

PART 2

PERFORMANCE REPORT

treasury

Report on performance	19
Outcome 1 Sound macroeconomic environment	20
Output 1.1.1 Domestic economic policy advice and forecasting	24
Output 1.1.2 International economic policy advice and assessment	27
Outcome 2 Effective government spending and taxation arrangements	35
Output 2.1.1 Budget policy advice and coordination	41
Output 2.1.2 Commonwealth-State financial policy advice	44
Output 2.1.3 Industry, environment and social policy advice	48
Output 2.2.1 Taxation and income support policy advice	52
Outcome 3 Well-functioning markets	63
Output 3.1.1 Foreign investment and trade policy advice and administration	69
Output 3.1.2 Financial system and corporate governance policy advice	74
Output 3.1.3 Competition and consumer policy advice	80
Output 3.1.4 Actuarial services	84
Output 3.1.5 Circulating coin and like products	85
Strategic Communications Division	89
Corporate Services Division	90

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Report on performance

The report on performance covers Treasury's administered items and departmental outputs for 2004-05.

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

Treasury's 2004-05 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 *2004-05 Portfolio Budget Statements*.

The Mint's performance report against outcomes and performance against the Mint service charter is included in Outcome 3, Output 3.1.5.

Outcome 1

Sound macroeconomic environment

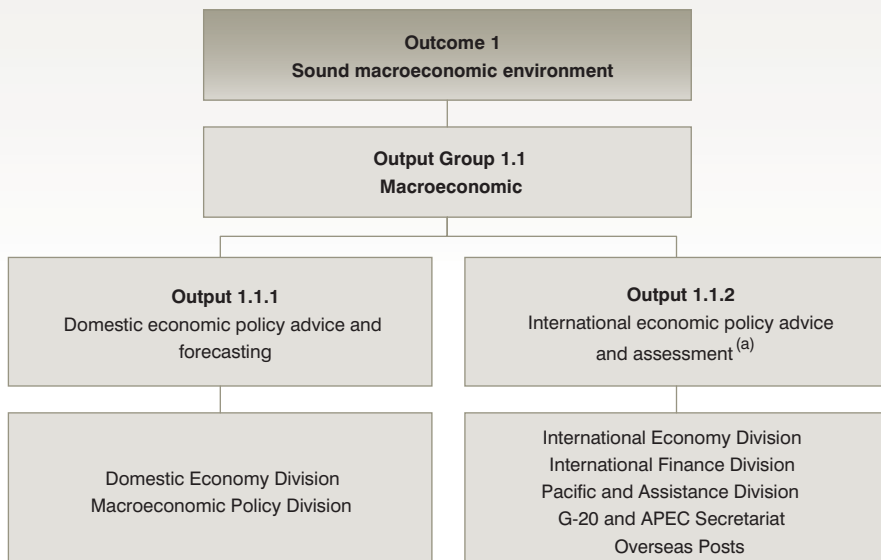
Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

Treasury also provides advice on advancing Australia's interests at international forums and institutions such as the Group of Twenty (G-20), the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB), and the Asia-Pacific Economic Cooperation (APEC) process. Australia is making a significant contribution to international efforts to sustain international economic stability and growth through these forums.

During 2004-05, Treasury provided strategic advice and assessments on a range of macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Its forecasts helped shape budget estimates and policy formulation. Treasury provided strategic advice on international economic policy issues, underpinning sustained growth, openness and sound governance in the global economy. Treasury also played a key role in advancing Australia's interests through international financial institutions and forums and bilaterally with a range of countries, particularly within the Pacific region.

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

Figure 5: Outputs contributing to Outcome 1



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

Key priorities in 2004-05

Treasury's *2004-05 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- examining domestic and international developments affecting the Australian economy and forecasting the direction of the Australian and international economies;
- assisting in identifying policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- influencing international policy outcomes in favour of growth enhancement and poverty reduction, open trade and investment regimes, and market-orientated public policy based on rule of law and strong institutions through:
 - using effectively international forums (including the IMF, World Bank, Organisation for Economic Co-operation and Development (OECD), ADB, G-20, APEC, Pacific Islands Forum Economic Ministers' Meeting and the Manila Framework Group);
 - playing a lead role in the Government's initiatives to assist economic stability, development and governance in the Pacific, particularly, in Papua New Guinea, Solomon Islands and Nauru;
 - engaging directly in a policy dialogue with key counterparts in East Asia, including hosting a forum for discussion of regional macroeconomic challenges; and
 - providing technical assistance in the Asia-Pacific region.

Key outcomes in 2004-05

- Treasury established a G-20 and APEC Secretariat to develop the policy agenda and manage logistics for when Australia hosts the meetings of the G-20 Finance Ministers and Central Bank Governors in 2006 and the APEC Finance Ministers in 2007.
- In the Asia-Pacific region, Treasury engaged in policy dialogue, cooperation and institution building, including through chairing a conference of East Asian and Pacific policy makers in February. Treasury also played a key role in establishing the Government's \$1 billion Australia-Indonesia Partnership for Reconstruction and Development after the 2004 Boxing Day Tsunami.
- Economic forecasts assisted the Government with policy formulation.
- Briefing was prepared for the Treasurer on economic statistics released by the Australian Bureau of Statistics and the private sector, including advice on their implications for the economic outlook.
- The Treasurer regularly received advice from Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, four issues of the Economic Roundup and working papers and speeches to better inform the public about economic developments and issues.

- The Economic Roundup examined Australia's continued strong growth in 2003-04 in light of the world economic recovery, compared Australian and US labour productivity, measured Australia's economic remoteness, explored the growth in imports, and reviewed Australia's net private wealth.
- For the 2005-06 Budget Paper No. 1, Statement 4 *Prosperity and Sustainability*, Treasury prepared a policy framework for meeting the challenges to economic growth and fiscal sustainability posed by the ageing Australian population.
- The Secretary, as a member of the Board of the Reserve Bank of Australia, regularly received advice on monetary policy.
- Treasury continued to help the Government to take an active role in international forums and institutions to influence outcomes supportive of sustained international economic stability, growth and development.
 - Australia actively contributed to efforts to help prevent and resolve financial crises and improve development outcomes, including by increasing the effectiveness of the multilateral development banks.
 - Australia strengthened relations with the ADB, particularly on collaboration in the Pacific region, for example, through the establishment by the ADB of the Pacific Liaison and Coordination Office in Sydney.
- Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges, including Papua New Guinea, Solomon Islands and Nauru.
 - Six Treasury officers were deployed as part of the Regional Assistance Mission to the Solomon Islands (RAMSI) within the Department of Finance and Treasury.
 - A Treasury officer was deployed to undertake the role of Secretary of Finance in Nauru.
 - Five Treasury officers were deployed to PNG Treasury as part of the Enhanced Cooperation Program and two Treasury officers were deployed under the PNG-Australia Treasury Twinning Scheme.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2005 \$'000	Actual 2005 \$'000	Budget 2006 \$'000
Administered expenses			
Appropriation Acts No 1 and 3	-	-	-
Appropriation Acts No 2 and 4	-	-	-
Appropriation Acts No 5 and 6	-	-	-
Special Appropriations	19,539	20,371	22,510
Other expenses	-	451,432	-
Total administered expenses	19,539	471,803	22,510
Revenue from Government			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	8,373	8,765	8,678
Output 1.1.2 International economic policy advice and assessment	18,449	17,293	22,730
Total revenue from Government contributing to the price of departmental outputs	26,822	26,058	31,408
Revenue from other sources			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	1,369	137	190
Output 1.1.2 International economic policy advice and assessment	3,016	3,540	4,223
Total revenue from other sources	4,385	3,677	4,413
Total revenue for departmental outputs (Total revenues from Government and other sources)	31,207	29,735	35,821
Price of departmental outputs			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	9,742	8,606	8,868
Output 1.1.2 International economic policy advice and assessment	21,465	18,501	26,953
Total price of departmental outputs	31,207	27,107	35,821
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	50,746	498,910	58,331
Average staffing levels (number)	168	184	191

Note:

The Budget for administered expenses for 2005 is as per the 2004-05 Portfolio Additional Estimates Statements. The Actual for 2005 is as per the Audited 2004-05 Financial Statements.

The Budget for departmental price of outputs for 2005 and administered expenses and departmental price of outputs for 2006 is as per the 2005-06 Portfolio Budget Statements.

Average staffing levels include locally engaged staff.

Output 1.1.1

Domestic economic policy advice and forecasting

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

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

Performance information

The key performance indicators are:

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

Analysis of performance

Policy advice and inputs into policy processes

During 2004-05, Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- It analysed and provided briefings on economic statistics released by the Australian Bureau of Statistics and the private sector. This included advice on implications for the economic outlook and information to assist the Treasurer in responding to the releases.
- As part of the Business Liaison Program, Treasury officers discussed issues relating to business activity with organisations in major business centres and regional Australia. The Treasurer received analysis of liaison findings and summaries appeared in the *Economic Roundup*.
- Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- The Treasurer received advice on fiscal policy and strategies as part of developing the 2005-06 Budget.
- In preparing advice to the Secretary as a Reserve Bank of Australia Board member, Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- Treasury also provided advice on administrative arrangements for the Reserve Bank of Australia.

- Treasury made a submission to the Senate Economics References Committee public inquiry into possible links between household debt, demand for imported goods and Australia's current account deficit.
- Treasury contributed to advising the Treasurer on the evolution and drivers of the Australian economy over time and factors likely to influence medium-term performance.

Economic forecasts

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

Several assumptions about key economic variables underpin Treasury's economic forecasts. In 2004-05, particular attention was paid to the strong world economy, developments in the housing sector, and movements in commodity prices and the Australian dollar.

Forecasting activity focused on 2004-05 and 2005-06, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2004-05*, the 2005-06 Budget, and the *Pre-Election Economic and Fiscal Outlook 2004*. These forecasts helped develop policy that contributed to the solid performance of the Australian economy.

Slow export growth and a moderation in domestic demand led to a revised forecast for economic growth in 2004-05 from 3½ per cent in the 2004-05 Budget to 2 per cent in the 2005-06 Budget. These forecasts were broadly consistent with the assessment of international forecasters such as the OECD and IMF.

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

Contributions to public awareness and debate

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

Published economic forecasts, such as those contained in the *Mid-Year Economic and Fiscal Outlook* were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on economic growth in the short-term. The *Pre-Election Economic and Fiscal Outlook* also provided this information before the 2004 election. A more

comprehensive report on the domestic and international outlook, with a particular focus on 2005-06, was provided in Statement 3 of Budget Paper No. 1, *Economic Outlook* in the 2005-06 Budget papers.

Statement 1 of Budget Paper No. 1, *Fiscal Strategy and Budget Priorities* discussed the medium-term approach to fiscal policy, establishment of the Future Fund and the public debt position.

Statement 4 of Budget Paper No. 1, *Prosperity and Sustainability*, presented a policy framework for meeting the challenges to economic growth and fiscal sustainability posed by the ageing Australian population. Australia's successful economic performance over the past decade provides a sound basis for future national prosperity if the right choices are made. Policy choices are likely to have little effect on the numbers of people of traditional working age, so successfully meeting these challenges will require a focus on facilitating further productivity improvements and increasing the rate of labour force participation.

The *Budget Overview's* non-technical discussion made major policy developments and forecasts widely accessible.

Media and market commentators drew extensively on discussions in the Mid-Year Economic and Fiscal Outlook and Budget papers. The reports contributed significantly to public debate and helped increase public awareness about the Australian economy's current performance, prospects and challenges for the future.

The four issues of Treasury's *Economic Roundup* published in 2004-05 contained overviews of economic developments and analysis of key issues underpinning Australia's recent economic performance. In particular, the Spring *Economic Roundup* review article reflected on the continued strong growth in 2003-04, in light of the world economic recovery. Other articles covered issues including comparing Australian and US labour productivity, measuring Australia's economic remoteness, the growth in goods imports, Australia's net private wealth, structural fiscal indicators, forecasting the macroeconomy and the role of Treasury's mission statement to improve the wellbeing of the Australian people in providing public policy advice.

