

PART 2

REPORT ON PERFORMANCE

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REPORT ON PERFORMANCE

The report on performance covers Treasury's administered items and departmental outputs for 2000-01.

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

Treasury's 2000-01 performance is reported at the outcome and output levels for its three policy outcomes:

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

Performance outcomes are reported against the performance information published in the Treasury section of the 2000-01 Portfolio Budget Statements. The performance reporting does not extend to the activities of the Royal Australian Mint which, although a division of Treasury, is not budget-funded. Details of the organisation of the Mint and its operations are published separately in its annual report.

The results of evaluations undertaken during the year, including those listed in the 2000-01 Portfolio Budget Statements, are incorporated into the performance information for the relevant output.

Treasury is predominantly a policy advising agency, and 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. Performance against the service charter customer service standards is contained in the FIRB annual report.

OUTCOME I

SOUND MACROECONOMIC ENVIRONMENT

A sound macroeconomic environment is an essential foundation for strong sustainable economic growth and the improved wellbeing of Australians. Economic Group is responsible for contributing to the outcome of a sound macroeconomic environment by providing policy advice to Treasury portfolio ministers to assist them in developing and implementing policies to achieve this outcome. This includes Economic Group providing advice to the Government on:

- economic conditions and the outlook;
- the implications of economic developments for macroeconomic policy;
- fiscal and monetary policy;
- labour market issues;
- strategic international economic policy issues, advice on advancing Australia's interests through the international financial institutions and in other international forums;
- advancing Australia's interests in countries requiring technical and financial assistance; and
- monitoring and analysing economic developments in key global economies.

More specifically, Economic Group has produced outputs which support government decisions and objectives through:

- advice on international finance issues, including:
 - proposals to strengthen the international financial architecture,
 - debt relief and other development issues,
 - reform of the international financial institutions and management of Australia's relationship with them, and
 - promoting structural reform through regional forums such as the Asia-Pacific Economic Cooperation (APEC) and the South Pacific Forum Economic Ministers' Meeting;
- sound and timely advice on developments in the international economy, especially to the extent that they impact on Australia, and participation in policy discussions in various international forums and institutions;

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- analysis and advice on macroeconomic policy issues, including:
 - recommendations on the strategy for the annual Budget and other fiscal policy matters,
 - examining financial market developments and advising the Secretary in his capacity as a member of Reserve Bank Board,
 - debt management policy¹, and
 - providing advice on labour market policy issues such as workplace relations and employment policy.
- advice on domestic economic issues, including:
 - macroeconomic forecasting,
 - analysis and briefing on economic data releases,
 - business liaison,
 - macroeconomic policy research,
 - provision of macroeconomic policy advice,
 - econometric analysis, and
 - macroeconomic modelling.

The effectiveness of Treasury's contribution to a sound macroeconomic environment was judged primarily by feedback from Treasury portfolio Ministers on the quality and relevance of Treasury's advice.

1 This issue is covered in detail in the Annual Report of the Australian Office of Financial Management (AOFM).

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Chart 5: Outputs contributing to Outcome I



Outcome I: Sound macroeconomic environment

Table 2: Financial and staffing resources summary for Outcome I

	Budget (1) 2000-2001 \$'000	Actual 2000-2001 \$'000	Budget (2) 2001-2002 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	-	-	-
Special Appropriations	50,610	50,378	47,128
Total administered expenses	50,610	50,378	47,128
Revenue from Government			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,106	4,106	4,593
Output 1.1.2 - International economic policy advice and assessment	8,229	8,229	8,915
Corporate costs	6,228	6,228	6,304
Total revenue from Government contributing to price of departmental outputs	18,563	18,563	19,812
Revenue from other sources			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5	14	5
Output 1.1.2 - International economic policy advice and assessment	71	91	71
Corporate costs	395	464	419
Total revenue from other sources	471	569	495
Total revenue for departmental outputs (Total revenues from Government and other sources)	19,034	19,132	20,307
Price of departmental outputs			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,111	3,838	4,598
Output 1.1.2 - International economic policy advice and assessment	8,300	8,325	8,986
Corporate costs	6,623	6,001	6,723
Total price of departmental outputs	19,034	18,164	20,307
Total estimated resourcing for outcome 1 (Total price of outputs and administered expenses)	69,644	68,542	67,435
Average staffing levels (number)	122	123	132

- (1) Budget 2000-01: The total price of outputs and administered items for Outcome 1 was \$4.814 million more than the budgeted figure in the 2000-01 Portfolio Budget Statements (PBS)'s due to the following:
Administered — exchange parameter adjustment of \$4.391 million;
Revenue from government — additional estimates of \$0.335 million; and
General — the remainder of the variance is attributed to revised internal allocations.
- (2) Budget 2001-02: The 2001-02 price of outputs for Outcome 1 has increased by \$1.407 million due to revised internal allocations.

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Output 1.1.1

Domestic economic policy advice and forecasting

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

Economic Group contributes to Outcome 1 by providing advice to government ministers on economic conditions and the outlook; advice on the implications of economic developments for macroeconomic policy; advice on fiscal and monetary policy; and advice on labour market issues.

Performance information

Performance measures for departmental outputs are:

- advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound domestic economy; and
- effective presentation of budget documents and other publications adequately informs public debate.

Analysis of performance

Economic forecasts

Economic forecasts were produced over the course of 2000-01 to inform policy settings, and in a more detailed form to enable the calculation of budget estimates. These forecasts were prepared taking into account key assumptions about economic variables and judgements about likely outcomes. Transitional factors associated with the introduction of *The New Tax System*, the Olympics, the weaker Australian dollar, higher world oil prices and the weakening world economy from late 2000 were important factors in the development of economic forecasts over the course of 2000-01.

For policy formulation purposes, the main role of the forecasts is to aid an understanding of the broad developments within the economy and the balance of risks and uncertainties surrounding the outlook.

The 2000-01 Budget contained forecasts for 2000-01 and these were reassessed in the *Mid-year Economic and Fiscal Outlook* (MYEFO) released in November 2000.

In MYEFO, the forecast gross domestic product growth rate in 2000-01 was 4 per cent, slightly higher than the 3¾ per cent forecast at Budget time. The upward revision reflected a more optimistic world growth outlook as well as a

Outcome 1: Sound macroeconomic environment

more competitive Australian dollar, which together were expected to provide an additional boost to net exports.

- The forecast for inflation was revised up slightly in MYEFO, reflecting an increase in world oil prices and the depreciation of the Australian currency.
- Average employment growth for 2000-01 was revised up in MYEFO, mainly reflecting stronger than expected employment growth in the September quarter 2000.

MYEFO also contained preliminary forecasts of key economic parameters for 2001-02, along with projections for the following two years.

The 2001-02 Budget, handed down in May 2001, contained revised estimates of the outcomes for 2000-01, a fully elaborated set of forecasts for 2001-02 and projections for key parameters in the following three years, out to 2004-05.

- At the time of the 2001-02 Budget the final outcome for gross domestic product growth in 2000-01 was not known. Based on the information available, economic growth in 2000-01 was expected to be 2 per cent, reflecting primarily the unwinding of the bring-forward in residential construction associated with the introduction of *The New Tax System*.

MYEFO and Budget forecasts released during 2000-01 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). However, more recent data have shown that economic growth in 2000-01 was much weaker than the MYEFO forecasts, with the weakness concentrated in the housing sector. A review of domestic and international economic developments during 2000-01, including an assessment of Treasury forecasts made during that year will be published in the Spring 2001 Treasury *Economic Roundup*. The economy is more efficient and flexible, with higher productivity growth, partly due to the sound and credible frameworks for monetary and fiscal policies created in recent years and ongoing reforms in competition policy, the tax system, the labour market, the financial sector and corporate law. The level of increased efficiency and flexibility attained will enable the economy to recover well from any unexpected internal or external shocks such as those that have caused the recent slowing in growth.

The forecasts were prepared with the benefit of input from members of the Joint Economic Forecasting Group comprising Treasury (chair), the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics (ABS). Information on business conditions was obtained through liaison with industry. This information was taken into account in preparing economic forecasts. The Treasury macroeconomic model of the Australian economy was also used as an input into the forecasting process, as well as for the macroeconomic policy and sensitivity analyses.

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Contributions to public awareness and debate

As a matter of course, all economic publications are made available free of charge at the Treasury website (www.treasury.gov.au). This practice improves the accessibility of Treasury publications.

The 2000-01 MYEFO reviewed the economic outlook in light of an expected improvement in world economic growth and the impact of a lower exchange rate. It also discussed the apparent changes to expenditure patterns as a result of the introduction of *The New Tax System*, particularly with respect to dwelling investment.

In the 2001-02 Budget papers, Statement 3 of *Budget Paper No. 1* contained a detailed discussion of international and domestic economic forecasts for 2001-02. It was noted that world growth was expected to slow in 2001 to around 3¾ per cent, driven by lower growth in the United States. The pace of world growth was expected to pick up later in 2001 and increase to around 4 per cent in 2002. Domestically, economic growth was expected to be around 3¾ per cent in year-average terms in 2001-02, driven by a rebound in residential construction and a strong contribution from net exports.

Statement 4 of *Budget Paper No. 1* contained a discussion on the role of productivity growth and new technology in economic growth. It highlighted that in Australia, a sound macroeconomic policy framework has encouraged competition and created a strong incentive to apply productivity-enhancing information and communication technology advances. It was noted that this has created the potential for Australia to experience an extended period of strong productivity and economic growth in coming years.

The *Budget Overview and Economic Outlook* is a brief publication written in non-technical terms. Its publication 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.

Three issues of the Treasury *Economic Roundup* were published in 2000-01, including a special Centenary Edition, published in place of the usual Summer and Autumn releases. These publications contained articles on a wide range of issues examined by the Department. The conventional publications continued to provide an overview of economic developments (omitted from the Centenary Edition) and were oriented towards providing commentary on some key issues underpinning Australia's recent economic performance.

The Overview in the Spring 2000 edition of the *Economic Roundup* reflected upon the exceptionally strong economic growth of recent years, the absence of price or wage pressures and the Government's continued fiscal consolidation. The Overview in the Winter 2000 edition discussed domestic economic conditions with particular reference to the likely impact of *The New Tax System* on retail trade in the June quarter. Roundup articles produced as part of the output included: Economic Overview (Winter 2000); 1999-2000 in Review: Australia's

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Strong Growth Exceeds Expectations — Again (Spring 2000); Demographic Influences on Long-Term Growth in Australia (Spring 2000); Policy Reforms to Strengthen the 'New Economy' (Spring 2000); Australia's Century since Federation at a Glance (Centenary Edition 2001); The Net Income Deficit over the Past Two Decades (Centenary Edition 2001) and Australian Net Private Wealth (Centenary Edition 2001).

Quarterly updates of the Treasury macroeconomic model of the Australian economy and associated database were distributed to subscribers. Since its public release in 1995-96, the Treasury macroeconomic model has continued to evolve in light of ongoing research and development. Most recently, the model has been undergoing a major redevelopment with an expansion of the industry and expenditure detail contained in the model with a view to enhancing its role in forecasting and policy analysis.

Discussions were conducted with visiting delegations from international organisations including the OECD, the IMF and international credit rating agencies. Analysis in IMF and OECD publications on the Australian economy has been broadly consistent with that presented in the Budget Papers and MYEFO.

Policy advice and inputs into policy processes

During 2000-01, 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.
- Treasury officers conducted discussions with companies and organisations in the major business centres in order to better 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 New Tax System*.
- Advice on fiscal policy and strategy was provided to the Treasurer as part of the process of developing the 2001-02 Budget.
- 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, the Treasury monitored financial, economic and policy developments and forecasts to assess their implications for policy settings. The Treasurer was also kept abreast of developments in this area through the provision of regular briefing and analysis.

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- In relation to the operation of the RBA more generally, advice was prepared on the legislative amendments to the *Reserve Bank Act 1959* as part of the Financial Legislation Amendments Bill 2001, which has been introduced in Parliament for the spring sitting.
- Advice on debt management policy, including the objectives of the Commonwealth's debt policy and the possible consolidation of Commonwealth and State government debt.
- Advice was provided to the Treasurer on labour market issues throughout the year, including advice and input into the 'Australians Working Together' package announced in the 2001-02 Budget. Treasury also contributed to the Joint Governments' Submission to the Australian Industrial Relations Commission's 2000-2001 Safety Net Review. This contribution examined the economic implications of the claim and included analysis based on the Treasury macroeconomic model.

Reviews of economic data

Treasury has liaised extensively with the ABS on statistical matters, both informally through regular discussion at all levels, and on a formal basis through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group and the Labour Statistics Advisory Group.

Output 1.1.2

International economic policy advice and assessment

International Economy Division, International Finance Division and Asia-Pacific Division in Economic Group are responsible for the delivery of Output 1.1.2, International economic policy advice and assessment.

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

Performance information

Performance measures for administered items (including third party outputs) are:

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

Outcome I: Sound macroeconomic environment

Performance measures for departmental outputs are:

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

Analysis of performance

International developments

The world outlook weakened in 2000-01, with the United States economy slowing sharply, Europe weakening and conditions in Japan and most Asian economies deteriorating. International financial conditions were a little unsettled, and there were pockets of instability in emerging markets.

The weakness focused attention on the risks to the global economy and on macroeconomic and structural policies that would moderate the downturn and support sustainable recovery.

Efforts at reforming the international financial architecture, having gained momentum in the aftermath of the Asian crisis, remained a key area of focus over the course of 2000-01. Measures aimed at both the prevention of crises and their resolution were progressed within the international financial institutions and given impetus by discussions in other international forums such as the Group of Twenty (G-20). This emphasis was consistent with the increasing attention also being given to understanding the phenomenon of globalisation, with both its perceived benefits and risks.

Australia continued to support the efforts of various international institutions and forums to emphasise the importance of strengthening economic institutions, particularly throughout the Asia-Pacific region, to help sustain economic growth. As a member of the IMF, the World Bank, the ADB, APEC, the G-20, the Manila Framework Group (MFG), the Four Markets Group, and the Financial Stability Forum (FSF), Australia actively participated in regional macroeconomic surveillance and discussions on international financial architecture.

- The links between **globalisation, growth, poverty and inequality received considerable attention** during 2000-01. Treasury contributed to discussions on this issue by undertaking extensive analysis and publishing an article on *Global Poverty and Inequality in the 20th Century* in the Centenary Edition of the Economic Roundup (March 2001). This document is available on the Treasury website at: www.treasury.gov.au
- **Financing arrangements within the Asian region** became an area of focus in recent MFG meetings following an IMF review of its financing facilities. Treasury has taken a leading role in coordinating the preparation of papers facilitating the MFG's discussions in this area.

