

Part 2

02

Performance report

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02

Report on performance

The report on performance covers Treasury's administered items and departmental outputs for 2002-03.

The administered items are revenues, expenses, assets or liabilities managed by agencies on behalf of the Australian Government. Administered expenses include subsidies, grants and benefits. Departmental outputs are the goods and services the department provides for, and on behalf of, the Government.

Treasury's 2002-03 performance is reported at the outcome and output levels for its three policy outcomes:

- Outcome 1: Sound macroeconomic environment;
- Outcome 2: Effective government spending and taxation arrangements; and
- Outcome 3: Well-functioning markets.

Performance outcomes are reported against the performance information published in the Treasury section of the *2002-03 Portfolio Budget Statements*. Details of changes to Treasury's structure and performance information are outlined in the group overviews, and results of evaluations undertaken during the year, including those listed in the *2002-03 Portfolio Budget Statements*, are incorporated into the performance summary for the relevant output.

The Mint's performance report against outcomes and performance against the Mint service charter is included in Outcome 3, Output 3.1.5.

The Foreign Investment Review Board, which is serviced by a secretariat located in the department, has published a service charter. Performance against the service charter customer service standards is contained in the Foreign Investment Review Board annual report.

Outcome 1

Sound macroeconomic environment

Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

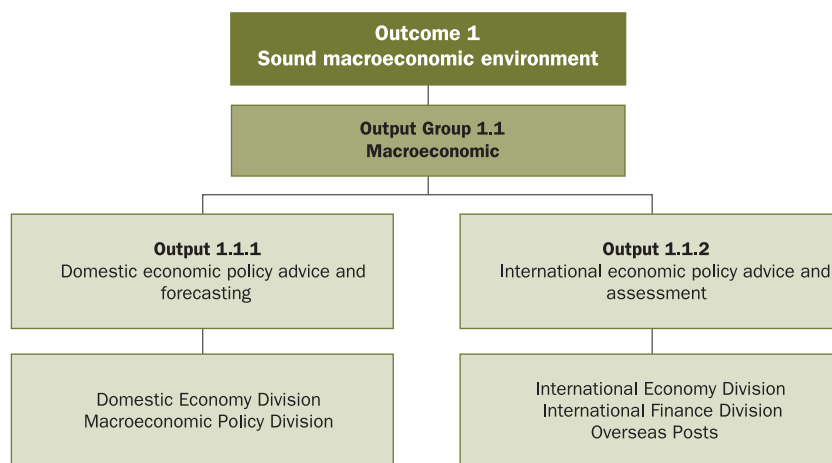
Treasury provides advice on advancing Australia's interests at forums such as the Group of Twenty, and international institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank, and in the Asia-Pacific Economic Cooperation process. Australia is making a significant contribution to international efforts to sustain international economic stability and growth through these forums.

Economic Group changed its name to Macroeconomic Group during the year. This name change was to better reflect the nature of the group and was not accompanied by any significant restructuring.

During 2002-03, Macroeconomic Group contributed to policy development and advice on government decisions by monitoring and assessing economic conditions and prospects, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy. The Group also provided advice to government ministers on strategic international economic policy issues, advanced Australia's interests through the international financial institutions and international forums and bilaterally with relevant countries, and monitored and analysed global economic developments.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating, implementing and explaining government spending and taxation decisions.

Figure 5: Outputs contributing to Outcome 1



Key priorities in 2002-03

Treasury's 2002-03 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- continue to examine domestic and international developments affecting the economy directly and through the way in which fiscal and monetary policy is formulated and applied;
- assist in identifying policies likely to increase economic performance and wellbeing in the medium term;
- further develop analysis of, and evidence on, the forces driving future productivity performance and growth potential including demographic changes, technology and innovation, and market reforms;
- assist the government in taking an active role in shaping global and regional forums that seek to strengthen the international financial architecture and contribute to an effective and coordinated approach to Australian international economic policy;
- participate more intensively in policy dialogue, cooperation and institution building in the Asia-Pacific region.

Key outcomes in 2002-03

- Treasury examined domestic and international developments affecting the economy:
 - Treasury produced economic forecasts to assist with policy formulation, and chaired the Joint Economic Forecasting Group, comprising representatives from the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics;
 - officers in Treasury provided regular advice to the Treasurer on global economic developments and emerging international risks;
 - Treasury provided briefing for the Treasurer on economic statistics released by the Australian Bureau of Statistics, including advice on their implications for the economic outlook;
 - the department undertook a Business Liaison Program to better monitor, analyse and report on economic conditions and prospects, and provided regular briefings and analysis of liaison to the Treasurer and published summaries in the Economic Roundup.
- Treasury provided advice on macroeconomic policies likely to increase economic performance and wellbeing in the medium term:
 - Treasury provided advice on fiscal policy and strategies in developing the 2003-04 Budget;
 - the department provided regular advice on monetary policy for the Secretary, who is a member of the Reserve Bank of Australia Board.
- Treasury provided advice to the Treasurer on Australia's productivity performance and growth potential, including in the context of preparing Budget Paper No. 1, Statement 4 of the 2003-04 Budget.
- Treasury continued to assist the Government to take an active role at the international financial institutions:
 - Australia's representatives played central roles in the debates at the International Monetary Fund (IMF) and World Bank on issues including sovereign debt restructuring, the Heavily Indebted Poor Countries (HIPC) initiative, improving governance and harmonising policies between the multilateral development banks;

- Australia’s representatives at the Asian Development Bank also played a key role in the continuing transformation of the Bank to a broad-based development institution, including during discussions of enhancing accountability and transparency and the Asian Development Bank’s inspection function;
- Australia also participated in discussions on global and regional economic and financial developments at the Group of Twenty (G-20), including through Treasury representation at G-20 Deputies meetings.
- Treasury continued to play an active role in the International Economic Policy Group to ensure a coordinated and whole-of-government approach to international economic policy issues.
- Treasury participated intensively in policy dialogue, cooperation and institution building in the Asia-Pacific region:
 - Australia continued to lead the Asia-Pacific Economic Cooperation (APEC) ‘pathfinder’ initiative on corporate governance. Australia also hosted a conference as part of the APEC Future Economic Leaders’ Think-Tank, which was attended by 27 participants from 14 APEC economies, and hosted a training course for insurance and pension regulators which 26 participants from 9 APEC economies attended;
 - Australia, along with Japan and the Republic of Korea, successfully proposed changes to the Manila Framework Group to enhance its focus on the key strategic economic issues affecting regional economies;
 - officers from Treasury delivered a program of workshops to the Royal Thai Government on macroeconomic forecasting and risk monitoring and assessment;
 - Treasury continued to develop the Papua New Guinea-Australia Treasury Twinning Scheme to enhance Papua New Guinea’s economic governance capacity;
 - the department received delegations from Asia for policy discussions, hosted officials from Papua New Guinea and Mongolia, and facilitated the short-term placement of officials from China in the Victorian and Australian Capital Territory Treasuries.
- Treasury, in response to demands arising during the year and consistent with overall government policy, provided policy advice and skilled staff to assist countries in severe economic difficulties (including Iraq and the Solomon Islands).

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	-	-	-
Special appropriations	25,717	22,695	20,055
Other expenses	12,101	411,741	126,906
Total administered expenses	37,818	434,436	146,961
Revenue from Government			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5,099	5,048	5,167
Output 1.1.2 - International economic policy advice and assessment	4,255	4,306	4,328
Corporate costs	10,025	10,515	9,574
Total revenue from Government contributing to price of departmental outputs	19,379	19,869	19,069
Revenue from other sources			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5	91	7
Output 1.1.2 - International economic policy advice and assessment	52	170	70
Corporate costs	314	796	407
Total revenue from other sources	371	1,057	484
Total revenue for departmental outputs (Total revenues from Government and other sources)	19,750	20,926	19,553
Price of departmental outputs			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5,104	4,936	5,174
Output 1.1.2 - International economic policy advice and assessment	4,307	4,299	4,398
Corporate costs	10,339		9,981
Total price of departmental outputs	19,750	20,025	19,553
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	57,568	454,461	166,514
Average staffing levels (number)	118	125	122

Note:

Budget 2002-2003: as per the 2002-03 Portfolio Additional Estimates Statements, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 Portfolio Budget Statements (unless otherwise stated).

Output 1.1.1

Domestic economic policy advice and forecasting

Domestic Economy Division and Macroeconomic Policy Division in Macroeconomic Group are responsible for the delivery of Output 1.1.1, domestic economic policy advice and forecasting.

Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

Performance information

Advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound domestic economy.

Effective presentation of budget documents and other publications to adequately inform public debate.

Analysis of performance

Policy advice and inputs into policy processes

During 2002-03, Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- Treasury analysed and provided briefings on a wide range of economic statistics released by the Australian Bureau of Statistics and the private sector. This included advice on implications for the economic outlook and information to assist the Treasurer in responding publicly to the releases.
- As part of the Business Liaison Program, which aims to better monitor, analyse and report on economic conditions and prospects, Treasury officers discussed specific issues from a business point of view with organisations of all sizes in both major business centres and regional Australia. The Treasurer received regular briefings and analysis of liaison findings, and summaries of liaison were published in the Treasury Roundup.
- Treasury held discussions with visiting delegations from organisations including the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and international

credit rating agencies. The Treasurer was briefed on the outcomes of these processes.

- As part of the process of developing the 2003-04 Budget, Treasury advised the Treasurer on fiscal policy and strategies.
- The Secretary sits on the Board of the Reserve Bank of Australia. Treasury regularly provided advice on monetary policy to the Secretary prior to Board meetings. In preparing this advice, Treasury monitored economic, financial and policy developments and forecasts to assess their implications for policy settings. The Treasurer was kept abreast of developments in this area through regular briefings and analysis. This advice contributed to the formation of sound macroeconomic policy.
- Treasury provided advice on appointments to the Board of the Reserve Bank of Australia.
- Treasury provided advice to the Government submission for the Australian Industrial Relations Commission hearings on the Safety Net Adjustment.
- Macroeconomic Group contributed to the work on drivers of economic growth and implications for economic performance of demographic changes.

Economic forecasts

Economic forecasts inform policy settings and enabled the calculation of budget estimates. These forecasts took account of key assumptions about economic variables and judgements about likely outcomes. The weak world economy, the most extensive drought in Australian meteorological records, the impact of the outbreak of Sudden Acute Respiratory Syndrome (SARS) and movements in the Australian dollar were important factors taken into account when preparing economic forecasts during 2002-03.

For policy formulation purposes, forecasts provide an understanding of the broad developments within the economy, and the balance of risks and uncertainties surrounding the outlook.

The 2002-03 Budget contained forecasts for 2002-03 that were reassessed in the *2002-03 Mid-Year Economic and Fiscal Outlook* in November 2002 and the 2003-04 Budget in May 2003. These forecasts helped to develop policy that contributed to the strong performance of the domestic economy.

Economic growth in 2002-03 was forecast to be 3 per cent in the Mid-Year Economic and Fiscal Outlook, down from 3¾ per cent forecast at Budget. The downward revision largely reflected the impact of the drought, which was more

extensive and severe than initially anticipated. The 2003-04 Budget further updated the outlook for 2002-03, with the forecast for economic growth left unchanged at 3 per cent.

These forecasts were consistent with the assessment of international forecasters such as the OECD and IMF, and commentators generally regarded them as credible. Recent data confirm the economic outlook Treasury presented in the 2002-03 *Mid-Year Economic and Fiscal Outlook* and 2003-04 Budget, with strong growth in the non-farm economy partly offset by one of the most severe droughts on record.

The Treasury *Economic Roundup, Spring 2003* reviewed 2002-03 domestic and international economic developments, including an assessment of Treasury forecasts made during that year. Australia's economy has become increasingly efficient and flexible, with higher productivity growth. Sound and credible frameworks for monetary and fiscal policies and ongoing reforms in competition policy, the tax system, the labour market, the financial sector and corporate law underpin this development. This level of increased efficiency and flexibility has enabled the economy to continue to grow solidly despite ongoing global economic weakness and shocks such as the drought, SARS and the strong appreciation of the exchange rate in the second half of 2002-03. Treasury forecasts have helped to formulate government policy, which in turn has contributed to the increased flexibility of the Australian economy.

Treasury prepared forecasts with the benefit of input from members of the Joint Economic Forecasting Group comprising Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics. Treasury liaised with industry to obtain the most up-to-date information about business conditions. Liaison with the private sector and with other departments helped make the forecasts more robust and comprehensive. Treasury's macroeconomic model of the Australian economy also provided input into the forecasting process, as well as for the macroeconomic policy and sensitivity analyses, which strengthened policy advice.

Contributions to public awareness and debate

Treasury makes considerable contributions to public awareness and debate. Its publications have a wide audience, including international forums, foreign government agencies, tertiary institutions and the Australian public.

All economic publications are free from the Treasury website (www.treasury.gov.au). This makes publications more accessible.

The *2002-03 Mid-Year Economic and Fiscal Outlook* reviewed the economic outlook and helped inform the public of the likely impacts of key developments such as the increasingly extensive and protracted drought and ongoing weakness in the global economy. While describing a sobering backdrop, the forecasts noted that prospects for growth in the Australian economy remain strong, and significantly better than for most of the developed world, reflecting solid fundamentals and supportive policy settings.

In the 2003-04 Budget Papers, *Budget Paper No. 1, Statement 3: Economic Outlook* discussed in detail international and domestic economic forecasts for 2003-04. This comprehensive report included forecasts for major variables including world growth, domestic growth, inflation and employment.

Budget Paper No. 1, Statement 4: Sustaining Growth in Australia's Living Standards explored the ways to maintain the recent strong rates of growth in living standards as the population ages. International evidence points to a range of benefits from mutually reinforcing policies in a sound macroeconomic environment, such as higher participation in the labour force and faster rates of productivity growth. Such changes would result in faster growth in GDP per person than projected in the Intergenerational Report published in the 2002-03 Budget.

The *Budget Overview and Economic Outlook* is a brief, non-technical publication making budget estimates, including major policy developments and forecasts, widely accessible.

The media and market commentators drew extensively on discussions in the Mid-Year Economic and Fiscal Outlook and Budget papers. The reports contributed significantly to public debate on economic issues, and helped increase public awareness about the Australian economy's performance in the recent past and its prospects.

The four issues of Treasury's *Economic Roundup* published in 2002-03 contained overviews of economic developments and commentary on key issues underpinning Australia's recent economic performance. The Spring 2002 overview reflected on the strong rebound in economic growth in 2001-02, despite a global economic slowdown and an Autumn 2003 article assessed the short-term macroeconomic impact of *The New Tax System*.

Other Economic Roundup articles included: The Effectiveness of Fiscal Policy in Australia — Selected Issues (Winter 2002); Key Themes from the Treasury Business Liaison Program — May/June 2002 (Winter 2002); 2001-2002 in Review: Strong Growth in the Midst of an International Slowdown (Spring 2002); Australian Net Private Wealth (Summer 2003); Key Themes from

the Treasury Business Liaison Program — November 2002 (Summer 2003); Preliminary Assessment of the Impact of The New Tax System (Autumn 2003); and Key Themes from the Treasury Business Liaison Program — February 2003 (Autumn 2003).

Treasury distributed quarterly updates of its macroeconomic model of the Australian economy and associated database to the Australian Bureau of Statistics for wider distribution. Since its public release in 1995-96, the Treasury macroeconomic model has continued to evolve. The model is currently being redeveloped to reflect changes in the structure of the Australian economy.

The Secretary to the Treasury, Dr Ken Henry, presented a number of speeches over the year in which he highlighted economic issues surrounding Australia's demographic trends. These included giving the Chris Higgins Memorial Lecture in November 2002 and presenting speeches at the Melbourne Institute's 40th Anniversary Dinner in February 2003 and to the Australian Business Economists in May 2003.

Reviews of economic data

Treasury has liaised extensively with the Australian Bureau of Statistics on statistical matters, both informally through regular discussion at all levels, and formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group.

Output 1.1.2 International economic policy advice and assessment

International Economy Division and International Finance Division in Macroeconomic Group are responsible for the delivery of Output 1.1.2, international economic policy advice and assessment.

Macroeconomic Group contributes to Outcome 1 by providing advice to government ministers on strategic international economic policy issues, advancing Australia's interests through the international financial institutions and forums, advancing Australia's interests in key IMF, World Bank and Asian Development Bank program countries, and monitoring and analysing developments in the global economy.

Performance information

Facilitation of achievement of government objectives in international forums, including strengthening the international financial system, multilateral debt relief and institutional reform in the multilateral development banks and the IMF.

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to international economic and financial issues.

Analysis of performance

Facilitation of government objectives in international forums

International developments

The world economy remained subdued in 2002-03. The tenuous recovery in the United States (US) failed to gather momentum, while Germany experienced its second recession in less than three years. Growth in the Euro area stalled and the economies of Australia's major trading partners in East Asia also weakened. Subdued equity prices, high oil prices, geo-political uncertainties including the war in Iraq, and unanticipated shocks including the SARS outbreak, affected the global economy. Global exchange rates began to realign during the year, with the US dollar depreciating significantly.

Macroeconomic policies continued to be eased as concerns increased about the weak global economic outlook. Economic growth in the US and East Asia is expected to pick up gradually in the latter part of 2003 and into 2004. However, the Euro area is unlikely to experience a significant recovery, while deflation and a weak financial sector continue to hamper Japan's growth prospects.

International Monetary Fund

During 2002-03, the IMF continued to consider measures to improve its capacity to prevent and resolve financial crises. Australia has actively contributed to this debate through its representation on the IMF Board, and ministerial participation in the Spring and Annual Meetings of the IMF, regular meetings of International Monetary and Financial Committee Deputies, and other forums. Dr Martin Parkinson, Executive Director of Macroeconomic Group, presented a paper on the role of the IMF in the international financial architecture at the International Monetary Convention in Madrid in May 2003.