The working paper series included two papers arguing geography has an important influence on Australia's economic performance relative to other comparable countries, particularly the United States and New Zealand, and examining international trade patterns and volumes.

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

Bilateral meetings with a range of external delegations were held and advice was provided on forecasting methodology and economic policy development.

The Secretary and other senior Treasury officials spoke on the short-term macroeconomic outlook, fiscal and monetary policy, the medium-term fiscal strategy and longer-term challenges. The speeches dealt with policy options in response to the challenges of an ageing population, capacity constraints, determinants of Australia's better economic

performance compared to New Zealand and the scope for Australia to raise productivity levels towards the international frontier.

The speeches were to organisations such as the Australian Business Economists, the Australian Industry Group's National Industry Forum, the Economic and Social Outlook Conference, and the Sydney Institute, and are available on the Treasury website.

Reviews of economic data

Treasury liaised extensively with the Australian Bureau of Statistics, both informally through regular discussion at all levels and formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group.

Output 1.1.2

International economic policy advice and assessment

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

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

A key development was Australia's endorsement as chair of the 2006 meeting of G-20 Finance Ministers and Central Bank Governors, and APEC's decision to award Australia host country status in 2007. These provide opportunities to lead the international economic and financial agenda and the global debate on measures to strengthen the foundations for economic development, growth and stability. The G-20 and APEC Secretariat was established to administer this undertaking.

Another key development was to deepen further engagement with Indonesia through the establishment of the \$1 billion Australia-Indonesia Partnership for Reconstruction and Development in response to the 2004 Boxing Day Tsunami, which includes the \$50 million Government Partnerships Fund to help Indonesia implement its economic, financial and public sector management reforms.

Performance information

The key performance indicators are:

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

- the facilitation of achievement of government objectives in international forums, including strengthening the international financial system, progressing multilateral debt relief and achieving institutional reform in the multilateral development banks; and
- timely and accurate financial transactions with international financial institutions are made with due regard to minimising cost and risk for Australia.¹

Analysis of performance

Facilitation of government objectives in international forums

International developments

With tighter macroeconomic policy settings and high oil prices, world growth has slowed moderately, following strong growth of 5.1 per cent in 2004. US growth has moderated to around trend, in line with expectations. Recent outcomes in China indicate continued strong momentum. Japan's outlook has improved recently, due to strong outcomes in the first half of 2005. The outlook for the rest of East Asia moderated as export growth eased, while the outlook for the Euro area remains subdued. Inflationary pressures in the major industrialised economies have been subdued, indicating the second round effects from higher oil and other commodity prices have not been significant.

International Monetary Fund

During 2004-05, the IMF continued to work towards a strong and stable global economy through its efforts to prevent and resolve financial crises. Australia continued to actively contribute to this debate by attending regular meetings of the International Monetary and Financial Committee Deputies, and other forums. In recent years, Australia has pushed for a review of IMF representation arrangements to address under-representation of some Asian nations. In keeping with this, Australia recognised Korea's growing economic significance by agreeing to rotate the nomination of the Executive Director to represent the constituency to which both countries belong. In November, a Korean assumed the position for the first time.

Treasury continued to support the IMF's financial activities by participating in the Financial Transactions Plan, and conducting timely and accurate financial transactions.

Treasury also helped fulfill Australia's IMF obligations through organising the annual IMF Article IV consultations in June.

Heavily Indebted Poor Countries Initiative and bilateral debt relief

Australia continued to strongly support the provision of international debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Under the initiative, eligible countries can qualify for exceptional debt relief once they have adopted sound policies, good governance practices and effective poverty reduction programmes.

¹ By law, the Treasurer must report to Parliament on Australia's dealings with the IMF and the World Bank. That report, which is expected to also address Australia's relations with the Asian Development Bank, will contain additional information on the last two performance measures.

At the October Annual Meetings of the IMF and the World Bank, ministers encouraged eligible countries to take the necessary actions to benefit from the HIPC initiative, and urged full creditor participation.

In November, the Australian Government forgave Ethiopia's bilateral debt to Australia of \$7.9 million. The announcement followed an IMF and World Bank determination that Ethiopia had undertaken all steps necessary under the enhanced HIPC initiative to be afforded debt forgiveness. This accords with Australia's commitment to provide 100 per cent bilateral debt relief to those heavily indebted poor countries with outstanding debts to Australia.

In November, the Australian Government joined other governments in the multilateral Paris Club and agreed to provide 80 per cent bilateral debt relief to Iraq.

At the March meeting of the Paris Club, the Australian Government joined other creditor countries in offering the governments of tsunami-affected countries a moratorium on scheduled debt repayments for 2005. The deferred payments will be repaid from 2006 to 2009.

In June, the Treasurer announced the Australian Government's support for the Group of Eight (G8) proposal to provide 100 per cent multilateral debt relief for countries eligible under the HIPC Initiative.

World Bank

The World Bank continues to focus on fighting poverty and improving living standards of people in the developing world. Australia emphasised the importance of trade in reducing poverty and the need for the World Bank to continue providing non-lending assistance to help improve governance and institutions in developing countries. Australia also worked to strengthen the World Bank's engagement in the Asia-Pacific region, including through liaising with the World Bank's Sydney office.

Australia, along with other donors, finalised the fourteenth replenishment of the International Development Association. Donors agreed to around \$45 billion (US\$34 billion), nearly 25 per cent more than the previous replenishment. Australia's contribution amounts to \$424 million, including \$36 million for the Heavily Indebted Poor Countries Initiative. Importantly, countries with the highest debt burden will receive all of their support from the International Development Association in the form of grants, with around 30 per cent of total support over the next three years expected to be in the form of grants.

In June, Paul Wolfowitz became the tenth President of the World Bank Group with unanimous support from the Bank Board.

Asian Development Bank

Australia and the Asian Development Bank signed a Memorandum of Understanding to establish the Asian Development Bank Pacific Liaison and Coordination Office in Sydney in May 2005. The Sydney Office will focus on the development of Kiribati, Nauru, Solomon Islands and Vanuatu, in the areas of aid coordination, country reporting, information dissemination and policy dialogue.

Australia welcomed the appointment of President Haruhiko Kuroda in December 2004. Australia contributed to the Bank's decision-making through representation on its Board of Directors and ministerial representation at the 2005 annual meeting in Istanbul, Turkey. Australia emphasised the importance of aid and trade reform in reducing poverty, supported President Kuroda's vision for enhanced regional cooperation, and welcomed the renewed dynamism and energy of the private sector operations of the Bank. More generally, Australia continued to encourage the Bank to continue to focus on its internal governance in order to strengthen its development effectiveness.

European Bank for Reconstruction and Development

As a shareholder in the European Bank for Reconstruction and Development, Australia continues to encourage the bank to pursue its mandate to assist countries in the transition from centrally planned to market-based economies. Australia encourages the bank to develop a graduation policy that optimises its resources by focusing on regions and sectors in the early stages of transition, and supports efforts to clarify the Code of Conduct to avoid conflicts of interest and maintain the highest ethical standards.

Organisation for Economic Co-operation and Development

Treasury officers participated in the work of OECD committees on macroeconomic and microeconomic policies, forecasting, taxation, budget policy, consumer policy, competition policy, corporate governance, insurance and private pensions, financial markets, sustainable development and investment, and capital markets. A Treasury official was elected as Vice-Chair of the committee on consumer policy and another chaired the 2004 Annual meeting of the National Contact Points for the Guidelines on Multinational Enterprises, a responsibility of the investment committee, and briefly chaired that committee's advisory group on relations with non-members. As part of the OECD's outreach activities, Treasury presented a paper on the failure of HIH to the OECD sponsored Assembly of Latin American Insurance Supervisors in Cochabamba, Bolivia.

Treasury was actively involved in convening the OECD Global Forum on Harmful Taxation on transparency and information exchange issues. The Treasurer wrote to Global Forum members inviting them to the forum in Melbourne in November 2005.

In November, Dr James Hagan led the Australian delegation to the OECD Economic and Development Review Committee's annual examination of Australia. The committee praised Australia's pursuit of broad ranging structural reforms and prudent macroeconomic policies as key factors underpinning Australia's prolonged period of good economic performance.

Treasury also actively participates in the review of other member and non-member economies, contributing to best practice policy development and exerting peer pressure on matters of significance to Australia.

The Group of Twenty

The G-20 Finance Ministers and Central Bank Governors forum² brings together policymakers with the capacity and legitimacy to shape the international economic environment. The G-20's comparative advantage lies in its relatively small but diverse membership, reflecting a balance of advanced and developing country views.

Treasury officers attended the G-20 deputies meetings in Frankfurt in October and in Chongqing in March. The former meeting was to prepare for the November G-20 Ministerial meeting, which the Treasurer and the Reserve Bank Governor attended. There the Treasurer led the discussion on combating the abuse of the financial system. The communiqué from G-20 members committed to higher standards of transparency and information exchange on tax matters. Ministers considered other issues including demographic challenges, stability and growth in the context of globalisation, regional integration in a global framework, institutional building in the financial sector and strategic directions for the international financial institutions. The meeting also endorsed Australia as chair for 2006.

Since January, Australia has been part of the G-20 management troika, comprising the previous, current, and following year's chairs (Germany, China and Australia). Treasury officials attended troika deputies' meetings in Washington in April, Chongqing in March and Beijing in June.

G-20 members participate in specially convened workshops to consider analytical and policy material relevant to Ministers and Central Bank Governors. Treasury officials represented Australia at workshops on demography and growth in Paris in July; regional economic integration in a global framework in Beijing in September; and innovative financing mechanisms for development in Rio de Janeiro in June.

Australia prepared a discussion paper for the G-20 Deputies meeting in March 2005 on demographic challenges and migration.

Four Markets Group

Through the Four Markets Group, Australia, Hong Kong, Japan and Singapore share their perspectives on macroeconomic, financial market and regulatory developments in the region.

Treasury attended the Four Markets Group meeting in Tokyo in October to discuss the macroeconomic situation of each country and the region, focusing on China, international financial reporting standards, regional and financial cooperation, and progress on bilateral trade and economic arrangements.

A Treasury paper examined the adoption of international financial reporting standards in the region, whether there was scope for greater regional convergence and the benefits that may flow from such developments. The outcome of the discussion was support by members for Australia to host a regional forum on the reporting standards.

2 G-20 members include: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States. The European Union is represented by the Council presidency and the President of the European Central Bank. The managing director of the IMF and the president of the World Bank, plus the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate as ex-officio members.

Member countries rotate the hosting of meetings and Australia will host the October 2005 meeting. Members agreed to expand membership to include China and Korea in view of the importance of their financial markets and economies to the Asian region.

Asia-Pacific Economic Cooperation

The Treasurer received policy advice and briefings for at the eleventh APEC Finance Ministers' Meeting in Thailand in September 2004. Finance Ministers stressed that to reap the benefits of enhanced openness and integration, member economies must have in place policies and institutions that lead to sustainable, broad-based and equitable growth in the region.

The APEC Finance Ministers' process focused on establishing a framework for building sound domestic institutions in the region, emphasising development of effective and stable capital markets. Treasury led two initiatives within the Finance Ministers' process that focused on the development of future leaders and improved economic governance. These were: the APEC Future Economic Leaders' Think Tank, and Corporate Governance Pathfinder.

Treasury officers attended APEC Finance Ministers' Technical Working Group meetings in Korea in December and June. The Technical Working Group endorsed two Treasury initiatives on fiscal management and financial reform. Treasury officers also participated in an APEC Finance and Development Program dialogue in China in November, and an APEC Policy Dialogue on Remittances in Thailand in May.

In the APEC Investment Experts' Group, Treasury worked to ensure the focus was on investment liberalisation and facilitation rather than investment promotion. Treasury participated in a meeting in Korea in May 2005.

Relations with East Asia

Engagement with key Asian economies has advanced in a range of ways.