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- **Conditionality in IMF programs** was another important issue considered at both the annual and spring meetings of the IMF. Treasury has strongly supported efforts at refocussing conditionality aimed at delivering better outcomes and improving country ownership of programs, so that crisis-affected countries can quickly regain financial and economic stability.
- **Encouraging greater transparency and the implementation of standards and codes** has become a core feature of the work of a number of international for a, including the IMF and the World Bank, the G-20, FSF and APEC. While the rate of implementation and assessment (including publication of assessment) increases, outreach activities have demonstrated that more needs to be done to increase awareness of international standards and codes — and their benefits — in the private sector. Australia demonstrated its commitment to increased transparency by agreeing to the publication of its 2000 IMF Article IV report for the first time (available at the IMF's website at <http://www.imf.org/external/pubs/ft/scr/2001/cr0149.pdf>)
- **Poverty reduction strategies** of the multilateral development banks continued to receive strong support by Australia. The World Bank and the ADB direct considerable resources toward programs that aim to assist the world's poorest people. Australia has encouraged the continuing coordination of activities between these institutions, especially in the Asia-Pacific region. By end June 2001, the enhanced Heavily Indebted Poor Countries Initiative, established by the IMF and the World Bank, had delivered substantial debt relief to 23 countries.

International financial institutions

Treasury participated in, and provided briefing for, Australian ministerial and official delegations to the IMFC deputies meetings in London on 11 September 2000 and 18 April 2001, the IMF — World Bank annual meetings in Prague, Czech Republic, on 24-28 September 2000, the IMF — World Bank spring meetings in Washington on 29-30 April 2001, the ADB annual meeting in Honolulu, Hawaii, on 9-11 May 2001 and the European Bank for Reconstruction and Development (EBRD) Annual Meeting in London, United Kingdom, on 22-24 April 2001. Treasury 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.

Treasury was also represented at the IMF — World Bank conference on International Standards and Codes, held in Washington on 7-8 March 2001. The conference brought together senior officials from 25 countries to assess current progress to date in the area of international standards and codes.

Treasury prepared annual reports to Parliament on Australia's relations with the IMF, the World Bank and the ADB. The reports inform the public of Australia's relations with these organisations and seek to improve the understanding of their operations.

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International Monetary Fund

Episodes of financial instability in emerging markets such as Turkey and Argentina placed pressure on the global financial system over the course of 2000-01. While contagion was broadly kept in check, both countries required significant IMF financial support packages. Such episodes reinforced the need for ongoing efforts by the IMF in reforming international financial architecture so as to lessen the effects of instability on the economies themselves and the global economy more generally. Australia has supported such IMF initiatives as: refocussing conditionality; enhancing financial sector surveillance and crisis prevention; private sector involvement and crisis resolution. Issues such as financial crime and money laundering were also the focus of some attention during the year with the IMF acknowledging the need for governments and a range of institutions to strengthen policies and actions to minimise financial abuse.

Two major initiatives by the IMF during 2001-01 were: the establishment of an International Capital Markets Department to further the Fund's emphasis on strong and effective crisis prevention; and the Independent Evaluation Office (EVO) to continually improve transparency, governance, and accountability within the IMF.

Treasury assisted the IMF in undertaking its regular Article IV consultation with Australia and, in line with international efforts at enhancing transparency, the Australia agreed to publish the Article IV Report for the first time.

Heavily Indebted Poor Countries Initiative and Bilateral Debt Relief

Australia continued to demonstrate its strong commitment to international debt relief for the world's poorest countries through the Heavily Indebted Poor Countries (HIPC) Initiative which supports the adoption of sound policies, good governance practices and effective poverty reduction programs.

At the September 2000 annual meetings of the IMF and the World Bank, Australia supported steps taken by the IMF and the World Bank to accelerate implementation of the HIPC Initiative. At the April 2001 spring meetings of the IMF and the World Bank, Australia encouraged the Bank and the Fund to actively engage those countries that had not yet received debt relief due to their involvement in recent incidences of armed conflict. The Treasurer, together with other ministers from around the world, committed the World Bank and the IMF to a thorough analysis and discussion of the prospects for long-term debt sustainability in the consideration of final debt relief for individual HIPCs. By end June 2001, twenty-three countries had benefited from the HIPC Initiative, qualifying for over \$US34 billion in debt relief.

Within Australia, on 2 February 2001, the Treasurer and the Minister for Foreign Affairs announced that, following Nicaragua's qualification for HIPC debt relief, Australia no longer expected repayment of Nicaragua's debt, totalling \$A6.3 million. This provision of 100 per cent debt relief was in accordance with

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the policy, previously announced on 21 April 2000, that Australia would forgive bilateral debts of countries qualifying for debt relief under the HIPC Initiative.

World Bank

Throughout 2000-01, Australia supported the World Bank's emphasis on poverty reduction and improving aid effectiveness. Australia also supported World Bank involvement in global initiatives, while encouraging selectivity of projects. Australia continued to place emphasis on the importance of close World Bank coordination with other multilateral organisations, notably, the IMF and the ADB.

In conjunction with internal reforms that sought to improve the efficiency, transparency and 'client focus' of World Bank operations, Australia emphasised the importance of balancing immediate development priorities of the World Bank with longer-term capital adequacy considerations.

Asian Development Bank

In 2000-01 Australia's involvement in the ADB focused on encouraging the Bank to: continue its process of transformation to a broad-based development institution by fully implementing agreed policy reforms across all of its operations; continue to improve its internal governance in order to enhance its accountability, effectiveness and transparency; remain committed to prudent banking policies, thereby ensuring the ongoing financial viability of the Bank; and enhance coordination and cooperation with all of its development partners — including international financial institutions (particularly the World Bank), other donors, recipient governments, and local communities.

European Bank for Reconstruction and Development

In the course of 2000-01, Australia continued to support the EBRD's work in assisting the reconstruction and development of Russia, Eastern Europe and Central Asia. Australia has encouraged the continued commitment of the Bank to sound banking principles and has also promoted increasing the Bank's focus on countries whose transition is less advanced.

The Group of Twenty

The Group of Twenty provides a high level mechanism for informal dialogue on international economic issues within the framework of the Bretton Woods institutional system. It aims to broaden the discussions on key economic and financial policy issues among systematically significant economies, and promote cooperation to achieve stable and sustainable world economic growth that benefits all.

Participants included finance ministers and central bank governors from the Group of Seven nations and other significant developed and developing

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countries, including Australia. The heads of the IMF, World Bank and their ministerial level advisory committees are ex officio members of the G-20.

The Treasurer and the Governor of the RBA attended the second G-20 Ministerial meeting, which was held in Montreal on 24-25 October 2000.

Discussions focused on the opportunities and challenges of globalisation for participating economies. The Treasurer's suggestion that selected G-20 countries undertake case studies reviewing their experience with globalisation was taken up by the G-20, with the case studies to include the experiences of those economies which have enjoyed sustained periods of economic growth and stability as well as those that have experienced economic or financial crises. Treasury officers worked on Australia's contribution to this exercise.

Treasury officers attended G-20 deputies' meetings on three occasions during the year: in Hong Kong SAR on 27-28 March 2000, in Toronto on 24-25 August 2000, and in Istanbul on 18-19 February 2001. Key issues discussed included crisis prevention within the international financial system and encouraging the adoption of international standards and codes.

In addition, a Treasury officer participated in a G-20-hosted workshop on Exchange Rate Regimes in Canada on 4-5 June 2001.

Manila Framework Group

Treasury officers attended and played an active role at both the seventh meeting of the Manila Framework Group in Bangkok on 3-4 December 2000, and the eighth meeting in Beijing on 28-29 March 2001.

The MFG 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 MFG was formed in Manila in November 1997 to discuss strategies to address the crisis in Asia, and develop a framework on regional surveillance and the improvement of the international financial system.

The seventh meeting noted that while growth in the emerging Asian economies had generally been robust, it was expected to moderate in line with weakened external financing conditions. The eighth meeting noted an expected slowdown in global growth and recognised the need to remain vigilant and set policy accordingly in view of the downside risks to the outlook. At both meetings, deputies underscored the importance of making further progress on structural reforms, especially in the financial and corporate sectors, to increase the resilience of their respective economies.

At the seventh meeting, Australia submitted a proposal for a review of the MFG cooperative financing arrangement. The proposal recognised that a number of developments had occurred since the arrangement was envisaged at the first meeting of the group in November 1997. These developments included: an IMF review of the MFG's financing facilities; progress in discussions on private

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sector involvement in crises resolution; and the development of new regional arrangements, such as the ASEAN + 3 network of swap arrangements under the Chiang Mai Initiative (CMI). Against this background, it appeared timely to examine whether there remained a role for an MFG financing arrangement. The group agreed to discuss this issue at its next meeting in Beijing, with Australia agreeing to co-ordinate the preparation of relevant background papers.

Following initial discussions in Beijing, the group agreed to continue discussions on possible modalities of an MFG financing arrangement through the establishment of a task force, chaired by Australia. The task force is to develop a report for consideration by MFG deputies at their next meeting in New Zealand. At their eighth meeting, MFG deputies also endorsed the continuing role of the MFG in regional surveillance and cooperation.

Financial Stability Forum

During 2000-01, the Financial Stability Forum continued its work in promoting international financial stability through the implementation of the recommendations of the working groups on highly-leveraged institutions, capital flows, offshore financial centres and the task force on the implementation of standards.

Treasury has had direct involvement in the follow-up group on incentives to foster implementation of standards, a key recommendation of the task force on the implementation of standards. Its active participation in the group has involved initiatives to increase awareness and relevance of standards and codes through outreach activities, improving technical assistance coordination and examining the role of incentives in the implementation of standards and codes.

Globalisation, global poverty and inequality

In the context of amplified international discussions throughout 2000-01, Treasury undertook extensive research into the areas of globalisation, and global poverty and inequality.

Treasury's contribution sought to improve the quality of the empirical debate. Using the purchasing power of average per capita income, research has shown that the increased liberalisation of markets and sustained periods of global economic growth have contributed greatly to living standards. A key finding was that, over the last thirty years or so, the majority of the world's poor have slowly begun to 'catch up' with living standards in the developed countries.

Four Markets Group

The Four Markets Group is a forum for Australia, Hong Kong SAR, Japan and Singapore to discuss macroeconomic and financial market developments, including regulatory issues. It began meeting in 1996. Senior officers from the economic and finance ministries and the central banks and monetary authorities, usually at the deputy level, attended the Four Markets Group meetings.

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On 9 April 2001, the Four Markets Group met in Tokyo to discuss recent developments in economic conditions and financial markets in the region. The meeting discussed issues relating to the development of regional bond markets. At the April meeting, Australia initiated preliminary discussion of issues surrounding the integration of regional securities and futures markets.

Asia-Pacific Economic Cooperation

Finance ministers

In 2000-01, Treasury provided policy advice and briefing for the Treasurer's attendance at the Seventh APEC Finance Ministers meeting held in Brunei in September 2000. Treasury officers attended the APEC Finance and Central Bank Deputies meeting held in May 2001 in Washington D.C., and the APEC Technical Working Group meetings in Beijing and Sanya, China, in December 2000 and June 2001 respectively.

The APEC Finance Minister's process remains focused on encouraging structural reform, particularly in financial markets, in the wake of the 1997 economic crisis. Treasury remained actively involved in the finance ministers' process, leading three initiatives, including the new APEC Future Economic Leaders Think Tank. The Australia-led task force on Company Accounting and Financial Reporting moved closer to finalising its report for finance ministers. As part of the Managing Regulatory Change in Life Insurance and Pensions initiative, Manila hosted the first of three symposiums in November 2000 and the first of a series of training courses was held in Melbourne in March 2001. In addition, Australia assisted Indonesia's preparations for the Insolvency Forum held in February 2001, which aimed to further progress the work of the Insolvency Law Symposium hosted by Australia in November 1999.

Treasury has actively contributed to various continuing APEC Finance Ministers' initiatives including strengthening banking supervision and training for bank supervisors and securities market regulators, the development of effective corporate governance structures and practices, and a voluntary action plan on supporting freer and more stable capital flows. Such initiatives demonstrate finance ministers' objective to establish a framework for providing the machinery for building sound domestic institutions in the region, with a strong emphasis on capital markets. In this regard, Treasury has supported and contributed to a review of the strategic objectives of the finance ministers' process and its relevance to the overall vision of APEC.

Investment Experts Group

Treasury was involved 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 Investment Experts Group remained focused on investment liberalisation and facilitation rather than investment promotion activities. Treasury participated in the Investment Experts Group meetings in September 2000 in Brunei, March 2001 in

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Cheju Island, South Korea, and May 2001 in Shenzhen, China as well as the sixth APEC Investment Symposium held in March 2001 in Cheju Island, South Korea.

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 forums. The major outputs for the year included the following reports: *Building the Future of APEC Economies: Move Forward on the New Economy and Entrepreneurship*; *The New Regionalism: Is it a building block for Multilateralism, Towards Knowledge-based Economies in APEC*; and the annual *APEC Economic Outlook*.

As part of the Economic Committee 2001-02 'new economy' project, Australia introduced a research proposal entitled *Impact of E-Commerce on Service Industries* at the Economic Committee Plenary Meeting held in Beijing, China, in February 2001.

Relations with Asia

Treasury attaches considerable importance to relations with Asia, placing three senior-level officers at posts in the region. 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, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines. They also continued to contribute significantly to Treasury's understanding of economic conditions in these and as part of the team at the relevant Embassies, contributed to the enhancement of Australia's economic relations with the region.

During the year, visits to Australia by official delegations from Asia, together with visits by Treasury officers to the region contributed to Treasury's understanding of Asian economies and encouraged greater cooperation between Treasury and its counterparts in Asia.

On 1 January 2001, Indonesia began a new system of fiscal devolution of revenues and expenditures to local areas. Successful implementation of the new system presented a large challenge to Indonesian authorities. With financial support from AusAID's Government Sector Linkages Program, contributions from the Commonwealth Grants Commission, and Treasury resources, a seminar on fiscal devolution for senior Indonesian officials and parliamentarians was held in Canberra on 5-6 March. Indonesian participants were brought to Canberra where Australian practical experience in operating a federal fiscal system was examined for lessons applicable to Indonesia's situation.

Treasury is also providing input on international negotiations, including the Australia-Singapore Free Trade Agreement. On 15 November 2000, the Prime Ministers of Australia and Singapore agreed to open negotiations for a comprehensive Free Trade Agreement between the two countries.

Outcome I: Sound macroeconomic environment

Treasury is participating in a joint project by Japan's Ministry of Finance and the Australian National University to study the scope for enhancing regional financial cooperation, including the feasibility of a common currency for some economies. The project will entail a series of conferences over the next three years.

Papua New Guinea

Treasury continued to be actively involved in providing financial and technical assistance in support of the reform program of the Government of Papua New Guinea (PNG). On 14 December 2000, Australia executed a US\$30 million loan to PNG, which was provided in three equal US\$10 million tranches on 19 December 2000, 23 March 2001, and 24 April 2001. The loan, and Australia's earlier US\$80 million loan of 21 June, 2000, support the PNG Government's agreement with the IMF on a stand-by arrangement and the World Bank on an adjustment loan. The loans underpinned the Morauta Government's program of economic and governance reform and contributed to the strengthening of investor and donor confidence in the PNG economy. Treasury continued to provide capacity building support for PNG's Departments of Finance and Administration and Treasury, principally through the placement of further macroeconomic advisers, and advisers on budgets, debt management and superannuation. Treasury also contributed to capacity building efforts in PNG Treasury by hosting the placement of two of its officers in Treasury in Canberra for several months in early 2001.

