

PART I

OVERVIEW

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SECRETARY'S REVIEW

The Centenary of Federation also marks 100 years since the establishment of the Treasury as one of the seven original Commonwealth departments. Over the years, the role of Treasury has evolved as the complexity of government and modern economies has evolved. The work of Treasury has increasingly focused on matters of fundamental economic policy in its many dimensions. The department's role in advising the government of the day on economic policy issues has made it a key player in the development of the policy framework. Over the century, the Treasury has made a significant contribution to the nation and its citizens.

This year also saw the retirement of Ted Evans, AC, after eight years as Secretary to the Treasury. Ted Evans is a person of the highest integrity and professionalism who brought to his work an incisive mind, and outstanding judgement of people and issues. He has left a lasting mark on economic policy formulation in this country. In his time as Secretary, Ted Evans oversaw a substantial transformation in organisational structure and management practices (including performance management), leaving behind a modern institution that is committed to its task of quality policy advising, and committed to its people and their capacity to serve the nation.

A major focus for the portfolio was implementing tax reform, *The New Tax System* coming into effect on 1 July 2000. The GST Start-up Assistance Office, the Australian Taxation Office and the Australian Competition and Consumer Commission all played major roles in the introduction of *The New Tax System*. The Treasury has played a central policy role in monitoring and advising on the implementation phase.

Following reforms under *The New Business Tax System* introduced in 1999-2000, further significant progress has been made, with the simplified tax system, the uniform capital allowance system, new thin capitalisation arrangements and a debt/equity test all commencing from 1 July 2001.

After 3 years above 4 per cent, economic growth turned down in the first half of 2000-01. Transitional factors associated with the introduction of tax reform, the Olympics, higher world oil prices, the weaker Australian dollar and the weakening world economy were important factors impacting on the economy during 2000-01. While the international outlook deteriorated further in the first half of 2001, Australian growth is expected to strengthen in 2001-02. The underlying fundamentals remain conducive to ongoing improvements in productivity and the structural imbalances that have curtailed past expansions remain absent. The medium term macroeconomic policy framework, together with wide ranging structural, taxation and labour market reforms, continue to support the new dynamics of the Australian economy. While Australia's medium term prospects remain healthy, developments in the international economy are likely to influence activity in the near term.

Treasury has continued to participate actively in efforts to reform the international financial architecture, aimed at both the prevention of crises and

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their resolution. There has also been increasing attention paid to understanding the perceived benefits and risks of globalisation. Treasury has undertaken extensive analysis of this issue, with some of that work appearing in an article on *Global Poverty and Inequality in the 20th Century*.

In October 2000, in Montreal, the Ministerial meeting of the Group of Twenty (G-20) economies adopted a proposal by the Treasurer that entails G-20 members undertaking case studies so as to develop a shared insight into both the policies needed to ensure that globalisation brings broad-based prosperity, and the political and governance arrangements needed to cooperatively implement them.

During 2000-01, Treasury continued its participation in progressing structural reform, reflecting particular responsibilities for implementing competition policy and for advising more widely on microeconomic reforms necessary to improve market operations, productivity growth, and enhanced living standards.

There was particular emphasis in 2000-01 on advising the Government on policy supporting the prudential regulation of the financial sector, and on the initiative to promote Australia as a centre for global financial services. Advice was provided to the Government on its response to the failure of the HIH Insurance Group, and on the introduction to Parliament in June 2001 of the General Insurance Reform Bill 2001.

The Financial Services Reform Bill 2001 was also introduced. This legislation creates a harmonised licensing, disclosure and conduct framework for all financial services providers, and establishes a consistent and comparable financial product disclosure regime and a streamlined framework for the regulation of financial markets and clearing and settlement facilities.

Treasury has also worked closely with the Attorney-General's Department to resolve the constitutional doubts cast upon important elements of the former Corporations Law regulatory scheme by recent High Court decisions.

Over the course of 2000-01, the department undertook significant activity to enhance the capabilities of its people and management systems, with priority areas including:

- increased emphasis on staff training and development, including the preparation of a training program linked to staff development needs identified under the department's performance management system; and the provision of an extensive leadership development training course for some sixty Executive Level 2 officers in the department;
- close involvement in the refurbishment of the Treasury building and the relocation of staff to the refurbished accommodation;
- continued enhancement of the department's use of electronic information systems, including the introduction of a departmental Intranet, an expansion

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of the number and capability of departmental websites; and preparations for the staged introduction of an electronic records management system; and

- continued improvement in the availability and reliability of financial management information.

