

THE TREASURY PROGRAM

Objective

To improve the wellbeing of the Australian community through high, sustainable economic and employment growth with low inflation and efficient and sustainable use of resources.

Description

The Department of the Treasury moved from a program-based structure to an output-based structure reporting in 1998-99 in line with the Government's initiatives to move to accrual accounting. The revised structure is composed of three Groups — Economic Group, Markets Group and Budget Group — with each Group being composed of a number of Divisions. A Corporate Services Division provides corporate support and an Executive area provides strategic direction. This Annual Report reports on the subprogram basis used in the 1998-99 Portfolio Budget Statements, and the individual subprograms do not necessarily correspond to particular Groups in the current structure. The Royal Australian Mint is a Division of Treasury but is not included in the Treasury Program.

Table 1: Financial and Staffing Resources Summary
Program 1 — Treasury

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	50,556	57,850	54,945
Other Program Costs (excluding RC)	42,084,026	40,326,661	39,084,379
Total	42,134,582	40,384,511	39,139,324
Adjustments	(17,277,396)	(15,493,090)	(14,978,002)
Total Outlays	24,857,186	24,891,421	24,161,322
STAFFING			
Staff Years	480	509	498

Note: The 1998-99 Budget figures have been amended to reflect the transfer of Consumer Affairs Division to Treasury in October 1998. The 1998-99 Budget and Actual staffing figures include Consumer Affairs Division from the transfer date.

Resource Use

The 1998-99 Budget figures contained in this and all other financial tables have been adjusted to include Additional Estimates. The figures represent the aggregate of appropriations available to Treasury during 1998-99. Figures in tables and generally in the text have been rounded. Discrepancies in the tables between totals and sums of components are due to rounding.

The staff years refer to average staffing levels over the entire financial year. The figures represent the full-time equivalent of all staff paid during the year, including paid inoperative staff and part-time staff. Aggregate Departmental staffing figures in Appendix A refer to operative staff and paid inoperative staff as at 30 June 1999.

Detailed financial information for 1998-99 is contained in the Financial Statements and detailed staffing information is contained in Appendix A.

Client Service Charters

All agencies in the Treasury Portfolio other than the Department of the Treasury have either developed client service charters or are in the final stages of completing them. Treasury, which is predominantly a policy advising agency, is not required to produce a service charter at this stage. The Foreign Investment Review Board (FIRB), which is serviced by a secretariat located in the Department, has published a service charter, as has the Consumer Affairs Division (see page 92).

Further information about progress by individual agencies is contained in their annual reports.

SUBPROGRAM 1.1 — DOMESTIC ECONOMY

Objective

To assess current and prospective economic conditions and provide advice to the Treasurer and the Government on macroeconomic policy settings and labour market issues.

Description

Domestic Economy and Macroeconomic Policy Divisions are responsible for providing advice on economic conditions and the outlook; on the implications of economic developments for macroeconomic policy; and on labour market issues.

Table 2: Financial and Staffing Resources Summary
Subprogram 1.1 — Domestic Economy

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	4,353	4,302	4,086
Other Program Costs (excluding RC)	0	0	0
Total	4,353	4,302	4,086
Adjustments	(18)	(16)	(16)
Total Outlays	4,335	4,286	4,070
STAFFING			
Staff Years	54	54	53

Strategies

Strategies to achieve the objectives of the subprogram include:

- monitoring economic conditions, trends and prospects and financial market and economic developments;
- developing, coordinating and overseeing the preparation of economic forecasts;

- maintaining liaison with external contacts within international fora, State governments, the Reserve Bank of Australia (RBA), the Australian Bureau of Statistics (ABS), financial markets, companies, employer groups, unions, research institutes and other government departments;
- preparing advice on monetary and fiscal policy, labour market and general macroeconomic issues;
- undertaking policy-relevant research and analysis to improve the quality of policy advice and to contribute to the public debate and understanding of macroeconomic issues; and
- undertaking internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include the perceived quality, timeliness and relevance of economic forecasts, assessments of economic conditions and macroeconomic and labour market policy advice provided to the Government.

Relevant benchmarks include the actual performance of the economy, feedback from Treasury portfolio Ministers, their offices and the Government in general, and comparative assessments by international organisations. These are supplemented by internal reviews and feedback from external organisations, such as private sector economists, research organisations, think-tanks, the media and other government departments and agencies.

Performance Outcome for 1998-99

Economic Forecasts

Economic forecasts were produced over the course of 1998-99 as a basis for consideration of policy settings, and in more detailed form to enable the calculation of budget estimates. These forecasts were prepared taking into account key assumptions about economic conditions, historical relationships between economic variables and judgements about likely outcomes. Continuing fragility in world financial markets was an

important factor in the development of economic forecasts over the course of 1998-99.

For policy formulation purposes, the interest in forecasts is more in terms of understanding the broad developments within the economy and the balance of risks and uncertainties surrounding the outlook than in the specific point estimates that are required for the calculation of budget estimates.

The 1998-99 Budget contained forecasts for 1998-99 and these were reassessed in the *Mid-Year Economic and Fiscal Outlook* (MYEFO) released in December 1998.

The *Charter of Budget Honesty Act 1998* requires the publication of a Pre-election Economic and Fiscal Outlook report within 10 days of the issue of writs for a general election. The first such report was issued in September 1998 and contained updated forecasts for 1998-99, based on new information which had come to hand since the Budget, and updated information on the Government's fiscal objectives and performance.

In the MYEFO, the forecast Gross Domestic Product (GDP) growth rate in 1998-99 was 3¼ per cent, slightly higher than the 3 per cent forecast at Budget time. The revision reflected an assessment that the Australian economy would continue to grow solidly despite the sharp downturn in Asia. The forecast composition of growth changed slightly, reflecting evidence that net exports would decline by less than forecast, but that private investment would slow more quickly than forecast in response to a maturing in the investment cycle and a weaker world economy.

- The forecast for Consumer Price Index (CPI) growth (inflation) was revised down in the MYEFO, reflecting slower than expected growth in world prices and widespread domestic competitive pressures.
- Average employment growth for 1998-99 was revised up in the MYEFO, in line with the slightly higher economic growth forecast.

The MYEFO also contained preliminary forecasts of key economic parameters for 1999-2000, along with projections for the following two years.

The 1999-2000 Budget, handed down in May 1999, contained revised estimates of the outcome for 1998-99, a fully elaborated set of forecasts

for 1999-2000 and projections for key parameters in the following three years, out to 2002-03.

- At the time of the 1999-2000 Budget, the final outcome for GDP growth in 1998-99 was not known. Based on the information available, economic growth in 1998-99 was expected to be 4¼ per cent, reflecting stronger than expected growth in domestic demand, supported by favourable domestic policy settings.
- The forecast GDP growth rate for 1999-2000 was revised up slightly from the preliminary forecast presented in the MYEFO, mainly reflecting an assessment of stronger household consumption and dwelling investment. The broad picture presented in the Budget was essentially the same as that presented in the MYEFO, with moderating but still solid growth expected to be supported by strong growth in domestic demand and a gradual rise in exports.

The MYEFO and Budget forecasts released during 1998-99 were generally regarded at the time as being credible by external commentators and were consistent with the assessment of international forecasters such as the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). Despite the impact of the Asian crisis, the Australian economy outperformed official and private sector forecasts, based on a greatly improved set of economic fundamentals. Sound and credible frameworks for monetary and fiscal policies in recent years, a return of the Budget to surplus, ongoing reforms in competition policy, the labour market, the financial sector and corporate law have created an economy that is more efficient and flexible, subject to more competitive pressures and more conducive to productivity growth. Recent National Accounts data have confirmed the underlying strength of the economy implicit in the forecasts. A full assessment of the 1998-99 outcome will be published in the Spring 1999 Treasury *Economic Roundup*.

The forecasts were prepared with the benefit of input from members of the Joint Economic Forecasting Group (comprising Treasury (chair), the RBA, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the ABS). Information on business conditions was obtained through liaison with industry, including through the operation of Treasury's Sydney and Melbourne offices. This information proved particularly valuable in assessing the impact of the Asian economic crisis on exporters and on business sentiment. The Treasury Macroeconomic (TRYM) model of the

Australian economy was also used as an input into the forecasting process, as well as for macroeconomic policy and sensitivity analyses. Various modelling approaches were used in examining the impact of the Asian economic crisis on the domestic economy.

Contributions to Public Awareness and Debate

The 1998-99 MYEFO discussed the risks surrounding the slowdown in world economic growth against the backdrop of continued weakness in Japan and East Asian economies.

In the 1999-2000 Budget papers, Statement 2 of *Budget Paper No. 1* also contained a detailed discussion on the state of the world economy, with a focus on the ongoing strength of the United States economy. It was noted that world economic growth is expected to strengthen in 2000, with moderate growth in the US, an anticipated pickup in the European Union, further improvement in East Asia and recovery in Latin America and Eastern Europe. The discussion of the international and domestic economic forecasts for 1999-2000 in that Statement outlined the uncertainties surrounding the forecasts in some detail. This included an assessment of the risks surrounding the financial position of households in Australia and a detailed appraisal of Australia's recent inflation performance.

Statement 3 of *Budget Paper No. 1* discussed the contribution of economic policy reforms to Australia's recent economic performance. It noted that the strong performance of the domestic economy in recent times would not have been possible without a sound domestic policy foundation. The discussion contained in this Statement highlighted, among other things, the importance of a credible and transparent medium-term framework for both fiscal and monetary policy and the benefits associated with structural (including labour market) reforms.

- Importantly, the extent to which the domestic economy can grow and unemployment can be reduced in the future will depend on continued adherence to sound macroeconomic policy and further microeconomic reforms — including further action to improve the functioning of the labour market.

The publication of a brief *Budget Overview and Economic Outlook*, written in non-technical terms, also ensured that the budget estimates, including major policy developments and forecasts were widely accessible.

The discussions in the MYEFO and Budget Papers were extensively drawn on in media reporting and commentary.

Four issues of the Treasury *Economic Roundup* were published in 1998-99. These continued to provide an overview of economic developments and articles on a wide range of issues examined in the Department. The Overview section of this publication was oriented towards providing commentary on some key issues underpinning Australia's recent economic performance. For example, the Overview in the Winter 1998 edition dealt with the ability of Australian exporters to diversify their sales away from troubled East Asia to markets in North America, Europe and other parts of Asia. This Overview also reviewed measures of business confidence in Australia, noting that such measures need to be interpreted carefully and that the relationship between business confidence and economic growth can be quite loose. Subsequent strong economic growth supported this view.

The Overview in the Spring 1999 edition of the *Economic Roundup* again focussed on the resilience and flexibility of the Australian economy and, in particular, the absence of import price inflation and the continuation of export diversification. The Overview in the Summer 1999 edition discussed domestic economic conditions with particular reference to ongoing labour productivity growth and developments in the dwelling investment cycle. Roundup articles relevant to this subprogram included: 1997-98 In Review: A Resilient Australian Economy (Spring 1998); Recent Movements in the Labour Force Participation Rate (Summer 1999); Australian Net Private Wealth (Summer 1999); Report of the Task Force on International Financial Reform (Summer 1999); and Economic Policy Reform and Australia's Recent Economic Performance (Autumn 1999 — a reprint of Statement 3 from *Budget Paper No. 1*).

Quarterly updates of the TRYM Model of the Australian economy and associated database were distributed to subscribers. Since its public release in 1995-96, TRYM has continued to evolve in light of ongoing research and development, including the re-estimation of the model to incorporate revised data following the introduction of the System of National Accounts 1993 (SNA93) by the ABS.

Discussions were conducted with visiting delegations from international organisations including the OECD, the IMF and international credit rating agencies. The OECD annual survey of the Australian economy, released in December 1998, commented favourably on the prospects for the economy and on the macroeconomic policy framework. Analysis in

IMF and OECD publications on the Australian economy was consistent with that presented in the Budget Papers and MYEFO.

This subprogram also provided research and analytical input for the following publications:

- *Task Force on International Financial Reform*; and
- *Making Transparency Transparent: An Australian Assessment*.

Policy Advice and Inputs into Policy Processes

During 1998-99, advice was provided to the Treasurer on a range of macroeconomic issues.

- Briefing and analysis were provided to the Treasurer and other members of the Government on a wide range of economic statistics released by the ABS and by the private sector. This included advice on the implications for the economic outlook and information to assist the Treasurer in responding publicly to the releases. The Department has received favourable feedback on the relevance and quality of this briefing.
- Treasury officers conducted discussions with companies and organisations in the major business centres in order to monitor, analyse and report on economic conditions and prospects. Regular briefing and analysis of liaison findings were provided to the Treasurer, including on specific issues such as business views on the impact of the economic slowdown in Asia.
- Advice on monetary policy was prepared on a regular basis for the Secretary (ahead of his attendance at meetings of the Reserve Bank Board). In preparing this advice Treasury monitored financial and economic developments, and assessed the implications of these developments for the setting of policy. The Treasurer was also kept abreast of developments in this area via the provision of regular briefing and analysis.
 - An important development in the past financial year was the decision by the Reserve Bank Board to lower its official cash rate by 25 basis points on 2 December 1998. This led to the lowest commercial and variable home loan interest rates in around 30 years and, in other ways, helped support domestic economic growth.

- In relation to the operation of the RBA more generally, the subprogram was involved in the preparation of legislative amendments to the *Reserve Bank Act 1959* that were introduced into Parliament on 30 June 1999.
- Advice was provided to the Treasurer on labour market issues throughout the year. Treasury also contributed to the Joint Governments' Submission to the Australian Industrial Relations Commission on Stage 2 of the Australian Council of Trade Unions' 'living wage' claim. Treasury's contribution focussed on economic implications of the claim and included analysis based on the TRYM model.

Reviews of Economic Data

Treasury has liaised extensively with the ABS, both on an informal and formal basis, about statistical matters, including the introduction in 1998-99 of new international standards in National Accounts data (SNA93).

SUBPROGRAM 1.2 — INTERNATIONAL ECONOMY

Objective

To promote Australia’s international economic interests, including its economic links with the Asian region, and to assess the implications of international economic developments for the Australian economy.

Description

The program involves participation in policy discussions on economic and financial issues in various international institutions and fora, managing Australia’s relations with international institutions and monitoring and analysing the implications for Australia of international economic developments and policy trends. Following a reorganisation during the year, the program is now undertaken by staff in the International Economy Division and International Finance Division, together with Treasury representatives in Beijing, Jakarta, London, Paris, Tokyo and Washington.