Relations with Pacific economies

South Pacific Forum Economic ministers' meeting

The Assistant Treasurer attended the fourth annual Pacific Islands Forum Economic ministers, meeting (FEMM) in Niue, in July, 2000 and the Minister for Finance and Administration attended the fifth FEMM in Rarotonga, Cook Islands in June 2001. The meetings consolidated progress in the implementation of the FEMM action plan of economic liberalisation, which aims to foster greater competitiveness and self-reliance and raise sustainable levels of growth in the Forum Island countries. In between these meetings, Treasury worked actively to reinforce FEMM's focus on threshold development issues and core governance challenges.

Organisation for Economic Co-operation and Development

The OECD groups 30 member countries in a forum to exchange information, discuss policy experiences and to consider domestic and international policy coordination. Treasury staff participated in the work of OECD committees on macroeconomic and microeconomic policy, forecasting, taxation, competition policy, corporate governance, investment and capital markets.

Part 2: Treasury's report on performance

The Ministerial Council Meeting (MCM) is the main meeting of the OECD, where representatives from the 30 countries meet at ministerial level to discuss a variety of economic and multilateral trade-related issues. This year's MCM endorsed the results of two major projects that have been conducted by the OECD over recent years. The report *Policies to Enhance Sustainable Development*, focused on policies for enhancing economic growth, promoting human and social development, and protecting the environment. The report *The New Economy: Beyond the Hype*, examined the growth performance of OECD countries and identified factors, institutions and policies that improve growth prospects. Australia was ranked highly as one of the high growth economies in the OECD. In addition, Treasury officers participated in the OECD review of the Australian economy, including discussions on the special topic of enhancing environmentally sustainable growth.

Overseas policy lessons

During 2000-01, Treasury 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 in the analysis and understanding of events that unfolded as economic growth weakened across the world. Overseas reporting contained useful insights into policy maker's thinking about monetary and fiscal policy. The weakness in the United States and European economies raised issues about the timing and extent of monetary policy adjustments and the nature of fiscal adjustment. Ongoing weakness in Japan and deterioration in most other Asian economies raised issues about institutional and structural reform, and the continuing vulnerability of the region to external shocks. Reporting by overseas posts also helped in developing an understanding of broader issues of international integration and the role of international policy coordination and support.

The International Economic Policy Group

The International Economic Policy Group was instrumental in the maintenance of a coordinated 'whole of government' approach to developments in the international economy, and the consideration of relevant policy issues. The Group meets approximately every six weeks, or as needed. It comprises high level officers from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury and the RBA, with other departments attending as required.

OUTCOME 2

EFFECTIVE GOVERNMENT SPENDING AND TAXATION ARRANGEMENTS

Effective government spending and taxation arrangements are crucial to achieving the Government's objectives for the economy and the wellbeing of Australians. The focus of Budget Group is the direct activities of the Government, its spending programmes, industry assistance, funding of other levels of government and the use of taxation powers. A continuing focus of Budget Group in 2000-01 was the tax reform process undertaken by the government.

More specifically, Budget Group produced outputs which support government decisions and objectives through:

- Assessment and provision of advice on tax and retirement incomes policies. During the year, the Board of Taxation was established providing a new and more effective means for business and the broader community to provide their perspective in improving the design of tax laws. Through the GST Start-Up Assistance Office, Budget Group also continued to deliver assistance to small and medium enterprises, the community sector and education bodies with the implementation of *The New Tax System*.
- Advice on budget policy issues; current and prospective trends in Commonwealth revenue and major fiscal and financial aggregates; major expenditure programmes; and the fiscal framework. Preparation of budget and related documents and the provision of advice to the Treasurer on a broad range of budget policy and expenditure issues. Treasury also participated in interdepartmental committees and other working groups concerned with developing and reviewing government programmes in areas such as defence, health and aged care, family and community services and education.
- Advice on Commonwealth-State financial policy, including in the context of the Commonwealth budget. The efficient administration of GST revenue and other general revenue assistance payments to the States, including implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.
- Provision of secretariat support for the Inquiry into the Definition of Charities and Related Organisations. The Prime Minister announced this inquiry on 18 September 2000 and asked the Treasurer to oversee the conduct of the Inquiry. The Inquiry reported to the Treasurer on 28 June 2001.
- Consultation with other departments and agencies in developing and progressing policies in the areas of industry, agriculture, regions, small business and the environment. Assistance in the design of programmes administered by other departments and focusing on improving productivity,

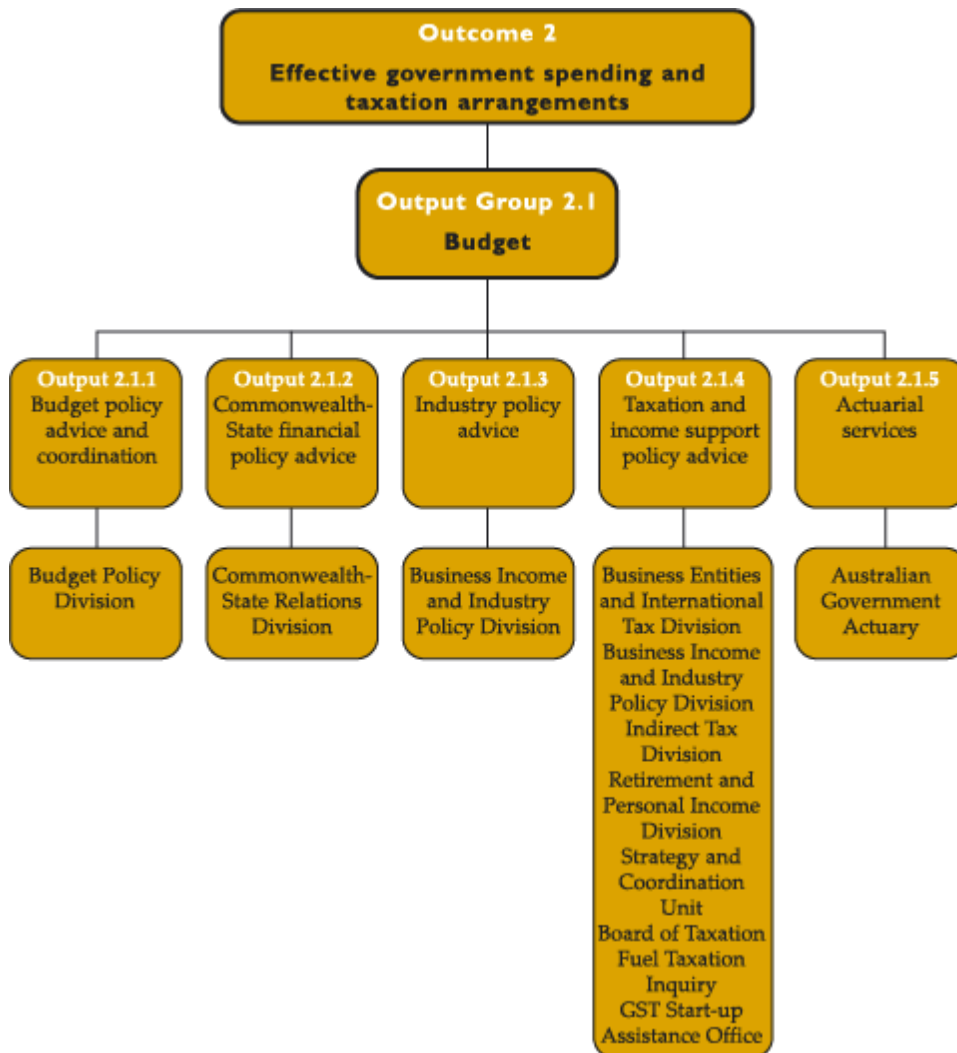
Part 2: Treasury's report on performance

economic sustainability and competitiveness, taking account of broader fiscal policy objectives.

- The provision of high quality professional actuarial services to a wide range of government agencies.

The effectiveness of the contribution of the outputs to Outcome 2 were gauged primarily in terms of feedback from Treasury portfolio ministers as to whether Treasury advice met their needs in formulating, implementing and explaining government spending and taxation decisions.

Chart 6: Outputs contributing to Outcome 2



Outcome 2: Effective government spending and taxation arrangements

Table 3: Financial and staffing resources summary for Outcome 2

	Budget (1) 2000-2001 \$'000	Actual 2000-2001 \$'000	Budget (2) 2001-2002 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	10,063	-	-
Appropriation Acts Nos. 2/4	62,500	59,218	104,200
Special Appropriations	28,034,664	27,611,784	30,639,934
Total administered expenses	28,107,227	27,671,002	30,744,134
Revenue from Government			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,456	2,456	2,669
Output 2.1.2 - Commonwealth-State financial policy advice	1,391	1,391	4,535
Output 2.1.3 - Industry policy advice	798	798	1,329
Output 2.1.4 - Taxation and income support policy advice	13,391	13,391	14,521
Output 2.1.5 - Actuarial services			
Corporate costs	11,034	11,034	11,108
Total revenue from Government contributing to price of departmental outputs	29,070	29,070	34,162
Revenue from other sources			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	-	1	-
Output 2.1.2 - Commonwealth-State financial policy advice	-	1	-
Output 2.1.3 - Industry policy advice	-	-	-
Output 2.1.4 - Taxation and income support policy advice	-	14	-
Output 2.1.5 - Actuarial services	1,420	1,242	1,320
Corporate costs	700	784	737
Total revenue from other sources	2,120	2,042	2,057
Total revenue for departmental outputs (Total revenues from Government and other sources)	31,190	31,112	36,219
Price of departmental outputs			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,456	2,299	2,669
Output 2.1.2 - Commonwealth-State financial policy advice	1,391	3,176	4,535
Output 2.1.3 - Industry policy advice	798	824	1,329
Output 2.1.4 - Taxation and income support policy advice	13,391	11,584	14,521
Output 2.1.5 - Actuarial services	1,420	2,279	1,320
Corporate costs	11,734	10,139	11,845
Total price of departmental outputs	31,190	30,301	36,219
Total estimated resourcing for outcome 2 (Total price of outputs and administered expenses)	28,138,417	27,701,303	30,780,353
Average staffing levels (number)	226	215	240

(1) Budget 2000-01: The total price of outputs and administered expenses for Outcome 2 was \$2,131.172 million more than the budgeted figure in the 2000-01 Portfolio Budget Statements (PBS)'s due to the following:

Administered — revised estimate of \$2,128.598 million; additional estimates (AE)'s of \$10.063 million;

Revenue from government — agreed AE's of \$1.551 million;

Revenue from other sources — revised Section 31 receipts through AE's process of \$0.183 million; and

General — the remainder of the variance is attributed to revised internal allocations.

(2) Budget 2001-02: The 2001-02 price of outputs for Outcome 2 has decreased by \$1.892 million due to revised internal allocations.

Part 2: Treasury's report on performance

Output 2.1.1

Budget policy advice and coordination

Budget Policy Division in Budget Group is responsible for the delivery of Output 2.1.1, Budget policy advice and coordination.

Budget Group contributes to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues; current and prospective trends in Commonwealth revenue and major fiscal and financial aggregates; major outlays programmes; and the fiscal framework. In addition, this output includes the preparation of budget and related documents.

Performance information

Performance measures for departmental outputs are:

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

Analysis of performance

Advice on the fiscal outlook

During 2000-01, advice was provided to the Treasurer and other portfolio ministers on the Commonwealth's budget position at various points in the year. The preparation of this advice required extensive liaison with the Department of Finance and Administration and the Australian Taxation Office (ATO) as well as a number of other Commonwealth departments and agencies. Assessments of the Commonwealth's budget position incorporated changes to the economic outlook, ensuring that advice was based on the most reliable and up to date information available.

Taxation revenue estimates

During 2000-01, Budget Group worked closely with the ATO to produce Commonwealth taxation revenue estimates for publication in the Government's budget papers, taking into account trends in taxation revenue collections and the outlook for the economy.

An assessment of the taxation revenue outcome for 2000-01 was published in the 2000-01 Final Budget Outcome, released in late September 2001.

Outcome 2: Effective government spending and taxation arrangements

Programme analysis and policy advice

During 2000-01, Budget Group provided policy advice to the Treasurer on a broad range of budget policy and expenditure issues. This involved participation in a number of interdepartmental committees and other working groups concerned with developing and reviewing government programmes in areas such as defence, health and aged care, family and community services and education. Treasury's contribution to the development of policy in these areas seeks to improve the effectiveness and efficiency of Commonwealth expenditure, and to ensure that programmes are considered in the context of the Government's broader economic and fiscal objectives.

Budget publications

The Government's budget documentation is prepared jointly by Treasury and the Department of Finance and Administration. Treasury also prepares a Budget Overview to provide a more accessible summary for non-specialist readers.

In general terms, Treasury has primary responsibility for preparing budget documentation relating to the:

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

In exercising these responsibilities, Treasury has regard to the requirements of the *Charter of Budget Honesty Act 1998*. The Charter sets out in legislation requirements for governments in reporting on public finances. The International Monetary Fund has drawn from the Charter in compiling its *Code of Good Practices on Fiscal Transparency*.

The *Final Budget Outcome 1999-2000*, published in September 2000, provided a comprehensive summary of the budget outcome for that year. This was the first Final Budget Outcome to be reported on an accrual basis, completing the first accrual budget cycle.

The *Final Budget Outcome 1999-2000* was followed by the publication of the *Mid-year Economic and Fiscal Outlook* in November 2000 and the 2001-02 Budget in May 2001.

The 2001-02 Budget was the third Commonwealth budget to be presented on an accrual basis. The Commonwealth's experience with accrual budgeting has attracted a great deal of international interest. In 2000-01, Treasury met with a number of international delegations interested in learning about the budgeting

Part 2: Treasury's report on performance

and reporting framework applied in Australia. This included delegations from China, Iran, Japan, Korea, Mongolia, Vietnam and the International Monetary Fund (IMF).

In June 2001, Treasury made a submission to the Joint Committee of Public Accounts and Audit's *Review of Accrual Budget Documentation*. In this submission, Treasury noted its commitment to pursuing continuous improvement in budget documentation. Improvements to the budget papers that were implemented in 2000-01 included:

- a move to a more consistent reporting framework, with most information in the budget papers now presented on an accrual *Government Finance Statistics* (GFS) basis;
- the provision of information on expenses and net capital investment on a functional basis; and
- the provision of a guide to the budget papers to assist readers to find information in the budget papers.

Tax Expenditures Statement

Treasury publishes an annual *Tax Expenditures Statement*, which provides estimates of the revenue cost associated with the concessional taxation treatment of specific groups and activities. The *Tax Expenditures Statement 2000*, published in January 2001, reported on the cost of tax expenditures with estimates and projections to 2003-04.

Output 2.1.2

Commonwealth-State financial policy advice

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

Budget Group contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy, fiscal developments and taxation issues, including in the context of the Commonwealth Budget.

Budget Group also provides the efficient administration of GST revenue, general revenue assistance and revenue replacement payments to the States, including implementation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Outcome 2: Effective government spending and taxation arrangements

Performance information

Performance measures for administered items (including third party outputs) are:

- payments to State and Territory governments;
 - accurate calculation of amounts payable according to agreed formulae,
 - payment made according to agreed schedules.

