

OVERVIEW

Australia's solid economic growth continued in 1998-99, supported by low interest and inflation rates. Further progress was made in implementing economic reform of financial regulation and corporate law, and above all in relation to taxation; international financial issues were also a major preoccupation. The year's achievements are a strong foundation for future increases in employment and living standards, promoting the wellbeing of all Australians.

Reviews of Treasury's core business and corporate services were completed in 1998-99. As a result new management systems have been implemented and the Department has been organised into three Groups — Budget, Economic and Markets — supported by a new Corporate Services Division.

Macroeconomic Policy

In 1998-99 macroeconomic policy was conducted against a continuing backdrop of international uncertainty, including weak economic growth in many of our major Asian trading partners. Even so, the Australian economy recorded strong growth, which can in part be attributed to its sound medium-term macroeconomic policy framework.

Progress in fiscal consolidation has been a key factor in strengthening market confidence in the macroeconomic framework. Increased public saving has helped to keep interest rates low and should assist in moderating pressures on the current account deficit over time.

A significant feature of the 1999-2000 Budget was the presentation, for the first time, of both accrual and cash accounts. The accrual framework is designed to provide a more comprehensive indication of government resource use. In accrual terms, the fiscal balance in 1998-99 was estimated to be a surplus of \$3.1 billion.

Monetary policy continued to contribute to the maintenance of low inflation and inflation expectations in 1998-99. The only policy change during the financial year was in December 1998 when official interest rates were reduced by 25 basis points to 4.75 per cent. This easing in monetary policy has resulted in both commercial and variable home loan interest rates falling to their lowest levels in around 30 years.

Taxation

A major priority has been the development of tax reform proposals consistent with the Government's publicly announced goal of modernising the Australian taxation system. In August 1998, the Government announced a major tax reform package *A New Tax System*. The first package of legislation to give effect to the new tax system was passed by Parliament at the end of June 1999. The legislation included the new Goods and Services Tax (GST) system, income tax cuts, the abolition of wholesale sales tax, and increased family allowances, and foreshadowed new Commonwealth-State financial arrangements.

In August 1998, the Government also announced the establishment of the Review of Business Taxation to undertake consultations with business on the business tax reform proposals in the Government's tax package. The Review provided its report to the Government on 2 August 1999.

In June 1999, Heads of Government signed an historic *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Under the Agreement, the States and Territories will receive all the revenues from the GST from 1 July 2000. In return, the States and Territories will abolish a number of taxes (bed taxes, Financial Institutions Duty, stamp duties on quoted marketable securities and, subject to review, debits tax).

International Issues

Treasury has been at the leading edge of the debate on the issues that have arisen from the recent international financial crises. During 1998-99 the Prime Minister commissioned a Task Force, chaired by the Treasurer, to report on the contribution Australia can make towards strengthening the international financial system to reduce the risk of future crises. The Task Force reported in December 1998 and many of its recommendations have been implemented, including the presentation in March 1999 by the Treasurer of an Australian self-assessment transparency report which has been well received internationally.

As chair, Australia played an important role in the activation, for the first time, of the International Monetary Fund's New Arrangements to Borrow (to assist Brazil), and we have supported an Asia-Pacific Economic Cooperation (APEC) initiative on strengthening corporate governance as well as the development of new lending instruments by the International Monetary Fund and the World Bank.

Structural Reform

Significant progress has been made in implementing the National Competition Policy, which promotes structural reforms aimed at boosting growth and productivity in the economy and enhancing the economy's resilience to changing international conditions.

Important steps in promoting a competitive environment have been the review of legislation that restricts competition and/or imposes costs or confers benefits on business and the introduction of competitive neutrality arrangements for government business activities. Significant reforms were announced in relation to the regulation of the financial system, Australia Post, product labeling requirements and export concession arrangements. Major legislation reviews have commenced in the areas of broadcasting and pharmacies.

The Productivity Commission commenced an inquiry into the impact of National Competition Policy on rural and regional Australia, releasing a draft report for public comment. The Commission is to submit its final report to the Government in September 1999.

