di Marco: We have two separate data sources here. We have data on tax returns about investment and then we also at the same time looked at private sector estimates of business expenditure on ICT. We have used that to generate a baseline level that we have then grown out, consistent with our estimates for growth rate of investment in machinery and equipment. Apologies, what I don't have with me—I will have to take it on notice—is what level of investment is actually eligible.

Senator McALLISTER: I think it would be helpful to track that down while we are here. It is a budget measure that is not trivial in the budget. I am interested in understanding the basis on which it has been set up.

Ms Di Marco: We can do that.

Senator McALLISTER: In doing that, did you in any way consider the different kinds of firms, their scale or size, and the relative benefits that would flow to small and medium businesses under the measure?

Ms Di Marco: The zero data we looked at and used to inform our estimate of the baseline suggested that, for sole traders, their share of expenses on ICT is around 5.1. For businesses with employees of one to five, it is around two per cent. For greater than five, it is around 1.2 per cent.

Senator McALLISTER: What is that a share of?

Ms Di Marco: It is ICT expenses.

Senator McALLISTER: Is ICT a share of the overall business expenses?

Ms Di Marco: Yes, that's right.

Senator McALLISTER: What about as a share of claims that are anticipated to be made? I am trying to understand, thinking about in this first year, the \$500 million that it is going to cost. Is that going to benefit sole traders? Is it going to benefit firms with one or two employees, or will it benefit members with 30 employees? I am trying to understand the breakdown within the business sector.

Ms Di Marco: We have not done this costing by turnover size. We haven't done it by the number of firms. We have used these to inform an estimate of the overall pool of expenditure that would be utilised under this policy. The other thing to consider here is that there is a cap, so it only applies to \$100,000 of expenditure a year. So larger firms that would spend vastly in excess of that can only do it with the first \$100,000, and that would also act as a handbrake here.

Senator McALLISTER: I might come back to you with additional questions about that. In a similar way, can we talk through the skills and training boost?

Ms Di Marco: Similarly, we don't have any data. This is slightly different again. We don't actually have any data from tax returns about the amount that is expended on skills and training. What we have done here is look at other estimates available for the share of employee costs that entities will often spend on skills and training. We consulted with the Department of Finance and have used an estimate of around three per cent of compensation of employees that is spent on skills and training, and that estimate is the basis of the costing.

Senator McALLISTER: Again, is there any sense of the overall number of firms expected to access the payment, the deduction?

Ms Di Marco: No. Again, this was done on a macro basis.

Senator McALLISTER: What are the specific redesigns and improvements for the payment times reporting register that have been funded in the current budget measure?

Ms Di Marco: This might be a question better directed to Markets Group.

Senator McALLISTER: I just might have one more thing I wanted to ask about. Can you tell me a little bit about the change to visa rules supplementing Australia's workforce during the recovery?

Ms Di Marco: From a policy standpoint, this measure would be better directed to Home Affairs or Fiscal Group. While there are receipts implications, Revenue Group's role is simply in costing of the policy areas.

Senator McALLISTER: There is obviously an allocation of funding to the ATO. Can you tell me what that funding relates to?

Ms Di Marco: Can I ask what page you are on?

Senator McALLISTER: I am on page 11, budget paper No. 2. I am particularly interested in the description in the text, which says that the government will clarify the tax treatment for income earned by workers under the Australian agriculture visa scheme. It is expected to increase receipts by \$115 million.

Ms Di Marco: We will have to take that on notice.

Senator McALLISTER: What is the clarification required for the tax treatment of income earned by workers under the scheme?

Ms Di Marco: We will take that on notice.

Mr McCullough: I thought I had something in my notes on that but I can't find it. If you want to go on to other questions, I will see if I can come back to it.

Senator McALLISTER: That would be terrific. I am just interested in a couple of the budget measures that go to tax and to receipts. There is another measure on page 29 around tax integrity. I think you might have answered some questions about that already. Just tell me again what the purpose is of that measure?

Ms Mrakovcic: Basically, it's as the measure description sets out. Essentially, it's undertaking compliance activities targeting multinationals; large public and private groups; trusts; and high-wealth individuals.

Senator McALLISTER: And that's expected to increase receipts by \$2.1 billion and to increase payments by \$652 million over four years.

Ms Mrakovcic: That's right; it's the continuation of a current compliance program that the ATO is undertaking.

Senator McALLISTER: Do we have any more information about this measure in relation to the visas and the tax treatment of people working under that visa?

Mr McCullough: I haven't been able to find it, Senator—I apologise for that. I'll have to take it on notice.

Senator McALLISTER: Okay. But the net result is an increase in receipts of \$115 million—

Ms Di Marco: Sorry, Senator, there are different components for that measure. I have a feeling that the increase in receipts from that measure is related to the component about the temporary increase in the workforce across a variety of visas for a variety of different categories, rather than the piece in relation to agriculture.

Senator McALLISTER: Right. It seems to me that each of the items we're discussing do have the potential to increase receipts and taxes either by enhancing enforcement or clarifying the rules around the existing arrangements. That's correct, isn't it?

Ms Di Marco: For this particular measure, on page 11, I don't think that's about an enforcement issue. I think that here, in terms of the increase in receipts, it's about increasing the amount of hours that existing students and working holidaymakers can work in certain industries.

Senator McALLISTER: Okay, but no-one can tell me what the clarification around the Australian agricultural visa scheme is going to involve?

Ms Mrakovcic: Not at the moment. We'll continue to make our best efforts to see if we can add any clarity to that.

Senator Birmingham: I'm just trying to see what information I can bring for you there, Senator McAllister. I think there are aspects of that which would have been clarified in the Income Tax Amendment (Labour Mobility Program) Bill, which was listed for the Senate this week but which I think we couldn't get consensus on with your side to be able to proceed with. That's in terms of some of the tax treatment around the agriculture visa. I'm just trying to get a more precise answer for you, if I can. Otherwise, we'll have to get that on notice.

Senator McALLISTER: Sorry, Minister, this is it intended as a criticism, but because you're looking at your telephone I'm not really sure what you are doing. Are you about to answer this question?

Senator Birmingham: I'm seeing whether I have anything further to give you—

Senator McALLISTER: Oh, I see!

Senator Birmingham: I'm trying to read it. I'll leap in, but feel free to move on. If I get something further, I promise I will share it with you.

Senator McALLISTER: I guess the challenge is that if we move on we might let Revenue Group go, so I'm just trying to understand what's going on before we finish up with Revenue Group.

Senator Birmingham: The legislation that didn't pass the Senate, Senator McAllister, and will have to be considered, presumably, in the new parliament, sought to reduce the tax on certain income earned by foreign resident workers participating in the Australian agricultural worker program or the Pacific Australia Labour Mobility scheme from 32½ per cent to 15 per cent. The bill also amends the title of the Income Tax (Seasonal Labour Mobility Program Withholding Tax) Act 2012 to encompass other factors. I think what we're looking at here is, if I were to put a generalisation on it, seeking to ensure alignment of the agriculture visa participants broadly with tax treatment under the Pacific Australia Labour Mobility scheme. I would say, again, let's make sure we get some precise advice on notice to make sure that that is an accurate description.

Senator McALLISTER: Let's wait and see. I don't have any further questions for revenue group.

Senator WALSH: In your questions on the small business measures, Senator McAllister, I may have missed whether you asked about the types of activities that were covered in the measures.

Senator McALLISTER: I did not.

Senator WALSH: When you referred to ICT expenditures covered in the technology boost, what sorts of things were you talking about there; and how does it work for a business seeking this measure?

Ms Mrakovcic: We can give some examples. Basically, cybersecurity systems, subscriptions to cloud based services, accounting and e-invoicing software, web design, digital tracking of livestock and even hardware such as laptops and portable payment devices are a few examples.

Senator WALSH: Where do businesses find the rules for the scheme?

Ms Mrakovcic: I will defer to Mr McCullough, but I presume that there is still a bit of a journey in terms of clarifying that in legislation.

Mr McCullough: That's right. The government's made an announcement in principle, but the intention would be to consult on the details in the course of development of legislation.

Senator WALSH: What are some examples of things businesses can claim in the other one, the skills and training boost?

Mr McCullough: Again, the criteria, as expressed in the budget measure, from memory, were that, for the skills and training one, it has to be training that's recognised. The process of how it would be recognised by a registered organisation is something we would have to consult on, but there are four organisations that currently register training courses that could be the basis for being eligible for this. That level of detail just has to be put into legislation before it can be taken forward.

Ms Mrakovcic: The important thing is that it is external training programs, rather than in-house or on-the-job training or something. It's externally provided and essentially, as Mr McCullough said, from one of those four organisations that is responsible for registering those providers.

Mr McCullough: I think I might have the answer to that earlier question on the agriculture visas. As the minister described, the measure itself is a clarification of the tax rate changing for a certain class of visa holders from the normal tax rate that would apply to foreign residents to a flat 15 per cent rate. Although you would think that that might look like a revenue reduction, the reason why it comes in as a revenue increase, I think, is that it's a separate class of visa holders. But if I can take the rest of it on notice, I think we could confirm that before too long. And the examples of the training courses that we were talking about might be accounting training, hospitality, training courses—those sorts of things.

Senator WALSH: Anything external and accredited by those four bodies.

Mr McCullough: That is registered, yes.

Ms Di Marco: If I could just come back to Senator McAllister's earlier question, about the volume of expenditure per year: subject of the digital boost, we expect it to be around \$40 billion.

Senator McALLISTER: Do you have a similar quantum for the skills and training—

CHAIR: Sorry to interrupt: that's the quantum of the expenses—

Ms Di Marco: That would be subject to the policy.

CHAIR: \$40 billion?

Ms Di Marco: \$40 billion.

CHAIR: Okay. And that's before the 20 per cent gross up?

Ms Di Marco: That's correct.

Senator McALLISTER: So, \$40 billion for the total quantum, of which then a proportion is expended on ICT?

Ms Di Marco: No—for the boost we expect it to apply to around \$40 billion of expenditure per year, and we're still getting you a number on the skills measure, Senator.

Senator McALLISTER: Thank you. I don't have any further questions for Revenue Group, but I'm waiting for the—

Ms Di Marco: We'll make sure you have it before the session's out, even if it's not with Revenue Group.

Ms Mrakovic: We'll have someone respond back in Markets Group, perhaps, at the beginning, or something like that.

Senator McALLISTER: That sounds hopeful. Thank you.

CHAIR: Thank you, Deputy Secretary, and the officers from Revenue Group. We will now move to the Markets Group, and I think we're having a change of minister.

Proceedings suspended from 15:43 to 15:53

[15:53]

CHAIR: We'll be proceeding with markets group, and I welcome Minister Hume and the deputy secretary. I give the call to Senator McAllister.

Ms Quinn: Chair, before we start, my colleague has an answer to a previous question.

Ms Di Marco: With respect to the skills and training, it's expected to apply to around \$9 billion of expenditure a year.

Senator McALLISTER: Thank you. I have a limited number of questions about super. I was hoping to get an update on the status of the regulations that are needed for implementation of the Choice product performance test.

Ms Quinn: Those regulations are being worked on by Treasury, and they're in progress.

Senator McALLISTER: So that product performance test is expected to be applied from 1 July. That's right, isn't it?

Ms Quinn: That's correct.

Senator McALLISTER: Does that not present some problems? Has the minister got any indication about when those are going to be made public?

Senator Hume: As soon as they're ready to be released I would imagine they'd be made public. I understand that the department is also working on them with APRA, who are looking at it for their heat map.

Senator McALLISTER: Can you provide any insight about how administration fees will be dealt with?

Ms Quinn: I will pass to my colleague.

Mr Spear: That will be a matter for the government when we release the expected regulations, so I'm not sure if we can provide much information on that right now.

Senator McALLISTER: These are consequential decisions for both consumers and trustees. We're running pretty close to implementation, and people don't have that information. Have you received any feedback from stakeholders about how administration fees should be dealt with?