Treasury's engagement with Indonesia acquired a significant new dimension with the establishment of the \$1 billion Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) in response to the 2004 Boxing Day Tsunami. The Treasurer sits on the Joint Commission of the AIPRD and the Treasury Secretary is one of five agency heads on the AIPRD Secretaries' Committee. A Treasury officer, Frank Di Giorgio, was seconded to the AIPRD Secretariat for several months during 2005.

Treasury provides advice to the Secretaries' Committee on all aspects of the programme, but focuses on the \$50 million Government Partnerships Fund, a whole-of-government programme to support Indonesia implement its programme of economic, financial and public sector management reforms. It is developing activity proposals to provide technical assistance to Indonesian counterpart agencies.

To promote ongoing engagement, senior Treasury officials gave addresses on issues of importance to Australia and East Asia, including: Australia-China economic directions; long-term trends in the Australian Economy; macroeconomic policy and structural change in East Asia; and Australia's international engagement and reform.

As part of the Government's commitment in the 2004-05 Budget to promote economic security in East Asia, Treasury hosted the inaugural conference, Macroeconomic Policy and Structural Change in East Asia in Sydney on 24 and 25 February 2005. The conference provided a forum for discussing medium-term economic policy issues with senior Treasury, Ministry of Finance and Central Bank officials from East Asia, the United States and the Pacific. It is proposed such policy dialogues become an annual event.

Treasury continued to receive delegations from the region, particularly China and Indonesia, for discussions of policy issues. Graeme Davis, Manager, Macro Dynamics Unit, visited Beijing in October 2004 to deliver a presentation to the National Reform and Development Commission on Australia's macroeconomic frameworks. Blair Comley, Australia's representative to the OECD, visited Jakarta in March to present seminars on debt management and tax reform. Geoff Miller, Manager of the Individuals and Exempt Tax Division, visited Jakarta in June to meet with staff from the Indonesian Ministry of Finance and delivered a presentation on taxation of employee non-cash benefits.

Three senior Treasury officials posted to Beijing, Jakarta and Tokyo assist understanding of conditions in regional economies. They continue to build closer contact with Treasury's counterparts in Japan, Korea, China, Hong Kong, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines, and, as part of the team at the relevant embassies, help enhance Australia's economic relations with the region.

Manila Framework Group

The last Manila Framework Group meeting, held on 30 November and 1 December 2004, considered four issues: risks and issues associated with global and regional economic developments and the outlook; members' policy responses to sustain growth and facilitate global adjustment; the business cycle and private-sector debt; and the future prospects of the Manila Framework Group's. Australia's options paper on the prospects concluded the forum had achieved its purpose to help manage the financial crisis and promote financial stability in East Asia. The general consensus was to disband the group; however, members hoped other forums would be as successful in promoting frank and open discussion on structural and macroeconomic stability issues.

Relations with Pacific Economies

Pacific Islands Forum Economic Ministers' Meeting

The Parliamentary Secretary to the Treasurer attended the ninth annual Pacific Islands Forum Economic Ministers' Meeting in Tuvalu in June. The meeting discussed key private sector development challenges in the Pacific including the costs of doing business, institutional reform, public enterprise governance, regional transport and economic aspects of regional integration. Australia's involvement supports Forum Island Countries in developing appropriate economic policies for achieving development goals.

Treasury preparation for this meeting reinforced the focus on core economic governance issues.

Policy advice

Economic reconstruction issues

The 2004-05 Budget allocated \$9.2 million over five years to Treasury's work on South Pacific economic governance and stabilisation. Treasury provides policy advice on economic issues relating to nations in the Pacific, particularly Solomon Islands, Papua New Guinea and Nauru, and logistical support and policy advice to officers deployed in those countries.

Solomon Islands

In January, the Financial Management Strengthening Project was introduced as the second phase of the economic governance assistance package as part of the Regional Assistance Mission to Solomon Islands. The project assists with the budget and focuses on improving fiscal management systems, strengthening tax administration, and building the capacity of local Solomon Islanders. Three Treasury officers were deployed to the project, including as Under Secretary of the Department of Finance and Treasury.

Treasury officers, deployed to the Solomon Islands Economic Reform Unit, continued to engage with government, donors and other stakeholders to identify opportunities for economic reform and facilitate its implementation.

Papua New Guinea

Under the Papua New Guinea-Australia Treasury Twinning Scheme, two Treasury officers were deployed to the PNG Treasury, and one PNG Treasury officer was deployed to work in Treasury and one PNG Treasury officer is studying at the Australian National University.

Treasury officers deployed to the PNG Treasury under the Enhanced Cooperation Program work on general economic policy issues, fiscal and taxation policy, and governance of statutory authorities and government business enterprises. Since the May 2005 PNG Supreme Court's decision on a constitutional challenge to the programme, all officers have performed advisory roles.

Nauru

As part of the Economic Advice and Governance Assistance Program, a Treasury officer was deployed as Secretary of Finance in Nauru. During the year, this officer assisted in stabilising the financial position of Nauru and developing Nauru's 2004-05 Budget.

The International Economic Policy Group

Treasury continued to play an active role in the International Economic Policy Group, which remained instrumental in maintaining a coordinated whole-of-government approach to international economic developments and consideration of relevant policy issues. The group meets approximately every six weeks, or as needed. It comprises high level officers from the Department of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury, AusAID, the Office of National Assessments and the Reserve Bank of Australia, 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 economic objectives and improving the wellbeing of Australians. Ongoing advice provided by Treasury to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions.

Responsibility for Outcome 2 is shared between Fiscal and Revenue Groups.

Fiscal Group focuses on the core government activities of: advising on, developing and producing the Australian Government Budget; managing debt; reviewing the funding of other levels of government, advising on core government services, such as social policy, health policy, labour market participation, industry and environment policy, and defence and national security policy. Policy advice includes attending to the need to address pressures from an ageing population by improving participation, productivity and fiscal sustainability.

During 2004-05, Treasury devoted significant resources to delivering services related to key budget products and payments to the states and territories. Treasury released the *Pre-Election Economic and Fiscal Outlook 2004*, prepared the 2005-06 Budget and the *Mid-Year Economic and Fiscal Outlook 2004-05*, administered payments to the States and contributed to the implementation of the harmonised Australian accounting standards and review of Horizontal Fiscal Equalisation methodology simplification. Treasury also advised on implementing the election commitment to introduce the Future Fund.

By providing advice on welfare to work, education and training, immigration, health, water reform, climate change, drought policy, defence and national security and industrial relations reforms, Treasury contributed significantly to policy development. Major contributions related to the Government's family tax benefit reform from the 2004-05 Budget and the *Welfare to Work* reform measures announced in the 2005-06 Budget. Work to increase public awareness of the challenges to the sustainability of demographic change, particularly public consultation on *Australia's Demographic Challenges* continued.

Revenue Group has the primary responsibility within the Australian Public Service for providing quality advice to Treasury ministers on taxation and retirement income policies and designing and delivering taxation and retirement income legislation. Policy advice and legislation are developed through an integrated process of close cooperation with the Australian Taxation Office and relevant Commonwealth departments, and wide consultation with business and community interests. The contribution to better tax policy and better tax law are key elements of Treasury's role as a central policy agency.

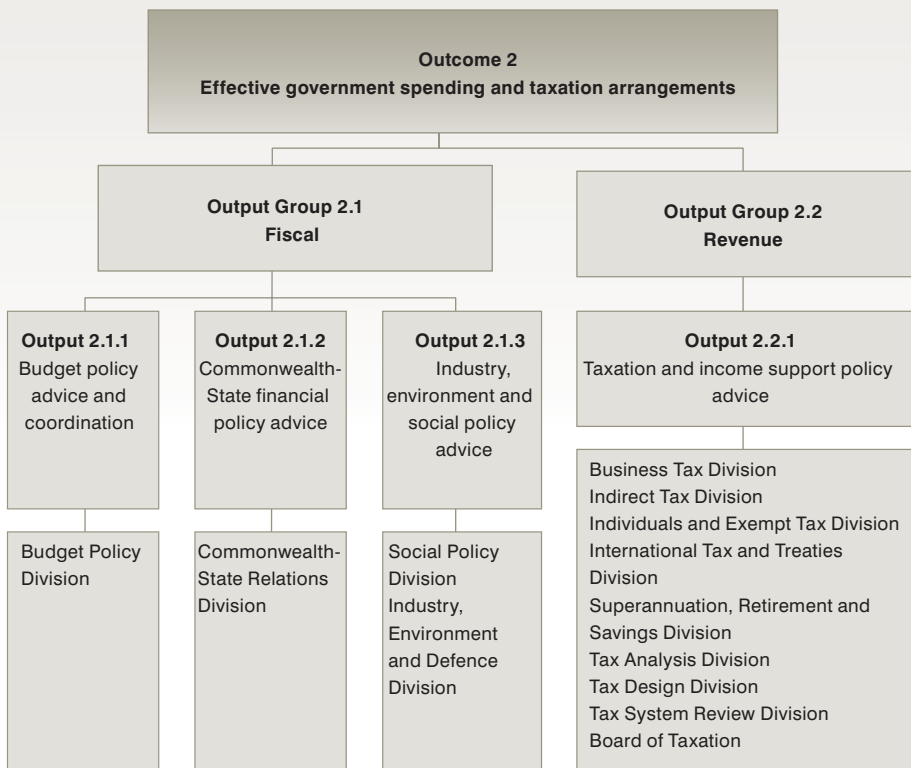
During 2004-05, Treasury devoted significant resources to tax and retirement income reform, including the taxation of financial arrangements, the review of international tax arrangements, choice of superannuation fund and abolition of the superannuation surcharge.

A longer term focus on tax reform was reflected in the significant resources Treasury devoted to the *Review of Aspects of Income Tax Self Assessment*, which reported to the Treasurer in August. This commitment was expanded as a new division implemented and further developed the reforms the Government endorsed in the review report, and this division will progress other tax administration system reforms. This systematic review is ongoing and will leverage the benefits of the 2002 relocation of the tax legislation function to Treasury.

In all, 21 taxation and superannuation bills, containing 111 measures, were introduced into Parliament. Three of these bills were introduced after the 2005-06 Budget, to give effect to Budget announcements. Eight of the 10 bills Treasury sought to have passed during the winter sittings received Royal Assent by 30 June 2005.

Further development of the consultation process, integrated tax design and quality assurance systems, and a principles-based approach to tax design were key activities. These improve the processes and outputs in developing advice and designing legislation for taxation and superannuation policies. Treasury consulted extensively with industry and other stakeholders on taxation and superannuation measures, emphasising better tax design, and including a business liaison programme with key industry associations and development of an evaluation system. Treasury also provided two reports to the Board of Taxation on consultation on announced tax measures to help the board monitor the consultation process.

Figure 6: Outputs contributing to Outcome 2



Key priorities in 2004-05

Policy advice from Fiscal and Revenue Groups covers a broad agenda. Strategies include developing specialist expertise in policy and taxation design areas, further developing key partnerships with other participants in the policy process, and focusing more on the strategic assessment of emerging core issues. Key priorities included:

- budget policies, including arrangements to distribute resources between the Commonwealth and other levels of government, consistent with sustainable public finances and macroeconomic objectives;
- government expenditure programmes, particularly those with significant economic or budgetary implications;
- policies related to the Australian Government's debt portfolio and the management of the portfolio;
- taxation policies and legislative design proposals contributing to reform of the Australian taxation system through greater efficiency, equity and transparency whilst minimising compliance and administrative costs;
- policies to promote the efficient and sustainable use of resources and improve the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth;
- development and implementation of policies on retirement incomes, including superannuation and the age pension, and other income support arrangements promoting the wellbeing of Australians;
- production of the *Pre-Election Economic and Fiscal Outlook 2004*, *Mid-Year Economic and Fiscal Outlook 2004-05*, and 2005-06 Budget and, meeting requirements of the Charter of Budget Honesty, including for the 2004 elections;
- public consultation on the Australian Government's Discussion Paper *Australia's Demographic Challenges*;
- a review, in conjunction with the States and Territories, to consider the simplification of horizontal fiscal equalisation principles;
- implementation of decisions arising from the Australian Government's Review of Aspects of Income Tax Self Assessment;
- improved processes and outputs in developing advice on taxation and superannuation policies (including consultation processes and design of legislation);
- implementation of more decisions arising from the review of international taxation;
- further stages in legislation relating to the taxation of financial arrangements, the definition of charities, penalties for tax scheme promoters, foreign resident withholding and a substantial programme of other tax legislation; and
- preparation of costings and quantitative analysis of taxation, income support and retirement incomes policy proposals.