Financial Issues

Legislation came into effect on 1 July 1999 which transfers to the Commonwealth responsibility for financial institutions previously subject to regulation by State and Territory authorities under the Financial Institutions Code. Financial institutions covered by these arrangements include building societies, friendly societies and credit unions. With the passage of this legislation the implementation of the Government's response to the *Financial System Inquiry Final Report* (the Wallis Report) is largely complete.

In May 1999, the Prime Minister and the Minister for Financial Services & Regulation announced details of the Government's strategy to promote Australia as a centre for global financial services (CGFS). The strategy seeks to ensure that the overall economic and regulatory framework continues to reflect international best practice. It includes the establishment of an Australian Centre for Global Finance (located in Sydney) to develop and implement a coordinated CGFS promotional campaign as well as to provide policy advice on this issue to the Government.

Substantial progress has been made in the implementation of measures relating to superannuation set out in the 1998-1999 Budget. In March 1999 a Bill was

introduced into Parliament 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 Bill designed to maintain the integrity of the investment rules applying to superannuation funds was released for public comment.

Business Law

The implementation of the *Managed Investments Act 1998* has reformed the regulation of managed investment schemes to benefit investors and the *Company Law Review Act 1998* has brought significant efficiencies to the corporate governance of Australian companies. The process of corporate law reform continued during the year under the Corporate Law Economic Reform Program (CLERP). Legislation introduced into the Parliament includes the Corporate Law Economic Reform Program Bill, which will legislatively implement proposals in the areas of fundraising, takeovers, accounting standards, and directors' duties and corporate governance; and other proposed reforms to increase efficiency and reduce costs have been announced.

During the year, Treasury assisted in developing government initiatives in relation to the issue of protecting employee entitlements, from a business law perspective, and was involved in contingency planning for the ongoing operation of the national corporations scheme leading up to, and following, the High Court's cross-vesting decision in June 1999.

Significant Corporate Developments

Wide-ranging reviews of Treasury's core business and of its corporate services were completed early in 1998-99. The recommendations of the core business review were followed in the development of the Treasury Management Model and the Performance Management System based on regular staff appraisal linked to remuneration.

The Treasury Management Model includes the way Treasury sets its purposes and objectives; the way Treasury is organised; staff supervision, assessment and development; and management training and development. The new structure is based on three Groups corresponding to Treasury's three main outcomes: Budget, Economic and Markets. Staff management processes are intended to improve individual performance; support Treasury's commitment to excellence in the provision of public policy advice and other services; and promote job satisfaction and a better work/life balance for Treasury staff.

The review of corporate services led to the formation of a new Corporate Services Division and to the appointment of a General Manager. Several areas of corporate services were market-tested with the aim of outsourcing to a single prime contractor, but this did not prove to be warranted. In the course of reorganising and re-engineering corporate services to increase efficiency, opportunities to undertake further market testing and contracting out will be considered.

In the last quarter of 1998-99, Treasury commenced negotiation of a new Certified Agreement to replace the initial 12-month Agreement which was certified by the Australian Industrial Relations Commission in April 1998. (The new Certified Agreement came into effect on 3 September 1999.)

Changes in Treasury Functions

Consumer Affairs Division joined Markets Group in Treasury following the October 1998 Federal Election. This transfer has provided opportunities for improved co-ordination in the development of policy advice on issues impacting on consumers and helps ensure that the competition policy and consumer policy functions are more closely aligned.

Treasury's debt management activities were transferred to a new agency, the Australian Office of Financial Management, as from 1 July 1999. The new agency will enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt service costs and an improvement in balance sheet net worth over time.

Chart 1: Treasury Portfolio Outcome Structure (as at 30 June 1999)