Mr Spear: We have been in discussions with a large range of stakeholders in this area, and so we have got feedback. I also note that APRA has been working very closely with the industry in this area and have been liaising closely.

Senator McALLISTER: As the policy agency, what are the choices that stakeholders are putting to you about the pros and cons of different approaches?

Mr Spear: Sorry, which approaches are you—

Senator McALLISTER: In terms of the treatment of administration fees.

Mr Spear: We can take that on notice, I would have thought. I'm not sure if I'm across the issue in detail enough to provide a decent answer.

Senator McALLISTER: You're not personally undertaking the consultation with stakeholders?

Mr Spear: We are not undertaking a formal consultation process at this point in time. The government would be expecting to release a paper prior to the regulations being made.

Ms Quinn: There are a few steps that we always undertake. There are discussions in design, and then—

Senator McALLISTER: Sure. But it's five minutes to midnight. It's quite late, isn't it?

Ms Quinn: It depends a little bit on how much uncertainty there is. In this area there has been a lot of discussion about how to structure various elements of this. We've been through the process for the MySuper products. This policy has been out for quite a long time, so there's been quite a lot of discussion with stakeholders. We'll do discussions as part of the design, in terms of forming our advice to government. Government makes decisions around the regulations, and then we consult on the actual regulations of instruments to check with stakeholders and implementation issues. We have not reached the stage of releasing regulations for consultation, but we have had discussions with stakeholders around the design features. So that's where we're at, at the moment.

Senator McALLISTER: But Mr Spear isn't having a discussion with stakeholders. Are you having the discussion, Ms Quinn?

Ms Quinn: Not me directly, but certainly the retirement income and advice division has been having discussions with stakeholders as well as talking to APRA, who themselves have had discussions around the data and the arrangements, given they would be administering the policy.

Senator McALLISTER: My question to Mr Spear was, 'What are stakeholders telling you about the key issues they wish to see addressed in relation to administration fees?' and he said that he wasn't across that detail and that he couldn't provide an answer. Is there anyone in Treasury who can?

Ms Quinn: I will just check. We have Lynn Kelly on video. I don't know if Lynn can expand a bit further on this issue.

CHAIR: Ms Kelly, can you hear us?

Ms Kelly: I'm getting a lot of feedback.

CHAIR: So are we.

Ms Kelly: That seems to be better. In relation to the question around stakeholder feedback, there have been some stakeholders who have reached out to APRA and Treasury to provide views on different matters around the trustee directed products and the application of performance tests [inaudible]. In terms of the detail around specific aspects I need to put that question on notice.

CHAIR: Did you get enough of that, Senator McAllister?

Senator McALLISTER: No, not really. I think the official was telling us that she couldn't help me. I don't wish to verbal her. It was very difficult to hear, but I suspect she was saying she did not have an answer for me.

Ms Quinn: We're happy to take it on notice and provide that information.

Senator McALLISTER: Alright. For the MySuper products a very clear process has been laid out. Will trustees of trustee directed choice products that failed the performance test in July need to write to members in those failed products and let them know?

Mr Spear: That is the expectation.

Senator McALLISTER: Are there plans to ensure that the ATO online comparison tool is extended to include choice products?

Senator Hume: That's the plan.

Senator McALLISTER: I'll just ask about the heatmaps. We've had many conversations here about the heatmaps with Markets Group and with APRA. Is Treasury aware of concerns that've been raised about the quality of the published choice product heatmaps?

Mr Spear: I think there are a range of concerns that have been raised both with us and with APRA on that matter.

Senator McALLISTER: What is Treasury doing about it?

Mr Spear: The APRA heatmap is largely a matter for APRA. We are in ongoing discussions with them about potential ways to improve heatmap, but largely it is an APRA directed product. We will continue to discuss issues with them going forward.

Senator McALLISTER: I think I can conclude from your answer that Treasury has some interest in ensuring that the published product is accurate.

Mr Spear: Absolutely, yes.

Senator McALLISTER: You are in discussions with APRA about it. What are the key areas where you think there is an opportunity to improve or where you've advised APRA that there is an opportunity to improve?

Mr Spear: I'm not sure if we've advised APRA of any particular areas at all. However, I note that the choice heatmap does have a very large amount of data and so data quality is an issue in that space. In discussions with funds themselves I think they would acknowledge that there are quality issues with the provision of data for that APRA heatmap. And obviously in the way that APRA brings that data together there are a range of concerns largely around, for example, getting the presentation correct.

Senator McALLISTER: That's a useful answer. Can I ask what you mean by presentation?

Mr Spear: I think there are probably a range of—I don't want to verbal myself. Is that the thing? I'm not sure it's possible—

CHAIR: Do your best!

Mr Spear: I will do my best. I wouldn't want to say anything further.

Senator McALLISTER: I'm asking a question of fact, which is what have you communicated to APRA about your view for priorities for improvement? You said you thought that areas of presentation were an issue and I'm trying to understand what that means.

Ms Quinn: It's somewhat difficult for my colleague because this goes to discussions that we have with regulators that then go to forming our advice to government. It's a bit difficult for us to have some of those detailed conversations because it is about our advice to government, so that the presentation issues—

Senator McALLISTER: Ms Quinn, advice to government is not a basis for refusing to answer questions. It really isn't. And conversations between different publicly funded bodies is certainly not a basis to refuse to answer questions. I'm asking, as a question of fact, what has Treasury communicated to APRA about priorities for improvement in the heatmaps? The reason I'm asking is that there is a public interest in understanding how we're going to get these products to a point where they accurately reflect the choices that are available to consumers.

Ms Quinn: If you are after exactly what was said to APRA then we would have to take that on notice. In general, we have discussions about the quality of the data and the presentation. Some of the presentation issues would be the same as issues raised in the MySuper space with different funds and different products having different focus on and weighting on the different elements. It's much more complex to do comparisons outside the MySuper product space because they have a lot of different risk ratings, different history and length of time. For example, how do you deal with a product that's only been available for a third of the time of another product? And is it appropriate to compare them against the same time period versus shorter time periods? There are things like that. How do you take account of volatility in the period of which a shorter product has been in place? There's very a long list of technical issues that the funds raised with APRA in their measurement heat map.

In terms of our discussions with APRA, it's more around what that implies for transparency and comparability, which is what's important for consumers. That even comes down to small things: the behavioural economics lens that you apply to what metric you put first and how it will be put on the tool, and how to explain what different elements mean for different types of audiences. They're the sorts of factors that are discussed.

Senator McALLISTER: That's very helpful. For clarity: I was trying to check presentation issues were not about font and colour scheme—

Ms Quinn: No!

Senator McALLISTER: that's actually quite a helpful answer.

Senator WALSH: I'm following what you and Senator McAllister were talking about: if there's that problem you described of funds that have only been around for a short period of time, how do you assess the returns as more appropriate along the time frame? Does that not leave a problem of funds starting up, operating and failing in short periods of time—being really high risk in short periods of time? What's the thinking around that? Are you trying to capture that?

Ms Quinn: It's an issue with the existing process because there were some funds that weren't around for the entire period, and they weren't assessed. That was the decision. The question, though, is whether there's a way to give indicators over a shorter period of time and then we can compare—

Senator WALSH: Appropriate to that short period.

Ms Quinn: The reason you go for a longer period of time is because of the volatility, uncertainty and circumstances, given super is a long-lived investment. It's always going to be an issue with comparison, it's an issue with the private sector provision and it's an issue with the tools that the government has put together. There

are technical ways you can address it. The key policy question is: does it provide a misleading impression of comparability? Maybe it's better not to put information in the public domain if it's going to be misleading, but you would have to be very careful in this circumstance, because there's a compulsory element to superannuation and then there's a requirement to make sure that consumers have accurate information.

Senator WALSH: Where are you coming down on that? Wait for a period or create a more appropriate tool to transfer—

Ms Quinn: . The short answer is, we haven't come down on a position for these metrics. As I said, there was a decision for the MySuper products not to be put in the comparison tool, but it's a much-limited number. The complexity of this next set of products is much broader because it's open to the funds to structure them in a way that they think is suitable for their members.

Senator WALSH: Okay, thanks.

CHAIR: Okay. There being no further questions, thank you Ms Quinn and your team—greatly appreciated.

Proceedings suspended from 16:06 to 16:24

INDUSTRY, SCIENCE, ENERGY AND RESOURCES PORTFOLIO

In Attendance

Senator Duniam, Assistant Minister for Forestry and Fisheries, Assistant Minister for Industry Development

Department of Industry, Science, Energy and Resources

Executive

Mr David Fredericks, Secretary
Mr Sean Sullivan, Deputy Secretary
Ms Jo Evans, Deputy Secretary
Ms Luise McCulloch, Deputy Secretary
Mr David Williamson, Deputy Secretary
Ms Mary Wiley-Smith, Deputy Secretary

Analysis and Insights

Mr Russ Campbell, Head of Division, Chief Economist
Mr David Thurtell, Acting General Manager, Resources and Energy Insights
Mr Wayne Calder, General Manager, Economics and Industry Analysis
Mr Tim Beard, Acting General Manager, Data Policy

AusIndustry

Ms Emma Greenwood, Head of Division
Ms Rebecca Lannen, General Manager, Entrepreneurs' Program
Ms Tia Stevens, General Manager, Portfolio Program Delivery
Ms Claire Forsyth, General Manager, Business Outreach and Engagement
Ms Kirsty Gowans, General Manager, Research and Development Tax Incentive

Australian Building Codes Board

Mr Gary Rake, Chief Executive Officer, Australian Building Codes Board [by video link]
Mr Rodney Harris, Chief Operating Officer, Australian Building Codes Board

Australian Radioactive Waste Agency

Mr Sam Usher, Chief Executive Officer
Ms Jodie McAlister, General Manager, Governance and Policy
Mr David Osborn, General Manager, Technical and Safety

Australian Space Agency

Mr Enrico Palermo, Agency Head [by video link]
Mr Paul Trotman, Deputy Head
Mr Chris Hewett, General Manager, Space Strategy
Mr Christopher De Luis, General Manager, Office of the Space Regulator [by video link]

Corporate and Digital

Mr Robert Hanlon, Chief Finance Officer
Ms Rebecca Lee, Chief Information Officer
Ms Kylie Bryant, Chief Operating Officer
Mr Nathan Hannigan, General Manager, People
Ms Deborah Miliszewski, General Counsel
Ms Virginia Dove, Acting General Manager, Communications

Critical Minerals and Major Projects

Ms Anthea Long, Head of Division
Mr Matthew Crawshaw, General Manager, Major Projects
Mr Andrew Hutchinson, General Manager, Critical Minerals Facilitation Office

Industry Growth

Ms Donna Looney, Head of Division
Mr David Luchetti, General Manager, mRNA Vaccine Implementation
Mr Mark Weaver, General Manager, Strategic Industry Policy
Ms Sabrena King, Acting General Manager, Industry Capability and Participation
Ms Judith Blake, Acting General Manager, Industry Settings

Manufacturing

Ms Narelle Luchetti, Head of Division
Ms Joanne Mulder, General Manager, Strategy Implementation
Mr Nick Purtell, General Manager, Manufacturing Supply Chains and International
Ms Rebecca Manen, General Manger, Strategy and Analysis

National Measurement Institute

Dr Bruce Warrington, Chief Executive Officer and Chief Metrologist

Offshore Resources and Liquid Fuels

Mr Shane Gaddes, Head of Division
Ms Marie Illman, General Manager, Offshore Resources
Mr Graeme Waters, General Manager, National Offshore Petroleum Titles Administrator
Ms Victoria Bergmann, General Manager, Northern Endeavour

Onshore Resources

Ms Michelle Croker, Head of Division
Mr David Lawrence, General Manager, Commodities and International
Mr Daniel Quinn, General Manager, Resources Strategy
Mr Stuart Richardson, General Manager, Gas Markets
Mr Chris Videroni, Acting General Manager, Gas Infrastructure, Planning and Policy