Treasury continued to support the IMF's financial activities by participating in the Financial Transactions Plan. Treasury conducted timely, accurate and cost-efficient financial transactions with the IMF.

Treasury also helped fulfil Australia's IMF obligations through organising the annual IMF Article IV consultations in June.

Heavily Indebted Poor Countries Initiative and bilateral debt relief

Australia continued its strong support for international debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative as one strand of the strategy to reduce poverty for the world's poorest countries. This initiative supports the adoption of sound policies, good governance practices and effective poverty reduction programs which will further assist countries completing the enhanced Initiative to ensure an enduring exit from unsustainable debt.

At the September annual meetings of the IMF and the World Bank, ministers called upon those official and commercial creditors that had not already done so to participate fully in the enhanced HIPC Initiative. Australia supported ministers' calls for a review into the difficult issues of HIPC-to-HIPC debt relief and creditor litigation, and emphasised that the HIPC Initiative should be seen as only one element of a broader development strategy. During the April 2003 meetings of the IMF and the World Bank, Australia welcomed the continuing progress made in the Initiative, and highlighted the importance of economic growth in maintaining debt sustainability and achieving poverty reduction more broadly.

In the 2002-03 Budget, the Australian Government announced a new commitment of \$18 million to the World Bank and IMF costs of debt relief under the enhanced Initiative. This maintains Australia's burden share and brings total Australian contributions to \$77 million. This multilateral contribution complements Australia's commitment to provide 100 per cent bilateral debt relief to those heavily indebted poor countries with outstanding debts to Australia.

World Bank

In 2002-03, Australia supported the World Bank's efforts to reduce poverty, promote sustainable development and attain the Millennium Development Goals including via its representation on the Bank Board, Ministerial participation in the Spring and Annual Meetings and meetings of Deputies Committee. Australia focused on making World Bank activities more effective, efficient and transparent. Australia also sought to strengthen the links between the World Bank and Australia's aid programs in the Asia-Pacific region. In addition, Australia continued to emphasise the importance of close World Bank coordination and harmonisation with other multilateral financing organisations, notably, the IMF and the Asian Development Bank.

During 2002-03 Australia, along with other donor countries, finalised the thirteenth replenishment process for the International Development Association (IDA13) and agreed to a total replenishment of SDR18 billion (Australia's total contribution is SDR146 million, around A\$360 million). Also, after substantial negotiation, between 18 and 21 per cent of the IDA13 replenishment will be provided in the form of grants rather than as concessional loans.

Asian Development Bank

In 2002-03, Australia encouraged the Asian Development Bank to continue its process of transformation from a project financier to a broad-based development institution. Australia focused on the continuing improvement in internal governance to enhance accountability, effectiveness and transparency. Australia contributed to the review of the Bank's inspection function, which establishes a formal channel for addressing the concerns of local communities affected by certain Asian Development Bank-financed projects. The board of directors approved the establishment of a revised mechanism in late May 2003.

Australia also participated in the mid-term review of the current replenishment (known as ADF VIII) of the Asian Development Fund, the Bank's concessional lending arm. The objective of the mid-term review meeting, held in Washington in April 2003, was to evaluate the Bank's progress in implementing the recommendations contained in the ADF VIII Donors' Report.

European Bank for Reconstruction and Development

In 2002-03, Australia continued to support the European Bank for Reconstruction and Development work in assisting in reconstruction and development of Russia, Eastern Europe and Central Asia. In particular, Australia promoted a greater focus on countries with a less advanced transition of Eastern Europe and central Asia.

The Group of Twenty

The Group of Twenty (G-20) discussed key economic and financial policy issues and promoted cooperation to achieve stable and sustainable world economic growth. Participants include finance ministers and central bank governors from the Group of Seven (G-7) nations, other significant developed countries (including Australia) and developing countries. The heads of the IMF, World Bank and their ministerial-level advisory committees are ex-officio members.

Treasury officers attended the G-20 Deputies meeting in New Delhi, India in July 2002, in preparation for the Treasurer's participation in the November meeting. The Treasurer and Reserve Bank Australia Governor attended the ministerial meeting which considered the global economic outlook, financial

crisis prevention and resolution, globalisation, growth and development issues and measures to combat the financing of terrorism.

Treasury officers represented Australia at the G-20 Deputies meeting in March 2003, and later in May at the G-20 seminar on sovereign debt restructuring. At both meetings, discussions focused predominantly on measures to better prevent and resolve financial crises.

Manila Framework Group

Officials from Treasury and the Reserve Bank of Australia attended and played an active role at the tenth meeting of the Manila Framework Group in Brunei Darussalam in October 2002.

The tenth meeting agreed that the global recovery, stronger domestic demand and intra-regional trade had supported the pick up in many member economies in 2002. However, the deputies recognised a number of risks could affect the strength and durability of the global and regional recovery, including terrorist activities and the risks of deflation at the global level as well as in some member economies. Given the risky environment, deputies acknowledged the need to maintain accommodative macroeconomic policies. They also agreed on the importance of addressing structural issues in the banking and corporate sectors, and promoting good public and corporate governance.

The meeting also considered options to strengthen the Manila Framework process. It agreed to a proposal, initiated by Australia, Japan and the Republic of Korea, to refocus the policy discussion on key strategic economic issues affecting regional economies to add value to discussions in other regional economic forums. Korea will host the next Manila Framework Group meeting in Seoul in October 2003.

Financial Stability Forum

Treasury participates in some activities of the Financial Stability Forum. The forum promotes international financial stability through information exchange and international cooperation in financial supervision and surveillance. During 2002-03, the forum reviewed potential vulnerabilities in the international financial system and progress to address weaknesses in market foundations in the wake of recent corporate scandals in major markets.

In October 2002, senior representatives from 15 regional economies, including Australia, and five international institutions participated in the second Asia-Pacific regional meeting. Discussion focused on potential vulnerabilities of the regional and international financial system, especially the need to deal proactively with existing and/or future non-performing loans. Participants also

agreed that enhancing corporate governance practices and strengthening of accounting and auditing standards and practices remained critical.

Four Markets Group

Through the Four Markets Group, Australia, Hong Kong SAR, Japan and Singapore shared their perspectives on macroeconomic and financial market developments, including financial regulatory issues. Senior officials from the economic and finance ministries and central banks and monetary authorities, usually at the deputy level, attend the Four Markets Group meetings.

The group met in Singapore in October 2002 and discussed the outlook for member economies and potential vulnerabilities in their financial markets. Members also updated the group on efforts to improve corporate governance in their jurisdictions. Australia facilitated a discussion on the key role of clearing and settlement services for the efficient operation of financial markets as well as for wider financial stability.

Asia–Pacific Economic Cooperation

Finance Ministers

In 2002-03, Treasury provided policy advice and briefings for the Treasurer at the ninth APEC Finance Ministers' meeting in Los Cabos, Mexico in September 2002. Treasury officers also attended a Technical Working Group meeting in Chiang Mai, Thailand in December 2002.

The APEC Finance Ministers' process remains focused on encouraging structural reform in financial markets. Treasury led three initiatives: the APEC Future Economic Leaders' Think Tank; managing regulatory change in life insurance and pensions; and strengthening corporate governance in the APEC region.

Australia hosted a training course for Managing Regulatory Change in Life Insurance and Pensions in March 2003 attended by 26 insurance and pension regulators from nine APEC economies. Annual symposiums complement these courses and encourage dialogue among regulators and industry representatives. The most recent symposium was in Singapore in November 2002.

As part of the APEC Future Economic Leaders' Think-Tank, Australia hosted a conference in Sydney in June 2003 to network, problem-solve and develop creative solutions to priority regional economic and financial challenges. Twenty-seven participants attended from 14 APEC economies.

Australia chairs a 'pathfinder' initiative on corporate governance aimed at implementation of corporate governance best practice principles within APEC economies. Participating economies include Korea, Malaysia, Mexico,

New Zealand and Singapore. In July 2003 the US and the Philippines also joined the pathfinder.

Treasury supported and contributed to the Finance Ministers' action plan to combat the financing of terrorism and money laundering. Treasury also contributed to continuing Finance Ministers' initiatives including strengthening banking supervision and training for bank supervisors and securities market regulators, developing effective corporate governance structures and practices, and supporting freer and more stable capital flows through voluntary action plans. These initiatives support the Finance Ministers' objective of establishing a framework for building sound domestic institutions in the region, emphasising the development of effective and stable capital markets.

Investment Experts Group

Treasury participated in APEC's investment liberalisation, facilitation and cooperation activities by leading Australia's representation in the APEC Investment Experts' Group. Treasury worked to ensure the group focused on investment liberalisation and facilitation rather than investment promotion. Treasury also participated in the group meetings in Acapulco, Mexico, in August 2002, and then in Chiang Rai and Khon Kaen in Thailand in February and May 2003 respectively.

Economic Committee

Treasury represented Australia on APEC's Economic Committee in striving to improve output and ensure the work program met the needs of leaders, ministers and other APEC forums. The work program involves high quality research on economic issues and trends in the APEC region.

Australia drafted a chapter on statistical indicators on knowledge-based economies for the *2002-03 APEC Economic Outlook*.

Relations with Asia

Treasury's work in this area benefited from a sharper focus during 2002-03, through more intensive policy dialogue, cooperation and institution building. The Treasurer's speech to the Asia Society in October 2002 on Australia's role in Asia reinforced the Government's commitment to close engagement with Asia and provided support for Treasury's activities in the region.

Three senior-level Treasury officials remain posted to Beijing, Jakarta and Tokyo, to assist Treasury's understanding of conditions in regional economies. They increased their contact with Treasury's counterparts in Japan, the Republic of Korea, China, Hong Kong SAR, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines, and, as part of the team at the relevant embassies, helped enhance Australia's economic relations with the region.

To assist capacity building and policy dialogue, Treasury continued to receive delegations from Asia for discussions of policy issues. In addition, Treasury hosted PNG and Mongolian officials on short-term work experience and facilitated placements of Chinese officials in the Victorian and ACT Treasuries for short-term training on budgeting and public management issues.

On 30 March-1 April 2003, a senior level Treasury official visited Jakarta to give seminars on Australia's fiscal and monetary policy frameworks to senior officials of Bank Indonesia and the Ministry of Finance, and to staff and postgraduate students at the Faculty of Economics of University of Indonesia.

In June 2003, senior officials from Domestic Economy Division undertook a consultancy project in Bangkok as part of AusAID's Thailand-Australia Capacity Building Facility. The project culminated in a week-long series of seminars on Australia's approach to macroeconomic forecasting and risk monitoring and risk assessment early warning systems. Seminar attendees represented the Bank of Thailand, the Ministry of Finance and the Office of the National Economic and Social Development Board.

In early July 2003, Mr Richard Murray, Executive Director of Fiscal Group, and Mr Graeme Davis presented a seminar on Treasury's experience in formulating the Australian Government Budget and Australia's macroeconomic policy framework to the Indonesian Coordinating Minister for the Economy, the Minister for Finance and senior economic officials. Mr Murray and Mr Davis also met with Indonesian Parliament Budget Committee members.

Treasury continued to provide inputs into the regional trade negotiations, including the Australia-Singapore Free Trade Agreement, the Australia-Thailand Closer Economic Relations Agreement and the wider trade and economic agreements with China, Japan and the Republic of Korea.

Treasury participated in a continuing joint project by Japan's Ministry of Finance and the Australian National University to study the scope for enhancing regional financial cooperation, including the feasibility of a common currency for some economies. Dr Martin Parkinson, Executive Director of Macroeconomic Group, delivered a paper on fiscal policy and Australia's government bond market at a conference in Kuala Lumpur in March 2003.

Relations with Papua New Guinea

Treasury continued its support for Papua New Guinea (PNG) economic and governance reform. After the Somare Government took office, Treasury assisted with the preparation of a medium-term fiscal strategy to incorporate into PNG's 2003 budget. Treasury also encouraged PNG's further constructive engagement with the IMF and World Bank in the promotion of responsibly

managed reform. In May 2003, Treasury convened a roundtable of Australian Government agencies to consider prospects for the PNG economy and policy options for Australia.

The PNG-Australia Treasury Twinning Scheme continued to develop economic governance capacity in PNG's central economic agencies. Under the scheme Treasury advisers worked in PNG Treasury to build skills in taxation policy and revenue forecasting. Treasury also provided technical support to PNG's review of its tariff reform program and contributed to improving the skills of PNG Treasury officers through short-term placements in Treasury.

Relations with Pacific Economies

South Pacific Forum Economic Ministers' Meeting

The Treasurer attended the sixth Pacific Islands Forum Economic Ministers' Meeting (FEMM) in Port Vila, Vanuatu, in July 2002 and the Parliamentary Secretary to the Treasurer attended the seventh meeting in Majuro, Marshall Islands in June 2003. The meetings progressed the implementation of the FEMM action plan for economic liberalisation, which aims to foster greater competitiveness and self-reliance and raise living standards in forum island countries. Treasury continued to work actively to reinforce the focus on core economic challenges and encourage further development of its biennial stocktake of island country progress in implementing economic and governance reform.

Australia-New Zealand Closer Economic Relations

As part of the twentieth anniversary of Closer Economic Relations, the Treasurer visited New Zealand in February 2003 to meet the New Zealand Finance Minister. Both governments agreed to extend their imputation regimes to include companies resident in the other country and endorsed ongoing work on business law coordination, including competition law and policy. The Treasurer and New Zealand Finance Minister agreed to meet each year to pursue further economic policy coordination and the Treasurer addressed the Auckland Chamber of Commerce on 20 February 2003 on the benefits of Closer Economic Relations to both economies and scope for further economic integration.

Organisation for Economic Co-operation and Development

Treasury officers participated in the work of OECD committees on macroeconomic and microeconomic policies, forecasting, taxation, budget policy, consumer policy, competition policy, corporate governance, insurance, financial markets, investment and capital markets. Australia chairs the OECD Steering Group on Corporate Governance and the Joint Working Group on Trade and Competition.

In April 2003, the Treasurer addressed the OECD's annual Ministerial Council Meeting on policies to maintain confidence and enhance growth. He also spoke to two related forums on Australia's links and shared interests with Europe and East Asia.

In February 2003, Dr Martin Parkinson led the Australian delegation to the OECD Economic and Development Review Committee's annual examination of Australia. The Committee gave strong support for the pursuit of broad ranging structural reforms and prudent macroeconomic policies which have combined to make the Australian economy 'one of the best performers in the OECD' and one that is noticeably resilient to internal and external shocks.

Policy advice

Economic reconstruction issues

In response to growing demands for policy advice and skilled staff to assist countries in economic difficulty, Treasury began to dedicate more resources to the International Economy Division. Much additional effort was focused on Iraq where Australia played a significant role in establishing the new Coalition Provisional Authority to administer Iraq following the removal of Saddam Hussein's regime. In addition to providing high-level policy advice, Treasury sent three officers to work with the Provisional Authority in Baghdad. Treasury staff involvement in Iraq is ongoing and focuses on a broad range of issues including establishing a payments system and preparing a national budget. Towards the end of 2002-03, focus increased on assisting the Solomon Islands as part of the Government's offer of cooperative intervention. The aim is to assist in rectifying serious problems in administering the Solomon Islands that have caused economic activity to contract.

Regional economic policy

Treasury worked with its counterparts in Japan and the Republic of Korea to refocus the discussions in the Manila Framework Group on key strategic economic policy issues affecting member economies and to add value to the process of policy dialogue in the East Asian region.

The Treasurer initiated the work which culminated in the Government's removal of all tariffs and quotas for all imports originating in 49 less developed countries and East Timor, commencing on 1 July 2003. The Prime Minister announced this initiative at the APEC Leaders' meeting in November 2002. This measure has the potential to help less developed countries expand their exports to Australia and reduce poverty.

The International Economic Policy Group

Treasury continued to play an active role in the International Economic Policy Group, which remained instrumental in maintaining a coordinated whole-of-government approach to international economic developments and consideration of relevant policy issues. The group meets approximately every six weeks, or as needed. It comprises high-level officers from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury, AusAID, the Office of National Assessments and the Reserve Bank of Australia, with other departments attending as required.

Outcome 2

Effective government spending and taxation arrangements

Effective government spending and taxation arrangements are crucial to achieving the Government's economic objectives and the wellbeing of Australians. Ongoing advice to the portfolio Ministers from Treasury assists in formulating, implementing and explaining government spending and taxation decisions.

In May 2002, the Government announced a major change to agency accountability for tax law design. Responsibility for the design of tax laws and regulations was shifted from the Australian Taxation Office to Treasury from 1 July 2002. The transfer created a stronger and more direct link between ministers and policy and legislation development processes. This, in turn, has resulted in a greater alignment between legislation and the policy intent set by Government.

The transfer of the tax law design functions had a number of much wider impacts on Treasury's operations. A significant consequence of the move of the law design function was the transfer of 104 staff from the Australian Taxation Office to Treasury. Treasury used the opportunity to merge these staff with the existing staff in Budget Group to create two new Groups — Fiscal Group and Revenue Group. The purpose of the new structure is to enhance Treasury's organisational capability in a number of areas and to allow it to be more flexible and responsive in delivering the Government's agenda.

The formation of Fiscal Group has enabled Treasury to increase its capacity for strategic, coordinated policy advice on government spending in order to improve the wellbeing of the Australian people. In addition, the formation of Fiscal Group has increased our flexibility and responsiveness in the face of new policy challenges, such as contributing advice on several of the Government's key strategic priorities. These benefits have been achieved by consolidating most of the advice on government spending into a single group and by bringing related program advising functions into a single division within the group.

