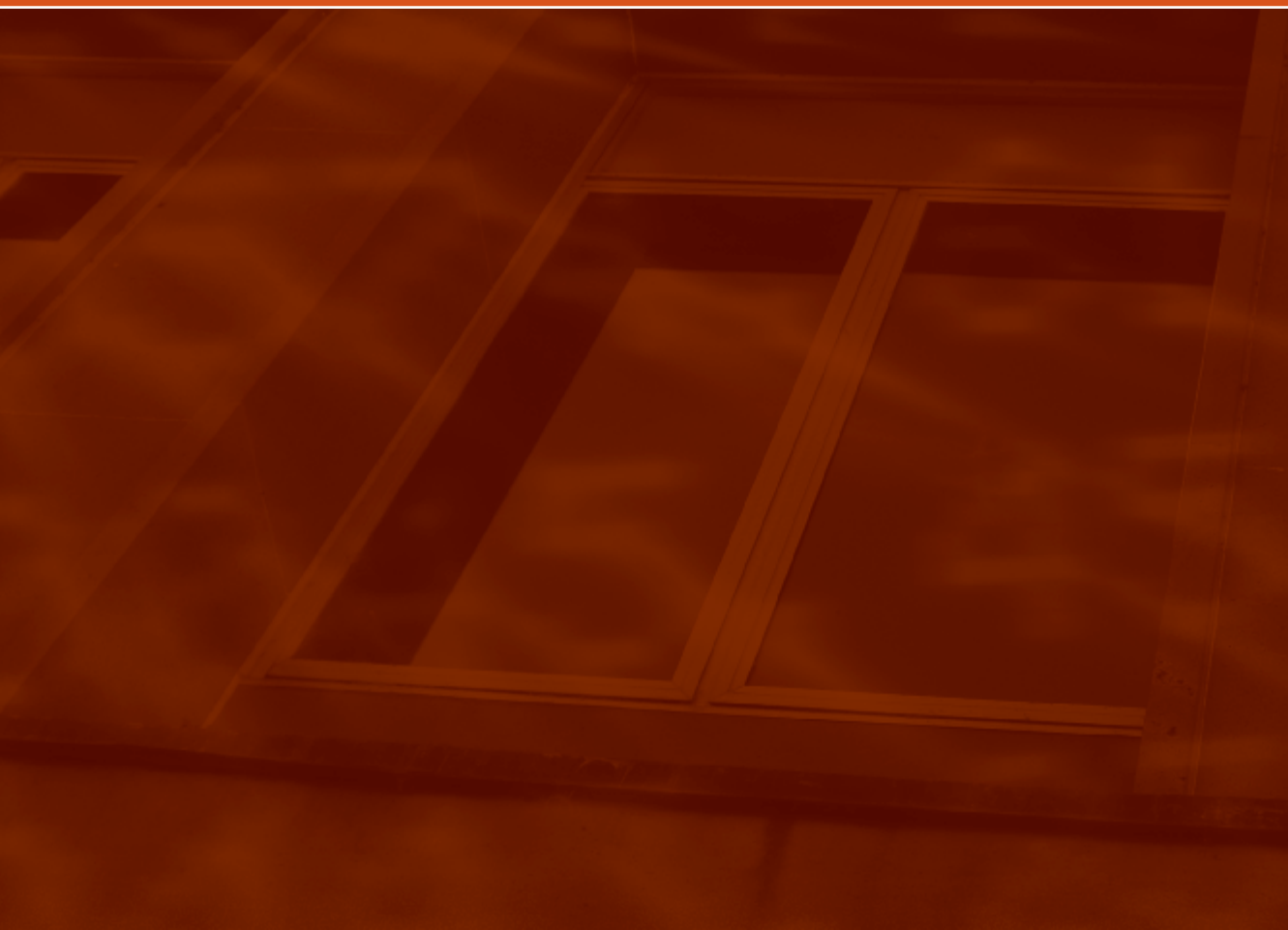


PART TWO

REPORT ON PERFORMANCE

Introduction	23
Program 1.1: Department of the Treasury	25
Macroeconomic Group	26
Fiscal Group	34
Revenue Group	44
Markets Group	62
Treasury Support Services	83
Program 1.2: Payments to international financial institutions	87
Program 1.3: Support for markets and business	89
Program 1.4: General revenue assistance	91
Program 1.5: Assistance to the states for healthcare services	93
Program 1.6: Assistance to the states for schools	95
Program 1.7: Assistance to the states for skills and workforce development	97
Program 1.8: Assistance to the states for disability services	99
Program 1.9: Assistance to the states for affordable housing	101
Program 1.10: National partnership payments to the states	103



INTRODUCTION

The report on performance covers the Treasury's departmental and administered items for 2010-11.

Departmental items are the goods and services the department provides for, and on behalf of, the Government. This involves the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Program 1.1 relates mainly to departmental items.

Administered items are revenues, expenses, assets or liabilities managed by the Treasury on behalf of the Government and include subsidies, grants and benefits. Programs 1.2 to 1.10 relate to administered items.

The Treasury's 2010-11 performance is reported at the program level for its policy outcome:

- Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

Performance outcomes for each program are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2010-11* and the *Treasury Portfolio Additional Estimates Statements 2010-11*.

The key strategies for 2010-11 are to provide advice on:

- macroeconomic policy, based on careful monitoring and analysis of economic conditions in Australia and overseas;
- fiscal strategy, budget priorities and measures, and debt and balance sheet management, as well as a budget coordination role;
- Commonwealth-State financial policy, industry, environment and defence policy and social and income support policy;
- taxation and retirement income arrangements consistent with the Government's reform priorities;
- policies that promote competitive, efficient markets and that work to enhance consumer wellbeing, a secure financial system and sound corporate practices, and foreign investment consistent with Australia's national interest;
- policies that promote well regulated, competitive and efficient infrastructure and address supply constraints in the housing market that impact on housing affordability;
- a range of international economic policy issues, including strengthening multilateral regimes underpinning open trade and capital flows, supporting developing countries' development aspirations, and shaping the evolution of regional economic architecture; and

- administration of a range of payments to the States and Territories which are reported in Programs 1.4 to 1.10.

An assessment of this advice is included under each program.

PROGRAM 1.1: DEPARTMENT OF THE TREASURY

The Treasury has four policy groups that contribute to the achievement of program 1.1:

- Macroeconomic Group;
- Fiscal Group;
- Revenue Group; and
- Markets Group.

These groups are supported by Treasury support services that provide key services to assist with systems and facilities which provide essential support and organisational backup to the policy groups.

PROGRAM OBJECTIVE

The objectives of program 1.1 are to:

- promote a sound macroeconomic environment by monitoring and assessing economic conditions and prospects both in Australia and overseas, and provide advice on macroeconomic policy including fiscal and monetary policy;
- promote effective government spending arrangements that contribute to overall fiscal outcomes, influence strong sustainable economic growth and improve the wellbeing of Australians;
- develop effective taxation and retirement income arrangements consistent with the Government's reform priorities; and
- ensure well functioning markets by providing advice on policies that promote competitive, efficient markets and that work to enhance consumer and investor wellbeing, a secure financial system and sound corporate practices, and foreign investment consistent with Australia's national interest.

PROGRAM KEY PERFORMANCE INDICATORS

The key performance indicators are:

- advice meeting the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of high quality, and is based on an objective and thorough understanding of issues and a whole-of-government perspective. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through feedback mechanisms;
- timely, high quality, accurate and transparent Budget, Mid-Year Economic and Fiscal Outlook (MYEFO), Pre-Election Economic and Fiscal Outlook (PEFO) and Final Budget Outcome documents that meet the expectations of the Government, the Parliament and the public. The budget preparation and coordination process is subject to an annual evaluation;
- published reports and other information that stimulate and inform government and public debate through robust analysis, modelling and research. Publications are timely, of high quality and widely available to the public; and
- legislation progressed by the Treasury is in accordance with the principles of good law design and is delivered according to government priorities:
 - the majority of prospective tax and retirement income legislation is ready to be introduced into Parliament within 12 months, and the majority of retrospective tax and retirement income legislation within six months of the Government announcing it, and
 - at least one tax or retirement income legislative measure is the subject of a post-implementation review annually.

26

An assessment of the key performance indicators is included under the group responsible for the corresponding objective.

MACROECONOMIC GROUP

Overview

Macroeconomic Group contributed to a strong macroeconomic environment in Australia by providing quality policy advice and sound analysis of both domestic and international developments affecting the Australian economy. The Group advised the Government on a wide range of matters relating to the performance of the Australian economy, including current economic conditions and the outlook for the Australian economy, monetary and fiscal policies, and current and prospective international economic issues.

Macroeconomic Group examined the implications of a multiple speed global economy, the evolving sovereign debt crisis in Europe, natural disasters at home and abroad, conservative household spending behaviour and the effect of Australia's high terms of trade and appreciating exchange rate on growth in the mining and non-mining sectors.

Macroeconomic Group continued to contribute to improving the global economic environment and advancing Australia's domestic and international interests. The Group provided high quality economic analysis and advice, supported active Australian engagement with global and regional forums, helped utilise Australia's strong bilateral relationships and deployed Treasury staff to overseas posts. The Group expanded its strategic analysis and advice on developments within key regional partners, particularly China and India.

Macroeconomic Group, through active engagement with the G20, advanced important initiatives including strengthening the legitimacy, credibility and effectiveness of international financial institutions, strengthening international standards for the regulation of the financial system, contributing to a strong, sustainable and balanced global economy and improving international development outcomes.

Through its activities, Macroeconomic Group assisted Treasury ministers in their work and contributed to improving the wellbeing of the Australian people.

Group deliverables

Macroeconomic Group's key deliverables are to advise on:

- domestic and international developments affecting the Australian economy and forecasts of the direction of the Australian and international economies;
- the setting of sound macroeconomic policies in the current environment;
- Australia's involvement in the G20 processes, particularly in regard to the G20 Framework for Strong, Sustainable and Balanced Growth, to develop better cooperation on common international policy challenges;
- supporting and enhancing the effectiveness of international financial institutions, particularly the International Monetary Fund (IMF) and World Bank;
- ongoing work with the Indonesian Government through the Australia-Indonesia Partnership for Reconstruction and Development;
- improving the linkages between the priorities of the G20, the Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting and East Asia Summit processes;
- ongoing deeper economic engagement strategies with China and India, reflecting the importance of these countries in the international economy; and
- supporting government initiatives to develop well-functioning economic ministries in the southwest Pacific.

Group outcomes

Macroeconomic Group's key outcomes were:

- providing analysis, preparing macroeconomic forecasts, and assisting in the formulation of policy solutions, taking into account domestic and international fiscal consolidation, the evolving sovereign debt crisis in Europe, Australia's high terms of trade and exchange

rate appreciation, the impacts of natural disasters, the uneven global economic recovery and structural reform challenges;

- contributing to the Clean Energy Future package and the formulation of the *Strong growth, low pollution: modelling a carbon price* (SGLP) report;
- delivering presentations and published material, including economic forecasts and analysis, in budget papers, the Treasury's *Economic Roundup* and working papers to increase public awareness of economic issues and developments;
- assisting the Government to manage and influence changing global conditions and advance Australia's international economic interests through engagement with international and regional institutions and forums, including the G20 and the Financial Stability Board; and
- broadening and deepening engagement with key Asian and Pacific economies through policy dialogue, cooperation, research and capacity building.

Analysis of performance

28

During 2010-11, the Treasury advised the Deputy Prime Minister and Treasurer, other members of government and relevant stakeholders on a range of macroeconomic issues:

- *Economic and Fiscal Outlook*. The Treasury provided analysis of the Australian and international economic outlook, including the Australian fiscal outlook, and prepared macroeconomic forecasts.
- *Monetary and Fiscal Policy*. The Treasury monitored economic, financial and policy developments to assess their implications for monetary and fiscal policy.
- *Economic growth, living standards and wellbeing*. The Treasury analysed drivers of the Australian economy and factors likely to influence medium-term economic performance, including productivity and labour force participation rates. This analysis was used to develop policy recommendations to improve Australia's economic growth potential, living standards and wellbeing.

Economic modelling

The Treasury's economic modelling contributed to the development of evidence based policy analysis. Economic modelling, such as computable general equilibrium modelling, provides a mechanism by which complex implications of policies across the whole economy can be assessed and used to inform policy design.

In 2010-11, the Treasury modelled the impacts of carbon pricing to inform the development of the Government's Clean Energy Future package. Comprehensive modelling of the international, domestic, sectoral and distributional effects of a carbon price was published on 10 July 2011 in the SGLP report.

The Treasury worked closely with the Department of Climate Change and Energy Efficiency to produce Australia's greenhouse gas emission projections.

Economic forecasting

Economic forecasts prepared by the Treasury informed policy settings and underpinned the calculation of expenditure and revenue budget estimates. For policy formulation purposes, macroeconomic forecasts provide an assessment of prospective developments within the economy and the risks surrounding the economic outlook.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group. This group, chaired by the Treasury, comprises the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation, and the Australian Bureau of Statistics (ABS). These discussions, together with information gained from liaison with the private sector and other departments, helped in the development of the forecasts. Forecasts from the Treasury's macroeconomic model of the Australian economy, TRYM, contributed to the forecasting process, and sensitivity analysis conducted using the model helped inform policy advice.

Treasury officials liaised extensively with the ABS, both formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group, and informally through regular discussions, to review economic data and ensure its accuracy for use in economic forecasting activities.

The Treasury's forecasting activity focused on 2010-11, 2011-12 and 2012-13 with forecasts published in the 2010-11 MYEFO and the 2011-12 Budget.

2011-12 Budget papers

The Treasury contributed to public awareness and debate on economic policy issues through its economic analysis in the annual budget papers, the 2010-11 MYEFO and the 2010 PEFO statements.

Published forecasts in PEFO, MYEFO and the 2011-12 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and their likely effects on short-term economic growth.

The 2011-12 Budget forecasts reflected uneven economic conditions. Strong demand for global natural resources were seen to drive a high terms of trade and a rapid expansion in mining investments and exports, while the appreciation of the Australian dollar, legacy effects of the global financial crisis, cautious consumer behaviour and tighter fiscal and monetary policy were seen to weigh on the non-natural resource sectors of the economy. Forecasts for 2011-12 were largely unchanged in the 2010-11 MYEFO and revised downwards in the 2011-12 Budget. This reflected the negative impact of natural disasters on the economy and weakness in household demand.

Statement 2 of Budget Paper No. 1, *Economic Outlook* provided a comprehensive report on the domestic and international outlook. The paper outlined a favourable medium-term outlook, with strong economic conditions in the region supporting Australia's terms of trade and non-rural exports. Natural disasters were expected to have a temporary impact on

Australia's economic growth in the first half of 2011. It was recognised that conditions would remain challenging in those sectors that are not benefitting — either directly or indirectly — from the resources boom.

Statement 4 of Budget Paper No. 1, *Opportunities and Challenges of an Economy in Transition* outlined the changing international economic landscape, including Asia's re-emergence and the influence this development will have on the structure of the Australian economy. Beyond strong demand for mineral resources, the paper predicted that the rise in the Asian middle class will drive global consumer markets and lead to broader economic opportunities for Australia. The paper suggested that nurturing policy settings that build productive capacity and maintain flexibility are key to ensuring lasting prosperity and a rise in living standards.

Economic publications and speeches

- The Treasury's *Economic Roundup* included research articles and speeches that provided detailed analysis and policy recommendations on commodity price volatility, the Australian banking system, economic and financial trends over the next 15 years, taxation, superannuation, economic forecasting, fiscal policy and the structural budget balance, the 2010 Intergenerational report, transport investment, China and mineral resource demand, as well as a regular summary of the key findings from the Treasury's Business Liaison Program.
- Senior Treasury officials encouraged broader understanding of domestic and international macroeconomic issues by speaking with a range of organisations on topics including the economic outlook, national savings, macroeconomic forecasting, sustaining growth in living standards, the resources boom and structural change, climate change mitigation, and the challenges facing Australia over the next decade. The speeches were delivered to organisations including the Australian Chamber of Commerce and Industry, the Australia and New Zealand School of Government, the Committee for Economic Development of Australia, CPA Australia, the Australian Business Economists, Skills Australia, the Economics Society of Australia and the Melbourne Institute Public Economics Forum.

International policy advice

The Treasury worked towards enhancing international economic cooperation, particularly through the G20, helped advance Australia's international priorities, and provided high quality economic analysis and advice on the implications for the Australian economy of international developments, including the evolving European sovereign debt crisis and the weak US economic recovery.