Questacon

Professor Graham Durant, Director Ms Kate Driver, Deputy Director

Science and Commercialisation

Ms Janean Richards, Head of Division
Ms Michele Graham, General Manager, Science Policy and Governance [by video link]
Ms Shanan Gillies, General Manager, Science Policy and Governance
Ms Steph Gorecki Natic, General Manager, International Science and Astronomy [by video link]
Mr Frank Tonkin, Acting General Manager, Commercialisation
Mr Martin Dent, Acting General Manager, Research and Collaboration

Strategic Policy

Ms Helen Bennett, Head of Division
Ms Lila Oldmeadow, General Manager, Strategic Policy
Ms Dana Sutton, General Manager, Ministerial Liaison and Governance
Ms Alison Drury, General Manager, Trade and International

Technology and National Security

Mr Anthony Murfett, Head of Division
Ms Camille de Burgh, General Manager, Technology Policy and Engagement
Mr Geoff Mason, Acting General Manager, Emerging Technologies and Adoption

Department of Industry, Science, Energy and Resources

CHAIR: The committee's proceedings will now continue with the Industry, Science, Energy and Resources portfolio, beginning with the Department of Industry, Science, Energy and Resources cross-portfolio and corporate sections. The hearing will then follow the order as set out in the circulated program, although we do

expect, given we have been making good time during the course of the day, that that precedent will continue. The committee has set 14 April 2022 as the date by which senators are to submit written questions on notice and 27 May 2022 as the date for the return of answers to questions taken on notice. I now welcome Senator the Hon. Jonathon Duniam, representing the Minister for Industry, Energy and Emissions Reduction and the Minister for Science and Technology. I also welcome the Secretary of the Department of Industry, Science, Energy and Resources, Mr David Fredericks, and officers. Minister, Secretary or officers, would you like to make an opening statement?

Mr Fredericks: Not me.

Senator Duniam: Me neither, thank you.

CHAIR: We'll go to questions. Senator Walsh, you have the call.

Senator WALSH: Thank you for all being here. I have some questions about government procurement of rapid antigen tests. As we on this committee know, there was a shortage of rapid antigen tests over summer with the omicron wave. Some Australian manufacturers are on record as having approached government a lot earlier, saying they could provide those tests if the government ordered them from those Australian companies. The government announced that it would spend \$1.6 billion over two years towards securing access to rapid antigen tests. How much of that money will be going to Australian manufacturers for those tests?

Ms Looney: Sorry, Senator, I just came in halfway through your question. Would you be able to repeat that for me?

Senator WALSH: I was actually ad-libbing and consolidating various bits of information with the last brain cell I have, but yes, I will do that. I was talking about the shortage of rapid antigen tests over summer. We are on record with Australian manufacturers having approached government saying, 'We could make them here.' The government announced it would spend \$1.6 billion over two years—2021-22 and 2022-23—towards securing access to those tests. How much of that money will be going to Australian diagnostic manufacturers?

Ms Looney: That would be a question for the Department of Health. They undertake all of the procurement to do with those tests.

Senator WALSH: But the manufacture of these sorts of devices is also a priority area for government and the department as well, in terms of the broader manufacturing strategy. So, on that basis, are you able to answer?

Ms Looney: I can talk to the fact that we do have one assembler in Australia that has TGA approval to provide rapid antigen tests, and that's Innovation Scientific. I would need to take that on notice as to whether the health department is procuring tests from them. In terms of Australian manufacturers, there are no other Australian manufacturers with TGA approval at this time. There may be Australian sponsors, and they may have secured some of that procurement, but, as I said, we would need to take that question on notice. That's really a question for the Department of Health to answer.

Senator WALSH: So the Australian manufacturers, like Lumos Diagnostics and so on, don't have TGA approval yet for their devices, is that right?

Ms Looney: Correct.

Senator WALSH: And Innovation Scientific does, to your understanding.

Ms Looney: They do, yes.

Senator WALSH: But you're not sure where the other area of government—Health—bought the rapid antigen tests from. I think we know that they were all imported, don't we?

Ms Looney: Senator, it would either be an imported test or a test assembled by Innovation Scientific, being the only Australian assembler—not quite a manufacturer, because they bring in parts and assemble them. That would be the only possibility for a procurement from an Australian assembler. All of the others would be imported, but they may be imported by Australian companies or Australian what we call 'sponsors'. And all of that information is on the TGA's website, as to where the approved companies are situated.

Senator WALSH: Okay, so none would have been manufactured in Australia but some might have been imported and assembled by Innovation Scientific. Is that correct?

Ms Looney: Correct, yes.

Senator WALSH: One of the things that industry have said—to me and others—is that they think that it should be the role of government and this department to work with Health and the TGA to sort of auspice these sorts of products, in a way, through the TGA, while of course maintaining strong independent standards. What

work are you doing with the Department of Health in that area, given that medical products are a priority area for you?

Ms Looney: I might cover off on a few aspects to respond to your question there, Senator. In the first instance, we're working with Health on doing a lot of understanding of the supply chain, and not just the supply chain domestically but globally, so that we can understand where Australian manufacturers are situated in the broader supply chain. And then we're also working with MTPConnect—who you may know are one of our growth centres—and Pathology Technology Australia to do some additional work to look at what that national supply chain might look like, and into the future for diagnostic testing including RATs and PCRs and those types of things. We also support there, as you said, the medical products through the Modern Manufacturing Strategy, and there have been some announcements around additional funding for that. Depending on meeting eligibility criteria of course, Australian firms may have an opportunity to put in an application for some funding through those programs as well, so there is quite a lot happening in that space moving forward.

Senator WALSH: You talked about medical product manufacturing being one of the priority areas for the strategy. Before I ask some questions about numbers, do you have a way of breaking down medical manufacturing into smaller component industries? Or do you look at it as a whole and what's included there? So it's devices and point-of-care tests—

Ms Looney: Senator, I would point you in the first instance to what we call the national manufacturing priority road map. That outlines the road map for the sector going forward, and they're the type of things that are considered under the MMI.

CHAIR: Just to assist, Senator Walsh, you made a comment earlier about the absence of Ms Luchetti; she has the answer to that question and she's pretty close—I think she might be in the room next door. If you want to press on, she might be able to come back to the table and give you some more detail—here she is!

Senator WALSH: Sorry, I thought you were coming up, Ms Luchetti.

Ms Looney: I think that we still might be missing the right person to speak to it. It might be the medical products road map.

Ms Luchetti: Yes, he's on his way.

Senator WALSH: I'll ask and you'll tell me whether you have the right person. In relation to medical product manufacturing, the road map indicates that progress will be measured in a number of ways, including the number of new jobs in medical product manufacturing. That's one of the benchmarks of success. Are you able to give me some numbers on that? What was the original benchmark of jobs in the sector called medical product manufacturing at the beginning of the strategy and what is it today?

Mr Campbell: The way the strategy was put together, we had six targeted sectors. Each of the road maps identified a number of metrics against which we would look at success of the program, specifically in relation to program recipients. The way that information is collected is through the guidelines process and then the reporting and expectations of reporting from participants as the program progresses. We won't have some of that data until we get some closure reports from some of the project proponents. Then, what we'll be able to do, once we have that, is compare those figures to a counterfactual in what we call our BLADE database, which is firms of similar type that haven't received the support, and then you can actually test the success of the program intervention against the firms that did receive support.

Senator WALSH: I think my question is just a bit more general. You're of course talking about wanting to be able to compare those that received funding and those that didn't: did we grow more jobs here than we did here? I was actually wondering whether you had an aggregate figure for the medical manufacturing road map area as a whole in Australia of how many jobs there were at the beginning and how many jobs there are now.

Mr Campbell: We don't have a breakdown like that within the ABS datasets. We can talk about the success of a program against like comparators, but we can't talk about the baseline as such in the way you're describing.

Senator WALSH: So it's not a goal to grow the medical manufacturing industry as a whole. It's only to grow it.

Mr Campbell: No. Definitely, it's the case that the expectation is that the program will grow, and we've discussed, probably a number of times, that there's an 80,000 estimate over 10 years for the sector as a result of the program. Then, beyond that, you have the first pillar of the manufacturing strategy, which relates to the broader tax and labour and energy settings, which will also grow the manufacturing sector overall. So there's a targeted estimate—the 80,000 over 10 years—and then there are the broader impacts on the sector over time.

Mr Fredericks: Senator, I will just assist with one thing on this. Just to be clear, your question, of course, is absolutely legitimate, and we feel obligated to be able to report back on the actual growth in jobs that has been engendered by this expenditure, which is why Mr Campbell has made the distinction between the BLADE data that we have, which is basically an economic dataset which will tell us, essentially, for each sector what the growth in the jobs number would have been, more or less, absent any government intervention. Then, we want to be able to analyse above that the actual growth that occurred, and, of course, the difference is attributable to this funding.

Senator WALSH: Yes, I understand that.

Mr Fredericks: So we're trying to hold ourselves to the accountability of additionality of jobs, which is what you are after. It's just that, at the moment, we don't have that data yet.

Senator WALSH: Yes. I'm also asking whether there are more people working as employees in this industry today than there were when the strategy was announced.

Mr Fredericks: I think the answer to that question is: we don't have the objective data to be able to give you an answer to that yet. But we know that we will be in a position to give you an answer to that question once the program is completed and rolled out.

Senator WALSH: Yes. I'm not asking about the program, the A/B test, if you like, in this question; I'm asking whether there are more people working in medical manufacturing today than there were a couple of years ago.

Mr Campbell: We may well be able to get you some further data on notice in relation to the ABS definition of a narrow form of that sector. It won't relate to the road map. Just to be clear about the road map, the manufacturing strategy isn't just about the production component, and that is what's actually collected by the ABS. So you actually have jobs coming into the sector in, say, the design of the actual manufacturing product, and that won't necessarily sit within—

Senator WALSH: Yes.

Mr Campbell: So it's actually very hard to say, for that particular road map boundary, what exactly is the number of people. But we certainly should be able to come back to you with at least a breakdown of something that is close to what you've asked for.

Senator WALSH: Someone must know. It's been a while since I've looked at ASIC codes and things like that, but someone must know whether there are more people working in medical manufacturing production jobs—the kinds of jobs that people understand as being manufacturing jobs—today than there were a couple of years ago.

Mr Campbell: There will be a version of some numbers that we can dig up for you. I can definitely get that to you.

Senator WALSH: But you don't know right now?

Mr Campbell: I don't know right now, sorry.

Senator WALSH: Under the broad strategy, we will have more questions of that type—I'm looking at Mr Luchetti—a bit later. Before we get to those, does anyone there know whether any Australian diagnostic test manufacturers intending to manufacture rapid antigen tests have been funded by the federal government to do that?

Mr Williamson: Ms Looney might be able to assist. But we certainly have a list of a number of companies in that diagnostic space who've received government assistance in one way or another, so we could take you through those. It won't necessarily be exhaustive, but we certainly are aware of some.

Mr Fredericks: I know you've actually had a discussion about this with Ms Looney before, but just for everybody else's benefit, it's worth recalling that, in many ways, a lot of that funding is targeted at the next innovations in diagnostic testing. We want to use the program to drive Australia's potential diagnostic industry up the value chain. So a lot of the work that I think Ms Looney can explain is about finding the next innovations in diagnostic testing so that we can get ahead of the rest of the world in the next innovations in diagnostic testing. That's why a lot of the funding is going to it. Ms Looney can set that out. But that's kind of our mission here.

Senator WALSH: I understand what you're saying there. There's a lot of medical research going on at the moment, particularly in Victoria, around the development of point-of-care testing. It's an exciting area; it's a potentially huge export area for us. But that's the medical research side of it. Now I'm wondering whether you're saying that's where you're focused as opposed to when those ideas are ready to go and be manufactured here.

Mr Fredericks: I'll let Ms Looney explain that.