Key outcomes in 2004-05

Key achievements during 2004-05 were:

- Treasury provided advice on the budget outlook and priorities, and improved the capacity to understand States' longer-term expenditure and revenue pressures as a basis for advising on the impact of arrangements under the Intergovernmental Agreement.
- Treasury contributed to the development of national security policies and accountability frameworks for the Defence portfolio.
- Treasury further developed a whole-of-government balance sheet management framework including advice on the Future Fund.
- Policy advice on environmental, agricultural and natural resource management issues included the National Water Initiative, the Australian Government Water Fund, climate change, the Productivity Commission Inquiry into Energy Efficiency, a broad range of agricultural assistance and adjustment issues, drought policy and environmental and agriculture related aspects of the Government's response to the Productivity Commission's Review of National Competition Policy Reforms.
- With the Department of Finance and Administration, Treasury delivered the *Pre-Election Economic and Fiscal Outlook 2004*, (September), the *Mid-Year Economic and Fiscal Outlook 2004-05*, (December) and the 2005-06 Budget (May).
- Treasury contributed significantly to family tax benefit reform announced in the 2004-05 Budget and to *Welfare to Work* reform announced in the 2005-06 Budget. It also contributed to policy on education and training issues to improve capacity to work, particularly a national approach to vocational education and training (announced at the Council of Australian Governments) and new requirements under Specific Purpose Payments for schools.
- Public awareness of the challenges to fiscal sustainability of demographic change increased, particularly through public consultation on *Australia's Demographic Challenges*.
- Through a Commonwealth/State secretariat, Treasury undertook a simplification review of Horizontal Fiscal Equalisation, to advise Heads of Treasuries.
- Policy development covered a wide range of health issues in Medicare, the Pharmaceutical Benefits Scheme, Pharmacy Agreement, preventative health and structural reform in the aged and community care sectors.
- Advice to the Government on a range of business tax policy issues included the consolidation regime, reforms to the imputation system, taxation of financial arrangements and company loss recoupment rules.
- Treasury implemented further major reforms to the international tax arrangements announced in the 2003-04 Budget and provided advice on reforms announced in the 2005-06 Budget. These reforms reflect the outcomes of the Review of International Tax Arrangements and should modernise Australia's international tax system.

- Treasury reviewed income tax self assessment, focusing on whether the income tax laws achieve a fair balance between protecting the rights of individual taxpayers and protecting the revenue for the benefit of the Australian community. New legislation to reduce the consequences of assessment errors for taxpayers acting in good faith, provide a lower rate of interest for the period before taxpayers are notified of their error and refine the penalties regime; expose legislation relating to ATO advice and amendment periods to public consultation; and start a series of further reviews.
- Key elements of the Government's reforms to retirement incomes policy increase the security, attractiveness and accessibility of superannuation. Treasury advised the Government on implementing the choice of superannuation fund policy.
- A discussion paper was released on the Government's fuel tax credit reforms, with the view to lowering compliance costs and reducing tax on business.
- The principles-based approach to tax design was advanced, which should provide more accessible law, with greater integrity, clarity and durability.
- Treasury continued to develop integrated tax design and quality assurance systems for a holistic and collaborative approach to quality tax design.
- Improved consultation processes include development of an evaluation system to ensure the processes satisfy both the participants and Treasury.
- Treasury supported ministers' tax system governance issues, including implementation of the Uhrig Report recommendations.
- As part of the *Charter of Budget Honesty Act 1998*, the Department of Finance and Administration and Treasury coordinated the costing of election commitments for the Liberal-National Party Coalition and the Australian Labor Party leading up to the 2004 Federal Election.
- Treasury provided advice to the incoming government following the 9 October 2004 Federal Election.
- A scoping study into the development of quantitative models examined how changes to tax, income support and other policy affect labour force participation. Subsequently, the 2005-06 Budget provided funding for the Participation Modelling Project.

Table 3: Financial and staffing resources summary for Outcome 2

	Budget 2005 \$'000	Actual 2005 \$'000	Budget 2006 \$'000
Administered expenses			
Appropriation Acts No 1 and 3	-	-	-
Appropriation Acts No 2 and 4	18,710	14,235	4,272
Appropriation Acts No 5 and 6	-	-	-
Special Appropriations	36,099,792	36,047,051	38,485,602
Other expenses	-	1,803	-
Total administered expenses	36,118,502	36,063,089	38,489,874
Revenue from Government			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,279	3,522	4,256
Output 2.1.2 Commonwealth-state financial policy advice	3,718	5,843	2,697
Output 2.1.3 Industry, environment and social policy advice	7,211	7,111	7,173
Output Group 2.2 Revenue			
Output 2.2.1 Taxation and income support policy advice	39,814	39,732	43,092
Total revenue from Government contributing to the price of departmental outputs	54,022	56,208	57,218
Revenue from other sources			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	69	54	86
Output 2.1.2 Commonwealth-state financial policy advice	78	46	55
Output 2.1.3 Industry, environment and social policy advice	151	110	145
Output Group 2.2 Revenue			
Output 2.2.1 Taxation and income support policy advice	836	606	874
Total revenue from other sources	1,134	816	1,160
Total revenue for departmental outputs (Total revenues from Government and other sources)	55,156	57,024	58,378
Price of departmental outputs			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,348	3,531	4,342
Output 2.1.2 Commonwealth-state financial policy advice	3,796	3,219	2,752
Output 2.1.3 Industry, environment and social policy advice	7,362	7,453	7,318
Output Group 2.2 Revenue			
Output 2.2.1 Taxation and income support policy advice	40,650	38,439	43,966
Total price of departmental outputs	55,156	52,642	58,378
Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)	36,173,658	36,115,731	38,548,252
Average staffing levels (number)	398	401	405

Note:

The Budget for administered expenses for 2005 is as per the *2004-05 Portfolio Additional Estimates Statements*. The Actual for 2005 is as per the Audited 2004-05 Financial Statements.

The Budget for departmental price of outputs for 2005 and administered expenses and departmental price of outputs for 2006 is as per the *2005-06 Portfolio Budget Statements*.

Average staffing levels include locally engaged staff.

Output 2.1.1

Budget policy advice and coordination

Budget Policy Division in Fiscal Group and Tax Analysis Division in Revenue Group are responsible for the delivery of Output 2.1.1, budget policy advice and coordination.

Fiscal Group and Revenue Group contribute to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues, current and prospective trends in Australian Government revenue and major fiscal aggregates, the fiscal framework and debt policy. In addition, Fiscal Group, with the Department of Finance and Administration, coordinates preparation of budget and related documents.

Performance information

The key performance indicators are:

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

Analysis of performance

Advice on the budget outlook

During 2004-05, Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the Pre-Election Economic and Fiscal Outlook, the Mid-Year Economic and Fiscal Outlook, and the 2005-06 Budget.

As budget estimates are a joint responsibility, preparation of this advice required extensive liaison with the Department of Finance and Administration, the Australian Taxation Office and other Australian Government departments and agencies. Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available.

Final budget outcome for 2003-04

The *Final Budget Outcome 2003-04* was published in September 2004. In 2003-04, the Australian Government general government sector recorded an underlying cash surplus of \$8.0 billion, some \$3.5 billion more than estimated at budget time, mainly due to higher than expected tax receipts from individuals other than wage and salary earners, and lower than expected cash payments. Lower payments were partly due to slippage in a range of health grant programmes and slower take-up of newly listed drugs under the Pharmaceutical Benefits Scheme.

The accrual fiscal surplus of \$5.6 billion, some \$2.6 billion more than estimated at budget time, partly reflected higher than expected tax revenue from other individuals partly offset by lower than expected company tax revenue and accrual expenses.

Pre-election economic and fiscal outlook

In September, the Secretaries of the Treasury and Department of Finance and Administration publicly released the Pre-Election Economic and Fiscal Outlook. This provided updated information on the economic and fiscal outlook and is a requirement of the *Charter of Budget Honesty Act 1998*. In line with the Act, the outlook was released within ten days of the issue of the writ for the general election.

The Pre-Election Economic and Fiscal Outlook estimated the underlying cash surplus for 2004-05 to be \$5.3 billion, some \$2.9 billion more than at budget time. A fiscal surplus of \$3.6 billion was estimated for 2004-05, some \$2.9 billion more than at budget time.

Budget forecasts

The 2004-05 Budget, published in May, contained forecasts of the fiscal outlook for 2004-05 and the following three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in December 2004, forecast an underlying cash surplus of \$6.2 billion for 2004-05, some \$3.8 billion more than at budget time. This largely reflected an increase of \$5.5 billion in estimated cash receipts offsetting an increase of \$1.7 billion in payments. The increase in estimated cash receipts was driven by higher than expected company profits and stronger than expected employment outcomes. The increase in estimated cash expenditure was principally due to implementation of the Government's election commitments and other new policy measures. Major new initiatives included raising the Medicare Rebate, increasing investment in school infrastructure and increasing assistance to senior Australians. In accrual terms, the 2004-05 fiscal balance was revised up some \$4.2 billion to \$4.9 billion since the 2004-05 Budget.

The 2005-06 Budget revised up the estimated underlying cash surplus for 2004-05 by \$3.0 billion since MYEFO to \$9.2 billion, largely reflecting higher than anticipated taxation receipts from companies, small unincorporated businesses and personal investors. In accrual terms, the estimated fiscal surplus for 2004-05 was revised up by \$2.1 billion to \$7.0 billion.

Budget and financial frameworks policy advice

Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising Treasury ministers on the overall budget strategy and priorities. Good budget processes help governments take decisions on the basis of accurate information, allowing proposals to be prioritised according to the overall budget objectives.

Debt management policy

While the Australian Office of Financial Management is responsible for operational aspects of the management of the Australian Government debt portfolio, Treasury develops advice to the Treasurer on strategic debt policy issues and relevant wider public policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or for the effective functioning of markets and/or the real economy. Treasury also provides advice where broader macroeconomic developments or public policy considerations may affect debt management. Treasury also plays an important role in the governance structures for the management of the Australian Government debt portfolio.

During 2004-05, Treasury worked closely with the Australian Office of Financial Management on implementing the debt issuance strategy, consistent with the outcomes of the 2003 review of the Australian Government Securities market. These issues are discussed further in the Australian Office of Financial Management's Annual Report.

Future Fund

In light of the 2004 election commitment to establish the Future Fund, Treasury with the Department of Finance and Administration, has been working on the policy's development and implementation. Work on the broad governance arrangements and initial scoping of the impact of the fund on the Government's financial position was reflected in the 2005-06 Budget.

Treasury will be responsible for implementing Future Fund policy and Fiscal Group established a team to do this in May 2005. Its main tasks are to draft enabling legislation, assist the Government in choosing the Future Fund Management Board and provide advice to the Government in formulating an investment mandate to guide the board in managing the fund.

Contribution to public debate and awareness

Budget publications

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

Treasury and the Department of Finance and Administration jointly prepare the Government's budget documentation. Treasury also prepares accessible summaries for non-specialist readers. These were the general budget overview, an overview of the *Welfare to Work* initiative and a budget-at-a-glance.

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

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

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

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;
- accountability, with information allowing an informed assessment of the conduct of fiscal policy; and

- reporting against external accounting standards.

Under the charter, budget reporting follows an annual cycle comprising the budget in May, a mid-year update around November and a final budget outcome in the following September. The charter also stipulates that an intergenerational report be produced on a five-yearly cycle.