To achieve these outcomes, the Treasury supported active Australian participation in global and regional forums, assisted the Deputy Prime Minister and Treasurer at international meetings, and helped strengthen bilateral relations. Treasury officials posted to Washington DC, London, Beijing, Jakarta, Tokyo and the Organisation for Economic Cooperation and Development (OECD) contributed to analysis on regional economic and policy developments, helped strengthen relations with key institutions in their countries of accreditation and facilitated high-level meetings.

G20

The Treasury worked with the Deputy Prime Minister and Treasurer to shape the G20 agenda and influence the outcomes of the G20 Seoul Leaders' Summit and the three G20 Finance Ministers and Central Bank Governors' meetings held during 2010-11. During 2010, an official from the Treasury was seconded to the Korean G20 Secretariat to assist with preparations for the Seoul Summit.

The Treasury co-chaired the G20 Working Group on IMF Quota and Governance Reform (with South Africa). This working group advised G20 Finance Ministers and Leaders on reforming the IMF's governance structure to enhance its legitimacy and effectiveness. These reforms were endorsed by G20 Leaders at the Seoul Summit and agreed by IMF Governors in December 2010. The Treasury also supported financial inclusion by co-chairing (with Brazil) the G20 Access Through Innovation sub-group of the G20 Financial Inclusion Experts Group. The Treasury was also actively involved in the G20 working groups dealing with strengthening the Framework for Strong, Sustainable and Balanced Growth, reforming the international monetary system, reducing excessive commodity price volatility and strengthening international development outcomes.

The Treasury supported and provided advice on agreed G20 outcomes including a modernised IMF with greater representation for dynamic emerging market and developing countries; and measures to strengthen the international financial system, including new bank capital and liquidity standards.

31

Financial Stability Board (FSB)

The Treasury participates in the Plenary Meetings of the FSB and is a member of the FSB's Standing Committee on Standards Implementation. The committee is responsible for promoting and improving adherence to international prudential, supervisory and regulatory standards. The Treasury chaired the FSB peer review of the Mexican financial system, and advised the Government on the key issues considered by the FSB, including the FSB's peer review of the Australian financial system (due to be released before the end of 2011).

International financial institutions

The Treasury supported the IMF in its role of ensuring the stability of the international monetary system. This occurred through the IMF Executive Board, attendance at the IMF Spring and Annual Meetings and participation in relevant G20 working groups.

During 2010-11, the Treasury ensured that Australia fulfilled its commitment, as agreed by G20 Leaders, to increase the resources available to the IMF through expanding the IMF's ability to supplement its quota resources by borrowing from member countries and institutions under the New Arrangements to Borrow. The Treasury supported the World Bank Group's role in improving the living standards of the world's poor by providing advice to the World Bank's Executive Board and supporting Australia's attendance at the World Bank Spring and Annual meetings.

The Treasury provided advice on key World Bank Group developments during 2010-11, including the Sixteenth Replenishment of the International Development Association,

and assisted in the development of the *International Financial Institutions Legislation Amendment Act 2010*. This allowed for Australia's subscription to the International Bank for Reconstruction and Development capital increases, and adoption of amendments to the International Finance Corporation Articles of Agreement and the Convention Establishing the Multilateral Investment Guarantee Agency.

Regional development banks

The Treasury continued to support the Asian Development Bank's (ADB) efforts to promote development in the Asia-Pacific region. The Treasury encouraged strong contributions to the next replenishment of the Asian Development Fund and supported reforms underway at the ADB as well as the re-election of the ADB President Kuroda.

The Treasury further supported the European Bank for Reconstruction and Development (EBRD) work to help economies in Europe and Central Asia transition to open, market economies. The Treasury contributed to the decision making process at the EBRD through representation on the Board of Directors.

Official development assistance

The Treasury provided advice on general development and aid issues including Australia's multilateral and bilateral aid programs, new expenditure initiatives, and the framework for Australia's aid budget. The Treasury worked closely with the Australian Agency for International Development (AusAID) on the Independent Review of Aid Effectiveness. The Treasury also participated in the Development Effectiveness Steering Committee, an interdepartmental committee convened to assist in strengthening the effectiveness of Australia's overseas development assistance.

Relations with Asia

Towards strengthening Australia's understanding of regional economic developments and to improve effectiveness and linkages between the G20 and regional forums, the Treasury continued to broaden and deepen its engagement with key regional organisations and partners by:

- working to improve the effectiveness of the APEC Finance Ministers' Process and supporting Australia's engagement with the Asia-Pacific region by delivering a capacity building workshop on the APEC Infrastructure Pathfinder Initiative, launching the APEC Pilot Public Private Partnerships Mentoring Scheme, and undertaking technical workshops to build support for the Asia Regional Fund Passport;
- working to strengthen regional financial cooperation through the East Asia Summit process and delivering workshops focusing on strengthening the institutional development and functioning of securities market supervisory agencies in Laos, Cambodia and Vietnam;
- supporting the attendance of the Deputy Prime Minister and Treasurer at meetings with senior Chinese officials in Beijing including the Vice Premier, the Chairman of the National Development and Reform Commission, the Governor of the People's Bank of China, the Minister of Finance, and the Chairman of the China Investment Corporation; supporting

the hosting of the Chairman of the National Committee of the Chinese People's Political Consultative Conference as a Guest of Government; hosting an annual bilateral Macroeconomic Dialogue and co-hosting a forecasting workshop with China's State Information Centre in Beijing; recognising the growing importance of China to Australia by setting up a China policy unit to improve the understanding and quality of analysis on economic developments in China;

- participating in the third annual India-Australia economic policy dialogue with the Indian Ministry of Finance and establishing a new position of Minister-Counsellor (Economic) at the Australian High Commission in New Delhi to facilitate Australia's international engagement and contribute to the provision of quality economic advice;
- assisting the Deputy Prime Minister and Treasurer's hosting of Indonesia's Vice President during his Guest of Government visit to Australia and deepening relations with the Fiscal Policy Office of the Indonesian Ministry of Finance through the Government Partnership Fund to strengthen Indonesian economic policy advising capabilities and develop lasting institutional relationships with the Ministry;
- participating in the seventh annual economic policy dialogue hosted by the Japanese Ministry of Finance; and
- supporting the Deputy Prime Minister and Treasurer's attendance at the Korea-Australia Business Dialogue and meeting with counterparts from the Korean Ministry of Strategy and Finance at the Australia-Korea Strategic Economic Dialogue.

Relations with the Pacific

The Treasury continued to promote economic management and development in the Pacific by providing advice to Pacific Economic Ministers. The Treasury supported the attendance of the Parliamentary Secretary to the Treasurer at the 2010 Pacific Islands Forum Economic Ministers' Meeting.

The Treasury advised ministers and agencies on economic and fiscal issues relating to the Pacific, particularly the Solomon Islands and Papua New Guinea (PNG), where deployed officials work to build sustainable and effective economic ministries. The Treasury also provided support to Vanuatu and the Seychelles through seconded officials to AusAID.

The Treasury provided assistance to PNG, under the *Joint Understanding between PNG and Australia on further cooperation on the PNG Liquefied Natural Gas Project*, to assist PNG in considering the establishment of a transparent and well governed sovereign wealth fund.

The Treasury hosted three officials from the Pacific region (two from PNG and one from the Solomon Islands) and also supported two officials from the Australian Treasury to the PNG Treasury for short-term programs.

FISCAL GROUP

Overview

Fiscal Group aims to ensure government spending arrangements are effective. This is crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998* (the Charter);
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including through the ongoing management of the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement);
- policy development in industry, environment, climate change, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Fiscal Group is also involved in preparing the Commonwealth Budget and other financial related papers required under the Charter, including the intergenerational report.

Fiscal Group works with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, climate change and environment, and defence and national security. Fiscal Group also works with other departments in areas such as early childhood and families, education and skills, social housing, Indigenous policy, labour markets, immigration and health policy. While other departments have primary responsibility for policy and programs in these areas, Fiscal Group focuses on improving productivity and competitiveness and ensuring sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2010-11, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy approaches, including the Government's Clean Energy Future package, provided advice for Cabinet ministers, and briefed the Deputy Prime Minister and Treasurer for his participation in Cabinet and the budget processes. Fiscal Group also assisted in preparing briefings for other Treasury portfolio ministers.

Fiscal Group provided advice on Commonwealth-State financial policy, arrangements related to state and territory fiscal and tax issues, and managed the administration of payments to the States and Territories (the States). Since 1 January 2009, under the Intergovernmental Agreement, the Treasury has been responsible for administering National Specific Purpose Payments (National SPPs), National Partnership payments, goods and

services tax (GST) payments and other general revenue assistance to the States. Details of these payments can be found in programs 1.4 to 1.10 on pages 91 to 104.

Group deliverables

Fiscal Group's key deliverables are to advise on:

- fiscal strategy which aims to ensure fiscal sustainability over the economic cycle;
- effective government spending arrangements which contribute to improving the wellbeing of Australians;
- strategies that address intergenerational challenges, including social, fiscal and environmental sustainability; and
- Commonwealth-State financial relations, including the progress of the Council of Australian Government's (COAG) reform agenda.

Fiscal Group also coordinates the preparation of the Commonwealth Budget and other documents required under the Charter and supports Commonwealth-State relations through the coordination and delivery of various Commonwealth-State forums.

In addition, Fiscal Group also provides secretariat support to the GST Distribution Review and to the Advisory Panel on the Economic Potential of Senior Australians.

Group outcomes

Fiscal Group's key outcomes were:

- advising on the Clean Energy Future package;
- advising on the fiscal outlook and on delivering the Government's fiscal strategy;
- advising on budget priorities consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, the 2010 Economic Statement and the 2010 PEFO (July 2010), the Final Budget Outcome 2009-10 (September 2010), the 2010-11 MYEFO (November 2010) and the 2011-12 Budget (May 2011);
- advising the Deputy Prime Minister and Treasurer, in consultation with the Australian Office of Financial Management (AOFM), on debt issuance and debt policy issues, including the future of the Commonwealth Government Securities (CGS) market and the Government's financing needs;
- advising on operational issues relating to the Future Fund and the three Nation-building Funds;
- advising on issues associated with the development of a Parliamentary Budget Office;
- continuing to implement the framework for federal financial relations which commenced on 1 January 2009, including advising on the development of new National Partnerships and other agreements;

- payments to the States totalling over \$85 billion including five National SPPs in healthcare, schools, skills and workforce development, disability services and affordable housing, GST payments and other general revenue assistance and National Partnership payments;
- providing secretariat support for the Ministerial Council for Federal Financial Relations on policy issues relevant to both the Australian Government and the States;
- providing secretariat support to the GST Distribution Review;
- advising on, and monitoring the First Home Owners Boost and the Guarantee of State and Territory Borrowing;
- providing assistance in the development of the sustainable population strategy;
- providing secretariat support for the Advisory Panel on the Economic Potential of Senior Australians;
- advising on industry, climate change and environment, and defence and national security. The Treasury was engaged in a diverse range of issues and processes, including climate change mitigation and adaptation policy; and
- advising on social, education, Indigenous, labour market, immigration and health policy, including contributing to the development of the *National Health Reform Agreement*, providing advice on the development of the Building Australia's Future Workforce package in the 2011-12 Budget, several reforms to immigration policy and Indigenous policy. Fiscal Group also worked with other agencies to progress the service delivery reform in the Human Services Portfolio and progress government reforms in relation to problem gambling.

36

Analysis of performance

Advice on the fiscal and budget strategies

During 2010-11, the Treasury provided advice to the Deputy Prime Minister and Treasurer and other portfolio ministers on the Australian Government's budget position over the forward estimates and medium-term to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the 2010-11 MYEFO and the 2011-12 Budget.

As fiscal estimates are a joint responsibility, the Treasury worked extensively with the Department of Finance and Deregulation, the Australian Taxation Office (ATO) and other government departments and agencies. Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available at the time the economic statements and budget were prepared.

The 2010-11 MYEFO was released by the Deputy Prime Minister and Treasurer and Minister for Finance and Deregulation on 9 November 2010. This updated the fiscal estimates published in the 2010-11 Budget.

The 2011-12 Budget, published in May 2011, reported that the budget was still on track to return to surplus in 2012-13, despite the significant economic impact of natural disasters in 2010-11.

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising the Deputy Prime Minister and Treasurer on the overall budget strategy and priorities. In particular, the Treasury provided advice to the Government on the medium-term fiscal strategy in the context of returning the budget to surplus once economic growth is at or above trend.

Contribution to public debate and awareness

The Government's budget publications are available free at www.budget.gov.au. Widespread access to these documents helps the public keep informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the *Budget Overview*, *Budget at a Glance*, *Building Australia's Future Workforce: trained up and ready for work*, *Delivering better hospitals, mental health and health services*; and *Investing in Australia's Regions*.

Generally, the Treasury is primarily responsible for preparing budget documentation on:

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- economic assumptions underpinning the budget estimates;
- tax revenue estimates;
- tax expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

Reporting requirements are set out in the Charter and are consistent with leading international practice. To help achieve better fiscal outcomes, the Charter promotes:

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;
- accountability, with information allowing an informed assessment of the conduct of fiscal policy; and
- reporting against external accounting standards.

Under the Charter, budget reporting follows an annual cycle comprising the budget in May, a mid-year update before 31 January and a final budget outcome the following September.

The *Final Budget Outcome 2009-10* was published in September 2010. In 2009-10, the Australian Government general government sector recorded an underlying cash

deficit of \$54.8 billion. This outcome was around \$2.3 billion better than estimated at the 2010-11 Budget, reflecting lower than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local Governments is in the 2011-12 Budget, Budget Paper No. 3, *Australia's Federal Relations*. This paper, produced by the Treasury, is the main public source of information on Australian Government payments to the States and Local Governments. It also informs the States of their expected payments in the upcoming financial year.

This budget paper also includes information on fiscal developments in the states, as well as any policy changes affecting the relationship between the Australian and State Governments.

Relevant information is also included in MYEFO and the Final Budget Outcome documents.

Information on the federal financial framework is available on the Ministerial Council website at www.federalfinancialrelations.gov.au.

Debt management policy

In consultation with the AOFM, the Treasury provided advice to the Deputy Prime Minister and Treasurer on debt issuance and debt policy issues. This included advice on the future of the CGS market, drawing on the deliberations of a panel of financial market participants and financial regulators.

In the 2011-12 Budget, the Government clarified its objectives with regard to the future of the CGS market. Maintaining liquidity in the CGS market to support the three and ten year bond futures market will continue to be the Government's primary objective, in particular as Australian banks prepare for the 2015 commencement of the Basel III liquidity requirements.

Treasury Bond issuance in 2011-12 is expected to be around \$51 billion. The face value of securities offered at each tender will be between \$500 million and \$1.2 billion. In addition, Treasury Notes will be offered at regular tenders to support the within-year financing task. It is planned at least \$10 billion of Treasury Notes on issue will be kept at all times so as to maintain a liquid market. In 2011-12, Treasury Indexed Bond issuance is expected to be around \$2 billion. Specific details of the Government's forward debt issuance program in 2011-12 are on the AOFM website at www.aofm.gov.au.

The Treasury also provided, along with the AOFM, advice on an efficient and effective issuance program, and managing and optimally structuring the debt portfolio. The Treasury also provided advice to the Deputy Prime Minister and Treasurer on issues affecting the Government's debt management operations including the performance and functioning of the Commonwealth debt market, Future Fund and Nation-building Funds.

Future Fund and Nation-building Funds

During 2010-11, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds. Further information regarding the performance of the Future Fund is at www.futurefund.gov.au.

Australia's Federal Financial Relations

The Commonwealth is working in partnership with the States in a number of key reform areas benefitting all Australians. Significant progress has been made in implementing the reform agenda through the Intergovernmental Agreement. The framework has proved to be flexible and able to facilitate reform activity, including health reform.

A review of agreements under the framework was conducted by Heads of Treasuries over the course of 2010. The review was considered by COAG at its February 2011 meeting. A key finding of the review is that the underlying principles of the Intergovernmental Agreement provide a strong foundation for pursuing the COAG reform agenda. Still, while significant work has been undertaken by all levels of government to implement the Intergovernmental Agreement, some challenges remain.

The review found that the Intergovernmental Agreement's underlying principles should be strengthened where necessary to sharpen the focus on outcomes, improve responsiveness and enhance public accountability. The outcomes of the review provide a basis for addressing the challenges that remain, to ensure that the federal financial relations framework remains sustainable and mutually beneficial. Implementation of the review's recommendations has commenced.

General revenue assistance

Under the Intergovernmental Agreement, the Commonwealth makes payments to the States equivalent to the revenue received from the GST. GST revenue is paid on a monthly basis, distributed in accordance with relativities determined by the Deputy Prime Minister and Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting.