In accordance with the Government's outsourcing and market testing programme, Treasury is market testing the IT network and help desk functions and a range of human resource and accounting and finance related activities.

The Treasurer has also agreed to a review of Treasury's performance and budget to be conducted in financial year 2001-02. This review is to be undertaken as part of the Government's pricing review programme. The review will be an important priority for the department and should result in further quality improvements in our ability to provide policy advice and support to the Treasury ministers and the Government.

All in all, the past financial year has been a hectic but rewarding one for the Treasury. We look forward to the challenges in the year ahead. On behalf of the Treasury Executive, I wish to express my gratitude to all Treasury staff for their commitment, dedication and hard work in this centenary year.

Ken Henry
Secretary to the Treasury

CORPORATE STATEMENT

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.

Advice to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions.

Well functioning markets

Markets function well 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.

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Table I: Treasury financial and staffing resources summary

	Budget (1) 2000-2001 \$'000	Actual 2000-2001 \$'000	Budget (2) 2001-2002 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	26,063	15,175	12,000
Appropriation Acts Nos. 2/4	201,766	198,483	252,100
Advance to the Finance Minister	-	-	-
Special Appropriations	28,085,274	27,662,162	30,687,062
Total administered expenses	28,313,103	27,875,820	30,951,162
Revenue from Government			
Output group 1.1 - Economic	18,563	18,563	19,812
Output group 2.1 - Budget	29,070	29,070	34,162
Output group 3.1 - Markets	26,547	26,547	31,049
Total revenue from Government contributing to price of departmental outputs	74,180	74,180	85,023
Revenue from other sources			
Output group 1.1 - Economic	471	569	495
Output group 2.1 - Budget	2,120	2,042	2,057
Output group 3.1 - Markets	44,660	50,105	30,999
Total revenue from other sources	47,251	52,716	33,551
Total revenue for departmental outputs (Total revenues from Government and other sources)	121,431	126,895	118,574
Price of departmental outputs			
Output group 1.1 - Economic	19,034	18,164	20,307
Output group 2.1 - Budget	31,190	30,301	36,219
Output group 3.1 - Markets	71,207	76,841	62,048
Total price of departmental outputs	121,431	125,306	118,574
Total estimated resourcing (Total price of outputs and administered expenses)	28,434,534	28,001,126	31,069,736
Average staffing levels (number)	544	524	574

(1) Budget 2000-01 — refer to Outcome Resource Tables 2 on pages 21, 39 and 62 for details of variations.

(2) Budget 2001-02 — refer to Outcome Resource Tables 2 on pages 21, 39 and 62 for details of variations.

2001-02 priorities

- Delivery of the annual budget and mid-year review.
- Enhance advising capability in areas of national priority concern, including environment, industry and public finance issues.
- Macroeconomic policy advice to maximise the length of the expansion and reduce unemployment including short, medium and long term aspects of fiscal, monetary and debt management policy and labour market issues.
- Enhanced analysis of international economic and policy developments.
- National saving issues.
- Analysis of welfare reform.
- The geographic and socio-economic distribution of aggregate economic gains.
- Impact of globalisation on global inequality and poverty.
- Major business tax reform proposals.
- Ongoing structural reform in key sectors, competition and trade practices in product and service markets and effective industry self-regulation.
- Implementation of the financial services reform regime and reviews of domestic corporate insolvency policy, the *Managed Investments Act* and the *Insurance Contracts Act*.
- Consumer confidence in electronic commerce.
- Promoting Asian economic recovery and enhanced regional financial integration.
- Encouraging continuing reform of international financial architecture.
- Internal and external communication.
- Management practices, staff development and the allocation of departmental resources.
- Introducing measures to further improve Treasury's performance, in conjunction with a pricing review of its activities. The pricing review is to be conducted with the assistance of the Department of Finance and Administration and is intended to provide better quality information to the Government on the value for money of Treasury's activities.

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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.