Some changes to budget documents in the 2005-06 Budget enhanced the information available to readers. A new section in Statement 2 of Budget Paper 1, Fiscal Outlook, assessed the medium-term fiscal outlook and associated pressures and Statement 11 provided a quick reference table on the status of risks.

In 2004-05, Treasury met with representatives from countries including Korea, China, Thailand and Vietnam, interested in learning about Australia's budgeting and reporting framework. In addition, Treasury gave presentations to secondees from Papua New Guinea's Department of Finance and Administration.

Tax Expenditures Statement

Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *2004 Tax Expenditures Statement*, published in January 2005, reported on the cost of tax expenditures with estimates and projections to 2007-08. Production of this statement assists transparency and encourages public scrutiny of government programmes delivered through the tax system.

Output 2.1.2

Commonwealth-State financial policy advice

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

Fiscal Group contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, and on related State and Territory fiscal and taxation issues.

Fiscal Group also manages the efficient administration of payments to the States and Territories, including GST revenue, Budget Balancing Assistance, compensation for GST revenue deferred, National Competition Policy Payments and Special Revenue Assistance.

Performance information

The key performance indicators are:

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

Analysis of performance

Advice on reform of Commonwealth-State financial relations

This was the fifth year of full operation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Treasury provided advice to the Treasurer on various aspects of the agreement, particularly transitional issues such as calculation of the Guaranteed Minimum Amount and abolition of State taxes listed in the Intergovernmental Agreement.

The Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Australian Treasurer and all State and Territory Treasurers, oversees the implementation and operation of the Intergovernmental Agreement. Treasury coordinates the agenda for the Ministerial Council. At the sixth annual meeting of the Ministerial Council, in March 2005, Treasurers discussed the Australian Government's proposal for the elimination of inefficient State taxes and review of the Horizontal Fiscal Equalisation Methodology. Other matters discussed included expected payments to the States and Territories, GST administration issues and other policy and administrative matters, including specific purpose payments. Treasury advised the Treasurer on the key issues.

The Australian Loan Council traditionally meets in March to consider each jurisdiction's expected borrowing for the next financial year. Treasury advised the Treasurer on the key issues and coordinated arrangements for this meeting, which was held in conjunction with the Ministerial Council meeting.

Heads of Treasuries

The Heads of Treasuries meetings are a forum to share information on issues common to the Australian, State and Territory governments. The Treasury Secretary and his State and Territory counterparts met three times to focus on issues arising under the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues and specific purpose payments.

GST Administration Sub-committee

The GST Administration Sub-committee assists the Ministerial Council in monitoring the operation and administration of the GST. The sub-committee met three times and advised on modifications to the GST base and the Australian Taxation Office's administration of the GST. Treasury chairs the sub-committee, which comprises officials from the Australian Treasury, the Australian Taxation Office and State and Territory Treasuries. The sub-committee monitored the operation of the GST Administration Performance Agreement between the States and Territories and the Australian Taxation Office. Consistent with the terms of the agreement, the sub-committee undertook the agreement's triennial review, and discussed GST revenue receipts and payments, GST implementation and administrative issues.

Review of state taxes

Treasury chaired a working group comprising representatives from the Australian, State and Territory Treasuries to prepare a report which formed the basis for the Ministerial Council's review of the need to retain the State and Territory stamp duties listed under the Intergovernmental Agreement. Treasury also provided policy advice to the Treasurer on issues relating to the reform of these stamp duties.

Secretariat to the Review of Horizontal Fiscal Equalisation Methodology

At the 26 March 2004 meeting of the Ministerial Council for Commonwealth-State Financial Relations, a majority of the States and Territories, with Australian Government support, agreed to task the Heads of Treasuries to examine aspects of the Commonwealth Grants Commission's methodology for implementing the principle of horizontal fiscal equalisation, while maintaining the underlying principles of equalisation.

The review was guided by a steering committee, chaired by the Treasury Secretary with Treasury and the Commonwealth Grants Commission providing the secretariat. The review found that the methodology, while generally robust, could be simplified without compromising the underlying principle of horizontal fiscal equalisation.

The Ministerial Council agreed at its 23 March meeting to provide the Commonwealth Grants Commission with terms of reference to guide it in simplifying its methodology for report to the Council by 2010.

Information for the public

Treasury contributed to the Australian Government's provision of information, in television and newspaper announcements to the public on Australian Government payments to the States and Territories.

International relations

In 2004-05, Treasury continued to participate in the Organisation for Economic Co-operation and Development's Network on Fiscal Relations across Levels of Government and the International Monetary Fund's Fiscal Decentralisation Course, and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States and Territories.

Payments to the States

Treasury administers a number of payments to the States and Territories, including payments under the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*. A total of \$36.3 billion was paid to the States and Territories under the Act in 2004-05 comprising GST revenue, compensation for GST revenue deferred and National Competition Policy Payments.

Goods and Services Tax Revenue

A key element of *A New Tax System*, introduced on 1 July 2000, is for the States and Territories to receive all GST revenue. GST revenue is the largest payment made by the Australian Government to the States and Territories. The Australian Government provides all GST revenue in monthly payments, consistent with relativities determined

by the Treasurer following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2004-05, the States and Territories received around \$35.3 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

The ATO collects GST revenue on behalf of the States and Territories and they compensate the Australian Government for the costs the Australian Taxation Office and the Australian Customs Service incur in administering and collecting GST. Payments by the States and Territories to the Australian Government in 2004-05, reflecting costs incurred, amounted to around \$588 million. Treasury monitored payments to ensure the States and Territories made full and timely payments.

Small Business Annual Payment and Lodgment of GST — Compensating the States for GST Deferred

In the 2004-05 Budget, the Government committed to compensate fully the States and Territories for the revenue impact of annual reporting and payment by taxpayers who voluntarily register for GST. Consistent with this commitment, Treasury paid around \$219 million to the States and Territories as compensation in 2004-05.

Budget Balancing Assistance

The Australian Government guaranteed that in the transitional years of tax reform, each State and Territory's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. Treasury provides advice to the Treasurer on how much funding each State and Territory would have received under the previous system to enable the Treasurer to determine the Guaranteed Minimum Amount.

To meet its guarantee, the Australian Government pays Budget Balancing Assistance to cover any shortfall of GST revenue compared with each State and Territory's Guaranteed Minimum Amount. By 2004-05, each State and Territory's GST revenue entitlement exceeded its Guaranteed Minimum Amount, so no Budget Balancing Assistance was paid.

National Competition Policy Payments

Each State and Territory's full entitlement to National Competition Policy Payments is subject to it satisfactorily meeting conditions specified in the *Agreement to Implement the National Competition Policy and Related Reforms*. The National Competition Council assesses whether each State and Territory has met the specified conditions and provides recommendations on associated penalties, and the States and Territories have the opportunity to comment. The Government, after accepting the National Competition Council's recommendations, decided that, out of an estimated maximum level of payments in 2004-05 of \$777.9 million, it would apply permanent deductions of \$26.3 million and suspensions of \$114.1 million to the States and Territories. Actual payments to the States and Territories of \$724.4 million in 2004-05 also included adjustments finalising 2003-04 competition payments.

Budget publications

Information on the Government's financial relations with State and local governments is documented in Budget Paper No. 3, *Federal Financial Relations 2005-06*. This

document is the main public source of information on Australian Government payments to the States and Territories. It also informs the States and Territories of their expected payments in the upcoming financial year, including GST revenue, specific purpose payments and National Competition Policy Payments.

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

Output 2.1.3

Industry, environment and social policy advice

Industry, Environment and Defence Division and Social Policy Division in Fiscal Group are responsible for the delivery of Output 2.1.3, industry, environment and social policy advice.

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

During 2004-05, Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

Performance information

The key performance indicators are:

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

Analysis of performance

Advice on industry policy

Treasury provided advice on removal of the 3 per cent tariff that applied to business inputs imported under the tariff concession scheme. This measure was a key component of the \$1.8 billion 2005-06 Budget package of tax cuts for business.

Following the review of the financial health of the Australian Customs Service, Treasury provided advice to the Treasurer on the future structure of Customs' import processing charge and its alignment with the costs of processing inputs.

Treasury provided input to the Government's response to the Council of Australian Governments (COAG) and the *A Nation Charred* bushfire inquiries, and is coordinating implementation of those COAG bushfire inquiry recommendations affecting the Treasury portfolio.

Treasury provided advice to the Treasurer on Strategic Investment Coordination proposals, and participated in the Heads of Treasuries working group on major project assistance, helping to develop principles for assessing the potential economic benefits of projects. Fiscal and Markets Groups advised on the implementation of measures in response to the Prime Minister's Exports and Infrastructure Taskforce.

Involvement in implementing the Government's Energy White Paper included participating in reviews of energy technology.

Advice on agriculture policy

Input into the Government policies on agriculture required ministerial briefings, participating in interdepartmental meetings and committee work. Treasury participated in, and provided advice on, the 2005 Drought Package which includes additional support for farm businesses, simpler reassessment processes for drought declared areas and additional funding for rural financial counselling services.

Quarantine policy work included *Quarantine Border Security*, which provides funding for the enhanced level of quarantine screening announced in 2001.

Treasury also provided advice to the Treasurer on the four year continuation of the Southern Ocean Surveillance programme. This programme aims to suppress illegal fishing activities to protect Australia's sovereign interests in, and the environmental values of, the Southern Ocean.

Advice on environment policy

Advice to the Treasurer covered natural resource management issues including water, climate change and Tasmanian forest policy.

Treasury provided advice and analysis regarding water policy, including the Australian Government Water Fund, comprising the Water Smart Australia, Raising National Water Standards, and Community Water Grants programmes. This \$2 billion package invests in water infrastructure, improved collection of water data and better practices in the stewardship of Australia's scarce resources.

Work with the Australian Greenhouse Office was on the general economic framework and processes underlying production of the Intergovernmental Panel on Climate Change Special Report on Emission Scenarios. Treasury provided significant input into the Carbon Capture Storage regulatory framework and the risk management of long-term carbon dioxide storage.

Advice on defence and national security policy

Advice on defence and national security issues covered defence capability projects, property management issues and the deployment of Australian Defence Force personnel. Policy development processes included participating in the Secretaries' Committee

on National Security to enhance the rigour of policy proposals going to the National Security Committee of Cabinet.

Treasury also provided advice on domestic security arrangements and other issues relating to the Attorney-General's portfolio and participated in related policy development processes. This included preparations for Commonwealth Games security and helping oversee the implementation of the recommendations of the *Report of the Inquiry into Australian Intelligence Agencies*.

Interdepartmental Committee processes covered Defence Capability Plan projects, aviation security, Defence funding, and Defence property management and disposal. Treasury sought to improve ministers' oversight of Defence procurement by assisting in implementing the 2003 Defence Procurement Review's recommendations and being a member of the Defence Materiel Organisation's Advisory Board.

Advice on social policy

Treasury contributed to policy development processes across a broad range of social policy issues.

In particular, Treasury contributed to the development of the *Welfare to Work* package, announced in the 2005-06 Budget, which seeks to encourage those who have the capacity to do so to participate more in the workforce.

Treasury also provided advice to the Treasurer on:

- changes to the family payments system, including measures to reduce the number of Family Tax Benefit overpayments;
- a range of education issues, including the development of the 2005-08 Schools Agreements, and the Commonwealth-State Agreement on Vocational Education and Training;
- immigration issues including border security, the 2005-06 migration programme, management of the expiring Temporary Protection Visa caseload and detention arrangements of illegal fishers; and
- indigenous policy issues.

Treasury also provided policy advice for the Government's response to the House of Representatives Standing Committee on Family and Community Affairs Report *Every Picture Tells a Story: inquiry into child custody arrangements in the event of family separation*, including the Family Law reforms announced in the 2005-06 Budget.

Advice on labour market participation policy

Economic advice to the Government included the impacts of various workplace relations reform options. Treasury's continued contribution to workplace relations issues will focus on successful implementation of announced reforms, especially on the operation of the Fair Pay Commission and further award rationalisation.