The ATO and the Australian Customs and Border Protection Service collect GST revenue on behalf of the States, and the States compensate them for the costs incurred in administering and collecting GST revenue. The Treasury managed the payments made to the States and ensured they were administered accurately.

General revenue assistance is provided to the States, including GST payments, without conditions, to spend according to their own budget priorities.

Details on general revenue assistance are provided under Program 1.4 on pages 91 and 92.

Payments for Specific Purposes (National SPPs and National Partnerships)

The five National SPPs are in healthcare, schools, skills and workforce development, disability services and affordable housing. These are associated with six national agreements, including the *National Indigenous Reform Agreement*, which contain mutually-agreed objectives, outcomes and performance indicators, and which clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services in these sectors.

In addition, National Partnerships support the delivery of specific projects, facilitate reforms and/or reward those jurisdictions that deliver on nationally significant reforms.

Details on National SPPs and National Partnerships are provided under Programs 1.5 to 1.10 on pages 93 to 104.

Ministerial Council for Federal Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers ongoing reform of federal financial relations and oversees the Intergovernmental Agreement. The Treasury advised the Deputy Prime Minister and Treasurer in relation to these matters and provided secretariat support to the Ministerial Council. The website for the Ministerial Council is www.federalfinancialrelations.gov.au.

At Ministerial Council meetings held in 2010-11, Treasurers focused on the key issues: monitoring the state and national economies; monitoring progress under the COAG reform agenda; and considering the financing aspects of the health reforms.

GST Distribution Review

On 30 March 2011, the Commonwealth Government announced a review of the distribution of the GST (the Review).

The Review will consider whether the distribution of the GST and the current form of horizontal fiscal equalisation will ensure that Australia is best placed to respond to long-term trends and structural change in the economy while maintaining confidence in the financial relationships within the Australian Federation.

The Review is being conducted by the Hon Nick Greiner AC, the Hon John Brumby and Mr Bruce Carter and will present its final report to the Deputy Prime Minister and Treasurer by September 2012, with an interim report to be provided by February 2012. The Treasury has established a secretariat to support the Review. The secretariat includes officials seconded from the Commonwealth Grants Commission and State Treasuries.

In 2010-11, the panel commenced its first round of consultations with States and Territories. On 1 July 2011 it released an Issues Paper seeking public submissions, due 14 October 2011.

Further information on the Review is available online at www.gstdistributionreview.gov.au.

Australian Loan Council

The Australian Loan Council is a Commonwealth-State ministerial council that meets annually to consider jurisdictions' nominated borrowings for the forthcoming year with regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

In 2009-10, the Loan Council expanded to include reporting on the macroeconomic implications of infrastructure investments, and to take on an oversight function of the Commonwealth guarantee of State and Territory borrowing.

Heads of Treasuries

At the Heads of Treasuries meetings, the treasuries of the Australian and State Governments share information on common issues. The Secretary to the Treasury and his state counterparts met five times in 2010-11 to discuss the general operation of the Federal Financial Relations framework, current economic conditions and the fiscal outlook, and tax and financial issues.

GST Administration Sub-committee

The Treasury chairs this sub-committee, which comprises officials from the Treasury, the ATO and State Treasuries. The sub-committee met once in 2010-11. The sub-committee assisted the Ministerial Council in the development of a revised performance agreement that will continue to be monitored and discussed GST revenue and payments, GST policy and administrative issues.

Industry, Climate Change and Environment, and Defence and National Security

Industry and regional policy

The Treasury advised on industry assistance, export assistance, science and innovation, arts, sports and regional policy issues. This included advice on publicly funded science and science workforce matters, and the development of a National Cultural Policy.

The Treasury also participated in interdepartmental committee meetings and forums during 2010-11, including the implementation of the national tourism strategy, the Government's response to the Productivity Commission's review of Australia's Anti-Dumping and Countervailing System, progressing the Murray-Darling Basin Plan, development of the sustainable population strategy, the strategic review of Geoscience Australia, and Export Finance and Insurance Corporation proposals.

Climate change and environment policy

The Treasury advised the Deputy Prime Minister and Treasurer on climate change issues, including carbon pricing and the Clean Energy Future package, low emissions technologies and energy efficiency, renewable energy and alternative fuels, energy security and international engagement on climate change issues.

The Treasury worked closely with the Department of Climate Change and Energy Efficiency on the design of the Clean Energy Future package. It advised on the design of the scheme and the production of the documentation surrounding the announcement of the scheme. The Treasury also provided advice on the design of the assistance package for households and industry.

The Treasury also advised the Deputy Prime Minister and Treasurer on environmental and agricultural issues including environmental stewardship and protection, waste policy, biosecurity, drought policy and natural resource management issues.

The Treasury's advice covered the temporary suspension of live cattle exports, the Government's response to the Montara commission of inquiry, and Australia's Antarctic Territory. Additional advice was on specific agricultural commodity issues including wheat, fisheries, logging and other primary industries.

During 2010-11, the Treasury also contributed to interdepartmental committees dealing with water policy, marine protected areas, forestry, biosecurity and drought.

42 Defence and National Security policy

The Treasury advised on a range of defence and national security issues, including the Coordinated National Security Budget process and advice to support the Secretary in his role as a member of the Defence Strategic Reform Advisory Board.

The Treasury has continued to participate in the Secretaries' Committee on National Security that examines and advises on proposals considered by the National Security Committee of Cabinet. It also participated in interdepartmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

Social, Education, Indigenous, Labour Market, Immigration and Health policy

Social policy

During 2010-11, the Treasury:

- worked with other agencies to develop a package of assistance for households to accompany the introduction of a carbon price;
- worked with other agencies to progress the Government's problem gambling reforms;
- worked with other agencies to progress the Social Inclusion agenda, including the Government's approach to reducing homelessness;
- provided policy advice on the Commonwealth response to the natural disasters of the 2010-11 summer, and on natural disaster recovery policy more broadly;
- provided policy advice supporting the development of the child care reforms announced in the 2010-11 Budget, and was involved in the implementation of the Government's Paid Parental Leave scheme;

- participated in the Steering Committee for the Review of Military Compensation Arrangements; and
- worked with other agencies to develop the Building Australia's Future Workforce package of measures to support participation in the labour market and skills development.

Education policy

The Treasury undertook further significant work on skills policy during 2010-11, working collaboratively with the Department of Education, Employment and Workplace Relations (DEEWR) and other departments on skills policy advice, such as the Building Australia's Future Workforce package of measures announced in the 2011-12 Budget. The department also worked collaboratively to ensure effective implementation of a range of election commitments in relation to schools and higher education policy.

Indigenous policy

The Treasury played a significant role in providing advice on Indigenous policy. The Treasury was involved in cross-departmental work on the Government's commitment to closing the gap in Indigenous disadvantage. The Treasury has focused on the COAG Reform Agenda and the Single Indigenous Budget Submission process. The Treasury also worked closely with other agencies, states and territories and the Productivity Commission to finalise and release the first Indigenous Expenditure Report for COAG.

Labour market programs and participation

The Treasury advised on a range of employment and participation issues, including the Building Australia's Future Workforce package to support improved labour force participation of key groups, as well as working with DEEWR on the future improvements to employment services delivered through Job Services Australia and Disability Employment Services.

Workplace relations

The Treasury worked closely with DEEWR to develop a whole-of-government approach to the 2011 Minimum Wage Review and prepare submissions to the Minimum Wage Panel's final minimum wage decision.

Immigration policy

Advice was provided on several reforms to immigration policy that the Government progressed, including those arising from the review of the Migration Occupations in Demand List, the review of the General Skilled Migration points test and the changes to the composition of the 2010-11 Migration Program. The reforms were designed to enhance the contribution of immigration to the productive capacity of the economy and help to address emerging demands for skilled labour during the economic recovery.

Health policy

A National Health Reform Agreement was finalised with all States and Territories in August 2011. The Treasury assisted in developing the *National Health Reform Agreement*, including the reforms to the financial framework and the modelling of healthcare costs.

The Treasury worked closely with other agencies to develop a *National Mental Health Reform* package for the 2011-12 Budget. A cornerstone of this package was better coordination and integration of mental health services and a greater focus on prevention and early intervention initiatives for children and youth.

The Treasury also advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, the Medicare Benefits Schedule, private health insurance, and aged and community care.

Australian Government Service Delivery Reform

The Treasury worked closely with other policy agencies in progressing the Government's commitments to service delivery reform in the Human Services Portfolio, and contributed to developing a more strategic approach to managing fraud and compliance efforts across health and social welfare payments.

Advisory Panel on the Economic Potential of Senior Australians

The Treasury provided secretariat support to the Advisory Panel on the Economic Potential of Senior Australians to prepare a series of reports to government and conduct targeted consultations.

REVENUE GROUP

Overview

Revenue Group aims to contribute to effective taxation and retirement income arrangements that are crucial to the Government's objectives for the economy and the wellbeing of Australians. Contributing to better tax policy and better tax law are key elements of the Treasury's role as a central policy agency.

Revenue Group has primary responsibility for providing high-quality advice to Treasury portfolio ministers on tax and retirement income policies and legislation. The Treasury designs policy options and legislative proposals to make the Australian tax system more efficient, fair and transparent, and minimise compliance and administration costs. Advice is formulated through an integrated process, which includes consultation with business and community bodies, and close cooperation with the ATO and relevant Commonwealth departments.

During 2010-11, tax and retirement income policy considerations were integral to the Treasury's advice to assist the Government to improve the tax and transfer system. Revenue Group developed legislation giving effect to measures announced in the 2010-11 and 2011-12 Budgets to ensure the budget's sustainability, including bringing certain alternative fuels used for transport purposes into the fuel taxation regime, removing minors' eligibility for the low income tax offset on unearned income, phasing out the dependent spouse tax offset, and making changes to the statutory formula method used to value car fringe benefits. Revenue Group also developed medium term revenue projections as an input to the medium term analysis undertaken in Statement 3 of Budget Paper No. 1, *Fiscal Strategy and Outlook* in the 2011-12 Budget.

The Treasury continued to advise the Government on tax reform initiatives following on from the release of *Stronger, Fairer, Simpler: a tax plan for our future*, including preparing for the Tax Forum that was held on 4-5 October 2011.

In the 2011-12 Budget, the Government announced improvements to the low income tax offset and a small business tax package including a \$5,000 immediate deduction for motor vehicles. The Treasury also advised on a range of other business, personal and indirect tax policy issues, including the temporary flood and cyclone reconstruction levy and assistance provided to small businesses and primary producers affected by the floods and cyclones, the establishment of an Australian Charities and Not-for-profits Commission, better targeting of not-for-profit tax concessions, Stronger Super reforms, taxation of non-renewable resources, and the Clean Energy Future package.

The Treasury represented Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters. It also provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report at www.taxboard.gov.au.

Group deliverables

Revenue Group's key deliverables are to advise on:

- implementation of the Government's taxation and retirement income reform agenda including introduction of taxation on non-renewable resources, improving retirement incomes and simplifying the tax system;
- the costs and impacts of tax and retirement income proposals, measures and expenditures, including their distributional impact and overall efficiency; and
- Australia's role as Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters, a modernised tax treaty network and revised international tax rules which enhance Australia's international attractiveness but address risks from harmful tax jurisdictions while furthering Australia's interests in the Pacific and Asia.

Group outcomes

Revenue Group's key outcomes were:

- advising the Government on further tax reform initiatives to follow on from the Stronger, Fairer, Simpler package of May 2010, including the Tax Forum that was held on 4-5 October 2011;
- regularly revising tax revenue estimates and analysis, taking into account changes in the domestic economy in the face of continuing global uncertainty, and incorporating these into the overall fiscal outlook and strategy in the Economic Statement, PEFO, MYEFO and the 2011-12 Budget;
- advising on and implementing legislation for business tax proposals, including providing advice and policy support on the taxation of non-renewable resources, amending the taxation of financial arrangements rules, providing advice and developing legislation on improvements to the company loss recoupment rules, providing advice on giving

designated infrastructure projects improved access to tax losses, providing advice and developing legislation granting capital gains tax (CGT) relief for special disability trusts, advising on and developing legislation to implement a small business tax reform package and interim changes to the taxation of trust income, developing legislation to exempt from income tax clean up and recovery grants paid to small businesses and primary producers affected by the floods in Australia during the summer of 2010-11;

- advising on proposals for personal tax policy reform, including increasing the tax free threshold as part of the Clean Energy Future package, increasing the amount of the low income tax offset delivered through the year in 2011-12, phasing out the dependent spouse tax offset, removing minors' eligibility for the low income tax offset on unearned income, implementing the temporary flood and cyclone reconstruction levy, and extending the education tax refund to include uniform expenses, advising on and implementing legislation for philanthropy tax policy, including the first stage of not-for-profit sector reform, undertaking a scoping study for a national not-for-profit regulator, establishing an Australian Charities and Not-for-profits Commission, better targeting of not-for-profit tax concessions, introducing a statutory definition of charity, starting negotiations with the states and territories on national not-for-profit reform, restating the 'in Australia' special conditions applying to tax concession entities, improving the integrity of public ancillary funds, as well as specifically listing organisations in the tax law as deductible gift recipients, advising on and implementing legislation for fringe benefits tax and non-cash benefits reform, including amendments to the statutory formula for valuing car fringe benefits, extending fly-in-flyout concessions to Australians working overseas, and developing proposals for reform of the income tax treatment of non-cash benefits;
- advising on and implementing legislation for superannuation and retirement income policies, including the superannuation components of the stronger, fairer, simpler tax reform, the Stronger Super reforms, legislation to give effect to the Memorandum of Understanding between Australia and New Zealand to establish a retirement savings portability scheme, and legislation to allow superannuation funds to use tax file numbers to identify members' accounts;
- advising on, developing and implementing legislation for Australia's international tax arrangements. This reflects efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including recommendations from the Board of Taxation's *Review of the Foreign Source Income Anti-Tax-Deferral Regimes*, and the Johnson Report;
- progressing tax treaty negotiations with key investment partners and concluding tax information exchange agreements with several other jurisdictions;
- contributing to global efforts to address tax transparency and harmful tax regimes, including through representing Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters;
- advising on and implementing legislation on a range of indirect tax measures, including recommendations from the Board of Taxation's *Review of the Legal Framework for the Administration of the Goods and Services Tax*, and replacing the biannual Determination

mechanism for exempting taxes, fees and charges from GST, as well as advising the Government on a range of other GST policy issues;

- monitoring the operation and administration of the GST through the activities of the GST Policy and Administration Sub-group;
- advising on and implementing legislation on the taxation of certain alternative fuels, and advising on and developing legislation on the fuel tax arrangements for the Clean Energy Future package;
- providing quantitative advice underpinning taxation proposals included in the 2011-12 Budget, including changes to the fringe benefits tax on cars; phasing out the dependent spouse rebate; changes to excess superannuation contributions caps; removing eligibility for the low income tax offset for minors; increased resources for taxation compliance; and development of the temporary flood and cyclone reconstruction levy;
- providing quantitative advice, including analysis of the distributional considerations and revenue impacts of the Government's Clean Energy Future package including the carbon pricing mechanism and related household and industry assistance and adjustment programs;
- coordinating the 2010 Tax Expenditures Statement publication and providing quantitative advice on estimates of tax expenditures;
- providing secretariat support to the Board of Taxation, including to its reviews of the tax treatment of Islamic finance products, the consolidation rights to future income and residual tax cost setting rules, the tax arrangements applying to collective investment vehicles, the venture capital limited partnership regime, review of the Tax Issues Entry System and post-implementation reviews into certain aspects of the consolidation regime and of the Tax Design Review Panel recommendations; and
- providing secretariat support to the Superannuation Advisory Committee, which met twice during 2010-11.

Analysis of performance

Further tax reform

The Treasury has been working to foster a more system-wide approach to policy development that recognises the close links between different parts of the tax system. A series of policy workshops, seminars and cross-group collaborations has been used to deepen understanding of these issues.

Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues as the Australian economy continued to recover from the global financial crisis. Revisions to expected tax revenue in 2010-11 and over the forward estimates reflected gradual recovery in the domestic economy against the backdrop of an uncertain global environment, and were made at each of the economic

and fiscal outlook releases through 2010-11 (Economic Statement, PEFO, MYEFO and the 2011-12 Budget). The Treasury provided revenue estimates into the medium-term as an input into the medium-term analysis undertaken in Statement 3 of Budget Paper No. 1, *Fiscal Strategy and Outlook* in the 2011-12 Budget.