Performance measures for departmental outputs are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations; and
- effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

Analysis of performance

Reform of Commonwealth-State financial relations

On 1 July 2000, a new system of Commonwealth-State financial relations commenced as part of *The New Tax System*.

A key element of *The New Tax System* is to provide all goods and services tax (GST) revenue to the States. This is a landmark reform of Commonwealth-State financial relations. The reforms provide the States with a secure, broad-based revenue source with which to fund community services, such as schools, hospitals and the police.

In addition, the new system of Commonwealth-State financial relations:

- provides for the abolition of a range of narrow and inefficient State taxes;
 - On 1 July 2000, accommodation taxes were abolished, and Financial Institutions Duty and stamp duty on quoted marketable securities were abolished from 1 July 2001.
- introduced a new First Home Owners Scheme on 1 July 2000;
 - Under the Scheme, a grant of \$7,000 is available to eligible applicants who are buying or building their first home. The Scheme is administered by the States on the basis of principles agreed by all jurisdictions in the Intergovernmental Agreement.

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- In addition to this ongoing Scheme, the Commonwealth announced a new initiative on 9 March 2001 to double the grant to \$14,000 for first home owners who enter into contracts between 9 March 2001 and 31 December 2001 inclusive to build or purchase new but previously unoccupied homes. The \$14,000 grant is also available for owner-builders who commence building their home between these dates. The Commonwealth is fully funding the extension to the Scheme.
- established a ministerial council for Commonwealth-State Financial Relations (the Ministerial Council).

The Commonwealth has made a commitment to provide assistance to the States in the transitional years to ensure that each individual State will be no worse off than it would have been had the reforms not been implemented.

The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* gives effect to the Commonwealth's commitments. Treasury has responsibility for the administration of this Act.

Since 1 July 1999, a ministerial council comprising Commonwealth, State and Territory treasurers (or designated representatives) has been responsible for overseeing the operation of the Intergovernmental Agreement. The Ministerial Council is chaired by the Commonwealth Treasurer and assisted by a GST Administration Sub-committee of officials.

Ministerial Council for Commonwealth-State Financial Relations

Treasury has primary responsibility for the provision of advice on financial arrangements with the States and Territories. Advice was provided to the Treasurer in the lead-up to the second meeting of the Ministerial Council on 30 March 2001.

The Loan Council Allocations nominated by the Commonwealth, States and Territories for 2001-02 were agreed at the Loan Council meeting held in conjunction with the Ministerial Council on 30 March 2001.

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 meetings of the Loan Council and the Ministerial Council. The agenda for these meetings is coordinated at the Commonwealth level. Heads of Treasuries met three times over the course of 2000-01, with discussions focusing on the continuing implementation of reforms agreed by Heads of Government in the Intergovernmental Agreement.

Outcome 2: Effective government spending and taxation arrangements

GST Administration Sub-committee

The GST Administration Sub-committee assists the Ministerial Council in monitoring the operation and administration of the GST. It also makes recommendations regarding modifications to the GST base and the administration of the GST by the ATO. The Sub-committee is chaired by Treasury and includes representatives from the States and Territories and the ATO. It met on five occasions over the course of 2000-01 and topics it considered included the development of an interim performance agreement for the ATO's administration of the GST, GST revenue receipts and GST payments to the States and Territories. The Sub-committee also monitored the First Home Owners Scheme and each jurisdiction's implementation of the Intergovernmental Agreement.

Payments to the States and Territories

The introduction of *The New Tax System* on 1 July 2000 has significantly reformed payments made under Commonwealth-State financial relations. Treasury has responsibility for administering these payments.

The largest payment is the provision of GST revenue. The Commonwealth pays to the States all GST collected and commenced monthly payments of GST revenue to the States in July 2000. GST revenue to the States totalled over \$24.3 billion in 2000-01. GST revenue payments were distributed in accordance with relativities recommended by the Commonwealth Grants Commission and agreed at the 17 March 2000 Ministerial Council.

As a consequence of the ATO collecting GST for distribution to the States, the States commenced payments to the Commonwealth to meet the agreed costs incurred in administering the GST. The payments in 2000-01 reflect costs incurred in 1999-2000 and 2000-01 and amounted to approximately \$993 million.

In 2000-01, Treasury administered almost \$3.3 billion in General Revenue Assistance. This consists of Budget Balancing and Special Revenue Assistance as well as National Competition Policy Payments.

- Budget Balancing Assistance arises from the Commonwealth's guarantee that in each of the transitional years following the introduction of the GST, each State's budgetary position will be no worse off than had the reforms in the Intergovernmental Agreement not been implemented. Total Budget Balancing Assistance in 2000-01 amounted to just over \$2.8 billion, being paid through a \$2.65 billion advance on 4 July 2000 and a balancing payment in conjunction with the final 2000-01 GST revenue payment on 18 June 2001.
- National Competition Policy Payments to the States and Territories in 2000-01 amounted to \$448 million. These payments are conditional on the States and Territories meeting their obligations under the *Agreement to Implement the National Competition Policy and Related Reforms*.

Part 2: Treasury's report on performance

- Special Revenue Assistance of \$13.5 million was paid to the Australian Capital Territory.

Following the 5 August 1997 High Court ruling which cast into doubt the constitutional validity of all State and Territory business franchise fees on tobacco, alcohol and petroleum sales, 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) was returned to the States and Territories as revenue replacement payments. While revenue replacement payments were abolished from 1 July 2000 under the Intergovernmental Agreement, lagged payments continued to be made in 2000-01 due to collections being received which related to taxable dealings before 1 July 2000. These payments amounted to approximately \$435 million.

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 State taxes on Commonwealth places, the Government introduced Commonwealth taxes to mirror State payroll taxes, Financial Institutions Duty, debits tax and stamp duties on activities on or in Commonwealth places. State land taxes were subsequently added to the list of Commonwealth mirror taxes. The Government remits mirror tax revenues to the States to ensure they are not financially disadvantaged by the *Allders* decision. Treasury has developed bilateral agreements between the Commonwealth and the States covering the administrative arrangements for collecting, and ensuring compliance with, the mirror taxes.

Treasury also provides advice on the taxation treatment of State and Territory government business enterprises. While exempt from income tax, these enterprises have been required to make equivalent payments to their owner governments through State-based tax equivalent regimes.

Under the Intergovernmental Agreement, Heads of Government indicated their intention to introduce, on a revenue neutral basis, a National Tax Equivalent Regime (NTER) for income tax for State and Territory government business enterprises. Treasury assisted the Commonwealth-State working party that developed the details of the NTER.

In March 2001, the Ministerial Council endorsed the detailed arrangements for the NTER to come into effect from 1 July 2001. The NTER will apply a set of taxation principles and administrative arrangements that replicate most of the laws and administrative arrangements applying people who are directly paying income tax. The NTER promotes competitive neutrality and economic efficiency in respect of State and Territory business enterprises. The ATO will administer the NTER in return for the NTER administration costs being paid for by the States and Territories.

Outcome 2: Effective government spending and taxation arrangements

Communication strategy

The Intergovernmental Agreement abolished Financial Institutions Duty (FID) and stamp duty on quoted marketable securities from 1 July 2001. In addition, the Commonwealth Government made refunds of excess imputation credits available from 1 July 2000.

The Treasury undertook a communication strategy to inform the public of these significant changes in the tax system.

The Communication Strategy was undertaken in line with the Government Communications Unit Guidelines. The Strategy involved both television and press advertisements in the mainstream media, along with press and radio to communicate to the non-English speaking, indigenous and print handicapped communities.

Output 2.1.3

Industry policy advice

Business Income and Industry Policy Division in Budget Group is responsible for the delivery of Output 2.1.3, Industry policy advice.

Budget Group contributes to Outcome 2 by working in conjunction with other departments and agencies to develop and progress reform in the areas of industry, agriculture, regional, small business and environment policy. Budget Group assists in the design of programmes administered by other departments. In doing so, focuses on improving productivity, economic sustainability and competitiveness, taking account of broader fiscal policy objectives.

Performance information

Performance measures for departmental outputs are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to industry, regional and environmental policy; and
- effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

Analysis of performance

Treasury contributed to policy formulation in a diverse range of industry and environmental policy areas. Some of these are highlighted below.

Part 2: Treasury's report on performance

Industry policy

Treasury worked with the Department of Industry, Science and Resources to revamp the Project By-laws Scheme. The new Scheme will deliver wider tariff exemptions for certain industry sectors and a streamlined application process from 1 July 2002.

Treasury was involved closely in the policy development process that led to *Backing Australia's Ability*, a \$3 billion innovation statement, released by the Prime Minister on 29 January 2001. The package focused on generating ideas, commercialising ideas and building and retaining Australia's skills. Treasury's work included contributing to revisions of tax arrangements for research and development.

Treasury provided advice on options (including the Passenger Movement Charge) to fund the increased quarantine resources to protect Australia from diseases, such as foot and mouth disease, which pose a threat to the primary industry sector.

During the course of the year, Treasury provided input to various action agendas being developed by the Department of Industry, Science and Resources. Treasury also advised the Treasurer on projects being considered for strategic investment incentives, under the auspices of the Government's Strategic Investment Co-ordinator.

Environment policy

In relation to the formation of the National Action Plan for Salinity and Water Quality and the extension of the Natural Heritage Trust, Treasury advice focused on ensuring cost effectiveness and design efficiency. Treasury also provided advice to the Treasurer on a range of greenhouse policy issues, and was a member of the Inter-departmental Greenhouse Projections Group. Treasury advised on amendments to the capital gains tax (CGT) rules, to ensure that landowners who set aside part or all of their land for conservation in perpetuity, for consideration, are treated appropriately by the tax system.

Treasury also contributed to the public debate on environmental policy. In March 2001, the Treasury Secretary appeared before the House of Representatives Select Committee on Environment and Heritage to discuss issues relating to its inquiry into Public Good Conservation. An article entitled *Public Good Conservation and the Impact of Environmental Measures Imposed on Landholders* was also published in the *Economic Round Up Centenary Edition*.

Outcome 2: Effective government spending and taxation arrangements

Output 2.1.4

Taxation and income support policy advice

Business Entities and International Tax Division, Business Income and Industry Policy Division, Indirect Tax Division, and the Retirement and Personal Income Division are responsible for the delivery of Output 2.1.4, Taxation and income support policy advice. During the year, the GST Start-up Assistance Office also contributed to this output.

Budget Group contributes to Outcome 2 by assessing and advising on the general design of the tax system and its components and retirement incomes policy in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility. Budget Group also delivered a programme of assistance to assist small and medium enterprises, the community sector and education bodies with the implementation of *The New Tax System*.

Budget Group also provides the Secretariat to assist the Board of Taxation.

Performance information

Performance information for department outputs are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to taxation and income support policy; and
- effective presentation of relevant information to adequately inform public debate, including in budget documentation and other publications.

Analysis of performance

The New Tax System

Treasury provided ongoing policy advice on the implementation of *The New Tax System*, including the Goods and Services Tax (GST) and business tax reforms. It was involved in a broad consultative programme to ensure that the implementation was consistent with the Government's goals.

GST and indirect taxation measures

During 2000-01 Treasury provided advice on a range of specific GST issues. These included:

- preparing analysis and advice in relation to motor vehicles, GST transitional issues, second hand goods, export and import issues, the luxury car tax, long-term residential accommodation and long-term commercial property;

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- modelling the price and cost effects of tax reform and contributing to the estimation of GST revenues; and
- coordinating and managing the Treasurer's determination of compulsory taxes and regulatory fees and charges imposed by government that should not be subject to GST. Extensive consultation was undertaken with Commonwealth agencies and the States and Territories to establish the taxes, fees or charges that should be covered by the determination.

Treasury also contributed to consideration of a number of policy measures, including changes to the excise on draught beer, a reduction in petroleum products excise of 1.5 cents per litre from 2 March 2001 and the abolition of indexation of petroleum products excise from the same date. Excise rates on draught beer were reduced from 4 April 2001.

GST Start-Up Assistance Office

In August 1999, the GST Start-Up Assistance Office (GSTSAO) was established within the Department of Treasury to administer the \$500 million funding package set aside by the Government to assist small and medium enterprises, the community sector and the education sector (SMECEs) to get ready for the GST. Assistance programmes were developed as a result of recommendations from the Small Business Consultative Committee after consultation with small business, charity and education groups. The GSTSAO administered these programmes in consultation with *The New Tax System* Advisory Board, the Business Advisory Panel and the Community Sector Advisory Panel.

The programmes were delivered over two financial years (1999-00 and 2000-01) to help SMECEs with the transition to the GST from 1 July 2000 and with the lodgement of the first and second quarterly Business Activity Statements (BAS). The last programmes were delivered by 28 February 2001. The GSTSAO was wound up by 30 June 2001. (The two advisory panels were disbanded in December 2000 and The New Tax System Advisory Board was disbanded on 28 February 2001.)

The four programmes delivered were Organisation-Delivered Assistance, Adviser Education, Business Skills Education, and Direct Assistance.

Organisation-Delivered Assistance Programme

Under this programme, industry and professional peak bodies representing SMECEs were contracted to deliver education on GST and business skills to their sector. The delivery was largely through seminars, workshops or clinics, with a few peak bodies using websites or other media that suited their sector.

In 2000-01, 64 contracts and grants were provided to peak bodies to help SMECEs understand how to complete their quarterly Business Activity Statements (BAS) and meet their Pay As You Go (PAYG) obligations. Around 5000 seminars were delivered Australia-wide between July and November 2000, that is, in the lead up to the lodgement of the first quarterly BAS.

Outcome 2: Effective government spending and taxation arrangements

In addition to the seminar programme for SMECEs, the following help was provided under this programme:

- one-on-one assistance and a tax reference website for the community sector;
- a website and referral service for the accounting profession;
- a training programme for 120 indigenous communities and indigenous trainers, supported by indigenous liaison officers; and
- GST signpost officers helping SMECEs in rural, remote and regional Australia. (From 1 March 2001 to 30 June 2001 this programme was administered by the Department of Employment Workplace Relations and Small Business.)

This assistance built upon the assistance delivered in 1999-00, when 157 peak industry bodies delivered around 14,000 seminars on GST and business skills to around 800,000 SMECEs around Australia.

Adviser Education Programme

This programme provided training and educational material on *The New Tax System* to individuals who identified themselves as informal advisers to SMECEs. This programme provided a secondary route of informing the target group of SMECEs that complemented the Organisation Delivered Assistance programme. Over the life of the programme, around 28,000 individuals participated in the free seminars held in more than 280 locations throughout Australia.

From July to November 2000, the programme delivered BAS and PAYG training courses. This built upon three courses on the GST delivered in 1999-00: *Introduction to the GST and Registration Options*; *GST and Your Systems and Records*; and *Frequently Asked Questions*. To meet additional demand a combined course based on the above material was run for small business in June and July 2000.

Business Skills Education Programme

This programme provided timely and accurate information to SMECEs through educational materials, websites and the GST Assist Helpline.