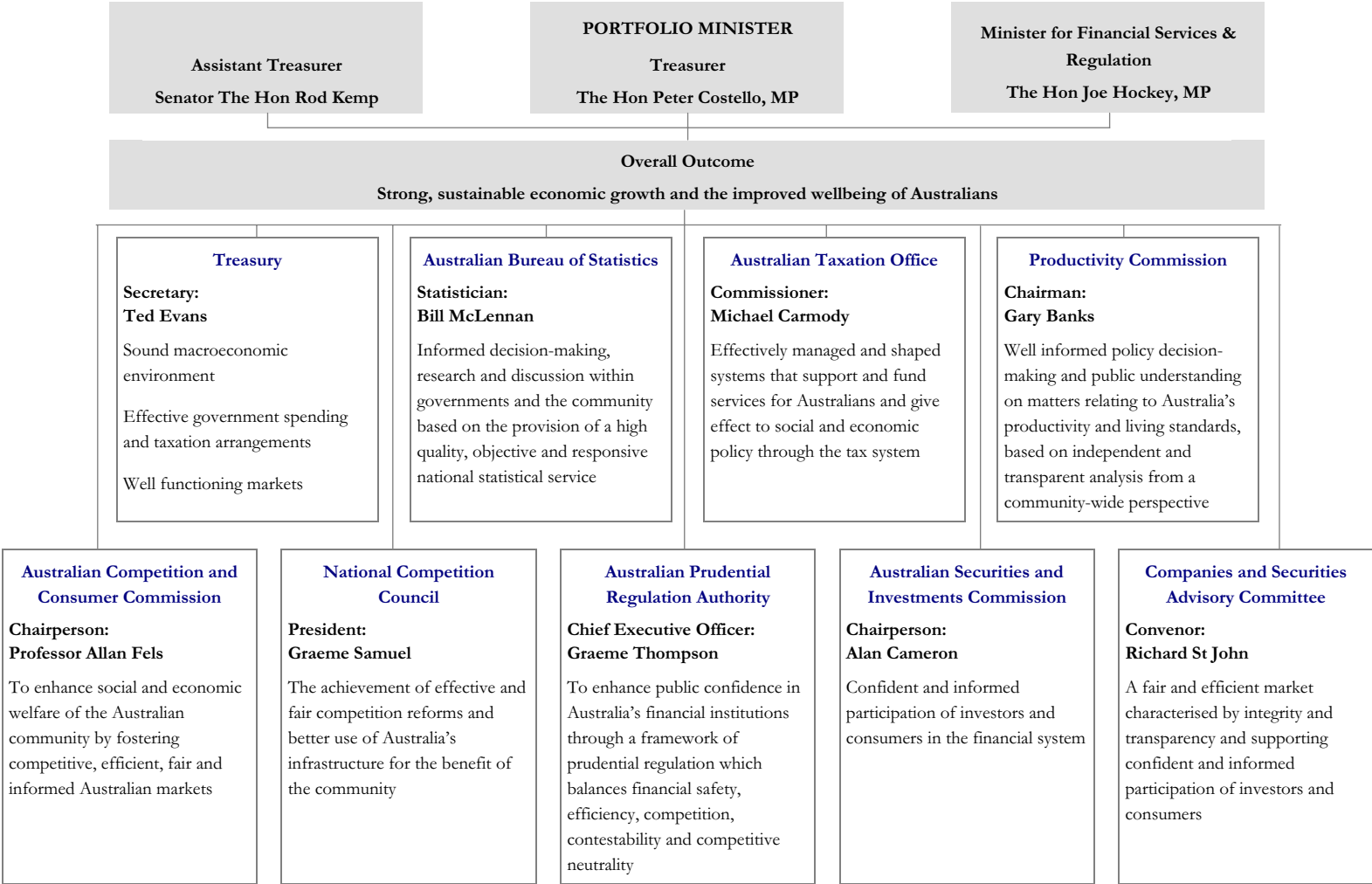


Chart 2: Portfolio Output Structure (as at 30 June 1999)

The Treasury		
<p>1.1 Economic</p> <p>1.1.1 Domestic Economy Policy Advice and Forecasting</p> <p>1.1.2 International Economy Policy Advice and Assessments</p> <p>1.1.3 Debt Management</p>	<p>2.1 Budget</p> <p>2.1.1 Budget Policy Advice and Coordination</p> <p>2.1.2 Commonwealth-State Financial Policy Advice</p> <p>2.1.3 Industry Policy Advice</p> <p>2.1.4 Taxation and Income Support Policy Advice</p>	<p>3.1 Markets</p> <p>3.1.1 Foreign Investment Policy Advice and Administration</p> <p>3.1.2 Financial System and Markets Policy Advice</p> <p>3.1.3 Business and Consumer Policy Advice</p> <p>3.1.4 Circulating Coin and Like Products</p>