Chart I: Treasury portfolio outcome structure (as at 30 June 2001)

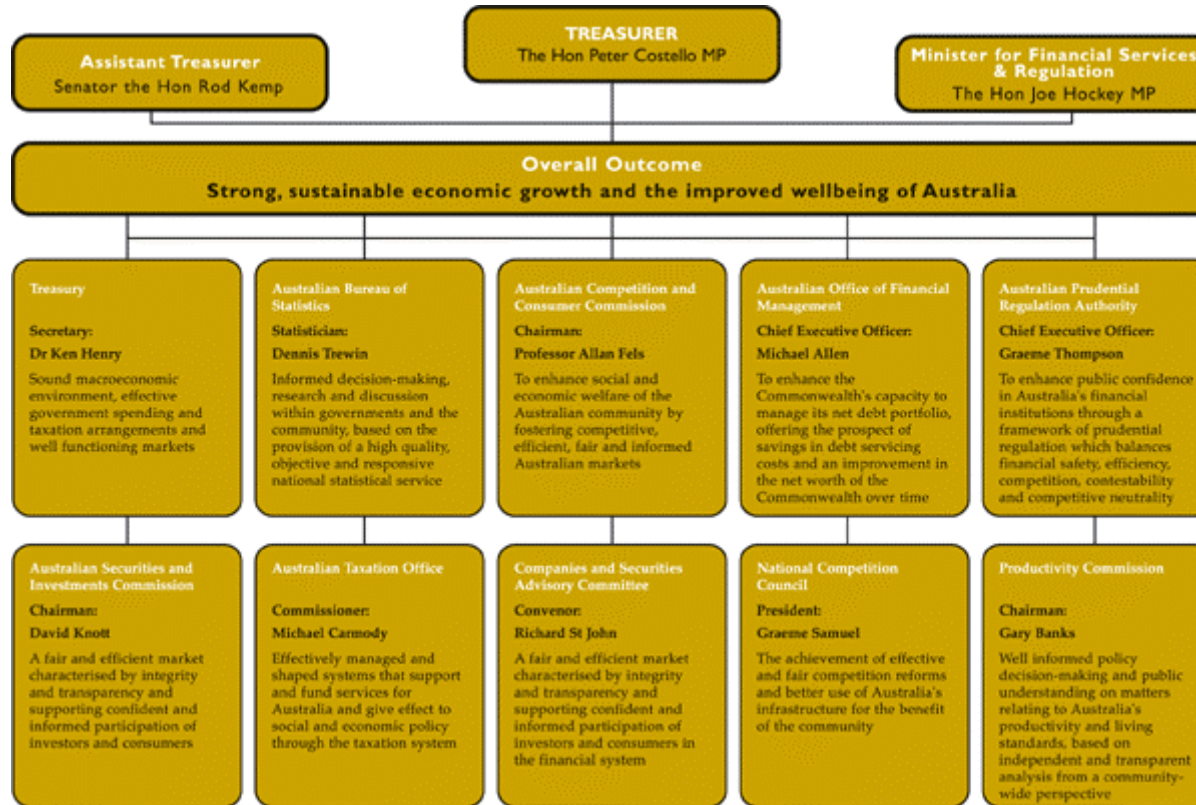


Chart 2: Portfolio output structure (as at 30 June 2001)