In 2000-01, the following educational material was developed and distributed to SMECEs to inform of their business skills and obligations under the new tax system: *Quick Guide: What you need to know about PAYG & BAS*; *Ready for the GST?*; *Quick Guide What you need to know about importing*; *Quick Guide What you need to know about exporting*; *Quick Guide PAYG Instalments & Cashflow*; *Quick Guide Residential Landlords*; *Quick Guide Restaurants and Catering*; *Voluntary Treasurer's Handbook for small non-profit organisations*; *The New Tax System Guide – Community, Voluntary and Cultural Sector*; *Taxi Drivers Guide to Completing Business Activity Statement*; a *Decision Tree for Contractors* (web only) and *Business Activity Statement* (videos in 7 languages). Many of these materials were translated into 24 languages.

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Over the life of the GSTSAO, around 20 million copies of educational materials were distributed.

Educational material, GSTSAO programme information and a search facility on *The New Tax System* were able to be accessed on the website. Another GSTSAO website provided information about the direct assistance programme.

Help on *The New Tax System* and business skills was also provided to over 1 million SMECE callers through the GST Assist — the GSTSAO helpline which operated from October 1999 to 28 February 2001. This service was provided in partnership with CPA Australia and the Institute of Chartered Accountants in Australia.

The programme also ensured that information on *The New Tax System* was accessible to SMECEs run by individuals from non-English speaking backgrounds (NESB). The GSTSAO ran seminars, and distributed education material (translations of most publications referred to above), for business and community leaders and media representing NESB communities. The seminars dealt with both the new tax and the BAS were held in each capital city of Australia. Seminars were also made available in languages other than English to assist newer migrant groups.

Direct Assistance Programme

This programme was developed to assist small and medium enterprises and community sector organisations offset the cost of purchasing GST-related products and services.

More than 1.9 million certificates, each with a face value of \$200, were issued to small and medium businesses and community organisations that registered for the GST and the ABN before 31 May 2000. Certificates were used to purchase plant and equipment or services from one of more than 14,000 suppliers registered with the GSTSAO around Australia. Certificates were required to be redeemed ahead of the first quarterly BAS lodgement date.

The New Business Tax System

During 2000-01, the Government continued implementing business tax reform.

Treasury provided educational material, including fact sheets, to the public through the Treasury website and the Treasury Tax Reform Helpline. These explained the impact of the announced business tax reform measures on industry and the wider community. Treasury officers responded directly to the more complex queries received.

As part of the Government's policy to consult on the implementation of business tax reform, Treasury arranged consultations with affected groups on all significant measures, particularly draft exposure legislation.

Outcome 2: Effective government spending and taxation arrangements

Treasury provided policy advice on the reform measures and assisted the Australian Taxation Office and the Office of Parliamentary Counsel with the development of legislation.

On 30 June 2001 the *New Business Tax System (Simplified Tax System) Act 2000* received Royal Assent. The legislation took effect from 1 July 2001 and implements the Government's commitment to assist small business by:

- simplifying rules for determining income and deductions and reducing compliance costs through less complex rules for stocktakes;
- enabling small business to benefit from the ability to immediately write off purchases costing less than \$1000; and
- the pooling and accelerated depreciation of other depreciable assets (except buildings).

The *New Business Tax System (Capital Allowances) Act 2001* (which received Royal Assent on 30 June 2001) simplifies the tax law by streamlining the tax treatment of depreciating assets. It is a set of common principles that consolidates and replaces more than 27 separate capital allowance regimes. The legislation applies from 1 July 2001 to all taxpayers, except those small businesses that participate in the Simplified Tax System.

The *New Business Tax System (Capital Allowances — Transitional and Consequential) Act 2001* ensures that assets and expenditures subject to the old law move smoothly into the uniform capital allowances system.

Treasury helped develop the New Business Tax System (Thin Capitalisation) Bill 2001, which was introduced into Parliament on 28 June 2001. This legislation will prevent multinational corporations from allocating a disproportionate amount of debt to their Australian operations, potentially at the cost of Australian taxation revenue.

Treasury and the ATO conducted extensive consultation with industry following release of an exposure draft of the legislation in February 2001. This led to several changes in the Bill, including the exemption of smaller taxpayers (with annual interest deductions under \$250,000) from the provisions of the legislation.

The New Business Tax System (Debt and Equity) Bill 2001 was introduced into Parliament on 28 June 2001. This Bill clarifies the definition of equity and debt in companies. This categorisation determines whether a return in respect of a financing arrangement issued by a company is frankable or deductible for tax purposes. The definition of debt also constitutes a component of the new thin capitalisation regime. The reforms to the debt and equity borderline commenced on 1 July 2001. Transitional arrangements apply over the period to 1 July 2004.

In December 2000, the Government released an exposure draft of legislation that would increase flexibility and reduce compliance costs by allowing wholly owned groups of companies to be treated as a single consolidated entity for income tax purposes. However, consultations on this draft showed that small

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and medium enterprises would not have been prepared in time for consolidation to be introduced on 1 July 2001. Accordingly, the Government announced in March 2001 that the proposed consolidation regime would be postponed until 1 July 2002. Budget Group has since been engaged in further consultation on outstanding issues.

The proposed general value shifting rules, which will ensure that appropriate tax treatment is given to capital gains and losses resulting from arrangements that shift value between assets, have also been deferred for a further 12 months.

The Government announced on 27 February 2001 that it would be introducing a number of amendments to capital gains tax (CGT) to ensure that the regime operates as intended under the New Business Tax System. These amendments included provision of CGT rollover relief for shares from insurance company demutualisations. As part of earlier tax reforms, the CGT treatment of shares held in trust under employee share schemes was changed so that for employee share schemes where the plan has a trust structure and the employee is taxed up front, the cost base of the shares or rights for CGT purposes will be their market value when acquired by the employee.

From 1 July 2001 shareholders in Listed Investment Companies — many of whom are self-funded retirees — benefited from the 50 per cent CGT discount available to individual investors. In addition, the full benefit of the CGT discount will flow through to investors with fixed interests in a trust (that is, existing cost base adjustments will no longer be required.) Budget Group has been working on legislation to implement these measures.

The Government has indicated its in-principle support for the Tax Value Method (TVM) of determining taxable income. The TVM has the potential to underwrite the development of a stable, less ambiguous and more understandable income tax system, and could potentially result in a system that is more conducive to accommodating changes into the future. The Board of Taxation is now overseeing the development of the TVM. A small 'TVM Legislative Group', comprising relevant officers from Treasury, the Australian Taxation Office, the Office of Parliamentary Counsel and two private sector tax practitioner consultants, has primary responsibility for developing and drafting the 'demonstration' legislation. This Group is being assisted in its task by a larger TVM Working Group comprised of taxation experts drawn from the legal, accounting, corporate and academic spheres. The demonstration legislation will then provide the basis for further testing and evaluation of the compliance aspects of the TVM, and more generally for promoting better informed public debate of the issues. Draft legislation will be published on the Board of Taxation's website as it is developed, in order to encourage public comment as the drafting progresses.

Outcome 2: Effective government spending and taxation arrangements

Personal Tax

2001-02 Budget measures

Treasury contributed to the development of personal tax measures announced in the 2001-02 Budget to assist senior Australians and pensioners. The measures comprise higher tax rebates and increased Medicare levy thresholds.

The measures for senior Australians of Age Pension age ensure that individuals with incomes up to \$20,000 will not pay income tax or the Medicare levy. Individuals with income between \$20,000 and \$37,840 also will pay less tax as a result of the changes. Senior couples on equal incomes can now have combined incomes up to \$32,612 without paying income tax. Couples with combined incomes up to \$58,244 will pay less tax, depending on their income split.

The measures for pensioners below Age Pension age and in receipt of taxable pensions ensure that individuals can have income up to \$15,970 without paying income tax or the Medicare Levy. Pensioner couples on equal incomes can now have combined incomes up to \$26,606 without paying income tax.

These measures apply from the 2000-01 income year.

Superannuation

Family law reforms

Treasury also contributed to the Government's Family Law Reforms designed to assist couples to divide their superannuation assets in the event of marital breakdown. The Family Law Legislation Amendment (Superannuation) Bill 2001 was passed by the Parliament on 18 June 2001. Consequential amendments to the *Superannuation Industry (Supervision) Regulations* will facilitate the transfer of superannuation benefits in an accumulation fund from the member spouse's account to an account in the name of the non-member spouse. Draft regulations were released for public consultation during the year and it is expected that the final regulations will be made in the early part of 2001-02.

Reduction in surcharge on certain termination payments

The Superannuation Contributions Taxes and Termination Payments Tax Legislation Amendment Bill 2001 introduced three amendments which are aimed at improving the operation of the termination payments surcharge and the superannuation contributions surcharge as they apply to employer eligible termination payments, such as redundancies.

The first amendment preserves the existing transitional arrangements for the termination payments surcharge and the superannuation contributions surcharge, ensuring that both surcharges continue to apply only to the proportion of the payment that accrued after 20 August 1996, when the surcharges commenced. The second amendment changes how a taxpayer's adjusted taxable income is determined under the surcharge legislation. For termination payments equal to or below the upper surcharge threshold, only the

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amount of the termination payment divided by the taxpayer's years of service will be included in their adjusted taxable income. The final amendment exempts the excessive component of an employer eligible termination payment from liability to the termination payments surcharge.

Other policy advice

Philanthropy

On 30 March 2001, the Government announced new arrangements to allow deductions for donations greater than \$5000 made to deductible gift recipients to be spread over five years. The new arrangements will apply from 1 July 2002.

This measure builds on the package of measures announced by the Government in March 1999 that allowed apportionment over five years for certain gifts to cultural, environmental and heritage organisations.

Taxation aspects of industry policy

Treasury provided taxation and other advice for the development of policy involving a number of specific entities or industries.

For example, Treasury provided policy advice on the taxation treatment arising from the Government's restructuring of the Australian Wool Research and Promotion Organisation. This policy supported the Government's restructuring policy and provided relief from income tax and capital gains tax liabilities that would otherwise arise during the restructure.

Treasury also provided policy advice on the extension of the income tax exemption for not-for-profit organisations to information and communications technology resources.

Research and development (R&D) tax concession

Treasury participated in analysis of the options to enhance the R&D tax concession which led to the establishment of an additional incentive for those companies that increase their R&D expenditure. Treasury also participated in relevant industry consultations.

The Taxation Laws Amendment (Research and Development) Bill 2001 was introduced to Parliament on 27 June 2001 to amend the law relating to tax incentives for research and development purposes. This new measure was announced in January 2001 as part of *Backing Australia's Ability*.

The 175 per cent Premium Tax Concession for additional R&D will allow companies to receive a deduction for additional expenditure on the labour related component of R&D. Companies with a three year registration history will be able to access the concession for the year beginning 30 June 2001.

In addition, a refundable rebate will be available for small businesses who are not able to take advantage of the 125 per cent tax concession. The rebate will ensure that companies who are in a tax loss position and cannot take advantage

Outcome 2: Effective government spending and taxation arrangements

of the concession will receive support. This will be available to companies with turnover of less than \$5 million and R&D expenditure of up to \$1 million.

The legislation also makes amendments which will clarify the definition of R&D for the purposes of claiming the concession.

Capital Gains Tax treatment of conservation covenants

In June 2001 the Government announced a change to the CGT treatment of conservation covenants. Perpetual conservation covenants entered into for a consideration will now be treated, for CGT purposes, as part disposal of the land, giving landowners the same CGT outcome whether they conserve or dispose of the timber on their land. The amendment takes effect from 15 June 2000.

Timor gap

In 2000-01 Treasury was involved in discussions that formulated Australia's negotiating position for the new Timor Gap Treaty. The treaty will replace the current transitional arrangement under which the United Nations acts on behalf of East Timor.

Australia has secured an agreement with East Timor and on 5 July 2001 the *Timor Sea Arrangement* was endorsed by Australian and Timorese ministers. The Treaty will be based on this arrangement and is expected to be finalised and signed post-East Timorese independence.

Double taxation agreements (DTAs)

To ensure Australia's DTAs keep in line with developments in Australia's economy the Government is giving priority to renegotiating DTAs with Australia's major trading partners. Treasury has participated in DTA negotiations with the United States and the United Kingdom in 2000-01, with a view to updating these agreements.

OECD harmful tax competition project

The current open global environment has led to beneficial tax competition, with many nations lowering tax rates and broadening their tax bases. However, harmful tax competition can occur when governments introduce practices designed to encourage noncompliance with the tax laws of other countries. The OECD has developed a framework which encourages governments to exchange information and to have greater openness about details of their tax systems, in order to combat offshore tax avoidance by some corporations and high wealth individuals. Treasury has been actively involved in a number of international discussions on this issue.

Trans-Tasman tax issues

Australian shareholders in a New Zealand company operating in Australia are unable to access Australian sourced franking credits (and a similar position applies for New Zealand shareholders in Australian companies operating in New Zealand). The Australian and New Zealand treasurers announced in

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August 2000 that they had asked officials in both countries to examine this issue. Treasury has been working with its New Zealand counterpart to develop a workable model for recognition of imputation credits in these Australian and New Zealand 'triangular' cases.

The Board of Taxation

In August 2000, the Treasurer announced the establishment of the Board of Taxation. The Board's mission is to contribute a business and broader community perspective to improving the design of taxation laws and their operation, with particular emphasis on ensuring full and effective community consultation in the design and implementation of tax legislation. A secretariat was established in Treasury to assist the Board.

The Board met formally eight times during 2000-01. It commenced two major projects during this period: a review of community consultation arrangements for the development of taxation legislation; and, at the request of the Treasurer, the further development and evaluation of the tax value method for determining taxable income, as recommended by the Ralph Review of Business Taxation. Both projects are continuing in 2001-02. The Board also established a programme of meetings with key stakeholder organisations and monitored and provided advice to the Treasurer on the business community's views on elements of the Government's business tax reforms.

Fuel Tax Inquiry

The Government provided funding in the 2001-02 Budget for secretariat support to the Fuel Tax Inquiry into the total structure of fuel taxation in Australia announced on 1 March 2001. The Inquiry secretariat is located in Treasury. The terms of reference were announced by the Treasurer on 8 July 2001. The Inquiry will report to the Government in March 2002. Information on the Fuel Tax Inquiry is available at <http://fueltaxinquiry.treasury.gov.au>.

Outcome 2: Effective government spending and taxation arrangements

Output 2.1.5 Actuarial services

The Australian Government Actuary is responsible for the delivery of Output 2.1.5, Actuarial services.

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

Performance information

Performance measures for Output 2.1.5 are the efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

Analysis of performance

During 2000-01 the Office of the Australian Government Actuary (AGA) operated on a fully self-funding basis. The Office charges for all consultancy services and has maintained a sound financial position. The operational basis is under review, in order to ensure that the Office is fully utilised in offering the full range of services that its expertise can provide.

The Office operates under the direction of an internal management board comprising three senior Treasury officers, including the Australian Government Actuary.

A range of government agencies made use of AGA's considerable expertise in superannuation, insurance and financial modelling over 2000-01, including the Departments of Defence, Education, Training and Youth Affairs, Family and Community Services, Finance and Administration, Veterans' Affairs, the Australian Taxation Office and the Attorney-General's Department.