Table 3: Financial and Staffing Resources Summary
Subprogram 1.2 — International Economy

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	6,791	7,149	6,790
Other Program Costs (excluding RC)	742,723	544,219	1,286,408
Total	749,514	551,368	1,293,198
Adjustments	(742,850)	(544,434)	(1,286,636)
Total Outlays	6,664	6,934	6,562
STAFFING			
Staff Years	38	39	37

Note: The Other Program Costs and Adjustments result from our transactions with the international financial institutions of which Australia is a member. Treasury publishes annual reports on Australia’s relations with the International Monetary Fund, the World Bank and the Asian Development Bank which provide details of our transactions with those organisations.

Strategies

Strategies to achieve the objectives of the subprogram include:

- monitoring and analysing the implications for Australia of economic developments and economic policy thinking overseas;
- contributing to international discussion of economic policies, especially on matters of particular concern to Australia as an open, developed economy in the Asian region;
- contributing to open and stable international trading and financial systems, and sustainable economic development, through quality and timely policy advice and interaction with other governments and players;
- promoting contacts and discussion with counterpart organisations overseas, especially in Asia, and increasing Australian understanding of Asian economies and economic institutions;
- advancing Australia's interests in the IMF, the World Bank, the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), as well as the OECD, and ensuring that Australia's responsibilities as a member of these organisations are met;
- promoting understanding in Australia of the activities of these organisations and the knowledge they generate of economic developments and policy experience in member countries;
- participating in the Asia-Pacific Economic Cooperation (APEC) forum, with particular emphasis on finance and investment issues;
- participating in the Manila Framework Group, with a focus on regional surveillance and international financial reform; and
- participating in the economic work of the South Pacific Forum.

Performance Indicators

Performance indicators for this subprogram include:

- the quality and impact of the contribution made to economic policy formulation and forecasting of the Australian economy;
- the quality and impact of the contribution made to international discussion of economic policy issues, including the policies of the international financial institutions and APEC;
- the range and effectiveness of external contacts; and
- the quality and impact of the contribution made to public debate, and understanding of, overseas economies and international economic issues, including in the Asian region.

Performance Outcome for 1998-99

International Financial Crises

As with last year, much of the program's work during the year was focussed on the international financial crises, the responses made to the crises by the international financial institutions and the support provided by Australia.

Three countries in the region continued their IMF-supported economic adjustment programs (Thailand, Indonesia and Korea) following their crises in 1997-98. Australia participated in financial support arrangements for each of these programs and undertook to provide support of up to \$US1 billion in each case. Australia's support for Thailand is through a central bank currency swap. The support for Indonesia and Korea would be provided, as necessary, through government-to-government loans.

In the 1998-99 Budget, the subprogram was allocated an additional \$505 million to help support the above mentioned economic adjustment programs associated with the IMF. These funds were not required in 1998-99.

During the year, Treasury participated actively in the review of these programs. The programs were reviewed by the executive boards of the

IMF, ADB and World Bank. They were also discussed at the fourth Manila Framework Group meeting.

Elsewhere in the world, there were also financial crises. In August 1998, the Russian moratorium on foreign debt repayments brought about a financial crisis. Treasury provided advice to the Government on developments associated with this crisis and the implications for outstanding Soviet era debt.

Later in the year, Latin America, particularly Brazil, was affected by financial crisis. Again, Treasury provided advice to the Government on this crisis. Australia was a key supporter of the use of the New Arrangements to Borrow (see separate section) in the financial support arrangements for Brazil.

Prime Minister's Task Force on International Financial Reform

In October 1998, the Prime Minister commissioned a Task Force, chaired by the Treasurer, on international financial reform. The Task Force was requested to draw on the expertise of public and private sector members. Consistent with its terms of reference, the Task Force focussed on the contribution Australia can make towards strengthening the international financial system to reduce the risk of future crises and ensure greater stability in capital flows.

In December 1998, the Treasurer presented to the Prime Minister the final report of the Task Force.

Since then, considerable progress has been made in advancing many of the Task Force's recommendations, with various international fora examining the same issues.

- The Task Force called for adequate disclosure by highly leveraged institutions. Early in 1999 the Financial Stability Forum was established. The Forum has set up a number of working groups, including one on highly leveraged institutions in which Australia is a participant. In June 1999, Australia was formally invited to participate in the Forum itself.
- The Task Force called for a G22-type mechanism. APEC Finance Ministers in Langkawi in May 1999 called for a similar mechanism and, more recently, in June 1999 G7 Leaders agreed to establish a new informal mechanism for dialogue among systemically important countries.

- The Task Force called for efforts to be made to involve the private sector at an early stage in crisis prevention and resolution. This issue is being considered in a number of fora. Most recently, in June 1999, G7 leaders called for agreement on a broad framework for involving the private sector in crisis resolution, which sets out in advance principles, considerations and a broad range of tools for action. The IMF is also continuing to examine private sector involvement in crisis prevention and resolution.

Other Task Force recommendations have been substantially implemented or taken up in other fora. These include: that Australia prepare a model transparency report as an example for other countries to follow (this report was released at the fourth Manila Framework Group meeting in March 1999); that Australia promote improvements in corporate governance in the region; that Australia take a lead in promoting better coordinated technical assistance to crisis-affected countries; and that the IMF and World Bank introduce ‘innovative and flexible financial support facilities’ (such as the contingent credit line and development of policy-based guarantees).

The International Economic Policy Group

The International Economic Policy Group (IEPG) was formed in early 1999 to facilitate a coordinated ‘whole of government’ consideration of international economic developments and policy issues. The IEPG meets approximately every six weeks, or as needed. The IEPG comprises high level officials from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury and the Reserve Bank, with other economic departments attending as required.

International Financial Institutions

Treasury participated in, and provided briefing for, Australian Ministerial and official delegations to the IMF/World Bank Annual Meetings in Washington on 4-6 October 1998, the IMF/World Bank Spring Meetings in Washington on 27-28 April 1999, the ADB Annual Meeting in Manila on 30 April-2 May 1999 and the EBRD Annual Meeting in London on 19-20 April 1999. It also prepared briefing for Australia’s representatives at the IMF, World Bank, ADB and EBRD on a wide range of policy issues throughout the year.

Responses to the international financial crisis, and its lessons for the future, dominated much of the business of the international financial institutions during the year.

In addition, progress was made in implementing multilateral debt relief for Heavily Indebted Poor Countries (HIPC) and progressing institutional reforms in the multilateral development banks. Australia supported a review of the HIPC Initiative, which will be considered at the 1999 Annual Meetings of the IMF/World Bank.

Treasury prepared annual reports to Parliament on Australia's relations with the IMF, the World Bank and the ADB. These reports outlined Australia's response to the Asian crisis in conjunction with these international financial institutions. They also discussed other global issues, including debt relief and the HIPC Initiative and the Multilateral Investment Guarantee Agency. The reports contribute to the public debate on Australia's relations with the organisations and improve the understanding of their operations.

Manila Framework Group

Treasury attended, and played an active role in the outcome of, the third Manila Framework Group meeting in Kuala Lumpur on 7-8 November 1998. Treasury hosted the fourth Manila Framework Group meeting in Melbourne on 26-27 March 1999.

The Manila Framework Group comprises Finance and Central Bank Deputies from 14 economies: Australia, Brunei, Canada, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States. The IMF, the ADB and the World Bank are also represented. The Group was formed at Manila in November 1997 to discuss strategies to address the financial crisis in Asia, and developed a framework on regional surveillance and the improvement of the international financial system.

At the third Manila Framework Group meeting, the Group discussed the strengthening of financial markets in the region, the improvement in the outlook and the ongoing economic and financial reforms being undertaken in response to the financial crisis. The meeting called for economies to adhere to sound policies to promote sustainable growth, and continued efforts by crisis-affected countries to pursue structural reforms and by industrial countries to sustain strong domestic demand growth.

At the fourth Manila Framework Group meeting, the Group discussed the improving outlook for the region. The meeting focussed on the outlook for the large member countries of the United States, Japan and China. Lessons were drawn from the difficulties experienced by IMF-supported programs in Asia. Additionally, international financial reform issues were discussed, including the need to advance development of a framework for private sector involvement in crisis management and the importance of greater and more symmetrical application of transparency requirements in both the public and private sectors (including the operations of highly leveraged institutions).

The issue of improving transparency amongst member countries was also discussed. In his opening address to the meeting, the Treasurer presented an Australian self-assessment transparency report, *Making Transparency Transparent: An Australian Assessment*, prepared by Treasury, with contributions from the Department of Finance and Administration, the Australian Bureau of Statistics, the Australian Taxation Office and the Australian National Audit Office. The RBA, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority also provided assistance. The report outlined Australia's compliance with various international transparency and good governance codes of practice.

Six Markets Group

On 25 February 1999, a meeting of the Six Markets group was held in Tokyo. The meeting was attended by senior officials of the Finance Ministries, Central Banks and/or Monetary Authorities of Australia, China, Hong Kong SAR, Japan, Singapore and the United States. Participants discussed international financial reform issues, particularly those issues concerning hedge fund oversight and private sector involvement in crisis management.

G26 Meeting and G7 Seminars

In conjunction with the 1998 Annual Meetings of the IMF and World Bank, the United States convened a meeting of Treasurers/Finance Ministers and central bank governors from 26 economies. The Assistant Treasurer and the Governor of the RBA attended the meeting. The meeting examined issues relating to the stability of the international financial system and effective functioning of global capital markets. Reports of the three working groups that had been established at the

G22 meeting earlier in the year were presented at the meeting. Treasury represented Australia on the group that examined transparency and accountability issues.

During the year the G7 held two seminars, with participation from the G33 countries, to discuss international financial reform. Senior Treasury and RBA officials attended these meetings, which were held on 11 March 1999 in Bonn and on 25 April 1999 in Washington.

New Arrangements to Borrow

The New Arrangements to Borrow (NAB) are credit arrangements under which 25 members, or their institutions, stand ready to provide loans to the IMF to increase the resources it has available for use in emergency situations. For its first year of operation, Australia is the chair of the NAB.

Representatives of the countries and institutions participating in the NAB met in Washington on 28 April 1999. This meeting was chaired by the Secretary to the Treasury, Mr Ted Evans, and discussed international monetary issues and their impact on the NAB.

The NAB were activated for the first time on 2 December 1998 to finance a component of the IMF's financial assistance to Brazil. Australia disbursed \$169 million to the IMF on 14 December 1998. The IMF repaid the principal on 11 March 1999 and interest was received in February and March 1999.

Multilateral Investment Guarantee Agency

On 10 February 1999, Australia became a member of the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group. MIGA's purpose is to encourage foreign investment in developing countries by providing investment guarantees against the risks of currency transfer, expropriation, and war and civil disturbance. MIGA also provides advisory services to developing member countries on means of improving their attractiveness to foreign investment.

Asia-Pacific Economic Cooperation

Economic Leaders

The onset of international financial crises saw this topic at the centre of discussions among APEC economic leaders at their annual meeting in Kuala Lumpur in November 1998. In the lead-up to that meeting, the Secretary to the Treasury, as the Prime Minister's Special Envoy, led an interdepartmental team to a number of Asian capitals to discuss Australia's proposed approach to the leaders' meeting.

Finance Ministers

Treasury provided policy advice and briefing for the Treasurer's participation in the Sixth APEC Finance Ministers' meeting held in Langkawi, Malaysia, in May 1999. The meeting pursued efforts to reform the international financial system and secured a commitment by member economies to improve prudential supervision in the banking and securities sectors by better training of supervisors. It also continued to advance the strengthening of corporate governance in the region.

Following on from Australia's successful hosting of a symposium in November 1998 to launch this corporate governance initiative, Australia offered to organise a joint APEC-OECD workshop on insolvency law later in 1999 to further progress work on the collaborative initiative to improve corporate governance in the region.

Investment Experts Group

Treasury was active in APEC's investment liberalisation, facilitation and cooperation activities through leading Australia's representation in the APEC Investment Experts Group. Treasury worked to ensure that the Group remained focused on investment liberalisation and facilitation rather than investment promotion activities. A major output of the Group was a 'menu of options' for investment liberalisation and business facilitation from which economies may voluntarily select any of a number of options to make progress toward creating a free and open investment regime. The Group has also begun updating the APEC Investment Guidebook, which provides comprehensive information on the investment regimes of member economies.

Economic Committee

Treasury led Australia's representation on APEC's Economic Committee. Treasury worked to improve the quality of the Committee's output and to ensure that the activities of the Committee met the needs of Leaders, Ministers and other APEC fora. The major outputs for the year included the annual *APEC Economic Outlook*, work on research projects analysing APEC economies after the financial crisis, a report on *Costs and Productivity Trends and Patterns of Specialisation in APEC*, and a survey on *Trade-Related Environment Measures and Environment-Related Trade Measures*.

Relations with Asia

Treasury's representatives in Tokyo, Beijing and Jakarta continued to be active in maintaining and developing relations with Treasury's counterparts in Japan, Korea, China, Hong Kong SAR, Taiwan, Indonesia, Singapore, Malaysia, Thailand and the Philippines. Treasury's overseas representatives continued to contribute significantly to the overall monitoring of economic conditions in these economies and to assessments of their major economic policy challenges. In particular, these contacts have aided our understanding of events that have unfolded in Asian financial markets over the last two years. Visits to Australia by official delegations and by Treasury officers to the East Asian region have also contributed to an improved understanding by Treasury of Asian economies and have encouraged greater cooperation between Treasury and its counterparts in East Asia. During 1998-99, Treasury together with its overseas representatives, organised programs for visits by several official delegations from East Asia.

Relations with Pacific Economies

South Pacific Forum Economic Ministers' Meeting (FEMM)

The Assistant Treasurer attended the second FEMM in Nadi, Fiji in July 1998. Following the adoption of the FEMM Action Plan of economic liberalisation at its inaugural meeting in 1997, FEMM confirmed its commitment to economic reform as the key to improving the climate for private investment in the region and raising sustainable levels of growth. Encouragingly, considerable progress has been made by a number of member economies.

Organisation for Economic Co-operation and Development

Treasury staff participated in the work of OECD committees relevant to their responsibilities in the fields of macroeconomic and microeconomic policy, forecasting, taxation, competition policy, investment and capital markets. In June 1999, Treasury participated in consultations with a visiting OECD team in preparation for the OECD's regular review of the Australian economy.

Overseas Policy Lessons

Reporting by overseas posts and analysis conducted during the year maintained a close focus on international economic developments and on overseas experience of relevance to domestic economic policy formulation. In particular, contacts made by overseas posts aided understanding and analysis of events that have unfolded in Asian financial markets and economies over the past two years and their global implications. Reporting and analysis of developments in major economies contributed to our understanding of macroeconomic conditions and likely policy developments in these economies. For example, the impact of global developments on the Australian economy requires a balanced assessment of the continuing strong growth in the United States against the weak condition of the Japanese economy, and the likely influence of policy prescriptions adopted in those countries. European reporting has also contained useful macroeconomic policy insights from developments such as the progress of the European Economic and Monetary Union, and microeconomic reporting on issues such as labour market reform, corporate law and competition policy issues. The work and discussion taking place in the OECD continues to be of major interest.

