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REPORT ON PERFORMANCE

The report on performance covers the Treasury's administered items and departmental outputs for 2006-07.

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.

The Treasury's 2006-07 performance is reported at the outcome and output levels for its four policy outcomes:

- Outcome 1: Sound macroeconomic environment;
- Outcome 2: Effective government spending arrangements;
- Outcome 3: Effective taxation and retirement income arrangements; and
- Outcome 4: Well functioning markets.

Performance outcomes are reported against the performance information published in the Treasury section of the *2006-07 Portfolio Budget Statements*.

OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

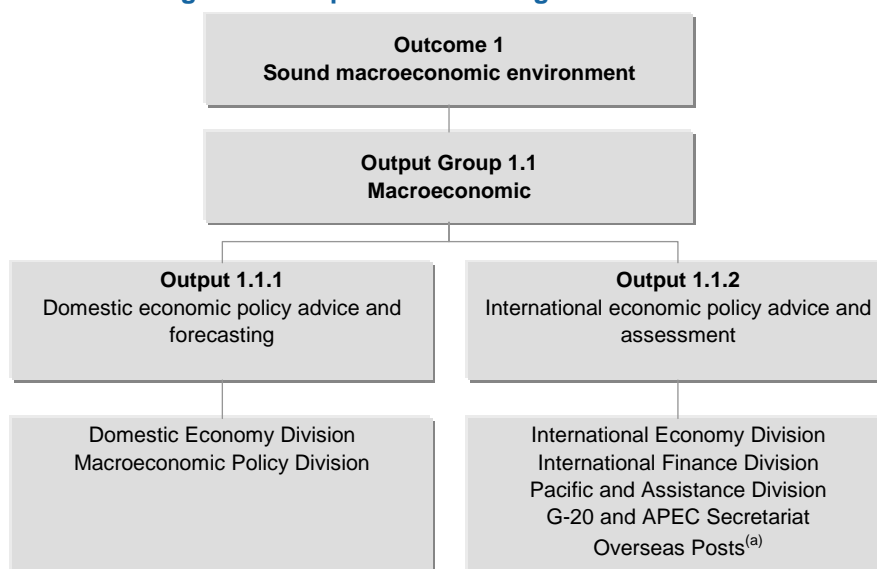
The Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

The Treasury also provides advice on advancing Australia's interests at international forums and institutions such as the Group of Twenty (G-20), the International Monetary Fund (IMF), the World Bank and the Asian Development Bank, the European Bank for Reconstruction and Development, the Organisation for Economic Cooperation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) process. Australia is contributing significantly to international efforts to sustain international economic stability and growth through these forums.

During 2006-07, the Treasury provided strategic advice and assessments on a range of macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Its forecasts helped shape budget estimates and policy formulation. The Treasury provided strategic advice on international economic policy issues, working towards sustained growth, openness and sound governance in the global economy. The Treasury also played a key role in advancing Australia's interests through international financial institutions and forums, and bilaterally with a range of countries, particularly within the Pacific region.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in influencing and formulating policy aimed at achieving a sound macroeconomic environment.

Figure 4: Outputs contributing to Outcome 1



(a) The Treasury's overseas posts are a whole-of-department resource but are allocated to this output for reporting purposes.

KEY PRIORITIES IN 2006-07

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- examine domestic and international developments affecting the Australian economy and forecast the direction of the Australian and international economies;
- assist in identifying policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- influence international policy outcomes to enhance growth and reduce poverty, open trade and investment regimes, and encourage market-oriented public policy based on the rule of law and strong institutions through:
 - strengthening, effectively using and directly participating in international forums, including the World Bank, IMF, OECD, Asian Development Bank, G-20, APEC, Pacific Islands Forum Economic Ministers' Meeting and the East Asia Summit,
 - playing a lead role in the Government's initiatives to improve economic governance in the Pacific, particularly, in Papua New Guinea, Solomon Islands and Nauru,

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- engaging directly in a policy dialogue with key counterparts in East Asia, and
- providing technical assistance in the Asia-Pacific region;
- effectively promote the G-20 2006 agenda and the forum's role in global economic governance;
- develop effective, relevant and achievable policy outcomes and work programmes for both the G-20 and APEC; and
- oversee the implementation of the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) and develop an engagement strategy under the Government Partnerships Fund.

KEY OUTCOMES IN 2006-07

- Australia hosted a successful meeting of the G-20 Finance Ministers and Central Bank Governors in Melbourne on 17-19 November 2006. The overarching theme for the meeting was building and sustaining prosperity.
 - The meeting provided strong support for agreed and future reforms of IMF quota and governance arrangements, and IMF and World Bank key policies and instruments, and modernisation of World Bank governance arrangements.
 - There were a number of important outcomes from the meeting in relation to energy and minerals security. Participants also engaged in wide-ranging discussions around demographic issues, implementation and consolidation of domestic economic reforms, and aid and debt relief.
 - During 2006-07, the Treasury worked closely with the G-20 management troika comprising Australia, South Africa and Brazil (the past, current and future G-20 hosts). The Treasury initiated a comprehensive hand-over strategy of policy and logistics for future G-20 hosts.
- The Treasury continued preparations, in conjunction with the APEC taskforce, for Australia to host APEC in 2007.
 - The Treasury has endeavoured to improve the effectiveness of the APEC Finance Ministers' process. In particular, the Treasury has worked to encourage an effective policy-setting, outcomes-driven and reform-initiating process that strengthens the link between the Finance Ministers and Economic Leaders.
 - The Treasury has made efforts to raise awareness of the importance of structural reform in promoting and sustaining regional growth.
 - The Treasury also participated in a range of policy based capacity building initiatives, including workshops on financial sector reform and fiscal

management, the APEC Future Economic Leaders' Think Tank and a public-private dialogue on bond market development.

- In the Asia-Pacific region more broadly, the Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
 - Significant progress was made in further developing a strategic partnership with the Indonesian Ministry of Finance, under the auspices of the Government Partnerships Fund.
 - The Treasury, working closely with the Department of Foreign Affairs and Trade, ensured that the East Asia Summit focused on priority Australian issues, in particular, regional financial cooperation and integration.
 - Treasury officials attended and participated in a range of conferences addressing economic and policy issues, received delegations for policy discussions and visited the region regularly in 2006-07.
- Aside from G-20 and APEC host year processes, the Treasury continued to help the Government take an active role in international forums and institutions to influence outcomes supportive of sustained international economic stability, growth and development.
 - Improving governance arrangements in international financial institutions remains important to ensuring their ongoing effectiveness. Australia strongly contributed to the debate on improved IMF governance arrangements and continues to support and work towards a second stage of reforms, and had a representative on an External Review Committee on IMF-World Bank collaboration.
 - Australia supported the agreement to implement a new framework to improve IMF surveillance of member countries.
- The Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges, including Papua New Guinea, Solomon Islands and Nauru.
- Economic forecasts assisted the Government with policy formulation.
- Briefings were prepared for the Treasurer on the Australian Bureau of Statistics (ABS) and private sector economic statistics, with an emphasis on their implications for the economic outlook. The Treasurer regularly received advice from the Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, the *Economic Roundup*, working papers and speeches to better inform the public about economic developments and issues.

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- *Economic Roundup* included a diverse range of articles, including analysis of the policy issues surrounding the ‘3Ps’ of productivity, participation and population.
- For the 2007-08 Budget, Statement 4 of Budget Paper No. 1, *Australia’s Labour Force Utilisation*, examined Australia’s labour force in an international and historical context, and the role of recent Government policy in influencing labour market decisions.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	31,764	35,779	37,996
Other expenses	-	197,948	-
Total administered expenses	31,764	233,727	37,996
Revenue from Government			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	8,703	8,930	9,628
Output 1.1.2 International economic policy advice and assessment	27,439	26,733	18,906
Total revenue from Government contributing to the price of departmental outputs	36,142	35,663	28,534
Revenue from other sources			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	146	234	195
Output 1.1.2 International economic policy advice and assessment	5,529	4,542	5,600
Total revenue from other sources	5,675	4,776	5,795
Total revenue for departmental outputs (Total revenues from Government and other sources)	41,817	40,439	34,329
Price of departmental outputs			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	8,849	9,381	9,823
Output 1.1.2 International economic policy advice and assessment	32,968	31,731	24,506
Total price of departmental outputs	41,817	41,112	34,329
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	73,581	274,839	72,325
Average staffing levels (number)	218	203	187

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

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.

The Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on formulating and implementing effective macroeconomic policy, including monetary and fiscal policy.

PERFORMANCE INFORMATION

The key performance indicators are:

- 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 macroeconomic environment; and
- effective presentation of budget documents and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Policy advice and inputs into policy processes

During 2006-07, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- The Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included analysis and advice to assist the Treasurer respond to the releases, with an emphasis on their implications for the economic outlook.
- As part of the Business Liaison Programme, Treasury officers discussed issues relating to business activity with organisations in major business centres and regional Australia. Liaison findings were summarised in the *Economic Roundup*.
- The Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- The Treasurer was provided with advice on fiscal policy and strategies as part of developing the 2007-08 Budget.

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- In preparing advice to the Secretary as a Reserve Bank of Australia Board member, the Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- The Treasury also provided advice on administrative arrangements for the Reserve Bank of Australia.
- The Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.

The Treasury received positive feedback from the Treasurer, Minister for Revenue and Assistant Treasurer, and the Parliamentary Secretary to the Treasurer on the effectiveness of this advice.

Economic forecasts

Economic forecasts inform policy settings and underpin the calculation of budget estimates of expenditure and revenue. For policy formulation purposes, macroeconomic forecasts provide an understanding of the broad developments within the economy and the balance of risks surrounding the economic outlook.

Forecasting activity focused on 2006-07 and 2007-08, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2006-07* and the 2007-08 Budget. These forecasts helped develop policy that contributed to the strong performance of the Australian economy. In 2006-07, attention focused on the impact of the drought on the economy, and analysis of the implications of movements in commodity prices, including oil prices, continued.

The Treasury's forecast for economic growth in 2006-07 was revised down from 3¼ per cent in the 2006-07 Budget to 2½ per cent in the 2007-08 Budget. This largely reflected the severe drought, slower export growth from the drought-driven fall in farm production and slower business investment growth. These factors were partially offset by a recovery in dwelling investment and stronger household consumption, supported by strong employment growth, and increases in wealth and disposable income, and stronger public final demand.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group, which comprises the Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration, and the ABS. These contributions, together with information gained from liaison with the private sector and other departments, helped improve the quality of the forecasts. Forecasts from the Treasury's macroeconomic model of the Australian economy contributed to the forecasting process, and sensitivity analyses using the model helped improve policy advice.

Contributions to public awareness and debate

Important contributions to public awareness and debate were delivered to a wide audience including international forums, foreign government agencies, state government agencies, tertiary institutions and the Australian public. The Treasury's economic publications and selected presentations are at www.treasury.gov.au.

2007-08 Budget papers

The economic analysis in the annual budget papers is one of the main ways the Treasury contributes to public awareness and debate on economic policy issues.

Published economic forecasts in the *Mid-Year Economic and Fiscal Outlook 2006-07* and the 2007-08 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on economic growth in the short term. A comprehensive report on the domestic and international outlook, focused on 2007-08, was in Statement 3 of Budget Paper No. 1, *Economic Outlook*.

Statement 1 of Budget Paper No. 1, *Fiscal Strategy and Budget Priorities*, discussed the medium-term approach to fiscal policy, challenges for economic growth and long-term fiscal sustainability arising from the findings of the *Intergenerational Report 2007*, and measures to further improve Australia's long term economic growth and prosperity.

Statement 4 of Budget Paper No. 1, *Australia's Labour Force Utilisation*, examined Australia's labour force in an international and historical context, and the role of recent Government policy in influencing labour market decisions. Across a broad range of indicators, Australia's labour market performance has been impressive. Unemployment rates are at historical lows, employment growth has been high and Australia's participation rate has increased and is well above the OECD average. These outcomes partly reflect the benefits of ongoing economic reforms in taxation, welfare, labour market flexibility, education and training, and immigration. Statement 4 also examined casual employment, including the relationship between flexible labour markets and employment security.

In addition, the non technical discussion in the *Budget Overview* made major policy developments and forecasts widely accessible.

Media and market commentary on the economic analysis in the 2007-08 Budget enhanced public awareness about the Australian economy's current performance, outlook and risks to the outlook.

The Treasury's economic publications and speeches

The Treasury's *Economic Roundup* included a range of articles, with contributions from all groups within the Treasury.

The release of the 100th *Economic Roundup* (Spring 2006) included an article tracing the evolution of the publication from mainly discussing recent economic statistics and

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reprinting budget statements to being a vehicle for placing the Treasury research and policy analysis before the wider community. Historical articles also covered Australia's first Treasurer and the tax system.

The *Economic Roundup* continued to focus on the policy issues surrounding the '3Ps' of productivity, participation and population with articles on the participation modelling project, re-emergence of older male workers, geography's effects on labour productivity, infrastructure trends and the scope for further productivity growth through infrastructure policy reform.

The *Economic Roundup* in 2006-07 also focused on the external sector, with articles on the implications of China's re-emergence, Australia's manufacturing and services exports, and the impact of international investment flows on Australia's balance of payments.

Articles on Australia's G-20 host year, the AIPRD, economic developments in the Pacific and the investment climate in APEC economies reflected the Treasury's increased role in international engagement.

In 2006-07, four Treasury working papers covered Australia's productivity prospects, sustainability of US external imbalances, extending income contingent loans to TAFE and merit-based selection of the heads of international financial institutions.

Senior Treasury officials spoke publicly on the short-term macroeconomic outlook, fiscal and monetary policy, the medium-term fiscal strategy and longer term challenges. Issues covered included the resources boom, role of the G-20, economic impact of Australia's ageing population and policies to address global pressures. The speeches were to a range of organisations, including the Australian Business Economists, the Australian Industry Group, the Committee for Economic Development of Australia, the National Consumer Congress, the 2006 Economic and Social Outlook Conference, and the Cape York and Lowy Institutes. These speeches are on the Treasury's website.

The Treasury also distributed quarterly updates of its macroeconomic model of the Australian economy and associated database. The model has evolved to reflect structural changes in the economy.

Reviews of economic data

The Treasury liaised extensively with the ABS, both informally through regular discussion at all levels and formally through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group, the Trade in Services User Group, the Labour Statistics Advisory Group and the Demography Statistics Advisory Group.

OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT

International Economy Division, International Finance Division, Pacific and Assistance Division and the G-20 and APEC Secretariat in Macroeconomic Group are responsible for delivery of Output 1.1.2: International economic policy advice and assessment.

The Treasury contributes to Outcome 1 by providing strategic advice to government ministers on the global and regional economic outlook, Australia's economic engagement with East Asia, the global economic architecture including the international financial institutions, and development prospects and governance challenges facing Pacific economies. The group participates directly in various international forums, and provides policy advice and support to ministers and senior Australian representatives at the international financial institutions. It also administers Australia's subscriptions to the international financial institutions.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to international economic and financial issues;
- participation is effective in key regional forums, including the East Asia Summit, and engagement of major regional economies, including Indonesia;
- hosting of G-20 meetings and associated workshops in 2006 is effective;
- hosting of APEC meetings and associated workshops in 2006 and 2007 is effective;
- advice on, and direct support for improving economic governance and policies and building capacity in Papua New Guinea, Solomon Islands and Nauru is effective;
- achievement of government objectives is facilitated in international forums, including strengthening the international financial system, multilateral debt relief and institutional reform in the multilateral development banks; and
- timely and accurate financial transactions with international financial institutions are made with due regard to minimising cost and risk for Australia.

ANALYSIS OF PERFORMANCE

Facilitation of government objectives in international forums

International Monetary Fund

In 2006-07, the IMF continued to work to promote macroeconomic and financial stability at the global and national levels. Australia was actively engaged in this work through the Executive Board and attendance at regular meetings of the International Monetary and Financial Committee Deputies and other forums.

The IMF continues to work towards implementing the various reform initiatives set out in the Managing Director's report on the IMF's Medium-Term Strategy. The medium-term strategy was released in late 2005, and it proposed a wide-ranging reform agenda to help focus the work of the IMF and improve operational effectiveness.

Efforts to reform the IMF's governance arrangements culminated in agreement on the first stage of governance reform at the IMF annual meetings in Singapore, which provided quota increases to increase the voting power of China, Mexico, Republic of Korea and Turkey. Australia was a strong supporter of this reform, and made a strong contribution to the debate, including as chair of the G-20 throughout 2006. Australia continues to work towards achieving agreement on the second stage of reform, due to be completed no later than the annual meetings in 2008.

Efforts to improve the IMF's surveillance of member countries' economic policies culminated in agreement on a new Decision on Bilateral Surveillance over Members' Policies, which will provide a framework to guide the IMF's surveillance. Australia has been a longstanding advocate of more effective surveillance, and expects the framework to improve the IMF's effectiveness in promoting sound policies.

World Bank

Australia continued to support the World Bank's leadership role in improving the living standards of the world's poor, including through the Executive Board and at the World Bank spring and annual meetings. In June 2007, Australia also participated in the first negotiation meeting for the fifteenth replenishment of the International Development Association, the grant and concessional lending arm of the World Bank Group.

In each of these forums, Australia focused attention on the development needs of the World Bank's poorest and most fragile development partners. Australia also highlighted the importance of acting across a broad range of development fronts to reduce global poverty. In this context, Australia argued that aid, trade liberalisation and debt relief are important and most effective when they are supported by improved governance, institution building and measures to avoid the accumulation of unsustainable debts. Australia also contributed to debate on reforming the internal and external governance arrangements of the World Bank.

In February 2007, the IMF and World Bank released the report of the External Review Committee on IMF-World Bank Collaboration (Malan report). A joint IMF-World Bank response to the committee's recommendations is expected to be finalised in 2007. The Executive Director of Revenue Group, Mr Mike Callaghan, was a member of the committee.

Australia welcomed the appointment of Mr Robert Zoellick as President of the World Bank from 1 July 2007. The Treasurer also nominated Dr Jim Hagan for appointment as Executive Director of the World Bank from 1 August 2007 for a period of four years. Dr Hagan will represent a constituency of countries comprising Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea (PNG), Samoa, Solomon Islands and Vanuatu.

Asian Development Bank

Australia contributed to the Asian Development Bank's decision making through representation on its Board of Directors and at the 2007 annual meeting in Kyoto, Japan. In April 2007, Mr Phil Bowen replaced Mr Stephen Sedgwick as Director of Australia's constituency on the Board of Directors.