OUTCOME 3

WELL FUNCTIONING MARKETS

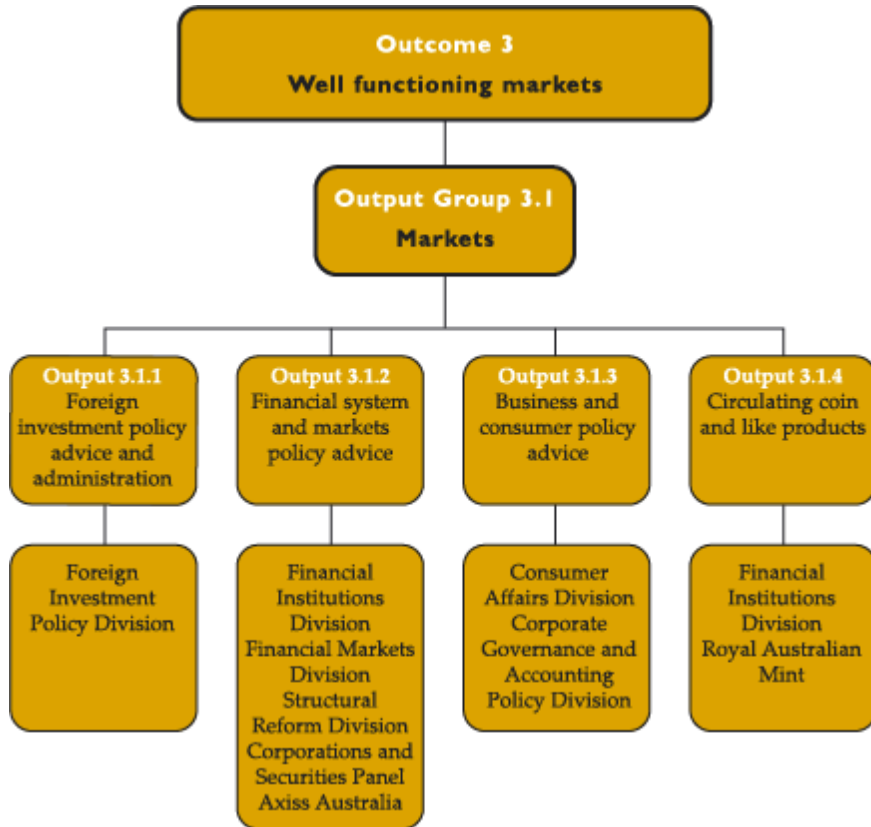
Treasury provides policy advice to the Government in support of the Government outcome of 'well functioning markets'. Accordingly, Markets Group provides advice on policy processes and reforms that promote a secure financial system and sound corporate practices, remove impediments to competition in product and services markets and safeguard the public interest in matters such as consumer protection and foreign investment.

Markets Group's advice and other outputs are directed towards maintaining and improving markets so that investors and consumers can 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.

In 2000-01, Markets Group contributed to government decisions and objectives through:

- the provision of advice on a range of issues including:
 - foreign investment proposals and related policy matters including international investment matters,
 - structural reform matters, including those arising through the operation of the Government's competition policy,
 - legislative initiatives to give effect to corporate law reform,
 - prudential regulation of the financial sector, and
 - consumer information and product safety issues.
- assisting in the Government's efforts to promote Australia as a financial centre;
- consultation with other Commonwealth agencies, State and Territory governments, and industry and interest groups concerning various proposed measures;
- assisting ministers to rapidly process foreign investment proposals;
- the provision of a range of information to assist consumer participation in markets; and
- participation in international discussions intended to strengthen international cooperation in relation to the regulatory and consumer protection framework.

Chart 7: Outputs contributing to Outcome 3



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Table 4: Financial and staffing resources summary for Outcome 3

	Budget (1) 2000-2001 \$'000	Actual 2000-2001 \$'000	Budget (2) 2001-2002 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	16,000	15,175	12,000
Appropriation Acts Nos. 2/4	139,266	139,265	147,900
Special Appropriations	-	-	-
Total administered expenses	155,266	154,440	159,900
Revenue from Government			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1,986	1,986	1,868
Output 3.1.2 - Financial system and markets policy advice	10,281	10,281	14,981
Output 3.1.3 - Business and consumer policy advice	4,329	4,329	4,545
Output 3.1.4 - Circulating coin and like products			
Corporate costs	9,951	9,951	9,655
Total revenue from Government contributing to price of departmental outputs	26,547	26,547	31,049
Revenue from other sources			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	-	5	2
Output 3.1.2 - Financial system and markets policy advice	26	46	1
Output 3.1.3 - Business and consumer policy advice	3	247	1
Output 3.1.4 - Circulating coin and like products	44,000	49,101	30,354
Corporate costs	631	706	641
Total revenue from other sources	44,660	50,105	30,999
Total revenue for departmental outputs (Total revenues from Government and other sources)	71,207	76,652	62,048
Price of departmental outputs			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1,986	1,952	1,870
Output 3.1.2 - Financial system and markets policy advice	10,307	12,409	14,982
Output 3.1.3 - Business and consumer policy advice	4,332	4,447	4,546
Output 3.1.4 - Circulating coin and like products	44,000	48,919	30,354
Corporate costs	10,582	9,114	10,296
Total price of departmental outputs	71,207	76,841	62,048
Total estimated resourcing for outcome 3 (Total price of outputs and administered expenses)	226,473	231,281	221,948
Average staffing levels (number)	196	186	202

- (1) Budget 2000-01: The total price of outputs and administered items for Outcome 3 was \$10.351 million more than the budgeted figure in the 2000-01 Portfolio Budget Statements (PBS)'s due to the following:
Administered — additional estimates (AE)'s of \$0.135 million;
Revenue from government — agreed AE's of \$1.051 million;
Revenue from other sources — revised Section 31 receipts though AE's process of \$2.823 million; and
General — the remainder of the variance is attributed to revised internal allocations.
- (2) Budget 2001-02: The 2001-02 price of outputs for Outcome 3 has increased by \$3.654 million due to revised internal allocations.

Output 3.1.1

Foreign investment policy advice and administration

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

Markets Group provides advice on foreign investment proposals, including executive support for the Foreign Investment Review Board (FIRB), and makes decisions under staff authorisations consistent with policy. It also advises the Government on foreign investment policy, including Australia's participation in multilateral and bilateral international agreements on investment.

Performance information

Performance measures for departmental outputs are:

- Treasury advice meets portfolio ministers' needs in fulfilling their responsibilities.
- Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums.
- Proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents. Performance is currently regarded as satisfactory if:
 - around 90 per cent of proposals received each year are processed within 30 days of receipt of a completed application; and
 - responses are provided on average within 5 days to around 40,000 general telephone and mail inquiries received each year.
- Treasury effectively disseminates and explains the foreign investment policy to improve the standard of applications and compliance with policy requirements so as to continue to reduce the proportion of foreign investment proposals requiring Interim or Final Orders.
- Each year Treasury undertakes compliance checks on around 1000 previous proposals subject to conditions — possibly leading to prosecutions, but aimed at an overall reduction in non-compliance with policy.

Analysis of performance

Treasury and the FIRB provided advice to portfolio ministers on the more significant foreign investment cases requiring ministerial decisions, including the application of national interest considerations. However the majority of cases received, approximately 94 per cent, were reviewed by Treasury officers under delegation. Decisions made under delegation were overseen by the FIRB

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and senior management on a weekly basis, for consistency of policy and process. Important cases such as those submitted by BHP-Billiton, Shell and Rio Tinto were referred to the Treasurer for decision.

The number of foreign investment cases considered in 2000-01 was around 3670, compared with 4411 in 1999-2000. This reflects the Government's policy and administrative changes of September 1999, which aimed to reduce compliance costs for business and streamline administrative procedures. In 2000-01, around 95 per cent of cases were decided within 30 days, compared with 96 per cent in 1999-2000. Markets Group responded to around 40,000 telephone and written inquiries in 2000-01 within an average of 5 days.

During the year, Markets Group initiated three internal projects, which collectively aimed at improving dissemination and understanding of foreign investment policy and improving the efficiency and standard of applications and compliance. The projects are:

The Streamlining project. The aim of the project is to rationalise the foreign investment application and case management process by developing and integrating an on-line application facility with a new case management system. Expected outcomes of the project include improved efficiency of application lodgement, via reduced processing times and improved application accuracy; improved compliance and reporting facilities; and a more accurate and efficient case management system. A review of the current foreign investment application process has been completed and an on-line real estate application form developed. The form is expected to go live in 2001.

The Communications project. The aim of the project is to improve the dissemination and explanation of foreign investment policy and its context to stakeholders. This involves targeting, simplifying, and streamlining communications between stakeholders and Treasury. Expected outcomes of the project are more effective work practices and increased awareness and understanding of foreign investment policy within Australia and within the international forums. The scoping phase of the project was completed in May 2001. The implementation of the project's initiatives is expected to commence in 2001. Reflecting Treasury's efforts to increase awareness of policy in 2000-01, there was a significant decline of about 27 per cent in the number of interim and final orders issued, predominantly in the real estate sector.

The Compliance project. The aim of the project is to develop better detection processes, increase the incentives for foreigners to comply, establish cost-effective compliance systems that concentrate resources in an appropriate manner and ensure that compliance is not an onerous and burdensome task for investors. A review of general compliance with the *Foreign Acquisitions and Takeovers Act 1975* and policy has been undertaken in this project with the aim of developing an improved understanding of the magnitude of compliance problems and the associated benefits derived from improved compliance. An internal procedural and compliance manual is due to be completed by September 2001.

Outcome 3: Well functioning markets

Monitoring and compliance with foreign investment policy continues to be a significant activity, particularly in the real estate sector. During 2000-01, Treasury examined around 1000 past proposals to ensure compliance with approval conditions.

International investment issues

As noted in Output 1.1.2, Treasury is involved in ongoing negotiations with Singapore for a Free Trade Agreement (FTA). One of the key objectives of the FTA is the further liberalisation of trade in services and investment between the two economies. Markets Group contributes expert advice on these objectives to ensure they continue to provide for the maintenance of Australia's existing foreign investment policy regime.

Treasury has continued to be active in the promotion of the OECD Guidelines for Multinational Enterprises. The OECD Guidelines, first adopted in 1976, are recommendations on responsible business conduct addressed by OECD governments to multinational enterprises operating in or from the 33 adhering countries.² Adherence to the guidelines by multinational enterprises is voluntary. The guidelines deal with issues such as employment and industrial standards, the environment, and bribery.

Each adhering country must have a National Contact Point for the Guidelines, which promotes the guidelines and considers any issues arising under them. Dr Jim Hagan, a Treasury officer, is the Australian National Contact Point (ANCP) for the Guidelines.

The ANCP has achieved three key outcomes in 2000-01. It has revised and updated its website, as part of its commitment to making processes transparent. The ANCP has also emphasised open two-way communication between it and stakeholders by conducting consultations with non-government organisations. Thirdly, the ANCP is currently reviewing its structure, in order to ensure that it meets its objectives in an efficient and effective manner. The ANCP also attended the OECD meeting of National Contact Points in June 2001 at which a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year was tabled.

During 2000-01, Treasury revised and updated the Investment Chapter of the annual Asia-Pacific Economic Cooperation (APEC) Individual Action Plan (IAP). The IAP Investment Chapter describes the investment environment and policies of APEC member economies. It is intended to give a clear view of the progress of member economies in achieving the Bogor Goal of free and open trade and investment between APEC member economies. Treasury also sent a representative to the APEC Investment Experts Group meeting in May 2001.

2 The 33 adhering countries include the 30 OECD member countries as well as Argentina, Brazil and Chile.

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Treasury provides expert advice to the Department of Foreign Affairs and Trade on Australia's involvement in the World Trade Organisation Working Group on Trade and Investment. In 2000-01 the Working Group examined the economic relationship between trade and investment, and the implications of the relationship for development and economic growth, as well as stocktaking and analysis of existing international instruments and activities regarding trade and investment.

Treasury also provides expert advice to the Department of Foreign Affairs and Trade on Australia's negotiation of bilateral investment treaties. These treaties are known as Investment Protection and Promotion Agreements, and are intended to promote the international flow of capital for economic activity and development. A model Australian text provides the basis for negotiation of these agreements. While no new investment treaties were signed in 2000-01, Australia will continue to negotiate bilateral investment treaties with other countries, including Turkey, the United Arab Emirates and South Africa.

Output 3.1.2 Financial system and markets policy advice

Financial Institutions Division, Financial Markets Division, Structural Reform Division, and Corporations and Securities Panel in Budget Group are responsible for the delivery of Output 3.1.2, Financial system and markets policy advice.

Markets Group contributes to Outcome 3 by providing advice on policy issues and the legislative framework for the development and operation of the financial system and markets, in relation to:

- development of Australia as a financial centre;
- prudential supervision of certain financial institutions;
- market integrity regulation, investor protection mechanisms;
- structural reform of key sectors and markets of the economy, including sectors providing infrastructure; and
- ensuring competitive markets.

Markets Group is also responsible, through Axiss Australia, for implementation of the programme to develop Australia as a financial centre.

Performance information

The performance measures for departmental outputs are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues;
- effective progress in developing Australia as a financial centre;
- effective presentation of relevant information to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat services provided to advisory bodies are effective; and
- representation and liaison by Treasury officers with other agencies, private sector organisations and international bodies, is assessed by participants as effective.

Analysis of performance

Treasury provided advice and programme support to the Treasury portfolio ministers, and engaged with other agencies on policy development processes, relating to a range of issues as outlined below.

Structural reform

During 2000-01 Treasury continued working with departments and agencies, State and Territory governments and industry in progressing structural reform in areas such as the transport, communications, electricity and gas sectors of the economy. This reflected Treasury's particular responsibilities for the implementation of competition policy and its wider responsibility for advising on microeconomic issues more generally. Structural reform in such sectors of the economy is important in improving the operation of markets, productivity growth and hence community living standards.

Treasury continued to coordinate implementation of the National Competition Policy (NCP) at the Commonwealth level through advice to ministers, departments and agencies. In November 2000, the Council of Australian Governments (COAG) affirmed the importance of NCP in sustaining the competitiveness and flexibility of the Australian economy and contributing to high standards of living. COAG also agreed to several measures to clarify and fine-tune NCP implementation arrangements.

Advice was provided to ministers on other aspects of the NCP including NCP payments to the States and Territories, sector-specific NCP reforms, structural reform of public monopolies and inter-jurisdictional issues. This also involved

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the preparation of the 1999-2000 Commonwealth National Competition Policy Annual Report, which serves the important function of informing the public about the performance and operation of the Government in this area.

Treasury coordinated the Commonwealth's legislation review arrangements in conjunction with the Office of Regulation Review in the Productivity Commission. These reviews are outlined in the Commonwealth Legislation Review Schedule (June 1996), which lists existing Commonwealth legislation that restricts competition or imposes costs or confers benefits on business. Listed legislation is reviewed to assess whether restrictions are in the public interest and are necessary to meet the Government's objectives.