SUBPROGRAM 1.3 — STRUCTURAL

Objective

To promote more efficient and sustainable use of resources and improved structural competitiveness and productivity of the Australian economy.

Description

Structural Reform Division provides advice on:

- reform issues in key infrastructure industries such as communications, energy and transport, including privatisation and implementation of regulatory and access regimes;
- competition policy and law including issues involving competitive neutrality, regulation review, competition payments, prices oversight and the *Trade Practices Act 1974*; and
- legal issues concerning the Treasury Ministers and the Department including administrative law, freedom of information, constitutional law and other matters.

Table 4: Financial and Staffing Resources Summary
Subprogram 1.3 — Structural

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	2,823	2,657	2,524
Other Program Costs (excluding RC)	0	0	0
Total	2,823	2,657	2,524
Adjustments	(2)	(2)	(2)
Total Outlays	2,820	2,655	2,522
STAFFING			
Staff Years	35	35	35

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Division's Operational Plan, include:

- provision of advice to the Government, other departments and agencies identifying emerging issues and undertaking forward-looking analysis of options;
- contributions to policy development, both directly and through interdepartmental processes;
- coordinating and liaising with Commonwealth and State Departments, other relevant agencies and industry;
- implementing policy decisions taken by the Government including the preparation of amendments to relevant legislation;
- effective contribution to public debate, including through policy-relevant research and analysis, publications, submissions to inquiries, speeches and contact with industry members; and
- internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include:

- external assessment of the quality and impact of the Division's briefings, policy work and responses to requests;
- internal assessment of the quality, timeliness and strategic focus of advice provided to the Government;
- feedback stemming from interdepartmental and other policy development processes;
- influence on policy outcomes through Cabinet and other processes, including legislative changes; and
- the range, quality and influence of publications and submissions to inquiries, as well as other contributions to public debate and understanding of structural issues.

Performance Outcome for 1998-99

Implementation of National Competition Policy

The Division coordinated implementation of the National Competition Policy (NCP), which provides a framework to progress a broad range of microeconomic reforms.

An important element of the NCP is the Commonwealth's competitive neutrality arrangements that are designed to improve resource allocation by ensuring that government business activities have no net competitive advantage simply as a result of their government ownership.

In liaison with the Office of Regulation Review in the Productivity Commission, Treasury coordinated the further progress of the Commonwealth's legislation review arrangements as outlined in the *Commonwealth Legislation Review Schedule* of June 1996. The Schedule lists all legislation that restricts competition or imposes costs on businesses. Legislation on the Schedule is reviewed to assess whether restrictions are necessary to meet the Government's objectives and are in the public interest. Proposals for new legislation are assessed against similar criteria through the Regulation Impact Statement process.

Commonwealth progress against competition policy reform benchmarks was reported in the *Commonwealth National Competition Policy Annual Report 1997-98*. The Annual Report outlined progress on regulation review and the implementation of competitive neutrality principles as well as structural reform of public monopolies; access arrangements for significant infrastructure facilities; prices oversight; legislative exceptions from the application of Part IV of the *Trade Practices Act 1974*; and progress in the related reform areas of gas, electricity, water and road transport.

Treasury officers represented the Commonwealth on the Committee on Regulatory Reform established under the auspices of the Council of Australian Governments (COAG). The Committee considers the treatment of cross-jurisdictional issues arising from the regulatory reform programs of the States and Territories and the Commonwealth.

The Division also provided advice on other aspects of the NCP including:

- NCP payments to the States and Territories;

- sector-specific NCP reforms;
- structural reform of public monopolies;
- reciprocal taxation arrangements with the States and Territories; and
- interjurisdictional issues.

During 1998-99 Treasury worked with other departments and agencies, other levels of government and industry in progressing structural reform in areas such as the transport, communications, electricity and gas sectors of the economy. This involvement reflected Treasury's particular responsibilities for the application of competition policy and its wider responsibility for advising on microeconomic issues more generally. Reform in each of these areas has the potential to lead to significant benefits in terms of enhanced productivity and the provision of higher quality and more diverse services. These benefits are particularly significant in the fields of communications and energy services, which are critical inputs for the whole economy.

Telecommunications reforms have played an important role in improving the competitiveness and productivity of the economy, and will continue to do so. During the year, the Division liaised with Department of Communications, Information Technology and the Arts (DoCITA) on proposed amendments to the telecommunications industry provisions in Parts XIB and XIC of the *Trade Practices Act 1974*.

The Division liaised with other agencies and provided advice on the framework for the second tranche sale of Telstra and the National Transmission Network sale.

The Division also consulted with DoCITA and the Australian Competition and Consumer Commission (ACCC) in the development of an access regime for the postal services market. The access regime is intended to encourage and promote competition while protecting the integrity of Australia Post's network. A legislative package to give effect to the Government's postal reforms, including the access regime, is to be introduced into Parliament.

The Division provided advice and prepared formal instruments for the Treasurer to implement prices monitoring of stevedoring services at Australia's major container terminals. This is a key element in progress towards the Government's seven benchmark objectives:

- an end to over-manning and restrictive work practices;
- higher productivity (five-port average crane rate of 25 container movements per hour);
- greater reliability through less industrial action and elimination of disruptive work practices;
- an improved safety performance;
- lower costs across the waterfront logistics chain;
- full and effective use of existing and new technology; and
- improved training.

The Division also plays a role in the access framework in Part IIIA of the *Trade Practices Act 1974* by advising the Minister for Financial Services & Regulation on the certification of access regimes. These aim to provide access for third parties to key infrastructure services in order to promote competition in related markets. During the year, the Division advised the Minister on the certification of the South Australian Third Party Access Regime for Gas Pipeline Services, which establishes a framework for third parties to obtain access to significant natural gas pipelines. All States and Territories have agreed to submit for certification an access regime for gas pipelines based on the *National Third Party Access Regime for Natural Gas Pipeline Systems*, as agreed by COAG in November 1997.

The Division continued to contribute to policy debate and development. For example, in October 1998, Treasury made a submission to the Upstream Issues Working Group on competition in Australia's upstream gas industry and in November, published its submission to the Senate Inquiry into the Socio-Economic Consequences of National Competition Policy. The Division contributes substantially to various interdepartmental policy development processes in the communications, aviation and energy areas.

Productivity Commission

The Productivity Commission (the Commission) is the Government's principal advisory body on microeconomic reform.

The broad charter of the Commission is to hold inquiries into industry, industry development and productivity matters referred to it by the Treasurer. Other key functions are to undertake research and promote

public understanding of such matters; and investigate and report on competitive neutrality complaints about Commonwealth Government businesses and business activities.

Treasury has a central role in the work of the Commission. The Division coordinates a substantial forward work program for the Commission and the preparation of terms of reference for its inquiries. The Division also provides advice on the processes to be followed by departments and agencies in formulating the Government's responses to Commission reports.

During 1998-99 Treasury coordinated and finalised eight wide-ranging inquiry references to the Commission. The references were: Nursing Home Subsidies; Progress in Rail Reform; Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies; Australia's Gambling Industries; Impact of Competition Policy Reforms on Rural and Regional Australia; International Telecommunications Market Regulation; International Liner Cargo Shipping: A Review of Part X of the *Trade Practices Act 1974*; and Broadcasting.

In conjunction with the relevant departments, Treasury coordinated the Government's responses to eleven Commission reports during the year. The reports were: The Machine Tools and Robotics Industries; Implications For Australia of Firms Locating Offshore; Book Printing; Medical and Scientific Equipment Industries; Ecologically Sustainable Land Management; Telecommunications Equipment, Systems and Services; The Australian Black Coal Industry; International Air Services; Pig and Pigeat Industries: Safeguard Action Against Imports; Nursing Home Subsidies; and Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies.

The Productivity Commission publishes its own Annual Report.

General Policy Advice and Other Activities

The Division provided advice to the Treasury portfolio Ministers and engaged in policy development processes on a wide range of issues relating to industry policy. For example, this included advice on implementing the new Part VB of the *Trade Practices Act 1974* which gives the ACCC the power to monitor prices and issue notices against businesses it considers are engaging in price exploitation during the transition to the New Tax System. It also included advice on Australia's position on competition and regulatory policies and law at international

fora including APEC and OECD. In addition to the Productivity Commission the Division provides oversight of the Commonwealth Competitive Neutrality Complaints Office, the Office of Regulation Review, the National Competition Council, the Australian Competition and Consumer Commission, and the Australian Competition Tribunal.

SUBPROGRAM 1.4 — TAXATION

Objective

To develop taxation policies which contribute to the reform of the Australian taxation system in terms of efficiency, equity and administrative simplicity.

Description

Budget Group is responsible for assessing and advising on the general structure of the taxation system and its components, in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility. The Budget Group Divisions involved in this subprogram were Business Income and Industry Policy Division; Business Entities and International Tax Division; Indirect Tax and Payment Design Division; and Retirement and Personal Income Division. In 1998-99, Treasury provided officers and support for the Taxation Task Force which assisted in the production and implementation of the Government's tax reform plan *A New Tax System*. Treasury also provided officers and support for the Secretariat of the Review of Business Taxation.

Table 5: Financial and Staffing Resources Summary
Subprogram 1.4 — Taxation

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	6,779	10,247	9,672
Other Program Costs (excluding RC)	94,457	20,236	13,594
Total	101,236	30,483	23,266
Adjustments	(94,508)	(11)	(11)
Total Outlays	6,728	30,472	23,255
STAFFING			
Staff Years	74	77	73

Strategies

Strategies to achieve the objectives of the subprogram include:

- developing and refining proposals for tax reform which effectively improve economic welfare and attain government objectives;
- assisting the Taxation Task Force which advised the Government on tax reform and comprised officials from the Departments of Treasury and the Prime Minister and Cabinet, the Australian Taxation Office (ATO), the Treasurer's Office and the Cabinet Policy Unit;
- assisting the Review of Business Taxation;
- evaluating the effectiveness of the current taxation system, including measures recently introduced;
- enhancing revenue costing and forecasting capabilities;
- developing and using computer models to enhance understanding of the impact of taxation measures on individuals and the economy;
- identifying emerging issues and undertaking forward-looking analysis of policy options, including through conferences and seminars;
- consulting and coordinating effectively with portfolio Ministers and their Offices and with the ATO;
- maintaining an effective relationship with the private sector, other Departments and other relevant parties, including through participation in the ATO's National Tax Liaison Group and interdepartmental Committees;
- liaising with the Financial Sector Advisory Council on taxation issues affecting the competitiveness of the financial sector;
- publishing discussion/issues papers on key strategic issues and seeking comment and submissions from interested parties;
- participating in discussions of, and presentations on, tax policy issues at domestic and international fora, including the OECD, and through relevant publications and external conference presentations; and
- enhancing transparency of concessions provided in the tax system through the publication of the *Tax Expenditures Statement*.

Performance Indicators

Performance indicators for the subprogram include:

- satisfaction of portfolio Ministers, their staff, and the Government more generally that policy advice is relevant, timely and of high quality;
- satisfaction of the members of the Review of Business Taxation in meeting their requests for advice, information and assistance in meeting their publishing schedule;
- feedback from the Taxation Task Force regarding the quality, relevance and timeliness of advice on reform options;
- meeting Departmental standards for policy advice of comprehensiveness and consistency with broader economic and social objectives, analytical rigour, defensibility, presentation and effectiveness;
- briefings influencing tax policy outcomes;
- feedback from conferences and seminars;
- feedback — including via industry submissions and consultations — from the private sector and other external agencies;
- conclusions of internal evaluation sessions of particular projects/processes;
- quality and scope of the reporting of tax expenditures;
- contribution to community debate on tax reform;
- improved quantitative techniques; and
- satisfaction of external bodies that their views are understood and considered in the development of policy advice.

Performance Outcome for 1998-99

Policy Focus

In August 1998, the Treasurer released the document *Tax Reform: Not a new tax, a new tax system* which set out the shortcomings of the existing

taxation arrangements and proposed a range of reforms. Reforms included: replacing the wholesale sales tax and a number of State and Territory taxes with a modern broad-based goods and services tax; an overhaul of Commonwealth-State financial relations; reforms to tobacco and petrol excise; substantial income tax cuts; a families package; and a range of administrative reforms, including a new collection and payment system.

The Treasurer also announced the establishment of the Review of Business Taxation to make recommendations on the fundamental design of the business taxation system, the processes of ongoing policy making, drafting of legislation and the administration of business taxation. The recommendations were to be consistent with the aims of: improving the competitiveness and efficiency of Australian business; providing a secure source of revenue; enhancing the stability of taxation arrangements; improving simplicity and transparency; and reducing the cost of compliance.

The Government appointed Mr John Ralph, AO to chair the Review of Business Taxation. To assist Mr Ralph, the Government appointed Mr Bob Joss, Senior Adviser at Westpac and Mr Rick Allert, Chairman of Southcorp. Messrs Ralph, Joss and Allert were assisted by a Secretariat located in the Treasury. The Secretariat was headed by Dr Alan Preston and comprised Treasury officers, officers from the ATO and other Departments, and external consultants.

A New Tax System

On 26 October 1998, the Treasurer appointed the Tax Consultative Committee to assist the Government through a consultation process to finalise the Goods and Services Tax (GST) design for health, education, religious services and the non-commercial activities of charities. The Committee was also asked to make recommendations on transitional arrangements relating to motor vehicles and to report by 13 November 1998. Treasury provided the Secretariat for the Committee.

As a member of the Taxation Task Force implementing the new tax system, Treasury consulted with a wide range of groups interested in aspects of the new tax system, including community organisations on the details of the new structure of family assistance.

On 2 December 1998, the Treasurer introduced the first package of the legislation to give effect to the new tax system. The Bills included the new GST system and transitional rules, income tax cuts, the abolition of wholesale sales tax, the Australian Business Number, Fringe Benefits Tax reporting on group certificates and increased family allowances.

These Bills together with the wine equalisation tax and the luxury car tax were passed by the Parliament at the end of June 1999.

Also in June, the Treasurer introduced legislation for the new pay as you go (PAYG) payment system. PAYG replaces all existing collection and reporting arrangements with one modern integrated system.

Review of Business Taxation

On 23 November, the Review released the first of its consultative documents, a discussion paper entitled *A Strong Foundation*. Following the release of the paper, the Review called for submissions on its proposals and held seminars in all capital cities. Over 70 submissions were received. The round of consultations held by the Review proved to be valuable, with seminar attendees taking the opportunity to raise issues of concern to them on the national objectives and design principles outlined in the paper, and giving broad support to the related processes for policy development.

An information paper, *An International Perspective*, was released by the Review on 23 December 1998.