The bank's long-term strategic framework review remained a focus of Australia's engagement with the bank and a key theme at the 2007 annual meeting. The Parliamentary Secretary to the Treasurer, Mr Chris Pearce, delivered Australia's statement to the annual meeting and emphasised the need for the bank to serve all of its developing member countries and strengthen support for the poorest countries in the region. Australia continues to support the bank's engagement in weakly performing countries and to encourage the bank to focus on internal governance to strengthen development effectiveness. Australia prepared for the first Asian Development Fund X replenishment meeting in Sydney in September 2007.

European Bank for Reconstruction and Development

In 2006-07, the European Bank for Reconstruction and Development commenced implementation of its third Capital Resources Review, shifting resources towards transitioning economies in Central Asia and South Eastern Europe. Consolidation of resident offices in Central Europe was also advanced.

The 2007 annual meeting was held in May in Kazan, Russia. A statement on behalf of Australia and New Zealand was delivered at the annual meeting by the Alternate Director for Australia, the Hon Peter Reith. The statement focused on Australia and New Zealand's key priorities for the bank, largely the need for an ongoing focus on advancing the bank's mandate to assist the transition towards market based economies, and the need for the active involvement of shareholders in deliberations on the use of net income.

Organisation for Economic Co-operation and Development

Treasury officials participated in the work of OECD committees on a range of macroeconomic and microeconomic policies, including structural reform, forecasting,

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taxation, statistics, consumer policy, competition policy, corporate governance, insurance and private pensions, sustainable development and investment, and capital markets.

Working closely with the Department of Foreign Affairs and Trade and Australia's OECD delegation, the Treasury played an important role in urging the OECD to raise its profile in our region. As a result of these efforts, OECD ministers agreed in May to strengthen the OECD's cooperation with Indonesia (with a view to possible membership in the long term) and focus more attention on South East Asia (when considering possible future accessions).

The Group of 20

On 17-19 November 2006, the Treasury delivered a highly successful meeting of the G-20 Finance Ministers and Central Bank Governors in Melbourne. The meeting's content and conduct promoted Australia's interests and pursued the Treasury's strategic interests in global economic growth, poverty reduction and well functioning markets.

Held under the overarching theme 'building and sustaining prosperity', the G-20 meeting saw the world's most influential economic and financial leaders meet at the Grand Hyatt, Melbourne. The Treasury worked closely with Australian and Victorian government agencies to ensure delegates met in a secure environment and enjoyed Australian hospitality.

The G-20 is particularly valuable to Australia due to its specific make-up and the opportunity this affords the forum to act as a circuit breaker for difficult global issues. The diversity of geographical areas and economies at the meeting strengthens the forum by providing a high degree of legitimacy to decisions.

G-20 activities throughout the year made an important contribution to the IMF's historic decision in September 2006 to undertake, in a two-stage process, comprehensive reform of its quota arrangements and enhance the voice of low income countries. At the ministerial meeting, the G-20 agreed on the importance of ensuring that the second stage of reforms is comprehensive and delivered on time; South Africa, as the 2007 G-20 chair, is taking this matter forward as a key legacy item in its host year. The G-20 also agreed on the need for further consideration of IMF and World Bank key policies and instruments, giving priority to: IMF surveillance; the IMF's role in emerging market economies, including a possible new liquidity instrument; and collaboration between the IMF and World Bank. In addition, members agreed that they can play an important role in the renewed debate within the World Bank aimed at modernising its governance arrangements.

The G-20 discussion of energy and minerals security led to a number of important outcomes. Members agreed on the importance of well functioning markets characterised by clear price signals, transparency, sound governance, open trade and investment, and effective competition among firms. Indeed, Ministers and Governors committed to encourage the development of clear principles to guide trade and investment in extractive industries, and efficient and effective governance of both private and state-owned

extractive firms. Further, in dealing with key challenges such as resource security and climate change, there was a commitment to ensure international and domestic policies are directed towards investment in new supply, innovation and efficiency. The G-20 noted the benefits of the Extractive Industries Transparency Initiative, and called for the Joint Oil Data Initiative to be extended to other energy sectors, such as natural gas, and for further work on incorporating a common definition of energy reserves. A select delegation of leaders in global energy and minerals industries¹ was invited to a working lunch with Ministers and Governors to inject business perspectives on ways to strengthen energy and minerals markets.

Building on past discussions on the demographic theme, the G-20 reiterated calls for international cooperation to improve remittance services and reduce transaction costs. Members also considered the financial market aspects of demographic change and developed specific initiatives to gain more information on the adequacy of financial market instruments to manage long-term pension liabilities. The G-20 also discussed the potential for improved portability of social security and health care payments to reduce the cost of migration, particularly for temporary migrants, and invited the World Bank to quantify the costs and benefits of improved portability as a basis for further discussion in the G-20.

The G-20 had a wide-ranging and pragmatic discussion, sharing experiences on implementing and consolidating domestic economic reforms. Discussion focused on the politics of reform and practical ways to implement the reforms embodied in the G-20 Accord for Sustained Growth.

The G-20 welcomed recent increases in aid and debt relief and emphasised the importance of avoiding a new build up of unsustainable debt. The Australian Treasurer gave an important presentation to the meeting on the effective use of aid, encouraging the G-20 to use the platform provided by its officials' discussions this year to push forward with further consideration of this issue in future years. By the 2006 meeting, all G-20 members had pledged their support for the Paris Declaration on Aid Effectiveness.

In addition to the ministerial meeting, the second G-20 deputies' meeting was successfully delivered in August 2006. The Treasury was also actively engaged with South Africa before and during the first half of their host year, and key legacy issues arising out of Australia's 2006 host year remained in the G-20 agenda for 2007. A comprehensive hand-over strategy of policy and logistics was developed, and support and advice to key South African officials is ongoing both informally and through membership of the G-20 management troika. The Treasury developed guidelines and planning materials for the hand-over to future hosts, and for the first time, retained and shared corporate knowledge on meeting organisation.

1 Mr Charles Goodyear, CEO, BHP Billiton Limited; Mr Leigh Clifford, CEO, Rio Tinto Limited; Dr Ali Al-Naimi, Minister for Petroleum and Mineral Resources of Saudi Arabia and Chairman of Saudi Aramco; Mr Roger Agnelli, Managing President of CVRD; Sir Mark Moody-Stuart, Chairman, Anglo American plc; Mr Ron Brenneman, President and CEO, PetroCanada; and Sir Robert Wilson, Chairman of BG Group.

Since South Africa became host of the G-20 in January 2007, the Treasury and Reserve Bank of Australia staff have worked with their South African and Brazilian counterparts — who will host the G-20 in 2009 — on the management troika. Australia has been actively involved in the first deputies meeting and in workshops on reform of the Bretton Woods Institutions and on commodities and financial sustainability. The Treasury continues to pursue Australia's interests through strategic engagement in the G-20.

Asia-Pacific Economic Cooperation

APEC² is an important regional forum, bringing together the key developed and developing economies from around the Pacific rim, which together comprise around 56 per cent of world gross domestic product (GDP). During 2006-07, the Treasury commenced preparations for hosting the 14th APEC Finance Ministers' Meeting in August 2007, in conjunction with the APEC Taskforce, as part of Australia's APEC 2007 host year.

During its host year, the Treasury sought to improve the effectiveness of the APEC Finance Ministers' Process as a policy-setting, outcomes-driven and reform-initiating forum. The Treasury has worked hard to revitalise the APEC Finance Ministers' Process to promote continuity of policy themes across host years, strengthen discussion of regional and global economic issues, and make the Finance Ministers' Meeting more policy focused and directly relevant to the issues on the agenda for the APEC Economic Leaders' meeting. In addition, the Treasury worked to raise the awareness of the role of structural reform in promoting and sustaining growth in the region.

The Treasury worked closely with the Department of Foreign Affairs and Trade and the Department of the Prime Minister and Cabinet to develop the agenda and themes for Australia's APEC host year.

Australian Treasury officials chaired the APEC Senior Finance Officials' process throughout 2007. Policy themes covered fiscal and financial market issues. The fiscal theme, Transparency and Sustainability of the Public Balance Sheet, examined explicit and implicit off balance sheet liabilities of governments, and how to report on and address these to ensure fiscal sustainability. The financial theme, Deepening and Integrating Private Capital Markets, examined the underdevelopment of private capital markets in the region, and the policy interventions required to deepen and strengthen them.

The discussion on the global and regional economic outlook focused on Energy Markets that Support Macroeconomic Stability and Sustainable Growth, and Recovery and Efficiency in Investment in the region. Consideration of energy issues focused on the appropriate macroeconomic policy responses to high and volatile energy prices, the need for well functioning international energy markets to promote energy security, and the role of markets in meeting the challenges of climate change. Discussions on investment

2 APEC members are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States and Vietnam.

focused on the apparent decline in investment in the Asian region following the 1997 Asian financial crisis, and concluded that greater structural reforms were required in the region to allow savings to flow towards sustainable, pro-growth investment in the region.

In December 2006, the Treasury hosted the first APEC Senior Finance Officials' Meeting in the Southern Highlands of New South Wales. The second Senior Finance Officials' Meeting was held in Melbourne in May 2007. These meetings involved representatives from 20 of the 21 APEC economies, the IMF, the World Bank, the Asian Development Bank and representatives of the APEC Business Advisory Council.

As chair of the APEC Senior Finance Officials' Meeting, the Treasury has cooperated with other APEC processes, including the Senior Officials and Economic Committee, to raise awareness of the complementarity between the work of various committees and ministerial processes within APEC to promote greater coordination of activities.

The Treasury also commenced developing an outreach programme to raise domestic and international awareness of the 2007 APEC Finance Ministers' Meeting.

The Treasury provided the Treasurer with briefing for the 13th APEC Finance Ministers' Meeting held in Hanoi, Vietnam in September 2006, focusing on the two policy themes for 2006 — Promoting Public Finance Efficiency and Sustainability, and Financial Sector Reform to Attract Capital Flows.

Policy initiatives

A key role of APEC is its capacity building and experience sharing dimensions. The Treasury delivered and participated in policy-based capacity building initiatives within the Finance Ministers' Process.

- The Reform of Financial Sector initiative comprised three policy dialogue workshops held in China, Indonesia and Australia during 2006-07. It focused on prioritising and sequencing financial sector reform. A key outcome of the initiative will be the development of a web-based information resource on financial sector reform — the Catalogue of Policy Experience and Choices — that will allow policymakers and regulators to draw on the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances.
- Australia, Vietnam and Indonesia co-hosted the Fiscal Management initiative. A workshop was held in Lombok, Indonesia in November 2006, which followed on from a workshop held in Hanoi, Vietnam in February 2006. This collaborative initiative discussed management of significant off balance sheet risks. The November Fiscal Management Workshop focused on how economies can monitor and manage their contingent liabilities and off-balance sheet risks with particular reference to off budget liabilities. The workshop considered tools for evaluating public-private partnerships and also how to minimise risks to the public balance sheet from state-owned enterprises and sub-national levels of government.

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- APEC Future Economic Leaders' Think Tank was held in April 2007 in Sydney, and attended by 29 delegates from 17 APEC member economies. The think tank, which is in its seventh successive year, was co-hosted by the Treasury and Axis Australia, and project managed by the Lowy Institute for International Policy. The theme for 2007 was Transparency and Sustainability in the Public Balance Sheet and a report will be submitted to finance ministers in 2007-08.
- The Treasury participated in the APEC Public-Private Dialogue on Bond Market Development hosted by the APEC Business Advisory Council in May 2007.

Structural reform

Following from the Treasury's re-engagement in the APEC Economic Committee in 2005-06, Treasury officers represented Australia at the 2006 Economic Committee II in Hoian, Vietnam.

During 2007, the Treasury took a leading role and hosted two seminars to coincide with APEC Economic Committee meetings during 2007. In January 2007, the Treasury hosted a seminar on Priorities for Structural Reform in APEC Economies in Canberra. At the Economic Committee II meeting in June in Cairns, the Treasury hosted another seminar on the Role of Competition Policy in Structural Reform.³ These seminars focused on the role of structural reform and developing a competition culture in promoting and sustaining economic growth of domestic economies. Participants included representatives from all APEC economies, the World Bank, IMF, Asian Development Bank, OECD, Australian Competition and Consumer Commission, Productivity Commission, AusAID and academia.

During 2006-07, the economic committee began to develop work programmes to implement the Leaders' Agenda to Implement Structural Reform, and the Treasury undertook to chair the Friends of the Chair Group on regulatory reform, and participate in the group on competition policy, chaired by Hong Kong.

Timely and accurate financial transactions

Management of international financial commitments

As part of its membership of the international financial institutions, Australia makes a significant financial commitment to support their operations.

The Treasury manages most of Australia's financial relations with the IMF, along with its capital contributions to the World Bank Group (International Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Finance

³ This seminar was organised by Markets Group, and forms part of Output 4: Well functioning markets.

Corporation), the Asian Development Bank and the European Bank for Reconstruction and Development.

Australia did not enter into any new commitments on general capital increases for the institutions during 2006-07. During the year, the Treasury did conduct routine financial transactions to manage existing obligations. These transactions were conducted in a timely and efficient manner and are summarised in Table 3 below.

Table 3: Financial transactions with the international financial institutions in 2006-07

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration	Revenue	4	11,621
IMF maintenance of value	Financing transaction	1	319,395
Payments			
IMF special drawing rights allocation charges	Expense	4	35,458
IMF Poverty Reduction and Growth Facility	Financing transaction	1	2,500
IMF maintenance of value	Financing transaction	1	27,082
EBRD promissory note drawdown	Financing transaction	1	1,603

Policy advice

Relations with East Asia

The Treasury continued to deepen its engagement with key Asian economies.

The Treasury continued its engagement with Indonesia under the AIPRD, which has committed \$1 billion of assistance to Indonesia since the Boxing Day tsunami. The Treasurer sits on the AIPRD Joint Commission and the Treasury's Secretary is one of the five agency heads on the AIPRD Secretaries' Committee.

Over the past year, the Treasury has made significant progress in developing a strategic partnership with Indonesia's Fiscal Policy Office in the Ministry of Finance under the AIRPD's Government Partnership Fund initiative. The Treasury's engagement strategy with the Fiscal Policy Office has a strong partnership focus, and aims to develop Indonesian leadership abilities in economic policy, build policy formulation capacities and develop lasting relationships.

During the year, the Treasurer delivered a number of high profile addresses, including on East Asian financial integration, the regional architecture and key challenges facing East Asia. Senior Treasury officials also presented on global and regional economic issues, including on the East Asian economic outlook and medium-term challenges, global demographic changes, financial globalisation and the importance of open world markets.

Australia strongly supported the East Asia Summit, with the Treasury encouraging the summit to focus its agenda on policy options to further develop regional financial cooperation and integration. The Treasury is also supporting Indonesia to host a

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workshop for East Asia Summit officials to progress this important initiative. The Treasury funded a range of activities under an East Asian engagement initiative (announced in the 2004-05 Budget), including an OECD Vietnam Investment Study and an APEC workshop on Priorities in Structural Reform in APEC economies both held in Canberra on 20 January 2007.

The Treasury received delegations from the region for discussions on various policy issues. This included delegations from the Treasury's key counterpart agencies in China (the Ministry of Finance and the National Development and Reform Commission) to discuss the role of the Treasury; fiscal and budget management; Commonwealth-State fiscal relations; Australia's economic reform experience; and China's macroeconomic performance and reform priorities. The Treasury also contributed to two AusAID funded Joint Fiscal Policy Courses for Chinese and Indonesian Government officials, held in August to September 2006 and May to June 2007. As part of these courses, senior Treasury officials presented lectures on issues such as demographics and fiscal policy.

Treasury officials posted to Beijing, Jakarta and Tokyo reported on economic developments in their host countries and the wider region. They played a key role in strengthening relations with the Treasury's counterparts throughout the region.

Relations with Pacific economies

The Treasury provides policy advice to Australian Government ministers and departments on economic and fiscal issues relating to the Pacific, particularly Solomon Islands, PNG and Nauru where deployed Treasury officers provide technical assistance as part of whole-of-government approaches.

Pacific Islands Forum Economic Ministers' Meeting

The Assistant Treasurer attended the eleventh annual Pacific Islands Forum Economic Ministers' Meeting in Koror, Republic of Palau in July 2007. The overarching theme of the 2007 meeting was reform commitments and economic growth. During the meeting Ministers discussed a number of regional approaches to support economic growth.

Economic reconstruction issues

Solomon Islands

Treasury officers were first deployed to Solomon Islands as part of the Regional Assistance Mission to Solomon Islands in 2003-04. Treasury officers are deployed as part of the Financial Management Strengthening Program, which helps the Solomon Islands Government improve fiscal and financial management systems, strengthen tax administration and manage public debt. Three Treasury officers were deployed in 2006-07, including one as the Under-Secretary of the Ministry of Finance and Treasury. These officers continued to assist their counterparts to use the budget process as a mechanism to articulate its priorities through accountable and transparent spending decisions.

Four other Treasury officers, deployed to the Economic Reform Unit within the Ministry of Finance and Treasury, continued to engage with government, donors and other stakeholders to identify opportunities for economic reform and facilitate its implementation. For example, Treasury officers in the Economic Reform Unit facilitated the introduction of Tax Exemption Guidelines to create a simpler, fairer and more transparent exemptions process. They also helped develop a State-Owned Enterprises Bill to establish an effective and consistent framework for good governance across all state-owned enterprises. In addition, Canberra-based Treasury officers presented a three-day public policy and forecasting workshop to officials from the Ministry of Finance and Treasury.

Papua New Guinea

Treasury officers were first deployed to PNG under the Enhanced Cooperation Program in 2003-04. The programme seeks to improve governance, on a sustainable basis, in economic management and public sector reform, law and order, justice, border control and transport safety and security.

In 2006-07, deployed Treasury officers assisted their PNG Treasury counterparts to establish the framework for the 2007 and 2008 Budgets within the context of a sustainable medium-term fiscal strategy. Treasury officers also assisted the PNG Treasury on taxation policy, structural policy and investment issues and superannuation reform.

The Papua New Guinea-Australia Treasury Twinning Scheme provides for short-term reciprocal placements. In 2006-07, one Treasury officer was deployed to the PNG Treasury and two PNG Treasury officers were deployed to the Australian Department of Finance and Administration. The Government is also funding one PNG Treasury officer to study at the Australian National University.