Fiscal Group is responsible for Budget policy advice and coordination and for Commonwealth-State financial policy advice. Fiscal Group also provides advice on social policy, including health policy, industry and environment policy, defence and national security policy, and labour market participation policy.

The enhanced organisational capability has allowed Revenue Group to increase Treasury's capacity to advise the Government on taxation and income support

policy. There is now a greater ability to assess policy and legislation in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility. There is also a closer nexus between the development of tax and income support policy and the design of legislation to give effect to these policies.

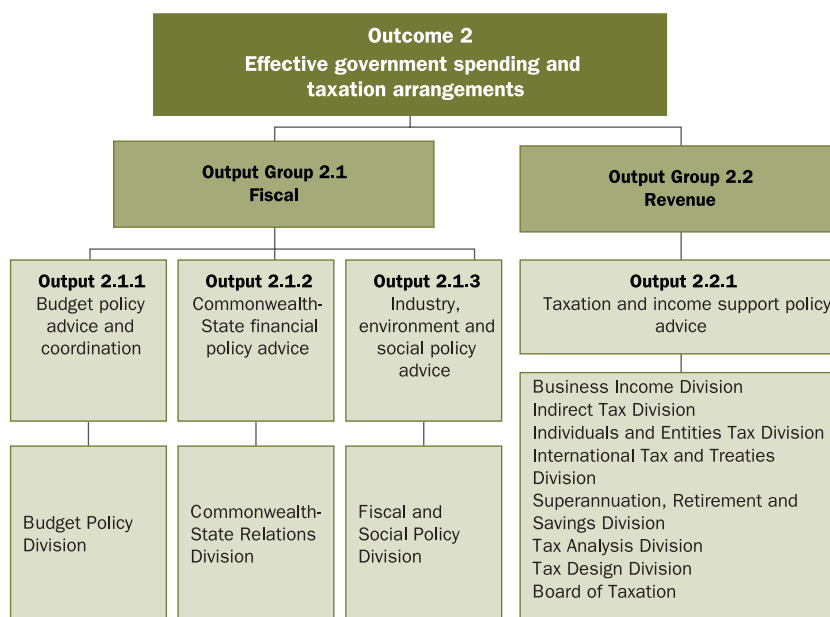
Given the restructure, the output structure in the *2002-03 Portfolio Budget Statements* does not match the current Treasury structure well. Therefore, this report uses the updated output structure from the *2003-04 Portfolio Budget Statements*. This means that health, social, labour market, industry, environment and defence policy advice functions are reported under Output 2.1.3 now called Industry, environment and social policy advice.

During 2002-03, Treasury contributed policy development and advice on a number of the Government's key strategic priorities, such as work and family policies, health, education, demographic change, environment, defence and national security. Treasury also conducted a comprehensive review of the Commonwealth Government Securities market, taking the view of key stakeholders into account.

Treasury also devoted significant resources to implementing the Government's business taxation reform agenda and superannuation election commitments. Priority was also given to the Government's review of international tax arrangements. Taxation reform is an important element of an integrated economic policy framework ensuring stronger economic and employment growth, thereby improving living standards.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating, implementing and explaining government spending and taxation decisions.

Figure 6: Outputs contributing to Outcome 2
(as at 30 June 2003)



Key priorities in 2002-03

Fiscal Group and Revenue Group's policy advice covered a broad agenda, including many of the strategic priorities identified by the Prime Minister in November 2002, and the taxation legislative function previously held by the Australian Taxation Office. Strategies for delivery of outputs included developing specialist expertise in policy and taxation design areas, further developing key partnerships with other participants in the policy process, and focusing more on the strategic assessment of emerging core issues. Key priorities included:

- further refining budget policy processes, producing the annual budget and mid-year review, and meeting the requirements of the *Charter of Budget Honesty Act 1998*;
- delivering the Government's tax legislation program;
- reviewing the Commonwealth Government Securities market;
- integrating economic policy, tax policy and tax legislative functions to deliver the Government's tax reform agenda more effectively;

- taking a leadership role in the Demographics Taskforce, which will build on the work of the Intergenerational Report;
- implementing the Government's superannuation election commitments;
- reviewing international tax arrangements;
- servicing the needs of the Treasury ministers, including enhancing group-wide systems to improve service delivery to ministers; and
- improving the effectiveness of policy advice by building stronger relationships with other departments and agencies.

Key outcomes in 2002-03

- Treasury, together with the Department of Finance and Administration, produced the 2003-04 Budget on 13 May 2003.
- Integration of the law design functions transferred from the Australian Taxation Office into the new group structure.
- Treasury delivered key elements of the Government's tax legislation program.
- Treasury reviewed and advised on whether to retain the Commonwealth Government Securities market. The Government has decided to maintain this market and will ensure sufficient Commonwealth Government Securities remain on issue to support the Treasury bond futures market.
- Treasury assisted the Department of Finance and Administration in a joint review of the budget estimates and advice system. The Government endorsed recommendations that seek to improve the accuracy, responsiveness and effectiveness of the Australian Government's budget estimates and framework system.
- Treasury was involved in a wide range policy processes, such as defence spending, regional policy, the post 2005 automotive assistance arrangements, innovation, the Work and Family Taskforce, Australian Health Care Agreements, reforms to Medicare and the Government's higher education reforms.
- Treasury implemented key elements of the Government's package of reforms to increase the security, attractiveness and accessibility of superannuation.
- Treasury provided advice to the Government on a range of business tax policy issues, including demergers of entities, tax exempt leasing, the

consolidation regime, taxation of financial arrangements and reforms to the imputation system and on the Timor Sea Treaty, double tax agreements and triangular taxation arrangements with New Zealand.

Table 3: Financial and staffing resources summary for Outcome 2

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	74,700	71,230	20,900
Special appropriations	31,735,009	32,212,893	33,554,934
Other expenses	-	-	-
Total administered expenses	31,809,709	32,284,123	33,575,834
Revenue from Government			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	2,815	2,836	2,348
Output 2.1.2 - Commonwealth-State financial policy advice	1,245	1,241	1,312
Output 2.1.3 - Industry, environment and social policy advice	2,961	2,944	4,408
Corporate costs	4,198	4,504	3,298
Total Output group 2.1 - Fiscal	11,219	11,525	11,366
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	25,513	25,514	25,796
Corporate costs	12,277	11,880	10,008
Total Output group 2.2 - Revenue	37,790	37,394	35,804
Total revenue from Government contributing to price of departmental outputs	49,009	48,919	47,170
Revenue from other sources			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	-	1	-
Output 2.1.2 - Commonwealth-State financial policy advice	-	1	-
Output 2.1.3 - Industry, environment and social policy advice	-	12	-
Corporate costs	260	517	110
Total Output group 2.1 - Fiscal	260	531	110
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	-	28	25
Corporate costs	756	1,179	833
Total Output group 2.2 - Revenue	756	1,207	858
Total revenue from other sources	1,016	1,738	968
Total revenue for departmental outputs (Total revenues from Government and other sources)	50,025	50,657	48,138

continued

Table 3: Financial and staffing resources summary for Outcome 2
(continued)

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Price of departmental outputs			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	2,815	2,880	2,348
Output 2.1.2 - Commonwealth-State financial policy advice	1,245	1,260	1,312
Output 2.1.3 - Industry, environment and social policy advice	2,961	3,002	4,408
Corporate costs	4,458	5,059	3,408
Total Output group 2.1 - Fiscal	11,479	12,201	11,476
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	25,513	23,590	25,821
Corporate costs	13,033	12,063	10,841
Total Output group 2.2 - Revenue	38,546	35,653	36,662
Total price of departmental outputs	50,025	47,854	48,138
Total estimated resourcing for outcome 2 (Total price of outputs and administered expenses)	31,859,734	32,331,977	33,623,972
Average staffing levels (number)	377	373	367

Note:

Budget 2002-2003: as per the 2002-03 Portfolio Additional Estimates Statements, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 Portfolio Budget Statements (unless otherwise stated).

Output 2.1.1 Budget policy advice and coordination

Budget Policy Division in Fiscal Group and Tax Analysis Division in Revenue Group are responsible for the delivery of Output 2.1.1, budget policy advice and coordination.

Fiscal Group and Revenue Group contribute to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues, current and prospective trends in Australian Government revenue and major fiscal aggregates, the fiscal framework and debt policy. In addition, Fiscal Group coordinates the preparation of budget and related documents together with the Department of Finance and Administration.

Following Treasury's restructure, the program and policy advice functions previously undertaken by Budget Policy Division were moved to the Fiscal and Social Policy Division, except for defence and health policy advice which remained in Budget Policy Division.

The restructure enabled Budget Policy Division to focus more on its core activities of providing budget policy advice and coordination. It also improved budget coordination and information across the spending areas during the budget cycle.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to assessments of the budget position, outlook and budget strategy.

Effective presentation of budget documents for which Treasury has responsibility and other publications should adequately inform public debate.

Analysis of performance

Advice on the budget outlook

During 2002-03, Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide context for the Government's decision making. The fiscal outlook was updated in the *2002-03 Mid-Year Economic and Fiscal Outlook* and the 2003-04 Budget.

Reflecting the joint responsibility for producing budget estimates, the preparation of this advice required extensive liaison with the Department of Finance and Administration, the Australian Taxation Office and other Australian Government departments and agencies. Assessments of the Australian Government's budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available.

Final budget outcome for 2001-02

The *2001-02 Final Budget Outcome* was published in September 2002. In 2001-02, the Australian general government sector recorded a small underlying cash deficit of \$1.3 billion. This was \$0.1 billion greater than estimated at the 2002-03 Budget, reflecting lower than expected income tax receipts largely offset by some slippage of defence expenditure and lower than expected personal benefit payments. The accrual fiscal deficit of \$4.7 billion was \$0.7 billion larger than estimated at the 2002-03 Budget. This larger

fiscal deficit partly reflected the recognition in accrual terms of the Australian Government liabilities associated with post-Budget measures to address medical indemnity issues.

Budget forecasts

The 2002-03 Budget, published in May 2002, contained forecasts for 2002-03 and the next three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in November 2002, forecast an underlying cash surplus of \$2.1 billion for 2002-03, unchanged from estimates at the 2002-03 Budget.

The 2003-04 Budget further updated these forecasts for 2002-03, with the estimated underlying cash balance being revised upwards to a surplus of \$3.9 billion. This improvement reflected higher company and indirect tax collections and lower estimated payments.

Taxation revenue estimates

Treasury has prime responsibility for taxation revenue estimates and Revenue Group worked closely with the Australian Taxation Office and the Department of Finance and Administration to produce these. These estimates took into account trends in taxation revenue collections and the outlook for the economy. As familiarity with *The New Tax System* has increased, understanding of the patterns of revenue collection has improved.

Final taxation outcome for 2001-02

The final assessment of the taxation revenue outcome for 2001-02 was published in the *2001-02 Final Budget Outcome*, published in September. Taxation receipts for 2001-02 were around \$1.3 billion lower than forecast at the 2002-03 Budget. The subdued increase in wages in 2001-02 contributed to the lower than anticipated taxation revenue in 2001-02. Accrual taxation revenue was around \$0.9 billion below the corresponding estimate at the 2002-03 Budget, while gross income tax withholding was \$1.1 billion lower than expected at Budget 2002-03.

Budget taxation forecasts for 2002-03

The estimate for 2002-03 of total taxation revenue made at the Mid-Year Economic and Fiscal Outlook in November remained relatively unchanged from 2002-03 Budget expectations. However, the expected composition of revenue changed with gross income tax withholding revised down by \$1.3 billion, while companies and gross other individuals both increased by around \$0.8 billion.

The 2003-04 Budget revised up estimated total taxation revenue for 2002-03 by around \$1.3 billion relative to the Mid-Year Economic and Fiscal Outlook,

largely due to stronger than expected revenue from company tax and Australian Government indirect taxes.

Budget and financial frameworks policy advice

Treasury's contribution to developing policy seeks to assist ministers in making Australian Government expenditure more effective and efficient, and to ensure program policy options are considered in the context of the Government's broader economic and fiscal objectives. This included facilitating the Government's key budget decision-making processes, as well as providing accurate and timely advice to ministers throughout the year.

Treasury assisted the Department of Finance and Administration in a joint review of the budget estimates and advice system to improve its accuracy, responsiveness and effectiveness. The Government endorsed the recommendations of the review in late 2002. Treasury continues to play a leading role in overseeing implementation of the review's recommendations, which are expected to be fully implemented by 2005.

Review of Commonwealth Government Securities market

The Government indicated in the 2002-03 Budget that it would consider the future of the Commonwealth Government Securities market, in consultation with key stakeholders. Following a public review conducted by Treasury, the Government decided to maintain the Commonwealth Government Securities market. This will entail ensuring sufficient Commonwealth Government Securities remain on issue to support the Treasury bond futures market. Retaining the Commonwealth Government Securities market to support the Treasury bond futures market will require ongoing issuance of Treasury bonds, both at the middle and long-end of the yield curve.

Financial assets will continue to be held on deposit with the Reserve Bank of Australia to meet short-term liquidity needs. These needs are assessed to be up to around \$25 billion over the course of a year. If deposits held at the Reserve Bank exceed that sum for a sustained period, the Government will consider arrangements to allocate some funds to other liabilities, possibly superannuation. However, this would be the subject of further consultation.

Debt management policy

While the Australian Office of Financial Management (AOFM) is responsible for operational aspects of the management of the Australian Government debt portfolio, Treasury has primary responsibility for the development of advice to the Treasurer on strategic debt policy issues and relevant wider public policy issues. This included providing advice to the Treasurer on matters where debt management issues may carry implications for other arms of government policy

or for the effective functioning of markets and/or the real economy, and where broader macroeconomic developments or public policy considerations may have implications for debt management. Treasury also played an important role in the governance structures around the management of the Australian Government debt portfolio.

During 2002-03, Treasury worked closely with the AOFM on the review of the Commonwealth Government Securities market, the review of the interest rate risk benchmark used by the AOFM to manage the Australian Government debt portfolio, the elimination of the foreign currency exposure in the Australian Government debt portfolio and continuing to strengthen the governance framework around the debt portfolio. These issues are discussed further in the AOFM's annual report.

Contribution to public debate and awareness

Budget publications

The Government's budget publications are available free at www.budget.gov.au. Providing widespread access to these documents helps improve policy making in Australia by ensuring the public is kept well informed of budget decisions and the fiscal outlook.

Treasury and the Department of Finance and Administration jointly prepare the Government's budget documentation. Treasury also prepares the Budget Overview and Budget at a Glance, providing more accessible summaries for non-specialist readers.

In general terms, 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;
- taxation revenue estimates;
- taxation expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

The Government's budget reporting requirements are set out in the *Charter of Budget Honesty Act 1998*. These requirements 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 around November and a final budget outcome in the following September. The Charter also stipulates that an intergenerational report be produced on a five-yearly cycle.

During the year, the Government released the *2001-02 Final Budget Outcome* in September 2002, the *2002-03 Mid-Year Economic and Fiscal Outlook* in November 2002 and the 2003-04 Budget in May 2003.

The 2003-04 Budget was the fifth Australian Government budget presented on an accrual basis. In 2002-03, Treasury met with representatives of countries interested in learning about the budgeting and reporting framework applied in Australia, including delegations from Japan and China. In addition, Treasury shared its budget experiences with countries within the region at the OECD-Asian Senior Budget Officials meeting in Bangkok.

Tax Expenditures Statement

Treasury publishes an annual Tax Expenditures Statement to estimate the revenue cost associated with the concessional taxation treatment of specific groups and activities. The *Tax Expenditures Statement 2002*, published in January 2003, reported on the cost of tax expenditures with estimates and projections to 2005-06. The production of this statement allows for independent review of whether government objectives are being met at reasonable cost and makes the Australian Government's activity more transparent.

Output 2.1.2 Commonwealth-State financial policy advice

Commonwealth-State Relations Division in Fiscal Group is responsible for the delivery of Output 2.1.2, Commonwealth-State financial policy advice.

Fiscal Group contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, and on related State and Territory ('the States') fiscal and taxation issues.

Fiscal Group also provides the efficient administration of payments to the States, including GST revenue, Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance.

Performance information

Advice should meet Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations.

Effective presentation of relevant information, including in the budget documentation and other publications should adequately inform public debate.

Analysis of performance

Advice on reform of Commonwealth-State financial relations

2002-03 was the third year of full operation of the Intergovernmental Agreement. Treasury provided advice to the Treasurer on various aspects of the Intergovernmental Agreement, particularly transitional arrangements such as calculating the Guaranteed Minimum Amount and paying Budget Balancing Assistance.

The Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Treasurer and all State and Territory Treasurers, oversees the implementation and operation of the Intergovernmental Agreement. Treasury coordinates the agenda for the Ministerial Council. At the fourth annual meeting of the Ministerial Council, in March 2003, Treasurers discussed expected payments to the States and Territories, GST administration issues and other policy and administrative matters, including specific purpose payments. Treasury advised the Treasurer on the key issues and coordinated arrangements for the meeting.

The Loan Council traditionally meets annually in March to consider jurisdictions' Loan Council Allocation nominations for the forthcoming year. Treasury also advised the Treasurer on the key issues and coordinated arrangements for this meeting which was held in conjunction with the Ministerial Council meeting.

Heads of Treasuries

The Heads of Treasuries, comprising the Secretary to the Treasury and his State and Territory counterparts, met three times during 2002-03. These meetings are a forum for Heads of Treasuries to share information on issues common to the Australian and State governments. In 2002-03, discussions focused on issues arising under the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, fiscal reporting, taxation and financial issues, Specific Purpose Payments (SPPs) and preparations for meetings of the Ministerial Council and the Loan Council.