Mr Williamson: I think it's both

Mr Fredericks: Yes, I think it's both too.

Ms Looney: As we point out in the Modern Manufacturing Strategy, we're really looking at the high-value-added areas of manufacturing. The first thing I'll talk about is some of the work we're doing that is looking at where that technology development is happening at the moment and what that looks like in the future for Australian industry. The government is providing \$1.5 million to MTPConnect, which is the Medical Technology and Pharmaceuticals Growth Centre, to work with Pathology Technology Australia. They're going to undertake a rigorous examination of the diagnostic testing landscape, to identify gaps and opportunities and develop an action plan for establishing end-to-end sovereign capability for diagnostic testing, and an in-depth analysis of in vitro diagnostic devices, such as PCR tests and RATs, looking at the supply chain resilience around that. We're expecting that work to kick off in April.

Senator WALSH: So that's a new hub?

Ms Looney: It is. And we can talk about technology that is closer to commercialisation, I think it's fair to say. I have a range of things that have been supported to bring to market technology that's a little further along the development path. There's \$3 million to WA-based Avicena Systems, funded through the Modern Manufacturing Initiative's Manufacturing Translation Scheme, to develop a low-cost, ultra-high-throughput, lamp-based screening system for COVID-19. This technology will provide rapid results with very high precision. There was some funding of \$6.3 million to a company called GBS (APAC) Pty Ltd, again through the Modern Manufacturing Initiative, to build a new medical-device manufacturing facility to enable commercialisation of the printable organic electronic biosensor technology. There was \$742,000 to WA-based Alcolizer, which I think I spoke about last time I was here. That funding was provided through the \$30 million Commercialisation Fund, which the Advanced Manufacturing Growth Centre is administering on behalf of the government. The test they're looking at will detect COVID-19 in asymptomatic and symptomatic patients within 10 minutes. Queensland based Examin Holdings was awarded \$647,000, also through the Commercialisation Fund, to finalise their COVID breath test, which they call ECBT. That includes a reading device and software application and will be manufactured in Australia using a local supply chain capable of producing commercial orders.

Senator WALSH: I'm not sure how much more you have there, but I'm just wondering whether the sorts of products and tests that you've just run through are approved by the TGA at the point that you fund them.

Ms Looney: That technology is in development. A part of where they go next, I would imagine, would include working with the TGA to ensure that they have the appropriate approvals in place to be able to operate.

Senator WALSH: I thought the argument for not supporting local rapid-antigen-test manufacturers was that there weren't any tests manufactured here that had TGA approval, but we are supporting other diagnostics that don't have TGA approval?

Ms Looney: As we mentioned—and I think the secretary mentioned it earlier—we're looking at emerging technology in this space, which is being funded to continue its development. Some of the other manufacturers are already manufacturing and therefore don't need government to work with them in the same way that these developing technologies do. They're at a point where they're manufacturing—or looking to manufacturer—in Australia, and therefore the thing that they need to do, first and foremost, is get TGA approval to provide their tests into the market. Secondly, if they don't have a manufacturing site that exists they also need to get approval for the manufacturing site that we're talking about. The other thing I might mention is that, as you know, there is quite a large investment happening with the mRNA vaccine facility that's being established in Victoria, so there is quite a lot of government support and investment in this space.

Senator WALSH: Yes. But government is supporting emerging technologies to be commercialised, manufactured, that in the ways that you've just described don't have TGA approval. You didn't do that for rapid antigen tests a year or so ago, a year before they were needed, when we knew we were going to need them.

Ms Looney: I will mention that and I think we spoke about this—

Senator WALSH: I'm genuinely not seeing the difference.

Ms Looney: When those companies that we talked about last time that are now looking to manufacture were added an earlier stage in their development and commercialisation journey, they were supported through some support from the Australian government through various programs. But that was before they were looking to just manufacture their product. That was while they were in this development phase to get to commercialisation. So, I would say the companies that you're talking about that we spoke to were passed that phase last year when we spoke to them and looking to manufacture not in that sort of—

Senator WALSH: What they probably needed was a supply contract, which would be the Department of Health, is what you're saying.

Ms Looney: That could possibly be useful to them, yes. That would be, obviously, dependent on the needs of each individual company, so I couldn't comment specifically on what would have assisted them at that point but it is something like a supply contract that may be useful.

Senator WALSH: I've got a bunch more questions on moving to mRNA. Do you want the call?

CHAIR: Senator Chisolm, are you quite happy? Senator Walsh, continue.

Senator WALSH: I was hoping for a little chop-out! On the support that government is—I've lost Ms Looney. That's you: you're mRNA, Mr Luchetti. According to your portfolio budget statement, \$3 million has been set aside for building the world-class onshore mRNA ecosystem. Can you tell us about that? What does that involve?

Mr Luchetti: That particular initiative is to support the overall government investment in Moderna, and so the recognition is that, obviously, with the emergence and Moderna arriving in Australia, this is an opportunity for us to build on Australia's strong research and development capability in the RNA space. This provides an opportunity for the government to develop an ecosystem which is not just related to the research or production side but covers off things such as supply chains, skilled workforce et cetera. So, the department has \$3 million over this year and next year to work on developing a road map process that will actually inform that.

Senator WALSH: So that's an internal pot of money for staff to work on that?

Mr Luchetti: Correct. It's for staff potentially to run roadshows and engage some consultants to do research et cetera.

Mr Williamson: That sits alongside, but that isn't the mRNA facility in Victoria which is, I think, depicted in the budget separately.

Mr Luchetti: That's correct, yes.

Senator WALSH: Sorry, sits alongside.

Mr Williamson: The announcement last week, the facility in Victoria, is not this \$6 million; this is a broader piece of work on an RNA ecosystem, as Mr Luchetti said. The facility is depicted elsewhere in our budget papers, which we can take you to.

Senator WALSH: Where is the mRNA facility going to be in Victoria?

Mr Luchetti: That hasn't been finalised, Senator. There are a couple of sites that are under investigation by Moderna at the moment, and they're working with the Victorian government to finalise the site selection process.

Senator WALSH: And it's not publicly known yet what the two sites are?

Mr Luchetti: Correct.

Senator WALSH: The \$3 million that you talked about, your pool of money to set up this ecosystem, is discontinued over the forward estimates because it's a specific project to set this work up.

Mr Williamson: Yes. It's a singular piece of work, and we will report to government with the outcomes of that. That'll inform future decisions.

Senator WALSH: How much has the Commonwealth committed to the deal with Moderna?

Mr Luchetti: That's not for publication. You probably noticed that in the portfolio budget statement or Budget Paper No. 2. The reason for that is it's a 10-year agreement that the government has entered into with Moderna. It's hard to be definitive about what that final cost will be because the types of things that will influence the final price will be the types of products that are manufactured at the facility, the cost of those products, the exchange rate at the time—because we'll purchase them in US dollars—and, finally, the number of products to be built at the facility.

Senator WALSH: I understand that there are things that you can't tell us about this. But what is the government's investment in, in terms of the project? Is it in land? Is it in plant? Is it in incentives? What is it?

Mr Luchetti: It's a variety of things, keeping in mind that the agreement also involves the Victorian state government. They're providing particular incentives and support for Moderna to be located in Victoria. The Commonwealth's investment will primarily be through the purchase of vaccines. But I really couldn't provide much more detail than that at this time.

Senator WALSH: Right. So it's a supply contract, which I assume is known.

Mr Luchetti: That's right. We have three types of agreements: one is to establish the facility; one is for pandemic vaccine supply; and the other's for non-pandemic vaccine supply.

Senator WALSH: How long-term is the supply contract? Is that known?

Mr Luchetti: Not at this stage. It depends. As I said earlier, it will vary. It depends on our needs. The first product that we would expect to go through the facility will be the COVID-19 vaccine that Moderna currently has. That will be influenced by the need in Australia at that particular time. At the moment, Moderna is working towards having that facility operational and producing vaccines by the end of 2024, so the government, through the Department of Health, will enter into a discussion with Moderna prior to that to identify what Australia's needs will be from a vaccine perspective. That could be a particular number, depending on where we are up to with the pandemic. The other things that are influenced—other products that will potentially go through that facility: Moderna is working on a flu product that they've got in clinical trials. So, once again, that will potentially be influenced by the number of doses that the Australian government might purchase.

Senator WALSH: Is there a point at which the supply contracts will be known and published?

Mr Luchetti: That's really a question for the Department of Health. To date, they haven't released the costings associated with the purchase of vaccines. But you'd have to take it up with the Department of Health.

Mr Fredericks: I think it's worth noting too—correct me if I'm wrong—that there are still ongoing negotiations between Moderna and the Victorian government. They help drive the commercial confidentiality as well. So, at the very least, they'll need to be concluded before there can be consideration to that issue.

Mr Luchetti: That's correct. The other thing that Moderna is aware of, or is sensitive to, at the moment is that this is the first agreement they've secured outside of their two traditional manufacturing hubs in the US and Europe, and they have a number of other agreements that they're negotiating with other countries around the world. They're particularly sensitive to us revealing the details of our agreement because it may influence or potentially inform those negotiations as well. But, in speaking to Moderna, they have indicated that they understand the importance of transparency. They have said to us that they're prepared to engage in discussions at the right time to release some of that information.

Senator WALSH: I thought the Victorian government had released what their contribution was?

Mr Luchetti: We've spoken broadly about that, and it relates to helping support the facility's establishment also with regard to the ongoing maintenance of the facility, the pandemic preparedness, and there are other investments around fill and finish from the Victorian point of view. They're also providing some support to assist with the ecosystem, skilled labour et cetera, but none of those things have been finalised at the moment because, as the secretary said, it's still under discussion.

Senator WALSH: This is obviously a matter of significant public interest, as I think you just alluded to. Victoria has published the nature of their contribution and the quantum. This supply contract, or proposed supply contracts, could be in the order of \$100 million or many billions of dollars. I assume it's the latter, but is there anything you can tell us about that quantum? Nothing?

Mr Fredericks: There just isn't at the moment. We appreciate your position, we really do. It is taxpayers' money, and there's a legitimate request for transparency. To reinforce Mr Luchetti's point, Moderna are conscious of that, we're conscious of it and the Victorian government are conscious of it, so we will look for opportunities to maximise transparency as an enduring process here. For the reasons Mr Luchetti said, now is not the time for that, as, arguably, uncomfortable as that is. They are good reasons; they are legitimate reasons, and, as I say, we will hold ourselves to account to try to pursue transparency around those numbers as and when we can.

Senator WALSH: It seems like it advantages Moderna in its global dealings for the Australian government not to release this information. How does it advantage the Australian taxpayer to not release this information?

Mr Fredericks: At its heart, it advantages the Australian taxpayer because the Australian taxpayer has just secured Moderna to be a manufacturer here for the next 10 years on a very good commercial deal. There is commercial-in-confidence around the deal, but our understanding is that can't be enduring.

Senator WALSH: It's a very good commercial deal, though, you said.

Mr Fredericks: For the Australian taxpayer. We have to make value-for-money judgements, so, at the end of the day, our responsibility is value for money, and this is value for money for the Australian taxpayer.

Senator WALSH: There is an unknown amount of taxpayer outlay. In terms of government assessing it as a good commercial deal, for government that's around value add, income, jobs, securing the supply chain.

Mr Fredericks: Yes. You've done a good job there.

Senator WALSH: Can you tell us a little bit more?

Mr Fredericks: Mr Luchetti can add to the advantages.