Productivity Commission
<p>1.1 Productivity Commission</p> <p>1.1.1 Government Commissioned Projects</p> <p>1.1.2 Performance Reporting and other Services to Government</p> <p>1.1.3 Regulation Review Activity</p> <p>1.1.4 Competitive Neutrality Complaints Activities</p> <p>1.1.5 Annual Report and other Supporting Research</p>

Australian Securities and Investment Commission
<p>1.1 Australian Securities and Investment Commission</p> <p>1.1.1 Policy and Guidance about the Laws Administered by ASIC</p> <p>1.1.2 Comprehensive and Accurate Information on Companies and Corporate Activity</p> <p>1.1.3 Compliance Monitoring and Licensing of Participants in the Financial System to Protect Consumer Interests and Ensure Market Integrity</p> <p>1.1.4 Enforcement Activity to give effect to the Laws Administered by ASIC</p>

National Competition Council
<p>1.1 National Competition Council</p> <p>1.1.1 Advice provided to Governments on Competition Policy and Infrastructure Access Issues</p> <p>1.1.2 Clear, Accessible Public Information on Competition Policy</p>

Australian Bureau of Statistics
<p>1.1 Australian Bureau of Statistics - National Statistical Service</p> <p>1.1.1 Economic Statistics</p> <p>1.1.2 Population and Social Statistics</p>

Companies and Securities Advisory Committee
<p>1.1 Companies and Securities Advisory Committee</p> <p>1.1.1 Annual Reports, Discussion Papers and Reports</p> <p>1.1.2 Recommendations</p>

Australian Taxation Office
<p>1.1 Australian Taxation Office</p> <p>1.1.1 Contribution to Policy Advice and Legislation</p> <p>1.1.2 Revenue</p> <p>1.1.3 Transfers</p> <p>1.1.4 Cross Agency Support</p>

Australian Prudential Regulation Authority
<p>1.1 Australian Prudential Regulatory Authority</p> <p>1.1.1 Policy Development</p> <p>1.1.2 Surveillance Programmes</p> <p>1.1.3 Financial Advice</p>

Australian Competition and Consumer Commission
<p>1.1 Australian Competition and Consumer Commission</p> <p>1.1.1 Administration of Acts</p> <p>1.1.2 Competition Initiatives, Regulatory Mechanisms, Liaison and Information</p>

Chart 3: Treasury Program Structure (prior to changeover to Output Structure)