A second discussion paper, *A Platform for Consultation*, was released on 22 February 1999. It raised detailed issues concerning the strategy for reform of the taxation of investments and business entities set out in *A New Tax System*. The Review conducted a round of consultations in all capital cities on issues raised in the discussion paper and invited all interested bodies or individuals to make submissions. From late February, the Review and its secretariat conducted numerous individual consultations on issues contained in *A Platform for Consultation*. Over 290 submissions were received.

The Review provided its report to the Government on 2 August 1999.

Feedback from Government and Taxpayers

Budget Group obtained feedback on its performance through industry submissions and consultations and by monitoring factors such as the

Group's influence on the tax policy debate and tax policy outcomes. This influence can be assessed, to some extent, by the process of issuing discussion papers and receiving submissions; the extent to which recommended positions are adopted by the Government; and the conformity of the adopted measures with principles of efficiency and equity.

1999-2000 Budget

The 1999-2000 Budget extended family assistance to dependent young people up to the age of 21 (both students and job seekers). The measure commences from 1 October 1999 and will apply to existing family assistance arrangements. From 1 July 2000, the measure will form part of Family Tax Benefit, Part A, an element of the new tax system.

Prior to introduction of the enabling legislation, the measure was further extended to include dependent students between the ages of 21 and 25.

The Government enhanced the Pooled Development Fund (PDF) program to improve the effectiveness and attractiveness of PDFs as an investment vehicle, particularly for superannuation funds.

The Government announced that from 1 July 1999 the Tax Incentive for Heritage Conservation would be converted into a grants program.

Rates of excise and customs duty on aviation gasoline and turbine fuel were increased to address a shortfall in industry contributions to the air safety programs of the Civil Aviation Safety Authority.

In addition, the rate of excise and customs duty on aviation gasoline and turbine fuel was temporarily increased with the revenue being used to help maintain the air traffic control services of Airservices at regional and general aviation airports.

Finally, Treasury assisted in the compilation of the revenue estimates for the 1998-99 and 1999-2000 Budgets. The deviation of the 1998-99 Budget total revenue forecast from the actual outcome was 1.6 per cent, slightly below the average of past experience.

Other Consultation with Taxpayers

Treasury and ATO officials consulted with industry representatives concerning taxation relief for managed investment funds that are required to restructure under the terms of the *Managed Investments Act 1998* (the

MIA). Following the consultations, the Government decided to provide broad relief, for both funds and their members, from the income tax consequences of actions taken to comply with the MIA.

Treasury and ATO officials consulted representatives of mutual organisations on possible refinements to draft legislation affecting the industry. The draft proposed a generic framework for the taxation consequences of certain transactions associated with demutualisation of mutual non-insurance organisations. The Government subsequently agreed to certain amendments to the draft legislation.

More generally, Treasury regularly engages in consultations with other Departments, the private sector and interest groups, giving these bodies an opportunity to provide input to the development and implementation of the Government's taxation policies. Such processes play an important role in informing Treasury's advice to Government.

Community Education and Information Program

Treasury spent \$12.9 million in 1998-99 on an information and education program to inform the public of the nature of the Australian taxation system and changes required to reform it. Budget Group was responsible for this program.

Reporting of Tax Expenditures

Treasury produces the *Taxation Expenditures Statement* (TES) which provides details of the revenue impacts associated with concessional taxation treatment of specific groups and/or activities.

The 1997-98 TES, published in July 1999, reports on the costs of particular tax expenditures with estimates and projections to 2001-2002. This complements information provided in the Budget Papers on the aggregate cost of tax expenditures as a proportion of GDP.

The net cost of aggregate tax expenditures increased by around \$0.2 billion in 1997-98. In aggregate the net measured tax expenditures are valued at \$19.5 billion, equivalent to 14.3 per cent of Commonwealth Budget underlying outlays in 1997-98. The cost of tax expenditures is projected to decline to \$19 billion in 2001-02, although the forward projections are subject to significant uncertainty.

Other Policy Advice

Budget Group advised the Government in respect of the following four new measures to encourage philanthropy which were announced on 26 March 1999:

- tax deductibility for donations of property valued over \$5,000 regardless of when it was acquired or purchased;
- a capital gains tax exemption for testamentary gifts of property;
- a new category of ‘private funds’ that will be eligible to receive tax deductible donations without having to seek or receive donations from the general public; and
- greater incentives for donations of property accepted by the Cultural Gifts Program. Such donations will now be exempt from capital gains tax and the existing income tax deduction will now be able to be apportioned over a period of up to five years.

Treasury, in conjunction with the ATO, advised the Government in relation to the taxation implications of the privatisation of the wool stockpile. On 30 March 1999, the Government announced the tax treatment of the wool stockpile that will apply to the newly privatised company, WoolStock Australia (WA). WA will be exempt from income tax on its stockpile disposal activities. The exemption will apply to all activities relating to, and incidental to, the holding and disposal of the stockpile on hand at the date of privatisation. Any income derived from other activities will be taxable.

Officers from Treasury, the ATO and the Department of Industry, Science and Resources developed proposed amendments to the Petroleum Resource Rent Tax concerning vertically integrated gas-to-liquid projects. In particular, the amendments provide a methodology for determining a transfer price for feedstock natural gas. Officials have also consulted with industry representatives on these matters.

The OECD Committee on Fiscal Affairs has broad responsibilities related to taxation policy and administration. Treasury has contributed to the work of the Committee, particularly in respect of harmful tax competition, electronic commerce and goods and services taxation.

Modelling

Budget Group is responsible for three main tax models: the Price, Revenue Incidence Simulation Model (PRISMOD), the Treasury Wholesale Sales Tax and Excise Revenue Price Model (TWERP) and the Interface model. All three models were developed within Treasury.

PRISMOD provides a tool for revenue estimation and general taxation policy research relating to the indirect tax system.

During 1998-99, PRISMOD was used extensively to analyse the cost, price and revenue impacts of the Government's indirect tax reforms. Estimates of these impacts were published in the August 1998 *A New Tax System* statement, along with details of the PRISMOD modelling approach.

The TWERP model calculates sales tax, excise and GST revenues, price effects and CPI impacts. The model has been used extensively to analyse the price and revenue impacts of changes to excise rates and the wine equalisation tax under the Government's indirect tax reforms.

The Interface model provides for real time analysis of the cost and distributional effects of selected taxation and social security changes. The model was used extensively to develop proposals as part of the Government's tax reform processes.

Ministerial Correspondence

Budget Group handles some 60 per cent of the Treasury's Ministerial correspondence. From its establishment in October 1998 until June 1999 the Group completed almost 2,800 replies to correspondence.

Legislation and Government Inquiries

Treasury has participated in a number of interdepartmental reviews, including the application of the Petroleum Resource Rent Tax to Liquefied Natural Gas projects (which involved consultation with industry representatives); Pooled Development Funds; and the review of the Division 10BA film tax concession.

SUBPROGRAM 1.5 — FISCAL

Objectives

To develop fiscal policies, including arrangements for the distribution of resources between the Commonwealth and other levels of government, which are consistent with sustainable public finances and macroeconomic objectives; and to administer efficiently the provision of general revenue assistance to other levels of government.

Description

Within this subprogram, the Budget Policy Division is responsible for advising on Budget policy, with Macroeconomic Policy Division advising on overall fiscal policy and strategy. Commonwealth-State Relations Division is responsible for advice on payments to the States, intergovernmental coordination of public sector borrowing and measures to improve public sector efficiency.

Table 6: Financial and Staffing Resources Summary
Subprogram 1.5 — Fiscal

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	2,267	2,734	2,597
Other Program Costs ^(a) (excluding RC)	21,818,083	23,262,843	23,727,793
Total	21,820,350	23,265,577	23,730,390
Adjustments ^(b)	(5,624,362)	(6,480,020)	(6,951,554)
Total Outlays^(c)	16,195,988	16,785,557	16,778,836
STAFFING			
Staff Years	30	34	30

(a) Other Program Costs relate to general purpose grants made to the States, including safety net arrangements introduced to protect State revenues following a High Court ruling of 5 August 1997.

(b) The adjustments comprise the direct payment of State fiscal contributions to the Commonwealth by New South Wales, Victoria and South Australia, and payments to the States under the safety net arrangements (consistent with the ABS classifications, these payments are treated as revenue items).

(c) Variations in total outlays are mainly due to the impact of CPI and population growth on indexation arrangements for general revenue assistance.

Strategies

Strategies to achieve this objective include:

- the provision of information on, and assessment of, the fiscal outlook;
- the preparation of advice on fiscal policy, including medium term strategies, the efficiency of the public sector and Commonwealth/State relations, budgetary developments in the State/Territory sector and borrowings by all levels of government;
- the provision of advice which seeks to balance various considerations in the setting of fiscal policy, including impacts on aggregate demand, public saving, inter-generational equity and future flexibility;
- participation in program policy reviews;
- the enhancement of transparency, accountability and public scrutiny of public sector finances through implementation of the *Charter of Budget Honesty Act 1998*, Loan Council and uniform fiscal reporting arrangements and the publication of Commonwealth budget documentation and the *National Fiscal Outlook*;
- the provision of financial resources to other levels of government at agreed levels, ensuring that appropriate administrative arrangements are in place and that all accountability requirements are met;
- contributing to public debate and understanding of the Government's fiscal strategy and its implications, and of public sector finances more generally, including by undertaking policy relevant research and analysis; and
- undertaking internal review and evaluation of processes and outcomes.

For 1999-2000 these strategies will be referred to as key products and services.

Performance Indicators

The quality, timeliness and relevance of fiscal and budget policy advice are key indicators for this subprogram. Assessments of performance against these criteria take into account:

- the contribution to policy outcomes;

- feedback from the Treasury portfolio Ministers and the Department's Executive; and
- feedback from external sources including the State and Territory governments.

The efficiency and effectiveness of arrangements to meet operational requirements, including payments to other levels of government, are measured by feedback from the governments concerned and by internal and external audit.

Performance Outcome for 1998-99

Charter of Budget Honesty

The Charter of Budget Honesty Act was passed in 1998. It aims to produce better fiscal outcomes through introducing institutional arrangements to increase public scrutiny of fiscal objectives and performance.

The Act provides for the clear enunciation of government fiscal objectives, consistent with principles of sound fiscal management contained in the Act, and for regular public reporting of performance against those stated objectives.

The Act pays particular attention to improving the information publicly available at election times. The first *Pre-Election Economic and Fiscal Outlook* (PEFO) report was released in September 1998. The Act also includes formal arrangements for costing of Government and Opposition election commitments. The publication of the PEFO was a major activity within this subprogram during 1998-99.

Budget Processes

The *Final Budget Outcome 1997-98* was published in September 1998, and a comprehensive mid-year review of the 1998-99 Budget estimates was published in December 1998. These publications were consistent with the requirements of the *Charter of Budget Honesty Act 1998*, and provided detailed information on the Government's fiscal objectives and performance against those objectives.

The Accrual Budget

The 1999-2000 Budget was delivered on 11 May 1999. This was the first Commonwealth budget to be presented in the accrual accounting framework. The implementation of the accrual framework is a substantial advance in public sector budget and financial management and provides a solid platform for future reform. While there remains substantial work to complete the move to accruals, the 1999-2000 Budget represented a major part of that transition. Preparation for the introduction of the accrual framework included the publication of a Treasury information paper entitled *Fiscal Policy Under Accrual Budgeting*.

The accrual-based outcomes and outputs framework has been introduced primarily to enhance public sector resource management. As such, it will complement the macroeconomic management role performed within this subprogram. The adoption of the accrual framework is consistent with the general framework for fiscal transparency provided by the *Charter of Budget Honesty Act 1998*.

Policy Advice on the Fiscal Outlook

During 1998-99, advice was provided to the Treasurer and other members of the Government on the 1997-98 outcome, the fiscal outlook and the 1999-2000 Budget strategy and processes. In formulating this advice, Treasury took into account the impact of policy decisions and changes in the economic outlook. Incorporation of the influence of economic and fiscal conditions in the States and Territories was facilitated by liaison with State and Territory officials.

Treasury also provided advice to the Treasurer and Assistant Treasurer on taxation and expenditure proposals as part of the budget formulation process.

Major Program Reviews

During 1998-99, officers of the Budget Policy Division participated in a number of interdepartmental committees reviewing a range of major programs. This included work on the Quadrennial Review of Non-Government School Funding, the development of reforms to improve the private health insurance industry, and the renegotiation of the Commonwealth-State Housing Agreement. Treasury's contribution to such review processes seeks to ensure that the Government's social objectives are considered in the context of its broader economic aims and

that the outcome improves the effectiveness and efficiency of Commonwealth Government outlays. Treasury also provided advice to the Government on these and other program policy issues.

Reform of Commonwealth-State Financial Relations

The Commonwealth's proposal for reforming Commonwealth-State financial relations was the subject of a Special Premiers' Conference on 13 November 1998, where States and Territories provided their agreement in principle to reform the existing financial arrangements. Further discussions of these reforms led to the signature of an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* by Heads of Government at the 1999 Premiers' Conference. The Intergovernmental Agreement outlines the Commonwealth, State and Territory governments' commitments undertaken as part of the reform of Commonwealth-State financial relations.

On 28 May 1999, the Prime Minister announced changes to the tax reform package that required revisions to the Intergovernmental Agreement. Heads of Government signed a revised Intergovernmental Agreement in June 1999. The revised agreement came into effect on 1 July 1999 and includes the following reform measures:

- the Commonwealth will appropriate all of the GST revenues to the States and Territories from 1 July 2000;
- the Commonwealth will legislate to provide that the GST rate and base cannot be modified without the unanimous consent of the Commonwealth, States and Territories;
- Financial Assistance Grants and payments of revenue associated with the safety net surcharge arrangements for alcohol, petroleum and tobacco will cease from 1 July 2000;
- the States will abolish the following taxes:
 - bed taxes, from 1 July 2000;
 - Financial Institutions Duty, from 1 July 2001;
 - stamp duties on quoted marketable securities from 1 July 2001; and
 - debits tax by 1 July 2005, subject to review by a Ministerial Council;

- the Ministerial Council will by 2005 review the need for retention of a number of business-related stamp duties;
- the States and Territories will adjust their gambling tax revenues to take account of the impact of the GST on gambling operators;
- the States and Territories will ensure that increases in pensions and allowances specified in the tax reform package will not flow through to increased public housing rents where these rents are linked to the level of pensions;
- the States and Territories will fund and administer a new uniform First Home Owners Scheme from 1 July 2000 to offset the impact of the GST on house prices for first home buyers;
- the States and Territories will pay the cost of administering the GST; and
- the Commonwealth will provide transitional assistance to cover temporary shortfalls in State and Territory budgets as a result of the implementation of tax reform.