Officers from Treasury have liaised with a number of other organisations and represented the Commonwealth at meetings, such as those of the Committee on Regulatory Reform. This Committee is a COAG body established to consider the treatment of cross-jurisdictional issues arising from the regulatory reform programs of the States, Territories and the Commonwealth. Treasury officers also participated in the inter-governmental working group tasked with preparing a paper on a national energy policy framework. This paper was the basis for the framework agreed at the COAG meeting on 8 June 2001. Treasury was represented at meetings of the OECD and APEC. It was also represented on the interdepartmental panel that assessed the tenders for the \$150 million project to upgrade telecommunications services in remote areas. The project, which was awarded to Telstra, will significantly improve services, including internet access, for people in these areas, and enable them to make untimed local calls.

Markets Group is responsible for providing advice to Treasury ministers on the *Trade Practices Act 1974*. A key focus during 2000-01 was the provision of advice on Part VB of the Act. Several tax and excise rate changes were prescribed by regulation as 'New Tax System changes', enabling the Australian Competition and Consumer Commission (ACCC) to monitor prices and take enforcement action against suppliers engaging in price exploitation.

Part IIIA of the *Trade Practices Act 1974* provides for the certification of State regimes which establish a framework for third parties to obtain access to natural gas pipelines. During 2000-01 the Minister for Financial Services & Regulation certified the third party access regimes applying in the Australian Capital Territory, New South Wales and Victoria.

Advice has been provided to Treasury ministers and other agencies on a diverse range of structural policy issues. These ranged from regional matters to petrol price fluctuations and included the proposed sale of Sydney (Kingsford Smith) Airport and the proposed sale of National Rail Corporation, regulatory arrangements at Australian airports and land transport matters. The latter included proposals for the development of the railway network and major road funding issues including the Western Sydney Orbital and Scoresby freeways.

Treasury ministers were advised on the Telecommunications Service (Besley) Inquiry. The Government announced its response to the Inquiry on 15 May 2001. The response included a \$163 million package to further improve basic phone

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services, mobile phone coverage, Internet speed and health and education networks in regional areas.

Treasury coordinated the *Treasury Legislation Amendment (Application of Criminal Code) Act No. 1 2001*. The Act makes consequential amendments to offence provisions in certain Acts administered by the Treasurer and is designed to harmonise certain Treasury portfolio legislation with the *Criminal Code Act 1995*.

Productivity Commission

The Productivity Commission is the Government's principal advisory body on microeconomic reform with a broad charter to conduct research and hold inquiries into industry, industry development and productivity matters referred to it by the Treasury ministers. During 2000-01, Markets Group coordinated and advised on the preparation of terms of reference for the following public inquiry references that the Government provided to the Productivity Commission:

- Review of Certain Superannuation Acts;
- Price Regulation of Airport Services;
- Review of Cost Recovery by Commonwealth Regulatory, Administrative and Information Agencies — including Fees Charged Under the *Trade Practices Act 1974*; and
- National Access Regime (Part IIIA of *Trade Practices Act 1974* (TPA) and Clause 6 of Competition Principles Agreement).

The Government also amended the terms of reference for the Productivity Commission inquiry into telecommunications specific competition regulation (particularly Parts XIB and XIC of the TPA) to take account of recommendations arising from the Telecommunications Service (Besley) Inquiry. In addition, Treasury coordinated government responses with the relevant departments for Productivity Commission reports on Australia's General Tariff Arrangements and the Impact of Competition Policy Reforms on Rural and Regional Australia.

Financial markets

Treasury has advised the Government on legislative initiatives to give effect to financial services reform policies and National Competition Policy.

On 5 April 2001, the Financial Services Reform Bill 2001 was introduced into the House of Representatives. The Financial Services Reform (Consequential Provisions) Bill 2001 was introduced on 7 June 2001. Both bills were debated in the House on 28 June 2001 and, with government amendments, passed early on 29 June 2001.

The Financial Services Reform Bill 2001 and the Financial Services Reform (Consequential Provisions) Bill 2001 are intended to establish an improved regulatory regime for the financial services industry. When enacted, the legislation will introduce a harmonised licensing, disclosure and conduct

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framework for all financial service providers, and establish a consistent and comparable financial product disclosure regime. It will also create a streamlined regulatory regime for financial markets and clearing and settlement facilities that encourages competition and increases industry efficiency.

The introduction of the bills followed an extensive process of public consultation on the proposed financial services reforms. Discussion papers setting out the major reforms were released for public comment in December 1997 (Financial Markets and Investment Products) and March 1999 (Financial Products, Service Providers and Markets — An Integrated Framework). An exposure draft of the Financial Services Reform Bill 2001 was released for public consultation in February 2000. Treasury has also participated in the Parliamentary inquiry into the Financial Services Reform Bill 2001.

The new regulatory regime will be supplemented by regulations that will affect a number of the detailed arrangements under the proposed *Financial Services Reform Act 2001*. Treasury has been developing these regulations.

Treasury commenced a review of the *Bills of Exchange Act 1909* as part of the Commonwealth's National Competition Policy legislation review arrangements and has been instructing on amendments to the *Commonwealth Inscribed Stock Act 1911* to enable the electronic transfer of title in Commonwealth government securities.

Treasury provides secretariat services to the Ministerial Council for Corporations, which met five times during 2000-01. The principal function of the Ministerial Council for Corporations is the consideration of legislative proposals relating to the national corporations legislation. It also has a consultative function in relation to the appointment of members to certain bodies established under this legislation.

The Corporations and Securities Panel is the primary forum for dealing with company takeover matters during the takeover bid period. It commenced this role in March 2000. In 2000-01, Treasury continued to oversight implementation issues associated with enhancing the role of the Panel as an alternative to the courts. This included the appointment of an additional eighteen members to the Panel in March 2001.

Ongoing advice was provided to Treasury ministers relating to market integrity. That advice focused on the objectives of maintaining, facilitating and improving the performance of Australia's financial markets and the entities that operate within those markets. Advice was provided on new market applications, restructuring of market operators and the exercise of ministerial functions relating to approval of netting markets, applications for exempt markets and ministerial powers relating to disallowance of market and clearing house operating rules. Treasury has also participated in the parliamentary inquiry into the framework for market supervision of Australia's stock exchanges.

During 2000-01, Treasury monitored developments in global financial markets and examined market alliances and linkages between Australian and overseas participants in the market. Treasury also examined ways of accommodating and

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facilitating the global operations of financial markets and the financial services industry more generally. To this end, extensive work was undertaken with government authorities in Hong Kong and Singapore to put in place mutual recognition arrangements in specific areas of financial services regulation. These include regulation of managed investment schemes, training and competency requirements of securities dealers and fundraising requirements. Treasury also participated in informal discussions with a range of authorities in the United Kingdom to examine the scope for mutual recognition in financial services.

Financial institutions

Treasury advises the Government on policy for prudential regulation of the financial sector, major operational and administrative matters relating to the financial sector, and on the initiative to promote Australia as a centre for global financial services.

Treasury provided advice on a range of issues and developments relating to the prudential regulation of the financial sector, and continued the implementation of the financial sector legislative reform program. This included passage of the *Financial Sector Legislation Amendment Act (No. 1) 2000*, the *Treasury Legislation Amendment (Application of Criminal Code) Act (No. 1) 2001*, the *Appropriation (HIH Assistance) Act 2001* and the introduction of the Financial Sector (Collection of Data) Bill 2001.

A review of the *Insurance Act 1973* was completed in conjunction with the Australian Prudential Regulation Authority, which resulted in the introduction of the General Insurance Reform Bill 2001 in June 2001. Treasury also worked jointly on policy aspects of the Australian Prudential Regulation Authority's work programme and advised on budget issues and various prudential issues relating to banking, superannuation and insurance.

The Treasury ministers were provided with policy advice and instruments were prepared in relation to authorisation for individual financial institutions under the *Financial Sector (Shareholdings) Act 1998*, the *Insurance Acquisitions and Takeovers Act 1991*, the *Banking Act 1959*, and the *Financial Sector (Transfers of Business) Act 1999* as required.

The Government received advice on its response to the failure of the HIH Insurance Group, including arrangements for establishing HIH Claims Support (HCS) as the vehicle for providing assistance to policy holders affected by the failure.

Treasury provided secretariat support to the Financial Sector Advisory Council. The Financial Sector Advisory Council is an advisory body to the Government on matters relating to the financial services sector with members appointed from business and government bodies in the sector.

Treasury chaired and served on the Royal Australian Mint Advisory Board during the year and prepared currency determinations relating to the numismatic coin programs of the Perth Mint. Treasury also responded to

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numerous inquiries from the public for information on a wide range of issues relating to currency.

The administration of the unclaimed monies function of the *Banking Act 1959* was transferred to the Australian Securities and Investments Commission.

Australia as a global financial centre

In the 1999–2000 Budget, the Government provided funding of \$7 million over two years for initiatives aimed at promoting and developing Australia as a centre for global financial services. Central to the strategy was the establishment of Axiss Australia located in Sydney and reporting to the Minister for Financial Services & Regulation. Further funding of \$11.4 million over the three years to June 2004 was approved in the 2001-02 Budget to continue implementation of the strategy.

Mr Les Hosking, Chief Executive Officer (CEO) of Axiss Australia since January 2000, and a team of staff and consultants drawn from both the public and private sectors have been working at establishing Axiss' mission of positioning Australia as a global and regional finance centre in the Asia Pacific time zone. The strategy is based on effective promotion via ministerial and CEO visits, newsletters and publications and high quality executive briefings designed to clearly explain Australia's advantages as a financial services marketplace. Areas of advantage emphasised by Axiss include Australia's stable regulatory and business environment, the skilled workforce, the low cost infrastructure and the Australian lifestyle. Axiss provides international financial institutions with a one-stop information and facilitation shop designed to streamline entry and ongoing operation in the Australian financial services sector. Axiss also seeks to identify areas where Australia's future development as a financial centre can be enhanced.

During 2000-01 two promotional visits involving extensive appointments with key financial institutions were undertaken by the minister and the CEO to the United Kingdom, Europe and North America, and an additional four trips by the CEO to Asia and North America. Axiss staff have provided ongoing assistance to a wide range of financial services firms by providing specific data, preparing business cases and other facilitation work. Axiss has produced executive briefings on investment management, information technology and infrastructure, debt securities and financial services in Australia. Since August 2000, a fortnightly newsletter has been sent to over 3000 executives outlining key developments in Australia's financial services sector.

Axiss Australia continues to work closely with other Commonwealth and State agencies as well as the private sector to ensure the coordination of inter and intra-state promotional efforts.

In June 2001, the Minister for Financial Services & Regulation announced the establishment of an Advisory Board. The Board's 11 members are drawn from the private sector and will provide high level strategic advice to Axiss based on their extensive experience in the financial services sector.

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On 30 June 2001, the Singapore office of Axiss Australia ceased operations. Over the past two years the Singapore office has initiated many key regional finance initiatives through the establishment of an extensive network of private and public sector contacts in Singapore and Hong Kong. The financial centre initiative has reached a level of maturity whereby Axiss in Sydney can generally undertake the functions undertaken by the Singapore office.

Last year's annual report provided information on the decision of a number of major international financial institutions to extend their operations, or establish a new presence in Australia. With Axiss becoming fully operational in 2000-01 and building on initial progress with business contacts the list of such companies increased further in 2000-01. During the year over thirty financial services companies either entered Australia or expanded their existing operations in areas such as OTC derivatives, foreign exchange processing, financial markets information technology, regional fund administration and Asian customer relationship management among others. Key examples include, in February 2001, ABN Amro consolidated its G7 forex operations from Singapore to Sydney, making Sydney one of only three trading centres for its foreign exchange activities globally. In March 2001, Credit Agricole Lazard Financial Products Bank opened an office in Sydney. In January 2001, Merrill Lynch and HSBC's joint venture in online brokerage and banking services launched their Australian operations in the second stage of a billion \$US venture that will eventually operate in Asia and Europe.

Output 3.1.3 Business and consumer policy advice

Consumer Affairs Division and Corporate Governance and Accounting Policy Division in Markets Group are responsible for the delivery of Output 3.1.3, Business and consumer policy advice.

Markets Group contributes to Outcome 3 by providing advice to Treasury ministers on:

- company law and corporate governance issues, corporate insolvency, corporate financial reporting and electronic commerce;
- the oversight of portfolio agencies connected to corporate regulation and related international issues; and
- mechanisms, products and services designed to support and advance consumer and business interests in a well functioning market.

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Performance information

Performance measures for Output 3.1.3 are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to business and consumer affairs policy;
- effective presentation of relevant information to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat services provided to advisory bodies are effective;
- representation and liaison by Treasury officers with other agencies, private sector organisations and international bodies, are assessed by participants as effective; and
- the extent of progress towards improving self-regulatory mechanisms in the marketplace and introducing enhancements of the consumer protection and unconscionable conduct provisions of the Trade Practices Act.

Analysis of performance

Federalisation of the corporations legislation

Treasury has 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 decisions of the High Court, in particular, the extent of the Commonwealth's legislative powers and its ability to enforce laws over corporations.

These problems have been addressed by referral of power from the States under section 51(xxxvii) of the Commonwealth Constitution, which enables the Commonwealth to legislate with respect to matters referred to it by the States. The State reference legislation includes a 'sunset' provision terminating the references after five years (with provision for extension by proclamation), and further examination of the option of a constitutional amendment will be undertaken in the meantime.

The *Corporations Act 2001*, the *Australian Securities and Investments Act 2001* and associated legislation replace the former Corporations Law as the statutory basis for the formation of companies, corporate regulation and the regulation of the securities and futures industries.

Treasury also engaged in extensive negotiations with the States and Territories to develop a revised Corporations Agreement. The Corporations Agreement is the inter-governmental agreement that underlies corporate regulation in

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Australia, and it required revision in a number of key areas to cover the new regulatory regime, including meeting State concerns about limits to the referrals of power.

Review of the *Company Law Review Act 1998*

Treasury assisted and briefed the Government in preparing its response to the report by the Parliamentary Joint Statutory Committee on Corporations and Securities on 'Matters Arising from the *Company Law Review Act 1998*'.

The Government response was tabled in Parliament on 15 December 2000.

Treasury Legislation Amendment (Application of Criminal Code) Bills

Treasury prepared the three *Treasury Legislation Amendment (Application of Criminal Code) Bills*. The purpose of these Bills is to make consequential amendments to certain offence provisions in legislation administered within the Treasury portfolio, to reflect the application of the *Criminal Code Act 1995*.

The *Treasury Legislation Amendment (Application of Criminal Code) Act (No. 1) 2001* received Royal Assent on 28 April 2001, and will take effect on 15 December 2001. The amendments made substantial changes to the consumer protection offences under the *Trade Practices Act 1974*. The changes were designed to avoid having a substantive effect on existing offence provisions, while making those provisions more transparent and compliant with the Commonwealth's criminal law policy, as enunciated in the *Criminal Code Act 1995*.

The Treasury Legislation Amendment (Application of Criminal Code) Bill (No. 2) 2001 was introduced into Parliament on 5 April 2001. Bill No. 2 proposes amendments to a range of taxation legislation, the *Superannuation (Resolution of Complaints) Act 1993* and aspects of the *Trade Practices Act 1974*. The amendments clarify the physical elements of an offence and corresponding fault elements and specify whether an offence is one of strict or absolute liability.