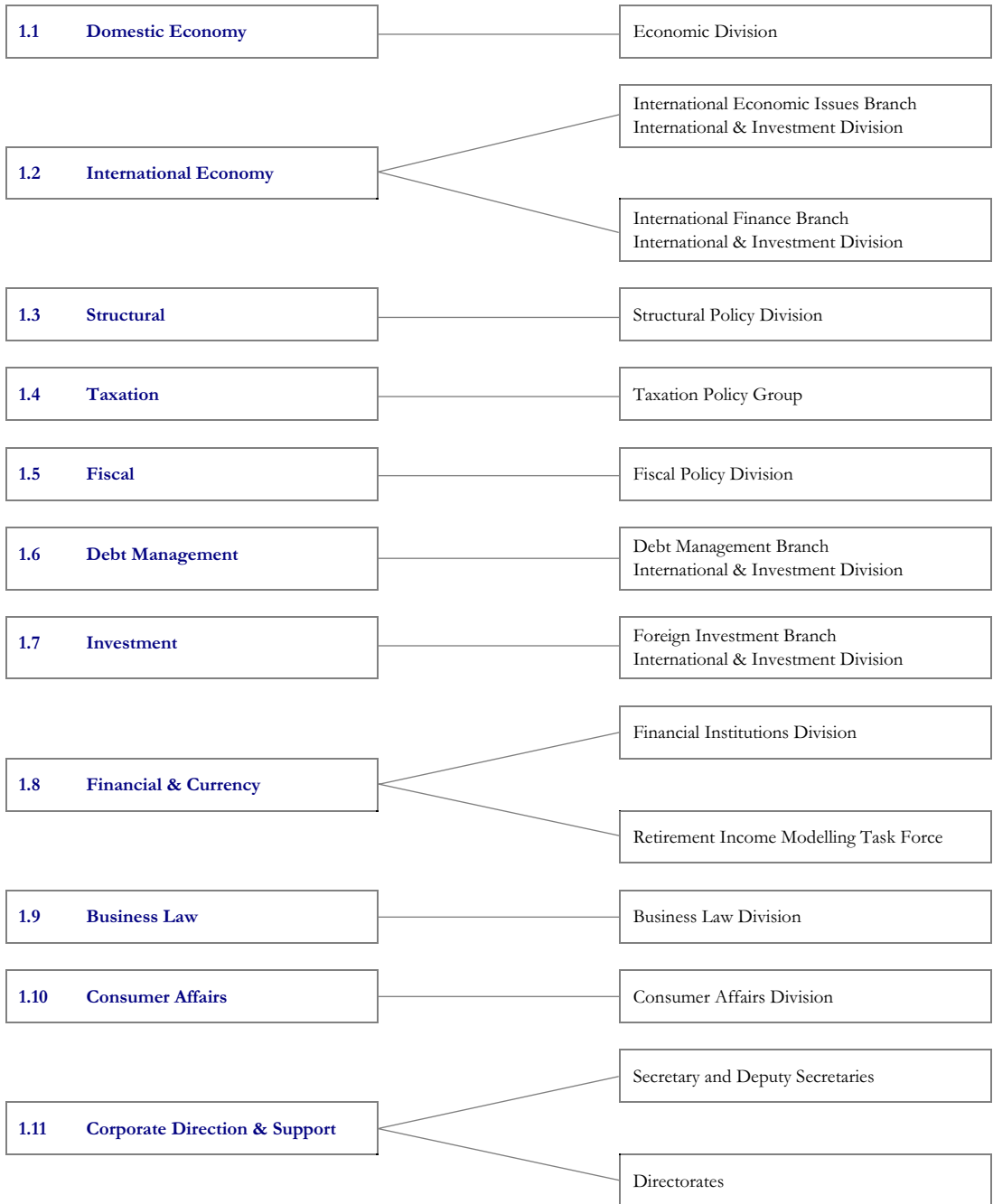


Chart 4: Treasury Output Structure (as at 30 June 1999)