As of 1 July 1999, a Ministerial Council comprising Commonwealth, State and Territory Treasurers (or designated representatives) will be responsible for overseeing the operation of the Intergovernmental Agreement. The Ministerial Council will be chaired by the Commonwealth Treasurer and assisted by a GST Administration Subcommittee of officials. Treasury will chair the GST Administration Subcommittee.

Premiers' Conferences

Treasury has primary responsibility for the provision of advice on financial arrangements with the States and Territories. Advice was provided to the Treasurer and Prime Minister in the lead-up to the Special Premiers' Conference held on 13 November 1998 and the 1999 Premiers' Conference held on 9 April 1999. The advice dealt with the reform of Commonwealth-State financial arrangements, the provision of general revenue assistance to the States and Territories and the coordination of public sector borrowings through the Loan Council.

Consistent with the agreement reached at the April 1999 Premiers' Conference, the Commonwealth will maintain the real *per capita* indexation arrangements for financial assistance grants in 1999-2000. In addition, the Commonwealth will make National Competition Payments

to the States in 1999-2000. In conjunction with special revenue assistance of \$13.2 million to the Australian Capital Territory, this will result in general revenue assistance of some \$17.7 billion being provided to the States and Territories in 1999-2000. The payment of National Competition Payments, together with the per capita component of the indexation arrangements for financial assistance grants, is conditional on the States and Territories meeting their obligations under the *Agreement to Implement the National Competition Policy and Related Reforms*.

The Loan Council Allocations nominated by the Commonwealth, States and Territories for 1999-2000 were agreed to the Loan Council Meeting held in conjunction with the Premiers' Conference on 9 April 1999.

Fiscal Reporting Issues

In accordance with the revised *Uniform Presentation Framework* agreed by the Australian Loan Council in March 1997, for the first time all jurisdictions prepared mid-year budget reports in 1998-99. The primary objective of the *Uniform Presentation Framework* is to ensure that a common 'core' of financial information is provided by Commonwealth, State and Territory governments in their budget papers. In late 1998-99, the Commonwealth, States and Territories began an examination of the implications of the shift to accrual reporting for the *Uniform Presentation Framework*.

Heads of Treasuries

Heads of the Commonwealth, State and Territory Treasuries meet regularly to discuss matters of mutual interest, such as economic conditions, fiscal reporting, taxation and financial issues, and preparations for the annual Premiers' Conference and Loan Council meeting. Heads of Treasuries met eight times over the course of 1998-99, a higher than usual number of meetings because of the negotiations between the Commonwealth and the States on the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Payments to the States and Territories

During 1998-99, general revenue assistance to the States and Territories was paid in accordance with the level and distribution determined at the 1998 Premiers' Conference and as set down in the *States Grants (General Purposes) Act 1994*. Arrangements were put in place for the States and Territories to pay State fiscal contributions directly to the Commonwealth or by deduction, either from their general revenue

assistance or from Commonwealth funding under the Commonwealth-State Housing Agreement. As far as practicable, payments of general revenue assistance were made in equal weekly instalments.

Following the 5 August 1997 High Court ruling which cast into doubt the constitutional validity of all State and Territory business franchise fees, the Commonwealth, at the unanimous request of the States and Territories, announced 'safety net' arrangements to protect State and Territory finances. All revenue collected by the Commonwealth under these arrangements (less administrative costs) is returned to the States and Territories as revenue replacement payments. Weekly revenue replacement payments were provided to the States and Territories throughout 1998-99 on the basis of advice from the Australian Taxation Office and the Australian Customs Service on weekly collections under the 'safety net' arrangements.

Treasury received no adverse feedback from State or Territory Governments on the Department's administration of these arrangements during the year. All relevant accountability requirements were met.

Other Policy Advice

Treasury provides advice on tax policy issues arising in a Commonwealth-State context. Following the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue* (Victoria) (1996) 186 CLR 630 (*Allders*) invalidating the imposition of State taxes on Commonwealth places, Treasury has introduced Commonwealth taxes to mirror State payroll taxes, Financial Institutions Duty, debits tax and stamp duties on activities on or in Commonwealth places. The Commonwealth will remit mirror tax revenues to the States to ensure they are not financially disadvantaged by the *Allders* decision. Treasury is developing bilateral agreements with States covering the administrative arrangements for collecting and ensuring compliance with these mirror taxes.

Treasury also provides policy advice on the taxation treatment of State and Territory Trading Enterprises. Under the terms of the 1994 Statement of Policy Intent, these enterprises are exempt from income tax and Wholesale Sales Tax. Instead, they are required to make equivalent payments to their owner government through a tax equivalent regime. This ensures revenue neutrality, as owner governments collect and retain the tax equivalents, and competitive neutrality, as these

enterprises are subject to the same tax burden as private sector businesses. Under the Intergovernmental Agreement signed in June 1999, Heads of Government agreed to progress reciprocal taxation on a revenue neutral basis through the negotiation of a Reciprocal Taxation Agreement. Reciprocal taxation involves each taxing authority applying its indirect taxes to the activities of the other levels of government within its jurisdiction. Treasury has primary responsibility for progressing the Reciprocal Taxation Agreement for the Commonwealth.

SUBPROGRAM 1.6 — DEBT MANAGEMENT

Objective

To raise, manage and retire Commonwealth debt at the lowest possible long-term cost, consistent with an acceptable degree of risk exposure.

Description

Debt Management Office within Economic Group was responsible for advising on, designing and implementing programs in relation to borrowings by the Commonwealth and the management of the Commonwealth's debt, including legislative aspects of debt issue.

It was announced in the 1999-2000 Budget that a new specialist agency, the Australian Office of Financial Management, was to be established within the Treasury portfolio as a 'prescribed' agency under the *Financial Management and Accountability Act 1997*, to assume responsibility for the Commonwealth's existing debt management activities. The Australian Office of Financial Management commenced operations on 1 July 1999.

Table 7: Financial and Staffing Resources Summary
Subprogram 1.6 — Debt Management

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	1,477	1,207	1,206
Other Program Costs ^(a) (excluding RC)	19,400,236	16,455,951	14,018,196
Total	19,401,713	16,457,158	14,019,402
Adjustments	(10,776,158)	(8,422,655)	(6,698,004)
Total Outlays	8,625,556	8,034,503	7,321,398
STAFFING			
Staff Years	20	20	18

(a) Other Program Costs comprise all expenditures made from the Consolidated Revenue Fund, including transactions relating to the servicing of Commonwealth debt. Adjustments comprise receipts offset within outlays, appropriations classified as financing transactions, appropriations from the Loan Fund affecting outlays and trust account transactions affecting outlays. Specific adjustments made include interest receipts from swap counterparties, principal payments to swap counterparties, interest receipts from the States and the Northern Territory and debt repayments made from the Consolidated Revenue Fund.

Strategies

Strategies to achieve the objective of the subprogram, which were reflected in the Office's Operational Plan, included:

- utilisation and further development of a broad range of debt instruments and liability management techniques within an explicit risk management framework;
- regular contact with financial market participants, other sovereign borrowers and the RBA, to pursue best practice in the Government's debt funding and management decisions and to foster market familiarity with the Commonwealth's strategies in these areas;
- liaison with spending Departments, the Department of Finance and Administration, the RBA and the Australian Taxation Office to facilitate efficient cash management;
- utilisation of specialist external advice as input into longer term strategic portfolio management decisions;
- ensuring all legislative, administrative and accountability requirements for debt issue and redemption and the payment of debt assistance are met;
- ensuring efficient, secure and accountable procedures are in place for the processing of transactions; and
- internal and external review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram included:

- achievement of the Commonwealth's financing task;
- efficient execution of the Commonwealth's borrowing activities;
 - partial indicators include the range of accepted bids and the basis point spread between tender and secondary market yields.
- efficient management of the Commonwealth's cash balances;

- indicators include achievement of the Ministerially-endorsed cumulative average cash balance target as at end year.
- timely calculation of public debt interest (PDI) obligations as an input into budgetary processes;
- meeting all legislative, administrative and accountability requirements for debt issue, repurchase and redemption and the payment of debt assistance related to redemption of Commonwealth Government debt on issue for the States and Territories; and
- efficient administration of debt redemption for the States and the Northern Territory through the Debt Retirement Reserve Trust Account.

Performance Outcome for 1998-99

Debt Management Framework

In common with most entities with significant financial exposures in their balance sheet, the Commonwealth has been moving increasingly in recent years to conduct its debt management activities within an explicit risk management framework. In conducting its portfolio management and debt issuance activities, key risks managed by the Commonwealth include funding risk, market risk and credit risk.

Treasury's broad objective with respect to *funding risk* management was to ensure continued market access on favourable terms such that funding requirements were realised in an orderly and cost-effective manner. Cost-effective debt issuance requires appropriate stock selection; efficient execution of transactions; the maintenance of a diverse investor base; deep, liquid markets; and an efficient yield curve for Commonwealth Government securities. To this end, the practice of concentrating debt issuance into liquid benchmark stocks was continued in 1998-99. Extensive liaison with financial market participants has been maintained in order to assess market conditions and guide issue decisions.

Market risk, sometimes referred to as portfolio risk, is the risk to the value of the debt portfolio from changes in financial prices such as interest rates and exchange rates. For a number of years Treasury's approach has been to establish a carefully-defined hypothetical portfolio benchmark

with a trade-off between cost and risks, to serve as a target for the structure of the Commonwealth debt portfolio.

The benchmark, which is the outcome of considerable research and modelling undertaken with input from specialist external advisors, reflects a portfolio composition that, *ex ante*, can be expected to minimise the cost of Commonwealth debt over the longer term, subject to an acceptable degree of volatility in annual debt service costs. It is within this benchmark framework that decisions relating to the 1998-99 borrowing program were taken, ensuring consistency with the long-term strategy.

Credit risk is the risk that a counterparty of the Commonwealth may default on its obligations. Credit risk was managed by reference to a comprehensive Swap Counterparty Credit Policy, endorsed by the Treasurer, that establishes minimum credit rating criteria for acceptable counterparties and differential market and potential exposure limits for various institutional counterparty types at different ratings points.

The Commonwealth's Borrowing Program

As in 1997-98, the Commonwealth maintained a gross new issuance program in 1998-99 even though there was no immediate funding need to do so. The issue program is designed explicitly to meet objectives in regard to maintaining the liquidity of benchmark lines and the efficiency of the yield curve, the length of which continues to be maintained at around 12 to 13 years. Among other considerations, maintenance of an efficient, liquid Commonwealth yield curve will assist the continued growth and development of a range of domestic derivative and related markets and is consistent with the Government's commitment to the further development of Australia as a centre for global financial services.

Performance indicators for Commonwealth borrowing operations include the range of accepted tender bids and the margin of the weighted average tender yield over prevailing secondary market yields, both of which may be regarded as useful partial indicators of the cost-effectiveness with which borrowing operations have been executed. These indicators provide only a partial guide to how well debt issuance has been targeted to market demand as external factors can also influence these measures. Nonetheless, these partial indicators would tend to indicate if there had been poor tender performance, particularly when examined over time.

Treasury Fixed Coupon Bonds

Treasury Fixed Coupon Bonds were the main funding instrument employed by the Commonwealth in 1998-99. Seven tenders were held in 1998-99, raising \$3.9 billion, which was down from the 1997-98 program of \$4.5 billion. Issuance was concentrated in the Commonwealth's longer-dated stocks, in the interests of building liquidity in that part of the curve. This action ensured that the Commonwealth yield curve remained liquid across its length of around twelve to thirteen years.

The average margin between tender and prevailing secondary market yields (around one basis point) was similar to last year, as was the average range of accepted tender bids at around one and a half basis points. These indicators are consistent with the programme's being implemented in a cost-effective manner.

Treasury Indexed Bonds (TIBs)

Ongoing consultation with market participants suggested that adherence to the six-to-eight-week tender schedule (introduced in 1997-98) would continue to assist the development of this market. Accordingly, Treasury maintained a six-to-eight-week tender window through 1998-99.

In 1998-99, there were six tenders held, with total issuance of around \$550 million. Issuance was split between the 2015 line and the 2020 line with the majority being into the latter. The average spread to secondary market yields was a little under one basis point, marginally higher than in 1997-98, and the average range of accepted bids at tender increased slightly to around 4½ basis points from around 4 basis points in 1997-98.

Treasury Notes

Treasury Note issuance in 1998-99, as in prior years, was designed principally to provide short-term financing to cover within-year timing mismatches between the payment of Commonwealth Government outlays and the receipt of Commonwealth Government revenues. The Treasury Note tender program was managed such that, over the course of the full year, cumulative average cash balances were well inside the Ministerially-prescribed target. This reflects improved accuracy in forecasting Commonwealth cash flows and matching T-Note issuance to these flows.

In 1998-99, around \$45 billion of Treasury Notes were issued to the public, through 37 tenders. The RBA took up a further \$1.3 billion over

the year at the weighted average yield recorded at the applicable tenders. The average range of accepted bids at tender was 4 basis points, and the spread to secondary market yields was 2 basis points. Both of these measures were in line with the results achieved in 1997-98.

Legislative and Administrative Requirements

The debt issue, repurchase and redemption programs were administered in accordance with the provisions of the *Commonwealth Inscribed Stock Act 1911*, the *Loans Redemption and Conversion Act 1921*, the *Financial Agreement Act 1994* and related legislation. Estimates of Commonwealth PDI obligations on the Commonwealth debt portfolio were prepared regularly as an input into Budget figuring.

All legislative and administrative requirements for debt redemption were met, including those related to the redemption, through the Debt Retirement Reserve Trust Account, of Commonwealth Government debt on issue for the States and Territories.

Debt assistance payments to the States and Territories, in the form of Commonwealth sinking fund payments to the Debt Retirement Reserve Trust Account (to assist them in their redemption of Commonwealth Government securities on issue on their behalf) and untied grants (to compensate them for the costs of cessation of Commonwealth borrowing on their behalf), were made in accordance with the provisions of the *Financial Agreement Act 1994*. All relevant accountability requirements were met and enquiries from State and Territory Treasuries concerning debt redemption matters were handled promptly.

Further details on these issues, including the Commonwealth's portfolio benchmark and portfolio management philosophy, the marketable debt portfolio and swap transactions, are contained in the *1998-99 Commonwealth Debt Management Report*.

SUBPROGRAM 1.7 — INVESTMENT

Objectives

To encourage foreign investment consistent with national interest considerations by following procedures that minimise the impact on commercial decision-making. To represent Australia in international fora with respect to bilateral and multilateral foreign investment agreements and issues.

Description

The Government's approach to foreign investment policy is to encourage foreign investment consistent with the interests of the community. Overall the general stance of policy is welcoming, in recognition of the contribution that foreign investment has made and continues to make to the development of Australia, providing scope for higher rates of economic activity and employment than could be achieved on the basis of domestic savings. Foreign direct investment also provides access to new technology, management skills and overseas markets.