Mr Luchetti: Certainly. I will reiterate that part of the issue about being definitive about the costing is around this being a 10-year agreement. We don't know our vaccine needs in two years time. Depending on where COVID takes us, if there is ever a decision that we need a fourth or fifth round of boosters or whatever that may be, that would influence that decision. Also, hopefully, we don't see another pandemic of another type, but that would change the nature of the ask and the agreements that we enter into with Moderna. All of those things influence the final cost where Moderna is with regard to the development of their products. What we have been doing with this is we've been looking at maximising the deal for Australia. It's not just through a simple transactional arrangement with Moderna to purchase vaccines; it's about how we maximise this. We've looked at mRNA. It's a new developing technology. It's probably considered the next generation of technology. Therefore, partly through the \$3 million that we've invested in undertaking a road mapping exercise and providing further advice to government, we're looking to position the government and Australia in a way that allows us to take advantage of the types of technologies and the type of research that Moderna will bring to Australia. And we've already seen that. I think it was just late last week that Moderna announced they were entering into an arrangement with the Burnet Institute to share data and information. It's about moving those linkages and partnerships with Moderna also.

Senator WALSH: I have a few more mRNA questions, and then, I suspect, Senator Watt will have some Modern Manufacturing Strategy questions. Everyone is looking forward to that—when Ms Luchetti's ready.

Senator WATT: Where is my friend—

Mr Fredericks: No, you're after Ms Luchetti.

Senator WATT: Mr Campbell?

Mr Fredericks: He's here, and Ms Luchetti is here for you too.

Senator WALSH: Mr Luchetti, you said that the facility is expected to produce the first Moderna COVID-19 vaccination in 2024?

Mr Luchetti: That's right. That's the intention, yes. That's what Moderna are working to, and they announced that last week.

Senator WALSH: Was there a month in that announcement?

Mr Luchetti: No, there wasn't.

Senator WALSH: So, because you are entering into supply contracts, you're essentially agreeing to buy local as opposed to importing these vaccines. This may be a question for Ms Looney. It's been mentioned before that government can't prioritise local facilities in government procurement. So there's just a general understanding that, in relation to pharmaceuticals and vaccines, government can prioritise local content, if you like, in its procurement—is that right?

Mr Luchetti: I believe it can. Certainly my understanding of the way that we've approached the pandemic, at least, for COVID vaccines is that buying local is important because it gives us priority access to those vaccines. That's certainly one of the drivers behind the decision to locate the facility here.

Mr Fredericks: I'll pick up a point that Mr Luchetti made as a generality and make it specifically, as it reinforces a point I made before. The strategy here is to go after the next layer of innovation, the next big thing, and mRNA is the next big thing. In many ways, we're throwing the policy kitchen sink at it to make sure we can drive in at the next wave of innovation in this area—to make sure Australia can catch that.

Senator WALSH: Do we know how many people will be working at the facility?

Mr Luchetti: The figure that we have is that 500 people will be involved in the construction of the facility, and then, when it enters into steady state, it will be 150 people. These are highly skilled jobs, too.

Senator WALSH: Yes. So 500 in—

Mr Luchetti: In the construction phase.

Senator WALSH: construction and setting it up and 150 people ongoing?

Mr Luchetti: Yes.

Senator WALSH: I've seen these sorts of facilities; I understand that they're very high tech and you don't see many people walking around the production lines and so on. But, within that 150, do we have an understanding of how many of those jobs are in production?

Mr Luchetti: I don't have that detail with me. I could take it on notice if you like.

Senator WALSH: Yes. That would be appreciated. I think that's all the questions I have on mRNA.

Senator WATT: Just before we get to the usual questions about job figures and things like that, there have been some recent public statements about the amount of money that has now been committed from the Modern Manufacturing Strategy, which I presume includes some executed agreements. Do you have a list of the executed agreements and money that has been provided for each business that has received funding under the Modern Manufacturing Strategy?

Ms Luchetti: There has been \$923.5 million publicly committed, and that's what you would have seen in media statements—

Senator WATT: Yes.

Ms Luchetti: which is roughly 213 projects, and that's valued at \$3.4 billion. It leverages about \$2.48 billion in private sector investment.

Senator WATT: So \$3.4 billion is the—

Ms Luchetti: Project value.

Mr Williamson: The total value of the projects that's been committed.

Senator WATT: And \$923.5 million is the commitment of funds from the MMS?

Ms Luchetti: That's correct.

Senator WATT: So the \$3.4 billion includes funding from the proponent themselves, does it?

Ms Luchetti: Yes, that's correct.

Senator WATT: When you say 213 projects, are there executed agreements with 213 proponents?

Ms Luchetti: That's correct.

Mr Williamson: Sorry, I think that's committed—just to clarify, Senator, I think that's 213 projects where there's a public commitment, and I think executed contracts will be a different number.

Ms Luchetti: I will get you the number of the executed contracts. It is 143.

Senator WATT: There are 143 executed agreements?

Ms Luchetti: That's right.

Senator WATT: But 213 projects have been committed funding?

Ms Luchetti: Yes, publicly committed, that's right.

Senator WATT: So there are 70 where an agreement hasn't yet been reached?

Ms Luchetti: That's correct.

Senator WATT: It would obviously take far too much time to get you to go through each of those 143 agreements, but do you have information you could table? Under each pillar of the MMS—the MMI, the Supply Chain Resilience Initiative, MMF round 2, and AMGC Commercialisation Fund; I think those are the four pillars—to start with, are you able to tell me the number of executed agreements made for each of those four pillars?

Ms Luchetti: Yes, so 34 of the 34 under integration and translation have been executed for round 1.

Senator WATT: Sorry, 34?

Ms Luchetti: Of 34 contracts—so there were 34 successful in integration and translation round 1, and 34 have been executed, so all.

Senator WATT: What does integration and translation fit under? Is that MMI?

Ms Luchetti: That's right. Twenty-five of the 26 are under SCRI round 1.

Senator WATT: Supply Chain Resilience Initiative?

Ms Luchetti: That's correct. Eighty-four of 84 under MMF3 round 2. Fifty-five projects under the Commercialisation Fund, and I will get a confirmation of how many.

Mr Williamson: We might have to take that on notice, because that's being delivered by AMGC for us. We'll come back to you on that.

Senator WATT: That's the lot?

Ms Luchetti: That's right.

Senator WATT: That gives me a total number of projects of 249—I'm looking at the number of projects as opposed to executed agreements here—being 34 for integration and translation, 26 for SCRI, 84 for MMF round 2 and 55 for the Commercialisation Fund; that gets me to 249, I think.

Mr Williamson: I think that's correct.

Senator WATT: I'm just comparing that to the other figures.

Ms Luchetti: The 143 doesn't include AMGC. Do you want me to run through that again?

Senator WATT: I can see it's 143 executed agreements excluding the AMGC, but the total number of projects, if you throw in the AMGC, is 249, and that's different to the 213.

Ms Luchetti: Let me run through what makes up the 213. You've got 34 under integration and translation, like I said; 11 recipients under the collaboration stream, which have recently been announced; 27 under SCRI round 1, and I will get my colleague to explain about the 27 which were grant recipients; 86 under MMF2; and 55 under the Commercialisation Fund, which gets you to the 213.

Senator WATT: Would you be able to table—there's no confidentiality around the name of the business, is there, if there's an executed agreement with them?

Ms Luchetti: I would have to take that on notice to check around commercial sensitivities and things like that with the businesses. Most of the businesses are out in public, out in the media.

Senator WATT: If they're receiving public funding, surely we have a right to know who they are.

Ms Luchetti: I'll just have to look, yes.

Senator WATT: If you could table for us how many executed agreements there have been under each of those pillars and which businesses they are with, and if you've got figures on how much each of those businesses is receiving, that would be useful too.

Ms Luchetti: Sure.

Mr Fredericks: We will do that.

Senator WATT: So it's 143 executed agreements. What is the dollar value of those, in total?

Ms Luchetti: Under integration and translation round 1, \$206.8 million; under SCRI round 1, \$29.6 million; under MMF round 2, \$53 million; under the Commercialisation Fund, \$28.4 million, which is the one being run by AMGC.

Senator WATT: So it's about 316-ish all up?

Ms Luchetti: Yes, 317.8.

Senator WATT: Does that mean that the remaining projects that have been approved but we don't have agreements for yet are worth about \$600 million? You gave me a figure of \$923.5 committed.

Ms Luchetti: That's right.

Senator WATT: So there are some big ones yet to reach executed agreements?

Ms Luchetti: That's correct.

Mr Williamson: Particularly from the collaboration stream—

Mr Fredericks: They're in the collaboration stream.

Mr Williamson: The bigger one that's been announced most recently.

Senator WATT: I don't follow the detail of this too much, but all of those projects have been announced, and the proponent has been announced as well?

Ms Luchetti: No. For the collaboration stream, 11 successful applicants have been announced, to the total value of \$601 million under collaboration. They only just started being announced from 1 March, so we're in the process of executing those grants. There are more to come in that space.

Senator WATT: I think you said roughly about \$317 million has been committed to the businesses with whom there is an executed agreement.

Ms Luchetti: Yes.

Senator WATT: Has all of that money been provided to those businesses?

Ms Luchetti: Then there's the next breakdown. Noting, when we work with the businesses, we work on milestone payments. Of those 34 for integration and translation, they all will have different milestone payments factored into their contract agreements. Working through that, under translation and integration round 1, \$83.8 million has been paid to business; \$5 million has been paid under SCRI round 1; \$19.5 million has been paid under MMF round 2; and \$5.1 million has been paid under the AMGC Commercialisation Fund.

Senator WATT: So it's about \$113-ish million?

Ms Luchetti: That's correct.

Senator WATT: That is in the hands of those businesses?

Ms Luchetti: Yes. My understanding is that, for integrated translation, all first-milestone payments have paid.

Senator WATT: Okay. I think that's all I need on that front, but could you table that information.

Ms Luchetti: Yes.

Senator WATT: Could you also table, for the executed agreements, how much has been committed to each business and how much has been paid to each business.

Ms Luchetti: Yes, not a problem.

Senator WATT: For the collaboration stream, how much did you say has been paid out?

Ms Luchetti: The collaboration stream has only just been announced, having been announced on 1 March, and \$601.2 million has been publicly committed. We are now going through the process of working with those businesses to execute those grants. You can appreciate that the collaboration stream is complex, as we are working with multiple partners. We're now going through that due diligence and working with those businesses.

Senator WATT: Sorry if you've said this already, but does that mean there are not, as yet, any executed agreements in the collaboration stream?

Ms Luchetti: That's correct.

Senator WATT: Okay. That also means none of that money has been paid out yet?

Ms Luchetti: That's correct.

Senator WATT: Thanks. That's probably all I need on that.

In budget estimates last year, we were told that the government was on track to commit, I think, \$72 million in executed agreements under the MMS by 30 June last year. Was that achieved in the end? How much was actually committed under the strategy as a whole?

Mr Fredericks: I'm just checking: are you after the number for 30 June 2021?

Senator WATT: For 2021, how much was committed in executed agreements under the strategy as a whole?

Ms Luchetti: I might have to take that on a notice.

Senator WATT: Maybe someone could just try to work that out while we're talking.

Ms Luchetti: Yes.

Senator WATT: How much was in the hands of business under the MMS by 30 June 2021? I think we may have previously been told it was something like \$5.9 million.

Ms Luchetti: That's correct.

Senator WATT: Could you back to me on how much was committed as of that date in executed agreements.

Ms Luchetti: Yes, will do.

Senator WATT: In the estimates in October last year, we were told that the government had committed to \$154.1 million in executed agreements, with \$44.9 million in the hands of business. Does that sound about right?

Ms Luchetti: I'd have to check that.

Senator WATT: When we were talking about this in February, the evidence was that \$292.4 million in executed agreements had been committed to, with \$85.2 million in the hands of business. Does that sound right?

Ms Luchetti: That sounds right, but I'd have to double-check the record, particularly the one from October, in terms of what was executed, what was publicly committed and that type of thing.

Senator WATT: What I'm trying to get to is how much has been paid out at different points in time. Assuming those figures that I've just read to you are right, does that mean that between October 2020, when the strategy was first announced, and when we last spoke on 14 February this year, \$292.4 million in executed agreements had been committed to?

Ms Luchetti: I'll have to double-check that.

Mr Williamson: You said 'when we last spoke'?

