

THE SENATE
SENATE FINANCE AND PUBLIC ADMINISTRATION
REFERENCES COMMITTEE

**Inquiry into access to the Outcomes of the 42nd meeting of the Council of
Australian Governments held on 1 April 2016**

**Public Hearing – Monday 27 April 2016
Question Taken on Notice – The Treasury**

1. HANSARD, Pages 13 & 14

Senator WONG: Okay. So that was a briefing for the Prime Minister. You say you consulted with Treasury. Who did you consult with?

Mr Yeaman: Various officials, including Mr Brennan.

Senator WONG: Mr Brake, you were consulted?

Mr Brake: A team which I lead at the time, which was the tax reform task force, has been working very closely with the PM&C since the two white papers were announced. So worked very closely in the lead-up to COAG—

Senator WONG: Mr Brake, that was not my question. Were you consulted specifically on the briefing provided to the Prime Minister that was given on 22 January?

Mr Brake: My team would have been consulted on that.

Senator WONG: You said 'would have been'. Was your team consulted or not and, if so, who was?

Mr Brennan: I think we would have to check that. I personally do not have a firsthand recollection of the consultations—

Senator WONG: So why are you here, Mr Brennan?

Mr Brennan: I have had an involvement throughout the process on these matters, but as to the nature of the consultations we had with PM&C—

Senator WONG: I made very clear, including before, that we would be going in detail through the process in the lead-up to the COAG. If you do not have the officers here, I suggest you perhaps ask them to come here.

Mr Brennan: I am confident we have the officers here to answer these questions.

Senator WONG: Then someone answer my question.

Mr Brennan: I am not sure that we can give a precise account at this point as to the precise nature, timing and identity of who discussed what.

Senator WONG: There is a briefing to the Prime Minister on the largest changes to the Federation in 40 years and I want to know when the Treasury was consulted and who was consulted, and I want to understand the nature of those consultations.

Mr Brennan: I think we will have to take that on notice.

Senator WONG: You are going to take it on notice?

Mr Brennan: Yes.

Mr Brake: I think we can be very confident in saying that there was ongoing consultation; about a particular date we would need to take that on notice.

Senator WONG: Okay. So you are going to say 'ongoing consultation' generally, but you cannot tell me about the first briefing to the Prime Minister, which is the first time we can identify the state income tax levy. Let us not obfuscate by talking about revenue sharing, different models of taxation et cetera. We are talking about a specific double taxation proposition—that is, the states being able to levy their own income tax. The evidence is that the first briefing to the Prime Minister about that is January 2016. You say that you have been consulted, but you cannot tell me who, when, what or how. Correct?

Mr Brake: We will have to take on notice the precise details.

Senator WONG: What did you think you were going to be asked before this hearing, Mr Brake? Is there someone behind you who actually did this work and who might be able to answer my questions?

Mr Brake: We will need to continue to take that on notice.

Senator WONG: Can you come back later today?

Mr Brake: We will do our best.

Treasury response

Treasury worked closely with PM&C throughout the Federation White Paper process, including in preparation for the COAG meeting on 1 April 2016. Treasury was not consulted on the specifics of this briefing, but was consulted at the time on the issues and implications raised by the State income tax levy proposal so that both Departments were aware of each other's views.

2. HANSARD, Page 19

Senator WONG: Did you at any point model the effect of a state income tax levy, what it would look like, the different rates?

Mr Brake: Like Mr Yeaman, I would come back to the—

Senator WONG: Did you do any modelling?

Mr Brennan: I would not describe it as modelling, no.

Senator WONG: You did analysis?

Mr Brennan: We have done quantitative analysis, yes.

Senator WONG: When did you start that quantitative analysis?

Mr Brennan: I would have to take that on notice, but we have certainly done quantitative analysis on the broader issue. I take the point you are making, but—

Senator WONG: Did you do quantitative analysis on the idea of a state income tax levy?

Mr Brennan: I think we did, but I would have to take on notice that specific question.

Senator WONG: Could you come back to me on that.

Mr Brennan: Yes.

Treasury response

Treasury prepared quantitative analysis on a State income tax levy proposal, commencing in January 2016. In preparing this analysis Treasury also drew on analysis prepared earlier in the federation and tax reform processes, for example in response to Premier Weatherill's income tax revenue sharing proposal.

3. HANSARD, Page 21

Senator McKIM: Including the income tax levy proposal? Was it PM&C's decision to include that as one of the range of reforms in that brief, or did the PM's office get in touch and ask for it to be included?

Ms Larkins: To the best of my memory, we provided a fairly comprehensive briefing on what had happened in the Reform of the Federation work, which included this proposal, and I think that might have then led into further discussions with the Prime Minister's office and the Prime Minister. So we initiated a briefing on all of the work and all of the options.

Senator McKIM: Just to be clear, to the best of your knowledge, it was not included in that briefing note at the request of the Prime Minister's office?

Ms Larkins: Yes. To answer that specifically, I want to take that on notice. My memory is we provided to the new Prime Minister and the new office comprehensive briefings on what had occurred under the Reform of the Federation process, including a whole lot of historical documents. That will have included briefing on this particular measure.