The foreign investment policy provides for government scrutiny of many proposed foreign purchases of Australian businesses and properties. The Government has the power under the *Foreign Acquisitions and Takeovers Act 1975* (the Act) to block proposals that are determined to be against the national interest. The Act also provides legislative backing for ensuring compliance with the policy.

In the majority of industry sectors, smaller proposals are exempt and larger proposals are approved unless judged contrary to the national interest.

Reflecting community concerns, specific restrictions on foreign investment are in force in more sensitive sectors such as the media, telecommunications and aviation.

Investment in developed residential real estate is restrictive to ensure that foreign investment improves the supply of residences and is not speculative. The objective is to maintain greater stability of house prices and the affordability of housing for the benefit of Australian residents.

The Foreign Investment Policy Division provides executive assistance to the Foreign Investment Review Board (FIRB) which is a non-statutory body established in 1976 to advise the Government on foreign investment proposals. The Division provides secretariat services for the FIRB, prepares reports on foreign investment proposals and is usually the first point of contact for foreign investors. In addition, the Division advises the Government on general foreign investment policy matters, including Australia's participation in multilateral and bilateral agreements on investment. The FIRB publishes its own annual report which outlines its activities, provides a summary of the year's foreign investment proposals, comments on the more significant cases and reviews trends in foreign investment in Australia and in Australian investment abroad.

Table 8: Financial and Staffing Resources Summary
Subprogram 1.7 — Investment

	1997-98 Actual (\$'000)	1998-1999 Budget (\$'000)	1998-1999 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	3,058	1,967	1,868
Other Program Costs (excluding RC)	102	350	350
Total	3,160	2,317	2,218
Adjustments	(4)	(2)	(3)
Total Outlays	3,155	2,315	2,215
STAFFING			
Staff Years	32	23	31

Strategies

Strategies to achieve the foreign investment objectives of the subprogram include:

- monitoring and assessing trends in foreign investment cases for implications of the Government's foreign investment policy and its administration;
- consulting closely with members of the FIRB in relation to the administration of the Government's foreign investment policy;
- reviewing the Government's foreign investment policy, processes and outcomes ;

- providing updated explanations of policy and guidance to applicants, their agents, business organisations and the wider public to improve understanding and acceptance of policy and to assist proposals conform to policy;
- identifying in good time large or sensitive cases requiring Ministerial consideration, for discussion with the FIRB; and
- maintaining a watch on developments in foreign investment policies of other countries and developments concerning foreign investment in international organisations such as the OECD.

Performance Indicators

Performance indicators for this subprogram include:

- the degree to which policy advice is accepted and followed by Ministers, FIRB, other departments and organisations;
- compliance with all statutory requirements applying to cases;
- feedback from the FIRB on the timeliness and consistency of decisions made on foreign investment proposals under delegation and recommendations for Ministerial consideration;
- improved quality of foreign investment applications, with reduced requirement for follow-up and a reduction in the number of proposals requiring Interim Orders gazetted due to lack of information;
- responding within an average of 5 days to general telephone inquiries and written requests for information on policy;
- relations with and feedback from foreign investors, their agents and the public in relation to the administration and understanding of foreign investment policy; and
- effective participation in international fora on foreign investment policy issues.

Performance Outcome for 1998-99

Consistent with the need for Ministerial decisions on major national interest issues, the more significant foreign investment cases were

submitted to the Treasurer, or Assistant Treasurer, for consideration. However, the great bulk of cases requiring examination, approximately 94 per cent, were handled by officers under delegation.

The number of cases received in 1998-99 was 5,091, compared with 4,767 in 1997-98, continuing an upward trend in recent years. The information requirements for processing proposals have been designed to keep to a minimum the time taken (and hence the cost involved) in obtaining foreign investment approval. In 1998-99, 65 per cent of applications were decided within 10 days of receipt of a completed application; over 90 per cent of cases were decided within 30 days.

Under the *Foreign Acquisitions and Takeovers Act 1975* (the Act), the statutory time limit for reaching a decision is 30 days, with up to a further 10 days to notify the parties. There is, however, scope for an interim order extending the period of examination for up to a further 90 days. In 1998-99, there were 50 interim orders and 158 final orders issued. Interim Orders are frequently sought where applicants have failed to provide adequate information to assess their proposal against the national interest test within the 30 day statutory deadline. Final orders are issued where a proposal is inconsistent with Australia's foreign investment policy. Most final orders issued in 1998-99 related to cases in the real estate sector.

Decisions under ministerial authorisation, including the application of national interest considerations, were overseen by the FIRB and senior management on a weekly basis for consistency with policy and processes. The Executive Member met formally with the Board approximately every four weeks, and the Executive provided reports to the Board on major proposals on a weekly basis. Following examination of a report, the Board's views and recommendations were submitted by the Executive Member to the Treasurer or Assistant Treasurer.

During the year, the Division focussed on increasing business community awareness of the policy rationale and obtaining feedback on their concerns. As a result the foreign investment policy statements were revised and circulated to law and real estate associations with an offer for Division staff to give follow-up presentations. Two presentations were given on foreign investment policy, see Appendix J. The revised policy statements are also available from Treasury's website.

The Division considered over 246 representations from the public on the policy or specific cases and handled over 40,000 telephone enquiries.

Monitoring of compliance with foreign investment policy continues to be a significant activity, particularly in respect of the real estate sector. Attention has been focussed on fulfilment of development conditions attached to approval of proposals, schemes designed to avoid the application of the policy and policy evasion. During the year this compliance work led to a number of proponents moving to meet conditions and 5 divestments.

The MAI and Australia New Zealand Bilateral Economic Relations Task Force

During 1998-99, negotiations in the OECD for a Multilateral Agreement on Investment (MAI) ceased.

The MAI was being negotiated by members of OECD, including Australia, and eight non-OECD participants with the aim of providing a transparent, effective and comprehensive framework for international investment.

In October 1998 the French Government withdrew from the MAI Negotiating Group. This led to the cessation of negotiations. The Assistant Treasurer noted that the Australian Government had indicated for some time that it had a number of serious concerns with the draft text of the proposed treaty as it stood. He also reiterated the Government's commitment not to sign any treaty unless it were demonstrably in the national interest. On 21 December 1998 Treasury officials appeared for a third time before the Joint Standing Committee on Treaties (JSCOT). JSCOT released its final report on the MAI in March 1999.

The review of foreign investment policy (which is one of a set of legislative reviews announced in 1996 to examine costs imposed upon businesses) continued during 1998-99. This work was drawn on in developing Australia's negotiating position for the Joint Prime Ministerial Task Force on Australia New Zealand Bilateral Economic Relations. A Treasury officer was seconded to the secretariat of the Task Force during March 1999. The Prime Ministers subsequently announced the changes to foreign investment policy in Australia and New Zealand.

SUBPROGRAM 1.8 — FINANCIAL AND CURRENCY

Objective

To develop policies and a framework of legislation that assist in increasing the financial safety, efficiency, competitiveness and stability of Australia's financial system; to provide advice and implement policies on the taxation and non-taxation issues relating to the age pension and to private savings, including superannuation, and to life and general insurance; and to maintain policies for a currency system that represents an efficient medium of exchange.

Description

Financial Institutions Division is responsible for advising on matters relating to the structure and functioning of the Australian financial system, including currency matters, and prudential issues relating to deposit-taking institutions, superannuation funds, and life and general insurance companies. The Division also has administrative responsibility for the Royal Australian Mint (the Mint) and participates on the Mint Advisory Board. (Detailed performance reporting on the Mint's program is provided in the Mint's Annual Report.) The Retirement and Personal Income Division, including the Retirement and Income Modelling Unit, is responsible for advising on taxation and non-taxation issues relating to retirement incomes, and private savings, including superannuation and age pensions.

Table 9: Financial and Staffing Resources Summary
 Subprogram 1.8 — Financial and Currency

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	3,304	3,557	3,378
Other Program Costs (excluding RC)	28,418	42,469	38,038
Total	31,722	46,026	41,416
Adjustments	(38,885)	(45,543)	(41,363)
Total Outlays	(7,163)	483	53
STAFFING			
Staff Years	40	45	40

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Operational Plans of the Financial Institutions Division and the Retirement and Personal Income Division, include:

- monitoring and analysing developments in relation to the regulatory frameworks in the financial systems of Australia and overseas, including their impact on consumers;
- maintaining close liaison with the portfolio Ministers and their office staff, industry regulators and other government departments and agencies;
- liaising, as appropriate, with State and Territory governments, the banking, finance and superannuation industries, academia and consumer organisations;
- preparing policy advice on a range of financial, retirement income, taxation and savings, banking and currency issues;
- providing secretariat support to the Financial Sector Advisory Council (FSAC) and the Regional Financial Centre Task Force;
- implementing policy decisions taken by the Government, including negotiating new arrangements with relevant parties and preparing necessary legislative and regulatory provisions;

- advising the Government on issues of relevance to the non-budget dependent bodies under this program;
- developing and using computer models and databases for the review and development of superannuation and retirement and personal income policy and taxation and social security policy;
- overseeing management of the Mint and working closely with Mint officers to further improve the organisation's efficiency, while maintaining the recognised high quality of its output; and
- undertaking internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include:

- the quality, timeliness and relevance of advice on policy and administrative matters provided to the Government and the quality of contributions made to related policy development processes;
- meeting statutory and other procedural requirements for the preparation of legislation, instruments, regulations and banking authorities;
- feedback from the offices of the portfolio Ministers, the financial sector and other interested parties; and
- feedback on the quality of retirement income and other modelling and costings from Treasury policy areas.

Performance Outcome for 1998-99

The main output of this subprogram involves the provision of advice to the Treasury portfolio Ministers on policy and administrative matters relating to retirement and personal income policy and the financial sector.

Retirement Income Policy

The Department continued to assist in the development and implementation of superannuation, savings and retirement and personal income policy initiatives during the year.

- Substantial progress was made in the implementation of measures relating to superannuation set out in the 1998-99 Budget.
- A Bill was introduced into Parliament in March 1999 providing for the transfer of the regulation of self-managed superannuation funds from the Australian Prudential Regulation Authority to the Australian Taxation Office.
- An exposure draft Bill containing measures designed to maintain the integrity of the rules applying to the investment of superannuation funds was released in April 1999 for comment.
- Analysis by the Retirement and Income Modelling Unit was used extensively to research and cost a broad range of policy proposals.

Financial Sector Policy Advice

Implementation of the Government's response to the Final Report of the Financial System Inquiry (FSI) continued throughout 1998-99.

- Negotiations were completed and agreement reached with the States and Territories to give effect to the second stage of the implementation of the Government's response to the FSI, namely the transfer of responsibility for financial institutions subject to regulation under the Financial Institutions Code, to Commonwealth jurisdiction. Legislation to achieve this goal took effect on 1 July 1999.
- Measures contained in the Financial Sector Reform (Amendments and Transitional Provisions) Bill (No. 2) 1999 and associated Bills, introduced into Parliament on 30 June 1999, continue the financial sector reform process and, when passed, will enhance the operation of existing financial sector legislation.
- Details of the Government's strategy to promote Australia as a centre for global financial services (CGFS) were announced in May 1999, including the establishment of an Australian Centre for Global Finance (located in Sydney) to develop and implement a coordinated CGFS promotional campaign.
- To assist the work of the Australian Centre for Global Finance, the Government has also established a Regulatory Advisory Committee, chaired by the Treasury, and including representatives from the agencies involved in the regulation of the financial sector.

- FSAC, which brings together a broad range of business views from the financial sector to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial system, continued its work throughout 1998-99, as did the Regional Financial Centre Task Force, which is a specialist body advising the Government, through FSAC, on policies to build on Australia's existing advantages to ensure our full participation in the increasing global trade in financial services.

The Division also dealt with major operational and administrative matters relating to the financial sector.

- The Treasury Ministers were provided with policy advice and instruments were prepared under the *Financial Sector (Shareholdings) Act 1998*. Major developments included the AMP takeover offer for GIO, and the NRMA takeover of SGIO.

Currency

Senior Officers of the Financial Institutions Division chaired and served on the Royal Australian Mint Advisory Board during the year. The Division also responded to numerous inquiries from the public for information on a wide range of issues relating to currency.

SUBPROGRAM 1.9 — BUSINESS LAW

Objective

To formulate policy initiatives and advice to portfolio Ministers to facilitate the efficient operation of corporations and the securities and futures markets.

Description

Since the Treasury restructure, Subprogram 1.9 — Business Law consists of two divisions: Corporate Governance and Accounting Policy Division which is responsible for advising on policy initiatives to facilitate the efficient operation of corporations, and Financial Markets Division which has similar responsibilities for the securities and futures markets. Both divisions work closely together and share responsibility for the operation of the Corporations Law and other business laws.

Table 10: Financial and Staffing Resources Summary
Subprogram 1.9 — Business Law

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	3,767	3,931	3,734
Other Program Costs (excluding RC)	0	0	0
Total	3,767	3,910	3,734
Adjustments	(48)	(21)	(21)
Total Outlays	3,719	3,910	3,713
STAFFING			
Staff Years	36	38	36

Strategies

Strategies to achieve the objectives of the subprogram include:

- developing and reviewing national business laws and policies relating to corporations, securities and futures industries, cheques and bills of exchange;

- ensuring that there is a sound regulatory framework for protection of consumers in the financial system;
- developing policies for the regulation of insurance and superannuation industries in relation to market conduct and disclosure practices;
- initiating and developing new policy proposals and preparing policy advice on a wide range of issues affecting business and financial markets;
- identifying emerging issues and analysing policy proposals from market participants;
- maintaining and promoting international relationships and dialogue in the business law area;
- maintaining liaison with the Australian Securities and Investments Commission, financial market participants, companies and investors' representatives; and
- maintaining an effective working relationship with other Treasury divisions to enhance policy advice on business and financial markets regulation.

Performance Indicators

Performance indicators for this subprogram include:

- the quality, timeliness and relevance of policy advice to the Government;
- feedback from market participants, business representatives, company directors, shareholders and investors; and
- the range and effectiveness of consultations on policies.

Performance Outcome for 1998-99

Corporate Law Economic Reform Program (CLERP)

The Corporate Law Economic Reform Program, which commenced in March 1997, made further progress in 1998-99. The Program aims to deliver a corporate regulatory regime which takes full account of the

Government's economic objectives, fostering investment, employment and wealth creation by facilitating investment and capital formation, protecting investors and maintaining confidence in the business environment.

The Government continued to be assisted by the Business Regulation Advisory Group, which comprises nine senior members of the business community. Financial Markets Division provided secretarial support to the Group.

The Program was a major focus of the subprogram's work in 1998-99.

Corporate Law Economic Reform Program Bill 1998

The Corporate Law Economic Reform Program Bill 1998 ('the CLERP Bill') was introduced into Parliament on 3 December 1998 and covers arrangements for fundraising, takeovers, the setting of Australian accounting standards, and directors' duties and corporate governance.