GST Administration Subcommittee

The GST Administration Subcommittee assists the Ministerial Council in monitoring GST operation and administration. It advises the Ministerial Council on modifications to the GST base and Australian Taxation Office administration of the GST. Treasury chairs the subcommittee, which comprises officials from Treasury, the Australian Taxation Office and the State and Territory Treasuries. Participants in the three meetings monitored the operation of the GST Administration Performance Agreement between the States and Territories and the Australian Taxation Office. The subcommittee discussed GST revenue receipts and payments to the States and Territories, GST implementation issues and administrative issues.

The First Home Owners Scheme

The First Home Owners Scheme provides \$7,000 grants to eligible applicants buying or building their first home. The States and Territories administer the scheme on the basis of principles agreed by all jurisdictions in the Intergovernmental Agreement. Under their legislative provision for the First Home Owners Scheme, the States provide mechanisms for adequate administrative review, appeal and prevention of abuse. Under the arrangements, all States audit their First Home Owners Scheme expenditure data and publish it in audited accounts.

In 2002-03, 135,869 grants were paid, totalling approximately \$1.035 billion, including funding for additional grants. Treasury assists with First Home Owners Scheme policy issues and the Additional First Home Owners Scheme.

The Additional First Home Owners Scheme initiative doubled the grant to \$14,000 for eligible first home owners purchasing new or previously unoccupied homes who entered into contracts between 9 March 2001 and 31 December 2001. The additional First Home Owners Scheme was extended with a phased-down grant of \$3,000 available for contracts entered into between 1 January 2002 and 30 June 2002. Although the additional First

Home Owners Scheme ended on 30 June 2002, some payments continued to be made to eligible applicants.

Payments to the States and Territories

Treasury administers payments made under Commonwealth-State financial relations to the States, totalling \$32.2 billion in 2002-03, including GST revenue, Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance.

Goods and Services Tax Revenue

A key element of *The New Tax System*, introduced on 1 July 2000, is for States to receive all GST revenue. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST revenue in monthly payments, in accordance with relativities determined by the Treasurer following recommendations by the Commonwealth Grants Commission and discussion at the March 2002 Ministerial Council meeting. In 2002-03, the States received around \$30.5 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

The Australian Taxation Office collects GST revenue on behalf of the States. The States compensate the Australian Government for this. Payments by the States to the Australian Government in 2002-03, amounted to around \$563 million. Treasury monitored payments to ensure States made full and timely payments.

Budget Balancing Assistance

Under *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Australian Government guaranteed that in the transitional years of tax reform, each State's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. Treasury provides advice to the Treasurer on how much funding each State would have received under the previous system to enable the Treasurer to determine the Guaranteed Minimum Amount.

To meet its guarantee, the Australian Government pays the Budget Balancing Assistance to cover any shortfall of GST revenue compared with each State's Guaranteed Minimum Amount. In 2002-03, the States received \$1.5 billion in Budget Balancing Assistance payments.

Treasury pays Budget Balancing Assistance in four quarterly advances based on estimates through the year. These advances are based on the States' estimated Budget Balancing Assistance entitlements at the time of each advance. Upward revisions to the GST revenue in the 2002-03 Budget resulted in

the estimated entitlements for 2002-03 Budget Balancing Assistance being revised downwards. Queensland and the Northern Territory did not require Budget Balancing Assistance as their GST revenue exceeded their Guaranteed Minimum Amount. Furthermore, other States had been paid more Budget Balancing Assistance than required. These results were confirmed when final determinations of GST revenue, the Guaranteed Minimum Amount and Budget Balancing Assistance were made in June 2003.

Consistent with the provisions of the *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Treasury will deduct the amount of excess Budget Balancing Assistance of \$544.9 million paid in 2002-03 from payments made in 2003-04.

A number of decisions the Government took, in consultation with the States and Territories, also affected the calculation of Budget Balancing Assistance:

- from 1 July 2002, calculation of each States' Guaranteed Minimum Amount has excluded the indexation of Petroleum Revenue Replacement Payments forgone;
- at the March 2002 Ministerial Council meeting the Government and States agreed to implement a National Excise Scheme for Low Alcohol Beer from 1 July 2002;
- the Government, in consultation with the States, accepted the recommendation of the independent pricing review of the Australian Taxation Office that resulted in additional funding for tax administration functions, including GST administration.

National Competition Policy Payments

In 2002-03, National Competition Policy Payments to the States totalled \$739.9 million. Each State's full entitlement to National Competition Policy Payments is subject to it satisfactorily progressing specified reform conditions in the *Agreement to Implement the National Competition Policy and Related Reforms*. Payments were calculated correctly and paid immediately following the Government's approval of the National Competition Council's recommendations.

Revenue Assistance for the Australian Capital Territory

The Australian Capital Territory received a Specific Purpose Payment of \$14.7 million in 2002-03 for Special Revenue Assistance, paid in weekly instalments. All payments were made on the scheduled dates.

Budget publications

Information on the Government's financial relations with State, Territory and local governments is documented in *Budget Paper No. 3, Federal Financial Relations 2003-04*. This document is the main public source of information on Australian Government payments to the States. It also informs States and Territories of their expected payments in the upcoming financial year, including GST revenue, Budget Balancing Assistance, Specific Purpose Payments and National Competition Policy Payments.

Budget Paper No. 3, Federal Financial Relations also includes a calculation of each State's Guaranteed Minimum Amount, as well as any policy changes affecting the relationship between the Australian and State governments.

In 2002-03, the format and information included in *Budget Paper No. 3, Federal Financial Relations* was substantially updated to provide more readily accessible information about recent developments in Commonwealth-State relations.

Output 2.1.3

Industry, environment and social policy advice

Budget Policy Division and Fiscal and Social Policy Division in Fiscal Group are responsible for the delivery of Output 2.1.3, industry, environment and social policy advice.

Fiscal Group contributes to Outcome 2 by working in conjunction with other departments and agencies to develop and progress reform in industry, regional assistance, agriculture, environment, defence and national security, social, labour market participation, and health policy. The bringing together of these responsibilities in Fiscal Group has allowed for a more strategic, coordinated approach to policy advising in areas of government priority. While other departments have major responsibility for policy and programs in these areas, Fiscal Group focuses on improving productivity, economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to industry policy.

Effective presentation of relevant information should adequately inform public debate.

Analysis of performance

Treasury contributed to policy formulation in a diverse range of industry, environment and social policy areas.

Advice on industry policy

During 2002-03 Treasury participated in policy development processes, working with other agencies to develop policy, providing coordination comments on policy for the consideration of Cabinet Ministers, and briefing the Treasurer for his participation in Cabinet.

Treasury was a lead agency in developing the Government's post-2005 automotive assistance arrangements. The Government package, announced in December 2002, will assist industry achieve long-term sustainability, while minimising the impact of continuing assistance on consumers and other industries. Tariffs are scheduled to fall from 15 to 10 per cent in 2005 and from 10 to 5 per cent in 2010.

Treasury provided advice to the Treasurer on the Government's Strategic Investment Coordination process as well as on specific proposals for strategic investment.

Treasury has also worked with agencies, and provided advice to the Treasurer, on the Tourism Green Paper: a Medium to Long-term Strategy for Tourism. The Green Paper has been released and a White Paper is scheduled for late 2003.

Treasury provided advice on future assistance arrangements for the pharmaceutical industry once the current Pharmaceutical Industry Investment Program expires. The current program is providing \$300 million to the industry from 1 July 1999 to 30 June 2004. The replacement program will provide \$150 million from 1 July 2004 to 30 June 2009.

Treasury was also involved, together with the Departments of Finance and Administration, Prime Minister and Cabinet, and Communications, Information Technology and the Arts, in a review of Australia's cultural agencies. The recommendations should help national cultural agencies continue to pursue efficiency and best practice.

Advice on agriculture policy

Treasury was involved in ongoing work on the Australian Government's Drought Policy and provided advice on the Government's Additional Drought Assistance Package of 9 December 2002. The package will help farmers, small business and regional communities in managing the impact of the worst drought on record, and protect Australia's agricultural and environmental resource base.

Treasury was involved in interdepartmental committees and provided advice on the Sugar Industry Reform Package, announced by the Minister for Agriculture, Fisheries and Forestry on 25 September 2002. The package improves the industry's long-term competitiveness and productivity.

Advice on environment policy

Treasury participates in the High Level Group advising the Sustainable Environment Committee of Cabinet. It also participates in a range of interdepartmental committees considering natural resource management policy issues. Treasury seeks to help ensure the development of policies promoting efficient and sustainable use of resources.

Treasury has briefed Cabinet and the Treasurer on natural resource management issues including protection of the Great Barrier Reef, integrated oceans management, salinity and land clearing. In particular, Treasury contributes to the ongoing development of a nationally consistent water-trading regime for the sustainable use of Australia's water supplies.

Treasury monitors implementation of the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust to advise on policy effectiveness.

Treasury participates in a number of policy processes developing a whole-of-government position on climate change including the Interdepartmental Greenhouse Projections Group, and interdepartmental committees for International Climate Change, Climate Change Forward Strategy, and the high level sub-group as well as a number of working groups, to develop a long-term policy framework for climate change. Treasury helps bring an economy-wide focus to climate change policy and greater understanding of the economic implications. Treasury also provides advice on greenhouse programs in the budget context.

Treasury was involved in ongoing work in relation to biofuels, alternative fuels and national fuel standards.

Treasury participated in interdepartmental committees and provided advice to the Treasurer that resulted in the development of the Australian Government's

response to the Johannesburg World Summit on Sustainable Development. Treasury coordinated briefings for Australia's delegate to the OECD Ad Hoc Group on Sustainable Development meeting and hosted the OECD mission aimed at integrating sustainable development into the Economic Development Review Committee review. This involved coordinating presentations by external agencies and coordinating responses to the questionnaire.

Advice on defence and national security policy

During 2002-03, Treasury provided advice and participated in a range of policy development processes on defence and other national security issues. In particular, Treasury participated in the Secretaries Committee on National Security to enhance the rigour of policy proposals to the National Security Committee of Cabinet. Treasury also provided advice to the Treasurer on major defence acquisition projects, deployments of Australian Defence Force personnel (including to Iraq and the Solomon Islands) and a range of defence operational and capability issues. In this regard, Treasury is a participant in the Government's Defence Capability Review, which is examining the balance, effectiveness and relevance of our present and planned defence capabilities.

Treasury also played a role in efforts to enhance the efficiency and transparency of Defence's financial management processes by seconding an officer to the Review of Defence Procurement. Treasury also participated in an interdepartmental committee overseeing Defence's management of its property estate and disposal program.

Treasury provided advice and participated in a range of policy development processes on domestic security, national law enforcement and other issues relating to the Attorney-General's portfolio. Since 11 September 2001 and the Bali terrorist attacks, the Government has implemented measures worth more than \$1.8 billion over six years to enhance Australia's security. Treasury participated in an interdepartmental committee that developed a package of domestic security measures which the Government considered in the 2003-04 Budget.

Advice on social policy

During 2002-03, Treasury increased the resources it devotes to social policy issues. Treasury is now more actively involved in interdepartmental committees and other working groups concerned with developing new policy and reviewing government programs in the portfolios of Family and Community Services, Attorney-General's, Veterans' Affairs, Immigration, Indigenous Affairs, Education, Science and Training.

Treasury participated in interdepartmental policy forums and provided advice to the Treasurer on the Government's \$1.5 billion Our Universities: Backing Australia's Future package, announced in the 2003-04 Budget.

Treasury provides advice on immigration issues ranging from settlement services, contract renegotiation and repatriation, and is chairing an interdepartmental committee on modelling the effects of immigration on the Budget.

Treasury also contributed to the OECD's understanding and analysis of the economic benefits of Australia's migration program. Australia was the first country to participate in the OECD's review program. Subsequent reviews of some other OECD countries' programs will help provide cross country comparisons so broader lessons can be learned.

Treasury contributed to policy formulation and provided advice on a range of social policy measures announced in the 2003-04 Budget. Details of these measures are provided in Budget Paper No. 2, *Budget Measures 2003-04*.

Treasury also actively participated in the interdepartmental Work and Family Taskforce which is reviewing policy and options to facilitate choice for families to help them balance their work and family responsibilities.

Advice on labour market participation policy

During 2002-03, Treasury participated in task forces and interdepartmental committees on a range of policy issues relating to labour force participation. In particular, Treasury led the Demographics Taskforce, which builds on the work of the Intergenerational Report. The Taskforce reports to the Treasurer and advises on policy options centred on an ageing society. This work includes developing policy proposals to address ageing of the population through increasing labour force participation, sustainability of retirement incomes, and managing expected increased government spending in areas affected by demographic change, particularly health and aged care. A discussion around some of these issues was included in the 2003-04 Budget, in Budget Paper No. 1, Statement 4.

Treasury is a member of the interdepartmental committee developing advice for the Government in its response to the Royal Commission into the Building and Construction Industry. The Government's initial response was announced in April 2003.

Treasury also assisted with the Government's submission and other related work associated with the Australian Council of Trade Unions' (ACTU) application

to the Australian Industrial Relations Commission to increase minimum award rates of pay.

During 2002-03, Treasury provided other labour market participation advice including on work incentives associated with welfare reform proposals and the Job Network.

Advice on health policy

Treasury participated in an interdepartmental committee and advised the Treasurer on the \$917 million *A Fairer Medicare* package that aims to make Medicare more accessible and affordable for all Australians.

Treasury participated in an interdepartmental committee that developed the new Australian Health Care Agreements with the States and Territories. These agreements will see the Government contributing up to \$42 billion between 2003-04 and 2007-08 for the operation of public hospitals. This package is designed to ensure Australians can continue to access free high quality hospital services.

Treasury also participated in interdepartmental committees examining private health insurance, the Pharmaceutical Benefits Scheme and population health. The private health insurance committee examined options to make the private health insurance system more efficient, competitive and sustainable. The Pharmaceutical Benefits Scheme interdepartmental committee examined the scheme's effectiveness and the population health committee evaluated the effectiveness of population health programs and established a mechanism to inform future decisions on population health funding.

Publications

Two articles, published in the Spring edition of Economic Roundup, contributed to the public debate on sustainable development and renewable energy.

Output 2.2.1

Taxation and income support policy advice

The transfer of the tax law design functions from the Australian Taxation Office to Treasury and the subsequent formation of Revenue Group has had a significant impact on the delivery of Output 2.2.1 in 2002-03. The transfer provided additional resources and skills that have allowed Revenue Group to consolidate and build its organisational capability to provide strategic advice to Government on taxation system and income support policies.

To leverage this capability the divisions that had previously handled tax and income support issues in Budget Group were restructured to allow integration of the available expertise in economic policy, tax policy and law design. This has resulted in effective multidisciplinary teams that are able to provide a more comprehensive approach to the design and development of tax policy and legislation. This includes better analysis of the economic impacts of different policy options and a more systematic approach to each stage of the policy development and law design cycle.

The benefits of the new arrangements have been demonstrated in the delivery of the Government's tax legislation program in 2002-03 and the increased investment in strategic projects, such as the community consultation processes and the good law project, that are fundamental to the delivery of the Government's tax reform agenda.

Seven divisions contribute to Output 2.2.1. The International Tax and Treaties Division, Individuals and Entities Tax Division, Business Income Division, Indirect Tax Division, and Superannuation, Retirement and Savings Division are responsible for the delivery of taxation and income support policy advice. The Tax Analysis Division contributes to this output through the preparation of costings and analysis of taxation policy proposals. Tax Design Division contributes to this output by providing key services to other Revenue Group divisions, the Treasury Executive and Ministers and developing the key strategic investment projects.

Revenue Group contributed to Outcome 2 by assessing and advising on the general design of the tax system and its components and retirement incomes policy in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility.

Revenue Group also provided the secretariat to assist the Board of Taxation.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to taxation and income support policy.

Effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

Legislation delivered according to government programs.

Analysis of performance

The New Business Tax System

Treasury provided policy advice on a range of business taxation issues including demergers of entities, the consolidation regime, reforms to the imputation system, taxation of financial arrangements, and tax exempt leasing.

Demergers

Treasury provided advice on the policy framework to provide taxation relief for demergers and helped develop the accompanying legislation. The provisions were included in the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002*, which received Royal Assent on 24 October 2002.

Consolidation

The new consolidation regime, which involves taxing wholly-owned corporate groups as a single entity, is one of the most significant and far-reaching changes to the taxation of corporate groups in decades. It will deliver improved commercial flexibility, reduce on-going compliance costs and address concerns about the integrity of the tax system.

Treasury finalised the main elements of legislation for the consolidation regime. The legislation consisted of *The New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* which received Royal Assent on 2 December 2002 and the *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2003* which received Royal Assent on 12 April 2003. Additional consolidation rules were contained in the *Taxation Laws Amendment Act (No. 6) 2003* which received Royal Assent on 30 June 2003 and in the *Taxation Laws Amendment Bill (No. 7) 2003* which was introduced into Parliament on 26 June 2003.

Given the importance of the consolidation legislation, the Government undertook unprecedented consultation with industry. The consultations have been open, given taxpayers a say in designing the new rules, and have resulted in legislation responsive to business needs.

Imputation system

The Government introduced the core provisions of the simplified imputation system in the *New Business Tax System (Imputation) Act 2002* (which received Royal Assent on 29 June 2002).

Treasury continued to develop remaining aspects of the simplified imputation system. Primary amongst these were the imputation rules for life insurance

companies which were contained in Taxation Laws Amendment Bill (No. 7) 2003 (introduced into Parliament on 26 June 2003). The rules significantly streamline the operation of the imputation rules applying to life insurance companies. Treasury conducted consultation with the life insurance industry in developing these rules.

Treasury also developed imputation rules to make it easier for cooperative companies to frank distributions to their shareholders. Measures contained in Taxation Laws Amendment Bill (No. 8) 2002 (introduced into Parliament on 5 December 2002) allow cooperative companies a choice between franking distributions they make to their shareholders or to receive a tax deduction for those distributions.