Nauru

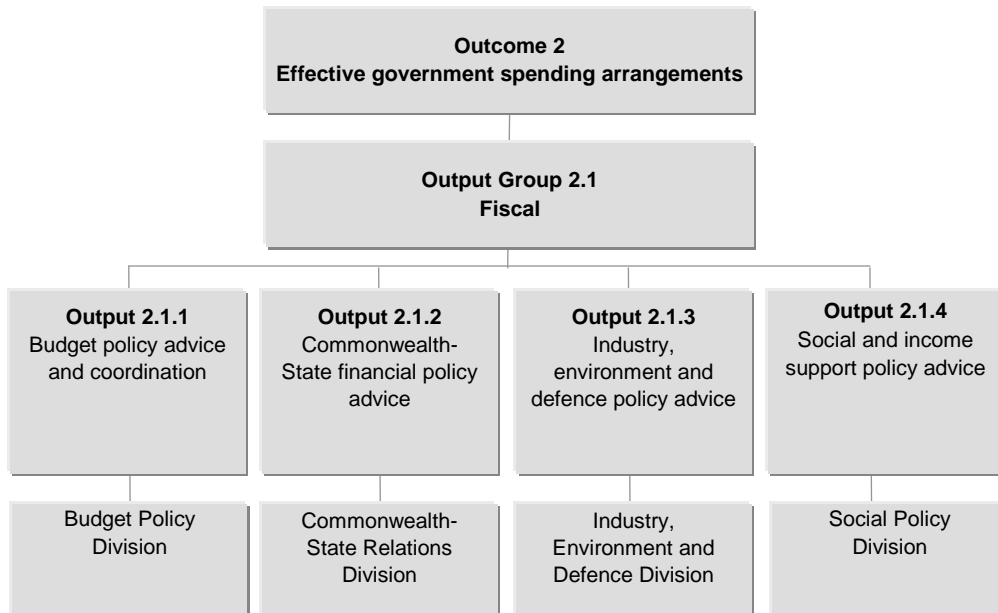
The Australian Finance Team was first deployed to Nauru in 2004-05 as part of a package of assistance to Nauru offered by Australia under a Memorandum of Understanding. Two Treasury officers are deployed to the Nauru Ministry of Finance, one as the Secretary of Finance. During 2006-07, these officers helped develop Nauru's 2007-08 Budget, continued to provide advice on a range of economic reforms and assisted with the introduction of tax and utilities reform.

OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

Effective government spending arrangements are crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Within the context of the wellbeing framework, ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998*;
- Commonwealth-State financial policy, including implementing the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
- policy development in industry, environment, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Figure 5: Outputs contributing to Outcome 2



KEY PRIORITIES IN 2006-07

The Treasury's 2006-07 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 2:

- budget policies, including arrangements for distributing resources between the Australian Government and other levels of government, consistent with sustainable public finances and macroeconomic objectives;
- production of the *Final Budget Outcome 2005-06, Mid-Year Economic and Fiscal Outlook 2006-07, 2007-08 Budget*, and second intergenerational report;
- policies relating to the Australian Government's debt portfolio and its management;
- Commonwealth-State financial policy, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, and on the fiscal and economic positions of the State and Territory governments;
- government expenditure programmes, with a focus on those with significant economic or budgetary implications, including in the areas of demographic change, improving participation in the workforce, welfare, work and family policies, health, education, energy, defence and national security, infrastructure, science and innovation, the environment and rural and regional policy;
- policies to promote the efficient and sustainable use of resources and improve the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth;
- provision of advice under the framework for the National Reform Agenda, agreed by the Council of Australian Governments (COAG) in February 2006, particularly initiatives to boost participation and productivity including to:
 - encourage greater workforce participation, particularly by older Australians;
 - address skill shortages, including in regional Australia, by developing more flexible pathways into skills-shortages trades;
 - improve the health of Australians including through policies on primary care preventative health and mental health;
 - improve the effectiveness of the health system;
 - improve early childhood programmes;
 - improve transition pathways from school to work;

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- boost competition and productivity through reform initiatives in areas such as transport, energy, infrastructure regulation and planning, and climate change technological innovation and adaptation; and
- improve the wellbeing of Australia's Indigenous population.

KEY OUTCOMES IN 2006-07

Key achievements for the Treasury during 2006-07 were:

- advising on the fiscal outlook and budget priorities consistent with the medium-term fiscal strategy;
- with the Department of Finance and Administration, delivering the *Final Budget Outcome 2005-06* (September 2006), the *Mid-Year Economic and Fiscal Outlook 2006-07* (December 2006), and the 2007-08 Budget (May 2007);
- preparing the *Intergenerational Report 2007* (April 2007) in accordance with the *Charter of Budget Honesty Act 1998*;
- monitoring the implementation and operation of the Future Fund;
- progressing the review of the Commonwealth Grants Commission's methodology for distributing goods and services tax (GST) revenue;
- processing timely and accurate payments of GST revenue and other administered funds to the States and supporting Australian Government efforts to reach agreement with the States on a schedule to abolish taxes under the Intergovernmental Agreement;
- advising on State and local government funding, and arranging Ministerial Council for Commonwealth-State Financial Relations Meeting discussions on policy issues relevant to both the Australian Government and States;
- advising the Government on a range of expense measures across portfolios, including education sector reforms, and measures targeting industry and the rural sector, national security and defence, health and aged care and immigration;
- advising on climate change issues and natural resource depletion, including through contributions to the Task Group on Emissions Trading and on implementation of A National Plan for Water Security;
- progressing the human capital stream of the COAG National Reform Agenda; and
- contributing to Indigenous policy, including working with the Cape York Institute on welfare reform.

Table 4: Financial and staffing resources summary for Outcome 2

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	19,504	-	2,399
Special Appropriations	39,341,702	39,551,938	41,850,000
Other expenses	-	-	-
Total administered expenses	39,361,206	39,551,938	41,852,399
Revenue from Government			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,723	3,703	4,078
Output 2.1.2 Commonwealth-State financial policy advice	2,568	2,654	2,757
Output 2.1.3 Industry, environment and defence policy advice	4,052	4,236	4,456
Output 2.1.4 Social and income support policy advice	5,440	5,043	5,880
Total revenue from Government contributing to the price of departmental outputs	15,783	15,636	17,171
Revenue from other sources			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	62	76	83
Output 2.1.2 Commonwealth-State financial policy advice	42	53	45
Output 2.1.3 Industry, environment and defence policy advice	69	96	94
Output 2.1.4 Social and income support policy advice	87	123	98
Total revenue from other sources	260	348	320
Total revenue for departmental outputs (Total revenues from Government and other sources)	16,043	15,984	17,491
Price of departmental outputs			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,785	3,637	4,161
Output 2.1.2 Commonwealth-State financial policy advice	2,610	2,624	2,802
Output 2.1.3 Industry, environment and defence policy advice	4,121	4,588	4,550
Output 2.1.4 Social and income support policy advice	5,527	4,596	5,978
Total price of departmental outputs	16,043	15,445	17,491
Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)	39,377,249	39,567,383	41,869,890
Average staffing levels (number)	122	117	122

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

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, with the Department of Finance and Administration, coordinates preparation of the budget and related documents.

PERFORMANCE INFORMATION

The key performance indicators are:

- provision of advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to assessments of the budget position and outlook, and budget strategy and debt policy; and
- effective presentation of budget documents for which the Treasury has responsibility and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Advice on the budget outlook

During 2006-07, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the 2006-07 Mid-Year Economic and Fiscal Outlook and the 2007-08 Budget.

As budget estimates are a joint responsibility, preparation of this advice required extensive liaison with the Department of Finance and Administration, the Australian Taxation Office (ATO) and other Australian Government departments and agencies.

Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available at the time the budget was prepared.

Final budget outcome for 2005-06

The Final Budget Outcome 2005-06 was published in September 2006. In 2005-06, the Australian Government general government sector recorded an underlying cash surplus of

\$15.8 billion, around \$1 billion higher than estimated at the 2006-07 Budget, mainly due to lower than expected cash payments.

An accrual fiscal surplus of \$14.8 billion was recorded for 2005-06. This was \$1.2 billion lower than estimated at the time of the 2006-07 Budget, primarily reflecting lower than expected revenue in accrual terms.

Budget forecasts

The 2006-07 Budget, published in May 2006, contained forecasts of the fiscal outlook for 2006-07 and the following three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in December 2006, forecast an underlying cash surplus of \$11.8 billion for 2006-07, some \$1 billion more than at budget time. This reflected an increase in receipts and lower than expected cash payments.

The increase in estimated receipts was primarily due to an increase in non-taxation receipts, with taxation receipts broadly unchanged. The fall in estimated payments was mainly due to slippage in some defence acquisition projects and lower payments across a range of income support programmes, partially offset by policy measures announced following the 2006-07 Budget. In accrual terms, the 2006-07 fiscal balance was revised up \$0.1 billion since the 2006-07 Budget to \$10.4 billion.

The 2007-08 Budget, published in May 2007, revised up the estimated underlying cash surplus for 2006-07 by \$1.8 billion since the Mid-Year Economic and Fiscal Outlook to \$13.6 billion, largely reflecting higher than expected tax receipts and lower than expected payments across a number of programmes, partially offset by policy measures announced in the 2007-08 Budget. In accrual terms, the estimated fiscal surplus for 2006-07 was revised up by \$1.5 billion to \$11.9 billion.

Intergenerational Report 2007

Intergenerational reports provide a basis for considering the Australian Government's fiscal outlook over the long term and the implications of Australia's ageing population and other factors on economic growth.

The second intergenerational report released by the Treasurer in April 2007, found the Australian Government's long-term fiscal sustainability had improved since the first intergenerational report in 2002, although demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

Intergenerational Report 2007 noted that over the next 40 years, the ageing of the population is projected to slow economic growth. At the same time, spending pressures in areas such as health, age pensions, and aged care are projected to rise, due to demographic and other factors. The 'fiscal gap' or the amount by which spending is projected to exceed revenue is projected to be around 3½ per cent of GDP by 2046-47.

Part 2: Report on performance

The outcome for the second intergenerational report compares to a projected fiscal gap in first intergenerational report of 5 per cent of GDP by 2041-42. The improved outcome is due to a lower rate of growth in projected spending per person, mainly in health, and higher projected nominal GDP per person, predominantly due to the recent strong rise in the terms of trade.

The demographic, economic and fiscal projections contained in the second intergenerational report assist the policy debate about the choices governments can make today to improve the wellbeing of current and future generations of Australians.

Strategic budgetary advice

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising Treasury portfolio ministers on the overall budget strategy and priorities. Good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Debt management policy

In consultation with the Australian Office of Financial Management, the Treasury provides advice to the Treasurer on strategic debt policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or the effective functioning of the real economy. The Treasury also provides advice where broader macroeconomic developments or public policy considerations may affect debt management, and the Treasury plays an important role in the governance structures for the management of the Australian Government debt portfolio.

During 2006-07, the Treasury worked closely with the Australian Office of Financial Management to implement the debt issuance strategy, consistent with the outcomes of the 2003 review of the Australian Government Securities market. Specific details of the Government's debt issuance in 2006-07 are outlined in the *Australian Office of Financial Management 2006-07 Annual Report*.

Future Fund

During 2006-07, the Treasury continued to provide policy advice to portfolio ministers on operational issues of the Future Fund, including advice on membership changes to the Future Fund Board of Guardians and further Government contributions to the fund.

Contributions exceeding \$30 billion were made to the Future Fund in 2006-07. These included a component of the 2005-06 cash surplus and transfer of the initial proceeds from the sale of Telstra (T3). As at 30 June 2007 the Future Fund balance, including earnings, was around \$52 billion.

In line with the guidelines provided in the Government's investment mandate, the Future Fund commenced diversifying from interest bearing investments to a broader range of financial assets in late 2006-07.

Higher Education Endowment Fund

The Treasury, in consultation with the Department of Finance and Administration and the Department of Education, Science and Training was, and continues to be, involved in the development of the Higher Education Endowment Fund announced in the 2007-08 Budget. The fund, which will receive an initial investment of \$5 billion from the 2006-07 surplus, will operate as a perpetual endowment fund to generate earnings for capital expenditure and research facilities in the higher education sector.

Contribution to public debate and awareness

Budget publications

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

The Treasury and the Department of Finance and Administration jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the general budget overview, budget at a glance, budget highlights and an overview of the higher education package: Realising Our Potential.

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

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

Reporting requirements are set out in the *Charter of Budget Honesty Act 1998* and are consistent with leading international practice. To help achieve better fiscal outcomes, the charter promotes:

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;

Part 2: Report on performance

- 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 December and a final budget outcome in the following September. The charter also stipulates that an intergenerational report be produced on a five-yearly cycle.

The budget website at www.budget.gov.au continues to be improved to present information in a format that is easy for readers to access and understand.

In 2006-07, the Treasury met with international delegations from Taiwan, Mongolia, China, Indonesia and the IMF, interested in learning about Australia's budgeting and reporting framework.

Tax Expenditures Statement

The Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *2006 Tax Expenditures Statement*, published in December 2006, reported on the cost of tax expenditures with estimates and projections to 2009-10. Production of this statement assists transparency and encourages public scrutiny of government programmes delivered through the tax system.

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 on implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* and related state and territory (state) fiscal and taxation issues.

Fiscal Group also manages the administration of the goods and services tax (GST) revenue payments to the states and territories.

PERFORMANCE INFORMATION

The key performance indicators are:

- payments to state governments are calculated accurately according to agreed formulas and paid according to agreed schedules;
- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations; and
- effective presentation of relevant information, including budget documentation and other publications informs public debate adequately.

ANALYSIS OF PERFORMANCE

Advice on reform of Commonwealth-State financial relations

This was the seventh full year of operation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The Treasury provided advice to the Treasurer and other Portfolio Ministers on various aspects of the agreement, such as distributing GST revenue among the states, calculating the guaranteed minimum amount and abolishing state taxes listed in the Intergovernmental Agreement.

Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Australian Treasurer and all State Treasurers, oversees the implementation and operation of the Intergovernmental Agreement. The Treasury provides secretariat support to the Ministerial Council. At the eighth Annual Meeting of the Ministerial Council on 30 March 2007, treasurers discussed the Intergovernmental Agreement, payments to the States, distribution of GST revenue among the States, specific purpose payments, GST administration issues and state tax reform. The Treasury advised the Treasurer on the key issues.

The Australian Loan Council traditionally meets in March to consider each jurisdiction's expected borrowing for the next financial year. The Treasury advised the Treasurer on 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 meetings are a forum to share information on issues common to the treasuries of the Australian and state governments. The Secretary to the Treasury and his state counterparts met three times in 2006-07 to discuss a range of issues, such as the

implementation the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues and specific purpose payments.

GST Administration Sub-committee

The GST Administration Sub-committee assists the Ministerial Council in monitoring the operation and administration of the GST. The Treasury chairs the sub-committee, which comprises officials from the Treasury, the ATO and state treasuries. The sub-committee met three times in 2006-07 and considered proposals to modify the GST base and the ATO's administration of the GST. The sub-committee monitored the operation of the GST Administration Performance Agreement between the States and the ATO, and discussed GST revenue and payments, GST policy and administrative issues.

Goods and services tax revenue

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST revenue is provided to the States. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST revenue in monthly payments, distributed in accordance with relativities determined by the Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2006-07, the Treasury administered payments of GST revenue to the States of \$39.6 billion. All payments were calculated correctly and paid on the scheduled dates.

The ATO collects GST revenue on behalf of the States and the States compensate the Australian Government for the costs that the ATO and the Australian Customs Service incur in administering and collecting GST revenue. Estimated costs incurred in 2006-07 were \$619 million. The Treasury monitored the payments made by the States to ensure all were administered accurately.

Budget balancing assistance

The Australian Government guaranteed that, in the transitional years of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, each State's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. The Treasury provided advice to the Treasurer on how much funding each State would have received under the previous financial arrangements to enable the Treasurer to determine the guaranteed minimum amount.

To meet its guarantee, the Australian Government pays budget balancing assistance to cover any shortfall of GST revenue compared with each State and Territory's guaranteed minimum amount. In 2006-07, each State's GST revenue entitlement exceeded its determined guaranteed minimum amount, so no State required this assistance.

Specific purpose payments

The Australian Government makes specific purpose payments as a contribution to areas that are the constitutional or traditional responsibility of the States. Specific purpose payments are provided to the States or local governments for a particular activity, such as health or education.

The Australian Government provided the States with specific purpose payments totalling \$28.2 billion in 2006-07. The Treasury provided advice on a range of specific purpose payments to relevant portfolio ministers.

International relations

In 2006-07, the Treasury continued to participate in the OECD Network on Fiscal Relations across levels of government, and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States.

Budget publications

Information on the Government's financial relations with State and local governments is documented in Budget Paper No. 3, *Federal Financial Relations 2007-08*. This document is the main public source of information on Australian Government payments to the States and local governments. It also informs the States of their expected payments in the upcoming financial year, including GST revenue and specific purpose payments.

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

OUTPUT 2.1.3:

INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE

Industry, Environment and Defence Division in Fiscal Group is responsible for the delivery of Output 2.1.3: Industry, environment and defence policy advice.

Industry, Environment and Defence Division contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, regional assistance, agriculture, environment, energy, climate change, defence and national security. While other departments have major responsibility for policy and programmes in these areas, Industry, Environment and Defence Division focuses on improving productivity and competitiveness, and ensuring sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2006-07, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to industry, environment and defence policy; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Environment and agriculture policy

The Treasury provided advice to the Treasurer on environmental and agricultural issues including water reform, fisheries, quarantine, drought policy, rural structural adjustment and natural resource management issues.

Examples of the Treasury's advice include for the Natural Heritage Trust Phase III, the Environmental Stewardship Programme and the renewal of the Agriculture — Advancing Australia package, announced in the 2007-08 Budget. Additionally, advice was provided on specific agricultural commodity issues, including wheat, dairy, sugar and wool.

Throughout 2006-07, the Treasury also contributed to inter-departmental committees dealing with a range of policy issues, including water policy, wheat marketing arrangements and drought.

Energy and greenhouse policy

The Treasury provided advice to the Treasurer on energy and climate change issues including climate change adaptation, greenhouse gas emissions abatement, emissions trading, low emissions technologies, uranium mining and nuclear energy, renewable energy and alternative fuels, and energy security. The Treasury also analysed climate change issues in the intergenerational report.

The Treasury provided advice feeding into, and responding to, the work of the Task Group on Emissions Trading, and the Uranium Mining, Processing and Nuclear Energy Review Taskforce.

The Treasury contributed to a number of inter-departmental committees during 2006-07. This included membership of inter-departmental committees on adaptation, emissions reporting, biofuels, and the Intergovernmental Panel on Climate Change's *Fourth Assessment Report*. The Treasury was also involved in the COAG Climate Change Group.

The Government's response to the Report of the Task Group on Emissions Trading indicated the Treasury would examine the effects of different abatement targets over selected periods and advise on macroeconomic, sectoral and distributional implications for Australia. This work commenced towards the end of 2006-07 and will continue into 2007-08.

Industry policy

The Treasury provided advice on industry assistance including export assistance, science and innovation, arts, sports and regional policy issues, including regional development and natural disaster relief.