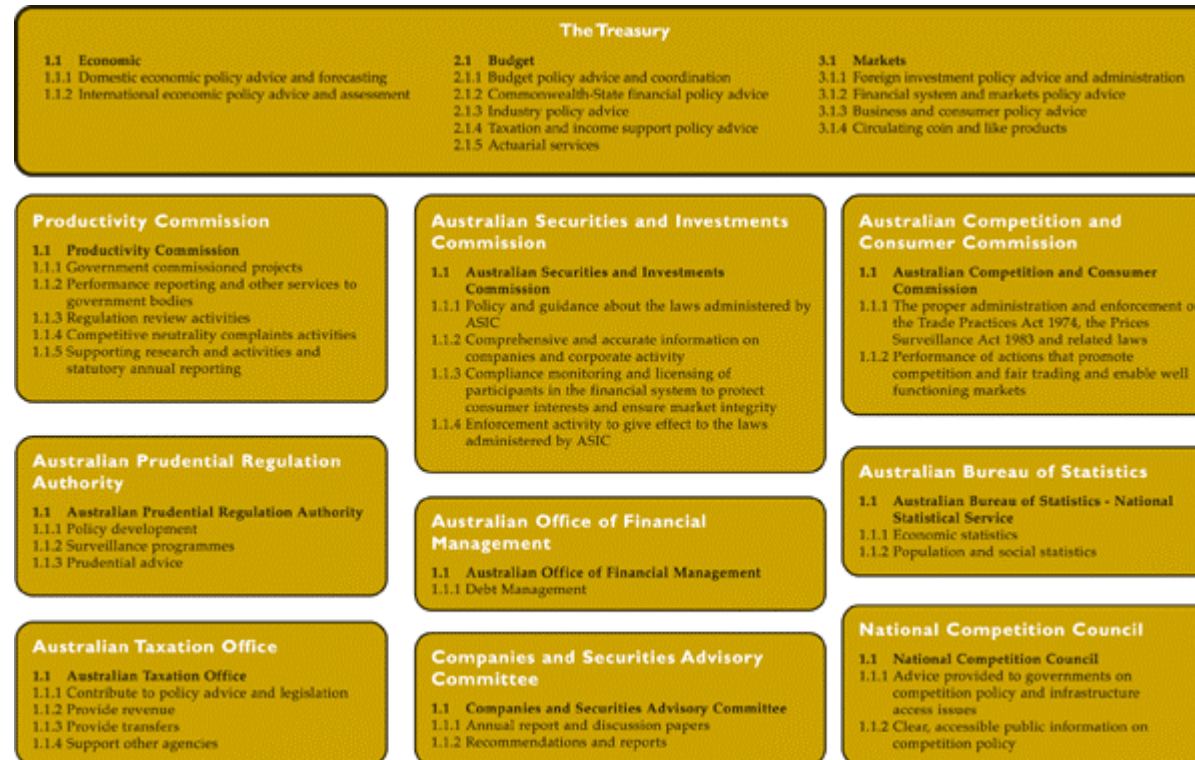
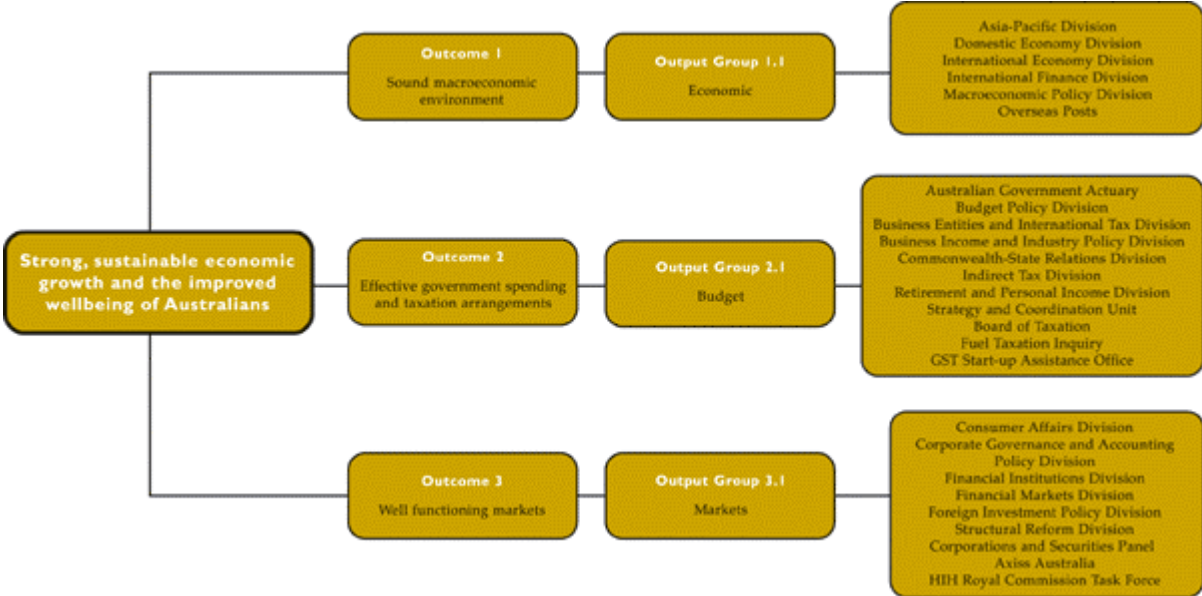


Chart 3: Treasury output structure (as at 30 June 2001)



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Chart 4: Treasury top management structure (as at 30 June 2001)