Business tax reform

Taxation of non-renewable resources

The Treasury provided secretariat services and policy advice to the Government's Policy Transition Group (PTG) responsible for the detailed design of the Minerals Resource Rent Tax and the extension to the Petroleum Resource Rent Tax. Following the Government's acceptance of the PTG's recommendations, the Treasury convened the Resource Tax Implementation Group to consult on legislative design and released draft legislation and explanatory material for public consultation.

Amendments to the taxation of financial arrangements provisions

The Treasury provided policy advice, consulted and developed legislation to refine the taxation of financial arrangements provisions. Some of the refinements were included in *Tax Laws Amendment (2010 Measures No. 4) Act 2010* which received Royal Assent on 7 December 2010.

Tax treatment of certain Upper Tier 2 capital instruments

The Treasury provided policy advice, consulted and developed regulations to ensure that certain Upper Tier 2 perpetual subordinated notes are not precluded from being classified as a debt interest under the debt/equity tax rules. The regulations were made on 10 March 2011.

Company loss recoupment rules

The Treasury provided advice on improvements to the company loss recoupment rules announced in the 2011-12 Budget and developed draft legislation to improve the company loss recoupment rules for companies that have multiple classes of shares. These improvements will make it easier for companies to access prior year losses by modifying the continuity of ownership test so that ownership does not need to be traced through certain superannuation entities. They will also remove a range of technical deficiencies in the modified ownership tracing rules for widely held companies. A technical deficiency in the low value asset exclusion under the loss integrity rules will also be removed.

Access to losses for designated infrastructure projects

The Treasury provided policy advice on allowing designated infrastructure projects improved access to tax losses. Infrastructure projects designated to be of national significance will have tax losses associated with the project uplifted at the long term government bond rate and not subject to the same business test or continuity of ownership test.

Special disability trusts

The Treasury provided advice on extending the measure announced in the 2009-10 Budget to encourage the uptake of special disability trusts (SDT). The extensions included backdating the 2009-10 Budget measure, which provides a CGT main residence exemption to SDT, to apply from the 2006-07 income year and providing a CGT exemption for assets transferred into an SDT for no consideration.

Scrip for scrip alignment

The Treasury provided advice and developed legislation to make it easier for takeovers and mergers regulated by the *Corporations Act 2001* to qualify for the CGT scrip for scrip rollover. This measure was contained in *Tax Laws Amendment (2010 Measures No. 4) Act 2010*, which received Royal Assent on 7 December 2010. The legislation carves out takeover bids and schemes of arrangement from the participation requirements of the CGT scrip for scrip rollover where the bid complies with, or the scheme has been approved under, the *Corporations Act 2001*.

CGT treatment of water entitlements and termination fees

The Treasury provided advice and developed legislation to provide a CGT rollover for taxpayers who replace an entitlement to water with one or more different entitlements. This measure was contained in *Tax Laws Amendment (2010 Measures No. 4) Act 2010*, which received Royal Assent on 7 December 2010. The legislation allows infrastructure operators to restructure their arrangements with member irrigators without immediate CGT consequences. In addition, the legislation enables taxpayers to include any termination fees they incur in relation to an asset in the asset's cost base.

Confidentiality of taxpayer information

The *Tax Laws Amendment (Confidentiality of Taxpayer Information) Act 2010* received Royal Assent on 17 December 2010. The legislation rationalised multiple secrecy and disclosure provisions from various tax laws into a new framework in the *Taxation Administration Act 1953*. The disclosure of taxpayer information is prohibited, except in specified circumstances.

Tax agent services regulatory reform

The Treasury continued to provide policy advice and developed options for the regulation of financial planners providing tax agent services within the context of financial planning advice. An options paper was released on 29 November 2010, and on 7 April 2011 the Assistant Treasurer and Minister for Financial Services and Superannuation announced that industry representatives agreed to a broad set of principles that would be used to develop detailed regulatory arrangements for financial planners who provide tax agent services as part of financial planning advice.

Small business

The Treasury continued to provide policy advice on a range of reforms for small business. Some of these reforms operate from the 2012-13 income year and include increasing the small business instant asset write-off threshold to \$5,000 (subsequently increased to

\$6,500 as part of the Clean Energy Future package), simplifying the depreciation rules for small business and providing an early cut to the company tax rate. In addition, the Treasury is developing legislation on the 2011-12 Budget announcements to provide small businesses with an accelerated initial deduction for motor vehicles and to abolish the Entrepreneurs' Tax Offset.

Further, the Treasury provided policy advice and developed legislation that provides cash flow assistance to small business and other eligible taxpayers through reduced Pay As You Go income tax instalments for the 2011-12 income year. The measure was included in the *Tax Laws Amendment (2011 Measures No. 4) Act 2011* which received Royal Assent on 27 June 2011.

Interim changes to improve the taxation of trust income

The Treasury consulted with the community and provided policy advice on implementing changes to the taxation of trust income, identified by the Board of Taxation following the High Court's decision in the *Commissioner of Taxation v Bamford (2010) 240 CLR 481*. Further, the Treasury provided policy advice and developed legislation to allow trust beneficiaries to continue to use the primary production averaging and farm management deposits provisions in a loss year. Both measures were included in the *Tax Laws Amendment (2011 Measures No. 5) Act 2011* which received Royal Assent on 29 June 2011.

Film Tax Offsets

The Treasury provided policy advice and developed legislation to make two changes to the eligibility criteria for accessing the film tax offsets. The minimum qualifying expenditure threshold for the post, digital and visual effects offset was reduced from \$5 million to \$500,000. The requirement for films with qualifying Australian production expenditure of less than \$50 million to have at least 70 per cent of the total of all the company's production expenditure on the film as qualifying Australian production expenditure, in order to qualify for the location offset, was removed. The measure, included in *Tax Laws Amendment (2010 Measure No. 5) Act 2010* received Royal Assent on 29 June 2011.

Natural Disasters — Clean up and recovery grants

The Treasury provided policy advice and developed legislation to exempt from income tax clean up and recovery grants paid to small businesses and primary producers affected by the floods in Australia during the summer of 2010-11 and by Cyclone Yasi. The measure, included in *Tax Laws Amendment (2011 Measures No. 1) Act 2011*, received Royal Assent on 25 May 2011.

National Rental Affordability Scheme

The Treasury developed legislation and consulted on amendments to the tax law to address issues arising from the interaction between the legislation governing the National Rental Affordability Scheme (NRAS) and the tax law provisions that provide the NRAS tax offset. The amendments introduced the concept of an NRAS consortium and ensured that in certain situations the structure of an NRAS consortium does not prevent the ultimate investors in NRAS from receiving the NRAS tax offset. The amendments were in the *Tax Laws Amendments (2011 Measures No. 5) Act 2011*, which received Royal Assent on 29 June 2011.

Personal tax policy reform

Clean energy future tax reforms

The Treasury, together with the Department of Families, Housing, Community Services and Indigenous Affairs, advised on the development of a package to assist Australian households with the move to a Clean Energy Future. This package involves tax cuts delivered through simplification reforms to the personal income tax system, which include increasing the statutory tax free threshold.

Increasing the amount of the low income tax offset delivered through the year

The Treasury advised on and amended regulations on the 2011-12 Budget measure to increase the proportion of the low income tax offset that people are able to receive during the year instead of on assessment of their tax returns in 2011-12. This proportion has increased from 50 per cent in 2010-11 to 70 per cent in 2011-12.

Phasing out the dependent spouse tax offset

The Treasury advised on and implemented legislation on the 2011-12 Budget measure to phase out the dependent spouse tax offset.

Removing minors' eligibility for low income tax offset on unearned income

The Treasury advised on and implemented legislation on the 2011-12 Budget measure to remove minors' eligibility for the low income tax offset on unearned income. The amendments mean that from 1 July 2011 minors (children under 18 years of age) will no longer be able to use the low income tax offset to reduce the amount of income tax they pay on unearned income, such as dividends, interest, rent, royalties and other income from property.

Taxpayer standard deduction for the cost of work related expenses and managing tax affairs

The Treasury advised the Government and undertook public consultation on the design of the 2010-11 Budget measure to provide individual taxpayers with a standard deduction for work-related expenses and the cost of managing tax affairs from 1 July 2012.

Fifty per cent tax discount on up to \$1,000 of interest

The Treasury advised the Government on the design of the 2010-11 Budget measure to introduce a 50 per cent tax discount for interest income. The Treasury developed a public discussion paper that outlined the proposed design of the measure, released for consultation in July 2011.

Superannuation contributions mandated by law no longer limit people's eligibility for financial assistance

The Treasury advised on amendments to the definition of reportable employer superannuation contributions. The amendments mean that contributions to superannuation that are mandated by law, industrial agreement or trust fund, are not considered income when assessing eligibility for government financial assistance.

Denying deductions against Government assistance payments

The Treasury advised the Government on its response to the High Court decision in *Commissioner of Taxation v Anstis* and developed legislation to give effect to the 2011-12 Budget measure to disallow deductions against government assistance payments. This will mean that from 1 July 2011, individual taxpayers will be precluded from claiming a tax deduction for expenses they incur in gaining a government assistance payment.

Temporary flood and cyclone reconstruction levy

On 27 January 2011, the Government announced the introduction of a temporary levy in response to the damage caused by the natural disasters that occurred in early 2011. The Treasury advised the Government on the development and implementation of the temporary flood and cyclone reconstruction levy, which was included in the 2011-12 Budget.

Including uniform expenses for the education tax refund

The Treasury provided advice to the Government and implemented legislation on the measure to extend the education tax refund to include school uniforms, commencing in 2011-12.

52

Rebalancing support for private health insurance

The Treasury continued to advise the Government on its measure, announced in the 2009-10 Budget, to means test the private health insurance rebate and increase the Medicare levy surcharge.

Reform of the car fringe benefits rules

The Treasury advised the Government on the 2011-12 Budget measure to reform the current statutory formula method for determining the taxable value of car fringe benefits. The reform replaces the current statutory method of different rates determined by distance travelled with a single rate that applies regardless of the distance travelled. The reform implemented another recommendation of the Australia's Future Tax System review.

Reform of the income tax treatment of non-cash benefits and the extension of the fringe benefits tax exemption for fly-in-fly-out arrangements to Australians working overseas

The Treasury advised the Government on the measures announced during 2010-11 to extend the existing fringe benefits tax exemption for fly-in-fly-out arrangements to Australians working overseas in remote areas. Prior to these changes, transport from an employee's usual place of residence to their usual place of employment (where this occurs in a remote area in Australia) is exempt from fringe benefits tax provided under a fly-in-fly-out arrangement.

The extension of the domestic concession to overseas remote areas brought the treatment of Australians working in remote areas overseas in line with Australians working in remote areas of Australia.

The Government also announced that it has tasked the Treasury with preparing a discussion paper on reforming the income tax treatment of non-cash benefits to resolve long outstanding anomalies with the current rules.

Philanthropy tax policy

Scoping study for national not-for-profit regulator

In the 2010 election period, the Government committed to undertaking a scoping study for a national 'one-stop shop' regulator for the not-for-profit sector. As part of the scoping study, the Government released a consultation paper on 21 January 2011 which sought stakeholder comment on the goals of national regulation, the scope of national regulation and the functions and form of a national regulator. The Treasury was tasked with undertaking the scoping study and a Final Report (*Final Report: Scoping study for a national not-for-profit regulator*) was presented to government in April 2011.

Not-for-profit reforms

The Treasury advised the Government on the first stage of its not-for-profit reform agenda announced in the 2011-12 Budget. The reforms include:

- establishing the Australian Charities and Not-for-profits Commission from 1 July 2012 — the Commission will initially be responsible for determining the legal status of groups seeking charitable, public benevolent institution, or other not-for-profit status for all Commonwealth purposes. The Commission will also implement a 'report-once use-often' reporting framework for charities, provide education and support for the sector on technical matters, and establish a public information portal by 1 July 2013;
- introducing a statutory definition of 'charity' — the definition will apply across all Commonwealth agencies from 1 July 2013 and is based on the 2001 *Report of the Inquiry into the Definition of Charities and Related Organisations*, taking account of the findings of recent judicial decisions;
- better targeting the not-for-profit tax concession — to reform the use of tax concessions by unrelated businesses run by not-for-profit entities;
- starting negotiations with the states and territories on national regulation and a new national regulator for the sector, as the greatest reduction in red tape can only be achieved with national coordination; and
- undertaking further reviews of the regulation of the not-for-profit sector, including reviews of the company limited by guarantee entity structure, not-for-profit fundraising, and the governance obligations appropriate for not-for-profit entities — the need for these reviews was identified through the scoping study for a national not-for-profit regulator.

Superannuation and retirement income policy reform

2011-12 Budget superannuation measures

The Treasury provided policy advice for the Government's 2011-12 Budget measures, and developed legislation for and implemented some of the measures. These measures included:

- improving the regulation of the self managed superannuation fund (SMSF) sector and increasing the SMSF levy by \$30 with effect from the 2010-11 income year;
- developing a facility for the online registration of SMSF auditors;
- reducing the minimum payment amounts for account-based pensions by 25 per cent for 2011-12 to phase out the draw-down relief provided in 2008-09, 2009-10 and 2010-11;
- providing eligible individuals with the option to have excess concessional superannuation contributions taken out of their superannuation fund and assessed at their marginal tax rate, rather than incurring excess contributions tax;
- extending the pause to the indexation of the income threshold for the superannuation co-contribution scheme; and
- allowing superannuation fund trustees and retirement savings account providers to make greater use of tax file numbers to locate member accounts and facilitate the consolidation of multiple member accounts.

54

Consultation on Stronger, Fairer, Simpler superannuation reforms

The Treasury consulted on implementation issues for the Government's announcements to provide higher concessional contributions caps for those aged 50 or over with superannuation balances of less than \$500,000 and on the introduction of a new low income earner government contribution for those with income less than \$37,000.

Trans-Tasman retirement savings portability

The Treasury continues to work with New Zealand officials to finalise legislation to allow Australians and New Zealanders to take their retirement savings with them when they move across the Tasman.

Once enacted, the scheme will permit transfers between certain Australian superannuation funds and New Zealand KiwiSaver schemes. Participation in the scheme will be voluntary for eligible funds, as well as for individuals wishing to transfer their retirement savings.

The approach will maintain the integrity of the Australian and New Zealand retirement savings systems.

Super System Review

The Treasury provided advice to help the Government deliver a comprehensive response to recommendations of the Super System (Cooper) Review. The response covers:

- creating a new simple, low cost default superannuation product (MySuper);
- raising the standards and duties of those involved in the superannuation system, particularly those managing default superannuation funds in which the majority of Australians have their superannuation savings invested;
- providing the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the ATO with improved regulatory powers (including the setting of prudential standards, and registration of self managed superannuation fund auditors); and
- making the processing of everyday transactions easier, cheaper and faster (SuperStream).

Revenue Group worked with Markets Group in providing this advice.

The Treasury assisted the Government in undertaking consultations with stakeholders on the implementation of the reforms.

- The Peak Consultative Group was chaired by Mr Paul Costello and comprised of representatives of key industry, employer and consumer groups, as well as representation from relevant Government agencies to provide input on the design and implementation of the reforms. The Peak Consultative Group met on a regular basis from February 2011 to May 2011.
- The Peak Consultative Group was supported by several working groups to allow for more detailed discussions with relevant private and public sector experts on the practical and technical design, and implementation issues.

Following the conclusion of consultations, the Treasury provided advice to the Government on implementation details.

The Treasury developed legislation and implemented new rules for SMSF investment in collectables and personal use assets that ensure the investments are not made for current day purposes.

Other superannuation measures

The Treasury provided policy advice and developed legislation on other superannuation issues, including:

- streamlining the process for superannuation funds claiming deductions for the cost of total and permanent disability insurance premiums; and
- allowing the proceeds of crime to be recovered from superannuation.

International tax arrangements

International tax arrangements

The *International Tax Agreements Amendment (No. 1) Act 2011* modified the structure of the *International Tax Agreements Act 1953* (the Act) to streamline it and remove the majority of the existing schedules to the Act. The modifications do not alter the entry into force or application of Australia's tax treaties, but removes duplication as copies of tax treaties are available publicly. The amending Act also gave the force of law in Australia to recently signed bilateral agreements with Aruba, Chile, the Cook Islands, Guernsey, Malaysia, Samoa and Turkey.

Review into Australia's foreign source income anti-tax deferral regime

The former Government announced it would reform the foreign source income attribution rules. The reforms will better balance the integrity objective of the rules with other objectives such as efficiency, equity, simplicity and low compliance costs. The reforms maintain the controlled foreign company rules as the primary set of rules to counter tax deferral arrangements, and repealed Foreign Investment Fund and deemed present entitlement rules. Legislation repealing the Foreign Investment Fund rules and the deemed present entitlement rules received Royal Assent on 14 July 2010.