The Treasury provided advice to develop the 2007 Industry Statement, *Global Integration*, as well as reform of government support for the Australian screen media industry. The Treasury also provided advice on export assistance strategies, and participated in the review of the Export Finance and Insurance Corporation.

The Treasury participated in a number of inter-departmental committee meetings and forums during 2006-07, including ones to consider renewing the funding agreements with the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation, and the Australian Institute of Marine Science.

National security policy

The Treasury provided advice on defence and national security issues, including on defence force retention and recruitment, and funding to operate and maintain equipment. Ensuring that defence related expenditures were well targeted and fiscally sustainable in the long run was the focus of that advice. Long-term defence projections were considered in the intergenerational report.

The Treasury also provided advice on domestic security arrangements, including initiatives to strengthen aviation security, and expand the Australian Federal Police's International Deployment Group.

The Treasury has continued to participate in the Secretaries' Committee on National Security that examines and advises on proposals going to the National Security Committee of Cabinet. It is also a member of the Defence Procurement Advisory Board, as well as a participant in inter-departmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE

Social Policy Division in Fiscal Group is responsible for the delivery of Output 2.1.4: Social and income support policy advice.

Fiscal Group contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government in the areas of social, labour market and health policy. While other departments have major responsibility for policy and programmes in these areas, Fiscal Group focuses on improving participation, productivity and economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2006-07, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and assisting in implementing government decisions as they relate to social policy, labour market and health policy issues; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Advice on labour market policy

During 2006-07, the Treasury provided advice on welfare, employment services and workplace relations matters. This included continuing to monitor the implementation of the workplace relations and Welfare to Work reforms, contributing to the Australian Government's submission to the 2007 Australian Fair Pay Commission minimum wage review and providing advice on improving Indigenous wellbeing through economic development and reforms to the Community Development Employment Projects Programme.

Development of labour market data is ongoing and the Treasury continued to engage in the Labour Statistics Advisory Group of the ABS.

Advice on health policy

Policy development processes spanned a range of health and aged care issues. The Treasury advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, private health insurance, public and preventative health, community care and aged care. Engagement in these areas assisted the Treasurer's involvement in significant Government initiatives, such as the Pharmaceutical Benefits Scheme reforms to achieve better value from off-patent medicines.

Other work related to development of the health model for the second intergenerational report, discussed in Output 2.1.1.

The Treasury also participated in interdepartmental committees that provided advice to Government, including on aged care, combating illicit drugs and combating the influenza pandemic.

Advice on social policy

During 2006-07 the Treasury made a significant contribution to education policy issues. The Treasury played an important role in developing the 2007-08 Budget package *Realising Our Potential*, which will deliver major reforms to higher education, vocational education and training, and schools to improve the quality of education outcomes in Australia.

The Treasury provided policy advice on a number of measures relating to families and child care, including increasing rates of the Child Care Benefit, making the Child Care Tax Rebate timelier to provide greater assistance to families, and increasing child care access for families and communities with special needs.

In 2006-07, the Treasury continued to engage in policy processes to address disadvantage amongst Indigenous Australians. Some areas of focus have been: Cape York welfare pilots, the Single Indigenous Budget Submission process and promotion of human capital and economic development.

The Treasury contributed advice to a number of significant actions within the human capital stream of the COAG National Reform Agenda. These covered type 2 diabetes, vocational education and training, literacy and numeracy, and early childhood and child care.

In the context of the 2007-08 Budget, the Treasury provided advice to the Treasurer on a range of measures on immigration, including expanding the Skilled Migration Programme, increasing funding for a series of Humanitarian Programmes and introduction of the Citizenship Test. The Treasury also provided advice on a range of measures with respect to older Australians, such as the seniors bonus payment and increased support for veterans.

OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

Effective taxation and retirement income arrangements are crucial to the Government's objectives for the economy and hence the wellbeing of Australians. Contribution to better tax policy and better tax law are key elements of the Treasury's role as a central policy agency.

Revenue Group has primary responsibility within the Australian Public Service for providing high-quality advice to Treasury portfolio ministers on taxation and retirement income policies and legislation. Advice is formulated through an integrated process which includes consultation with business and community interests and close cooperation with the ATO and relevant Commonwealth departments.

During 2006-07, the Treasury devoted significant resources to tax and retirement income reform, implementing the Government's 2006-07 Budget plan to simplify the superannuation system, known as the Better Super reforms. The Better Super reforms simplify superannuation for retirees, make superannuation easier to understand and improve incentives to work and save. Revenue Group also contributed to *Intergenerational Report 2007*; provided advice to Government on a range of business and other tax policy issues, including forestry managed investment schemes; and continued efforts to reduce the complexity of tax law, releasing discussion papers for the Review of Taxation Secrecy and Disclosure Provisions, and the Review of Discretions in the Income Tax Laws.

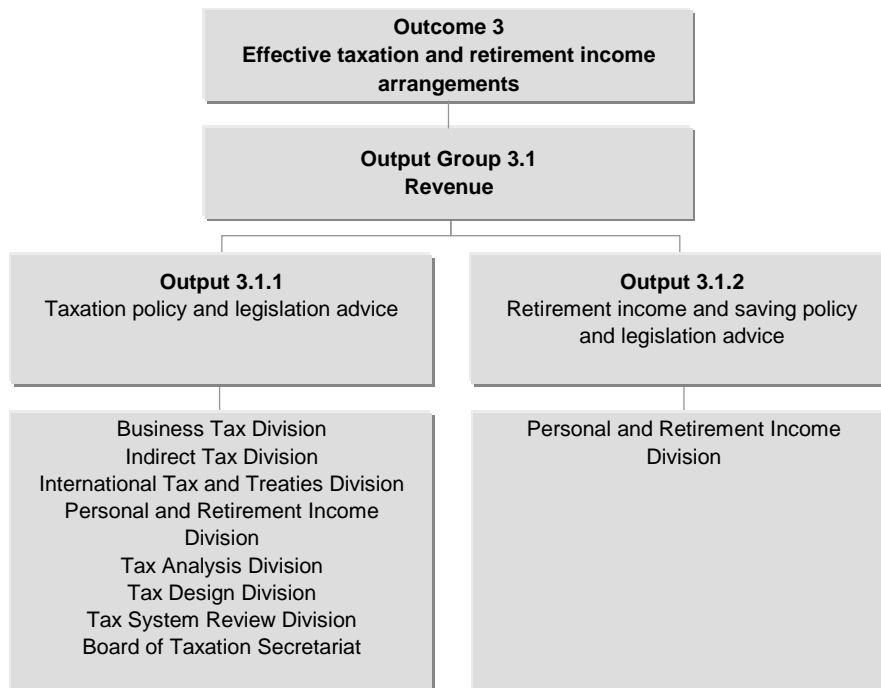
Revenue Group also designs and brings to Parliament all taxation and retirement income legislation. In 2006-07, 27 taxation and superannuation bills containing 83 measures were introduced into Parliament.

In 2006-07, the Treasury continued to consult extensively with stakeholders on taxation and superannuation measures. Consultation processes are evaluated and the results used to improve processes. Three reports on consultation arrangements for announced tax measures were made available on the Treasury website. These reports also are provided to the Board of Taxation to assist it monitor consultation processes.

ORGANISATIONAL CHANGES

In response to changing work priorities and to improve synergies between work areas, the Superannuation, Retirement and Savings Division and the Individuals and Exempt Tax Division merged in June 2007 to form a new division, Personal and Retirement Income Division, while the Capital Gains Tax Unit moved to Business Tax Division.

Figure 6: Outputs contributing to Outcome 3



KEY PRIORITIES IN 2006-07

The Treasury contributes to Outcome 3 by providing high quality advice on taxation and retirement income policies and legislation.

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities:

- providing advice on issues the Australian Government identifies as its key strategic priorities;
- improving processes and outputs in developing advice on taxation and retirement income policies (including consultation processes and law design);

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- implementing the Australian Government's Better Super reforms to simplify and streamline superannuation;
- developing quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes;
- contributing to *Intergenerational Report 2007*;
- providing advice under the framework for the National Reform Agenda, agreed by COAG in February 2006, particularly initiatives to address the burden of legislative and administrative 'red tape' both within the current taxation and retirement income systems and on proposals for change;
- implementing decisions arising from the Australian Government's *Review of Aspects of Income Tax Self Assessment*;
- finalising legislation relating to the taxation of financial arrangements and tax exempt asset financing, and developing a substantial programme of other tax legislation; and
- accelerating a comprehensive programme for the negotiation of Tax Information Exchange Agreements with non-OECD offshore financial centre jurisdictions.

Other key priorities identified through the year were:

- resolving outstanding policy issues such as plantation forestry, non-forestry managed investment schemes and carbon sinks; implementing previous government policy decisions on capital gains tax (CGT) liability of non residents, tax-exempt asset financing and interest withholding tax; researching business tax issues such as treatment of losses and goodwill; working on the scope for reducing the compliance costs of CGT and implementing the recommendations from the Board of Taxation's review of the small business CGT concessions;
- reducing compliance costs through improved procedures for assessing the compliance costs of new measures; and identifying and evaluating opportunities in key policy areas of child care, personal tax, CGT, fringe benefits tax, not-for-profit sector and international tax;
- implementing the 2006-07 Budget decision to align the thresholds for various small business concessions via a single 'small business entity' test; and
- advancing tax treaty negotiations with Japan and assisting the Board of Taxation in its review of the foreign source income anti-tax-deferral rules.

KEY OUTCOMES IN 2006-07

The key outcomes in 2006-07 were:

- advice to the Government on taxation policies and legislative design proposals contributed to reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs;
- advice to the Government was robust and the Better Super reforms were implemented;
- better capacity through quantitative modelling helped identify the labour force participation effects of government policy proposals;
- advice to the Government covered a range of business tax policy issues including the consolidation regime, imputation issues, treatment of losses, tax-exempt asset financing reforms, off-market share buy-backs, taxation of financial arrangements, family trust elections, trustee beneficiary rules, Australian property trusts, private company distributions, small business CGT concessions, CGT roll-over for medical defence organisations, taxation treatment of capital gains of testamentary trusts, forestry managed investment scheme issues, venture capital, and the Australian film industry;
- advice to the Government was robust and a range of indirect tax policy initiatives, including the implementation of fuel tax credits, amendments to the GST and excise arrangements to assist small businesses in meeting their tax obligations, was implemented;
- advice to the Government was robust and a range of personal tax policy initiatives including personal tax cuts, pre-filing of electronic tax returns, extension of the employee share scheme concessions and amendments to the fringe benefits tax to reduce compliance costs, tax deductibility of the donation of certain publicly listed shares and streamlining the gift fund and integrity arrangements for deductible gift recipients, was implemented;
- the long-term demographic, revenue and spending projections were updated in *Intergenerational Report 2007*;
- enhanced procedures for the assessment and quantification of compliance costs were developed and implemented in collaboration with the ATO;
- the Treasury's assessment of developments in the tax system continued and a strategic approach to tax policy issues, including efforts to reduce complexity and compliance costs, was advanced;
- further changes were introduced to Australia's international tax arrangements which reflect efforts to maintain the integrity of the tax base, as well as provide

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a competitive and modern international tax system which accommodates taxpayer needs for certainty and the dynamic nature of international business. Changes were made to the CGT liability of non residents, the withholding arrangements for managed investment trust distributions to non-residents and interest withholding tax arrangements for syndicated loans. Significant progress was made in progressing tax treaty negotiations with key investment partners, including the signing of new tax treaties with Finland and Norway. Further, Tax Information Exchange Agreements were signed with the Netherlands Antilles, Antigua and Barbuda;

- advice to the Government was robust and the exposure draft tax agent services Bill, regulations and explanatory materials for public consultation were developed;
- discussion papers for the Review of Taxation Secrecy and Disclosure Provisions, and the Review of Discretions in the Income Tax Laws were released;
- the Taxation Test Case Funding Review Panel, which provides a right of review to unsuccessful applicants of decisions made by the ATO in relation to test case funding, was established;
- advice to the Government was robust and an Act that aligns the thresholds of various small business concessions through a single small business entity test was enacted.

Table 5: Financial and staffing resources summary for Outcome 3

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	-	-	-
Other expenses	-	-	-
Total administered expenses	-	-	-
Revenue from Government			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	34,558	35,255	36,427
Output 3.1.2 Retirement income and saving policy and legislation advice	7,583	6,739	6,859
Total revenue from Government contributing to the price of departmental outputs	42,141	41,994	43,286
Revenue from other sources			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	519	717	627
Output 3.1.2 Retirement income and saving policy and legislation advice	121	164	137
Total revenue from other sources	640	881	764
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,781	42,875	44,050
Price of departmental outputs			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	35,077	34,459	37,054
Output 3.1.2 Retirement income and saving policy and legislation advice	7,704	7,331	6,996
Total price of departmental outputs	42,781	41,790	44,050
Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)	42,781	41,790	44,050
Average staffing levels (number)	300	272	296

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE

Revenue Group provides a wide range of services to Treasury portfolio ministers to support their role in delivering effective taxation arrangements. Specific group outputs include overall strategic advice, policy and legislation advice, revenue forecasting, policy costing and provision of information services.

Seven divisions contribute to Output 3.1.1. Business Tax Division, Indirect Tax Division, International Tax and Treaties Division, Personal and Retirement Income Division and Tax System Review Division are responsible for delivery of taxation and income support

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policy advice. The Tax Analysis Division prepares revenue forecasts, costings and quantitative analysis of taxation policy proposals, provides strategic analysis of key developments in the tax system and current policy issues, and develops and maintains models for labour force participation and tax-related analysis. The Tax Design Division assists Revenue Group by formulating a strategic direction on organisational issues for the group, improving the tax design process, managing the legislation programme, providing budgeting and administration services to the group, assisting in governance issues, and developing and leading key relationships.

During 2006-07, Revenue Group provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to taxation policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- tax law is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programmes.

ANALYSIS OF PERFORMANCE

Business taxation

Policy advice on business taxation issues covered the consolidation regime, treatment of losses, taxation of financial arrangements, plantation forestry and a range of other tax issues.

Consolidation

The Treasury consulted with the business sector and provided policy advice on the consolidation regime to make refinements to overcome practical concerns and clarify interactions with other parts of the income tax law. The Minister for Revenue and Assistant Treasurer announced changes to allow consolidated groups and multiple entry consolidated groups to restructure with minimal tax consequences and to modify the tax cost setting rules to remove anomalies and ensure that they operate effectively. The Minister also announced changes to improve interactions between the consolidation provisions and other parts of the income tax law, including the capital gains tax provisions and the uniform capital allowances system.

Amendments to clarify the interaction between the consolidation provisions and the demerger provisions were included in *Tax Laws Amendment (2006 Measures No. 4) Act 2006*, which received Royal Assent on 12 December 2006. Amendments to remove taxation barriers for approved deposit-taking institutions that adopt a non-operating holding company structure, including modifying the consolidation membership rules, were included in the *Financial Sector Legislation Amendment (Restructures) Act 2007*, which received Royal Assent on 28 June 2007.

Company loss recoupment rules

The Treasury consulted with the business sector and provided policy advice on the company loss recoupment rules. The Minister for Revenue and Assistant Treasurer announced changes to remove the \$100 million cap on the same business test and modify the continuity of ownership test for companies that have multiple classes of shares.

Tax exempt asset financing reforms

The Treasury consulted with the business sector and provided policy advice on the tax exempt asset financing reforms.

Taxation of rights issues

The Treasury consulted with the business sector and provided policy advice on taxation of rights issues. The Minister for Revenue and Assistant Treasurer announced changes to restore the taxation treatment of rights issues that existed before the decision of the High Court of Australia in *Commissioner of Taxation v McNeil* [2007] HCA 5.

Taxation of financial arrangements

The Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. Revised exposure draft legislation and explanatory material were released in January 2007. The Treasury is continuing to consult with key industry and professional bodies.

The Office of Parliamentary Counsel and the Treasury prepared legislation and explanatory material relating to the taxation of capital protected borrowings included in *Tax Laws Amendment (2006 Measures No. 7) Act 2007*, which received Royal Assent on 12 April 2007.

Lower Tier 2 subordinated debt regulation

The Treasury continued to develop an income tax regulation on the effect of a clause, which allows an issuer to defer payment if the payment would cause insolvency, under the debt/equity rules in the income tax law. The Minister for Revenue and Assistant Treasurer announced the regulation would clarify that existence of such a clause in certain term subordinated notes would not preclude the notes from being debt for tax purposes.

Family trust elections

The 2006-07 Budget announced changes to increase flexibility for family trusts. The measure will, for the purpose of the trust loss tax regime, allow family trust elections and interposed entity elections to be revoked or varied in certain limited circumstances. The definition of a family will be broadened to include lineal descendants of family group members. In addition, distributions to former spouses, former widows or widowers and former step children of family members will be exempted from family trust distribution tax. The Treasury undertook confidential targeted stakeholder consultations on implementation details of the policy and draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007.

Trustee beneficiary reporting rules

The 2006-07 Budget announced changes to simplify the reporting requirements for trustees of closely held trusts. The measure will require that trustees of closely held trusts need only report the details of trustee beneficiaries presently entitled to certain net income and tax preferred amounts, instead of the trustee having to trace distributions through to the ultimate beneficiary. The measure will reduce compliance costs for taxpayers while maintaining the integrity of the taxation of trust income. The Treasury undertook confidential targeted stakeholder consultations on the draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007.

Private company distributions

The Treasury provided advice on the operation of Division 7A of the *Income Tax Assessment Act 1936*. On 6 December 2006, the Government announced it would amend the law to reduce the extent that taxpayers could trigger inadvertently a deemed dividend under Division 7A and the punitive impact of the provisions. The Commissioner of Taxation also will be provided with a discretion to disregard a deemed dividend that arises because of an honest mistake or omission. The Treasury undertook confidential targeted stakeholder consultation on the policy and draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Small business capital gains tax concessions

The Treasury developed legislation that implemented the Government's response to the Board of Taxation's post-implementation review of the small business capital gains tax concession, which took effect from 1 July 2006. Legislation introduced into Parliament on 7 December 2006 (*Tax Laws Amendment (2006 Measures No. 7) Act 2007*) received Royal Assent on 12 April 2007.