Treasury assisted with the Government's submission and other related work associated with the Australian Council of Trade Unions' application to the Australian Industrial Relations Commission to increase minimum award rates of pay.

During 2004-05, Treasury contributed to, and continued the development of, policy proposals to address the ageing of the population. For example, *Outcomes of the Consultations on Australia's Demographic Challenges* provides a summary of the views arising from the mid-2004 consultation process. The general consensus was that actions the Government is taking now are correct because it takes time to address attitudinal issues, and to plan for a workforce to deliver the services required in the future.

The *Welfare to Work* package is a critical step in meeting the challenges of an ageing population. Treasury will continue to be involved in implementing and assessing these measures, and advising on Job Network and other employment services.

Treasury provided advice on the Productivity Commission's report into the economic and fiscal implications of the future ageing of Australia's population. The final report was publicly released on 12 April 2005.

Treasury also contributed to a number of conferences on labour force participation and demographic change, and discussed demographic challenges with both OECD and International Monetary Fund missions.

Development of labour market data is ongoing and Treasury is a member of the steering committees on Poverty and Disadvantage, the Household, Income and Labour Dynamics in Australia survey, Labour Statistics Advisory Group of the Australian Bureau of Statistics and the National Ageing Statistics Unit of the Australian Bureau of Statistics.

Advice on health policy

Policy development processes spanned a range of health and aged care issues. Treasury participated in interdepartmental committees and advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, Veterans' health issues, various public health initiatives and residential aged care. Engagement in these areas assisted the Treasurer's involvement in several significant Government initiatives during the year.

Interdepartmental committees provided advice to the Government on renegotiation of the Community Pharmacy Agreement and the Pathology Quality and Outlays Agreement; implementation of reforms to residential aged care; development of enhanced financial and performance reporting requirements for the Australian Health Care Agreements; and a number of public health initiatives, including renegotiation of the Public Health Outcome Funding Agreements, immunization policy, strategies targeting obesity and smoking, and addressing the potential risks of an influenza pandemic.

Two Treasury officers were seconded to the Prime Minister's Health Taskforce during the year. The taskforce reported to the Prime Minister on a range of system-wide matters of concern to the Government.

Output 2.2.1

Taxation and income support policy advice

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

Eight divisions contribute to Output 2.2.1. The Business Tax Division, Indirect Tax Division, Individuals and Exempt Tax Division, International Tax and Treaties Division, Superannuation, Retirement and Savings Division and the Tax System Review Division are responsible for the delivery of taxation and income support policy advice. Tax Analysis Division prepares revenue forecasting, costings and quantitative analysis of taxation policy proposals. Tax Design Division develops strategic investment projects and provides key services, including management of the taxation legislation programme and group budget reporting to other Revenue Group divisions, the Treasury Executive and ministers.

During 2004-05 Revenue Group provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website.

Performance information

- Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to taxation and income support policy.
- Relevant information should be presented effectively, including in the budget documentation and other publications, to adequately inform public debate.
- Legislation is delivered according to government programmes.

Analysis of performance

Business Taxation

Policy advice on business taxation issues covered the consolidation regime, imputation system reforms, taxation of financial arrangements and company loss recoupment rules.

Consolidation

Treasury consulted with the business sector and provided advice on the consolidation regime to make refinements to overcome practical concerns and to clarify interactions with other parts of the income tax law. The Minister for Revenue and Assistant Treasurer extended the time for consolidated groups to make certain irrevocable choices and announced modifications to the fraction rules regulating use of losses transferred to a consolidated group.

The Office of Parliamentary Counsel and Treasury developed the legislation and accompanying explanatory material for amendments to the consolidation regime in *Tax Laws Amendment (2004 Measures No. 6) Act 2005*, which received Royal Assent on 21 March, and *Tax Laws Amendment (2004 Measures No. 7) Act 2005*, which received Royal Assent on 1 April.

Imputation system

Treasury provided policy advice to modify the share capital tainting rules and refine the franking deficit tax offset rules. The modifications will ensure the share capital tainting rules are not triggered when amounts contributed to an insurance company by its members are transferred to the company's share capital account, or when amounts arising from a debt-for-equity swap are transferred to a company's share capital account.

Refinements to the franking deficit tax offset rules respond to industry concerns and will remove uncertainties and practical difficulties.

The Office of Parliamentary Counsel and Treasury developed the legislation and accompanying explanatory material for amendments to the simplified imputation system regime included in *Tax Laws Amendment (2004 Measures No. 6) Act 2005*, which received Royal Assent on 21 March. These amendments ensure the simplified imputation provisions interact appropriately with other parts of the law. They insert anti-avoidance provisions that prevent certain tax exempt entities from engaging in franking trading, and clarify the application of the franking deficit tax offset rules to life insurance companies.

The Office of Parliamentary Counsel and Treasury developed the legislation and accompanying explanatory material for amendments to the imputation system included in *Tax Laws Amendment (2005 Measures No. 2) Act 2005*, which received Royal Assent on 29 June. These amendments assist small business taxpayers by allowing private companies to pay franked distributions in their first year of operations, without having their franking deficit tax offset reduced.

Taxing of financial arrangements

Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. Treasury held several rounds of targeted confidential consultations with key industry and professional bodies, and issued an information paper in December.

Treasury also provided advice and consulted taxpayers on improving the taxation of foreign currency transactions. The Office of Legislative Drafting and Treasury developed Income Tax Assessment Amendment Regulations 2005 (No. 2), which were registered on 27 April.

The tax treatment of specific redeemable preference shares now is clearer. The previous law raised the cost of finance and placed Australian companies at a disadvantage in international capital markets. The Income Tax Assessment Amendment Regulations 2004 (No. 3) was gazetted on 31 August and the Income Tax Assessment Amendment Regulations 2005 (No. 3) was gazetted on 26 May.

Treasury continued to develop legislation to restore fairness and neutrality to the taxation of capital protected borrowing arrangements. Confidential consultation targeted both financial institutions and other taxpayers. Consultation on draft legislation to reduce compliance costs for small businesses with at call loans significantly helped improve the draft legislation.

Company loss recoupment reforms

The Office of Parliamentary Counsel and Treasury prepared the exposure draft legislation and explanatory material relating to the simplified loss recoupment reforms for companies, released in February. These reforms will help business by making it easier for widely held companies to satisfy the continuity of ownership test and removing the same business test for companies with a total income of more than \$100 million. Treasury consulted with the business sector on the exposure draft legislation.

Tax exempt asset financing reforms

The tax exempt asset financing reforms will improve the taxation framework for these arrangements between the private sector and tax exempt entities. Treasury provided advice on the reforms and consulted extensively with the business sector and representatives of the State and Territory Governments on the exposure draft legislation. The March confidential discussion paper to stakeholders canvassed alternative ways to progress the reforms.

Effective life caps for buses and trucks

Treasury provided advice on introducing effective life caps for buses, light commercial vehicles, trucks and truck trailers in the income tax law. The legislation and accompanying explanatory material for the amendment was included in the *Tax Laws Amendment (2005 Measures No. 1) Act 2005* which received Royal Assent on 29 June.

Taxation treatment of business 'blackhole' expenditures

The Review of Business Taxation identified the need for an appropriate treatment for blackhole expenditures (expenses not recognised under the income tax laws). Treasury provided advice on a systematic treatment of business expenditures to allow deductions for these expenditures. The Government announced this measure in the 2005-06 Budget.

Simplified tax system

Legislation to give effect to the 2004 election commitment to introduce a 25 per cent entrepreneurs' tax offset for certain small businesses in the simplified tax system and extend eligibility by removing the requirement for these taxpayers to use cash accounting was included in *Tax Laws Amendment (2004 Measures No. 7) Act 2005* which received Royal Assent on 1 April.

International Taxation

Several measures give effect to aspects of the Government's Review of International Tax Arrangements reforms.

- The *New International Tax Arrangements (Managed Funds and Other Measures) Act 2005* allows Australian managed funds to become more internationally competitive, increasing their attractiveness to non-residents.
- The *New International Tax Arrangements (Foreign-owned Branches and Other Measures) Act 2005* improves the competitiveness in Australia of foreign businesses that operate through Australian branches, and assists businesses with more internationally competitive employment arrangements by clarifying the treatment of shares and other like benefits given to employees under employee share schemes.

- Consultation on exposure draft legislation and explanatory material on a new tax treatment of dividends paid to foreign shareholders in Australian companies out of foreign profits is underway.

These measures should make investment in Australian multinational companies more attractive to foreign investors and encourage foreign businesses to establish regional holding companies in Australia.

Treasury also provided advice to the Government on its 2005-06 Budget decision to reform the capital gains tax treatment of non-residents and remove the quarantining of foreign losses and foreign tax credits.

In its lead role in protecting Australia's taxation system through enhanced global governance arrangements directed at greater financial transparency and effective exchange of tax information, Treasury sent staff to a number of key OECD meetings in preparation for Australia's hosting of the Global Forum on Harmful Tax Practices in Melbourne in November 2005. The OECD is the key international forum progressing this initiative. This work complements other initiatives directed at global financial stability, money laundering activities, terrorist financing and drug trafficking.

Tax treaties

The Government's tax treaty programme of 20 countries is important in promoting closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment caused by overlapping taxing jurisdictions. Tax treaties offer protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During the year, negotiations with five countries, including Italy, the Netherlands and New Zealand, resulted in three tax treaties being concluded at officials' level.

Treasury provided advice on various international agreements, including free trade agreements and privileges and immunities agreements, being negotiated by the Government.

Personal taxation

Advice to the Government on the design and implementation of a number of personal tax measures sought to promote economic growth, participation in the workforce and good governance.

Reductions in personal income tax

The 2005-06 Budget included tax cuts worth \$21.7 billion over four years. These were in addition to the 2004-05 Budget tax cuts. The 2005-06 Budget tax cuts were included in *Tax Laws Amendment (Personal Income Tax Reduction) Act 2005*, which received Royal Assent on 12 August 2005. The key changes were:

- dropping the lowest marginal tax rate from 17 to 15 per cent from 1 July 2005;
- increasing the 42 per cent threshold to \$63,001 from 1 July 2005, then increasing it again to \$70,001 from 1 July 2006; and

- increasing the 47 per cent threshold to \$95,001 from 1 July 2005. This is higher than the \$80,001 as announced in the 2004-05 Budget. It will increase again to \$125,001 from 1 July 2006.

Introduction of the 30 per cent Child Care Tax Rebate

Treasury advised the Government and helped develop legislation on a non-means tested tax offset of 30 per cent of out-of-pocket child care costs. It is for a maximum of \$4,000 per child per year, for those taxpayers who receive Child Care Benefit for approved care and meet the associated work/training/study test. The offset is non-refundable, however, taxpayers with insufficient tax liability to absorb the whole offset can transfer any unused amount to their spouse.

This measure was included in *Tax Laws Amendment (2005 Measures No. 4) Bill 2005*, introduced into Parliament on 23 June.

Introduction of the mature age worker tax offset

The mature age worker tax offset of up to \$500 is available to workers aged 55 and over, with effect from the 2004-05 income year. Eligibility is based on net income from working and the offset rewards the personal effort of continuing to earn a salary, or wages or conducting a business. Mature age workers will be eligible for some offset if they derive net income from working that is less than \$63,000 from 2005-06 or \$58,000 in 2004-05.

This measure was included in *Tax Laws Amendment (2005 Measures No. 1) Act 2005*, which received Royal Assent on 29 June.

Fringe benefits tax amendments

Treasury played a key role in developing a number of fringe benefits tax amendments which broaden access to certain fringe benefits tax exemptions.

Establishment of new general deductible gift recipient categories

Treasury provided advice on the implementation of five new deductible gift recipient general categories to cover war memorials, disaster relief, animal welfare, charitable services and educational scholarships. This will allow taxpayers to claim an income tax deduction for certain gifts of money or property to those organisations that are endorsed as deductible gift recipients under the new categories. The streamlining enables organisations seeking tax deductible status to be considered under the consistent framework provided by the general categories.