Recognising that a small opportunity for deferral may still be present, a more targeted anti-avoidance rule (the anti-roll-up rule) is being developed. The proposed Foreign Accumulation Fund rule will target the most abusive cases of deferral that may occur outside the controlled foreign company rules. A further round of exposure draft legislation dealing with the Accumulation Fund rule was released on 17 February 2011. This follows on from the initial exposure draft legislation that was released on 28 April 2010. Exposure draft legislation to modernise the controlled foreign company rules was also released on 17 February 2011. This legislation follows on from two Treasury consultation papers released during the previous year. Public consultation has occurred on these reforms with the legislation continuing to be developed.

Codification of the tax treatment of certain sovereign investments

The Government announced on 20 August 2009 that it would codify the current administrative practice that exempts from Australian taxation certain income arising from investments made by foreign governments. The application of this principle in Australia is limited to income arising from non-commercial investments. The objectives of this project are to encourage investment in Australia through greater certainty surrounding the tax consequences of these investments and to reduce the compliance and administrative costs associated with current arrangements. A discussion paper detailing two proposed options was released for public comment on 20 April 2011. These options were developed following two previous discussion papers that were previously released in June 2010 and in November 2009.

Investor Manager Reforms

Following a review and report of the Australian Financial Centre Forum (*Australia as a Financial Centre: Building on Our Strengths 2009*), the Government announced in principle support for the development of an investment manager regime (IMR). The IMR is intended to provide clear and comprehensive statutory rules for taxing nonresident investment into Australian and foreign assets.

On 17 December 2010, the Government announced amendments to clarify the treatment of previous income years. On 19 January 2011, the Government announced as part of the proposed IMR, that it would clarify the tax positions of foreign funds which engage the services of Australian investment advisors to invest in non-Australian assets.

The Government has also asked the Board of Taxation (a non-statutory advisory body charged with contributing a business and broader community perspective to improving the design of taxation laws and its operation) to report on the design of an IMR. The Board is expected to report to the Government in September 2011.

Tax treaty negotiations

Australia has a tax treaty network of over 40 treaties. Bilateral tax treaties promote closer economic cooperation by eliminating possible barriers to trade and investment by overlapping tax jurisdictions. Tax treaties offer protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During 2010-11, the Treasury continued to progress the Government's tax treaty negotiation program and negotiations were held with India and Switzerland.

New tax treaties with Chile and Turkey, and an amending Protocol with Malaysia, were enacted and given the force of law in Australia. Work to progress negotiations with several other countries occurred.

Tax policy advice was provided on various international agreements the Government is negotiating, including free trade agreements, film co-production agreements, and proposed agreements with potential tax privileges and immunities. The Treasury also contributed to international tax treaty policy development and capacity-building through its work with the OECD's Committee on Fiscal Affairs.

Tax information exchange agreements and international transparency

Tax information exchange agreements

Australia continued to make significant progress in securing tax information exchange agreements with low tax jurisdictions, including signing tax information exchange agreements with Liechtenstein, Mauritius, and Montserrat. Tax information exchange agreements provide a legal basis for bilateral exchange of tax information, for both civil and criminal tax purposes, and are an important measure to combat offshore tax evasion.

Australia has been active in international efforts to address tax transparency and the use of secrecy for tax evasion purposes, and is involved in G20 and OECD efforts to improve global exchange of information for tax purposes. In August 2009, the Global Forum on Transparency and Exchange of Information was reinvigorated with a renewed mandate to conduct peer reviews of its members' commitment to international standards on tax transparency commitments. Australia was elected as chair and also participates on the peer review group which is responsible for assessing member compliance with the international standards. These standards have been endorsed by the United Nations and provide for the removal of secrecy and other interests that may prevent the exchange of information on tax matters between jurisdictions.

The peer reviews commenced in early 2009 and will continue until 2012 when it is anticipated that most of the Global Forum's 101 member countries and jurisdictions would have undergone some level of review. As these reviews are approved by the Global Forum they will be made public. As an active contributor to the work of the Global Forum, Australia was one of the first countries to undertake a comprehensive review of its implementation of the international standards on tax transparency and exchange of information. The review commenced in March 2010 and concluded in early 2011. The review found that Australia meets the international standards but made a number of recommendations including to improve record keeping in respect of nominees.

58

International representation

The Treasury represented Australia on the OECD's Committee on Fiscal Affairs and its associated working parties and forums dealing with international tax matters, particularly on developing comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meetings of the United Nations Committee of Experts on International Cooperation in Tax Matters and the Global Forum for Transparency and Exchange of information for Tax purposes. The Treasury also provided an instructor to an OECD course on tax treaty issues.

Indirect tax policy reform

Review of the legal framework for the application of the GST

The *Tax Laws Amendment (2010 Measures No. 5) Act 2011* implemented further measures from this review. The Treasury is consulting on remaining measures and drafting of other measures is proceeding.

Review of the GST financial supplies provisions

Consultation on measures arising from this review took place in late 2010. Drafting on these measures is proceeding, consistent with a scheduled start date of 1 July 2012.

Review of the application of the GST to cross-border transactions

The Treasury released a consultation paper on implementing measures from this review in February 2011. Drafting on these measures is proceeding, consistent with a scheduled start date of 1 July 2012.

12 month export period for recreational boats

The measure was implemented in the *Tax Laws Amendment (2011 Measures No. 3) Act 2011*, which received Royal Assent on 27 June 2011.

Australian taxes, fees and charges

The *Tax Laws Amendment (2011 GST Measures No. 2) Act 2011*, which received Royal Assent on 27 June 2011, implemented a new self assessment mechanism for exempting Australian taxes, fees and charges from the GST.

Review of GST governance arrangements

A review of the governance arrangements for monitoring the operation and administration of the GST was undertaken and a number of improvements to the existing arrangements were agreed to by the States and Territories.

Excise and customs duty

The Treasury developed legislation to phase in excise and excise-equivalent customs duty on liquefied petroleum gas, liquefied natural gas and compressed natural gas used for transport purposes, over a five year transitional period, beginning 1 December 2011 and ending 1 July 2015. The legislation also ensures that current arrangements for renewable diesel, biodiesel, methanol, and ethanol continue. The *Taxation of Alternative Fuels Legislation Amendment Act 2011*, the *Excise Tariff Amendment (Taxation of Alternative Fuels) Act 2011*, the *Customs Tariff Amendment (Taxation of Alternative Fuels) Act 2011* and the *Energy Grants (Cleaner Fuels) Scheme Amendment Act 2011* received Royal Assent on 29 June 2011.

Clean Energy Future package

The Treasury provided policy advice and developed legislation on the fuel tax arrangements under the Clean Energy Future package. The Clean Energy Future package was announced by the Government on 10 July 2011.

Quantitative advice

Securing a clean energy future

The Treasury provided ongoing advice on the Government's Clean Energy Future package. This included advice on the impact of the changes on the consumer price index and price changes faced by different household segments. Advice was also provided on the design and quantum of household assistance delivered through the transfer system and personal tax reform. Special consideration was given to the distributional impact of the scheme on the cost of living and assistance measures which would most effectively help the most vulnerable households during the transition to the scheme.

Tax Expenditures Statement

The Treasury coordinated the 2010 Tax Expenditures Statement publication and provided quantitative advice in respect of the estimates of tax expenditures (that is, the value of concessional taxation treatment) associated with areas of taxation policy where concessional treatment is applied.

Consultation for tax and superannuation measures

During 2010-11, the Treasury continued to develop enhanced consultation processes for tax and superannuation measures.

Consultation on tax and retirement incomes policy continued to be extensive, with public consultation on new measures occurring at both the policy design and legislative design stages. The Treasury published discussion papers, draft legislation and draft explanatory materials on its website for comment.

The Treasury also published submissions made to consultation processes on its website, except when confidentiality was requested.

60

In addition, the Treasury also posted consultation summaries on its website for a number of new legislative measures introduced into Parliament. These outline the issues raised in consultation, changes resulting from consultation and, where possible, reasons why certain suggestions were not adopted. Consultation summaries also invite feedback on the consultation process to inform the Treasury, so it continuously improves its consultation practices and arrangements.

The Tax Design Advisory Panel allows the Government, in appropriate circumstances, to develop tax and superannuation legislation by teams involving the Treasury, the ATO and the private sector, as represented by members of the panel.

Progress towards principle-based tax design and miscellaneous amendments

Principle-based tax design

The Australia's Future Tax System report recommended that the Government commit to a principle-based approach as a way of addressing the growing volume and complexity of tax legislation, and as a way of helping those laws be interpreted consistently with their policy objectives. On 5 August 2010, the then Assistant Treasurer in an address to the Australian Economic Forum re-affirmed the Government's commitment to principle-based tax design.

The principle-based approach aims to design and express law using operative principles that focus on intended outcomes, rather than prescribing in detail all the possible circumstances intended to be captured.

Miscellaneous amendments and technical corrections

Measures making miscellaneous amendments and technical corrections to the taxation laws were included in the *Tax Laws Amendment (2011 Measures No. 2) Act 2011*, which received Royal Assent on 27 June 2011.

Issues raised through the Tax Issues Entry System are addressed in miscellaneous amendment packages. The Tax Issues Entry System website (www.ties.gov.au) is jointly operated by the ATO and the Treasury and allows tax professionals and the general public to raise issues on the care and maintenance of the tax system.

Tax advice privilege and the Tax System Advisory Board

Tax advice privilege

On 15 April 2011, the Assistant Treasurer and Minister for Financial Services and Superannuation released a discussion paper on the appropriateness of establishing a tax advice privilege. The paper considers an Australian Law Reform Commission recommendation to shield certain tax advice documents from the information-gathering powers of the Commissioner of Taxation, and canvasses the implications of establishing such a privilege. Comments on the discussion paper were sought by 15 July 2011.

Tax System Advisory Board

During the 2010 election period, the Government announced that it would establish a Tax System Advisory Board. On 21 January 2011, the Assistant Treasurer and Minister for Financial Services and Superannuation released a discussion paper outlining different ways the Government could establish the Board. Submissions closed on 11 March 2011. The Government formed a Consultation Panel to consider the submissions and provide advice about the best way of proceeding with this commitment, and asked for advice by 30 June 2011.

Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to its reviews of the tax treatment of Islamic finance products, the consolidation rights to future income and residual tax cost setting rules, the tax arrangements applying to collective investment vehicles, the venture capital limited partnership regime, review of the Tax Issues Entry System and post-implementation reviews into certain aspects of the consolidation regime and of the Tax Design Review Panel recommendations.

Secretariat support to the Superannuation Advisory Committee

The Treasury provided secretariat support to the Superannuation Advisory Committee, which met twice during 2010-11.

Management of legislation program

Advice to the Government on tax policy and legislation was timely, influential and of high quality, enabling the Government to make informed decisions in responding to the global financial crisis and developing a range of other business, personal, indirect, international and personal income tax measures.

The Government's updated forward work program for tax measures was published on the Treasury website in February 2011. The program sets out the consultation planned for announced tax measures.

A total of 25 tax bills containing 63 measures were introduced into Parliament in 2010-11. Of these, six bills containing 18 measures had been introduced into Parliament previously but lapsed when Parliament was prorogued for the 2010 election.

Legislation was introduced for 45 measures not previously introduced into Parliament. Twelve of 22 prospective measures (55 per cent) were introduced within 12 months of being announced, and eleven of 16 retrospective measures (68 per cent) were introduced within six months of announcement. Another seven measures were not announced before being introduced.

The measures introduced into Parliament included seven international tax agreements. Tax agreements are tabled with the Joint Standing Committee on Treaties for a public consultation process and reporting to Parliament before introduction, adding an average of about six months to the time taken from announcement to introduction.

MARKETS GROUP

Overview

Markets Group contributes to Australia's continuing economic development and the wellbeing of its people by fostering a well functioning market economy, a secure financial system, and foreign investment consistent with Australia's national interest. Improving the operation of markets works to enhance consumer and investor confidence, and foster a secure financial system and sound corporate practices.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on developing and implementing policies to maintain and improve markets, so that investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also provides advice to remove impediments to competition in product and services markets, and safeguard the public interest in matters such as consumer protection.

The Treasury also supports the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel.

A key focus for the Treasury in 2010-11 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the wake of the global financial crisis and global recession. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and ensuring that regulatory frameworks promoted macroeconomic stability and market confidence.

The Treasury also continued to monitor and provide advice on the general prudential framework applying to the banking sector, insurers and superannuation funds. The Treasury participated actively in international forums, such as the G20 and Financial Stability Board, to enhance the regional and global financial architecture. In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in negotiating free trade agreements. During 2010-11, the Treasury continued to pursue sound regulatory and structural reforms to foster well functioning markets in key infrastructure, energy, housing, financial and labour markets. This included work to further the COAG reform agenda to reduce the regulatory burden on business, including a national approach to consumer policy and consumer credit; housing supply and affordability; and Standard Business Reporting (SBR).

The multi-agency SBR program was delivered on time and within budget on 1 July 2010. During 2010-11, the program focused on management of take-up targets, and the ongoing operation, maintenance and governance of the SBR solution. Participating SBR agencies include the ABS, APRA, ASIC, the ATO, and all State and Territory government revenue offices.

Group deliverables

Markets Group's key deliverables are to provide advice on:

- measures to promote competition, macroeconomic stability and market confidence, including providing advice on the prudential frameworks applying to the banking, insurance and superannuation sectors;
- financial sector reform options, including fostering the efficient flow of funds into, and within, the Australian economy;
- how to best influence and implement G20 decisions to strengthen the financial regulatory system;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency;
- financial services and corporate reform addressing emerging issues in investor protection, corporate governance and reporting, and market integrity;
- further reforms to executive remuneration arrangements, including simplifying remuneration reports;
- initiatives to position Australia as a leading financial services centre in the Asia-Pacific region, arising from the Government response to the Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*;

- key planks in the COAG reform agenda designed to reduce the regulatory burden facing business including a national law for consumer policy, national consumer credit law and as the lead agency in the multi-agency SBR initiative;
- assisting the implementation of the National Broadband Network, including on structural reforms to maximise competition in the national telecommunications market;
- implementation of the Government's Clean Energy Future package impacting on the energy sector;
- managing incoming foreign investment to ensure that the national interest is protected and encourage free flows of investment;
- representation of Australia's interests on investment and financial service issues in negotiating free trade agreements and the Doha Round and, in relation to investment, in multilateral forums such as the OECD and APEC;
- issues relating to the availability and affordability of insurance and reinsurance, and implementing the Government's response to the Natural Disaster Insurance Review; and
- actuarial matters through the Australian Government Actuary which provides actuarial services to government, the Treasury and other agencies.

Group outcomes

Markets Group's key outcomes for 2010-11 were:

- implementing the Super System Review to optimise retirement benefits, improve competition, lower costs and fees and foster confidence in superannuation;
- advancing a Housing Supply and Affordability Reform agenda, involving the examination of a range of factors that influence housing supply and demand in Australia;
- leading key reforms of the COAG Business Regulation and Competition Working Group to progress reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing legislative amendments to implement the Government's commitment to reform the unconscionable conduct and mergers and acquisitions provisions of the *Competition and Consumer Act 2010*, which were introduced as part of the Competition and Consumer Legislation Amendment Bill 2011 on 15 June 2011;
- developing draft prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2011*, which the Government has stated will initially apply to the banking sector, introduced into the Parliament in the Competition and Consumer Amendment Bill (No. 1) 2011 on 24 March 2011;
- implementing the Australian Consumer Law, which replaces provisions in 20 Commonwealth, State and Territory laws with a single national consumer law that commenced on 1 January 2011. A range of resources were developed to support the implementation process;
- fostering competition and stability in the banking industry by implementing the Government's Competitive and Sustainable Banking System package;

- developing legislation to amend the *National Consumer Credit Protection Act 2009* to give effect to the Government's credit card reforms announced in December 2010;
- implementing the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, which commenced on 1 July 2011, and associated regulations to strengthen Australia's remuneration framework;
- implementing the *Corporations Amendment (Sons of Gwalia) Act 2010*, which commenced on 18 December 2010. The legislation reversed the effects of the High Court decision in *Sons of Gwalia and Margaretic*;
- implementing the *Corporations Amendment (No.1) Act 2010*, which commenced on 13 December 2010. The legislation made reforms to expand ASIC's information-gathering powers and better regulate access to company registers and unsolicited offers to purchase finance products off-market;
- implementing the Government's decision to transfer responsibility for supervision of Australia's domestic licensed financial markets from market operators to ASIC, which took effect on 1 August 2010;
- implementing the Government's decision to support financial market competition in Australia; providing advice, in consultation with ASIC, on granting a licence on 4 May 2011 to the first potential market operator proposing to provide competition for trading shares listed on the Australian Securities Exchange;
- implementing the Future of Financial Advice reforms to improve the quality of financial advice provided to Australians through the removal of conflicts of interest and ensuring financial advisers act in the best interests of clients;
- progressing the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region, including work to develop an Asia Region Funds Passport;
- progressing proposals considering natural disasters and insurance, particularly in relation to establishing a standard definition of 'flood' and developing a key facts sheet for home building, and home and contents insurance policies;
- providing advice, in consultation with the Foreign Investment Review Board, on significant and high profile foreign investment cases of national interest and trade policy matters, dealing with global investment, trade flows and trends, foreign government investment and trade policy responses and the implications for Australia;
- contributing to free trade agreement negotiations with Japan, China, Korea, Malaysia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam);
- achieving closer economic integration through initiatives that further progress the development of a single economic market between Australia and New Zealand. In August 2009, the Australian and New Zealand Prime Ministers agreed on principles for developing cross-border economic initiatives and a range of shared practical outcomes in the areas of insolvency law, financial reporting policy, financial services policy, competition policy, business reporting, corporations law, personal property securities law, intellectual property law, and consumer policy;

- leading the ongoing governance of SBR, including the strategic direction, stakeholder take-up, architectural leadership and international collaboration. SBR aims to provide a quicker and easier way for businesses to fulfil their government reporting requirements; and
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary and the Financial Reporting Panel.