Taxation treatment of capital gains of testamentary trusts

The Treasury provided advice to the Government and developed legislation to allow a trustee of a resident testamentary trust to choose to be assessed on the capital gains of the trust that would otherwise be assessed to an income beneficiary who could not benefit from them under the terms of the trust. This measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Plantation forestry

On 21 December 2006, the Government announced new arrangements for the taxation of investments in forestry managed investment schemes. The Government decided that, with effect from 1 July 2007, investors in forestry managed investment schemes would be entitled to immediate upfront deductibility for all expenditure provided that (amongst other requirements) at least 70 per cent of the expenditure was directly related to developing forestry ('direct forestry expenditure'). The measure also contains rules to encourage secondary market trading of interests in existing and future forestry managed investment schemes. The Treasury consulted with industry and released an exposure draft of the proposed legislation for public consultation. Legislation to give effect to the measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Venture capital

Legislation was enacted to give effect to changes to the venture capital regime, announced by the Government in the 2006-07 Budget. The Treasury consulted with relevant stakeholders and worked with the Department of Industry, Tourism and Resources as part of the implementation task. This measure was included in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Screen media support

The Treasury provided advice on developing a screen media support package, following involvement in a review of Australian Government film funding support. The package includes introducing a new tax offset for domestic productions and enhancing current incentives to attract large budget international productions to be made in Australia. The Government announced these changes in the 2007-08 Budget.

Taxation of boating activities

The 2006-07 Budget foreshadowed legislative amendments to allow taxpayers who cannot demonstrate they are carrying on a business using a boat, to claim deductions for boating expenses up to the level of their boating income. Following public consultation on the draft legislation, the measure was included in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Taxation of non-resident trustee beneficiaries

The 2006-07 Budget foreshadowed legislative amendments to ensure that a trustee can be taxed on net income of the trust in relation to a non-resident trustee beneficiary in a similar way to the treatment of non-resident company and individual beneficiaries. Following confidential consultation on the draft legislation, the measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Indirect taxation

The Treasury provided advice on fuel tax reform, cleaner fuels, GST, tourist shopping and excise tax issues.

Fuel tax reforms

On 1 July 2006, the new fuel tax credit system took effect, implementing Government policy announced in the energy white paper *Securing Australia's Energy Future*. In line with Government commitments during the Parliamentary passage of the relevant legislation, the Treasury consulted with industry to ensure the fuel tax legislation had the intended consequences and delivered the Government's policy intent.

Cleaner fuels

As part of the cleaner fuels measure the Government announced in the 2003-04 Budget, a grant is being provided from 1 January 2007 to 31 December 2008 to suppliers of diesel with 10 parts per million or less of sulphur. This will encourage supply of this fuel into the domestic market before it becomes mandatory under the fuel standard on 1 January 2009. This measure was implemented via the *Energy Grants (Cleaner Fuels) Scheme Amendment Regulations 2006 (No. 1)*.

Goods and services tax

The Treasury implemented a number of small amendments to improve operation of the GST law. Several were announced in the 2007-08 Budget to assist taxpayers in meeting their GST obligations, following agreement from the States and Territories. The registration turnover threshold was increased to \$150,000 for non-profit bodies and \$75,000 for all other enterprises. As a result of this increase, more enterprises can opt to not register for GST. Those enterprises that voluntarily register may choose to prepare a single business activity statement each year. Further reductions in compliance costs were made through increasing the value of purchases on which enterprises can claim input tax credits without obtaining a tax invoice, from \$50 to \$75, and allowing more small businesses to access a simplified accounting method. The Government also decided that certain international telecommunications services, such as global roaming, would remain GST free.

Review of the administrative arrangements for tourist shopping

The Government made decisions following a review of the administrative arrangements for tourist shopping in Australia. The Treasury provided advice to the Government on implementing those decisions; a number require the unanimous agreement of the States and Territories.

Personal taxation

Advice to the Government on the design and implementation of a number of personal tax measures sought to promote economic growth and workforce participation, and improve the international competitiveness of Australia compared with other OECD countries.

Reductions in personal income tax

The 2007-08 Budget provided tax cuts worth \$31.5 billion over four years. The tax cuts which included changes to the low income tax offset were included in the *Tax Laws Amendment (Personal Income Tax Reduction) Act 2007*, which received Royal Assent on 21 June 2007.

From 1 July 2007:

- the 30 per cent threshold will increase from \$25,001 to \$30,001; and
- the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000 (up from \$10,000).

From 1 July 2008:

- the 40 per cent threshold will increase from \$75,001 to \$80,001; and
- the 45 per cent threshold will increase from \$150,001 to \$180,001.

Senior Australians will benefit from these changes and the increased low income tax offset. The low income tax offset adds to the tax offset available to seniors so that seniors eligible for the senior Australians tax offset will have \$1,000 more in their effective tax free threshold from \$24,867 to \$25,867 for singles and \$2,000 more from \$41,360 to \$43,360 for couples.

Child care

The Treasury advised the Government on changes to the child care benefit and child care tax rebate announced in the 2007-08 Budget.

This increased the rate of child care benefit by 10 per cent on top of annual indexation. In addition, the child care tax rebate is converted from a tax offset to a direct payment administered by Centrelink and payable shortly after the financial year in which the child care costs are incurred. This significantly brings forward the timing of the Child Care Tax

Rebate. In addition, lower income families who previously had insufficient income to receive their full rebate entitlement now can receive the full Child Care Tax Rebate.

Pre-filing electronic tax returns for simple tax affairs

The Treasury provided advice on pre-filing the electronic tax returns of around 9 million taxpayers who currently lodge their tax return electronically (either directly or through a tax agent). The ATO will pre-fill electronic returns with information on income from sources such as salary, wages, dividend and interest income, payments from Centrelink and the Department of Veterans' Affairs, Medicare out-of-pocket expenses and private health insurance information, and Higher Education Contribution Scheme and Higher Education Loan Programme details. This measure was announced in the 2007-08 Budget and will make completing income tax returns significantly easier for the 80 per cent of individual taxpayers who use e-tax or lodge their returns through a tax agent.

Employee share schemes

The Treasury advised the Government on and developed legislation extending the employee share scheme and related capital gains tax provisions to stapled securities that include an ordinary share and are listed on the Australian Securities Exchange, with effect from 1 July 2006. This measure increases the accessibility of employee share scheme concessions to employers with stapled securities, and decreases the complexity and cost associated with providing certain stapled securities to their employees.

This measure was included in the *Tax Laws Amendment (2007 Measures No. 1) Act 2007*, which received Royal Assent on 12 April 2007.

The Treasury hosted several consultation meetings industry representatives attended to discuss employee share scheme issues and identify inhibitors to employee participation in employee share schemes.

Fringe benefits — reducing regulatory burdens on business

Following the Report of the Taskforce on Reducing the Regulatory Burdens on Business, *Rethinking Regulation*, the Treasury advised the Government and developed the following fringe benefits tax measures:

- increasing the minor benefits exemption threshold from \$100 to \$300, reducing compliance and recordkeeping costs for employers who infrequently provide benefits that do not exceed \$300;
- increasing the reportable fringe benefits threshold from \$1,000 to \$2,000, enabling employers to reduce their compliance and recordkeeping costs by not having to report fringe benefits for employees who receive no more than \$2,000 worth of fringe benefits in the fringe benefits tax year; and
- increasing the reduction of taxable value for eligible fringe benefits (in-house fringe benefits and airline transport fringe benefits) from \$500 to \$1,000.

These measures were included in the *Tax Laws Amendment (2006 Measures No. 5) Act 2006*, which received Royal Assent on 23 October 2006.

Philanthropy — tax deductibility for the donation of certain publicly listed shares

The Treasury advised the Government and developed legislation extending the tax treatment of property donated to a deductible gift recipient, by allowing taxpayers to claim a tax deduction for the donation of publicly listed shares that have been held for at least 12 months and are valued at \$5,000 or less.

This measure was introduced in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Philanthropy — gift fund and integrity arrangements

The Treasury advised the Government and developed legislation that streamlines the gift fund and integrity arrangements for deductible gift recipients.

The requirement for certain deductible gift recipients to maintain a gift fund was removed, lowering administrative costs for affected deductible gift recipients.

In addition, the power of the Commissioner of Taxation to review the activities of deductible gift recipients endorsed under the general deductible gift recipient categories against the terms of their deductible gift recipients status was extended to specifically listed deductible gift recipients. The Government and the Parliament will retain the power to approve (or revoke) the status of specifically listed deductible gift recipients.

These measures were introduced in the *Taxation Laws Amendment (2006 Measures No. 7) Act 2007*, which received Royal Assent on 12 April 2007.

International taxation and tax treaties

The Treasury implemented or initiated a range of changes to international tax arrangements during 2006-07; a number addressed outstanding elements of the Government's response to the 2003 Review of International Tax Arrangements.

Reforms to the Australian CGT treatment of non-residents were in the *Tax Laws Amendment (2006 Measures No. 4) Act 2006*, which received Royal Assent on 12 December 2006. These reforms narrow the range of assets subject to Australian CGT and strengthen the integrity of the CGT regime. The reforms more closely align Australia's domestic CGT law with international practice and the approach adopted in Australia's tax treaties. These measures continue efforts to make investment in Australian multinational companies more attractive to foreign investors and encourage foreign businesses to establish regional holding companies in Australia.

Tax Laws Amendment (2007 Measures No. 3) Act 2007, which received Royal Assent on 21 June 2007, contained several amendments on international taxation, such as the range of debt interests (other than debentures) eligible for exemption from interest withholding

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tax under sections 128F and 128FA of the *Income Tax Assessment Act 1936* on interest paid to foreign residents. Broadly, eligibility is extended to non-equity shares, syndicated loans and other debt interests prescribed by regulation for that purpose. These amendments reduced uncertainty for taxpayers and the ATO by confirming the Government's policy intent in relation to debt interests, and enhanced the integrity of the tax base. The Act also introduced a new non-final withholding regime for distributions by managed investment trusts and Australian custodians to foreign resident beneficiaries of certain non-dividend, interest and royalty income sourced from Australia. A uniform withholding rate of 30 per cent is to be applied. This regime should reduce compliance costs and provide greater certainty around the law in this area. It replaced a multitude of existing arrangements. The final amendment was to extend by one year the existing transitional period relating to the application of accounting standards for thin capitalisation purposes, during which time taxpayers may elect to use either the former accounting standards or the current Australian adopted equivalents to International Financial Reporting Standards.

Regulations were made to enable United Kingdom Limited Liability Partnerships to satisfy the partnership treatment arrangements for the purposes of the foreign hybrid rules in Division 830 of the *Income Tax Assessment Act 1997*. This is consistent with the Government's policy intent in this area, which seeks to avoid the risk that entities face double taxation and significant compliance costs as a result of being classified differently between jurisdictions.

Legislation to give effect to the Government's 2005-06 Budget announcement to abolish the current quarantining rules that have applied to foreign tax credits and foreign losses was in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007. It also proposes the replacement of the existing legislation with new simplified foreign income tax offset rules.

The Treasurer announced on 10 October 2006 that the Board of Taxation would undertake a review into Australia's foreign source income anti-tax-deferral regimes (that is, the controlled foreign company, the foreign investment fund, the transferor trust and the deemed present entitlement rules). The review aims to identify ways to reduce the complexity and compliance costs associated with the anti-tax-deferral regimes and examine whether the regimes strike an appropriate balance between effectively countering tax deferral and unnecessarily inhibiting Australian companies from competing in the global economy. The Treasury assisted the board in conducting the review, including providing input to prepare a discussion paper.

The Treasury consulted with industry on the impact of Australian adopted equivalents to International Financial Reporting Standards for those entities subject to the thin capitalisation regime.

Comprehensive tax treaties

The Government's tax treaty programme of 20 countries promotes closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment caused by overlapping taxing jurisdictions. Tax treaties offer

protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During 2006-07, negotiations were held with six countries and resulted in tax treaties being signed by the Government with Norway and Finland. Further, legislation was passed to give effect to international assistance in tax collection and legislation was introduced to give the force of law to the revised treaties with France, Norway and Finland. Tax policy advice was provided on various international agreements, including free trade, film cooperation proposals, and privileges and immunities requests the Government is negotiating.

Tax Information Exchange Agreements

Two further Tax Information Exchange Agreements were signed, with Antigua and Barbuda in January 2007 and the Netherlands Antilles in March 2007. Both provide for full exchange of information on criminal and civil tax matters between Australia and the treaty partner. These agreements are important elements in broader efforts to combat offshore tax evasion and avoidance, and broader criminal activity such as money laundering. Negotiations for further agreements with other jurisdictions with offshore financial centres were advanced.

International representation

The Treasury represented Australia on the OECD Committee on Fiscal Affairs and associated working parties dealing with international tax matters, particularly those related to the development of comprehensive tax treaty policy and the harmful tax practices initiative. Representation also was provided to the related Global Forum on Taxation, which comprises OECD member countries and offshore financial centre jurisdictions committed to implementing higher standards of transparency and information exchange. Australia is a member of the sub-group, which guides its deliberations. In addition, the Treasury represented Australia on the United Nations Committee of Experts on International Cooperation in Tax Matters.

Tax system review

The Treasury provided advice, and developed legislation, on systemic issues in tax policy and administration on issues that affect the tax system's operation, especially its efficient administration.

Areas of primary focus include compliance and enforcement, taxpayers' rights, collection and recovery, the role of tax agents, the assessment process, ATO rulings and advice, tax offences and penalties, tax identity, disclosure of taxpayer information and record keeping obligations.

The Government announced reviews, or its decisions on reviews, on:

- taxation secrecy and disclosure provisions. The Government agreed to implement the recommendations of the review for a single set of standardised

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provisions to replace the plethora of existing rules to reduce repetition and inconsistency;

- anti-avoidance provisions. The review will examine the scope for reducing repetition and standardising the operation of similar anti-avoidance provisions;
- Commissioner of Taxation discretions. The review will increase certainty for taxpayers by replacing certain discretions with tests that taxpayers can apply at the time of lodgment;
- tax practitioner regulations. The review will reduce the level of risk taxpayers face by ensuring appropriate regulation of tax practitioners; and
- open-ended review periods. The review proposes to increase certainty for taxpayers by replacing open-ended review periods with a set period after which a taxpayer's liability is considered to be final.

A standard eligibility criterion that applies across the small business tax concessions available in the taxation legislation was introduced in *Tax Laws Amendment (Small Business) Act 2007*, which received Royal Assent on 21 June 2007. Before this, multiple eligibility criteria across small business concessions caused complexity and unnecessary compliance costs for small businesses.

Secrecy and disclosure provisions in the Taxation Administration Act 1953 were amended in *Tax Laws Amendment (2007 Measures No. 1) Act 2007*, which received Royal Assent on 12 April 2007. It allows the Commissioner of Taxation to make disclosures of taxpayer information to Project Wickenby taskforce officers and other prescribed taskforces officers.

Policy evaluation frameworks

The Treasury, in collaboration with the ATO, has enhanced procedures to assess and quantify the compliance cost impacts of new taxation measures. The new procedures should improve the quality of advice provided to ministers and respond to the increasing community and government concern to balance the benefits of tax regulation with the efficiency, compliance and administration costs associated with its implementation.

The Treasury has further increased capacity through quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes. This has included working with the Melbourne Institute Tax and Transfer Simulator behavioural microsimulation model developed by the Melbourne Institute.

Repeal of inoperative provisions

The *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* repealed over 4,100 pages of taxation provisions that had become inoperative, including all of the sales tax Acts and over 2,300 pages of income tax law. A draft Bill was exposed for public consultation in April and May 2006 and the resulting Act received Royal Assent on 14 September 2006.

Technical corrections and minor improvements

Measures to make technical corrections and amendments to the tax laws and other minor improvements involving no policy change were included in three Bills introduced in 2006-07. All three bills have been enacted: the *Tax Laws Amendment (2006 Measures No. 6) Act 2007* received Royal Assent on 19 February 2007, the *Tax Laws Amendment (2007 Measures No. 2) Act 2007* received Royal Assent on 21 June 2007 and the *Tax Laws Amendment (2007 Measures No. 4) Act 2007* received Royal Assent on 24 September 2007.

Community consultation

The Treasury consults to gather information about the practical operation of the taxation system and improve the quality and effectiveness of proposed changes to the system. Community consultation continued to be a priority, with liaison with peak bodies on tax system issues and extensive consultation on individual measures. The Treasury continues to evaluate its consultation processes to improve them. It prepares a report three times a year which outlines the consultation strategy for each announced tax measure, the progress of the measure and a contact officer for the consultation. These reports are published on the Treasury website and are provided to the Board of Taxation to assist it monitor consultation processes. The Treasury participated in the Board of Taxation's review of international consultations processes which sought to identify any improvements to the Australian system. The board's report was released in August 2007.

Publications

Intergenerational Report

Revenue Group contributed to updating projections in *Intergenerational Report 2007* released in April 2007, including projections for population, labour force, GDP, superannuation, pensions, allowances, family payments aged care and revenue.

OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

The Treasury provided advice to the Government on the revenue aspects of superannuation, retirement income and saving policy, and advised on developing effective retirement income and saving policy in the context of demographic change.

Personal and Retirement Income Division (which incorporates the former Superannuation, Retirement and Savings Division) contributes to Output 3.1.2. The division consults widely across the private and public sectors. It has close relationships with the Tax Analysis Division which prepares revenue forecasts, costings of policy proposals and other quantitative studies, and provides strategic analysis of tax-related issues, and with the Tax Design Division which formulates a strategic direction on organisational issues and provides key services, such as managing the legislation programme, budgeting and administration.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to retirement income and saving policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- law relating to retirement income and saving policy is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programmes.

ANALYSIS OF PERFORMANCE

Better Super reforms

On 5 September 2006, after extensive industry consultation, the Government released the outcomes of consultation to simplify and streamline superannuation. The Treasury coordinated the consultation process, analysed submissions and provided policy advice to the Government.

During 2006-07 the Treasury, with the Office of Parliamentary Counsel and the Office of Legislative Drafting, developed the legislation and regulations to implement the reforms, in a short timeframe. Approximately 700 pages of legislation and associated explanatory

material were prepared for Parliament. As a result of the reforms, superannuation law was consolidated in the *Income Tax Assessment Act 1997*; readability and usability of the law was improved; and the number of pages of superannuation taxation law was reduced by over one third.

The *Tax Laws Amendment (Simplified Superannuation) Act 2007* and associated Acts that gave effect to the reforms received Royal Assent on 15 March 2007.

Targeted consultation on the legislation and regulations took place with the superannuation industry, employers and other interested groups, and government departments and agencies. Some public consultation on the regulations also occurred.

The Treasury established and maintained a website to provide up-to-date information on the reforms and the developing legislation and regulations. It proved a useful tool during consultation and in maintaining community awareness about the reforms.

The Treasury contributed to development of the ATO's 'Better Super' information initiative through the technical review of different education products and provision of financial modelling.

The Treasury will continue to monitor the implementation of the new regime in 2007-08.