CLERP 6

Financial Markets Division released a consultation paper entitled *Financial Products, Service Providers and Markets — An Integrated Framework* in March 1999. The consultation paper provides further detail on the implementation of 'CLERP 6'. Since the release of the paper the Division has undertaken extensive consultation through public seminars and meetings of industry representatives with the Minister and Treasury officials. The Division has considered the many submissions received from the public on the CLERP 6 consultation paper and is developing options to address the various issues raised. It is proposed to release draft legislation for public consultation later in 1999.

CLERP 7

A new phase of the Corporate Law Economic Reform Program was announced by the Treasurer on 17 September 1998. 'CLERP 7' will focus on reducing the paper compliance burden of Australian companies and enabling the Australian Securities and Investments Commission to make greater use of communications technology. Reforms to be introduced under CLERP 7 include a 'no change, no lodgement' policy under which companies and registered schemes will not need to lodge an annual return when there has been no change in the information held by the Commission, and a review of fees set under the Corporations Law

with the objective of reducing fees paid by small business and reducing the complexity of fee arrangements. A consultation document on the proposed changes is planned for release in the second half of 1999 so that detailed proposals can be developed in full consultation with the business and investor community.

Financial System Reform

Corporate Governance and Accounting Policy Division played an important role in implementation of the second stage of the Government's package of financial sector reforms, arising out of the Financial System Inquiry. The Division's role related principally to development of legislation and administrative mechanisms to convert building societies, credit unions and friendly societies into companies regulated by the Australian Securities and Investments Commission under the Corporations Law. On this significant task the Division worked closely with the Financial Institutions Division in liaison with industry groups, regulators and State and Territory governments. The relevant entities were successfully transferred from the State and Territory-based Financial Institutions Code and Friendly Societies Code to the Corporations Law regulatory framework on 1 July 1999.

Company Law Review Act 1998

The *Company Law Review Act 1998* and associated regulations, and the *Corporations Legislation Amendment Act 1998* commenced operation in July 1998. The Company Law Review Act simplifies the procedures for setting up a company and improves the law concerning meetings, share capital, financial reporting, annual returns and deregistering defunct companies.

Following the passage of the Company Law Review Act, the Treasurer asked the Parliamentary Joint Committee on Corporations and Securities to examine several matters arising from the passage of the Bill. The Committee's inquiry was delayed by the 1998 Federal election, but it is expected to report to the Treasurer on the matters referred, later in 1999.

MINCO

The subprogram continued to provide advice on business law matters to the Ministerial Council for Corporations (MINCO). The Financial Markets Division provides secretarial support to MINCO.

Cheques and Payment Orders Act 1986

In consultation with interested parties, the Financial Markets Division prepared the *Cheques and Payment Orders Amendment Act 1998*, to amend the *Cheques and Payment Orders Act 1986* to:

- extend cheque issuing rights to building societies, credit unions and their industry Special Services Providers; and
- make a number of miscellaneous amendments to the Act to improve its effectiveness and to clarify its operation for both consumers and financial institutions.

The Cheques and Payment Orders Amendment Act 1998 commenced operation on 1 December 1998.

The Division also prepared the *Cheques and Payment Orders Amendment (Turnback of Cheques) Act 1998*, to amend the Cheques and Payment Orders Act to deem unsettled cheques drawn on a failed financial institution to be dishonoured. The legislation commenced operation in July 1998.

Review of the Bills of Exchange Act 1909

Following the commencement of the review of the *Bills of Exchange Act 1909* as part of the Commonwealth Legislative Review Program, submissions have been obtained from interested parties. On the basis of these submissions a discussion paper is to be released in the second half of 1999. The discussion paper will propose reforms to facilitate the electronic transfer of negotiable instruments under the Act and be followed by release of draft legislation for public comment.

Corporate Governance

The Corporate Governance and Accounting Policy Division contributed to the development of the OECD's 'Principles of Corporate Governance', a set of non-binding concepts providing guidance for stock exchanges, investors, corporations and others involved in the process of developing good corporate governance. The Division has also actively contributed to corporate governance work within APEC.

Business Law Dialogue with New Zealand

Australian and New Zealand Business Law officials continued to consolidate the bilateral business law relationship. Officials met during the reporting period for the purpose of exchanging views on business law developments, to identify issues of a trans-Tasman nature and to consider whether harmonisation may provide benefits.

Accounting Standard Setting Arrangements

During the year arrangements were finalised for the establishment, on an informal basis pending enactment of the CLERP Bill, of the Financial Reporting Council (FRC) that will oversee the revised accounting standard setting arrangements. The appointments to the FRC will be formalised when the CLERP Bill is enacted.

Establishment of the FRC prior to the enactment of the CLERP Bill will enable the Council and its members to be actively involved in, and provide advice on, issues associated with setting up the new standard-setting arrangements.

Audit Review Working Party

MINCO has accepted the broad thrust of the recommendations contained in the report of the Working Party established to review the requirements for the registration and regulation of company auditors.

The Working Party recommended that the registration and supervision of company auditors should be performed by the professional accounting bodies and that educational and practical experience requirements for registration should be revised. The Working Party also made a number of recommendations designed to ensure the independence of company auditors and proposed changes to the existing disciplinary arrangements.

Drafting instructions for legislative amendments to give effect to the recommendations approved by MINCO have been prepared and circulated to interested parties, including the Australian Securities and Investments Commission and the professional accounting bodies, for comment.

International Insolvency

The Corporate Governance and Accounting Policy Division assisted the Prime Minister's Task Force on International Financial Reform in making

recommendations to the Prime Minister on how Australia could best contribute to the reform and strengthening of the international financial system, in particular through a paper outlining the possible development of an international model law on insolvency. The Prime Minister's Task Force has recommended that Australia seek to have the United Nations Commission on International Trade Law (UNCITRAL) consider the development of model legislative provisions on corporate insolvency to foster and encourage the adoption of effective national corporate insolvency regimes. Following strong support by Australia, a working group of UNCITRAL has been established to examine the proposal and the methodology that may be used in any future work.

Transparency Report

The subprogram contributed to the consideration of transparency issues relating to the private sector and financial sector supervision in respect of Australia's transparency report *Making Transparency Transparent: An Australian Assessment*, published in March 1999. Treasury prepared the Report following a recommendation of the Task Force on International Financial Reform in response to a recommendation of the G22 in the context of issues relating to the stability of the international financial system (see page 29 and 31).

SUBPROGRAM 1.10 — CONSUMER AFFAIRS

Objective

To support and advance consumer and business interests in a well-functioning marketplace.

Description

The Consumer Affairs Division is responsible for advising the Minister for Financial Services & Regulation, the Hon Joe Hockey, MP on consumer policy and initiatives to promote safe, fair and well-functioning markets, including the operation of the consumer protection, unconscionable conduct and fair trading codes provisions of the *Trade Practices Act 1974*.

Table 11: Financial and Staffing Resources Summary
Subprogram 1.10 — Consumer Affairs

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	0	2,222	2,110
Other Program Costs (excluding RC)	0	0	0
Total	0	2,222	2,110
Adjustments	0	(1)	(1)
Total Outlays	0	2,221	2,109
STAFFING			
Staff Years	0	18	20

Note: The 1998-99 Budget and Actual Staff Years figures refer to the period from Consumer Affairs Division's transfer to Treasury in October 1998 to the end of the 1998-99 financial year, consistent with the financial figures.

Strategies

Strategies to achieve the stated objective of the subprogram include:

- implement key election policy commitments relating to a safer, fairer and more informed market;

- facilitate regulatory and institutional reform, through promotion of effective self-regulation and effective administration and enhancement of the consumer protection and unconscionable conduct provisions of the Trade Practices Act;
- provide advice on and coordinate Australia's consumer policy position on international issues;
- influence key international consumer policy making bodies, including the OECD and the UN;
- address information asymmetries in the marketplace, by targeted research and educational programs; and
- provide timely and effective secretariat and research support to the Ministerial Council on Consumer Affairs, the Standing Committee on Consumer Affairs and its subcommittees and the Commonwealth Consumer Affairs Advisory Council.

Performance Indicators

Performance indicators for the subprogram include:

- quality, timeliness and relevance of policy advice to the Government;
- feedback from the Office of the Minister for Financial Services & Regulation, other agencies, market participants;
- extent of progress towards improving self-regulatory mechanisms in the marketplace;
- extent of progress towards enhancement of the consumer protection and unconscionable conduct provisions of the Trade Practices Act;
- extent to which Australia's consumer policy position influences key international consumer policy making bodies;
- quality of consumer education research conducted and materials produced; and
- extent to which key election policy commitments are implemented within agreed timetables.

Performance Outcome for 1998-99

A Safer Market

Advice and briefing were provided to the Minister on the administration of the Trade Practices Act in relation to consumer products and a range of product safety issues. In particular, the Division advised on the safety evaluation and subsequent recall of Pyrokor fire doors, as ordered by the Minister on 9 June 1999.

A major review of product safety arrangements in Australia was initiated. The review will provide the Minister with options for improving the effectiveness of product safety in Australia.

The Division maintained a proactive role in educating consumers, particularly in relation to the safety of consumer products for the vulnerable age groups of babies and children. A consumer guide, *Safe Toys for Kids*, was developed in consultation with the industry, child safety specialists and consumer affairs authorities for supply to appropriate sectors of the community.

The Division contributed to proposals to develop a national injury surveillance system and the National Coroners' Information System. The national injury surveillance system will be based on an enhanced collection of data on product related injuries requiring medical treatment, while the National Coroners' Information System will collect relevant data on deaths caused by or associated with consumer products.

As part of the International Year of Older Persons, the Monash University Accident Research Centre was commissioned to undertake studies into consumer product-related injuries to older Australians. The research will be used to develop an injury prevention strategy for older Australians.

Under an ongoing program for the review of consumer product regulation, reviews were completed of consumer product information standards for cosmetics and for care labelling of clothing and textiles. A review of the consumer product safety standard for portable fire extinguishers was also completed. These mandatory standards were updated to incorporate recent amendments to the Australian Standards on which they are based. An amendment was made to the consumer product safety standard for vehicle child restraints, which facilitated compliance of replacement fittings with the required standard. Reviews

were also commenced of standards for pedal cycles and helmets for pedal cyclists.

The Division worked closely with the Infant and Nursery Products Association of Australia, an industry group recently established to promote industry safety standards for nursery furniture.

Self-Regulation and Electronic Commerce (A Fairer Market)

In line with the Government's commitment to industry self-regulation, the Division has been involved in the development or review of industry codes of conduct in relation to direct marketing, the mortgage industry, the private health sector and the financial sector. In June 1999, the Division commenced work on a Model Code of Conduct for electronic commerce, in consultation with industry, consumer groups and relevant government agencies. The Division has also provided general advice on best practice industry self-regulation on request.

In July 1998, an Exposure Draft Guideline was released for public comment on how the Government proposed to use the new regulatory option of prescribed (enforceable) industry codes, which came into operation under Part IVB of the Trade Practices Act. The Exposure Draft Guideline was widely distributed in business, legal and consumer circles. In May 1999, the final Guideline was issued, indicating that the Government maintained its commitment to industry self-regulation and would only use the option of prescribed codes where a self-regulatory approach had demonstrably failed to address serious instances of market failure.

Advice was provided to the Office of Government Online to ensure that consumer protection under the *Trade Practices Act 1974* would not be significantly compromised by the *Year 2000 Information Disclosure Act 1999* (the 'Good Samaritan' legislation). The Good Samaritan legislation provides protection from civil action for certain public statements about problems and remediation efforts in relation to the Year 2000 (Y2K) computer bug.

The Division made a comprehensive submission to the review of the General Insurance Code of Conduct, suggesting improved consumer protection mechanisms and enhanced redress opportunities.

The Division advised the Minister on exercising the power to direct the ACCC under section 29 of the Trade Practices Act, to fulfil a Government commitment to require the ACCC to take court action to

establish legal precedent under the new section 51AC of the Act (Unconscionable Conduct in Business Transactions). The direction was gazetted in September 1998.

In June 1999, the report of the Consumer Redress Study was released. The study, which examined a sample of small claims courts/tribunals and industry-based customer dispute resolution schemes, focussed on consumer perceptions and operational aspects of these schemes. The report includes recommendations for improving consumer redress.

The Division advised the Minister for Financial Services & Regulation on developing a policy framework for consumer protection in electronic commerce, which resulted in the release of a comprehensive Exposure Draft Policy Framework in May 1999. The Exposure Draft was widely distributed to consumer and industry groups for comment.

In May 1999, a series of factsheets was released, addressing some of the concerns inhibiting the takeup of electronic commerce by consumers. The factsheets were jointly produced by the Division and the National Office for the Information Economy. The factsheets are available online and, in addition, thousands of copies were sent to State and Territory consumer agencies and community groups to facilitate distribution. The factsheets provide information about avoiding online 'scams', credit card payment over the internet, sales tax and duties applying to internet purchases, privacy, and avenues of redress for unsatisfactory online purchases.

The Division is represented on the OECD Committee on Consumer Policy and continued to be an active contributor to this Committee's development of guidelines for consumer protection in electronic commerce. The Division has undertaken extensive consultation with industry bodies, consumer groups and government departments on successive drafts of the guidelines, and was represented at the Ministerial (OECD) Conference on Electronic Commerce in Ottawa in October 1998.

An Informed Market

1998-99 was the first year of a three-year consumer education program by the Division targeted particularly to disadvantaged consumers. The Division also continued its administrative role in relation to identifying potential consumer representatives and its role of coordinating Australia's consumer policy position on international issues.

Key achievements of the consumer education program included:

- An Information Pack for Rural Consumers;
- The 1998-99 edition of the Directory of Consumer Dispute Resolution Schemes and Complaint Handling Organisations;
- *Getting it Right — Ideas for Consulting Communities*, a brochure for government agencies;
- Contribution to the publication by the Department of Family and Community Services of three information books for older Australians to mark the International Year of Older Persons;
- *Investing Money — Your Choices*, a booklet for self-funded retirees, prepared jointly with the Department of Family and Community Services and the Office for Older Australians, which was released in March 1999;
- *Australian Retiree — Your Choices*, which provides information on programs, options and services available to self-funded retirees; and
- *Home and Residence Choices for Older People*, describing a range of accommodation options and choices for people needing to choose an alternative to living in the family home.

The Division was lead agency in the production of a highly successful publication, *Keeping Baby Safe*, for the Ministerial Council on Consumer Affairs (MCCA), through its Nursery Furniture Injury Prevention Program. Nearly 300,000 copies of this booklet were distributed during the year. In addition, MCCA hosted another successful National Consumer Day in October 1998, focusing on the theme 'Customers are Your Business' and launching a booklet for business entitled *Customer Service Guidelines*.