Analysis of performance

Stronger Super

Markets Group worked with Revenue Group in providing advice on the Government's response to the recommendations of the review into the governance, efficiency, structure and operation of Australia's superannuation system (Super System Review). Further details are on page 55.

Infrastructure policy

66

The Treasury provided advice on the Government's investment in infrastructure projects announced in the 2010-11 Budget. The Secretary to the Treasury is a member of Infrastructure Australia, the Government's key advisory body on nationally significant infrastructure. The Treasury is engaged in the activities of the COAG Infrastructure Working Group, including the Private Public Partnership sub-group.

The Treasury provided advice on the interaction of the Government's climate change policies and the Australian energy market. The Treasury was actively engaged in the work of the Standing Committee of Officials of the Ministerial Council on Energy/Standing Council on Energy and Resources which provides advice on ongoing energy market reforms.

The Treasury worked with the Department of Infrastructure, Transport, Regional Development and Local Government to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition.

The Treasury provided advice to Ministers on a number of matters arising under the National Access Regime in Part IIIA of the *Competition and Consumer Act 2010*. Ministers received recommendations on five certification matters and one declaration matter during 2010-11.

The Treasury continues to work with the Department of Broadband, Communications and the Digital Economy, the Australian Competition and Consumer Commission (ACCC) and other central agencies on implementing the Government's National Broadband Network policy, and providing advice on reform in the national telecommunications market.

The Treasury also continued to work with the Department of Broadband, Communications and the Digital Economy on ensuring the efficient allocation of radio-frequency spectrum, including through the switchover to digital television.

The Treasury leads key activities of the COAG Housing Supply and Affordability Reform Working Party, which is responsible for reporting to COAG through the Ministerial Council for Federal Financial Relations on issues such as planning and zoning, infrastructure charges and an audit of underutilised land.

The Treasury also contributed to the Government's National Urban Policy paper, *Our Cities, Our Future: A national urban policy for a productive, sustainable and liveable future*. The Treasury advised the Government on funding for housing measures in, and announced after, the 2011-12 Budget.

Competition policy

The Treasury contributed to key outputs in the Government's competition policy legislative reform program.

The Treasury provided advice to the Government on draft prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2010*, which the Government has stated will initially apply to the banking sector, introduced into the Parliament in the Competition and Consumer Amendment Bill (No. 1) 2011 on 24 March 2011.

The Treasury provided advice to the Government on clarifications to the mergers and acquisitions provisions of the *Competition and Consumer Act 2010* to address creeping acquisitions, introduced into the Parliament as part of the Competition and Consumer Legislation Amendment Bill 2011 on 15 June 2011.

The Treasury provided advice on key competition and regulatory reforms of the COAG Business Regulation and Competition Working Group. This included progressing reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business. It also included supporting the Parliamentary Secretary to the Treasurer in his role as chair of the Business Regulation and Competition Working Group Competition Sub-Committee, which oversees the eight competition reform areas, including national transport, road pricing, national energy markets and access to infrastructure.

The Treasury provided advice to the Government on improving the competitiveness of Australia's national telecommunications sector, including in relation to legislation that encourages the structural separation of Telstra and that establishes NBN Co. as a wholesale-only supplier.

The Treasury coordinates the Productivity Commission's work program and advises departments and the Government on preparing terms of reference for reviews. In 2010-11, the Productivity Commission commenced three public inquiries and four commissioned studies.

The Treasury represents Australia at international forums on competition policy, and is a member of the OECD Competition Committee. The Treasury is also a member of the APEC Economic Committee and coordinates the competition policy work stream.

Consumer policy

In 2010-11, the Treasury provided advice to the Government on the consumer policy framework including implementation of the Australian Consumer Law.

The Treasury developed legislation to implement the Australian Consumer Law. The Australian Consumer Law replaces provisions in 20 Commonwealth, State and Territory laws with a single national consumer law and commenced on 1 January 2011.

The Australian Consumer Law Act includes a single set of provisions about unfair practices and fair trading, national unfair contract terms, new consumer guarantees provisions, new provisions dealing with unsolicited consumer agreements, simple national laws for lay-by agreements, a new national product safety regime and new provisions on information standards that will apply to services as well as goods. The Australian Consumer Law also includes new civil penalties, enforcement powers and consumer redress options.

The Treasury worked with both national and State and Territory regulators during 2010-11 to implement a new policy and enforcement framework for the Australian Consumer Law.

68

The Treasury also provided advice to the Government to clarify the unconscionable conduct provisions of the *Competition and Consumer Act 2010*.

The Australian Consumer Survey, commissioned by the Treasury on behalf of the Standing Committee of Officials of Consumer Affairs, benchmarked consumer and business awareness, knowledge and experience of Australia's consumer laws prior to the implementation of the Australian Consumer Law. This national survey collected sufficient data to establish a suitable evidence base for future consumer policy and research.

The Treasury represents Australia in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy. The Treasury contributed to the development of the OECD's *Consumer Policy Toolkit*, which was published in July 2010. The Treasury also developed a *Companion to the OECD Consumer Policy Toolkit*, which placed the OECD work in an Australian context. The Treasury also contributed to the establishment of the OECD's Working Group on Consumer Product Safety.

The Treasury continued to provide secretariat support to the Ministerial Council on Consumer Affairs and to the Commonwealth Consumer Affairs Advisory Council.

National regulation of credit

The National Consumer Credit Protection laws came into force on 1 July 2010. The legislation gives effect to the COAG agreement of October 2008 to transfer responsibility for consumer credit regulation to the Australian Government.

The National Consumer Credit Protection laws:

- replace the State and Territory administered Uniform Consumer Credit Code with a nationally consistent consumer credit framework;

- introduce a national credit licensing system with both entry standards and ongoing conduct requirements for all persons engaging in credit activities; and
- require lenders, and those intermediaries who provide credit assistance, to meet responsible lending obligations, so that borrowers are not provided with products that are unsuitable.

During 2010-11, the Treasury commenced consideration of Phase 2 of the National Credit Reforms with the release, in July 2010, of the Phase 2 Green Paper, *National Credit Reform: Enhancing Confidence and Fairness in Australia's Credit Law*.

The Treasury developed legislation to enhance the regulation of credit card lending announced under the Competitive and Sustainable Banking System reforms. The *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011*, introduced a number of reforms including bans on unsolicited credit limit offers and 'over limit' fees unless consumers expressly consent to them, and a requirement for lenders to apply repayments to higher interest debts first.

Financial system reform

Financial sector crisis management

A key focus of activities during 2010-11 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the wake of the global financial crisis and the global recession. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

Treasury officials continued to participate in the work of the G20, contributing to the development of key global reforms to financial regulation, including strengthened standards for capital and liquidity. The Treasury also contributed to the work of other international bodies to foster international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency.

Regulation of particular market sectors addressed in those forums included hedge funds, credit rating agencies and over-the-counter derivatives.

In the case of financial reporting, the Treasury worked with the Financial Reporting Council on regional and international initiatives to promote convergence to International Financial Reporting Standards.

Domestically, the Treasury progressed further initiatives to address regulatory concerns emerging from the crisis.

On 12 December 2010, the Government released the *Competitive and Sustainable Banking System* reform package to foster competition and stability in the banking sector. The package introduced three broad streams of reforms: to empower consumers to get a

better deal; to help smaller lenders put more competitive pressure on the big banks; and to secure Australia's financial system, providing a sustainable flow of credit to households and businesses.

The Treasury worked with Australia's financial regulators to develop the reforms and is currently undertaking consultations and working on legislation to introduce these reforms.

The Treasury also provided advice on Australia's financial sector crisis management arrangements, including the operation of the Guarantee of Large Deposits and Wholesale Funding (Guarantee Scheme), and the Financial Claims Scheme (FCS).

The Guarantee Scheme enabled Australian authorised deposit-taking institutions to continue to raise funds and to provide credit throughout the crisis. The Government closed the Guarantee Scheme on 31 March 2010 following advice from the Council of Financial Regulators (comprising representatives of the Treasury, APRA, ASIC and the RBA) that it was no longer required.

The FCS provides depositors and insurance policyholders with timely access to funds if a financial institution fails. Depositor claims are currently capped at \$1 million, a level which reflected the need to reassure depositors and the market at the time it was set. The Government has committed to review these arrangements by October 2011.

On 12 December 2010, the Government confirmed that the FCS would remain in place permanently. The Government also announced that it had been working with the Council of Financial Regulators to review the cap on the scheme.

On 27 May 2011, the Government released an FCS consultation paper which considered whether amendments would be required to the FCS in the new, post-crisis environment. The Council of Financial Regulators advised the Government that the FCS in its current form is largely appropriate to the post-crisis landscape. However, it has suggested some narrowing of the scheme from the settings that were put in place during the crisis, particularly in relation to the cap on the size of protected deposits and refinements to the existing framework. On 11 September 2011, the Government announced a new cap of \$250,000 will apply from 1 February 2012.

The Treasury continued to participate in the work of the Council of Financial Regulators and liaised with other government agencies to monitor developments in the global and domestic financial markets and provide policy advice. It continued to monitor developments in key overseas financial markets to inform policy considerations.

Financial market infrastructure

On 8 April 2011, the Deputy Prime Minister and Treasurer referred a number of issues relating to financial market infrastructure regulation to the Council of Financial Regulators. The Treasury is chair of this working group, which also comprises representatives of APRA, ASIC and the RBA. The working group is considering potential measures which could be introduced to ensure Australia's regulatory system for financial market infrastructure continues to protect the interests of Australian issuers, investors and markets participants, including under a scenario where the Australian Securities Exchange is part of a foreign-domiciled group.

Market supervision and competition

On 1 August 2010, the *Corporations Amendment (Financial Market Supervision) Act 2010* and the *Corporations (Fees) Amendment Act 2010* commenced, giving effect to the Government's decision to transfer responsibility for the supervision of Australia's domestic licensed financial markets from market operators to ASIC. The associated Regulations and ASIC's Market Integrity Rules, which together provide the detail of the new regulatory framework, also commenced at that time.

In 2010-11, the Treasury progressed the Government's decision, announced in March 2010, to support financial market competition in Australia. This included working closely with ASIC to develop the *ASIC Market Integrity Rules (Competition in Exchange Markets) 2011*. Following advice from the Treasury and ASIC, on 4 May 2011, the Assistant Treasurer and Minister for Financial Services and Superannuation granted a licence to ChiX Australia Pty Ltd as an alternative securities exchange to boost competition in Australia's financial market. The Treasury also assisted in the development of a cost recovery framework for market supervision in a multi-market operator environment.

Financial services reforms

Financial advice reform

In April 2010, the Government announced the Future of Financial Advice reforms, which focused on improving the quality of advice and enhancing retail investor protection. The reforms included a ban on conflicted remuneration structures, the introduction of a best interest's duty for people providing personal advice, and a compulsory renewal obligation for ongoing advice relationships. The reforms are designed to tackle conflicts of interest that have led to high profile corporate collapses such as Storm Financial, Opes Prime and WestPoint.

Following the initial public information sessions held in July 2010, the Treasury held a series of targeted meetings with stakeholders and a second round of public information sessions in February and March 2011. On 28 April 2011, the Government released an information pack outlining further details of the reforms, particularly in relation to the compulsory renewal obligation and the payment of insurance commissions.

The Government is moving ahead with the implementation of the reforms and expects to introduce legislation into Parliament before the end of 2011.

Statutory Compensation Scheme Review

As part of the Future of Financial Advice reforms, a review of the cost and benefits of a statutory compensation scheme for financial services is being undertaken by Mr Richard St. John. In April 2011, Mr St. John released a consultation paper seeking feedback on a range of options including more rigorous administration of the professional indemnity insurance arrangements, a strengthening of capital requirements and introduction of a last resort scheme. Mr St. John is expected to report to government on these issues in 2012-13.

Reforming flood insurance: Clearing the waters

On 4 April 2011, in response to the number of natural disasters, the Government released the proposals paper *Reforming flood insurance: Clearing the waters*. The Treasury is in the process of developing two of the key proposals from the paper, the introduction of a standard definition of 'flood' and a key facts sheet for home building, and home and contents insurance policies. The two proposals being developed are expected to reduce the adverse outcomes faced by consumers when a natural disaster strikes. This will occur through increased consumer knowledge and awareness regarding insurance policies.

72

Shorter Product Disclosure Statements

In 2008, the Minister for Finance and Deregulation and the then Minister for Superannuation and Corporate Law created the Financial Services Working Group, comprising officials from the Treasury, the Department of Finance and Deregulation and ASIC. The Group officially completed its main project in June 2010 by introducing simplified and shortened product disclosure statements for margin loans, superannuation funds and simple managed investment schemes.

Shorter Product Disclosure Statements (SPDS) for margin loans are four pages, while for both superannuation products and simple managed investment schemes, SPDS's are reduced to only eight pages.

An SPDS for margin loans came into operation from 1 January 2011, with regulated superannuation and simple managed investment scheme SPDS's transitioning to the new regime from 22 June 2011. SPDS's provide retail clients with short and simple to read disclosure documents which still contain the key information consumers need to be aware of before choosing to acquire an investment product.

Australian Financial Centre Forum

In September 2008, the Government commissioned a panel of experts — the Australian Financial Centre Forum — to identify the key priority areas necessary to position Australia as a leading financial centre in the Asia-Pacific region.

The Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*, was released in January 2010. On 11 May 2010, the Government announced its response to the recommendations, providing in-principle or direct support for nearly all 19 recommendations. This included recommendations on the taxation of financial

services, such as the Board of Taxation reviewing Islamic financial products and collective investment vehicles, and regulation of financial services such as the development of an Asia Region Funds Passport and a financial services regulatory online gateway for potential overseas investors.

The Asia Region Funds Passport was discussed at an APEC policy dialogue in Kuala Lumpur in October 2010, leading to endorsement of continued work by the APEC Finance Ministers at their meeting in Kyoto in November 2010. Further work, led by the Treasury, is continuing amongst APEC economies on the technical design of the Passport model.

Financial sector trends and structures

The Treasury continues to advise the Government on emerging market trends and structures by assessing market developments and new products, monitoring trends affecting competition and efficiency in the financial sector, and considering potential developments which may affect the effectiveness of existing policy settings. In addition, the Treasury has advised government on developments in banking fees and charges; the affordability and availability of insurance; and the operation, structure and cost of the superannuation system.

Corporations regulation reforms

Executive remuneration

Following the Government's announcement in April 2010 that it would introduce a package of reforms to strengthen Australia's remuneration framework, the Treasury developed and implemented these reforms through the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* and associated Regulations. The reforms address many of the recommendations made by the Productivity Commission in its inquiry into Australia's executive remuneration framework.

Unsolicited share offers

In September 2010, the Government reintroduced the Corporations Amendment (No. 1) Bill 2010. The Bill includes measures to address unsolicited share offers by changing rules regarding the access and use of information held on share registers. It also amended ASIC's search warrant powers and its ability to access information obtained through telecommunications intercepts in relation to serious offences.