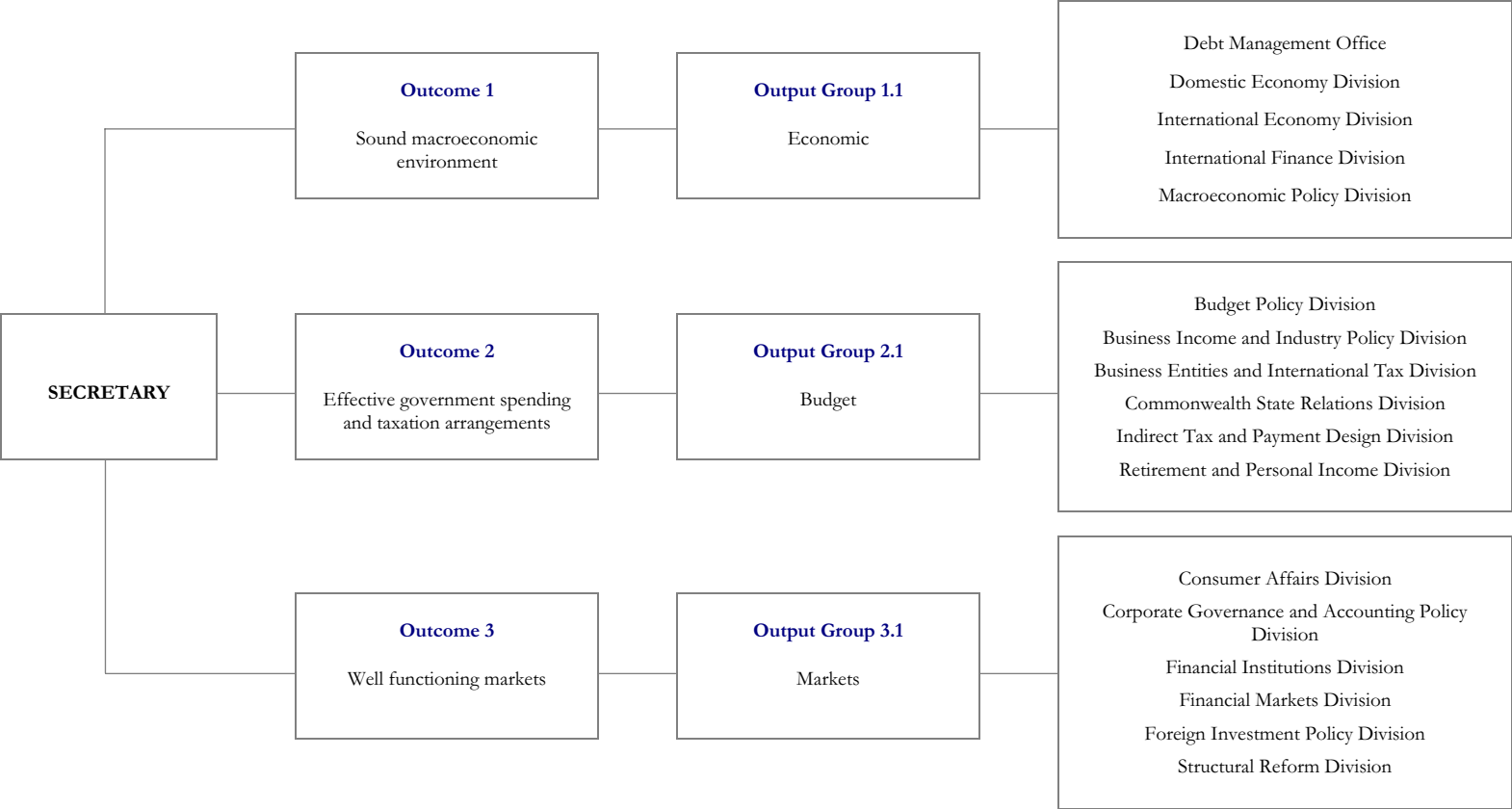


Chart 5: Treasury Top Management Structure (as at 30 June 1999)

SECRETARY Ted Evans					
ECONOMIC GROUP Executive Director Ken Henry		BUDGET GROUP Executive Director Greg Smith		MARKETS GROUP Executive Director Gary Potts	CORPORATE SERVICES
<p>Macroeconomic Policy Division General Manager James Horne</p> <p>International Finance Division General Manager Gary Johnston Specialist Adviser, APEC Terry O'Brien</p> <p>International Economy Division General Manager Scott Wheeler (a/g)</p> <p style="padding-left: 20px;">International Chief Adviser Neil Hyden</p> <p>Debt Management Office General Manager Peter McCray</p> <p>Domestic Economy Division General Manager Richard Murray Specialist Adviser, Forecasting Paul O'Mara</p> <hr/> <p style="padding-left: 20px;">Sydney Manager Ilsa Christ</p> <p style="padding-left: 20px;">Melbourne Manager Alison Smith</p>	<p style="text-align: center;">Washington Minister-Counsellor (Economic) Nigel Ray</p> <p style="text-align: center;">London Counsellor (Economic) Mike Buckley</p> <p style="text-align: center;">Paris Minister-Counsellor (Economic) David Parker Counsellor (Economic) Jan Harris</p> <p style="text-align: center;">Tokyo Minister-Counsellor (Economic) Murray Edwards</p> <p style="text-align: center;">Beijing Minister-Counsellor (Financial) Mick Shadwick</p> <p style="text-align: center;">Jakarta Counsellor (South East Asia Financial) Mike Waslin</p>	<p>Budget Policy Division General Manager Paul Tilley Specialist Advisers Paul Grimes Nigel Bailey</p> <p>Commonwealth-State Relations Division Division General Manager Ian Robinson Chief Adviser John Jepsen</p> <p>Industries Policy Division General Manager Jim Hagan</p> <p>Business Tax Review Division General Manager Deidre Gerathy Specialist Adviser Alan Preston</p> <p>Indirect Tax and Payment Design Division General Manager Paul McCullough Manager Specialist Blair Comley</p> <p>Retirement and Personal Income Division General Manager Maryanne Mrakovcic Manager Specialist, Retirement and Income Modelling Phil Gallagher</p>	<p>Foreign Investment Policy Division Division General Manager Janine Murphy</p> <p>Structural Reform Division General Manager Nicole Masters (a/g) Specialist Adviser, Legal Brenda Berkeley</p> <p>Financial Markets Division General Manager Michael Willcock</p> <p>Financial Institutions Division Division General Manager Peta Furnell</p> <p>Corporate Governance and Accounting Policy Division General Manager Veronique Ingram</p> <p>Consumer Affairs Division General Manager Janet Murphy</p>	<p>Specialist Adviser, Corporate Strategy Steve French</p> <p>Corporate Services Division General Manager Tony Preston-Stanley</p> <hr/> <p>Human Resources Unit Manager Pamela Henderson</p> <p>Information Management Unit Manager Geoff De La Motte</p> <p>IT Training and Publications Unit Manager Anne Fornasiero</p> <p>Liaison Unit Manager Peter Coan</p> <p>Resource Planning and Management Unit Manager Graham Smith</p>	