Other superannuation measures

The Treasury also consulted with the superannuation sector, provided policy advice, developed legislation and implemented other superannuation issues, including:

- payment of an additional one-off doubling of the Government superannuation co-contribution for eligible personal superannuation contributions made during 2005-06;
- allowing a superannuation fund to invest in installment warrants of a limited recourse nature;
- preventing public offer funds from requiring an employer to become a standard employer sponsor before accepting contributions made on behalf of an existing member;
- providing for concessional taxation treatment for lump sum benefits paid to non dependants of Defence Force Personnel or Australian Federal Police killed in the line of duty;
- introducing new rules to allow the Commissioner of Taxation to provide information to employees on the progress of their Superannuation Guarantee Complaints;

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- guiding superannuation fund trustees on how to work out the amount of pre-1 July 1988 funding credits that can be used to reduce the taxable contributions that are included in the assessable income of the fund; and
- negotiating and implementing social security treaties to provide exemptions from the need to make compulsory superannuation or social security contributions for employees working temporarily in treaty countries. The social security treaty with Norway commenced during the year. Social security treaties were signed with Switzerland, Republic of Korea, Japan, Germany and Greece, but have not yet commenced. Negotiations continue with a number of other countries including Austria, Latvia, the Czech Republic, Poland, the Slovak Republic and France.

OUTCOME 4: WELL FUNCTIONING MARKETS

A well functioning market economy and financial system is integral to Australia's continuing economic development and the wellbeing of its people. Improving the operation of markets is intended to underpin stronger sustainable economic growth and enhanced living standards.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on forming and implementing policies to support well functioning markets. The 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 from market distortions and impediments. The Treasury also provides the executive for the Takeovers Panel and the Financial Reporting Panel, and is represented on the advisory board of the Australian Government Actuary.

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

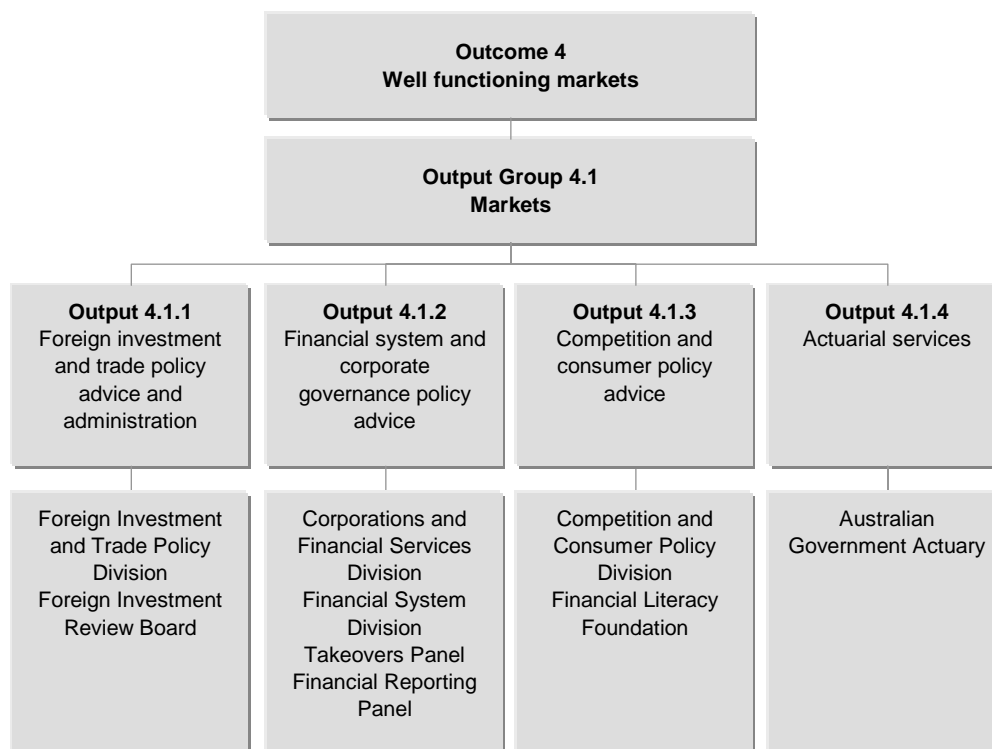
Markets Group is involved in consultations, particularly where reforms or new Government measures are proposed, with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders.

In 2006-07, Markets Group provided advice on a range of issues affecting the operation of markets. For financial markets, that included advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency and corporate financial reporting. For markets more generally, that included advice on structural reforms in key sectors and the operation of competition and consumer policy, including issues of financial literacy. Markets Group also provided professional actuarial services, and advice on foreign investment and trade policy.

Markets Group also commenced negotiations with New Zealand for an investment protocol under the Closer Economic Relations Agreement, and continued to contribute to the Free Trade Agreement negotiations with Japan, Chile, China, Malaysia, the Gulf Cooperation Council and, in partnership with New Zealand, the Association of Southeast Asian Nations (ASEAN).

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating and implementing policies in support of well functioning markets.

Figure 7: Outputs contributing to Outcome 4



KEY PRIORITIES IN 2006-07

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Markets Group in 2006-07:

- policy relating to general foreign investment and trade, including foreign investment proposals;
- policy relating to the financial system, corporations and the financial services sector, including a range of initiatives to improve the frameworks for corporate insolvency and corporate groups;
- policy relating to a sound and efficient prudential framework with particular emphasis on banking, insurance and superannuation;

- policy relating to structural reform in key sectors of the economy, including energy, transport and communications, in conjunction with other government departments and agencies;
- policy relating to competition and consumer policy matters, including legislative amendments to the *Trade Practices Act 1974*;
- improving regulation and competition in the financial sector by facilitating well functioning and competitive financial markets, particularly by addressing banking competition and insurance market issues, improving the effectiveness of regulation, developing a single economic market with New Zealand in banking and insurance services, monitoring market supervision issues and responding to the assessment of Australia's financial system by the IMF;
- implementing trade, investment and competition policy priorities in relation to the Government's commitment to negotiate four free trade agreements — with China, ASEAN, Malaysia and the United Arab Emirates — as well as negotiating an investment protocol under the Closer Economic Relations Agreement with New Zealand. Other priorities include progressing trade and investment issues in APEC, G-20 and World Trade Organization (WTO);
- monitoring international and local compliance with foreign investment and trade policies, including by processing foreign investment applications, and further examining reform options with a focus on reducing compliance and administrative costs;
- representing Australia's interests in forums such as the OECD and APEC;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing, and corporate insolvency including the development of ways to further integrate the Australian and US financial services sectors, with a focus on regulatory recognition, including through the Financial Services Committee established under the Australia-US Free Trade Agreement;
- improving the regulatory framework for corporations and financial services, including by implementing reforms relating to corporate insolvency and corporate groups, reviewing the design of offences under the *Corporations Act 2001*, advising on the implementation of international financial reporting and auditing standards, implementing reforms to the *Insurance Contracts Act 1984* and refining financial services reforms;
- implementing the reform agenda for competition policy, including implementing reform to the *Review of the Competition Provisions of the Trade Practices Act* (the Dawson Review), the Senate small business report, criminal sanctions for cartels and the National Access Regime;

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- providing advice under the framework for the National Reform Agenda, agreed by COAG in February 2006, that builds on the National Competition Policy arrangements particularly in the key infrastructure areas of energy, transport and infrastructure regulation and in best practice regulation;
- implementing the Treasury's contribution to the Government's response to the Report of the Taskforce on Reducing Regulatory Burdens on Business;
- reviewing the Australian consumer policy framework, in particular, the product safety framework and penalties available for consumer protection;
- developing and delivering a range of financial literacy initiatives that will build the capacity of Australians to better manage their money and to take advantage of significant reforms to the finance sector through the work of the Financial Literacy Foundation;
- maintaining successful operations of the Australian Government Actuary, Financial Reporting Panel and the Takeovers Panel;
- providing secretariat services to the Financial Reporting Council, Financial Sector Advisory Council, the Ministerial Council on Consumer Affairs, the Ministerial Council for Corporations and the Commonwealth Consumer Affairs Advisory Council; and
- providing support for Treasury portfolio ministers when considering appointments to the statutory and non-statutory bodies within Outcome 4.

KEY OUTCOMES IN 2006-07

In 2006-07, Markets Group advice covered a broad agenda, including corporate governance, market integrity, financial system safety, financial product safety, financial literacy, competition and consumer policy, and protection of the national interest under Australia's foreign investment policy.

Key Group outcomes included:

- working on a range of international investment cooperation issues, particularly the Trade and Investment Framework with Indonesia, a Trade and Economic Framework with India, and an Investment Protection and Promotion Agreement with Mexico. Markets Group also contributed to Free Trade Agreement negotiations with Japan, Chile, the Gulf Cooperation Council, China, Malaysia and — in partnership with New Zealand — ASEAN;
- assisting the Council of Financial Regulators in formulating recommendations for the Government to consider in dealing with distressed financial institutions, including a Financial Claims Scheme to enhance current arrangements;

- contributing to Australia's participation in the IMF's financial sector assessment programme which found Australia to have a high level of compliance with the relevant core principles;
- developing and assisting passage of the *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* and introduction of the Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 to simplify and streamline regulation of corporations, financial services and prudential regulation, incorporating implementation of several recommendations in the *Report of the Taskforce on Reducing Regulatory Burdens on Business — Rethinking Regulation*;
- releasing for public consultation a draft bill of reforms to the *Insurance Contracts Act 1984* and a consultation paper proposing reforms to the framework for reviewing decisions of the Australian Prudential Regulation Authority;
- developing and introducing into Parliament the Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 to implement the Government's announced approach to regulating discretionary mutual funds and direct offshore foreign insurers, addressing a prudential regulatory gap identified in the 2003 HIIH Royal Commissioner's report;
- developing and introducing into Parliament the Corporations Amendment (Insolvency) Bill 2007 to improve the efficiency and cost effectiveness of insolvency processes, strengthen the rights of employees and enhance the capacity of creditors to maximise their returns;
- promoting international cooperation on regulatory frameworks by working with regional partners to identify the host for the 2007 regional policy on International Financial Reporting Standards and participating in the OECD steering group on corporate governance;
- working with the Department of Finance and Administration to implement the recommendations arising from the Review of Corporate Governance of Statutory Office Holders (Uhrig Review) for Treasury portfolio bodies, including the enactment of the *Governance Review Implementation (Treasury Portfolio Agencies) Act 2007*;
- overseeing the implementation of the Government's response to the Taskforce on Reducing Regulatory Burdens on Business announced on 15 August 2006 and, in particular, introducing enhanced regulation-making and review arrangements;
- working with the Department of the Prime Minister and Cabinet, along with relevant Commonwealth and State agencies, to develop specific reform proposals for the human capital, competition and regulatory reforms as well as governance arrangements for the National Reform Agenda. COAG largely

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endorsed the reform proposals at its 13 April 2007 meeting and the COAG Reform Council, as the governance body for the National Reform Agenda, commenced operations on 6 June 2007;

- continuing to progress competition policy reforms to the *Trade Practices Act 1974* including: through passing the *Trade Practices Legislation Amendment Act (No. 1) 2006* (the Dawson Act) and associated regulations, the *Trade Practices Amendment (National Access Regime) Act 2006*, and the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* (CER Act); introducing the Trade Practices Legislation Amendment Bill (No. 1) 2007 into Parliament; and developing a draft Bill to implement criminal sanctions for cartels;
- contributing to implementation of energy market reforms set out in the Australian Energy Market Agreement and development and implementation of the additional energy market reforms agreed by COAG in April 2007 as part of the National Reform Agenda;
- developing and progressing implementation of the Government's responses to the Productivity Commission's reviews of the price regulation of airport services, announced on 30 April 2007, and Part X of the *Trade Practices Act 1974*, announced on 4 August 2006;
- providing a submission to the Senate Economics Committee's Inquiry into the Price of Petrol in Australia in September 2006;
- playing a leading role in progressing the APEC Leaders' Agenda to Implement Structural Reform and encouraging greater dialogue in APEC's Economic Committee and other forums, including organising three APEC Policy Dialogue Workshops on Financial Sector Reform under the APEC Finance Ministers' Reform of the Financial Sector Initiative;
- continuing to chair the APEC Investment Experts Group and hosting the High Level Public-Private Dialogue on the Policy Framework for Investment in Melbourne in April 2007;
- hosting the 2007 National Consumer Congress, held over two days in Melbourne, and featuring high profile Australian and international experts speaking on consumer policy issues;
- continuing to participate in Ministerial Council processes examining options for achieving greater uniformity in Australia's consumer product safety system;
- delivering the *Understanding Money* media campaign, website and handbook, and facilitating introduction of financial literacy into the curriculum across the compulsory years of schooling;

- developing and helping to pass the *Financial Sector Legislation (Trans-Tasman Banking Supervision) Amendment Act 2006* to allow the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand to support each other in their functions relating to banking supervision;
- continuing the greater coordination of business law with New Zealand. The CER Act received Royal Assent on 21 June 2007. It sets in place a regime for the mutual recognition of securities offerings. The Act reduces the filing requirements for New Zealand companies operating in Australia and enhances the ACCC's ability to share information with others, including the New Zealand Commerce Commission;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel; and
- effectively managing the HIH Claims Scheme. At the end of June 2007, over 10,000 claims had been finalised and \$560 million had been paid in assistance since the scheme began in 2001. In November 2006, the Government announced closure of the gateway facility for late applications for assistance under the scheme. Work is continuing on the 840 claims that remain to be settled.

Table 6: Financial and staffing resources summary for Outcome 4

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	(326)	5,000
Appropriation Acts No. 2 and 4	170,292	170,292	173,204
Special Appropriations	1,477	-	-
Other expenses	-	7	-
Total administered expenses	176,769	169,973	178,204
Revenue from Government			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	4,048	4,764	4,944
Output 4.1.2 Financial system and corporate governance policy advice	21,685	22,011	23,195
Output 4.1.3 Competition and consumer policy advice	13,737	13,468	20,861
Output 4.1.4 Actuarial services	-	-	-
Total revenue from Government contributing to the price of departmental outputs	39,470	40,243	49,000
Revenue from other sources			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	78	474	113
Output 4.1.2 Financial system and corporate governance policy advice	259	437	387
Output 4.1.3 Competition and consumer policy advice	623	382	316
Output 4.1.4 Actuarial services	1,580	1,395	1,613
Total revenue from other sources	2,540	2,688	2,429
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,010	42,931	51,429
Price of departmental outputs			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	4,126	5,971	5,057
Output 4.1.2 Financial system and corporate governance policy advice	21,944	21,543	23,582
Output 4.1.3 Competition and consumer policy advice	26,097	25,454	21,177
Output 4.1.4 Actuarial services	1,580	1,324	1,613
Total price of departmental outputs	53,747	54,292	51,429
Total estimated resourcing for Outcome 4 (Total price of outputs and administered expenses)	230,516	224,265	229,633
Average staffing levels (number)	247	262	248

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION

During 2006-07, Foreign Investment and Trade Policy Division was responsible for the delivery of Output 4.1.1: Foreign investment and trade policy advice and administration.

Markets Group provided advice on foreign investment proposals, providing executive support to the Foreign Investment Review Board and making decisions under the *Foreign Acquisitions and Takeovers Act 1975* (FATA) and Australia's foreign investment policy under authorisations provided by the Treasurer, consistent with the policy. It also advised the Government on foreign investment and trade policy as it relates to Australia's participation in multilateral and bilateral agreements on investment. Further, Markets Group provided the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities;
- foreign investment proposals are processed efficiently to meet the needs of Ministers, the Foreign Investment Review Board, foreign investors and their agents;
- foreign investment policy is effectively disseminated and explained to improve the standard of applications and compliance with policy requirements;
- a programme of compliance checks is undertaken on previous proposals subject to conditions — possibly leading to prosecutions, but aimed to reduce overall non-compliance;
- government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums; and
- the OECD Guidelines for Multinational Enterprises are promoted and the responsibilities of the Australian National Contact Point are fulfilled.

ANALYSIS OF PERFORMANCE

Advice on and processing of individual foreign investment proposals

Foreign investment proposals that fall within the scope of the FATA or Australia's foreign investment policy are examined to determine whether they might be contrary to the national interest.

Where a foreign person enters into an agreement to acquire an interest in Australian urban land, they must notify the Treasurer under section 26A of the FATA. In most real estate cases, applicants are required to comply with specified conditions. Where a foreign person proposes to acquire a substantial interest⁴ in an Australian corporation valued above \$100 million — or from 1 January 2007, \$871 million for a US investor, except acquisitions involving a US government or in prescribed sensitive sectors — they must notify the Treasurer under section 26 of the FATA. During 2006-07, separate thresholds were introduced for offshore takeovers where the Australian subsidiary/assets represented less than 50 per cent of the global assets. The Treasurer must be notified of proposals to establish a new business valued at over \$10 million, and proposals involving direct investments by foreign governments and their agencies, regardless of size.

Under authorisation from the Treasurer, senior Treasury officers make decisions on less complex proposals that do not involve issues of high sensitivity. Around 95 per cent of proposals are decided under such authorisation.

The Treasury considered around 7,000 proposals in 2006-07, around 20 per cent more than in 2005-06. Over 90 per cent of proposals were decided within 30 days. The Treasury also received around 42,000 telephone calls and 5,000 items of written and email correspondence during the year. In examining large or otherwise significant proposals, the Treasury consults with State and Australian government departments and authorities, with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals.

During 2006-07, the Foreign Investment Review Board (an independent body established in 1976 to advise the Treasurer on foreign investment matters) provided advice to the Treasurer on a number of major proposals and also oversaw the overall investment screening functions of the division. The General Manager of Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is contained in the Foreign Investment Review Board's annual report. A copy and other information is available at www.firb.gov.au.

4 A substantial interest is defined as an interest of 15 per cent or more for an individual foreign person, or a interest of 40 per cent or more for two or more foreign persons, and their associates.

Compliance standards

The Treasury monitored compliance with the FATA and Australia's foreign investment policy, and maintained a rolling programme of targeted follow-up of conditions imposed on previous approvals. The Treasury examined around 4,000 decided proposals to ensure conditions were fulfilled and monitored major conditional business sector approvals. It also undertook more complex compliance investigations based on information from other government agencies and the public. In some instances, this resulted in follow-up action against foreign parties, including prosecution.

Representation in international forums

The Treasury provides policy input on international investment issues in multilateral forums such as the WTO and the OECD, in regional forums such as APEC, and bilaterally through free trade agreements (FTA), Investment Protection and Promotion Agreements (IPPA) and other bilateral partnerships.

Free trade agreements/closer economic cooperation

New negotiations

In 2006-07, the Australian Government commenced FTA negotiations with Japan, Chile and the six members of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The Treasury is involved in negotiating investment-related provisions in each of these agreements.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing FTA negotiations with ASEAN, China and Malaysia. It was also lead agency in Investment Protocol negotiations between Australia and New Zealand.