Incentives to encourage philanthropy

Measures included in the *Tax Laws Amendment (2005 Measures No. 3) Act 2005* which received Royal Assent on 29 June increase flexibility for charitable funds, ancillary funds and prescribed private funds to encourage charitable giving in Australia.

Mutuality principle to be restored

Affected not-for-profit organisations will continue to benefit from the mutuality principle even though organisations cannot distribute to members. Treasury helped the Government introduce amendments that would restore mutuality to organisations that, under a longstanding Australian Taxation Office practice, had relied on the principle to exclude certain member receipts from assessable income. The amendments affect clubs,

professional organisations and friendly societies. The Full Federal Court decision in the Coleambally case made these amendments necessary.

Tax administration

Treasury provided advice on, and developed legislation on systemic issues in tax system administration, including the assessment process, Australian Taxation Office rulings and advice, compliance and enforcement, tax offences and penalties, tax collection and recovery systems, tax relief, tax identity, disclosure of taxpayer information, record keeping obligations, and tax agent matters. Tax administration systems must contribute to the tax policy outcomes Parliament intends and avoid the pitfalls of unnecessary risk, complexity and high transaction costs.

Review of aspects of income tax self assessment

The *Report on Aspects of Income Tax Self Assessment*, finalised in August 2004, focused on whether the income tax laws achieve a fair balance between protecting the rights of individual taxpayers and protecting the revenue for the benefit of the whole Australian community. Treasury examined a range of issues, including the statutory timeframes for amending assessments, duration of the audit process, reliance by taxpayers on Australian Taxation Office advice and aspects of the general interest charge. All of the report's recommendations will be implemented progressively.

The *Tax Laws Amendment (Improvements to Self Assessment) Act (No. 1) 2005* and *Shortfall Interest Charge (Imposition) Act 2005* received Royal Assent on 29 June. It reduces the consequences of errors in assessment for taxpayers acting in good faith, by providing for a lower rate of interest for the period before taxpayers are notified of their error and by refining the penalty regime.

A second round of legislation covering Australian Taxation Office advice and amendment periods, was exposed to public comment with a view to introducing it into Parliament in 2005-06. These measures will increase taxpayer certainty by improving the reliance taxpayers can place on advice and bringing forward the point where taxpayers' assessments are considered to be final.

A series of further reviews on issues arising from the report, relate to:

- specific provisions that expose taxpayers to open-ended review periods, to identify those that could have a set period before a taxpayer's liability is considered to final;
- Commissioner discretions that determine a taxpayer's liability, to increase certainty by recommending replacement tests that a taxpayer can apply at the time of lodgment;
- taxpayer elections, to establish guidelines for framing those elections in the law;
- possible application of the Review of Self Assessment recommendations to all federally administered taxes; and
- the possibility of reducing the volume of law that individuals and small businesses with very simple affairs need to access.

Superannuation, retirement and savings

Treasury provided advice to the Government on the revenue aspects of superannuation, retirement and savings policy in particular, and the development of effective retirement and savings policy in general.

Choice of superannuation fund and portability

Since 1 July 2005, choice of superannuation fund has been available to the superannuation industry, employers and employees. The *Superannuation Legislation Amendment (Choice of Superannuation Funds) Act 2005* received Royal Assent on 29 June, and clarifies the operation of the choice regime.

Treasury also developed regulations under the choice of fund legislation (the Superannuation Guarantee (Administration) Amendment Regulations 2005 (No. 1), the Superannuation Industry (Supervision) Regulations 2005 (No. 1) and the Superannuation Guarantee (Administration) Amendment Regulations 2005 (No. 2)) to prescribe a number of matters including the life insurance requirements for superannuation funds used by employers when employees do not choose a fund.

Treasury assisted in amending regulations to remove a restriction on the portability of superannuation accounts. Compulsory portability of superannuation accounts came into effect on 1 July 2004, but generally only applied to 'inactive' accounts (broadly, accounts where no employer contributions have been made for six months). Under the Superannuation Industry (Supervision) Amendment Regulations 2005 (No. 3), from 1 July 2005, portability no longer will be restricted to inactive accounts.

Abolition of superannuation surcharge

The Superannuation Laws Amendment (Abolition of Surcharge) Bill 2005 gave effect to the Government's 2005-06 Budget announcement to abolish the superannuation surcharge from 1 July 2005. This aims to simplify the operation of the superannuation system, boost the savings of affected individuals and provide incentives for people to make additional voluntary savings through superannuation.

A more flexible and adaptable retirement income system

In consultation with industry and other organisations, Treasury developed regulations to give effect to the remaining measure announced in *A more flexible and adaptable retirement income system*, released in February 2004. The regulations (the Superannuation Industry (Supervision) Amendment Regulations 2005 (No. 2)) allow those who have reached their preservation age to access their superannuation through a non-commutable income stream without having to retire permanently from the workforce. This increases flexibility and choice in the transition to retirement. It took effect from 1 July 2005.

Review of provision of defined benefit pensions by small superannuation funds

After consulting with industry and other organisations, Treasury prepared a discussion paper on the provision of defined benefit pensions by small superannuation funds and provided advice to Government.

Police and Preservation Review

Treasury reviewed the superannuation preservation rules applying to police. The independent chair was Mr Gary Potts and the report was provided to the Government on 13 May.

Cross-border superannuation arrangements

Treasury assisted the Government in negotiating and implementing superannuation double coverage provisions in social security treaties. Double superannuation coverage arises where an employee is sent from one country to work temporarily in another country and the employer is required to pay superannuation contributions for the employee in both countries. If a social security agreement that includes double coverage provisions is in place, the employer only pays contributions in the employee's home country.

Two such agreements with Croatia and Chile began on 1 July 2004, and a bilateral agreement with Belgium began on 1 July 2005. An agreement with Ireland was signed in June and is expected to begin on 1 January 2006. Negotiations with a number of other countries also occurred during the year. A delegation from Korea visited Canberra for an information exchange in May and Treasury officials, with staff from the Department of Family and Community Services, conducted the first formal round of negotiations with Japan in Tokyo during June, which followed an information exchange in Australia in January.

Treasury also was involved in bilateral negotiations and information exchanges in Europe, and reached an in-principle agreement with Switzerland in October. Also in October Treasury had information exchange sessions with Sweden, Hungary, Germany and Latvia. Initial discussions with Italy occurred in July.

Superannuation guarantee reporting requirement

Legislation gave effect to the Government's decision to remove the requirement for employers to report superannuation contributions made for employees under the *Superannuation Guarantee (Administration) Act 1992*. This removes the requirement for contributions made on or after 1 January. Employees still will receive information on their superannuation contributions from their superannuation funds, and many employees will receive information more regularly on pay slips.

The necessary amendments in the *Tax Laws Amendment (Superannuation Reporting) Act 2004* received Royal Assent on 14 December.

Superannuation guarantee Budget measures

Treasury provided policy advice on 2005-06 Budget measures to amend the superannuation guarantee arrangements to reduce the incidence of double payment and clarify the position of payments of wages received after employment ceases.

Indirect taxation

Ongoing policy advice on fuel tax credits, GST, excise and petroleum resource rent tax issues included the wine equalisation tax, the GST treatment of administrative arrangements, entity structures and cross-border issues, excise collections and changes to the petroleum resource rent tax.

Fuel tax reforms

Since the Government announced its policy framework for fuel tax reform, Treasury has begun working with the Australian Taxation Office and relevant industry and community groups to implement these policies.

On 27 May, Treasury released a discussion paper on the proposed legislative framework to give effect to the Government's fuel tax credit reforms announced in *Securing Australia's Energy Future*. The reform aims to lower compliance costs, reduce tax on business and remove the incidence of fuel tax on a range of businesses and households.

Excise

Introduction of fuel tax reforms provides a timely opportunity to review the entire Schedule to the *Excise Tariff Act 1921*. To facilitate this, Treasury released a discussion paper on 2 June. The review aims to reduce compliance costs for excise manufacturers and other excise stakeholders, importers and administering authorities, and determine whether the Schedule can be streamlined. Public consultation is underway.

Treasury contributed to the review of tourist shopping administrative arrangements. It will examine options to improve the delivery and administration of the tourist refund function and inwards and outwards duty free shops (including sealed bag arrangements).

Wine equalisation tax

The close economic relationship between Australia and New Zealand underpinned Treasury work with relevant stakeholders to implement the 2005-06 Budget measure to extend the wine producer rebate to New Zealand wine producers who export wine to Australia. The relevant legislation, *Tax Laws Amendment (2005 Measures No. 4) Bill 2005*, was introduced into Parliament on 23 June.

Goods and Services Tax

Legislation addressed GST transitional issues in long-term non-reviewable contracts and targeted consultation helped in developing this legislation. A mechanism allows parties to long-term non-reviewable contracts to take into account the impact of the changes to The New Tax System. The legislation in *Tax Laws Amendment (Long-term Non-reviewable Contracts) Act 2005* received Royal Assent on 22 February, and accompanying regulations came into effect on 11 March and 9 April.

Residents of charitable retirement villages and serviced apartments in retirement villages are more certain about how the GST law applies to them and their retirement village operators. The measure in *Tax Laws Amendment (Retirement Villages) Act 2004* received Royal Assent on 14 December.

Other enacted legislation dealt with several GST integrity concerns, including the application of GST to supplies of real property. The legislation removes unintended outcomes that arise from the interaction of various provisions. The measure in *Tax Laws Amendment (2005 Measures No. 2) Act 2005* received Royal Assent on 29 June.

Other enacted legislation ensures GST applies to supplies to Australian residential rental properties belonging to landlords not in Australia. The legislation ensures comparable GST treatment for all owners of Australian residential rental properties. The measure in *Tax Laws Amendment (2004 Measures No. 6) Act 2005* received Royal Assent on 21 March.

Other enacted legislation prevents certain non-resident enterprises from registering and obtaining refunds of GST input tax credits without having to fully remit GST for supplies relating to goods and services consumed in Australia. The measure in *Tax Laws Amendment (2005 Measures No. 1) Act 2005* received Royal Assent on 29 June.

The 2004-05 Budget announced a range of small businesses could pay and report GST annually and apply private use apportionment on an annual basis. Treasury provided advice on these changes which will reduce compliance costs for small businesses. The measure in *Tax Laws Amendment (Small Business Measures) Act 2004* received Royal Assent on 13 December.

Petroleum Resource Rent Tax

Treasury implemented the 2004-05 Budget measure to introduce an offshore petroleum exploration incentive to encourage exploration in these areas. A 50 per cent increase in eligible deductions of exploration expenditure incurred in remote areas could help offset the taxpayer's petroleum resource rent tax liability. The measure in *Tax Laws Amendment (2004 Measures No. 7) Act 2005* received Royal Assent on 1 April.

The petroleum industry made a number of requests for amendments to the petroleum resource rent tax to lower compliance costs, improve administration and remove inconsistencies. Treasury advised on these changes and the Government announced them in the 2005-06 Budget. Targeted consultation will help in developing the legislation to implement them.

Timor Sea

In the negotiations between Australia and Timor-Leste on the maritime boundary, Treasury's advice focused on the distribution of taxation revenue from the proposed development of the Greater Sunrise gas field which straddles the Joint Petroleum Development Area and the adjacent area of sole Australian jurisdiction.

Community consultation

Treasury consults to gather information about the practical operation of the taxation system and improve the quality and effectiveness of proposed changes to the system. Consultation processes are evaluated for their effectiveness.

The emphasis on enhanced community consultation continued, with a business liaison programme with peak bodies on tax system issues and extensive consultation on individual measures. Three times a year, Treasury prepares reports on consultation on announced tax measures and provides these to the Board of Taxation. The timing of the federal election resulted in two reports being provided to the Board in 2004-05. The reports are published on the Treasury website.

The reports indicated consultation occurred on nearly all announced measures other than minor or technical ones or where timing constraints existed. In general, feedback from those consulted was positive. Some concerns were raised about the time allowed for consultation in some cases, and Treasury is working to improve this, as far as possible within the constraints of the legislation programme timeframes.