Taxing of financial arrangements

Following an exposure draft released in December 2002 and consultation, The New Business Tax System (Taxation of Financial Arrangements) Bill (No. 1) 2003 was introduced into Parliament in May 2003. The Bill contains measures to:

- reform the taxation of foreign currency gains and losses, including the introduction of functional currency and other rules to reduce compliance costs; and
- remove the taxing point at conversion or exchange of traditional securities issued after 7.30pm EST on 14 May 2002.

Treasury consulted with stakeholders, provided advice on the outcome of consultations, instructed the Office of Parliamentary Counsel on the drafting of the measures and prepared the explanatory material accompanying the Bill.

Treasury also provided advice on extending the exclusion of certain ‘at call’ loan arrangements from equity interest treatment (from 31 December 2001 to 1 July 2004), regulations concerning certain instruments for the purposes of classification under the debt/equity tax rules and treating the capital protection component of capital protected loan products as not ‘interest’ for income tax purposes.

Tax exempt leasing

The New Business Tax System (Tax Preferred Entities — Asset Financing) Bill 2003 was publicly released in June 2003 for technical comment. Before this, Treasury consulted with stakeholders, provided advice on the outcome of consultations, instructed the Office of Parliamentary Counsel on the drafting of the measures and prepared the explanatory material accompanying the Bill.

Other business tax policy advice

Timor Sea Treaty

Treasury continued its involvement in matters related to the Timor Sea Treaty. Advice was provided on gas pricing principles to be applied in the Greater Sunrise International Unitisation Agreement and the fiscal arrangements for the production sharing contract for the Bayu-Undan gas project in the Joint Petroleum Development Area of the Timor Sea.

Petroleum Resource Rent Tax (PRRT)

Treasury provided advice on proposed amendments to the *Petroleum Resource Rent Tax Act 1987* designed to provide a more equitable and uniform treatment of partial use arrangements and the appropriate determination of PRRT liability when a facility converts to an infrastructure licence. These changes ensure that the PRRT taxation regime does not hinder the economic use of petroleum facilities.

Review of international taxation arrangements

Treasury assisted in the Government's Review of International Tax Arrangements. The review focused on the dividend imputation system's treatment of foreign source income; the foreign source income rules; the overall treatment of conduit income and high level aspects of tax treaty policy. Treasury prepared a paper that addressed these issues. The paper was released by the Treasurer in August 2002.

This paper formed the basis of consultations by the Board of Taxation. The Board was assisted by Treasury with costings for the various options under consideration and with other advice. The Board reported to the Government in February 2003. Treasury provided policy advice to Government in its consideration of the Board's Report.

The Government announced wide-ranging changes to Australia's international taxation arrangements in the 2003-04 Budget.

Double tax agreements

Treasury progressed Australia's treaty program as follows:

- A tax treaty with Mexico was signed on 9 September 2002. Both countries have expressed a desire to have the treaty enter into force as soon as possible.
- The Canadian Protocol entered into force on 18 December 2002.
- The taxation code for the Timor Sea Treaty entered into force on 2 April 2003.

- Changes to tax sparing provisions under the Vietnamese agreement entered into force on 11 February 2003.
- The United States Protocol entered into force on 13 May 2003.
- Negotiations with the United Kingdom and Germany moved closer towards conclusion.
- Australian domestic requirements have been completed for the entry into force of the Malaysian and Russian treaties. These treaties are awaiting the completion of Malaysian and Russian domestic requirements.

Venture capital

Treasury provided advice to the Government and helped develop legislation and accompanying explanatory material to give effect to a measure to facilitate non-resident investment in the Australian venture capital industry. The *Taxation Laws Amendment (Venture Capital) Act 2002* extends the tax exemption provided to certain foreign pension funds to all tax-exempt residents and foreign funds from Canada, France, Germany, Japan, the United Kingdom or the United States of America and certain taxable foreign investors. This Act also provides Australian venture capital limited partnerships with flow through taxation treatment and taxes the carried interest of certain venture capital managers as a capital gain. The venture capital legislation received Royal Assent on 19 December 2002 and applies from 1 July 2002.

Farm Management Deposits

Treasury provided advice on amendments to the Farm Management Deposits (FMD) provisions of the *Income Tax Assessment Act 1936* that will allow primary producers in Exceptional Circumstances declared areas to maintain their FMD tax benefits where deposits are withdrawn within a 12 month period. Advice was also provided about an announced measure to protect primary producers who have made deposits with ineligible financial institutions provided they transfer those deposits within a specified period.

Excise administration

Following the Government's decision to transfer the excise administration function from the Australian Customs Service to the Australian Taxation Office, Treasury provided advice on the assignment of Ministerial responsibility for the *Petroleum Excise (Prices) Act 1987* from the Minister Industry, Tourism and Resources to the Treasurer. The transfer is designed to help streamline the administration of crude oil excise.

Triangular taxation

From 1 October 2003, Australian shareholders of New Zealand companies maintaining an Australian franking account can access franking benefits arising from the payment of Australian tax by these companies. Treasury assisted the Government in the policy and legislation advice and supported trans-Tasman negotiations in this issue

The reform of what was known as the ‘triangular taxation problem’ will improve the ease of trans-Tasman capital flows by reducing an additional layer of tax on those flows and further strengthening the existing economic integration between Australia and New Zealand.

Other measures

Treasury provided advice and helped develop legislation and accompanying explanatory material in relation to other important amendments to the tax law introduced in 2002-03 including:

- measures to implement the new general value shifting regime. Legislation was included in the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002*, which received Royal Assent on 24 October 2002;
- measures to amend the provisions of the uniform capital allowance system relating to mining capital and mining transport expenditures. These provisions were amended in *Taxation Laws Amendment Act (No. 4) 2003*, which received Royal Assent on 30 June 2003;
- measures to ensure that corporate tax entities are no longer required to use up (‘waste’) losses that could be deductible in a later year of income against franked dividend (effectively tax-free) income. Legislation was included in *Taxation Laws Amendment Bill (No. 5) 2003*, which was introduced into Parliament on 27 March 2003; and
- measures to allow a new capital gains tax roll-over to facilitate the transition by financial services providers and advisors to the new financial sector reform regime. Legislation was included in *Taxation Laws Amendment Bill (No. 7) 2003*, which was introduced into Parliament on 26 June 2003.

Treasury also provided policy advice to ministers on:

- the operation of tax expenditures, such as the research and development concession and concessions for film investment; and
- a number of other tax issues, such as issues surrounding the operation of the Uniform Capital Allowance system and capital gains tax.

Personal tax

Treasury provided advice to the Government on the design and implementation of a number of personal tax measures including:

Reductions in personal income tax

Reductions for all Australian taxpayers worth \$10.7 billion over the next four years were announced in the 2003-04 Budget and took effect on 1 July 2003.

The personal income tax thresholds were increased as follows: the 30 per cent threshold was increased from \$20,000 to \$21,600; the 42 per cent threshold was increased from \$50,000 to \$52,000; and the 47 per cent threshold was increased from \$60,000 to \$62,500.

The low income tax offset was increased from \$150 to \$235 per year. The income threshold from which the low income tax offset begins to phase out was also increased from \$20,700 to \$21,600.

The increase in the low income tax offset means that taxpayers who receive the Senior Australians Tax Offset (SATO) will be able to earn an additional \$500 annual income before they have a tax liability. Consequently, the Medicare levy threshold for single seniors was increased from \$20,000 to \$20,500 to ensure that they do not pay Medicare levy until they are liable for income tax.

These changes mean that Australian taxpayers can keep a higher proportion of the earnings they receive after tax, providing improved incentives to pursue work, advancement and higher skills.

Increase in Medicare levy thresholds

To ensure that low-income families and individuals are exempt from paying the Medicare levy, the low-income thresholds were increased to \$15,062 for individuals and \$25,417 for families, with effect from 1 July 2002. The additional threshold for each dependent child or student also increased to \$2,334. This change takes into account movements in the CPI.

To ensure that pensioners below age pension age do not pay the Medicare levy until they have an income tax liability, this threshold was increased to \$17,164.

Incentives to encourage conservation and philanthropy

A number of incentives to encourage conservation and philanthropy in Australia were implemented, including income tax deductions for landowners who enter into perpetual conservation covenants and an extension of the list of organisations to which donations may be tax deductible.

Employee share schemes (ESS)

To further encourage the growth of employee share ownership in Australia, from 1 July 2004, employees who have deferred their employee share scheme income tax liability will be able to roll-over their ESS income taxing point in the event of a corporate restructure such as a merger, demerger or takeover.

This measure was part of the Government's response to the report of the Inquiry into employee share ownership in Australia (the Nelson Report).

Medical expenses offset

Payments for the maintenance of properly trained dogs for guiding or assisting the hearing impaired or other disabled individuals will now be included as eligible medical expenses under the medical expenses tax offset, with effect from 1 July 2002.

Payments for maintaining properly trained guide dogs for the blind can currently be claimed under the offset. This measure ensures that similar treatment is available for expenses incurred in maintaining properly trained dogs for the guidance or assistance of the hearing impaired or other disabled individuals.

Tax exemption for Second World War compensation payments

Payments received from Second World War compensation funds will now be exempt from tax, with effect from 1 July 2001.

A number of specific Second World War funds were receiving income tax or capital gains tax exemptions. This measure ensures that all payments received by Australian residents from Second World War compensation funds are not subject to income tax or capital gains tax.

Tax exemption for structured orders

A tax exemption was introduced for certain annuities and deferred lump sums ordered by a court as compensation for catastrophic injuries, known as structured orders, with effect from 26 September 2001.

This measure extends the exemption provided to certain annuities or deferred lump sums as part of a settlement between the injured person and the defendant (structured settlements).

Fringe Benefits Tax exemption for employee entitlement funds

Certain payments to approved worker entitlement funds are exempt from fringe benefits tax (FBT) from 1 April 2003. This exemption ensures that payments

into such funds are not taxed twice — once as a fringe benefit when paid into the fund and once in the hands of the employee when paid out of the fund.

Charities

Following the Government's response to the Report of the Inquiry into the Definition of Charities and Related Organisations, Treasury developed exposure draft legislation which is intended to codify the definition of a charity. The Treasurer announced in his Press Release No. 49 of 2002 that the Board of Taxation would undertake consultations on the workability of the legislative definition.

Taxation of Trusts

In response to the Board of Taxation's report on the Taxation of Discretionary Trusts, the Treasurer announced in his press release of 12 December 2002 that the Government would improve the effectiveness and fairness of the deemed dividend rules contained in Division 7A of the *Income Tax Assessment Act 1936*. After developing options to give effect to the Treasurer's press release, Treasury consulted with industry and provided advice to the Government on the outcome of consultation.

Tax administration policy

Treasury provided advice on, and prepared legislation relating to systemic issues in the administration of the tax system. Matters addressed by tax administration policy include the tax assessment process, tax offences and penalties, tax collection and recovery systems, tax relief, tax identity, access, record keeping obligations, and tax agent matters. Tax administrative systems must contribute to the tax policy outcomes intended by Parliament, while avoiding the pitfalls of unnecessary risk, complexity, and high transaction costs.

Foreign resident withholding arrangements

The Government introduced this measure, which applies Pay As You Go withholding arrangements to certain payments to foreign residents, to improve the compliance of foreign residents with their Australian income tax obligations. The payments covered by this measure will be prescribed in regulations. Treasury assisted the Government in developing the legislative framework for the measure.

This measure was contained in *Taxation Laws Amendment Act (No. 4)*, which received Royal Assent on 30 June 2003. The framework legislation can apply to payments made on or after 1 July 2003, but so far no payments have been prescribed.

Treasury has held targeted confidential consultations to assist the Government to develop the proposed regulations.

Release from taxation liabilities in cases of serious hardship

A new, more efficient and accountable system for affording release from taxation liabilities in cases of serious hardship will commence from 1 September 2003. The system will be streamlined by transferring the existing authority to grant release from Tax Relief Boards to the Commissioner of Taxation. Consistent with contemporary review practices, the amendments will also introduce a new right to have tax relief decisions reviewed internally under the Australian Taxation Office objections process, and externally by the Administrative Appeals Tribunal sitting as the Small Taxation Claims Tribunal. Also, the scope of the release arrangements will be expanded to cover instalments of Pay As You Go and fringe benefit tax under *The New Tax System*. The measure received the Royal Assent on 30 June 2003, as part of *Taxation Laws Amendment Act (No. 6) 2003*.

A Better Superannuation System

Treasury advised and assisted the Government in further progressing its superannuation election commitments, announced in *A Better Superannuation System* in November 2001. In summary, Treasury assisted the Government in:

- establishing the regulations to complement legislation requiring employers to make quarterly Superannuation Guarantee contributions. From 1 July 2003, employers must make Superannuation Guarantee contributions on behalf of their eligible employees, at least quarterly rather than annually;
- refining the legislation to give employees a choice of superannuation fund and consulting with industry on enhancing the portability of existing benefits. Treasury has continued to advise the Government on the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002. The Bill would allow employees to choose the superannuation fund to which their employers' superannuation contributions are made. Following consultations on the Government's commitment to allow individuals to transfer existing benefits to their fund of choice, draft amendment regulations were circulated for public comment. The draft regulations have been referred to the Senate Select Committee on Superannuation;
- consulting on the splitting of superannuation contributions. Under the measure, members of accumulation funds will be allowed to split future personal and employer contributions with their spouse. Receiving spouses will have access to their own eligible termination payment tax-free threshold

and reasonable benefit limit. The Government is currently considering the responses received;

- progressing a reduction of the superannuation and termination payment surcharge rates from the current level of 15 per cent. Legislation to implement the measure was defeated in the Senate and the Government has announced an alternative proposal which would see the surcharge reduced by 1 per cent per year for 3 years as opposed to the original 1.5 per cent per year for 3 years;
- progressing an improvement in the retirement savings of low-income people. A more generous government co-contribution to match the personal undeducted contributions made by low-income earners will replace the existing rebate for personal undeducted superannuation contributions. Legislation to implement the measure has been introduced to Parliament, however, to increase the proportion of the benefit going to low-income earners from the combined measures of surcharge reduction and co-contribution, the Government has announced an increase in the upper threshold for people to receive co-contributions from \$32,500 per year to \$40,000;
- undertaking industry consultations in relation to the Government's commitment to examine whether to provide tax and social security benefits to a new class of market-linked 'complying' pension, often called a growth pension; and
- introducing legislation to reduce the tax rate on excessive eligible termination payments. The tax rate applying to eligible termination payments from a superannuation fund which are above the reasonable benefit limit will be reduced from 48.5 per cent to 39.5 per cent (including Medicare levy).

Treasury also assisted the Government in:

- reforming family law to help couples divide their superannuation assets in a marital breakdown. Superannuation regulations were amended to provide further options to facilitate the splitting of superannuation interests between a person who holds a superannuation interest and the spouse, if they separate;
- amending the tax law to ensure that roll-overs within the same superannuation fund are treated as eligible termination payments. This change allows internal roll-overs to be reported to the Australian Taxation Office for reasonable benefit limit purposes, thereby avoiding the potential

adverse tax consequences that arose under the previous treatment. Amendments will also be made to improve the integrity of the standards for the payment of income streams. Minimum amounts will be required to be paid as income when income streams are commuted and rules allowing the deferral of the first income payment from an allocated pension or annuity in the last quarter of a financial year will also be tightened;

- negotiating agreements to avoid double superannuation coverage for employees working temporarily overseas or in Australia. Agreements with the USA, Portugal and the Netherlands have commenced, agreements with Chile, Belgium and Croatia have been settled but are yet to commence and a number of others are being negotiated;
- its final response to the Productivity Commission's review of the *Superannuation Industry (Supervision) Act 1993* and other superannuation legislation;
- relation to the report by the Senate Select Committee on Superannuation and Financial Services on *Early Access to Superannuation Benefits*. The Government is considering the Committee's recommendations;
- relation to the report by the Senate Select Committee on Superannuation on *Taxation of Transfers from Overseas Superannuation Funds*. The Government is considering the Committee's recommendations; and
- responding to the High Court decision regarding superannuation surcharge and State judges and consulting with the States on a legislative solution.

Treasury also made submissions to:

- the Senate Select Committee on Superannuation inquiry into *Planning for Retirement*; and
- the Senate Select Committee inquiry into *Superannuation and Standards of Living in Retirement*.

GST and indirect taxation measures

Treasury provided ongoing policy advice on GST, excise and fuel grants issues, including: GST treatment of financial supplies, education and charities; excise collections and grants systems; and the wine equalisation tax.

As part of whole of government actions to address the priority areas announced by the Prime Minister in 2002, Treasury provided extensive advice about reform options for fuel excise to the Energy Task Force. The Government has since announced that all fuels used in internal combustion engines will be brought

into the excise net by 1 July 2008, with phased offsetting production grants to produce phased effective excise rates which will rise in equal steps to a final rate from 1 July 2012.

Treasury advised on the GST treatment of Compulsory Third Party insurance and compensation schemes including the development of accompanying legislation. The new provisions address many of the substantive issues identified by the Compulsory Third Party insurance industry, which were expected to arise when the special three-year transitional rule concluded on 30 June 2003.

Treasury also provided advice on extending the GST grouping rules for partnerships and trusts and helped develop the accompanying regulations. The extended regulations allow a broader range of business structures to access the benefits of forming a GST group.

Building on the 1999 *Measures for a Better Environment* commitments, Treasury also developed legislation to implement the Energy Grants (Credits) Scheme, which replaced the Diesel Fuel Rebate Scheme and the Diesel and Alternative Fuels Grants Scheme on 1 July 2003.