Senator WATT: It would have been the February estimates.

Ms Luchetti: I'll just have to double-check what that was.

Senator WATT: Okay. Maybe, again, someone can have look back at that.

Ms Luchetti: Yes, will do.

Senator WATT: There was an article in the *Australian* on 24 March, about a week ago, which said that the government has now committed \$925.7 million, which is pretty similar to that figure you told me earlier: \$923.5 million.

Ms Luchetti: That's correct.

Senator WATT: But we should go with \$923.5 million?

Mr Williamson: That's the most recent figure we've got.

Senator WATT: You don't know where that \$925.7 million figure came from?

Ms Luchetti: I'll have to have a look at it.

Senator WATT: That means that, as of 24 March last week, we got to the point of having \$923.5 million committed. Again, assuming that the figure of \$292.4 million was right as of 14 February, there has been a substantial amount of money committed in executed agreements over the course of about five or six weeks between late February and mid-March.

Mr Fredericks: Certainly committed—because, as we said, the first 11 projects from that collaboration stream have been announced, and that's the larger sums of projects. We'll check the exact numbers, but intuitively that's right.

Senator WATT: Again, assuming the figure of \$292.4 million is right, then between 1 October 2020 and 14 February this year the government committed \$292.1 million for the strategy, which works out at an average of about \$583,000 per day. And then, in the 38 days between 14 February this year and 24 March this year, the government committed around \$630 million at an average of \$16.6 million per day.

Mr Fredericks: That sounds right. In fairness, I think we've given you the explanation: the collaboration round is what has driven that number, and you know that's the big lick of money. So it's an interesting comparison. It's explicit.

Senator WATT: Has there been pressure on the department, from ministers, to get these things committed pre-election?

Mr Fredericks: There has been pressure on the department from me to get this job done—because it's the right thing to do.

Senator WATT: When this collaboration stream was first announced, what was said about when people would receive money? I've forgotten when the applications closed.

Ms Luchetti: Applications closed on 9 September and we've gone through a very rigorous assessment process. An independent assessment committee was appointed by the department. We appointed 40 experts. We had a core membership and then a technical assessment where we had people who represented the various national manufacturing priorities and had specialist skills. Over several weeks those groups met, and many of them reviewed the 83 eligible applications we got. They went through and reviewed those. So it has been a very rigorous process. Due diligence had to be undertaken. We went through financial probity and things like that. Also, when the assessment committee went through their process they then met with IISA, who provided strategic advice in relation to those applications. We also had a process where the committee wanted to 'kick the tyres' on some of those projects and interview some of the applicants to ask further questions.

Senator WATT: I've been reminded that when this strategy was first announced, in 2020, the 2020-21 budget originally profiled \$380 million to be spent in this election year but then, in the additional estimates statements, it was \$429 million for the election year. Why was there such a big change from when this program was first announced?

Mr Fredericks: I have a sneaking suspicion that the change in that number is actually driven by us getting the program out at a slower rate than we had originally profiled.

Mr Williamson: I actually think it's probably money going back through the forward estimates into that year.

Mr Fredericks: A re-profiling.

Ms Luchetti: That's right.

Senator WATT: So the original expectation was that more money would get out in, say, last financial year than ended up happening?

Mr Fredericks: We've had that discussion here. That's on the public record. We've discussed that multiple times. Senator, can I be really frank with you. These programs are never easy. You get criticised for doing them too slowly and then you get criticised for doing them too quickly.

Senator WATT: I don't think I've ever been critical of getting money out the door too quickly.

Mr Fredericks: I'm not saying it's you—

Senator WATT: There are a whole lot of funds that I'd like to see spent a bit more quickly under this government.

Mr Fredericks: That's right. But that's the challenge.

CHAIR: Others, though, would raise due diligence concerns and want to make sure that the homework's done—

Mr Fredericks: It's true. It is a balance. We do our very best to strike the right balance between all necessary due diligence which we need to do to satisfy our responsibilities, achieve value for money and look after the interests of the taxpayer and the balance of keeping a program moving in order to achieve our policy outcomes. So it's a balance. At the end of the day, I am accountable for that balance and I'm satisfied with where we've landed.

Senator WATT: Minister, it's probably best if I put this one to you. Correct me if I misparaphrase, if that's the right word, but the original expectation when this announcement was first made talked about a very large amount of money getting out the door early. But, for one reason or another, it's been held up, and it now just happens to be much, much closer to the election. Isn't it reasonable for people to look at this and interpret that the government has put the brakes on until this money can be distributed much, much closer to an election?

Senator Duniam: No. I think, as Mr Fredericks, the secretary, said, a reasonable assumption to make is that this is about getting process right and making sure that the right decisions are made and officials who assess these projects do all the necessary work. That's exactly what the secretary outlined, and I think that's the reasonable assumption Australians can make about the timing and profiling of funding as it ultimately is rolled out.

Senator WATT: It just conveniently allows the government to wander around over the next few weeks dishing out large amounts of money with big announcements.

Senator Duniam: I think we've already talked through the commitments that have already been made—exciting ones—and the right process has been gone through. Taxpayers should have absolute confidence that they're getting value for money and a proper process has been gone through in getting to this outcome.

Senator WATT: Did I hear before that, with the collaboration stream, as yet no agreements have been executed?

Senator Duniam: That's correct.

Senator WATT: Which also means that the proponents have not yet been publicly announced?

Ms Luchetti: Those 11 have been announced.

Mr Williamson: The first 11 have been.

Senator WATT: How many more are there?

Mr Williamson: There are a number more. I don't know that number. We might have to come back to you on that.

Ms Luchetti: Yes. We'll have to come back to you on that.

Mr Williamson: But there are others to come. Eleven have been announced. That's the \$600-odd million that we talked about earlier.

Senator WATT: Were the dollar figures for each of the proponents announced?

Mr Williamson: Yes.

Ms Luchetti: Yes.

Senator WATT: I don't monitor every one of these media releases.

Mr Williamson: We'll capture that in what we give you.

Senator WATT: But there are more to come?

Ms Luchetti: There are, and there is still round 2 of integration and translation as well, of the 1.5.

Senator WATT: So the successful proponents have been chosen?

Ms Luchetti: That's currently under assessment, going through its processes.

Senator WATT: Is it expected that that assessment will be concluded before caretaker?

Ms Luchetti: That's a matter for government.

Senator WATT: But they're still under assessment by the department at this point in time?

Ms Luchetti: It's with the decision-maker, which is the minister.

Senator WATT: So a few more announcements to come, Minister, just before the election? Hopefully you'll have better luck delivering them than a lot of the other announcements that get made.

Senator Duniam: Good process and good outcomes. Hoo, hoo!

Senator WATT: 'Hoo, hoo,' for the record—chuckle from Minister Duniam! Okay, let's get Mr Campbell up. Your time is here. It would be a hell of a lot easier if you just prepared answers to the questions you know I'm going to ask before you came.

Mr Fredericks: He may well have.

Senator WATT: No, no. I'm talking to Mr Campbell, because he knows exactly what I'm going to ask.

Mr Fredericks: I know. He may well have.

CHAIR: I think you should assume he has.

Senator WATT: Well, can you table the answers to the questions you know I'm going to ask, and then we can all go home! No. There's not much time for theatre today. I'll do my 'shock and horror' later. Mr Campbell, how many additional jobs can be directly attributed to the MMS expenditure and projects so far? This gets into that issue about people who have got to report back to you. I've forgotten the exact terminology.

Mr Campbell: That's exactly right. I can give you an update on the MMF round 1, which is outside the strategy, as you know. We do actually have some more closure reports for that if that would assist. For that one, of the 172 projects, we have 110 that are now completed. They're completion reports.

Senator WATT: One hundred and 10 completion reports?

Mr Campbell: One hundred and 10 are now complete. We have 105 reports, so there are still a few more to come back from that group.

Senator WATT: Can I just stop you there. There are lots of different numbers flying around. There are 172 projects?

Mr Campbell: For modern manufacturing round 1.

Senator WATT: Which is not part of the Modern Manufacturing Strategy.

Mr Williamson: Yes. That preceded the strategy.

Mr Campbell: So, we've got the closure reports for 105 of those 172 projects, and that has brought the jobs number up from that program to 1,050 jobs.

Senator WATT: I'm probably more focused on the 1.5 billion, so let's not worry about round 1, because that was outside the strategy. So, if we stick to the Modern Manufacturing Strategy, the \$1.5 billion, how many completion reports do you have in yet?

Mr Campbell: We don't have any completion reports in yet.

Senator WATT: That means that we don't have any figures on the number of jobs directly attributable to this strategy at this point in time?

Mr Campbell: That's correct.

Senator WATT: So, we can't actually point to any jobs yet that have been directly created from this strategy.

Mr Campbell: Well, we know that jobs have been created from this strategy. It's just that we haven't had a report back from the proponents on where they've got to—those numbers. That would probably be a more accurate description.

Senator WATT: When do you expect to start receiving these completion reports?

Mr Campbell: I might check with a colleague, but certainly within the next six months we'd be expecting to see one or two of them come through for some of the shorter-term projects.

Mr Williamson: Yes, I've just had that confirmed—an initial batch towards the end of the year.

Senator WATT: But at this point in time—you say that we know jobs have been created but we can't point to any jobs in the sense of a number that have been created from this strategy?

Mr Campbell: I can't give you a jobs report that I haven't got—that's right.

Senator WATT: I think that was the same answer as last time, wasn't it?

Mr Campbell: That's right.

Senator WATT: Because it's not until we get these completion reports.

Mr Campbell: That's right.

Senator WATT: I was a bit concerned to see, in the labour force figures released in February this year, that they highlight a further decline in manufacturing employment, from one million people in August 2021 to 854,700 in February this year. Are you familiar with those figures, Mr Campbell?

Mr Campbell: Yes, I can take you through some of those figures.

Senator WATT: Well, probably Minister: how do you account for the fact that manufacturing employment has continued to fall when your government released a strategy in October 2020 promising to create 80,000 additional jobs in manufacturing?

Senator Duniam: Obviously the government's intention remains to grow that sector and the number of jobs in it. That's why we are making the commitments that we have. But I think as Mr Campbell already indicated, he'd be happy to take you through the contributors to the result you've just outlined.

Senator WATT: So—before we go to Mr Campbell—it's still the government's intention to create 80,000 additional jobs in manufacturing; it's just that over the past few months we've lost 150,000?

Mr Campbell: I'm happy to talk to the figures, because there's a range of figures in the public domain from the ABS. I think at the last estimates I described that there were about three quarters of positive growth throughout last calendar year before we hit the delta surge and the lockdowns in the latter half of last year, and then that came into the omicron phase in the December-January period. That's certainly having an impact on the numbers that we've seen in the last couple of quarters.

One of the challenges, though—and we had a lot of discussions with the ABS around the labour force data—is that it's purely respondent-driven from surveys. There's a labour accounts survey that they recommend that they use more properly to assess the stability of particular jobs across sectors, because they match it to the employing business. And when they do that you actually have an increase in the last quarter in jobs from manufacturing. Probably that's a bit more consistent with the results that we're getting from the Ai Group performance management index, which is showing high levels of confidence and high levels of conditions in the sector—particularly in March, and we've just had the results come out today for that, which point to a further increase in March for the index and a strong increase in the employment index, which jumped another 9.9 percentage points.

We also have quite a large jump in job vacancy data for manufacturing. The job vacancy data has gone up 149.8 per cent compared with the pre-pandemic levels. So, the sector's quite strong. Confidence has bounced back after the delta and omicron waves, which is more in line with the level of unemployment we're now seeing across the economy more broadly. As you know, the unemployment rate recently hit four per cent. So I wouldn't want to put too much weight on just one measure of the sector. When you take it as a whole—including the labour accounts data, which showed some increase—you start to see more consistent picture.

Senator WATT: But, Minister, the bottom line is that the labour force figures do show an ongoing decline in employment in manufacturing, down to 854,700 in February this year. Are you still confident, or can you assure Australians, that the government will achieve its promise to create 80,000 additional jobs in manufacturing?