In November 2006, Australia recommenced long-standing negotiations with Russia on a bilateral IPPA. The Treasury participated in these negotiations along with the Department of Foreign Affairs and Trade (DFAT) and the Attorney-General's Department.

Other processes

The Treasury was involved in the DFAT led Joint Experts Group that is investigating ways to strengthen economic links between Australia and Mexico, including the possible negotiation of a bilateral FTA.

Organisation for Economic Co-operation and Development

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

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The Investment Committee oversees the operation of the OECD Guidelines, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, taxation and consumer welfare. As a member of the OECD, the Australian Government has committed to promote and implement the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point (ANCP), the General Manager of the Foreign Investment and Trade Policy Division.

In 2006-07, the ANCP reviewed a submission lodged in August 2006 by a consortium of five non-government organisations (the complainants) alleging that an Australian bank, through its financial links with a Malaysian-owned forestry company operating in Papua New Guinea, had breached various provisions of the OECD Guidelines for Multinational Enterprises. The ANCP commenced an initial assessment as to whether the issues raised warranted further consideration as a specific instance. After consideration, the ANCP determined that it would not be appropriate to accept the complainants' request to consider this as a specific instance. The ANCP released a final statement on 16 October 2006.

The ANCP also worked to enhance and reinvigorate its promotional programme of guidelines for the future. Preparations are underway for a business and community consultation focused on the financial sector in late 2007.

Asia-Pacific Economic Cooperation

Since becoming convenor of the Investment Experts Group in early 2005, the Treasury has undertaken a more active and strategic role in APEC's investment liberalisation and facilitation agenda. This leading role continues to form a significant part of the Treasury's contribution to developing key policy themes and priorities for APEC, which Australia hosted in 2007. In April 2007, the Treasury hosted a high level public-private policy dialogue on the Policy Framework for Investment (PFI) which showcased recent efforts by Vietnam, Indonesia and the Philippines to use the PFI to guide investment climate reform strategies. Since the PFI dialogue, the Treasury in partnership with OECD and Japan is contributing to a project to undertake a detailed assessment of Vietnam's investment climate reform strategies against several chapters of the PFI, which AusAID is funding under its ongoing strategic partnership agreement with the Treasury.

Liaison with Department of Foreign Affairs and Trade

In addition to participating in FTA and IPPA negotiations, the Treasury provides specialised advice to DFAT on Australia's involvement in the WTO Doha round of negotiations on the General Agreement on Trade and Services.

OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE

During 2006-07, the Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel and the Financial Reporting Panel, were responsible for the delivery of Output 4.1.2: Financial system and corporate governance policy advice.

Markets Group provided advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting, the responsible portfolio agencies, and currency.

Markets Group is also responsible for administering the companies regulation payments to the States and the Northern Territory.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues;
- relevant information is presented effectively to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is effective; and
- ministerial correspondence is handled satisfactorily.

The key performance indicators for administered items are:

- amounts payable, according to agreed formulas, are accurately calculated; and
- payments are made according to agreed schedules.

ANALYSIS OF PERFORMANCE

The Treasury provided advice and programme support to Treasury portfolio ministers, and engaged with other agencies on issues relating to financial institutions, financial markets and issues concerning corporate disclosure, governance and insolvency. The Treasury also processed related ministerial correspondence, published relevant information and met other procedural requirements. It provided effective support services to advisory bodies, liaised and consulted with stakeholders and represented the Australian Government at various meetings.

Financial system reform

Financial Claims Compensation Scheme

The Treasury contributed to the continuing work of the Council of Financial Regulators examining crisis management arrangements in Australia. The council has endorsed many of the arrangements currently in place for dealing with distressed financial institutions, while also identifying some aspects of these arrangements which could be clarified and strengthened. It also recommended that the Government consider introducing a financial claims compensation scheme to enhance current arrangements. The council consulted further with industry on the proposed scheme and its design during 2006-07 before reporting to the Treasurer. The Treasury participated actively in this process.

Reducing Regulatory Burdens on Business

The Treasury assisted the Government in implementing its response to the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006. On 4 December 2006, the Minister for Revenue and Assistant Treasurer released a proposals paper *Streamlining Prudential Regulation: Response to 'Rethinking Regulation'* and legislation giving effect to most of the proposals in the paper was introduced into Parliament on 21 June 2007. The Government also conducted further consultation on certain proposals relating to the review of administrative decisions made by the Australian Prudential Regulation Authority (APRA) in May 2007.

General Insurance Stage 2 Reforms

The Treasury continued to liaise with APRA and industry stakeholders and provided advice to the Government on APRA's proposed further reforms to the general insurance prudential framework, collectively known as the General Insurance Stage 2 Reforms.

These reforms primarily include prudential standards on corporate governance arrangements, 'fit and proper' requirements, risk and financial management, outsourcing arrangements and prudential supervision of corporate groups involving an authorised general insurer. Final prudential standards were implemented from 1 October 2006.

Money laundering

The Treasury assisted the Attorney-General's Department in developing Australia's anti-money laundering and counter-terrorist financing regime, meeting Australia's commitments to the Financial Action Task Force recommendations. The *Anti-Money Laundering and Counter-Terrorism Financial Act 2006* (AML Act), was passed in December 2006. It established a risk based approach to regulation, regulating the financial services sector, gambling services and bullion dealers in the first instance. The AML Act has a staggered implementation until December 2008. It will be administered by the Australian Transaction Reports and Analysis Centre.

The Attorney-General's Department is developing a second tranche of anti-money laundering and counter-terrorist financing legislation to extend coverage to real estate agents, dealers in precious metals and stones, lawyers, notaries, other independent legal professionals and accountants, and trust and company service providers.

The Treasury continues to work with the Attorney-General's Department, other government departments and regulators, and the financial sector to resolve implementation issues, support the extension of the legislation, and ensure Australia's interests are represented in international forums dealing with anti-money laundering and counter-terrorist financing.

Professional indemnity and public liability insurance

In December 2006, the Minister for Revenue and Assistant Treasurer released the Treasury publication *Available and affordable: Improvements in Liability Insurance following Tort Law Reform in Australia*. It outlines reforms to tort law Australian jurisdictions have undertaken in recent years.

In 2007, the Australian Government prescribed three more professional standards schemes. These were the Engineers Australia (NSW) Scheme, the Law Society of NSW Scheme and the Investigative and Remedial Engineers Scheme. The schemes limit the occupational liability of eligible members to certain amounts, in return for risk management practices and compulsory insurance cover.

Commonwealth prescription helps prevent plaintiffs from undermining State and Territory professional standards schemes by using Commonwealth legislation as an alternative avenue for legal action.

Terrorism insurance

The Treasurer released the *Terrorism Insurance Act Review: 2006* in September 2006. The review recommended that the terrorism insurance scheme continue to operate, subject to a further review within three years. The review also recommended modifications to the terrorism insurance scheme. The Treasurer made these modifications in April 2007 by issuing two ministerial directions to the Australian Reinsurance Pool Corporation and the Government amending the *Terrorism Insurance Regulations 2003*.

Adoption of non-operating holding company structures

In June 2007, legislation was passed which amended the *Financial Sector (Business Transfer and Group Restructure) Act 1999* to facilitate adoption of a non-operating holding company as the ultimate holding company of a financial group in Australia.

The Treasury consulted extensively with stakeholders in preparing this legislation. As a result, the amendments provide greater flexibility for financial groups in choosing a corporate structure to manage their risk exposures and comply with prudential requirements while allowing them to improve their business efficiency and international competitiveness.

Discretionary mutual funds and direct offshore foreign insurers

The Minister for Revenue and Assistant Treasurer announced the Government's approach to regulating discretionary mutual funds and direct offshore foreign insurers. The Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 was introduced into Parliament on 21 June 2007. The Treasury continues to progress implementation of the Government's decision.

Natural disaster insurance

The Treasury is working with the Insurance Council of Australia and other Australian Government departments on a range of activities to map, mitigate and manage the impact of natural disasters on the community.

Pandemic preparedness

The Treasury has participated in inter-departmental work led by the Department of the Prime Minister and Cabinet on pandemic preparedness in relation to access to financial resources. A focus is to avoid or minimise disruption to financial institutions and services in a pandemic. Within the framework provided by the National Action Plan for Human Influenza Pandemic, the Treasury has worked with portfolio agencies and the financial sector to facilitate appropriate planning for a possible pandemic, including in relation to the availability of telecommunications and other critical infrastructure such as the payments system.

Implementation of the Uhrig Review recommendations

The Treasury is continuing to work with the Department of Finance and Administration to implement recommendations arising from the Uhrig Review. An important milestone was reached with enactment of the *Governance Review Implementation (Treasury Portfolio Agencies) Act 2007*, which transferred APRA, the Australian Securities and Investments Commission (ASIC) and the Corporations and Markets Advisory Committee to a new governance and financial framework from 1 July 2007.

The Treasury also commenced a review of the governance arrangements of the Australian Accounting Standards Board and the Auditing and Assurance Standards Board in line with

the recommendations in the Uhrig Review. These boards are expected to move to a new governance and financial framework from 1 July 2008.

Financial sector trends

The Treasury has continued to advise Government on emerging market trends and structures. Work has included assessing market developments and new products, monitoring trends affecting competition in the financial sector and considering potential developments which may undermine the stability of existing policy settings. In addition, the Treasury has advised Government on developments in relation to banking fees and charges.

Financial services developments

Simpler Regulatory System Act

The *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* (SRS Act) received Royal Assent on 28 June 2007. The reforms followed extensive consultation with stakeholders. The SRS Act simplifies and streamlines the operation of financial services regulation and seeks to reduce the costs of regulatory compliance. It implements a number of recommendations in the report of the Taskforce on Reducing Regulatory Burdens on Business.

Financial services licensees' compensation arrangements

Regulations commenced on 1 July 2007 regarding compensation arrangements for financial services licensees who provide services to retail clients.

The regulations reflect comments from the consultation processes and help determine what constitutes adequate compensation arrangements. This includes extensive transitional arrangements.

Financial services regulatory refinements

On 23 March 2007, the Parliamentary Secretary to the Treasurer released for public consultation a package of proposed amendments to the *Corporations Regulations 2001* as part of the Government's ongoing commitment to simplifying the corporate and financial services regulatory system. The proposed amendments will improve the operation of financial services regulation in Australia, reduce the regulatory burden and improve industry efficiencies.

The regulations are expected to be made later in 2007 after consideration of matters arising from consultation.

Review of product rationalisation

The Treasury released the *Product Rationalisation Issues Paper* which discusses approaches to merging or consolidating products of a similar nature into a single investment product

with equivalent features and benefits. The process aims to remove outdated legacy products by transferring investors into other, more efficient products. The paper identifies issues involved in developing a product rationalisation mechanism.

International liaison

IMF Financial Sector Assessment Programme

The IMF conducted a Financial Sector Assessment of Australia, assessing the codes and standards relating to banking, insurance, securities and the payments system.

A macroeconomic stress test assessed the strengths and vulnerabilities of major banks to an economic downturn.

In October 2006, the IMF released the 'Detailed Assessment of Observance of Standards and Codes'. Australia was rated strongly in the assessments, and was found to have a high level of compliance with the relevant core principles. The IMF noted that in a number of areas Australia is at the forefront of best practices.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and New Zealand Minister of Finance on promoting a joint approach to trans-Tasman banking supervision to deliver a seamless regulatory environment for banking services. The council is chaired jointly by the Secretaries to the Treasuries of Australia and New Zealand, and its membership also comprises senior officials from APRA, and the Reserve Banks of New Zealand and Australia.

The Treasury has pursued the council's work programme set out by Ministers, which includes looking at improved cooperation on crisis management, promoting seamless services provision for customers and sharing experiences on improving the quality of insurance regulation.

The Treasury assisted the council by preparing the *Financial Sector Legislation Amendment (Trans-Tasman Banking Supervision) Act 2006*, which promotes greater cooperation between the Australian and New Zealand banking supervisors in fulfilling their statutory functions. The legislation requires the supervisors to support each other in performing their statutory responsibilities and, as much as practicable, avoid actions likely to have a detrimental effect on financial system stability in the other country. They are also to consider the implications of their actions for the financial system stability in the other country and, where reasonably practicable, consult each other before exercising a power that is likely to be detrimental to the other country's financial system stability.

Coordination of business law with New Zealand

A revised Memorandum of Understanding on coordination of business law was signed by Australian and New Zealand Ministers on 22 February 2006. The work programme includes issues relating to competition, regulation of financial intermediaries, and accounting standards and frameworks.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* received Royal Assent on 21 June 2007. The Act supports greater coordination of business law by providing a framework for the mutual recognition of securities offerings and reducing the filing requirements for New Zealand companies operating in Australia, furthering the mutual recognition of company registrations. The Act furthers the work programme annexed to the Memorandum of Understanding by enhancing the Australian Competition and Consumer Commission's ability to share information with others, including the New Zealand Commerce Commission.

The Treasury participated in the Trans-Tasman Accounting and Auditing Standards Advisory Group with representatives from the accounting and auditing standard setters in Australia and New Zealand, professional accounting bodies, and officials from the New Zealand Ministry of Economic Development. During the year, the group's work expanded to include auditing-related matters. The group is progressing a number of projects to ensure both countries' financial reporting frameworks do not impede trans-Tasman business activity, including mutual recognition of company auditors in each jurisdiction.

International Financial Reporting Standards regional policy forum

Following the success of the inaugural International Financial Reporting Standards (IFRS) regional policy forum held in Sydney in 2005, the Treasury worked with regional partners to identify a host for the next forum. This forum was held in Tokyo in March 2007. The forum covered a range of financial reporting issues relevant to the Asia-Pacific region including interpretation of IFRS, financial reporting by small and medium entities and reporting on IFRS compliance. Representatives from relevant policy and standard setting institutions from 14 jurisdictions attended. The next forum is planned for late 2008.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by resolving 32 applications, based on the *Takeovers Chapter of the Corporations (Repeals, Consequential and Transitional) Act 2001*, ensuring acquisition of control over voting shares in listed and widely held companies occurs in an efficient, competitive and informed market; appropriately informing security holders and directors; and ensuring security holders have a reasonable and equal opportunity to participate in the benefits from a proposal.

The Panel also publishes guidance notes to foster market confidence and efficiency. In 2006-07, the Panel released two new Guidance Notes.

The Panel was subject to the second judicial review of its decisions during 2006-07. Alinta Limited applied to the Federal Court for review of the Panel's decision. The court upheld one part of the Panel's decision but quashed the other. In the first decision appealed in the Full Court of the Federal Court of Australia, the court, by majority, declared section 657A(2)(b) of the *Corporations Act 2001* (Corporations Act) invalid in

purporting to grant judicial powers of the Commonwealth to the Panel. The High Court has since granted the Attorney-General special leave to appeal this decision.

Financial Reporting Panel

The Financial Reporting Panel began operating in July 2006. Its primary function is to resolve disputes, in a timely, efficient and cost-effective manner, between ASIC and a company, disclosing entity or registered scheme over the application of accounting standards in its financial reports.

The panel is based in Melbourne and comprises part-time members appointed by the Minister. Members are drawn from throughout Australia on the basis of their experience and knowledge in accounting, auditing and company administration.

During the year, a full-time executive was appointed; the operating procedures of the panel were developed; and liaison commenced with the marketplace on the panel's roles and activities. The panel has helped resolve a number of disputes on accounting treatments.

Currency

The Treasury chaired and served on the Royal Australian Mint Advisory Board. The Treasury also progressed reviews of arrangements for determining face value, royalty rates and issue price on Australian numismatic coins, and prepared currency determinations for the Perth Mint's numismatic coin programmes.

Financial reporting framework

Simpler Regulatory System Act

A number of reforms to the SRS Act enhanced Australia's financial reporting framework. These include reducing the number of proprietary companies with financial reporting requirements, increasing the ability of companies to distribute annual reports using the internet, rationalising the executive and director remuneration disclosure requirements and simplifying the auditor independence requirements.

Review of financial reporting by unlisted public companies

The Treasury commenced a review of the financial reporting requirements of unlisted public companies under the Corporations Act. A large proportion of unlisted public companies are small, not-for-profit entities, and the review seeks to ensure current requirements are appropriate for this sector. As part of this review, a discussion paper was issued in June 2007 seeking public comment on a range of issues associated with financial reporting by these entities.

Auditor independence

In addition to the SRS Act reforms to auditor independence, the Treasury released an international comparison of Australia's auditor independence requirements. The comparison found substantial underlying equivalence between the Australian auditor independence requirements and 'best practice' standards adopted internationally.

Parliament passed the *ASIC Amendment (Audit Inspection) Act 2007* in February 2007. This allows ASIC to enter into cooperative arrangements with other audit regulators and enhances ASIC's domestic audit inspections powers.

Implementation of accounting and auditing standards

The Treasury monitored the implementation of IFRS in Australia. In particular, the Treasury worked with the Australian Accounting Standards Board and the Auditing and Assurance Standards Board and the Financial Reporting Council to review the potential application of the proposed IFRS on financial reporting by small and medium entities in Australia and identify ways to increase international recognition of Australia's adoption of the standards. The Treasury also monitored the impact of the introduction of force-of-law auditing standards in Australia.

Company law and corporate governance

Corporate governance

The Treasury provided advice on a range of corporate governance issues during 2006-07, particularly in relation to corporate social responsibility and the increasing trend for legislation — especially State and Territory legislation — to impose personal liability for corporate fault.

Sanctions in corporate law

On 5 March 2007, the Treasurer released a discussion paper reviewing sanctions in the Corporations Act and the *Australian Securities and Investments Commission Act 2001* (corporate law). The review of sanctions is being conducted as part of a broader strategy to reduce regulatory burden and achieve simpler and more effective regulation. The review aims to engage stakeholders on where they see complexity and inconsistency in the current system of sanctions.

One of the issues examined in the paper is whether corporate law could implement a broader range of criminal, civil and administrative sanctions for misconduct. The paper also examines whether the design of offence provisions could be improved, including through the introduction of a 'general defence' for directors.

Corporate insolvency

On 31 May 2007, the Parliamentary Secretary to the Treasurer introduced the Corporations Amendment (Insolvency) Bill 2007 into Parliament. This Bill includes

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measures to improve the efficiency and cost effectiveness of insolvency processes, strengthen employee rights and enhance creditor capacity to maximise their returns.

The reforms were based on recommendations from public reviews into the Australian insolvency framework. The Bill has benefited from extensive industry consultation, initially through the Insolvency Law Advisory Group and subsequently through the public release of draft legislation in November 2006.