Sons of Gwalia

In September 2010, the Government reintroduced the Corporations Amendment (Sons of Gwalia) Bill 2010. The Bill reversed the effects of the High Court decision in *Sons of Gwalia and Margaretic*, which provided that shareholder compensation claims did not rank below the claims of unsecured creditors.

Insolvency regulation

On 2 June 2011, the Parliamentary Secretary to the Treasurer and Attorney-General jointly released an options paper, *A Modernisation and Harmonisation of the Regulatory Framework Applying to Insolvency Practitioners in Australia*. The options paper examines reforms to address possible misconduct in the insolvency profession and to improve the value for money for recipients of insolvency services.

Trustee companies

In 2010-11, in consultation with industry and the States and Territories, the Treasury continued to implement the national regulation of trustee companies. The *Corporations and Other Legislation Amendment (Trustee Companies and Other Measures) Act 2011* came into effect in April/May 2011.

Audit quality

The former Chairman of the Financial Reporting Council released a Treasury consultation paper *Audit Quality in Australia: A Strategic Review* on 5 March 2010 for a two-month consultation period.

The Treasury's paper identified the key drivers of audit quality in Australia with a view to assessing whether any measures should be taken to address any real or perceived threats to these drivers of audit quality.

The Treasury's consultation paper has been well received by stakeholders who have endorsed the Treasury's key finding that Australia's audit regulation framework is robust and stable, that the framework is in line with international best practice and that no fundamental changes to the framework are required.

After undertaking an analysis of the submissions, the Treasury completed its consultations with key stakeholders by holding roundtable discussions with stakeholders during November 2010. The consultative process identified a number of important reforms to enhance audit quality which the Government is now progressing through draft legislation.

Advice on, and processing of, individual foreign investment proposals

Foreign investment proposals that fall within the scope of Australia's foreign investment policy or the *Foreign Acquisitions and Takeovers Act 1975* (the Act) are examined to determine whether they are contrary to Australia's national interest.

Foreign persons are required to notify the Deputy Prime Minister and Treasurer when entering into an agreement to acquire an interest in certain types of Australian real estate or a substantial interest¹ in an Australian business or corporation valued above \$231 million².

- 1 A substantial interest is defined as an interest of 15 per cent or more for an individual foreign person, or an interest of 40 per cent or more for two or more foreign persons, and their associates.
- 2 Under the Australia-US Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2011, the threshold is \$1,005 million except for acquisitions involving a US government entity or in prescribed sensitive sectors.

All foreign governments and their related entities should notify and get prior approval before making a direct investment in Australia, regardless of the value of the investment. Foreign governments and their related entities also need to notify and get prior approval to start a new business or to acquire a real estate interest (except when buying land for diplomatic or consular requirements).

During 2010-11, the Foreign Investment Review Board (a non-statutory body which advises the Deputy Prime Minister and Treasurer on foreign investment matters) provided advice to the Deputy Prime Minister and Treasurer on major proposals. The General Manager of the Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Proposals are initially examined by the Treasury, in its role as secretariat to the Foreign Investment Review Board. Under the Deputy Prime Minister and Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that are not highly sensitive; this accounts for the majority of proposals. The Treasury also undertakes associated compliance work.

In examining large or otherwise significant proposals, the Treasury consults with Commonwealth and State government departments and authorities with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals. While the majority of proposals proceed without objection, the Deputy Prime Minister and Treasurer has powers under the Act to prohibit proposals that are contrary to the national interest, or to raise no objections to them subject to conditions that are considered necessary to ameliorate national interest concerns. Most proposals are decided within the 30 day statutory period.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is provided on the Foreign Investment Review Board's website at www.firb.gov.au.

Advice on investment and trade policy

The Treasury provides advice to the Government on general foreign investment and trade policy matters. This includes advice on global investment and trade flows and trends, foreign government investment and trade policy responses, and the implications for Australia. The Treasury also provides advice on Australia's participation in multilateral, regional and bilateral investment and trade agreements.

Representation in international forums

The Treasury provides policy input on international investment issues in multilateral forums such as the World Trade Organization and the OECD, in regional forums such as APEC, and bilaterally through free trade agreements, Investment Promotion and Protection Agreements, and other bilateral partnerships. The Treasury is involved in negotiating investment, financial services and competition related provisions in free trade agreements.

Trade agreements/closer economic cooperation

Concluded negotiations

The Investment Protocol to the Australia-New Zealand Closer Economic Relations Trade Agreement was signed on 16 February 2011. The Investment Protocol is an extension of the Closer Economic Relations Trade Agreement and complements existing bilateral initiatives that are designed to establish a single economic market. The Treasury was the lead agency in the negotiations.

The Treasury was active in developing the Association of Southeast Asian Nations (ASEAN) Australia-New Zealand Free Trade Agreement Economic Cooperation Work Program, including investment policy reviews for interested ASEAN countries.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, Korea, Malaysia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam). The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

In November 2010, Indonesia and Australia agreed to commence negotiation of an Indonesia-Australia Comprehensive Economic Partnership Agreement and in May 2011, India and Australia launched negotiations to conclude a Comprehensive Economic Cooperation Agreement. Formal negotiations have not yet begun but the Treasury has assisted with preparatory work.

In addition to participating in negotiations, the Treasury provides specialised advice to the Department of Foreign Affairs and Trade on Australia's involvement in the World Trade Organization Doha round of negotiations on the General Agreement on Trade in Services.

OECD Investment Committee

Australia is represented at OECD Investment Committee meetings by a senior executive of the Foreign Investment and Trade Policy Division. The committee enhances the contribution of international investment to growth and sustainable development worldwide, by advancing investment policy reform and international cooperation.

The committee also oversees the operation of the OECD Guidelines for Multinational Enterprises, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, tax and consumer welfare. As a member of the OECD, the Government promotes and implements the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, who is a senior executive of the Foreign Investment and Trade Policy Division. During 2010-11, a consultation process took place with stakeholders with a view to revising the guidelines, a revision of the guidelines supported by Australia was endorsed by OECD Ministers in late May 2011. A key outcome of the review was the addition of a human rights

chapter in the guidelines. A strategy is being put in place to publicise the new guidelines to Australian multinational enterprises.

In 2010-11, the Australian National Contact Point received three specific instance complaints under the guidelines. One involved the operations of an Australian multinational operating in Mozambique. This matter was transferred to the United Kingdom National Contact Point as the corporation involved is dual listed on the Australian Stock Exchange and the London Stock Exchange with the corporate responsibility for the Mozambique corporation being in London. The second matter concerned the industrial and employment practices of a multinational mining corporation in Australia. This matter was finalised when, despite the offer of the Australian National Contact Point to mediate, the mining corporation declined to meet with trade union officials on a face-to-face basis regarding the complaint. The third matter, concerning an Australian-based mining corporation operating in Argentina, is still in the discovery phase.

APEC

The Treasury represented Australia's interests in APEC as a member of APEC's Investment Expert's Group, the key focus of which is to encourage APEC members to enhance the environment for investment in their economies and improve transparency.

The 2010-11 work program included:

- continuing analysis of reform of investment policies;
- APEC funded projects, sponsored and managed by Australia, which are designed to benchmark performance improvement in removing barriers to investment (notably a project undertaken by the World Bank for APEC entitled Investing Across Borders which is a benchmarking report on foreign direct investment regulation across APEC and other countries); and
- developing, then getting APEC ministers and leaders to endorse, a number of action plans within the overarching APEC Investment Facilitation Action Plan. Australia also undertook a revision of the Investment Facilitation Action Plan for APEC's Investment Experts Group.

The Treasury also participated in investment reform capacity-building projects targeting APEC economies undertaken by the Australian APEC Study Centre and Melbourne APEC Finance Centre.

The Treasury is also a member of the APEC Economic Committee and coordinates the competition policy work stream.

International liaison

International Financial Reporting Standards regional policy forum

The fifth International Financial Reporting Standards (IFRS) Regional Policy Forum, which was held in Indonesia in May 2011, was attended by many jurisdictions from the Asia-Oceania region. Australia actively participated in the forum through representatives

from the Treasury, the accounting standard setters, the auditing standard setters and professional accounting bodies. The theme of the forum was 'Towards One Global Standard: The Challenges and Opportunities of IFRS Adoption in the Asia-Oceania Region'.

Coordination of business law with New Zealand

In August 2009, the Australian and New Zealand Prime Ministers agreed to principles and a range of shared medium-term practical outcomes for developing the Single Economic Market. The principles are:

- persons in Australia or New Zealand should not have to engage in the same process or provide the same information twice;
- measures should deliver substantively the same regulatory outcomes in both countries in the most efficient manner;
- regulated occupations should be able to operate seamlessly between each country;
- both Governments should seek to achieve economies of scale and scope in regulatory design and implementation;
- products and services supplied in one jurisdiction should be able to be supplied in the other;
- the two countries should seek to strengthen joint capability to influence international policy design; and
- outcomes should seek to optimise net Trans-Tasman benefits.

The range of shared outcomes include insolvency law, financial reporting policy, financial services policy, competition policy, business reporting, corporations law, personal property securities law, intellectual property law and consumer policy.

A Trans-Tasman Outcomes Implementation Group comprising senior officials from the Australian and New Zealand Governments has been tasked with overseeing and, wherever possible, accelerating the progress of the reform agenda. The Treasury and the Ministry of Economic Development currently co-chair the group. In 2010-11, completed Single Economic Market Outcomes proposals included:

- for-profit entities that are publicly accountable (including both groups and individual subsidiaries) are only required to prepare a single set of financial statements;
- financial reporting standards bodies in Australia and New Zealand have functional equivalence; and
- cross-membership between the ACCC and the New Zealand Commerce Commission at associate member level.

Trans-Tasman Accounting and Auditing Standards Advisory Group

The Trans-Tasman Accounting and Auditing Standards Advisory Group comprises representatives from the accounting and auditing standard setters, the professional accounting bodies, and the policy makers of both Australia and New Zealand.

The Trans-Tasman Accounting and Auditing Standards Advisory Group's focus is to ensure that the financial reporting and auditing frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During 2010-11, the group progressed a range of reforms designed to ensure greater commonality and alignment between the two frameworks.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Deputy Prime Minister and Treasurer and the New Zealand Minister of Finance on promoting a joint approach to deliver a seamless regulatory environment for banking services. The Secretaries to the Treasuries of Australia and New Zealand jointly chair the council, its membership also includes senior officials from the financial system regulators.

The Treasury has pursued the council's work program, focusing on improved cooperation on crisis management.

OECD Insurance and Private Pensions Committee

The Treasury has provided the Australian representative to the OECD Insurance and Private Pensions Committee, which also includes the Working Party on Private Pensions and the Working Party on Government Experts on Insurance. In 2010-11, the committee focused on issues arising in the financial crisis that were relevant to insurance sectors and private pension funds across member countries. These included crisis resolution options, corporate structures, consumer protection and accounting standards. It also undertook further work on the OECD guidelines on insurer corporate governance in cooperation with the International Association of Insurance Supervisors.

Standard Business Reporting International Forum

The SBR International Forum is jointly chaired by the Treasury's SBR General Manager and a representative from the Netherlands Government. In May 2011, officials from Australia, the Netherlands, Taiwan, the UK and Singapore, along with representatives of the software development community and several major accounting firms, met at an SBR International Forum in the Netherlands. This Forum brought together countries that are developing, or are interested in developing, an SBR program. Members explored the latest developments in SBR and shared their respective country's experiences.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by dealing with 28 applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001* and other control transactions. The panel, a peer review body with regulatory functions, has 52 members who are specialists in mergers and acquisitions either as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely-held companies occurs in an efficient, competitive and informed market, security holders and directors are given enough information and security holders have a reasonable and equal opportunity to participate in any benefits of

a proposal. The panel also publishes guidance notes to help foster market confidence and efficiency.

In 2010-11, the panel:

- considered a number of applications alleging association including Viento Group Limited, Brockman Resources Limited, CMI Limited and Bentley Capital Limited;
- considered a number of high profile applications including Leighton Holdings Limited; and
- updated three existing guidance notes and amended the guidance note on Frustrating Action to include a modified 'put up or shut up' exception.

Financial Reporting Panel

The Financial Reporting Panel is an alternative dispute resolution body which determines contested issues between ASIC and reporting entities concerning the application of accounting standards in financial reports. The panel provides an alternative to legal action, which is potentially both a costly and lengthy process. In 2010-11, ASIC referred four matters to the panel for determination.

The matters were each concluded in about two months, at minimal expense to the companies and ASIC. The panel's written determinations were publicly released in October 2010. The panel ruled in favour of ASIC in two of the matters and in favour of the firms in the other two.

Standard Business Reporting

SBR is a multi-agency initiative to reduce the business-to-government reporting burden. Led by the Treasury, participating agencies include the ABS, APRA, ASIC, the ATO and all State and Territory government revenue offices. The government side of SBR was implemented on 1 July 2010 and 2010-11 has focused on leading the ongoing governance of SBR, including the strategic direction, stakeholder take-up, architectural leadership and international collaboration.

SBR has been co-designed by Australian and State and Territory government agencies in partnership with business, software developers, accountants, bookkeepers and other business intermediaries across Australia. It aims to simplify financial reporting to government, and make it a natural by-product of accounting and financial software.

SBR has established ongoing communication and collaboration with the Netherlands, New Zealand, Singapore, Taiwan, the United States, the United Kingdom and the European Union, recognising the need to ensure, where possible, that its business-to-government reporting definitions are consistent with other countries.

Governments across Australia have endorsed SBR. It formed part of COAG's broader agenda for deregulation, under the oversight of the Business Regulation and Competition Working Group chaired by the Minister for Finance and Deregulation and the Minister for Small Business.

During 2010-11, the program supported, maintained and extended the main components of the SBR solution:

- taxonomies (the single language used to enable business software to send reports to government agencies);
- core services (the system which ensures that a report from business software is delivered to the relevant agency, and receipts and messages are returned); and
- the single secure sign on for businesses, AUSkey. AUSkey is positioned to be the single key for businesses to access government online services.

SBR commenced on 1 July 2010 with participating agencies able to accept lodgments of reports. During 2010-11, SBR engaged with key software developers to encourage and support the development of SBR-enabled financial/accounting and payroll software products for use by businesses and reporting professionals.

A number of recommendations have been made regarding the potential expansion of SBR to other business areas. These recommendations appear in the review into Australia's Future Tax System, the report into the reform of Australian Government administration, the review into Australia's superannuation system and Productivity Commission reports on the review of the regulatory burdens of business and the contribution of the not-for-profit sector. SBR has commenced working with several government agencies to explore the potential re-use of SBR to further reduce the business-to-government reporting burden.

Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency-related matters. It chaired the Royal Australian Mint Advisory Board to assist the Mint to develop its policy and administer its initiatives. The Treasury also assisted the Perth Mint in relation to its currency determinations (legislative instruments) which are tabled in Parliament before the release of numismatic (collector) coins.

Statutory and other procedural requirements

Financial sector levies

During 2010-11, the Treasury, in conjunction with APRA, consulted with industry and provided advice to the Government on the determination of financial sector levies which primarily support APRA's operations.

Review of need for *Terrorism Insurance Act 2003*

On 1 July 2003, the Government established a terrorism insurance scheme to minimise the wider economic impacts that flowed from the withdrawal of terrorism insurance following the terrorist attacks of September 2001. The *Terrorism Insurance Act 2003* requires the Act be reviewed at least once every three years, if it is to continue in operation. The 2009 Review recommended some minor refinements to the scheme. Following the Government's agreement, the Treasury is working with the Australian Reinsurance Pool Corporation to implement the review's recommendations. The Act will be reviewed again in 2012.

Appointments

The Treasury advised ministers on appointments to a range of statutory portfolio bodies.

Secretariat services

The Treasury provided secretariat services to the Ministerial Council for Corporations (MINCO), which met once during 2010-11. The Treasury also assisted ministers to fulfil the Government's obligations under the Corporations Agreement 2002. A streamlining project initiated by COAG in 2011 resulted in changes to the ministerial council system. MINCO now operates as the Legislative and Governance Forum for Corporations (meeting as the Ministerial Council for Corporations). Most work priorities and operational arrangements are continuing as with the former MINCO. However, work performed by MINCO that did not fall within the new terms of reference, ceased or was transferred to other agencies.

The Treasury provided secretariat support for the Financial Reporting Council, which met four times during 2010-11. This statutory body provides strategic oversight of the accounting and audit standard-setting processes, including the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB), and monitors the effectiveness of Australia's auditor independence requirements. The AASB deals with the setting of accounting standards for the public and private sectors of the Australian economy, while the AUASB focuses on the development and formulation of Australian Auditing Standards. The Treasury provided secretariat support to the Financial Sector Advisory Council, which brings together a range of senior financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector.