Senator Duniam: I would say—noting everything Mr Campbell said—that we remain committed to doing the best we can. We've got the goal that you've already outlined, and that's what we are committed to delivering.

Senator WATT: So you actually have to catch up. It will have to be well above 80,000 now if we're going to see more people employed in manufacturing than was the case when the strategy was first released.

Senator Duniam: Mm. I think—as Mr Campbell, again, has already outlined—we've seen some pretty extraordinary circumstances contributing to that, but we remain committed to creating jobs, and I think all of the projects we've talked about will go a long way to helping us get there.

Senator WATT: Okay. I probably need Ms Luchetti back up now. Thanks, Mr Campbell. I think that's all I've got for you at this stage.

Mr Campbell: Thank you.

Senator WATT: At the risk of asking you things that I've already asked, let's see how we go. I will start with the MMI collaboration stream. I think you previously gave evidence that 86 applications were received by 9 September last year and 81 of those 86 were eligible.

Ms Luchetti: Yes.

Senator WATT: Sorry, I don't think I've asked you how many projects were successful.

Ms Luchetti: Eleven are publicly announced so far.

Senator WATT: But we've just heard that there will be more.

Ms Luchetti: That's correct.

Senator WATT: Do you know how many more?

Ms Luchetti: I would have to take that on notice.

Senator WATT: Are there others that have been selected but not yet announced, or is it that more have been recommended to the minister but haven't been decided on yet?

Ms Luchetti: They haven't been announced yet.

Senator WATT: So there are a number of extra projects that have been signed off by the minister but haven't yet been announced?

Ms Luchetti: That's correct, yes.

Senator WATT: Could we get someone to try and work out what that figure is?

Ms Luchetti: Yes, we will do that.

Senator WATT: I imagine that's pretty easy to find out. That'll be it then?

Ms Luchetti: For the collaboration stream?

Senator WATT: For the collaboration stream.

Ms Luchetti: That's correct.

Senator WATT: So 11 are announced so far. When do you expect the \$800 million that's been set aside for the collaboration stream to be committed in full—that is, contractually committed?

Ms Luchetti: As soon as those announcements are made, we'll work very quickly with those proponents to execute those grants. With the collaboration stream, there are multiple partners—I know I've previously said that. Many of them will have six or seven partners, so we have to go through and do the due diligence on each of those partners. So it takes us a bit of time to work with those businesses, but, as soon as those announcements are made, we will be working very quickly to execute those grants.

Senator WATT: For the MMI translation and integration streams round 2, applications closed on 14 January this year?

Ms Luchetti: That's correct, yes.

Senator WATT: How many applications were received?

Ms Luchetti: There were—

Mr Williamson: Four hundred and thirty-two.

Ms Luchetti: Thank you.

Senator WATT: Do we know how many were successful?

Mr Williamson: That's still under assessment.

Senator WATT: Is that the one that you were saying is waiting with the minister?

Mr Williamson: Yes.

Ms Luchetti: That's correct.

Senator WATT: So recommendations have been made and it's now up to the minister?

Mr Williamson: Correct.

Ms Luchetti: That's correct, yes.

Senator WATT: How many have been recommended?

Ms Luchetti: I would have to take that on notice. I can probably get Ms Mulder to come up and talk to the process of how these are done, if that's helpful.

Senator WATT: Yes, just briefly, if that's okay.

Ms Mulder: In the process, as has already been mentioned, there is an independent assessment committee which is industry led. The members of that committee undertake the merit assessment of the applications. From there, that advice is then provided to the minister. Sorry—an additional step to that is the strategic advice from Industry Innovation and Science Australia.

Senator WATT: Do you know how many have been recommended out of the 432?

Ms Mulder: I'd have to take that on notice as well.

Senator WATT: You were saying before it's really a decision for government about when they announce them.

Ms Mulder: Correct.

Senator WATT: A decision has been made on these by the minister, or did you say not?

Ms Mulder: No, a decision has not been made. But, yes, you're correct that when announcements are made, that's a decision of the minister.

Senator WATT: Supply chain resilience initiative, round 2 closed on 17 January.

Ms Mulder: Correct.

Senator WATT: How many applications were received for that?

Ms Luchetti: There were 29 applications.

Senator WATT: How many were successful?

Ms Mulder: Once again, that's under assessment for round 2.

Senator WATT: Is it with the minister or with the department?

Ms Mulder: That's with the minister.

Senator WATT: How many have been recommended?

Ms Mulder: Again, I'd have to take that on notice.

Senator WATT: So, there's been a recommendation to the minister and it's with the minister?

Ms Mulder: It's been merit assessed, correct, and advice has been provided to the minister.

Senator WATT: It has been more than two months since both of those programs had applications close. We're going to see these before the election, aren't we, Minister?

Senator Duniam: The minister will make an announcement when—

Senator WATT: When he gets the most bang for it.

Senator Duniam: chooses to do so—so cynical.

Senator WATT: In terms of funding for the Modern Manufacturing Strategy, Mr Fredricks, would you accept the general proposition that industry does need certainty in order to plan for the future and make investment decisions, as a general proposition?

Mr Fredericks: As a highest-level generality, yes.

Senator WATT: If you didn't accept that proposition, I was going to suggest that you perhaps need to be in a different department, so I'm happy to hear that! Would you agree that part of that certainty is having a long-term strategic policy agenda?

Mr Fredericks: At the highest level, yes.

Senator WATT: Correct.

Mr Fredericks: To be fair, that is the work of the department, so you're right.

Senator WATT: More seriously, do you think it is consistent with that need for certainty that it's in the interest of industry for governments to allocate funding in a time line that allows them to plan, rather than one that aligns with government's election time frames?

Mr Fredericks: That is a perfectly relevant factor that needs to be brought into account; that's very fair. It's not the only factor, though, because the other factor is the capacity of a department like ours to make sure that we do the proper process and the due diligence that we need to do on behalf of the taxpayer as well. Senator, you know that our life is a matter of striking a balance, sometimes between competing priorities. As I said earlier, I am comfortable that the department has done its very best to strike the right balance between satisfying the necessity for certainty for industry and for business as strongly as possible and doing that at a reasonable pace in making sure that the program has momentum and ensuring that that's done in the most rigorous possible way to ensure that we're getting value for money for the taxpayer, because that's the accountability that we bear.

Senator WATT: I must admit I missed this in the budget, but I understand the budget committed a further \$250 million over two years to extend the MMI.

Mr Fredericks: Correct.

Senator WATT: Does that mean we now have a \$1.75 billion Modern Manufacturing Strategy, or have I missed something? Minister, surely you wouldn't have missed the opportunity to talk it up like that, would you? It's getting awfully close to \$2 billion.

Mr Fredericks: We should get you the exact numbers.

Mr Williamson: There are a number of announcements in the budget for further funding for the strategy. Ms Luchetti can take you through them.

Senator WATT: In the interest of time, can we focus on the MMI? There was \$250 million extra over two years for the MMI. Did officials within the department provide the government with any advice suggesting that time frame for that extra funding, that it should be over two years rather than anything more long term?

Mr Fredericks: We have to be careful. Ultimately, the time frame that's been arrived at, obviously, has been determined by cabinet in the budget context, so we can't give you evidence as to our advice in the cabinet context.

Senator WATT: Putting it in a different way, can you explain to me the policy rationale in extending this program for only two years of the forward estimates?

Mr Fredericks: I don't think I can answer that, in fairness, because part of me giving you evidence about what the policy rationale is is to explain to you the advice we've provided to government in the cabinet context.

Senator WATT: Given the conversation we were just having about the benefits to industry of longer-term certainty for planning investment decisions, that kind of relatively short-term extension of a program isn't consistent with giving industry that level of certainty, is it?

Mr Fredericks: The thing I'd say about that we're once again in a world of balance. The point you're making is valid and it's a relevant consideration, but it isn't the only consideration. In these circumstances cabinets need to think about more than just that issue. They need to think about the impact on the budget as a whole.

As I say, I've just got to be careful because I can't and don't want to infringe cabinet in confidence. But I think it's fair to say that these decisions aren't linear. Just as I've described the balance I'm trying to strike in the delivery of this program, when you bring in cabinet, it's also striking balances in that outcome. And it is ultimately a matter for cabinet.

Senator WATT: Minister, isn't the reality that this budget is just another example of the government providing short-term extensions of funding for programs to get it through the election? I've just come from the community affairs estimates committee, where there was a whole range of programs in health like that, where people have had programs extended for 12 months, 18 months or two years, but not for four years. It's all about just getting through the election, isn't it?

Senator Duniam: No.

Senator WATT: It's just a coincidence that you only want to do it for two years rather than four?

Senator Duniam: Mr Fredericks has outlined, to the fullest extent he's able, the process the department goes through. Then, of course, there's a cabinet process attached to that. I'm absolutely certain that recipients or proponents of projects who are successful welcome any further announcement for further funding. I reckon there'll be some happy people out there about the announcements made in the budget. Mr Williamson, did you have anything?

Mr Williamson: I mentioned there were other measures in the budget—this goes to timing. The MMI was also extended for five years for a regional-specific round of MMI. That's \$500 million over five years which was also announced. There was also a third round of the MMF, which you're familiar with, which is another \$50 million over four years.

Senator WATT: One of the other ones that was announced in the budget was \$6.9 million over two years to develop manufacturing investment plans to guide government and industry investment in national manufacturing priorities. Why is it that it's only now that the government has recognised it's important to strategically invest this kind of money to guide government and industry investment in national manufacturing policies?

Mr Williamson: I'll get Mr Purtell to assist. This is actually not the first strategic planning component of the strategy. You'll recall that upon announcement there were initial road maps developed in each of the manufacturing priority areas. The manufacturing investment plans that were announced in the budget are effectively taking that work to the next level, based on the experience and insights gleaned over the last 18 months and further insights from industry.

Mr Purtell: I think they're the high-level summaries. As you recall, I think we spoke about it at the time, over last summer—effectively between December and March. The year before last and last year, we did that very

intense road map process that led to those documents that have informed the MMI and other funding processes for the last 12 months. But those road maps were never intended to be static. Just as we did with the road maps, we want to work with industry to do the next phase, which is these manufacturing investment plans.

Senator WATT: What activities will this money be used for?

Mr Purtell: At the moment we'll be looking at some of the international comparisons here, which we've been doing for a while. You might be aware that the UK sector deals is an interesting model—though not entirely applicable in Australian context—that has lots of useful elements. There is the Canadian super plus process. There are also useful lessons from Singapore. While they're all different, what all those things have in common, is a governance mechanism for working with industry.

Initially, we'll set that up for each of the six national manufacturing priorities, and then we'll also do research and we'll probably need to bring in some external expertise. I would suggest some of the money will go to doing baseline analysis of the competitiveness and opportunities and challenges of each of those six areas. We would expect that, as part of that industry consultation, just like with road maps, while we might have a core and a governance function for each of the six areas, industry consultation has to be much, much bigger than that, and we will need to travel across the country—functions like that.

Senator WATT: In the budget, the government announced \$328.3 million over five years to further support the MMS. How much of that has been committed?

Mr Williamson: Sorry, the \$328 million—I'm with you—that's new funding.

Senator WATT: The new funding?

Mr Williamson: That's new funding, yes.

Senator WATT: It presumably puts together the \$250 million for MMI plus the additional programs you went through, Mr Williamson?

Mr Williamson: Correct. That's exactly right. It's the MMI, MMF and the manufacturing investment plans, and also some additional funding for the Supply Chain Resilience Initiative.

Senator WATT: Has any of that new funding been committed yet?

Mr Williamson: No.

Ms Luchetti: No.

Senator WATT: Will there be application processes for that, as there have been previously?

Mr Williamson: We would expect so, yes.

Ms Luchetti: Yes.