Following the October 1998 Federal Election, the Minister for Financial Services & Regulation, the Hon Joe Hockey, who is also responsible for consumer affairs, decided on a new approach to selecting consumer representatives. The new approach does not include national press advertising for nominations, as occurred before. Individuals may now apply, through the Minister's office, to have their names included on a register of possible consumer representatives maintained by the Division.

During the year the Division has continued negotiations with the European Commission on the development of an administrative

agreement to share information between Australia and the European Commission on consumer policy and protection. It is envisaged that this agreement will be signed in the second half of 1999.

The Division was responsible for consultation in Australia on proposals to amend the *United Nations Guidelines for Consumer Protection* to incorporate sustainable consumption amendments. Following extensive consultation in February/March 1999, the Division provided advice on the amendments to the Minister for the Environment and Heritage, Senator the Hon Robert Hill. At the April 1999 meeting of the United Nations Commission for Sustainable Development, the Commission agreed to put the amendments forward to the General Assembly for adoption.

Consumer Protection Legislation

The Division made significant progress in its regulatory reform activities. In the area of product safety, an Internet site to provide information on voluntary recalls was launched in August 1998, and in subsequent months substantial functional enhancements have been made to the site. The web-site (which can be found at <http://recalls.consumer.gov.au>) was developed to provide consumers with relevant information about recalls and to facilitate information exchange between regulators. The provision of ready access to recall information enabled further negotiation with agencies to improve regulatory efficiency. The site helps ensure the community is adequately protected when unsafe goods are recalled.

In line with the commitment of the Government to promoting legislative uniformity within Australia's federal system, the Division commenced discussions with other jurisdictions on removing some of the inconsistencies, gaps and overlaps which the Division had identified in its two earlier Reports on Australian consumer protection laws.

The Commonwealth Consumer Affairs Advisory Council

The Council was established by the Minister for Financial Services & Regulation in May 1999, to advise him on current and emerging issues impacting on consumers. This Council replaced the former consumer advisory body (the National Advisory Council on Consumer Affairs) which ceased operations on 31 December 1998. Key 1998-99 outputs for the outgoing Council included a submission to the Productivity Commission's Inquiry into Australia's Gambling Industries and a response to the Blair Committee Review Report on Food Regulation in Australia.

The Commonwealth Financial Counselling Program

During 1998-99, many low income and disadvantaged consumers who were experiencing serious financial difficulties, were able to access and receive timely assistance from accredited financial counsellors under the Commonwealth Financial Counselling Program. Under this program, funds are provided to community-based organisations to deliver crisis financial counselling.

Key program outcomes included:

- \$2 million distributed to 46 community based financial counselling agencies in cities, rural and remote locations throughout Australia; and
- financial management assistance and/or advocacy support for more than 13,000 new clients.

Ministerial Council on Consumer Affairs

The Division provided comprehensive secretariat support services to the Ministerial Council on Consumer Affairs and its advisory committees during 1998-99. The Council, which comprises Commonwealth, State/Territory and New Zealand Ministers responsible for consumer and fair trading matters, develops agreed policies and initiatives on consumer affairs and fair trading issues of strategic national significance.

Key outcomes for the year for Council included:

- Approval of National Competition Policy Reviews for
 - Travel Agents
 - Uniform Trade Measurement Legislation
 - Uniform Consumer Credit Code;
- Report to the Council of Australian Governments on the operation of the Trans-Tasman Mutual Recognition Agreement;
- Approval of the release of promotional materials on Customer Service Guidelines for National Consumer Day 1998;
- Approval of the launch of the nursery furniture booklet *Keeping Baby Safe — A Guide to Nursery Furniture*; and

- Endorsement of ‘information needs of older Australians’ as the theme for the 1999 National Consumers Day.

Customer Service Charter

The Consumer Affairs Division’s *Customer Service Charter*, first released in December 1997, informs people having contact with the Division of the service they can expect to receive. The Charter specifies general service standards, as well as standards against specific functions, such as the management of product safety recalls.

During 1998-99, the Charter was reviewed after its first year of operation, in consultation with staff and a representative sample of customers. The next edition of the Charter will reflect the changed nature of some operations within the Division. Compliance with the nine service and functional standards during the year was very high, averaging 98 per cent across all standards.

SUBPROGRAM 1.11 — CORPORATE DIRECTION AND SUPPORT

Objective

To provide strategic direction and support for the Department and to coordinate the provision of policy advice, support and management of Departmental resources.

Description

The Department’s Executive (Secretary and Executive Directors) and their staff; the Specialist Adviser, Corporate Strategy; the General Manager, Corporate Services; and the Corporate Services Division.

Table 12: Financial and Staffing Resources Summary
Subprogram 1.11 — Corporate Direction and Support

	1997-98 Actual (\$'000)	1998-99 Budget (\$'000)	1998-99 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	15,937	17,877	16,980
Other Program Costs (excluding RC)	8	593	0
Total	15,944	18,470	16,980
Adjustments	(560)	(386)	(392)
Total Outlays	15,384	18,084	16,588
STAFFING			
Staff Years	122	126	125

Strategies

Strategies to achieve the objectives of the subprogram include:

- maintaining effective liaison with portfolio Ministers and their offices and other government departments;
- gathering feedback through high level contact, both domestically and internationally, with governments, business, unions and interest groups for input into the policy advising process;

- fostering a consultative management culture within the Department;
- efficiently organising Departmental resources so as to provide high quality, relevant and timely advice;
- fortnightly or more frequent meetings of the Executive, functioning as Executive Board for the Department, to discuss high level issues; and
- using the structure of a Corporate Services Committee to provide high level advice in relation to the Department's provision of corporate services.

Performance Indicators

As the Executive are the peak decision makers within the Treasury, the overall perception of Treasury portfolio Ministers of the quality of Treasury advice and administration is a relevant performance indicator. More specifically, indicators include:

- the effectiveness of communication both domestically and internationally with major economic participants, such as governments, international organisations, business, unions and interest groups;
- the level of staff morale and effectiveness of staff management and development;
- the degree of efficiency of the application of resources available to Treasury, and particularly human resources, including the quality of corporate support services; and
- the efficiency and effectiveness with which Treasury meets its statutory obligations and the Government's policy requirements.

Performance Outcome for 1998-99

Executive

The Executive meets fortnightly as the Executive Board to take key decisions on management issues. It also meets to consider significant economic policy issues with members of the three policy Groups. Important management issues during the year included the finalisation

and implementation of recommendations arising from reviews of Treasury core policy advising areas and corporate services.

The Executive has been supported by the Specialist Adviser, Corporate Strategy on management issues and in October 1998, the Executive created a new position of General Manager, Corporate Services Division to assist in improvements to the delivery of corporate services. Late in the year, four SES Band 2 General Managers were tasked (in addition to their other duties) with overseeing corporate system development projects in the following areas: information and knowledge management; communications; human resources, training and staff development; and corporate planning and financial management.

A major focus of the Executive, building on previous efforts to improve consultation and communication flows within Treasury, has been the development and introduction of a new Treasury Management Model and Performance Management System the implementation of the initial twelve month Certified Agreement has also been of fundamental importance. Negotiation of a second, longer term agreement commenced in April and was completed after the end of 1998-99. The Treasury Management Model is discussed below, and the Performance Management System and Certified Agreement are covered in the Appendices.

Treasury Management Model

A review of Treasury's core business, and in particular of management structure and practices, has led to major changes in the Department's organisational and leadership structure in 1998-99 with the adoption of the new Treasury Management Model. The review was prompted by the need to ensure that the Department meets the needs of the Treasurer and Treasury portfolio Ministers as efficiently as possible. Its outcome has been greater clarity of purpose and objectives; improved structure more closely related to outputs; improved people systems; and support for management training and development.

The changes are directed toward clear identification of managerial authority and accountability; clear understanding by all staff of their roles and responsibilities; a flatter structure; devolved decision-making; and improved planning processes. Equally important has been the introduction of a new approach to staff management and development, the Performance Management System, to promote higher levels of staff performance through a fair, transparent and streamlined system of staff

appraisal. The Treasury Management Model and the Performance Management System have been incorporated as a case study in the *Leadership and Development Good Practice Guide* developed by the Public Service and Merit Protection Commission (PSMPC).

Extensive staff consultation — through focus groups, workshops and the Workplace Relations Committee — was a feature of the development and implementation of the Performance Management System. The Treasury People Values are fundamental to the Performance Management System: they are given in the Corporate Statement (page 11) and are consistent with the APS Values and Code of Conduct. The Treasury People Values are intended to reflect Treasury's commitment to invest in and develop its staff; to provide challenging work which will provide personal satisfaction; to pursue excellence; and so to continue to attract capable and committed staff. They are incorporated in the assessment criteria and appraisal procedures which are fundamental to the Performance Management System and in which staff have been given training.

The first staff appraisal cycle under the Performance Management System, which was conducted in August 1999, was a 'trial run' for non-SES staff and its outcomes will not be linked to their remuneration.

Staff Development

In 1998-99 staff training and development was an important element in the successful implementation of the Treasury Management Model and the Performance Management System.

Information sessions and workshops covering the elements of performance management in Treasury were conducted with the Executive, General Managers, Managers and their staff. More generally, a Change Management Program offered assistance to all staff in managing the significant structural and cultural changes arising from these initiatives. A consultant was engaged to advise management and to provide individual counselling to staff. Career Development Workshops offered to staff had a high participation rate.

Other development opportunities provided to staff included Studies Assistance (both paid leave and financial), Post Graduate Studies Awards, a series of Economic Refresher workshops, a Policy Advising Skills workshop, Treasury Seminar Series, Accrual Accounting workshops, Advanced Writing and Advanced Reading workshops, and attendance at

various conferences, seminars and workshops. New options this year included Speech Writing Workshops and Interviewer Skills Training, while Senior Executive Service (SES) officers also attended courses offered by the PSMPC.

Graduate Recruitment

The success of Treasury's Graduate Recruitment Campaign has largely reflected the significant contributions from senior Treasury policy analysts and SES staff in planning, visiting universities to meet students and present seminars, and participating in the selection process. To support the recruitment campaign a graduate booklet was produced in-house and distributed widely to Australian universities: it is also available at Treasury's web site. While in previous years a major in economics was required, this year the targeted skills base has been broadened to include law, accountancy, finance, public policy, econometrics, mathematics or related studies. Twenty-four graduates were recruited to commence in 1999.

The graduates appointed in 1999, along with three other recently recruited staff, are participating in the 15-month-long Graduate Development Program. This program provides a broad exposure to Treasury's operations and work with other agencies and Ministers' offices. The Program equips officers to be effective policy advisors by providing them with administrative and research experience and developing their oral and written communication skills. Managers of graduates have been provided with training and support for their role in encouraging the development of graduates under the new Performance Management System. Of the 20 graduates who commenced in 1998, 18 completed their training period in March 1999.

Accrual Based Accounting

Treasury's accounting framework is now accrual based. In conformity with government policy, devolved banking and cash management have been successfully introduced and Treasury's 1999-2000 Budget was prepared on an accruals basis. A major staff training program has been undertaken to support the introduction of accrual accounting and of SAP R/3, Treasury's new financial management system. As in other agencies, the implementation of the SAP system has been far from satisfactory. The transition to accrual budgeting and management will continue to be resource intensive as the Department refines reporting

and financial management and e-commerce processes, and acquires the necessary professional skills to support the new accrual framework.

Reviews of Handling of Ministerial Correspondence within the Department

Following a review earlier in 1998-99 by an external consultant, an internal Treasury taskforce has been conducting wide-ranging examinations of the Department's processes for handling ministerial correspondence. The external review identified the need for some minor improvements to further streamline handling procedures and turnaround times. The internal taskforce was commissioned to examine these options in detail and is expected to report early in 1999-2000 on the adoption of process improvements.

Information Technology Services

Treasury secures access to current technology by leasing its desktop computing equipment and having hardware support services provided under contract. Equally importantly, it regularly reviews how well its Information Technology (IT) services meet users' needs. Treasury has implemented the findings of an independent review of its IT network conducted in 1997-98 with a rationalisation of equipment, substantial reconfiguration of the network and improvements to backup procedures and documentation. These changes have significantly enhanced service delivery, network reliability and security.

The recent decision to provide desktop access to the Internet, as part of Treasury's information management strategy of facilitating wider use of external information sources, raised significant security issues. To protect the integrity of the Treasury network, a new IT Security Policy has been developed and endorsed by the Defence Signals Directorate. From July 1999, security on electronic communications classified up to the Protected level will be achieved by measures including intrusion detection management software and a three-tier virus protection facility.

Because Treasury is recognised as a demanding and technically proficient user of software, often testing the limits of its applications, in 1998-99 the Department participated in beta testing for the recently released Microsoft Office 2000 and will move to implementation of that software early in 2000. The beta testing enabled Treasury to rigorously test Office 2000 to ensure it met Treasury's needs, especially in relation to spreadsheet technology. Treasury was also able to evaluate and influence

the development and capability of the software to support information management initiatives including greater use and development of the Treasury web site.

In accordance with government policy, Treasury has accepted an invitation from the Office of Asset Sales and Information Technology Outsourcing to join IT Outsourcing Cluster 11. Treasury participation will depend upon tender results.

Year 2000 compliance of internal IT hardware and software is ensured through a continuing program of testing and evaluation, which has resulted in upgrades to the IT desktop and IT server environment, and the analysis, enhancement and conversion of existing applications software.

Building owners have provided assurance and certification relating to the compliance through verification of on-site testing of electronic-based building systems. The building management system, fire system, security system and the lifts have been confirmed as compliant by respective vendors. A contingency plan has been developed for building-related matters.

Treasury Building Refurbishment and Fitout

The refurbishment and integrated fitout of the Treasury building commenced in June 1999, following the transfer of the Department of Finance and Administration to the John Gorton Building (previously the Administration Building) and the relocation of Treasury staff to the eastern end of the Treasury building.

The current program sees Treasury relocating to the majority of its new accommodation at the western end of the building from December 2000, with the refurbishment of the remainder of the building being completed by October 2001.

The fitout will be to a standard commercial office level and the cost to Treasury will be around \$16.5 million.

Awards

In the Australia Day Honours 1999, the Public Service Medal was awarded to Ms Anne Fornasiero, Manager, IT Training and Publications Unit, Corporate Services Division, citing outstanding personal contributions to the work of the Treasury over several years.

Ms Fornasiero and the Unit she leads have set high standards in IT training and support for Treasury applications and for the application of on-line technology to the preparation and organisation of major Treasury publications including the budget papers and major reports.

In the Queen's Birthday Honours 1999, the Secretary to the Treasury, Mr Ted Evans, was awarded the Companion in the General Division in the Order of Australia for service to Australian economic policy development.