Senator McKIM: I would appreciate it if you could take that on notice, and if there is anything different perhaps you could inform the committee. Could I ask the same question to Treasury? Mr Brennan, would you like me to repeat it?

Mr Brennan: No, that is fine. Likewise, I think we would have to check. I am happy to check, but I do not recall a request being made that a brief deal with a particular issue. Whilst I acknowledge the point that is being made here about the distinction between revenue sharing and giving states the autonomy to set an income tax rate, the two have often been talked about together in the same context. I think the fact that our briefing was comprehensive and dealt with a range of potential options would have been just normal practice.

Treasury response

Treasury included analysis and advice on a State income tax levy proposal in briefing to the Treasurer. This was considered among a range of income tax sharing proposals over a prolonged period.

4. HANSARD, Page 21

Senator McKIM: Thank you. After the briefing, was there a communication from the Treasurer or the Treasurer's office to the department to do more work on the state income tax levy proposal?

Mr Brennan: Again, I do not recall that. I am conscious that we provided ongoing briefing over that period on a range of matters involving revenue sharing as well. I would have to check the record as to whether they were explicitly requested or whether we provided that advice.

Senator McKIM: Could you take that on notice?

Mr Brennan: I am happy to do that.

Treasury response

Treasury has no record of any such request.

5. HANSARD, Page 21

Senator McKIM: What I am trying to explore here is when and how the broad range of options were distilled down, if they were, and became advice or support materials for the PM to use in the announcement that he made. Just for clarity, that is the intent of that question. Ms Larkins, was there anything prepared by PM&C for the Prime Minister specifically to provide to state premiers and chief ministers around the state income tax levy proposal?

Ms Larkins: Do you mean written material that he could pass on?

Senator McKIM: Yes.

Ms Larkins: Not to my knowledge.

Senator McKIM: Mr Brennan, the same question for you. Was there anything specifically prepared for the Treasurer to provide to state and territory treasurers?

Mr Brennan: No, I do not believe so.

Senator McKIM: Could I ask you both to take that on notice to confirm those answers. Thank you.

Treasury response

No.

6. HANSARD, Page 29

Senator McKIM: I am actually not sure which agency would be the lead agency for doing this, so I will put it to both you. Can one of you take on notice to provide details of any modelling that Health has done to date on those matters and also perhaps to provide an overview for the committee on the details. You have given a high-level response, which I appreciate, but the details of the model that will be used to allocate the funding.

Mr Brennan: Yes, we can do that.

Treasury response

PM&C will provide a response.

7. HANSARD, Page 34

Senator GALLAGHER: In terms of the rationale, in unpacking that \$2.9 billion. When you look at the Parliamentary Budget Office analysis, for example, it says that \$7.9 billion has been cut from expected health funding over the forward estimates period. This returns \$2.9 billion to the states. Is there a policy rationale behind that?

Mr Brennan: In one sense, they are questions for Health, but my sense is that it is less about the \$2.9 billion than it was about the indexation rate. So the states were particularly keen on achieving a higher level of indexation than was factored into the forward estimates, and the COAG agreement was really around the 6½ per cent cap.

Senator GALLAGHER: Which led to that figure—

Mr Brennan: That is right—the 2.9.

Senator GALLAGHER: on being determined.

Mr Brennan: Correct.

Senator GALLAGHER: But it is still less than what had been previously factored into the forward estimates for expected health funding?

Mr Brennan: I would have to take that on notice.

Senator GALLAGHER: Could you?

Mr Brennan: Yes.

Senator GALLAGHER: It would be good to know...

Treasury response

Public hospital funding estimates are regularly revised for updated activity and price parameters, provided by the States via the National Health Funding Body and by the Independent Hospital Pricing Authority respectively.

In terms of policy settings, the Government is continuing with its policy decisions from 2014 to not pay guarantees under the National Health Reform Agreement, and to continue to provide 45% of efficient growth beyond 2016-17. As part of the agreement reached by COAG, from 2017-18, growth in the Government's contribution will be capped at 6.5 per cent a year, and a number of reforms will be introduced to improve quality and reduce demand for hospital services.

8. HANSARD, Pages 36 & 37

Senator WONG: What was the original budget and was it revised? What are the costs to date? What about the tax white paper? What is happening?

Mr Brake: The government has said that its tax policies will be released with next week's budget.

Senator WONG: So no tax white paper either. It is not a white paper. Let's not have the conversation where I think Senator Cormann said that the budget is printed on white paper. It is not a tax white paper in the sense that policy makers understand. Correct?

Mr Brake: The white paper sets out the government's proposals. As the government said, these proposals will be set out in next week's budget.

Senator WONG: Are you going to be releasing a tax white paper?

Mr Brake: The budget will encapsulate those proposals.

Senator WONG: What are the costs on the white paper to date?

Mr Brake: I will have to take that on notice.

Treasury response

A total of around \$5.4 million has been spent on the Tax Reform Taskforce (formerly Tax White Paper Taskforce) from 2014 to March 2016. This figure includes employee expenses and operating expenses.