Together with Environment Australia, Treasury also provided policy analysis and advice to inform the announcement of measures to support clean fuels, including production grants, the introduction of the ultra low sulphur diesel excise differential and approval of LNG and biodiesel as alternative fuels for the Energy Grants (Credits) Scheme. These measures further deliver against the Government's *Measures for a Better Environment commitments*.

Inspector-General of Taxation

The Board of Taxation reported in July 2002 that there was strong community support for the establishment of an Inspector-General of Taxation. Legislation to establish an Inspector-General was subsequently developed by Revenue Group based on, inter alia, the recommendations made by the Board of Taxation. The Inspector-General of Taxation Bill 2002 was introduced into Parliament in October 2002 and the Senate Economics Legislation Committee undertook further community consultation in its inquiry on the Bill (see December 2002 Report). Treasury provided a submission to the Senate inquiry and participated in the public hearing conducted by the Senate Committee.

Following Government amendments, the Bill was passed by Parliament and received Royal Assent in April 2003.

The *Inspector-General of Taxation Act 2003* outlines the powers of the Inspector-General to review administration systems established both by the Australian Taxation Office and under tax legislation, and report on how the

system reviewed could be improved. Reports of the Inspector-General must be released to the public.

Revenue Group provided support to Ministers in establishing the office of Inspector-General of Taxation. The first Inspector-General of Taxation, Mr David Vos, was appointed in August 2003.

Community consultation

Work has continued on implementing the Government's reforms, announced on 2 May 2002, to community consultation processes on tax design. These changes were designed to enhance consultation on tax issues.

The Board of Taxation monitors the consultation process. Reports to the Board indicate that there has been consultation on nearly all announced measures since that time. Of those measures on which there was no consultation, all but one was of a minor or technical nature and the other was politically sensitive. In the main, feedback from those consulted has been positive.

Publications

Budget documents

Treasury contributed to the preparation of Budget documents on taxation measures, which are published on the budget website (www.budget.gov.au).

Informing the public on personal taxation and superannuation policies

An ongoing role is for Treasury to communicate Government superannuation policy to the superannuation industry, key stakeholders and the public. It undertook significant consultation in 2002-03 on implementing the Government's remaining 2001 superannuation election commitments and a number of other measures.

As part of its communication processes, Treasury also prepares and issues consultation papers for public comment. It provides these directly to key superannuation industry associations but they are available on Treasury's website for public comment. Treasury officials also present papers at relevant industry and academic conferences, respond to inquiries from the general public and inform the public on how to pursue any superannuation-related queries.

An officer attended a China-Australia symposium on pension reform in Shanghai, and a number of international visitors were received in Australia, to discuss Australia's retirement income system and to compare it with international experience.

Treasury prepared a booklet titled *A Brief Guide to Superannuation* that provides an overview of superannuation including recent developments in the area.

Inspector-General of Taxation

Treasury provided a submission to the Economics Legislation Committee's inquiry into the Inspector-General of Taxation Bill 2002. A copy of the Treasury Submission was made available on the Parliament of Australia website.

Outcome 3

Well-functioning markets

Treasury provides advice to the Government on forming and implementing policy in support of well-functioning markets. Treasury's advice and other outputs help maintain and improve markets so investors and consumers can have confidence and certainty in making decisions that are well informed and free of market distortions and impediments. Treasury also provides the Executive for the Takeovers Panel and assists the Royal Australian Mint, a semi-autonomous Treasury division, with responsibility for producing circulating and numismatic coin for Australia, through representation on its Advisory Board.

Markets Group is responsible for providing advice on policy processes and reforms that promote a secure financial system and sound corporate practices, removes impediments to competition in product and services markets, and safeguards the public interest in matters such as consumer protection and foreign investment.

On 1 July 2002, Treasury was restructured. As a result, the performance information for Outcome 3 has been updated to reflect this new structure and varies from the *2002-03 Portfolio Budget Statements*. The major changes are to include corporate governance policy advice, Takeover Panel and Axis under Output 3.1.2 and rename Output 3.1.3 to competition and consumer policy advice to more aptly reflect the nature of the policy and the synergies within the outcome of well-functioning markets.

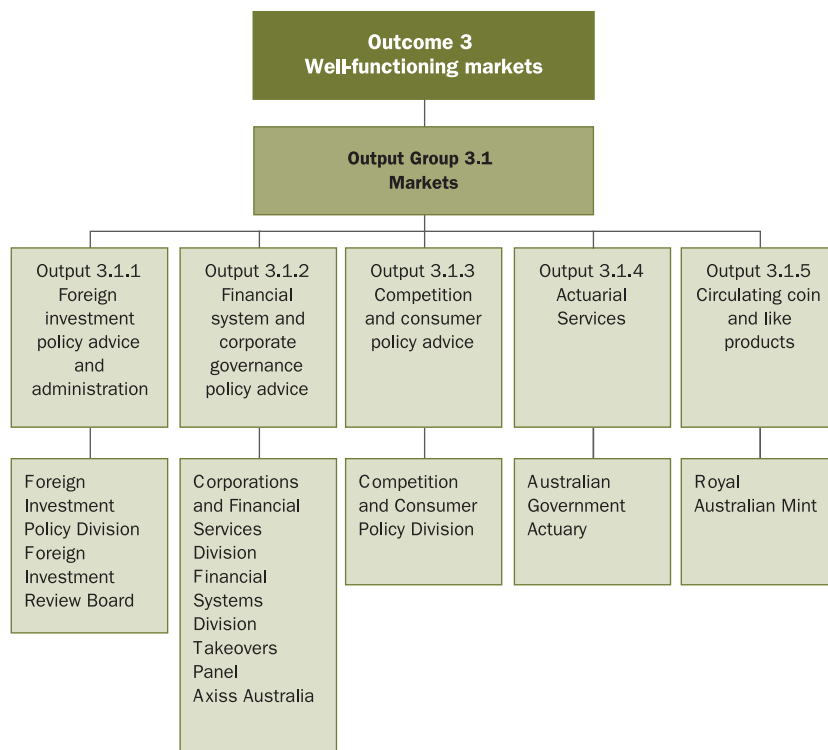
The performance information for the Royal Australian Mint, Output 3.1.5, has been reviewed since the release of the *2002-03 Portfolio Budget Statements* to ensure it comprehensively covers the Royal Australian Mint's business in a balanced way, including the core business of providing circulating coin as well as its community service obligations.

In 2002-03, Markets Group, under Outcome 3, contributed to Government decisions and objectives through:

- providing advice on a range of issues including:
 - prudential regulation of the financial sector;
 - market access and pricing for the financial sector;
 - structural reform matters, including those arising through the operation of the Government's competition policy;

- foreign investment policy including international investment matters and processing of foreign investment proposals;
- financial services and corporate regulation;
- consumer information and product safety issues to assist consumer participation in markets;
- professional actuarial services analysing and quantifying uncertain future financial flows for public sector clients;
- participating in international discussions strengthening international cooperation for the regulatory framework and promotion of Australia as a financial centre;
- consulting with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders on various issues including coinage.

Figure 7: Outputs contributing to Outcome 3



Key priorities in 2002-03

Treasury's 2002-03 Portfolio Budget Statements and internal planning processes identified the following key priorities for Outcome 3:

- progress prudential supervision of financial institutions, including considering policy issues arising out of the HIH Royal Commission and options to improve the safety of superannuation;
- coordinate the Government's response to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration;
- establish a scheme managed by a statutory authority, for temporary terrorism risk insurance cover until market coverage resumes;

- contribute to the World Trade Organisation and Free Trade Agreement negotiations with the United States;
- progress the Corporate Law Economic Reform Program through the review of audit regulation and corporate disclosure, taking into account developments overseas, and implementing resulting government decisions (CLERP 9) and reducing the paper compliance burden on Australian companies (CLERP 7);
- monitor the transition to the new system of financial services regulation, and consulting on and developing options for the compensation regime to support the new framework;
- consider market access and pricing issues, including a review of the cost and availability of public liability, medical indemnity and terrorism insurance;
- establish a Principles Based Review of the Law of Negligence; and
- provide policy advice to assist the Government on issues surrounding United Medical Protection and its wholly-owned subsidiary Australasian Medical Insurance Limited and provide a guarantee to the provisional liquidator for obligations for valid claims under current or past policies.

Key outcomes in 2002–03

- Treasury provided a submission to the HIH Royal Commission and provided advice to the Government on each of the Commissioner's 61 recommendations. Treasury implemented the major recommendations on the governance model for Australian Prudential Regulation Authority through the *Australian Prudential Regulation Authority Amendment Act 2003*, and provided for the transfer of custody of certain records of the HIH Royal Commission to Australian Securities and Investments Commission through the *HIH Royal Commission (Transfer of Records) Act 2003*.
- Treasury provided the secretariat to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration (Dawson Review). Treasury assisted in the development of the Government's response, and is currently working on its implementation, including through liaison with the States and Territories and Australian Competition and Consumer Commission.
- In response to the continued unavailability of terrorism risk cover for commercial property, Treasury developed the *Terrorism Insurance Act 2003*, which effectively deemed terrorism risk cover in certain insurance policies

from 1 July 2003, and facilitated the creation of the Australian Reinsurance Pool Corporation. The Corporation is a statutory body, located in Canberra, which has the responsibility for the overall management of the scheme.

- Australia concluded a Free Trade Agreement with Singapore in October 2002. Treasury is negotiating agreements with the United States and Thailand to further liberalise trade in services and investment.
- The Corporate Law Economic Reform Program (CLERP) reached some milestones during 2002–03. CLERP 7 legislation was introduced in December 2002 with effect from April 2003 to simplify document lodgement and compliance between Australian Securities and Investments Commission and its business clients. CLERP 8 (a model law on cross-border insolvency) and CLERP 9 (the effective regulatory and disclosure framework for corporations) discussion papers were released and consultations conducted.
- Treasury developed measures to facilitate transition to the new financial services regime to clarify the operation of the *Financial Services Reform Act 2001* and address practical issues for industry transition.
- Treasury developed the exposure draft of the Superannuation Safety Amendment Bill 2003, to improve the safety of superannuation.
- Treasury contributed to the Government's response to the increasing price and decreasing availability of public liability insurance. In line with the Government's response to the Review of the Law of Negligence, Treasury developed draft legislation to amend the *Trade Practices Act 1974*, which has been introduced into Parliament.
- Treasury, through the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*, developed a prudential and product regulation framework for medical indemnity insurance. On 1 November 2002, Treasury transferred formal and administrative responsibility for the Government's guarantee commitments to United Medical Protection and Australian Medical Indemnity Insurance Limited to the Department of Health and Ageing.
- In December 2002, the Heads of the Australian Government, the States and the Northern Territory signed a revised Corporations Agreement with new constitutional arrangements.
- Treasury provided advice on product safety standards and managed the Consumer Information Program.

Other key outcomes in 2002-03 were:

- the Australian Government Actuary contributed to policy development through the provision of specialist actuarial and related advice to the Government and its departments and agencies;
- the Takeovers Panel continued to provide the mechanism for resolving disputes and raising the standards of market behaviour in takeovers;
- Axis continued to promote Australia's attraction as a base from which to deliver financial services throughout the Asia-Pacific;
- the Royal Australian Mint continued to operate successfully in producing circulating and numismatic coins for Australia. Treasury undertook a review of the Mint's operating structures. Following on from the review, the Government provided funding through an appropriation to the Mint for the purchase of new capital equipment.

Table 4: Financial and staffing resources summary for Outcome 3

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	11,000	3,888	10,000
Appropriation Acts Nos. 2/4	153,084	151,755	157,519
Special appropriations	-	274,547	11,733
Other expenses	507,278	-	-
Total administered expenses	671,362	430,190	179,252
Revenue from Government			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,385	2,381	2,445
Output 3.1.2 - Financial system and markets policy advice	15,730	15,706	13,609
Output 3.1.3 - Competition and consumer policy advice	6,379	6,405	5,259
Output 3.1.4 - Actuarial services	-	-	-
Output 3.1.5 - Circulating coin and like products	-	-	-
Corporate costs	11,579	11,533	12,810
Total revenue from Government contributing to price of departmental outputs	36,073	36,025	34,123
Revenue from other sources			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1	9	-
Output 3.1.2 - Financial system and markets policy advice	1,717	1,757	48
Output 3.1.3 - Competition and consumer policy advice	2	6	-
Output 3.1.4 - Actuarial services	1,574	1,565	1,493
Output 3.1.5 - Circulating coin and like products	40,507	39,899	45,348
Corporate costs	1,514	448	44
Total revenue from other sources	45,315	43,684	46,933
Total revenue for departmental outputs (Total revenues from Government and other sources)	81,388	79,709	81,056
Price of departmental outputs			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,386	2,510	2,445
Output 3.1.2 - Financial system and markets policy advice	17,447	17,847	13,657
Output 3.1.3 - Competition and consumer policy advice	6,381	6,736	5,259
Output 3.1.4 - Actuarial services	1,574	2,009	1,493
Output 3.1.5 - Circulating coin and like products	40,507	38,199	45,348
Corporate costs	13,093	11,811	12,854
Total price of departmental outputs	81,388	79,112	81,056
Total estimated resourcing for outcome 3 (Total price of outputs and administered expenses)	752,750	509,302	260,308
Average staffing levels (number)	327	332	327

Note:

Budget 2002-2003: as per the 2002-03 Portfolio Additional Estimates Statements, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 Portfolio Budget Statements (unless otherwise stated).

Output 3.1.1

Foreign investment policy advice and administration

The Foreign Investment Policy Division in Markets Group is responsible for the delivery of Output 3.1.1, foreign investment policy advice and administration.

Markets Group advises on foreign investment proposals, services the Foreign Investment Review Board, and makes decisions under staff authorisations consistent with policy. It also advises the Government on foreign investment policy as it relates to Australia's participation in multilateral and bilateral agreements on investment.

Performance information

Advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities.

Proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents. Performance is currently regarded as satisfactory if:

- around 90 per cent of the roughly 5,000 proposals received each year are processed within 30 days of receipt of a completed application; and
- responses are provided, on average, within five days to around 40,000 general telephone and mail inquiries received each year.

Foreign investment policy is effectively disseminated and explained to achieve a high standard of applications and compliance with policy requirements, while minimising the proportion of foreign investment proposals requiring interim or final orders.

Implementation of an effective system of monitoring compliance with policy — possibly leading to prosecutions, but aimed at an overall reduction in non-compliance.

Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums.

The OECD Guidelines for Multinational Enterprises are effectively promoted, consistent with the responsibilities of the National Contact Point for the Guidelines.

Analysis of performance

Advice and input into policy processes

During 2002-03 Treasury and the Foreign Investment Review Board provided advice to portfolio ministers on larger, more important or sensitive foreign investment cases requiring ministerial decisions against associated legislation and policy. Significant cases such as Xstrata Plc's acquisition of MIM Holdings Limited, Burns, Philp & Company Limited's takeover of Goodman Fielder Limited and Constellation Brands Inc's purchase of BRL Hardy Limited were referred to the Treasurer, or a ministerial delegate for a decision. However, Treasury officers under delegation reviewed most cases, with senior management and the board overseeing those decisions on a weekly basis for consistency of process and policy.

Representation in international forums

Treasury provides policy input into international investment issues in multilateral forums, such as the World Trade Organization and OECD, in regional forums such as Asia-Pacific Economic Cooperation (APEC), and bilaterally through free trade agreements, investment protection and promotion agreements and other bilateral partnerships.

Free Trade Agreements/Closer Economic Cooperation

As noted in Output 1.1.2, Treasury is negotiating free trade agreements with the United States and Thailand to further liberalise trade in services and investment. Australia concluded a Free Trade Agreement with Singapore in October 2002. High-level consultations between Australia and Japan to explore options for deeper economic links have similar objectives. Treasury provides expert advice on the impact of, and implications for, Australia's foreign investment policy regime.

Organisation for Economic Co-operation and Development

Treasury promotes compliance with the OECD Guidelines for Multinational Enterprises. The guidelines recommend responsible business conduct by multinational enterprises operating in or from the 30 OECD member countries, and other adhering countries, in employment and industrial standards, disclosure, the environment and bribery. Compliance is voluntary.

Each adhering country has a national contact point to ensure effective implementation and promotion of the guidelines. The General Manager of the Foreign Investment Policy Division is the Australian national contact point. In 2002-03, the focus was on four main outcomes:

- finalising the national contact point's structure and refining procedures for handling specific instances of Australian adherence to the guidelines;
- continuing the constructive dialogue established with stakeholders and engaging interested parties on key issues arising from implementing the guidelines;
- initiating outreach to Australia's top 100 companies to promote the guidelines;
- enhancing promotional efforts through developing a new website www.ausncp.gov.au and increasing efforts to incorporate the guidelines into domestic corporate governance and social responsibility reporting frameworks.

At the annual meeting in June, the national contact point tabled a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year and attended an OECD Roundtable on the role of the guidelines in tackling corruption.

Asia-Pacific Economic Cooperation

During 2002–03, Treasury revised and updated the investment chapter of the annual APEC Individual Action Plan. Australia's plan was subject to peer review and received very positive feedback.

Liaison with Department of Foreign Affairs and Trade

Treasury provides expert advice to Foreign Affairs and Trade on Australia's involvement in the World Trade Organization Working Group on Trade and Investment. In 2002-03 the working group examined the nature, scope and operational characteristics of proposed multilateral rules on investment, including modalities for negotiation.

Treasury also provides expert advice to Foreign Affairs and Trade on Australia's negotiation of bilateral investment treaties. These Investment Protection and Promotion Agreements promote the international flow of capital for economic activity and development. A model Australian text provides the basis for negotiating these agreements. Australia is close to completing new investment treaties with Mexico and Turkey.