CORPORATE STATEMENT

This Statement covers the Department of the Treasury and does not include other agencies within the Treasurer's portfolio.

Treasury's Mission

Treasury's mission is to improve the wellbeing of the Australian people by providing sound and timely advice to the Government, based on objective and thorough analysis of options, and by assisting Treasury Ministers in the administration of their responsibilities and the implementation of Government decisions.

Policy Outcomes

In carrying out its Mission, Treasury has regard to the following policy outcomes:

- sound macroeconomic environment;
- effective government spending and taxation arrangements; and
- well functioning markets.

Sound macroeconomic environment

A sound macroeconomic environment is characterised by stable prices, low interest rates, healthy economic and employment growth and a sustainable external position.

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

Effective government spending and taxation arrangements

Individual spending measures should be effective in meeting their stated objectives, minimise other behavioural distortions and deliver significant benefits in relation to cost. Taxation measures should meet revenue

objectives (or other objectives if taken for public policy reasons) and be consistent with the principles of economic efficiency, horizontal and vertical equity, certainty and transparency whilst minimising compliance and administrative costs.

Ongoing advice from Treasury to the portfolio Ministers assists in formulating, implementing and explaining government spending and taxation decisions.

Well functioning markets

Well functioning markets operate when investors and consumers have confidence and certainty about the regulatory framework and are able to make decisions that are well informed and free of market distortions and impediments.

Treasury provides advice on policy processes and reforms that promote a secure financial system and sound corporate practices, remove impediments to competition in product and services markets and safeguard the public interest in matters such as consumer protection and foreign investment.

Corporate Strategies

Treasury seeks to carry out its mission by:

- maintaining effective liaison with portfolio Ministers and their offices and with other government departments;
- maintaining extensive contact with other levels of government, research institutes and interest groups;
- giving priority in operational arrangements to identifying important emerging issues, undertaking longer-term research and ensuring regular internal discussion of key policy issues;
- creating an environment for better informed public debate by explaining the Government's policy settings and views on economic conditions;
- fostering a consultative management culture within the Department;
- efficiently organising Departmental resources to provide high quality, relevant and timely advice;

- promoting continuous improvement, including staff management, development and skills enhancement; and
- internal and external review and evaluation of strategies, processes and outcomes.

Performance Indicators

Information sources to assist the judgement of performance include: the actual performance of the economy and comparative assessments by international organisations; feedback from the Treasury portfolio Ministers, their offices and the Government in general; and internal reviews and feedback from external organisations, such as private economic consultancies, the media and other government departments and agencies.

Corporate Focus for 1999-2000

In the year ahead, particular attention will be paid to improving Treasury's performance by:

- the Executive continuing to focus on strategic policy and management issues;
- continuing to ensure that Treasury outputs are delivered on the most cost-effective basis;
- reviewing Treasury's Performance Management System following the completion of the first staff appraisal cycle under that system; and
- providing staff with access to appropriate professional and development training programs.

Treasury People Values

Treasury people management principles:

- There will be open, two-way communication at all levels.
- Accountabilities will be clearly defined.
- Remuneration will be based on work performance and determined by fair and transparent processes.
- Staff will be assisted in achieving appropriate work and private life balance.

Treasury people will:

- Strive for excellence.
- Value teamwork, consultation and sharing ideas.
- Value diversity among our people.
- Treat everyone with respect.
- Exhibit honesty in all our dealings.
- Treat colleagues with fairness.