Senator WATT: The budget papers also state that partial funding for this measure has already been provided for by the government. Can you point me to where and how that's happened?

Mr Williamson: I think that refers to the funding for the investment plans, which I think was provided for in MYEFO.

Senator WATT: Was that the \$6.9 million we were just talking about?

Mr Williamson: Yes.

Senator WATT: Was that a decision taken but not announced in MYEFO?

Mr Williamson: Yes. Correct.

Senator WATT: Is that the only funding that has already been provided for by the government that you're aware of?

Mr Williamson: It is. I'll just check with my colleagues.

Ms Luchetti: There was \$1 million for a manufacturing workforce strategy as well.

Senator WATT: Was that also in MYEFO?

Mr Williamson: Yes.

Ms Luchetti: That's right.

Senator WATT: In the budget papers, the 'Boosting the Modern Manufacturing Strategy' appears as 'nfp'? Why was that not spelt out in more detail?

Mr Fredericks: I think I can assist on that. Whenever there are constituent elements in a budget measure and one of those constituent elements is 'nfp' then the measure becomes 'nfp'. You'll notice that there's a section at page 124 that says:

The Government will also address further critical supply chain pressure.

The payments by the Department of Industry, Science, Energy and Resources are not for publication (nfp) due to commercial-in-confidence sensitivities.

That's suggesting to you that there's one element that is commercial-in-confidence and therefore not for publication, so the line becomes 'nfp'. That's just a function of the budget. That's why the actual monies that aren't 'nfp' are unpacked in the text.

Senator WATT: Does that mean that the government intends to address further critical supply chain pressures through some form of payment to particular companies and that those details need to be kept confidential?

Mr Fredericks: I can't confirm the greater detail. All I can say is that there is an element that is effectively DTBNYA.

Senator WATT: The article in the *Australian* that we were talking about a little earlier from 24 March, about a week ago, said that it was foreshadowed that the budget would include a manufacturing budget package worth more than \$1 billion, but in actual fact the new funding is only \$328.3 million. Is that right?

Mr Williamson: We can take you through the parts. But what that \$300 million doesn't include is the amount for the regional rounds of our manufacturing strategy. That funding appears in the regional portfolios PBS.

Senator WATT: How much is that worth?

Mr Williamson: It's \$500 million for the MMI and \$200 million for the Supply Chain Resilience Initiative.

Senator WATT: So you put that with the \$328 million, and that's how you get to \$1 billion.

Mr Williamson: That's correct.

Mr Fredericks: Just to be clear on that, we did reflect that it in the PBS, because it's a legitimate point that you make. The monies are in two different portfolios, but we did our best to aggregate them in the PBS so that you could see the \$1 billion in there.

Senator WATT: Great. I think we're done on manufacturing. Thank you.

CHAIR: Let's move straight to critical minerals.

Senator CHISHOLM: I note that the critical mineral strategy update was announced by the minister in mid-March this year. That was an update to the previous critical minerals strategy, from four years ago. Has the department done a report on the outcomes of the 2019 critical minerals strategy?

Ms Long: We haven't done a formal report on the outcomes of the first strategy, but we've absolutely been looking at the focus of that strategy, looking at how things have been changing in the sector and more broadly and considering how better to articulate government's objectives in this space, based on what changes we've seen in the sector and in terms of the objectives more broadly for international engagement with partners as well. The strategy sets out the government's priorities in a much clearer way than the previous one. It has a very clear and explicit vision by government and three objectives for the sector that the government has identified to reach that vision, which is around securing stable supply, developing sovereign capability, creating regional jobs and growth. It also more clearly articulates how the government intends to go about achieving that vision. For example, it identifies three work streams.

When the strategy first came out, that was at the very outset of the creation of the Critical Minerals Facilitation Office. The office has now been in place for awhile. This has enabled us to better reflect the work program at the CMFO and the work that's been done across government to support critical minerals, because it's not just the CMFO and this department. We partner with a range of other agencies to achieve the government's objectives.

We've identified three key work streams. The first is about derisking projects. The second is about creating an enabling environment. For example, that looks at things like R&D investment, enhancing standards and encouraging shared infrastructure—precincts type work. The third is about strengthening international apprenticeships, which is a big facet of what the CMFO and government are doing in order to improve collaboration and to have those partnerships to support the Australian sector and secure commercial offtake agreements.

Senator CHISHOLM: What I was hoping to get was some clarity. Aside from the new initiatives that were announced at the time of the release, what else has been changed or updated as part of the new strategy?

Ms Long: One key thing that I should have mentioned is that the updated strategy includes two new critical minerals. We have a critical minerals list for Australia, and we have added two minerals to that list: silicon and high-purity aluminium. This reflects the increasing importance to the global economy of applications such as semi-conductors and electrification technologies. That is a key change. That was based on a range of analysis that the CMFO has done around the importance of these minerals.

Senator CHISHOLM: Were those existing initiatives in place before the new strategy was launched?

Ms Long: When you say 'those initiatives', which ones are you referring to?

Senator CHISHOLM: Were the ones you just ran through then in place or are they new now, as part of the announcement? Were they just added to the strategy, the department already doing them?

Ms Long: Do you mean the work streams—de-risking projects and creating an enabling environment?

Senator CHISHOLM: Yes.

Ms Long: There were absolutely elements of that work that were already underway. This was a way of clarifying what that work is. There was already quite a lot of activity underway under those streams. However, the budget and the release of the updated strategy add some new elements to those work streams. For example, there's the Critical Minerals Accelerator Initiative and the R&D centre that add to that work stream and contribute to the objectives.

Senator CHISHOLM: I was about to get onto the virtual critical minerals and research centre. How will it work? What makes it virtual and why is it virtual rather than being based in a physical location?

Ms Long: The Critical Minerals Research and Development Centre is intended to drive breakthrough collaborative research and enable the critical minerals industry to overcome technical challenges in line with the Critical Minerals Strategy. The centre is going to build on our world-leading research capabilities, and it's going to draw together the expertise from CSIRO, Geoscience Australia and ANSTO. CSIRO will host the centre, but the partner agencies involved, including this department, will contribute expertise and tools and participate in the research. Each agency will have a dedicated staff that will work on the centre. It is virtual because it is bringing together the capabilities, skills and people from across all of those agencies that are located in different parts of Australia.

Senator CHISHOLM: CSIRO is the lead agency. Would that be accurate?

Ms Long: I wouldn't characterise CSIRO as the lead agency—it is collaborative amongst all of those partners—however, they will host the centre and provide some of the basic administrative functions and things like that.

Senator CHISHOLM: They're the host agency.

Ms Long: That's correct.

Senator CHISHOLM: How will that work from a governance point of view?

Ms Long: I might need to take that one on notice.

Senator CHISHOLM: When is this likely to be up and running? Is there a time frame?

Ms Long: We're looking at getting this up and running as quickly as possible. In announcing the centre, the government noted its initial research focus will be on the two new minerals on the critical minerals list that I spoke about before. The centre is also going to undertake a strategic body of work to understand our critical minerals vulnerabilities, opportunities and R&D gaps. That work will start very soon. I might need to take on notice the exact time frames, but the intention is to kick off those projects now.

Senator CHISHOLM: So there will be governance arrangements in place, but they're not done yet? What's the process there?

Ms Long: My understanding is that there are governance arrangements that have been discussed and agreed between the agencies. I just need to take on notice the detail of those.

Senator CHISHOLM: What about its relationship with researchers in universities and industries?

Ms Long: The intention of this centre is for it to be very open and collaborative, and to work with other researchers, universities and, particularly, industry as well. I mentioned that we're kicking off a number of projects now. However, later in the year, the centre will develop proposals for a second tranche of collaborative projects which will be delivered with industry. So, there will be a lot of work to consult and engage with industry on those projects. There will be an independent advisory panel that will comprise both industry and other research university experts to provide advice on the proposals and the work going forward.

Senator CHISHOLM: Will the virtual research centre conduct its own research, or will it commission others to conduct the research?

Ms Long: I think it could potentially be a combination of both of those. It will be drawing on the expertise of the three agencies that I mentioned, but there is absolutely potential to collaborate and to join and partner with others and commission other work.

Senator CHISHOLM: The budget has set aside \$200 million for grants under the Critical Minerals Accelerator Initiative for the next five years, which is roughly \$40 million a year. How many grants per year does the government anticipate will be made under the accelerator initiative?

Ms Long: I don't have that exact figure in terms of the number of grants. I can tell you that the intention is for the grants to be up to about \$30 million—

Senator CHISHOLM: That's \$30 million each?

Ms Long: Up to \$30 million each, that's correct.

Senator CHISHOLM: How will the grant recommendations and decisions be made?

Ms Long: In order to support the minister who will make a decision about the successful grant recipients, we've set up an expert advisory panel that will provide advice to the minister on prospective projects and the focus of the program and things like that. There will also be an assessment. There's an assessment panel that is formed within the department that provides advice to the minister in order to inform his decision. There could also be additional expertise—commercial advice—sought on project applications to inform that decision.

Senator CHISHOLM: Are there criteria?

Ms Long: Absolutely, yes. There are guidelines which will be very much in line with the Critical Minerals Strategy that will specify the criteria for that.

Senator CHISHOLM: The guidelines are not set yet?

Ms Long: The guidelines will need to be agreed, that's correct.

Senator CHISHOLM: Is there any sense of when that will happen?

Ms Long: The government has actually chosen to act quite quickly. So, work on an initial closed competitive round is already well advanced. Strategic, significant, early- to mid-stage projects have been identified. That was done using existing industry knowledge and analysis, and it was supplemented by independent expert advice. That round is currently in train. However, following this round, the program will move to a perpetually open model and will be more flexible around the time frames.

Senator CHISHOLM: Hang on a sec—announcements are going to be made and grants are going to be given before the guidelines are in place.

Ms Long: Sorry, the guidelines for that closed round are in place. However, the guidelines for the ongoing program in terms of the perpetually open phase are yet to be agreed.

Senator CHISHOLM: Right. You've already received applications for the accelerator initiative under the previous model, is that what you're—

Ms Long: Under a closed competitive round, we have received applications. That's correct.

Senator CHISHOLM: And how will those be assessed?

Ms Long: They will be assessed in line with the process that I outlined previously. There is an independent expert panel that has looked at those applications and provided advice. Similarly, we have an internal assessment committee that provides advice to the minister and some commercial independent advice also.

Senator CHISHOLM: And we're expecting those to be announced soon?

Ms Long: Currently that's with the minister for decision.

Senator CHISHOLM: There's a bit of that going on, isn't there, at the moment?

Senator Duniam: I'm sure recipients will be very happy when they get the good news.

Senator CHISHOLM: It's very busy with all that work that's gone on across the department over the last couple of months before the election.

Senator Duniam: And a lot longer too. I commend them for their—

Senator CHISHOLM: Actually, it hasn't been a lot longer because we've had evidence at multiple estimates that you haven't been at, in your defence, Minister—

Senator Duniam: If you had heard—

Senator CHISHOLM: including the hiring of expensive consultants to be doing the assessment and some of these things as well. Finally, the Critical Minerals Facility is able to provide up to \$2 billion of loans. Is the facility time-limited?

Ms Long: I don't believe that's—

Mr Fredericks: Is that the DFAT facility?

Ms Long: That's correct.

Mr Fredericks: That's over at DFAT with Austrade—the facility from the FFO?

Ms Long: It's Export Finance Australia.

Mr Fredericks: Sorry—EFA, yes. Thank you.

Senator CHISHOLM: Thanks. Thanks, Chair.

CHAIR: There being no further questions at this time, the committee's consideration of the 2022-23 budget estimates will suspend until Wednesday 6 April 2022. I thank Assistant Minister Duniam for joining us at this hearing and officers of the Department of Industry, Science, Energy and Resources who have given evidence to the committee today. Mr Fredericks, you were helpful to the highest level. Thank you also to Hansard, Broadcasting and the committee secretariat.

Committee adjourned at 18:16