Processing of proposals

Treasury considered about 5,400 proposals in 2002-03, around 10 per cent more than in 2001-02. About 94 per cent of cases were decided within 30 days of receipt of sufficient information. Treasury also responded to thousands of

telephone inquiries and written and email inquiries, generally within five days. During the year, 153 final, interim or divestment orders were issued, mainly for real estate. While a similar number of orders were issued last year, this is a smaller proportion of the overall number of cases, an encouraging outcome in terms of continuing efforts to improve compliance.

Compliance standards

Treasury's efforts through 2002-03 to strengthen compliance focused on three broad elements:

- developing a new case management system and integrated online application facility to improve application accuracy and reduce processing times; and
- enhancing communication of the requirements of foreign investment policy to foreign investors and their agents, involving a continuing program of targeted public speeches, the redesign of the Foreign Investment website and the development of easy-to-follow written materials:
 - the Urban Land Policy was redrafted in 2002-03, with other policy statements due to be redrafted in 2003-04;
 - a review of the telephone answering system for handling inquiries was completed; and
 - a rolling program of monitoring compliance with foreign investment policy. Treasury examined around 1,500 decided proposals in 2002-03, particularly in the real estate sector, to ensure fulfillment of conditions. In some instances, this resulted in punitive action against foreign parties.

Output 3.1.2

Financial system and corporate governance policy advice

The Financial System Division and former Corporate Governance Division (now incorporated into the Corporations and Financial Services Division) in Markets Group, together with the Takeovers Panel and Axiss Australia, were responsible for the delivery of Output 3.1.2, financial system and corporate governance policy advice.

Markets Group contributes to Outcome 3, well-functioning markets, by providing advice to Treasury ministers on financial system and financial market operation, including market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting,

the responsible portfolio agencies and currency. Markets Group, through Axis Australia, implemented the program to develop Australia as a global financial centre.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues.

Effective presentation of relevant information to inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

Representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is assessed by participants as effective.

Implementation of Axis Australia program achieves intended results.

The Takeovers Panel achieves intended results.

Analysis of performance

Treasury provided advice and program support to Treasury portfolio ministers, and engaged with other agencies on issues relating to financial institutions and markets; development of Australia as a financial centre; and issues concerning corporate disclosure, governance and insolvency. Treasury also processed related ministerial correspondence, published relevant information and ensured other procedural requirements were met, provided effective support services to advisory bodies, liaised and consulted with stakeholders and represented the Australian Government at various meetings.

Financial system

Response to the collapse of the HIH Group

During 2002-03, Treasury provided policy advice to ministers and oversaw management agreements relating to the HIH Support Scheme.

In October 2002, Treasury provided a submission to the HIH Royal Commission. The Government tabled the report of the HIH Royal Commission on 16 April 2003. Treasury provided advice on each of 61 policy recommendations covering corporate governance and financial reporting,

governance arrangements and internal processes for the Australian Prudential Regulation Authority and the regulation of general insurance.

Treasury was instrumental in implementing the major recommendations on the governance model for the Australian Prudential Regulation Authority through the *Australian Prudential Regulation Authority Amendment Act 2003* (the APRA Amendment Act), which received Royal Assent on 19 June 2003. The APRA Amendment Act achieved a number of major objectives, including replacing the Australian Prudential Regulation Authority part-time board with a full-time executive group, clarifying its role within the financial system, enhancing its disclosure and conflict of interest framework, and clarifying its relationship with other agencies.

The commissioner identified 56 possible breaches of the *Corporations Act 2001 and the Crimes Act (NSW) 1900*. The Government has referred those matters to the Australian Securities and Investments Commission or, in a small number of cases, to the New South Wales Director of Public Prosecutions. To overcome potential procedural impediments, Treasury prepared the *HIH Royal Commission (Transfer of Records) Act 2003*, which provides for the transfer of custody of certain records of the HIH Royal Commission to the Australian Securities and Investments Commission.

Medical indemnity reform

Treasury continued to provide advice on developing and implementing the Government's package of medical indemnity reforms. Treasury was responsible for the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*, which established a prudential and product regulation framework for medical indemnity insurance. As with all package components, the Act was the subject of detailed consultations with medical indemnity providers and doctors' groups. Treasury also provided advice on doctors' personal exposure to liability payouts and provision of indemnity cover for retired medical practitioners.

On 1 November 2002, Treasury transferred responsibility for the Government's guarantee commitments to United Medical Protection and Australian Medical Indemnity Insurance Limited, to the Department of Health and Ageing.

Australian Reinsurance Pool Corporation

Following continued unavailability of insurance risk cover for commercial property in relation to acts of terrorism, Treasury provided advice to ministers on a reinsurance scheme after consulting with stakeholders, including banking, property and insurance industry representatives. The resultant *Terrorism Insurance Act 2003* effectively deems terrorism risk cover into certain insurance contracts from 1 July 2003. Treasury presented a speech on terrorism insurance

to the Insurance Council of New South Wales Conference and to the third International Conference for Emerging Insurance Markets, in Delhi.

Public liability and professional indemnity insurance

On public liability and professional indemnity insurance, Treasury provided policy advice and support for three ministerial meetings, provided policy advice on action to take in response to premium increases, and worked with the States and Territories through the Insurance Issues Working Group.

Treasury also provided effective secretariat services to the Principles Based Review of the Law of Negligence, chaired by Justice David Ipp.

Financial services reform

Treasury has responded to issues arising out of the implementation of the *Financial Services Reform Act 2001* (FSR Act). The FSR Act is a harmonised licensing, conduct and disclosure regime for financial products, markets and service providers. In cooperation with the Australian Securities and Investments Commission, industry and consumer stakeholders, Treasury is working to ensure that transition to the new regime by 11 March 2004 is as smooth as possible. Treasury developed the Financial Services Reform Amendment Bill 2003, introduced to Parliament on 26 June, to clarify the operation of the FSR Act and remove practical difficulties encountered during transition. In addition, Treasury has instructed on the development of several sets of corporations regulations. In keeping with the Government's Corporate Law Economic Reform Program processes, consultation on proposals for legislative and regulatory changes has been extensive.

Payments system reform

Treasury assisted the Reserve Bank of Australia in implementing reforms to the Australian Payments System regarding credit cards. Treasury consulted with industry stakeholders on drafting regulations and provided advice to portfolio ministers on the progress of the reforms, and on responses to public concerns. Treasury provided documents, under the *Freedom of Information Act 1982*, in response to a request from MasterCard Australia.

Superannuation

Subsequent to the response to the Superannuation Working Group's final report into options to improve the safety of superannuation, Treasury provided advice on developing the exposure draft of the Superannuation Safety Amendment Bill 2003. The Bill amends the *Superannuation Industry (Supervision) Act 1993* (SIS Act) in line with the recommended reforms.

In response to the Superannuation Working Group's recommendations, the Government announced that Treasury would review the compensation arrangements under Part 23 of the SIS Act to grant financial assistance to Australian Prudential Regulation Authority regulated superannuation funds that suffer losses as a result of fraudulent conduct or theft. These grants are conditional, including the loss must have led to a substantial diminution in the fund leading to difficulty in paying benefits. Grants to superannuation funds that suffered loss through fraudulent conduct or theft totalled \$27 million during 2002-03.

Financial Sector Levies review

Treasury chaired a review of financial sector levies to evaluate arrangements to determine levies imposed on the financial services sector to support the Australian Prudential Regulation Authority's operations, and certain operations of the Australian Securities and Investment Corporation and the Australian Taxation Office.

International liaison

Treasury continued work with other portfolio agencies and key stakeholders to expand Australia's links to regional and global financial markets. Treasury officers liaised with their New Zealand and Singaporean counterparts on mutual recognition of cross-border offerings of securities.

Treasury participated in the Financial Action Task Force workshop meetings on money laundering and consulted extensively with the Australian financial sector. Treasury was represented at OECD Insurance Committee meetings and provided advice to the OECD on flood mitigation, claims management, corporate governance for insurers and terrorism cover.

Trade in financial services

Treasury provided support for negotiations on financial services for the free trade agreements with Singapore and the United States, and the Doha Round of the World Trade Organization.

Takeovers Panel

The Takeovers Panel is the primary forum for resolving disputes that arise during a takeover. Treasury advises portfolio ministers on panel operations and appointments. During 2002-03, the panel dealt with 40 applications under Part 6.10 of the Corporations Act including five internal reviews and three reviews of decisions by the Australian Securities and Investments Commission. No panel decision was subject to external review.

Currency

Treasury chaired and served on the Royal Australian Mint Advisory Board during the year. In 2002, Treasury reviewed the Mint's operations. As a result of the review, the Government has approved the funding to enable the Mint to purchase new capital equipment.

Treasury also prepared currency determinations for the Perth Mint's numismatic coin programs.

Company law and corporate governance

Corporate Law Economic Reform Program 9

This project seeks to ensure Australia has an effective regulatory and disclosure framework for corporations, improving the structures and incentives for a fully informed market. In September 2002, Treasury ministers released a discussion paper canvassing options to improve audit and corporate disclosure practices in Australia, as well as analyst independence and shareholder participation. It attracted over 60 submissions. Treasury consulted the Business Regulation Advisory Group on the proposals and is expected to release draft legislation in late 2003 for consultation.

International corporate governance

Treasury led the establishment of the APEC Pathfinder Initiative on corporate governance and disclosure regimes. The initiative is designed to raise awareness of and promote improvements in corporate governance frameworks in the region, and is expected to report in 2004. Treasury also led a review of the OECD Principles of Corporate Governance by the OECD Steering Committee on Corporate Governance.

Corporate Law Economic Reform Program 7

Treasury assisted the Government to introduce and pass legislation to streamline the relationship between the Australian Securities and Investments Commission and its business clients by simplifying document lodgment and compliance. The *Corporations Legislation Amendment Act 2003*, the *Corporations (Fees) Amendment Act 2003* and the *Corporations (Review Fees) Act 2003* were passed on 27 March 2003 and generally took effect from 1 July 2003.

Corporate Law Economic Reform Program 8

Treasury published the proposals on adopting the United Nations Commission on International Trade Law (UNCITRAL) Model Law on cross-border insolvency for public comment in September 2002. Most submissions favoured

adopting the model law, which is likely to be enacted in a Bill to be introduced in 2004.

Through contributing to the working group on insolvency law of the United Nations Commission on International Trade Law, Treasury provided input on developing a set of legislative guidelines for domestic insolvency frameworks. This work is expected to be completed in 2004.

Directors' bonuses

Treasury advised on the development of the *Corporations Amendment (Repayment of Directors' Bonuses) Act 2003*, which took effect from April 2003 and permits liquidators to reclaim unreasonable payments by a company to directors in the lead-up to insolvency.

Statutory and other procedural requirements

Ministerial decisions under statutes

Under the *Corporations Act 2001*, portfolio ministers have a significant role in ensuring market integrity. Treasury provided ongoing policy advice in relation to ministerial powers to disallow the operating rules of markets and clearing and settlement facilities and approve new market applications.

Treasury provided ministers with advice and Treasury officers prepared instruments to authorise individual financial institutions under the *Financial Sector (Shareholdings) Act 1998* and the *Banking Act 1959*.

Appointments

Treasury processed appointments to the Financial Reporting Council, Australian Prudential Regulation Authority, the Payments System Board, the Superannuation Complaints Tribunal, the Australian Accounting Standards Board, the Australian Securities and Investments Commission, the Companies Auditors and Liquidators Disciplinary Board, the Takeovers Panel, the Financial Sector Advisory Council, the Australian Reinsurance Pool Corporation Board, the Corporations and Markets Advisory Committee and its legal subcommittee.

Secretariat services

Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2002-03. In December 2002, the Heads of the Australian Government, the States and Northern Territory signed a revised Corporations Agreement, which supports the Ministerial Council and provides the political underpinning for the new constitutional arrangements supporting the *Corporations Act 2001*.

Treasury provided secretariat support for the Financial Reporting Council, a stakeholder body that provides broad oversight of the accounting standard setting process, including the Australian Accounting Standards Board.

Treasury provided secretariat services to the HIIH Assistance Review Panel and the Financial Sector Advisory Council.

Axis Australia

Throughout 2002-03, Axis focused strongly on the promotion and development of Australia's funds management sector. The size of the pool of funds (currently in excess of \$600 billion and the fifth largest in the world) and projections for growth make it especially attractive to global firms.

Among the firms that Axis assisted was Mellon Financial Corporation, one of the world's largest asset managers. Assistance included building a business case to support the firm's establishment in Australia and addressing queries regarding the structure of the local investment industry. Axis undertook a marketing mission to New York and Washington DC in February and held bilateral meetings with senior representatives of global investment banking and asset management firms, including Citigroup, Lehman Brothers and Goldman Sachs.

Axis met with key executives from leading private equity and hedge fund firms such as Bear Stearns, Credit Suisse Asset Management and Tremont Advisors and international delegates from the World Council of Credit Unions.

Axis submitted to the Board of Taxation's review of Australia's international taxation arrangements that aspects of the foreign investment funds and capital gains tax regimes impede the expansion of domestic operations and regional businesses from Australia.

Axis launched finance@work in May 2003 so Year 11-12 students can spend a minimum of one week in a financial services organisation, undertaking structured tasks focused on work skills, money management and career planning. In November 2002, Axis led a mission to China to showcase Australia's excellence in finance education and training. The mission visited Beijing, Shanghai and Shenzhen, and gave presentations to more than 200 representatives from government, regulators and finance industry participants.

Another of its education initiatives, the Axis Scholar Program, has provided work experience for 55 tertiary-level students and generated over \$560,000 in scholarship funds.

In June 2003, Axiss hosted the third APEC Future Economic Leaders Think-Tank in Sydney to encourage cooperative approaches to financial issues in the APEC region. The four-day event gathered together future ‘influencers’ of economic policy.

In June 2003, the Government announced that, from 1 July, Axiss would operate as a division of Invest Australia, the national inward investment agency. As a result, Axiss has transferred from Treasury to the Department of Industry, Tourism and Resources. It will retain its brand name and continue to provide the Treasurer with six-monthly reports on its activities.

Output 3.1.3

Competition and consumer policy advice

Competition and Consumer Policy Division was responsible for the delivery of Output 3.1.3, competition and consumer policy advice.

Markets Group contributed to Outcome 3 by providing advice on policy issues and the legislative framework for the development and operation of competition and consumer policy, and markets more broadly. This advice included the areas of the competition and consumer provisions of the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983* and structural reform of key sectors of the economy, including those providing essential infrastructure.

Performance information

Advice meets Treasury portfolio Ministers’ needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy.

Statutory and other procedural, administrative and reporting requirements are met.

Effective representation and/or liaison with other agencies, private sector organisations and international bodies to promote competitive, efficient and well-informed markets.

Effective presentation of relevant information to inform consumers and businesses.

Secretariat services provided to advisory bodies are effective.

Progress in providing effective and relevant consumer information and mechanisms to promote consumers protection in areas of product safety and support effective self-regulation in the marketplace.

Analysis of performance

Competition policy

During 2002-03, Treasury provided advice to Ministers on reviews that recommended amendments to Australia's competition framework and progressed their implementation.

An independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration (Dawson Review) was undertaken in 2002-03, supported by a secretariat located in Treasury. On 16 April 2003, the Treasurer released the Dawson Review and the Government's response. The response endorsed the Review, and accepted recommendations aimed at improving the competition and authorisation provisions, and administration of the Trade Practices Act. Treasury assisted with the Government's response, and is developing its implementation, in consultation with the States and Territories and Australian Competition and Consumer Commission.

Treasury also finalised or progressed Government responses to the Productivity Commission's reviews into the *Prices Surveillance Act 1983* (including repeal and amendment of legislation); and section 2D (local government exemptions) and Part IIIA (National Access Regime) of the *Trade Practices Act 1974*.

Treasury has an advisory, reporting and coordination role in the Australian Government's implementation of the national competition policy. Treasury provided advice to ministers on NCP payments to the States and Territories, sector specific reforms and inter-jurisdictional issues during 2002-03. Treasury also oversees the preparation and publication of the Australian Government's NCP annual report, which details the Government's performance and operation in relation to its national competition policy obligations.

Treasury provided guidance on competition review and reform issues to other departments and agencies, in conjunction with the Office of Regulation Review of the Productivity Commission. The Commonwealth Legislation Review Schedule outlines the reviews of existing Australian Government legislation that restricts competition or imposes costs or confers benefits on business. In 2002-03, six legislation reviews listed were finalised, some in conjunction with other portfolios, and one review commenced.

Treasury worked closely with the Department of Finance and Administration to update the *Commonwealth Competitive Neutrality: Guidelines for Managers*. The revised guidelines will be published in 2003-04.

Treasury advice on structural policy covered a wide range of issues. Treasury prepared policy advice on issues affecting the electricity and natural gas markets, including proposed changes to the structure and operation of Australia's national energy market following the release of the Council of Commonwealth Independent Review of Energy Market Directions Report in December 2002.

Treasury's policy advice on transport markets focused on land transport including the Government's *AusLink* proposals and arrangements for interstate rail transport. Treasury also advised on developments in the aviation sector, in particular, on evolving competitive pressures, and on the airports economic regulatory regime in the context of the international downturn in aviation.

Treasury coordinates and advises on the preparation of terms of reference for research and inquiries by the Productivity Commission. In 2002-03, the Government provided five public inquiries and five commissioned research references to the Productivity Commission.

Treasury had extensive dealings with other agencies, private sector organisations and international bodies to promote competitive, efficient and well-informed markets. In 2002-03, Treasury also dealt with a large volume of correspondence relating to competition and consumer policy.

Treasury contributed to the development of competition and regulatory frameworks in OECD member and non-member countries, through involvement in the OECD's competition committees. Treasury made contributions in the areas of competitive neutrality and regulatory policy.