Governance for small companies

On 24 May 2007, the Treasury and the University of Canberra held a public symposium on the Regulation of Small Companies. The symposium focused on the governance requirements for small companies. It was attended by representatives of government, the business communities and academics. The outcomes of the symposium are informing an evaluation of policy in this area.

OECD steering group on corporate governance

The Treasury provided the Australian representative to the OECD steering group on corporate governance. The work of the steering group included finalising and rolling out an assessment methodology in relation to the OECD corporate governance principles, examining the impact of private equity on corporate governance, and examining the use of regulatory impact assessments in corporate law reform. The Treasury also provided the Australian representative to the Asian corporate governance roundtable.

Statutory and other procedural requirements

Financial sector levies

The Treasury consulted with industry and provided advice to the Government in relation to the determination of financial sector levies which primarily support APRA's operations.

In January 2007, the Treasury and APRA released a joint discussion paper canvassing the prospects for financial sector levies for the superannuation industry beyond 2006-07.

Appointments

The Treasury processed appointments to the Australian Accounting Standards Board and the Auditing and Assurance Standards Board, APRA, the Australian Reinsurance Pool Corporation Board, ASIC, the Companies Auditors and Liquidators Disciplinary Board, the Corporations and Markets Advisory Committee and its legal subcommittee, the Financial Reporting Council, the Financial Reporting Panel, the Financial Sector Advisory Council, the Life Insurance Actuarial Standards Board, the Payments System Board, the Superannuation Complaints Tribunal and the Takeovers Panel.

Secretariat services

The Treasury provided secretariat services to the Ministerial Council for Corporations, which met twice during 2006-07. The Treasury also assisted the Parliamentary Secretary to fulfill the Government's obligations under the Corporations Agreement 2002.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2006-07. This statutory body provides strategic oversight of the accounting and audit standard setting processes, including the Australian Accounting Standards Board and the Auditing and Assurance Standards Board, and monitors the effectiveness of Australia's auditor independence requirements.

The Treasury provided secretariat support to the Financial Sector Advisory Council, which brings together a range of senior financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector.

OUTPUT 4.1.3: COMPETITION AND CONSUMER POLICY ADVICE

During 2006-07, Competition and Consumer Policy Division and the Financial Literacy Foundation were responsible for the delivery of Output 4.1.3: Competition and consumer policy advice.

Markets Group provided advice on policy issues and the legislative framework for the development and operation of competition and consumer policy, and markets more broadly, including the competition and consumer provisions of the *Trade Practices Act 1974* (TPA), and structural reform of key sectors, including those providing essential infrastructure.

Through the work of the Financial Literacy Foundation, Markets Group provided policy advice on initiatives which will lead, over time, to the advancement of financial literacy. The Foundation provides a national focus for financial literacy issues and works in partnership with government, industry and community organisations to advance financial literacy in Australia.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy and national financial literacy issues;

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- statutory and other procedural, administrative and reporting requirements are met;
- representation and/or liaison with other agencies, private sector organisations and international bodies promotes competitive, efficient and well informed markets;
- effective presentation of relevant information informs consumers and businesses;
- secretariat services provided to advisory bodies are effective;
- ministerial correspondence is handled satisfactorily;
- effective clearinghouse and website services are established and maintained with information on financial and education services, superannuation and superannuation choice; and
- the establishment of education benchmarks and standards in schools is promoted.

ANALYSIS OF PERFORMANCE

Competition policy

The Treasury contributed to a number of key outputs in relation to the Government's competition policy legislative reform programme.

The *Trade Practices Legislation Amendment Act (No. 1) 2006* (the Dawson Act) and associated regulations implement the Government's response to the 2003 Review of the Competition Provisions of the *Trade Practices Act 1974* (the Dawson Review). Parliament passed the Dawson Act on 19 October 2006, and it took effect on 1 January 2007.

The Dawson Act introduced a new collective bargaining notification regime for small business, where the annual value of the transaction does not exceed \$3 million. The Treasury prepared regulations applying higher thresholds for small businesses in certain industries to collectively bargain. These regulations commenced on 27 March 2007.

The Treasury is developing a Bill which will implement one of the recommendations from the Dawson Review, to introduce criminal penalties for serious cartel conduct.

The Treasury provided advice on the *Trade Practices Amendment (National Access Regime) Act 2006* which implements the Government's final response to the Productivity Commission's review of the National Access Regime for infrastructure facilities of national significance. The Act was passed on 18 August 2006 and took effect on 1 October 2006.

The Treasury also developed legislation to implement the Australian Government's response to the June 2004 Senate Economics References Committee report, *The Effectiveness of the Trade Practices Act 1974 in Protecting Small Business*. On 20 June 2007, the Treasurer introduced the Trade Practices Legislation Amendment Bill (No. 1) 2007 into the House of Representatives.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* (CER Act) amends the TPA to allow the ACCC to exchange information gathered in the course of investigating competition and consumer protection matters with other agencies. Parliament passed the CER Act on 14 June 2007 and the amendments took effect on 19 July 2007.

The Treasury provided a submission to the Senate Economic Committee's Inquiry into the Price of Petrol in Australia and assisted in relation to the Treasurer's direction on 15 June 2007 to the ACCC to commence an inquiry into petrol pricing across Australia under Part VIIA of the TPA, and the Treasurer's announcement of 8 August 2006 that the ACCC would extend its monitoring of fuel prices to include E10.

Following the February 2006 COAG meeting, the Treasury, the Department of the Prime Minister and Cabinet, and relevant Commonwealth and State agencies developed specific reform proposals for the human capital, competition and regulatory reforms, as well as governance arrangements for the National Reform Agenda.

COAG largely endorsed the reform proposals at its 13 April 2007 meeting and the COAG Reform Council began operations on 6 June 2007.

Specific National Reform Agenda proposals the Treasury assisted in developing include: reforms designed to strengthen the national character of Australia's energy market; transport-related competition reforms; an implementation plan to provide for a national system of economic regulation for nationally significant infrastructure; and commitments to improve regulation-making and review processes and address ten priority cross-jurisdictional regulation 'hotspots'.

The Treasury also worked with the Department of Industry, Tourism and Resources to progress the Ministerial Council on Energy's reform agenda.

The Treasury also provided policy advice on a range of other transport issues, including implementation of the Government's national land transport plan, AusLink, and development and implementation of the Government's responses to the Productivity Commission's reviews of the price regulation of airport services and Part X of the TPA.

The Treasury assisted in developing the Government's response to the final report of the *Taskforce on Reducing Regulatory Burdens on Business*, and in progressing the reforms announced in that response. The Government's response, which was released on 15 August 2006, included decisions to streamline and strengthen the Australian Government's best practice regulation making and review processes. The Treasury also facilitated commencement of the Productivity Commission's first annual review of regulation, focusing on the regulatory burden on business in the primary sector.

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The Treasury was involved in developing the Government's comprehensive broadband strategy, known as Australia Connected, announced by the Government on 19 June 2007.

The Treasury coordinates and advises the Government on the preparation of terms of reference for Productivity Commission research and inquiries. In 2006-07, this involved two public inquiries and three commissioned research references.

The Treasury has an advisory, reporting and coordination role for the Government's ongoing commitment to National Competition Policy.

The Treasury has been involved in competition policy-related aspects of free trade agreements with China, ASEAN, the Gulf Cooperation Council, Malaysia, Japan and Chile. The Treasury led the Australian Government's involvement in the Australia-United States Free Trade Agreement Working Group on Competition Law and Anti-Competitive Business Practices. The working group was established to further advance cooperation between Australia and the United States for the effective enforcement of each other's competition laws and policies.

The Treasury played a leading role in progressing the APEC Leaders' Agenda to Implement Structural Reform and encouraged greater dialogue in APEC's Economic Committee and other forums. Specifically, the Treasury hosted a seminar on the role of competition policy in structural reform and organised a roundtable discussion in June 2007 in Cairns on 'creating a competition culture' with an issues paper and country submissions. The Treasury also self-assessed Australia's market openness, regulatory and competition policies through applying the APEC-OECD Integrated Checklist on Regulatory Reform and presented these findings in an APEC seminar in June 2007 in Indonesia and in the APEC Economic Committee meetings in Cairns.

The Treasury continued to represent Australia's interests in the OECD Competition Committee and Consumer Policy forums.

Consumer policy

In 2006-07, the Treasury provided advice to the Government regarding the consumer policy framework which facilitates the effective and positive engagement of consumers in the economy.

In May 2007, the Australian Government hosted the National Consumer Congress. The 2007 congress included presentations and panel discussions on a range of topical consumer policy issues. The congress was well attended, with delegates representing business, consumer advisory services, as well as State, Territory and federal consumer affairs officials.

In December 2006, the Treasurer announced that the Productivity Commission will undertake an inquiry into Australia's consumer policy framework and its administration. The Treasury provided advice regarding the terms of reference for the inquiry and continues to monitor its progress.

The Treasury continued to participate in the review of the Australian consumer product safety system. As a member of the working party, the Treasury continued examining options for achieving greater uniformity in Australia's consumer product safety system and provided advice on the implications of those options.

The Treasury also progressed the Ministerial Council on Consumer Affairs (MCCA) consumer policy research agenda. Following an open tender, the Treasury engaged Access Economics to conduct a study into the cost and incidence of consumer product-related accidents in Australia. The Treasury continues to monitor production of the final report.

The Treasury is also leading an MCCA working party examining the introduction of civil penalties for contraventions of Australia's consumer protection laws. In particular, the Treasury has developed a draft report outlining various types of civil penalties, and the risks and benefits associated with introducing them under the TPA as well as equivalent State and Territory fair trading legislation.

Financial Literacy Foundation

The Financial Literacy Foundation was established in June 2005 to give all Australians the opportunity to better manage their money.

The Foundation aims to build the capacity of Australians to better understand and manage financial risk and take advantage of increased competition and choice in Australia's finance sector. In 2006-07, the foundation addressed these objectives by:

- delivering the *Understanding Money* media campaign (July-December 2006), and continuing to provide consumers with reliable, trusted and independent information on financial literacy issues through the *Understanding Money* website and handbook;
- working with all government, Catholic and independent school sectors to integrate financial literacy into the curriculum across the compulsory years of schooling, through a national framework under which all Australian children will receive financial literacy education from Kindergarten to Year 10, from 2008 onwards;
- facilitating development of a national strategy to provide guidance on the delivery of professional development for teachers to support implementation of the framework;
- producing a resource on financial literacy with Indigenous Australians, *Understanding Money — Good Practice in Developing Financial Literacy Initiatives with Indigenous Australians*;

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- informing the delivery of financial literacy education in the workplace and producing a resource for employers, *Understanding Money — Financial Literacy in the Workplace*;
- facilitating a pilot programme, in partnership with the Master Builders Association, to introduce financial literacy training to members, cadets and apprentices; and
- developing a web-based resource for teachers, trainers and human resources professionals that includes case studies, quality assessed education materials, and advice on developing and providing financial literacy education.

The Foundation's Advisory Board, chaired by Mr Paul Clitheroe, provides advice to the Government on financial literacy issues. Advisory Board members are appointed by the Minister for Revenue and Assistant Treasurer, with the Prime Minister's approval.

Secretariat services

The Treasury continued to provide secretariat support to MCCA, and to the Commonwealth Consumer Affairs Advisory Council.

OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2006-07, the Australian Government Actuary was responsible for delivery of Output 4.1.4: Actuarial services.

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

PERFORMANCE INFORMATION

The key performance indicator is the 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 2007, the account was in a sound financial position.

Feedback from clients has generally been positive, consistent with an ongoing demand for services.

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, Community Services and Indigenous Affairs; Health and Ageing; Veterans' Affairs; and Finance and Administration. Centrelink, Medicare Australia and the ATO also sought advice.

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

Services to the Treasury

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

The Treasury funded this work which accounted for around 15 per cent of the office's total revenue for the year.

Operational outcomes

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

STRATEGIC COMMUNICATIONS DIVISION

Strategic Communications Division provides a central coordination role and point of contact for Treasury portfolio ministers' offices, the Executive Board, the Audit Committee and Treasury groups.

Strategic Communications Division assists in achieving the Treasury's outcomes by providing services for Cabinet liaison; parliamentary liaison; ministerial correspondence; ministerial briefing coordination; coordination of freedom of information requests; advice and general secretariat services to the Secretary, Executive Board and Audit Committee; issues monitoring and management; proofreading services; and evaluation of policy development and implementation.

Strategic Communications Division also undertakes Treasury-wide projects directed at enhancing the services provided to ministers, including on risk management and quality assurance.

KEY PRIORITIES IN 2006-07

The key priorities were to:

- ensure delivery of appropriate services to Treasury portfolio ministers;
- monitor and manage issues, in partnership with relevant policy areas in groups; and
- establish a policy evaluation capability within the Treasury.

KEY OUTCOMES IN 2006-07

The key outcomes achieved were:

- provision of issues management services and support across the Treasury;
- liaison, briefing and correspondence coordination for the Treasury and its stakeholders;
- enhancement of the Treasury's risk management and quality assurance capabilities;
- further improvement of reporting, support services and systems for advice sent to ministers;
- establishment of a Policy Evaluation Unit to enhance systems of evaluating policy development and implementation; and
- implementation of an events management capability.

CORPORATE SERVICES DIVISION

Corporate Services Division aims to provide efficient and effective corporate services, products and advice to the Treasury, Treasury portfolio ministers and other clients to enable them to meet their objectives.

In 2006-07, Corporate Services Division restructured from four units to three units by merging the Information Services Unit and Information Technology Services Unit to form a new Information Management and Technology Services Unit. The key objectives of the amalgamation were to strengthen synergies between teams, eliminate overlap and duplication of services, and streamline reporting. The restructure also aims to provide staff in Corporate Services Division with improved career opportunities in the larger units and an opportunity to use resources more effectively and flexibly during peak periods.

A new senior executive service position was created to head the Information Management and Technology Services Unit, and strengthen the division's strategic capacity.

KEY PRIORITIES IN 2006-07

In the 2006-07 Corporate Plan, Corporate Services Division's priorities were identified as:

- completing the annual financial statements required under the new Australian Equivalent of International Financial Reporting Standards;
- updating and promulgating the Treasury's assets and capital management plan;
- enhancing and testing the Treasury Business Continuity Plan, including continuing to identify methods and processes for capturing vital records into a managed environment;
- enhancing the delivery of contract management services in the Treasury;
- developing the Treasury Knowledge Management Strategic Plan;
- reviewing the Treasury internet and intranet sites;
- implementing a new library management system;
- upgrading IT equipment, including desktop and laptop computers, network servers and storage facilities, video conferencing facilities, and printing and reproduction services and equipment;
- following appropriate business process analysis, continuing to develop IT applications to assist in the management of budget and taxation measures;

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- enhancing the Treasury IT security architecture to take advantage of emerging technology;
- negotiating and implementing the next Collective Agreement and Australian Workplace Agreement framework;
- implementing recruitment, workforce and wellbeing strategies to support staff, including graduates, cadets and mature age workers;
- planning and conducting the 2007 Staff Survey to inform and guide organisational strategies; and
- implementing and reviewing the Treasury's Professional Development Framework, including the new Executive Management and Leadership Programme, Introduction to Law and Introduction to Economics.

KEY OUTCOMES IN 2006-07

The following were key outcomes in 2006-07.

- The 2005-06 financial statements were completed and audited. They required incorporation of the Australian Equivalent of International Financial Reporting Standards.
- The Executive Board adopted the asset and capital management plan for the next ten years which provides for replacement of all capital assets, including IT equipment, non-IT office equipment, office fitout and both internally generated and external software. The plan demonstrated that existing resources could fund all required asset replacements.
- The Treasury updated its Business Continuity Plan and is preparing to test it early in 2007-08.
- The Treasury has reviewed its procurement methods and is implementing a more centralised procurement framework.
- The Executive Board endorsed the Treasury's Information and Knowledge Management Strategic Plan. The plan formalises a shared agreement on the meaning of 'information and knowledge management' and provides a governance structure, through the Information and Knowledge Management Advisory Board. This board ensures information and knowledge management initiatives are progressed, supported and encouraged within the context of the Treasury's departmental priorities and the Information and Knowledge Management programme budget.
- The Information Technology Project Management Office was established in February 2007 to assist the Chief Information Officer by facilitating implementation of the Information and Knowledge Management Strategic

Plan and providing project management and business analysis support for IT projects.

- Key improvements in information management and technology services were:
 - strategic sourcing of print and reproduction services;
 - streamlining of the data and voice telecommunications contracts;
 - re-accreditation of the Treasury's internet gateway and certification of the Treasury's network to protected level;
 - implementation of the budget management system;
 - successful provision of support for the G-20 and APEC events; and
 - refreshing of desktop computers, servers and software at the Treasury's overseas posts.
- The Treasury Workplace Agreement 2006-09 for non-SES staff came into operation in September 2006 and will nominally expire in September 2009. The agreement followed consultation with staff and the Workplace Relations Committee and provides for increased pay rates and minor variations to conditions of service. The Treasury continues to offer to APS6, EL1 and EL2 staff Australian Workplace Agreements that provide performance-based salary increases above those available under the Treasury Workplace Agreement. Both agreements offer conditions of service that are designed to make the Treasury an employer of choice.
- The Treasury implemented recruitment, workforce and wellbeing strategies designed to support staff. The Human Resources Unit reported to the Executive Board in November 2006 on progress of the Treasury's Staff Wellbeing Framework. The report monitored staffing trends, benchmarked the Treasury data against the broader APS and comparator agencies, and assisted in identifying potential risks to the delivery of organisational outcomes. While staff wellbeing data did not currently identify significant risks to the Treasury, a continued focus on workforce planning and capability development is essential in an increasingly tight labour market and with changing generational expectations.
- The Treasury's Mature Age Employment Strategy, launched in May 2006, provides mature age workers with more flexible options for continuing to work. Seminars helped inform staff about flexible working arrangements and superannuation options as part of their transition to retirement. The Treasury's alumni programme was launched in March 2007 to encourage former employees, including retirees, to consider registering for flexible work opportunities including project work, participation in task forces and mentoring.

Part 2: Report on performance

- The report on the 2007 Staff Survey, held in June 2007, is to be delivered to the Executive Board early in 2007-08. The survey results will be used to inform and guide organisational strategies and to gain feedback on issues of importance to staff in the Treasury and in a broader APS context. The Treasury results are benchmarked against results from similar organisations, providing a useful context for staff feedback.
- The Treasury continued to invest significantly in professional development, guided by a Professional Development Framework. The framework recognises capability development as being critical to the Treasury's mission. In particular, the Treasury introduced a new and challenging Executive Leadership Programme to enhance leadership and strategic thinking skills; conducted an extensive series of Treasury seminars; and focused on strengthening policy advising and other skills through on and off-the-job skills development.