The Treasury Legislation Amendment (Application of Criminal Code) Bill (No. 3) 2001 was introduced into Parliament on 28 June 2001. Bill No. 3 makes consequential amendments to the *Corporations Act 2001*, the *Financial Sector Shareholdings Act 1998*, the *Insurance Contracts Act 1984*, and the *Commonwealth Places (Mirror Taxes) Act 1998*, to ensure that those provisions continue to operate in a consistent manner from 15 December 2001, when the *Criminal Code Act 1995* is to take effect. The amendments clarify the physical elements of an offence and corresponding fault elements and specify whether an offence is one of strict or absolute liability. Bill No. 3 is the last of the portfolio Bills.

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Financial sector reform

Treasury prepared regulations facilitating the transfer of building societies, credit unions and friendly societies to the former Corporations Law (now *Corporations Act 2001*). The *Corporations Amendment Regulations 2000 (No. 7)* (Statutory Rule 2000 No. 206) were made on 24 July 2000. Matters covered by the regulations included relief from statutory requirements to send members annual financial reports and notices of meetings. The regulations were made pursuant to the second stage of the Government's financial sector reform programme.

Financial Reporting Council

Treasury provided secretariat support for the Financial Reporting Council, which oversees the accounting standard setting process as undertaken by the Australian Accounting Standards Board (AASB) (including the role international standards should play in that process).

Secretariat support provided by Treasury to the Council included administrative services, preparation of the Council's Annual Report 1999-2000, development of an internet website for the Council and general administrative assistance with the ongoing functions of the Council.

The Financial Reporting Council held five meetings during 2000-01.

Corporate Law Economic Reform Program 7

Progress on implementation of the Corporate Law Economic Reform proposals on simplified lodgment and compliance continued during the year. Public submissions were considered and work has commenced on preparation of drafting instructions for the amending legislation.

Names applications during 2000-01

Treasury processed 40 applications for ministerial consent to use terms in body corporate names that would otherwise not be available for use under the former Corporations Law. Of those applications, the Minister's delegate consented to 33 applications. Six applications were refused and one application was discontinued.

Electronic commerce

Treasury promoted the adoption of the Government's code for consumer protection in electronic commerce, entitled *Building Consumer Sovereignty in Electronic Commerce: A Best Practice Model for Business*. The Best Practice Model has been promoted online and offline through ongoing consultations with businesses and industry associations, speaking engagements, national print advertising, press releases, articles in periodicals and Treasury's e-commerce website, www.ecommerce.treasury.gov.au. The Best Practice Model has been adopted by a number of industry associations and businesses.

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Treasury supported the work of an Expert Group on Electronic Commerce established by the Minister for Financial Services & Regulation to advise on consumer protection issues in the online environment. The Expert Group has taken a leading role in the development and promotion of the Best Practice Model. In addition, the Group continues to examine e-commerce matters including issues relating to dispute resolution in e-commerce.

Consumer information programme

The 2001-02 Budget announced that the Consumer Information Programme has been extended to 2004-05.

During 2000-01, as part of the Consumer Information Programme, the Government's comprehensive consumer information website, www.consumersonline.gov.au was expanded to accommodate a number of satellite sites covering e-commerce, industry self-regulation and product safety recalls. New content areas were added to the site, including an interactive fraud quiz. As part of the programme's central online referral emphasis, the Government also announced in 2000-01 the upcoming release of *Ping*, an innovative consumer software application that will assist consumers shopping online.

Directed to the needs of offline users, Treasury produced and distributed the 2001 edition of the *Consumer Dispute Resolution Schemes and Complaint Handling Organisations*. Treasury also produced a range of information resources to assist specific groups of consumers including those in rural and regional areas, young families and consumers using the Internet.

Information initiatives targeting young people were also developed and research commenced into issues of particular importance to young consumers.

Industry self-regulation

In line with the Government's commitment to industry self-regulation, Treasury advised government and industry on promoting effective industry codes of conduct and dispute schemes.

Treasury provided the secretariat for an independent task force established by the Minister for Financial Services & Regulation to inquire into and report on self-regulation in Australia. The final report of the task force was released by the Minister on 13 December 2000.

In response to the task force, the Government agreed to the continued promotion of effective self-regulation in Australia by preparing a guide to self-regulation for businesses, industry, consumers and government agencies. Treasury is developing a *Guideline to Self-Regulation* which will build on the findings of the task force and provide this information to industry in a clear and practical format.

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Treasury has also launched a specialist self-regulation website www.selfregulation.gov.au. The website promotes effective self-regulation in Australia by providing a range of resources for industry, as well as links to national self-regulatory schemes currently operating in the market place.

Consumer product safety

In November 2000, Treasury launched the product recalls website, www.recalls.gov.au. The website provides consumers with up-to-date information about all safety-related product recalls (consumer products, food chemicals, motor vehicles and therapeutic goods) conducted by companies in Australia. Web links to Commonwealth, State, Territory and overseas agencies concerned with recall activities are also provided.

Submissions to the discussion paper *Product Safety Policy Review*, released in June 2000, were received and assessed. Generally, the submissions did not call for major changes to Australia's existing product safety arrangements. Further work is being undertaken on a number of issues raised in the review.

Treasury provided advice to the Minister for Financial Services & Regulation on a range of product safety standards including bunk beds, children's cots and babywalkers. Advice was also provided on product bans including candles and candle wicks with an excessive lead content.

Treasury participated in:

- the work of the Standards Australia Technical Committees developing and updating standards on a wide range of products;
- a review of the Trade Practices (Consumer Product Information Standards) Tobacco Regulations;
- the Strategic Injury Prevention Partnership, a body formed to provide a forum for leadership in injury prevention in Australia and to implement injury reduction initiatives; and
- the ongoing development of a national coronial database being managed by the Monash University Accident Research Centre.

Reform of consumer protection legislation during 2000-01

Treasury continued work on the legislative reform agenda to enhance the consumer protection and unconscionable conduct provisions of the *Trade Practice Act 1974* (the TPA). These efforts have led to the enactment of the *Trade Practice Amendment Act (No. 1) 2001* and the *Treasury Legislation Amendment (Application of Criminal Code) Act (No. 1) 2001*.

The *Trade Practice Amendment Act (No. 1) 2001* received Royal Assent on 28 June 2001. The amendments update the enforcement and remedies provisions to ensure that the TPA continues to deliver appropriate protection to small businesses and consumers. In particular, they clarify and expand the types of

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sanctions available to the court, and improve access to available remedies. The Act also provides the Australian Competition and Consumer Commission with a broader range of responses so that it may deal more effectively with contraventions of the TPA.

Business law dialogue with New Zealand

Treasury developed a revised memorandum of understanding between the government of New Zealand and the government of Australia on coordination of business law. Australian and New Zealand ministers signed the memorandum on 31 August 2000. The memorandum is designed to enhance the trans-Tasman commercial environment through increased coordination of business law. Australian and New Zealand officials are considering business law areas specified by the memorandum for suitability for coordination.

International participation

Asia-Pacific Economic Cooperation (APEC) Task Force on Company Accounting and Financial Reporting

The General Manager of the Corporate Governance and Accounting Policy Division chairs an APEC task force on Company Accounting and Financial Reporting. The APEC task force is an Australian initiative aimed at promoting high quality internationally acceptable standards of accounting, disclosure and auditing practices by regional business enterprises.

The task force met in Taipei in April 2001 and in Hainan in June 2001 and is preparing a report for consideration by APEC finance ministers in September 2001.

International corporate governance

In April 2001, the General Manager of the Corporate Governance and Accounting Policy Division chaired the newly established Organisation for Economic Co-operation and Development (OECD) Steering Committee on Corporate Governance at its meetings in Paris.

Treasury also assisted the OECD Steering Group on Corporate Governance in preparing its *Report on the Misuse of Corporate Vehicles for Illicit Purposes*. The report is available at the OECD website.

Treasury has continued its active involvement in other OECD and APEC work on corporate governance, including participation at the OECD Asian corporate governance roundtable held in Singapore.

International insolvency

In February 2001, and with the support of AusAID, a Treasury officer participated in the first forum for Asian Insolvency Reform, which was held in Indonesia. The Forum continues the work of a meeting on insolvency systems in

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Asia that was held in Sydney in 1999, and which was jointly hosted by Treasury, the OECD and the World Bank (with the support of AusAID).

As a member of the working group on Insolvency Law of the United Nations Commission on International Trade Law (UNCITRAL), Treasury has continued to provide input on the development of a set of legislative guidelines for domestic insolvency frameworks. This work is expected to be completed by 2003.

Consumer protection

Treasury continued to be actively involved in the development of international consumer protection policy through its participation at international meetings. This included contributions to the work of the OECD Committee on Consumer Policy on issues relating to consumer law and alternative dispute resolution in e-commerce. Treasury also participated in the OECD joint conference in the Hague on alternative dispute resolution in electronic commerce held in December 2000.

In April 2001, discussions were held at the annual Australia-European Commission ministerial consultations on a consumer protection arrangement between Australia and the European Commission. The arrangement, which would allow for greater information sharing and cooperation on cross-border consumer issues, is expected to be signed in late 2001.

Commonwealth Consumer Affairs Advisory Council

Treasury provides the secretariat for the Commonwealth Consumer Affairs Advisory Council, which was established by the Minister for Financial Services & Regulation in May 1999. The Secretariat advises the Minister on current and emerging consumer policy issues. The Commonwealth Consumer Affairs Advisory Council is chaired by Colin Neave, the present Australian Banking Industry Ombudsman, with a broad membership representative of Australian consumer interests.

Appointments

Treasury had responsibility during the year for processing appointments to the Financial Reporting Council, the Australian Accounting Standards Board, the Australian Securities and Investments Commission, the Companies Auditors and Liquidators Disciplinary Board, the Companies and Securities Advisory Committee and its legal subcommittee and consumer representatives to industry based dispute schemes.

Output 3.1.4

Circulating coin and like products

The Royal Australian Mint has responsibility for producing circulating and numismatic coin for Australia.

Senior Treasury Officers chaired and served on the Mint Advisory Board during the year. The Department responded to numerous inquiries from the public for information on a wide range of issues relating to currency.

Details of the organisation of the Mint and its operations are published separately in its annual report.

CORPORATE SERVICES

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

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

CSD is assisted in the performance of its role by the Corporate Services Committee, which is chaired by the General Manager of CSD and comprises senior representatives from the three policy groups in the department. Periodic meetings of Senior Executive Service officers also provide guidance on a range of corporate issues. The General Manager of CSD is a member of the department's Executive Board.

Over the course of 2000-01, CSD has focused on a number of priority areas:

- 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 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.

Information technology

CSD continued to provide a stable and secure information technology platform throughout 2000-01 with network availability averaging in excess of 99 per cent. The number of websites hosted by Treasury increased by 45 per cent during the year and the use of the Internet also increased. Treasury received conditional accreditation of its Internet Gateway from the Defence Signals Directorate in 2000-01. Treasury did experience one incident of unauthorised use of the GSTAO website during this period.

The Treasury has developed a Website Accreditation Methodology which is applied to all website development activities. This methodology is used for all in-house developments and to websites hosted by the Treasury on behalf of external agencies. The addition of Virtual Private Network security features has permitted Treasury staff to have secure external access to departmental information sources.

A key achievement during the year has been the development of a Treasury Intranet which allows staff desktop access to a wide range of corporate and policy information. The intranet will continue to be developed as the central access point for a growing range of departmental systems.

The Division conducted a tender during the year for the provision of voice communications services, resulting in a three year extension of the existing outsourced arrangements.

In accordance with the Government's information technology outsourcing initiative, a request for tender for the provision of network support and information technology help desk services and associated equipment was released in July 2001.

Information and records management

CSD contributed to the achievement of departmental outputs by the provision of information and records management services to the department, with a continued focus on access to electronic information resources and electronic document delivery to clients. These services included the maintenance and expansion of the Treasury Library collection and the provision of efficient mechanisms for the handling and storage of paper-based records as well as the provision of essential office services.

As preparation for a move to an electronic records management system, the Division has commenced the Developing and Implementing Records Keeping System (DIRKS) methodology in consultation with the National Archives of Australia.

Information technology training and publications

CSD continued to provide a wide range of information technology training, assisting departmental staff to make effective use of information technology in the workplace. In 2000-01, a total of 78.3 days of structured information technology training was provided to Treasury staff. Information technology training is provided by both in-house and external training consultancies.

The Division also assisted in ensuring efficient and timely public access to government information by developing and updating an increasing number of internet websites, including the portfolio ministers' sites and a range of policy related sites. CSD was responsible for the development of the department's

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online action plan, which set out the process for the department to meet the Government's strategy to bring all appropriate services online by December 2001. Treasury websites comply with the online information services obligations and standards.

CSD also assisted in the production of over 80 government and Treasury publications, including the 2001-02 Budget papers.

Ministerial liaison

CSD facilitated liaison between the department and the offices of the Treasurer, Assistant Treasurer and the Minister for Financial Services & Regulation. In 2000-01, this involved over 900 Cabinet related documents, 253 ministerial press releases, 2000 written ministerial briefings and more than 65,000 letters received by Treasury ministers. In addition, more than 800 Question Time Briefings were prepared for use by the ministers during parliamentary question time. As in previous years, CSD arranged and supervised the pre-budget 'lock-up', which permitted journalists advanced access to the 2001-02 Budget papers.

Human resources

The key objective of human resource management in Treasury is to ensure that staff numbers, qualities and skills are closely aligned with the department's objectives and values. Consistent with this objective, CSD provided a full range of human resource and personnel services including recruitment, leave, salaries, travel, staff training and development, performance appraisal, advice and assistance on employee relations, occupational health and safety and work place diversity.

2000-01 saw the preparation of a comprehensive training and development program linked to staff development needs identified under the department's Performance Management System. Another key emphasis over this year was the provision of a Leadership Development training course for some sixty Executive Level 2 officers to assist these officers in fulfilling their roles as departmental managers.

Accounting and financial management

Throughout 2000-01 CSD continued to focus on improving the reliability and usefulness of the financial information available to Treasury managers to assist the department in the efficient delivery of departmental outcomes. In addition, the Division successfully managed the implementation within Treasury of the Goods and Service Tax, assisted the department's corporate planning processes and commenced planning for the recentralisation of accounting operations within the department.

Contract, audit and facilities management

In 2000-01 CSD was heavily involved in the refurbishment of the Treasury building. The majority of Treasury staff relocated to the refurbished accommodation in January 2001 with the completion of Stage 1 of the project. The remaining staff were relocated to the new accommodation in August 2001, following the completion of Stage 2 of the project. The refurbished accommodation provides a more modern and efficient work environment with a high level of staff amenity.

CSD has managed a wide range of contracts on behalf of the department, including consultancies, procurement contracts and contracts relating to the provision of corporate services to some other Treasury portfolio agencies. Effective contract management has assisted the efficient achievement of departmental outcomes.

The Division has also assisted the departmental Audit Committee through the coordination of Treasury's internal audit program. Internal audit services are provided by an external consultancy. In 2000-01, the internal audit program encompassed a total of 857 audit hours covering seven separate audits.