Treasury has contributed actively to Australia's participation with the work of the World Trade Organization to realise a multilateral competition framework agreement as part of the Doha Round, participating in discussions and informing World Trade Organisation members of Australia's experiences in the development of competition law and policy.

Treasury has also been involved in negotiating competition chapters in free trade agreements with Thailand, Singapore and the United States of America, and in supporting the Australia-Japan trade and economic consultations.

Consumer policy

Treasury provided advice to the Government on regulatory frameworks that support consumer confidence and help consumers actively participate in the market.

In December 2002, the *Trade Practices Amendment Act (No 1) 2002* received Royal Assent. This redrafted the sections on the prohibition of pyramid selling in plain English.

The *Trade Practices Amendment (Liability for Recreational Services) Act 2002* was also passed by Parliament in December 2002, to permit participants in inherently risky activity to waive their rights to sue for breach of the contractual condition implied by section 74 of the *Trade Practices Act 1974*. Without this amendment, the public liability insurance crisis could have caused many recreational service suppliers to cease providing services.

Treasury also continued to participate in international consumer policy meetings. In particular, Treasury hosted the 65th session of the OECD Committee on Consumer Policy, which finalised the OECD *Guidelines for Protecting Consumers across Borders from Fraudulent and Deceptive Commercial Practices*. These guidelines, launched in June 2003, outline a framework for cooperation between enforcement agencies to protect consumers against the growing problem of cross-border fraud and deceptive practices.

In December 2002, the Parliamentary Secretary to the Treasurer re-appointed an Expert Group of leading industry and consumer professionals to advise him on consumer policy in e-commerce. Treasury continued to provide secretariat support to the Expert Group.

Treasury provided secretariat support to the Ministerial Council on Consumer Affairs and government consumer advisory bodies. The Council comprises Australian Government, State, Territory and New Zealand Ministers responsible for consumer policy and legislation.

Treasury also provided the secretariat for the Commonwealth Consumer Affairs Advisory Council. This Council advises the Parliamentary Secretary to the Treasurer on current and emerging consumer policy issues, and in 2002-03 released *Consumer Issues and Youth*, a research report examining consumer issues affecting young Australians.

Consumer safety

Treasury provided advice on product safety standards including bunk beds, on product bans including children's dart gun sets, and possible hazards with the use of liquid filled yo-yo balls.

Treasury oversight, monitored and assessed the effectiveness of over 800 safety-related voluntary product recalls, in conjunction with other Australian Government and State authorities.

Treasury also participated in the work of the Standards Australia Technical Committees developing and updating standards as well as developing a national coronial database.

Treasury continued to work closely with Standards Australia, industry organisations and State and Territory Governments to promote safer markets and worked closely with New Zealand and the States and Territories to harmonise consumer safety regulation under the Trans-Tasman Mutual Recognition Arrangement.

Consumer information

Treasury manages the Consumer Information Program to promote greater national consistency in providing information to consumers and addressing areas of identified consumer need. Key elements include:

- offline centralised referral through *The Australian Consumer Handbook*;
- online centralised referral through www.consumersonline.gov.au;
- information targeting consumer scams through *The Little Black Book of Scams* and www.scamwatch.gov.au;
- product safety information initiatives; and
- resources to assist consumers shopping online, for example the release of free consumer software to help those shopping on the internet www.consumerping.gov.au.

Output 3.1.4 Actuarial services

The Australian Government Actuary is responsible for the delivery of Output 3.1.4, actuarial services.

The Australian Government Actuary provides, on a fee-for-service basis, accurate and timely actuarial and related advice to the Government and its departments and agencies.

The office also has an ongoing support role in Treasury policy issues with an actuarial component.

Performance information

Efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

Analysis of performance

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 2003 the account was in a sound financial position.

Actuarial advice should be of the highest quality. The absence of any complaints about the quality of professional services indicates strong performance.

Consultancy services

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

Departments which sought advice included Defence; Attorney-General's; Education, Science and Training; Family and Community Services; Health and Ageing; and Veterans' Affairs. Centrelink and the Australian Prudential Regulation Authority also sought advice.

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

A structural increase in Centrelink case workload over the course of the year put pressure on turnaround times. This was addressed and largely resolved by the end of the year.

Services to Treasury

The Australian Government Actuary contributed its technical expertise on a range of policy issues, including medical indemnity arrangements, the superannuation system and insurance matters.

Treasury provided funding for 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 management board comprising three senior Treasury officers, including the Australian Government Actuary. This board reviews financial performance and oversees the strategic direction of the office.

Output 3.1.5 Circulating coin and like products

The Royal Australian Mint is a semi-autonomous operating division of the Treasury, responsible for producing circulating and numismatic coin for Australia. The Mint also produces a range of high quality collector coins together with minted non-coin products including medallions. The Mint's collector coin and minted non-coin business is commercial, within government-set parameters. In 2002-03 the Mint received no direct budget funding.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to coinage and Royal Australian Mint operations.

Produce circulating coin to Reserve Bank of Australia forecasts.

Meets financial performance targets.

Maintain the National Coin Collection and the Royal Australia Mint's visitors gallery, and promote public understanding about the cultural and historical significance of coins.

Analysis of performance

Treasury and the Royal Australian Mint provided advice on a range of currency related matters including coin designs.

2002-03 was another challenging year for the Mint in managing the business in uncertain times. Despite exchange rate swings and cautious customer spending, the Mint operated with a sound profit.

The Mint's operating profit before company tax and net of seigniorage was \$1.893 million. The profit before tax represents a return on gross assets, excluding the Coin Museum and approved excess circulating coining inventory of 11.02 per cent.

The Mint returned \$80.242 million to consolidated revenue in seigniorage, royalties and other payments.

Inventory holdings decreased from \$17.22 million in 2001-02 to \$15.42 million in 2002-03 due to decreased holdings of finished circulating coin and raw material blanks.

The Mint made a concerted effort to control discretionary expenditure, reducing it to \$12.98 million from \$13.8 million in 2001-02. Expenditure is 32.7 per cent of revenue.

Sales of corporate and other product was \$2.1 million for the year. This includes the sales of foreign coin production orders of \$0.608 million for New Zealand, Fiji and the Cook Islands. Sales of medals, medallions and tokens to government and the corporate sector remains a highly competitive market.

Demand for circulating coin was lower than previous years (Tables 5 and 6). The Reserve Bank of Australia purchased 238 million coins in 2002-03, compared to 544 million coins the previous year. This should allow the banking system to absorb surplus coins that have accumulated. These surpluses arose from prudent purchases to mitigate the risk of uncertainty during the Y2K calendar transition, and ownership transfer of coin pools to commercial banks.

The drop in demand for all denominations of circulating coin reduced seigniorage earnings from \$129.538 million last year to \$79.656 million this year.

The Mint's numismatic program yielded \$17.961 million. The Mint has divided collector coin issues into two broad categories. Products such as the year sets, baby sets and wedding sets are purchased both by serious and occasional coin collectors and are produced in unlimited or very large numbers. More numismatic products have limited mintages and the coins generally are available only from the Mint and coin dealers (with numismatic knowledge and who sell and buy back coins).

This results in many numismatic coin issues selling out, some in near-record times. In 2002-03 the following issues sold out: the \$1 silver proof coin commemorating the end of the Korean War, the fine proof silver 2003 year set, the proof Rugby World Cup coin, the selectively gold plated silver kangaroo, the hologram coin, and the \$10 proof commemorative 'Adelaide Pound' coin. As a result, many coins and coin sets issued over the past few years are in considerable demand, reinforcing the interest in current new issues of both the numismatic and generally available coins.

Sales to overseas dealers reached a very high level with coins having an overseas interest with Australian themes. These included the Battle of Sunda Strait, Masterpieces in Silver and Accession coins.

For the second year in a row, the Mint has won a prestigious international 'Coin of the Year' award by United States based Krause Publications. The design, an Aboriginal interpretation of the kangaroo, was commissioned from the Aboriginal artist Jeanette Timbery.

The Mint also uses collector coin issues to highlight Australia's numismatic and general history. Modern day issues featuring historic 'icon' coins can re-ignite interest in the older coin issues. Two modern issue coins featuring historic Australian coins were the \$10 Commemorative Numismatic of the Adelaide Pound and the Subscription Coin of the Holey dollar and dump.

Other coins issued this year commemorating Australian culture and history were the \$1 proof silver kangaroo coin with the kangaroo designed by Aboriginal artist Ray Thomas; the \$1 aluminium bronze paying tribute to Australia's Vietnam veterans and \$1 proof silver coin commemorating the fiftieth anniversary of the end of the Korean War. The Masterpieces in Silver set highlighted Australia's nautical history with the depiction of four historic sailing vessels. The Golden Jubilee of the Coronation of Queen Elizabeth II was commemorated on two precious metal collector coins. Possibly the most topical highlight was the theme of the 2003 proof and uncirculated year sets saluting Australia's volunteers.

The Mint also launched a design competition for primary school pupils to produce a design for a 50c coin. The winning designer will win \$10,000 for their school.

After strong support during the Olympic and Centenary of Federation years, visits to the Mint's visitors gallery weakened, reflecting a general decline in tourist activity throughout the region (Table 7).

Large numbers of school children visit the Mint so the cafeteria has been converted into an additional viewing room for the Mint video. This should greatly relieve congestion. At the Mint's first Open Day on Saturday 29 March 2003, visitors were escorted through the factory area and allowed close to the operating circulating coin presses. Mint staff acted as guides and a collection supported the Canberra Bushfire Relief Fund.

As part of the Coin Disposals and Acquisition Program, a set of 1916 proof coins was sold at public auction. Proceeds will be used to make strategic purchases of coins for the National Coin Collection.

Table 5: Australian decimal coin issued by Treasury

Year	\$2 \$'000	\$1 \$'000	50c \$'000	20c \$'000	10c \$'000	5c \$'000	2c \$'000	1c \$'000	Total \$'000
1965-92	395,960	319,780	217,625	161,303	93,532	84,652	48,793	31,162	1,352,807
1992-93	16,460	7,150	50	56	4,000	3,874	—	—	31,590
1993-94	26,100	24,075	2,349	280	2,440	5,716	—	—	60,960
1994-95	39,000	37,600	9,920	3,080	3,240	5,540	—	—	98,380
1995-96	27,000	32,200	8,000	1,040	—	4,140	—	—	72,380
1996-97	26,800	24,300	6,960	3,160	—	4,360	—	—	65,580
1997-98	22,200	20,500	4,320	4,340	820	4,660	—	—	56,840
1998-99	32,400	18,900	7,480	7,180	5,740	5,920	—	—	77,620
1999-00	64,000	23,200	15,930	10,700	7,080	6,210	—	—	127,120
2000-01	31,600	16,000	8,760	9,660	7,320	7,300	—	—	80,640
2001-02	67,200	37,400	27,080	18,020	11,520	10,680	—	—	171,900
2002-03	48,000	23,300	9,640	4,780	4,680	5,020	—	—	95,420
Total	796,720	584,405	318,114	223,599	140,372	148,072	48,793	31,162	2,291,237

Table 6: Circulating coin production 2002-03

Denomination	Design	Date of Coin	Alloy	Pieces (millions)
5 cents	Standard	2002	Cupro-Nickel	80.252
5 cents	Standard	2003	Cupro-Nickel	52.178
10 cents	Standard	2002	Cupro-Nickel	44.089
10 cents	Standard	2003	Cupro-Nickel	9.137
20 cents	Standard	2002	Cupro-Nickel	21.523
50 cents	CoF ¹	2001	Cupro-Nickel	0.080
50 cents	Outback	2002	Cupro-Nickel	11.507
50 cents	Volunteers	2003	Cupro-Nickel	5.725
1 Dollar	Outback	2002	Aluminium Bronze	16.025
2 Dollars	Standard	2002	Aluminium Bronze	14.099
Total				254.615

(1) Centenary of Federation



Table 7: Visitor numbers

	1998-99	1999-00	2000-01	2001-02	2002-03
Total visitor numbers	146,101	173,198	186,597	208,429	182,104

Production figures for proof and special coins, medal, medallions and circulating coin for other countries are available on the Mint website at www.ramint.gov.au

Customer service charter

The Mint's customer service charter is available in hard copy and on its website. The Customer service charter is due to be reviewed in December 2003.

Customer complaints are managed within the context of the Mint's overall Quality Management System that meets with the ISO9001-2000 Quality System certification. The complaints are dealt with according to the Australian Standard AS 4269-19951 Complaints Handling. Relevant staff are trained in all aspects of customer service.

The Mint carries out market research to establish customer satisfaction levels as well as views about the coins it is planning to issue, either through surveys or focus groups. Mint staff also regularly meet collectors. The Mint website hosts a forum for the public to comment on or discuss numismatic matters and it provides the Mint with direct feedback on many matters. In addition the public can raise matters directly with the Mint through letters, phone calls, emails and two dedicated email response addresses on the Mint's website.

Corporate services

Corporate Services Division assists in the achievement of Treasury's outcomes through the provision of accurate, cost effective and timely management of information, corporate services, and advice to the department and Treasury ministers. The division also seeks to provide a quality-working environment for Treasury staff.

Services provided by Corporate Services Division include information technology, information and records management, information technology training, publishing, web page and other communications support, ministerial liaison, human resource management, financial and accounting services, and contracting and facilities management.

Key priorities in 2002-03

The priorities identified for Corporate Services Division in the 2002-03 Corporate Plan were to:

- finalise the review of the Chief Executive's Instructions;
- continue developing human resource information and management systems;
- continue improving budgeting and financial management, including upgrading Treasury's Financial Management Information System (FMIS);
- progress the implementation of the Knowledge and Information Management Framework:
 - commence phased implementation of electronic records management;
 - upgrade IT operating systems to Windows 2000 and Microsoft Office XP;
 - replace desktop IT equipment and Local Area Network infrastructure;
 - develop and deliver training programs to support Treasury projects and systems;
 - further develop online Internet services;
- contribute to the negotiation of Treasury's third Certified Agreement, including further refinements to the Performance Management System; and
- improve contract management and procurement policies and procedures.

Key outcomes in 2002-03

Outcomes relating to the above priorities are as follows:

- Treasury's Chief Executive Instructions were rewritten in 2002-03 to reflect Government best practice standards as determined by the Australian National Audit Office (ANAO) and Department of Finance and Administration. Staff have access to the Chief Executive Instructions on the intranet, and staff training should raise awareness of the Chief Executive Instructions.
- Staff access to personal and professional information using Aurion Employee Self-Service has been improved. The Employee Self-Service system enables staff to have 24-hour access to personal records, pay details, leave balances and training courses. In August 2003 the Performance Appraisals and Curriculum Vitae modules in the Aurion system were released, enabling employees and managers to complete all performance appraisal processes, including their professional curricula vitae, online.
- Treasury's FMIS (SAP R/3) was upgraded to version 4.6 on 31 March 2003. The upgrade provides a range of additional functionality and improved reporting. As part of the upgrade project, staff were provided with targeted training and updated user documentation.
- The core layer of the Information and Knowledge Management framework is Treasury's systems and information sources. The emphasis was on implementing TRIM electronic records management system and migrating IT systems to a common platform.
 - The progressive implementation of TRIM electronic records management commenced in May 2002. Corporate Services Division and several policy areas have implemented TRIM electronic records management. Full implementation will take 12 to 18 months as successful implementation depends on Treasury staff adopting effective change management practices.
 - IT systems upgrades included SAP R/3, Aurion and the ministerial correspondence system. New business systems development included the Balance of Payments system, the Foreign Investment system and Contracts Management system.
 - Treasury's desktop and laptop computers, printers, network servers, storage and backup facilities were upgraded. Treasury has a standard and consistent technical platform which provides cost and performance benefits.

- The Treasury Intranet Stage III development commenced in March 2003 and is due for release in November 2003. The project involves redeveloping the current intranet and will include a new interface, improved and faster retrieval of data, a restructuring of information and the inclusion of a content management system for content administrators.
- Treasury uses the Internet as its primary mechanism to disseminate information to the public. In 2002-03, 6,339 emails were received through the Treasury and ministerial websites, compared with 2,587 in 2001-02. Five new websites were released in 2002-03 to assist with the consultation process for public reviews undertaken by Treasury.
- A departmental training calendar was developed during 2002-03 combining professional, information technology, SAP and electronic records, training schedules. The training calendar is linked to departmental seminars and specialised training provided by the policy groups. The calendar provides a central point to access information on internally-delivered training and development opportunities.
- The Australian Industrial Relations Commission certified Treasury's third Certified Agreement on 10 September 2002, following negotiation with employees. The Certified Agreement is to run for two years and its accompanying new pay model introduces more flexible salary arrangements for Australian Public Service Level 6 (APS6), Executive Level 1 (EL1) and Executive Level 2, (EL2) level staff.
- In 2002-03 the Performance Management System was reviewed. Amendments included redefining role accountabilities, developing the Treasury organisational management principles and refining the performance appraisal processes.
- Treasury completed a review of its contract management and procurement policies in 2002-03 to better align Treasury policies with the ANAO Contract Management Better Practice Guide. The review included revision of standard contract documentation and development and implementation of a contract risk management framework. Awareness of contract management and procurement responsibilities is raised through training seminars.

Other key outcomes in 2002-03 for Corporate Services Division included:

- The appointment of a new internal auditor, a revision in the composition of the Treasury Audit Committee (including the appointment of an external

member), and refocus of the internal audit plan to concentrate more on key business activities and risks. These measures were designed to strengthen the audit function.

- The introduction of a more rigorous quality assurance control framework for Treasury's financial statement's and reporting processes.
- The development of a performance monitoring framework based on the balanced scorecard approach to more effectively evaluate divisional performance.
- Assistance in integrating some 100 additional staff into the department following the transfer of the tax law design function from the Australian Taxation Office to Treasury.