The Treasury also provided secretariat support for the COAG Business Regulation and Competition Working Group Competition sub-committee, which is chaired by the Parliamentary Secretary to the Treasurer. The sub-committee oversees the eight competition reform areas under the *National Partnership to Deliver a Seamless National Economy* and met four times in 2010-11.

Australian Government Actuary

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2011, the account was in a sound financial position.

Demand for service was again high during 2010-11.

Consultancy services

Australian Government Actuary consultancy services typically involve analysing uncertain future financial flows using financial modelling techniques, documenting the analysis and presenting the results to clients.

Departments which sought advice included Defence; Attorney-General's; Education, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Finance and Deregulation and Veterans' Affairs. Centrelink and the ATO also sought advice.

Feedback from these agencies indicates they were generally satisfied with the advice received, and its value as an input in achieving their objectives.

Services to the Treasury

The Australian Government Actuary contributed its technical expertise on policy issues, including the superannuation system and insurance matters. The Australian Government Actuary was appointed to assist the Natural Disaster Insurance Review in March 2010.

The Treasury funded this work which accounted for around 10 per cent of the office's total revenue for the year.

Operational outcomes

The office operates under the direction of an internal advisory board comprising three senior officers from the Treasury, including the Australian Government Actuary. The board reviews financial performance and oversees the strategic direction of the office.

TREASURY SUPPORT SERVICES

To support the Treasury's policy outcome, Corporate Services Group and the Organisational Strategy Unit provide key services to assist with systems and facilities providing essential support and organisational backup to the policy groups.

Corporate Services Group is responsible for providing corporate services, products and advice including accommodation and facilities management; management of administrative support; financial management; human resource management, training and development; information management and technology services; media management and monitoring; ministerial and parliamentary support; procurement; print and web publishing; internal and external communications; security; travel and managing freedom of information (FOI) requests.

The Organisational Strategy Unit functions include facilitating high level policy coordination and whole-of-department corporate strategy; providing support to the Secretary, the Executive Board and the Audit Committee, including oversight of departmental structures and systems; designing and facilitating whole-of-department policy discussions; coordinating organisational strategy initiatives; overseeing the risk management framework; and undertaking and assisting with departmental reviews.

CORPORATE SERVICES GROUP

Corporate Services Group's mission is to provide efficient and effective corporate services, products and advice to the Treasury, Treasury portfolio ministers and other clients to enable them to meet their objectives.

The four divisions in the group are Financial and Facilities Management, Human Resources, Information Management and Technology Services, and Ministerial and Communications.

Key priorities

The key priorities in 2010-11 were to:

- coordinate events associated with the 2011-12 Budget;
- ensure compliance with the amended FOI legislation;
- undertake the Education Tax refund communication campaign;
- negotiate and implement a competitive and flexible workplace agreement;
- commence development of a workforce planning strategy that meets organisational needs and incorporates the APS reform agenda;
- extend existing childcare facilities for Treasury staff;
- review the Treasury's capital management plan in line with new net cash arrangements;
- transition personnel security vetting to the Australian Government Security Vetting Agency;
- refresh the desktop environment and improve the availability of IT infrastructure;
- commence redevelopment of the internet and intranet, and strengthen record keeping; and
- deliver data management and reporting tools to support forecasting activities.

Key outcomes

The key outcomes were:

- successful event, publication (print and online) and media relations support for several major government announcements and initiatives, including the 2011-12 Budget;
- effective management of FOI Act requests, implementation of the Treasury's information publication scheme and provision of FOI advice;
- successful delivery of the Education Tax refund communication campaign;
- implementation of the Treasury Workplace Agreement 2011-2014;
- implementation of refreshed leadership, management and technical development programs;

- implementation of more flexible performance management and career development arrangements to meet business needs;
- completion of the extension of childcare facilities for Treasury staff;
- ongoing payment and financial reporting arrangements under the Federal Financial Relations reforms;
- completion and audit of the 2009-10 financial statements with no major issues raised;
- the capital management plan reviewed;
- ongoing management of personnel security vetting provided by the Australian Government Security Vetting Agency;
- major upgrades and enhancements to the Department's data network, email system, electronic data storage facilities and active directory environment;
- refreshing the Department's desktop computers, including an upgrade to the standard operating environment;
- improvements to the availability and capacity of IT infrastructure, including enhanced disaster recovery arrangements; and
- commencing the development of a new information management and technology strategy, to be launched in late 2011.

ORGANISATIONAL STRATEGY UNIT

The Organisational Strategy Unit seeks to link policy strategy with organisational strategy to maintain the capacity of the department to deliver on its mission.

Key priorities

The key priorities in 2010-11 were to:

- provide high-level services to the Secretary and the Executive Board to support and enable key forums within the Treasury's governance framework;
- establish, coordinate and support processes within the department to develop and progress an ongoing strategic policy dialogue;
- undertake and support departmental reviews relating to organisational issues;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of the Treasury's activities, systems and processes; and
- continue to provide a policy implementation monitoring and advising capability.

Key outcomes

The key outcomes were:

- providing secretariat support to the Executive Board and the Audit Committee;
- organising the ongoing policy dialogue across the department, including arranging policy strategy meetings and senior executive service (SES) forums;
- undertaking data analysis on the recruitment, retention and progression of women in the Treasury;
- evaluating the effectiveness of administrative and executive support arrangements implemented following a review of these services;
- reviewing the Treasury's capacity to understand and analyse issues relating to China;
- developing a new risk management framework and associated products to further improve risk management and corporate planning in the Treasury;
- managing a database of election commitments during the 2010 election campaign; and
- coordinating significant briefing products, including for the 2010 Economic Statement, the Secretaries' Board, the Secretaries' Committee on service delivery and Tri-Treasury meetings with New Zealand and the United Kingdom.

PROGRAM 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

PROGRAM OBJECTIVE

The objectives of Program 1.2 are to:

- make payments to the IMF, under the *International Monetary Agreements Act 1947*, to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustments; and
- make payments to other international financial institutions, as required, to facilitate the achievement of government objectives in international forums. This includes strengthening the international financial system, support for development objectives through the multilateral development banks, and multilateral debt relief.

PROGRAM DELIVERABLES

The program deliverables are:

- payments of subscriptions to international financial institutions, including the IMF, are made with due regard to minimising cost and risk for Australia.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- financial transactions with the international financial institutions, including the IMF, are timely and accurate.

ANALYSIS OF PERFORMANCE

Australia makes significant financial commitments to international financial institutions to support their operations.

The Treasury manages most of Australia's financial relations with the IMF and capital contributions to the World Bank Group (the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the International Development Association and the International Finance Corporation), the Asian Development Bank and the European Bank for Reconstruction and Development.

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient (see Table 1 below).

Table 1: Financial transactions with international financial institutions in 2010-11

	Nature of transaction	Number of transactions	\$'000
Receipts			
IMF net remuneration	Revenue	4	3,713
Payments			
IMF special drawing rights allocation charges	Expense	4	18,734
IMF financial transaction plan	Financing transaction	4	315,051
IMF new arrangements to borrow	Financing transaction	1	225,137
Asian Development Bank general capital increase	Investing transaction	1	18,687

PROGRAM 1.3: SUPPORT FOR MARKETS AND BUSINESS

PROGRAM OBJECTIVE

The objectives of Program 1.3 are to:

- make payments in respect of insurance claims arising from the residual Housing Loans Insurance Company Limited portfolio. The Housing Loans Insurance Company Limited pre-transfer contract portfolio will be managed to ensure all liabilities arising from claims under this portfolio are met and any related debts are recovered;
- make payments of assistance to eligible HIH insurance policy holders under the HIH Claims Support Scheme. Work is now focused on finalising remaining claims so assistance can be paid, and the claims portfolio wound-up; and
- make loan payments to New South Wales to assist it to provide funding to the Asbestos Injuries Compensation Fund if required, to address an expected funding shortfall. This will assist the Asbestos Injuries Compensation Fund to continue making upfront compensation payments to victims of asbestos related diseases.

PROGRAM DELIVERABLES

The program deliverables are:

- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are made according to agreed schedules; and
- payments to New South Wales under the loan arrangements are made according to agreed schedules.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are accurately determined and are made according to agreed schedules; and
- the loan facility to New South Wales is a temporary contingency measure for the provision of financing to the Asbestos Injuries Compensation Fund, where the Fund is not able to obtain financing in the short term from James Hardie under the Amended and Restated Final Funding Agreement. The facility will assist the Fund in the short-term to avoid entering into the rationing of payment to claimants.

ANALYSIS OF PERFORMANCE

- Payments made from the Housing Loans Insurance Corporation Limited met the cost of administering and meeting the Commonwealth's obligations arising from ongoing management of the residual portfolio of lenders' mortgage insurance contracts.
- Payments made to the HIH Claims Support Scheme met the costs of operating the scheme and providing assistance to eligible policyholders. The Treasury continues to work closely with the HIH administrators, McGrathNicol+Partners, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims.
- All payments were accurately determined, in accordance with industry best practice and government regulations, and made in a timely manner.
- No loan payments were made to New South Wales in relation to the Asbestos Injuries Compensation Fund.

PROGRAM 1.4: GENERAL REVENUE ASSISTANCE

PROGRAM OBJECTIVE

The objectives of Program 1.4 are to make general revenue assistance payments to the States and Territories. General revenue assistance payments consist of:

- payments of revenue received from the GST, which in accordance with the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement) the Commonwealth administers on behalf of the States, and which are provided without conditions for each State and Territory to spend according to their own budget priorities;
- payments to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital and to compensate for the additional costs resulting from the national capital planning influences on the provision of water and sewerage services;
- payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal in the 2008-09 Budget of the exemption of condensate from crude oil excise;
- payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia;
- payments to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory; and
- payments to New South Wales and Victoria to compensate for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

Elements of this program are linked to the Resources, Energy and Tourism portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- general revenue assistance payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will make general revenue assistance payments to the States and Territories that reflect the requirements, amounts and timeframes specified in the Intergovernmental Agreement; and
- the Treasury will provide GST revenue data on a monthly, quarterly and annual basis, and will maintain a schedule of estimates of annual net GST receipts, in accordance with the requirements of the Intergovernmental Agreement.

ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of \$47.0 billion were made to the States and Territories in 2010-11. Payments included:

- GST payments to the States and Territories totalling \$45.9 billion;
- payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* totalling \$0.9 billion; and
- other general revenue assistance payments totalling \$0.1 billion.

The Treasury also recouped \$0.7 billion in GST administration costs in 2010-11.

Monthly, quarterly and annual GST revenue data was provided by the twentieth of each month in accordance with the requirements of the Intergovernmental Agreement.

All payments were accurately determined and made in a timely manner.

PROGRAM 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

PROGRAM OBJECTIVE

The objectives of Program 1.5 are:

- the Government provides financial support for the States and Territories to be spent in the delivery of healthcare services.

This program also has links to the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Healthcare SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made;
- the States and Territories are required to spend the National Healthcare SPP in the healthcare sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Healthcare SPP within the healthcare sector in accordance with the Intergovernmental Agreement. The Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in the delivery of healthcare services.

- Payments under the National Healthcare SPP were \$12.0 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate the National Healthcare SPP has been spent in the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2011, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that:

- In August 2011, agreement was reached between the Commonwealth and the States on the National Health Reform Agreement which will deliver major reforms to the organisation, funding and delivery of health and aged care.
- National Health Reform funding will commence from 1 July 2012 replacing the National Healthcare SPP. National Health Reform funding will be paid into a *National Funding Pool* to support public hospital and public health services.

PROGRAM 1.6: ASSISTANCE TO THE STATES FOR SCHOOLS

PROGRAM OBJECTIVE

The objectives of Program 1.6 are:

- the Government provides financial support for the States and Territories to be spent in the delivery of government school services.

Although the Treasury makes payments for non-government schools, the funding and expense for the non-government schools component relates to the Education, Employment and Workplace Relations portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

95

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Schools SPP (government schools component) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Treasury will review the acquittal report provided by each State and Territory on their expenditure in the schools sector.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in the delivery of government schools services.

- Payments under the National Schools SPP (government schools component) payments were \$3.6 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Schools SPP (government schools component) was spent in the relevant sector, each State and Territory Treasurer will provide a report to the Ministerial Council within six months of 30 June 2011, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.7: ASSISTANCE TO THE STATES FOR SKILLS AND WORKFORCE DEVELOPMENT

PROGRAM OBJECTIVE

The objectives of Program 1.7 are:

- the Government provides financial support for the States and Territories to be spent in the delivery of skills and workforce development services.

This program also has links to the Education, Employment and Workplace Relations portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Skills and Workforce Development SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Treasury will review the acquittal report provided by each State and Territory on their expenditure in the delivery of skills and workforce development services.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in the delivery of skills and workforce development services.

- Payments under the National Skills and Workforce Development SPP were \$1.3 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP was spent in the relevant sector, each State and Territory Treasurer will provide a report to the Ministerial Council within six months of 30 June 2011, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

PROGRAM OBJECTIVE

The objectives of Program 1.8 are:

- the Government provides financial support for the States and Territories to be spent in the delivery of disability services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

99

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Disability Services SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Treasury will review the acquittal report provided by each State and Territory on their expenditure in the delivery of disability services.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in the delivery of disability services.

- Payments under the National Disability SPP were \$1.1 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Disability SPP was spent in the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2011, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that from 1 July 2011, the Commonwealth will make an adjustment to ensure that the changes to Commonwealth and State roles and responsibilities for aged care and disability services, as part of the National Health Reform arrangements, are budget neutral. Subject to further negotiations on elements of the National Health Reform arrangements, it is anticipated that the adjustment to achieve budget neutrality will be made to either the National Healthcare SPP or the National Disability SPP.

PROGRAM 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

PROGRAM OBJECTIVE

The objectives of Program 1.9 are:

- the Government provides financial support for the States and Territories to be spent in the delivery of affordable housing services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio and the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

101

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Affordable Housing SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Treasury will review the acquittal report provided by each State and Territory on their expenditure in the delivery of affordable housing.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in the delivery of affordable housing services.

- Payments under the National Affordable Housing SPP were \$1.2 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Affordable Housing SPP was spent within the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2011, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

PROGRAM OBJECTIVE

The objectives of Program 1.10 are:

- the Government provides financial support for the States and Territories to be spent on improving outcomes in the areas specified in each of the National Partnership agreements. These payments support the delivery of specified outputs or projects, facilitate reforms or reward those jurisdictions that deliver on nationally significant reforms.

This program also has links to the portfolios of Agriculture, Fisheries and Forestry; Attorney-General's; Broadband, Communications and the Digital Economy; Climate Change and Energy Efficiency; Defence, and Veteran's Affairs; Education, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Finance and Deregulation; Health and Ageing; Infrastructure, Transport, Regional Development and Local Government; Prime Minister and Cabinet; Resources, Energy and Tourism; and Sustainability, Environment, Water, Population and Communities.

103

PROGRAM DELIVERABLES

The program deliverables are:

- payments to the State and Territories will be made on the basis set out in each of the National Partnership agreements and any related agreements.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Treasury will make payments to the States and Territories that reflect the requirements, the amounts and timeframes set out in each of the National Partnership agreements and any related agreements. These payments will only be made upon the Commonwealth Treasury's receipt of relevant authorisations in respect of the achievement of milestones, performance benchmarks or payment schedules as set out in the relevant National Partnership agreement;
- the Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Treasury will review the acquittal report provided by each State and Territory on their expenditure under each of the National Partnership agreements.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2010-11 financial support for the States and Territories in improving outcomes in areas specified in National Partnership agreements.

National Partnership payments for 2010-11 were \$23.2 billion comprising:

- payments to support state health services of \$1.9 billion;
- payments to support state education services of \$6.4 billion;
- payments to support state skills and workforce development related services of \$0.4 billion;
- payments to support state community services of \$1.7 billion;
- payments to support affordable housing services of \$2.3 billion;
- payments to support state infrastructure services of \$3.7 billion;
- payments to support state environmental services of \$0.3 billion;
- payments to support other state services of \$0.2 billion; and
- contingent payments to the States of \$6.3 billion.

These payments include amounts for non-government schools and local government.

Payments were made by the Treasury on advice from portfolio agencies, with amounts to be certified as being correct for payment by the agency's Chief Financial Officer, or other authorised delegate.

All payments were determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

Advice was provided to the States and Territories prior to each payment being made.