The coherent principles approach to tax design

Treasury has developed a new principles-based approach to the design of tax law, known as the coherent principles approach. The new approach aims to develop tax law that is as certain, but less involved and more flexible than the current black letter law approach. The approach was used to develop amendments to the employee share scheme provisions. In this case, the policy was to avoid triggering a tax point when the underlying relationships between the employees, their employer company and the employees' shares are unchanged, despite the company restructuring. The coherent principles approach makes this policy intention the basis of the amended law, to preserve the taxation arrangements of the employee's discounted shares. The measure in Subdivision DA of Division 13A of Part III of the *Income Tax Assessment Act 1993* received Royal Assent on 1 April. An article on the coherent principles approach to tax design appeared in the Autumn 2005 edition of *Economic Roundup*.

Publications

Budget documents

Treasury contributed to the preparation of Budget documents on taxation measures, which are published on the budget website www.budget.gov.au.

Informing the public on taxation and superannuation policies

An ongoing role for Treasury is to communicate Government taxation and superannuation policy to relevant industries, key stakeholders and the public. Treasury consulted extensively in 2004-05 to gather information, including on the practical impacts of possible policy and legislative changes.

Treasury also prepares and issues consultation papers for public comment as part of its communication processes. These papers are provided directly to key industry associations and representatives, and are available on Treasury's website for public comment.

Treasury officials also presented papers at relevant industry and academic conferences and responded to inquiries from the general public.

Outcome 3

Well-functioning markets

A well-functioning market economy and financial system is integral to the continued economic development of Australia and the wellbeing of the Australian people.

Improving the operation of markets is intended to underpin stronger sustainable economic growth and enhanced living standards for all Australians.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. Treasury provides advice to the Government on forming and implementing policies to support well-functioning markets. Treasury's advice and other outputs help maintain and improve markets so investors and consumers can have confidence and certainty in making decisions that are well informed and free from market distortions and impediments. Treasury also provides the executive for the Takeovers Panel, assists the Royal Australian Mint through representation on its advisory board and is represented on the advisory board of the Australian Government Actuary.

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

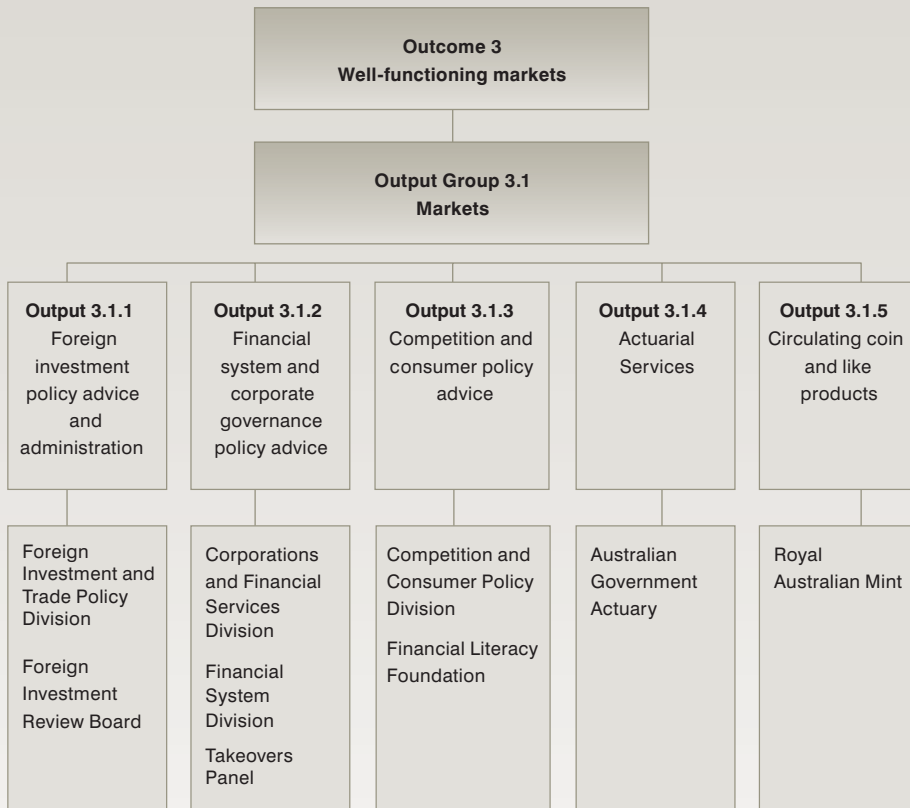
In 2004-05, Markets Group, under Outcome 3, contributed to government decisions and objectives through providing advice on a range of issues affecting the operation of markets. In relation to financial markets, that included advice on issues such as the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency and corporate financial reporting. For markets more generally, Markets Group provided advice on structural reforms of key sectors and the operation of competition and consumer policy, including in relation to issues of financial literacy. Markets Group also provided professional actuarial services, and advice on foreign investment and trade policy.

On the international front, Markets Group contributed to the finalisation of negotiations on the Australia-United States Free Trade Agreement (AUSFTA) which entered into force on 1 January 2005. Markets Group also contributed to the commencement of negotiations for a further four Free Trade Agreements with, the Association of Southeast Asian Nations (ASEAN) in partnership with New Zealand, the United Arab Emirates, Malaysia, and China.

Another important part of Markets Group's activities is its involvement in consultations, particularly in areas where reforms or new Government measures are proposed. Markets Group consults with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders on various issues related to the support of well-functioning markets.

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

Figure 7: Outputs contributing to Outcome 3



Key priorities in 2004-05

Markets Group advice covered a broad agenda including issues such as corporate governance, market integrity, financial system safety, financial product safety, competition and consumer policy, and protecting the national interest under Australia's foreign investment policy. Strategies for delivery of outputs included: developing specialist expertise; proactively identifying emerging issues, reform options and priorities; and developing and maintaining effective working relationships both within Treasury and with key stakeholders. Treasury's *2004-05 Portfolio Budget Statements* and internal planning processes identified the following key priorities for 2004-05:

- continuing to provide advice on ongoing and emerging policy issues in the general insurance sector, including the recommendations of the HIH Royal Commission, implementation of the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*, and reforms to improve the availability and affordability of various classes of insurance;

- advising the Government in relation to Australia's participation in the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP), to which the Government agreed in late 2004;
- providing policy advice to the Government on initiatives to more closely integrate the Australian and New Zealand markets, including in the area of prudential supervision of banking;
- continuing to provide policy advice in relation to the HIH Claims Support Scheme and the Australian Reinsurance Pool Corporation;
- progressing international cooperation in financial market regulation, including bilateral efforts to promote the recognition of national regulatory frameworks covering financial products and service providers;
- participating in formulating policy to progress structural reform in key sectors of the economy;
- implementing Dawson Review recommendations on competition provisions in the *Trade Practices Act 1974*;
- contributing to the Doha round of negotiations in the World Trade Organization (WTO) and coordinating Treasury's involvement in negotiations for the Free Trade Agreement with the United States;
- developing policy and providing advice on financial reporting requirements applying to the corporate sector, including advising the Government on issues surrounding the adoption of International Financial Reporting Standards in Australia;
- implementing reforms covering independence of auditors, legislative backing for auditing standards, new oversight arrangements for the Financial Reporting Council and more broadly, issues surrounding strengthening the regulatory framework for corporate insolvency and corporate governance;
- improving operational effectiveness through addressing practical issues faced by industry with financial services regulation and enhancing disclosure of fees and costs in relation to certain financial products;
- progressing international cooperation in financial market regulation, corporate governance, financial reporting and corporate insolvency;
- coordinating implementation of the Uhrig recommendations for Treasury portfolio agencies;
- implementing the Consumer and Financial Literacy Taskforce recommendations. This strategy included the establishment of the Financial Literacy Foundation within Treasury during the year. The Foundation has been established to deliver the Government's commitment to help all Australians increase their financial knowledge and better understand their options and the choices they can make in using and managing their money; and
- developing new graphic and text health warnings on tobacco products.

Key outcomes in 2004-05

- Treasury had ongoing involvement in the implementation of the Superannuation Safety reforms and advised the Government on the outcomes of the review of Part 23 of the *Superannuation Industry (Supervision) Act 1993*. Collectively, these measures should enhance the safety of the superannuation system.
- Treasury developed the legislative package that implemented the Government's response to the Review of Financial Sector Levies. Treasury then provided advice to the Government on the levy determinations for the 2005-06 year, the first to be made under the new framework.
- Treasury continued to develop, in conjunction with the New Zealand Ministry of Economic Development, a model for recognising trans-Tasman security offerings. As co-chair of the Trans-Tasman Council on Banking Supervision, Treasury also contributed to the development of proposals for greater harmonisation in banking regulation in Australia and New Zealand.
- Treasury led the Australian Government's involvement in the first meeting of the Financial Services Committee under the AUSFTA. A range of issues that would lead to the further integration of the Australian and US financial services sectors were discussed.
- Treasury developed the Trade Practices Amendment (Personal Injuries and Death) Bill 2004, introduced into Parliament on 9 December 2004. This will prevent the *Trade Practices Act 1974* being used to undermine State and Territory tort law reforms designed to address the availability and affordability of certain classes of insurance. The Bill was supported by the majority of State and Territory Governments.
- Treasury provided substantial input to the review of competitive neutrality in the medical indemnity insurance market, announced by the Government in December 2004, and advised and assisted the Government in its response to the review. Legislation to address the competition issues identified in the review was introduced into Parliament in April 2005.
- Treasury developed the Trade Practices Legislation Amendment Bill (No. 1) 2004 which implements the Government's response to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* (the Dawson Review).
- Treasury also developed the Trade Practices Amendment (National Access Regime) Bill 2005, which implements the Government's final response to the Productivity Commission's review of the National Access Regime for infrastructure facilities of national significance.
- Treasury provided advice on the Productivity Commission's inquiry relating to the review of National Competition Policy (NCP) reforms and is continuing to work closely with the National Competition Policy Review Secretariat established within the Department of the Prime Minister and Cabinet to develop a future reform framework that will be progressed through the Council of Australian Governments (COAG) NCP review.

- Treasury provided advice to the Government on key transport issues including the adequacy of rail and port infrastructure associated with coal exports, the implementation of the Government's national land transport plan, *AusLink*, and airport and international aviation regulation.
- Treasury provided policy advice on energy market reform, including proposed changes to establish a new national institutional and regulatory framework for the electricity and gas markets. Treasury developed the *Trade Practices Amendment (Australian Energy Market) Act 2004* and contributed to the COAG Australian Energy Market Agreement.
- Treasury played a key role in successful negotiations for separate Free Trade Agreements with the United States and Thailand, both of which entered into force on 1 January 2005. The Singapore Free Trade Agreement entered into force on 28 July 2004. During the year, Treasury was also involved in evaluating free trade studies and conducting negotiations with the United Arab Emirates, Malaysia, ASEAN and China.
- As part of monitoring the implementation of legislative reforms made to the corporate governance and financial reporting framework — including the transition to International Financial Reporting Standards in Australia — Treasury consulted with industry stakeholders and the accounting supervisory bodies.
- Treasury provided advice on regulatory frameworks that support consumer confidence and product safety. Indeed, a major focus was providing advice on the review of Australia's product safety framework.
- Treasury provided the Secretariat to a Consumer and Financial Literacy Taskforce, which was formed to establish the first national strategy for consumer and financial literacy in Australia. This strategy included the establishment of the Financial Literacy Foundation within Treasury during the year. The Foundation was established to deliver the Government's commitment to help all Australians to increase their financial knowledge and better understand their options and the choices they make in using and managing their money.

Other key outcomes in 2004-05 were:

- the Australian Government Actuary contributed to policy development by providing specialist actuarial and related advice to the Government, its departments and agencies;
- the Takeovers Panel continued to provide the mechanism for resolving disputes and raising the standards of market behaviour in takeovers; and
- the Royal Australian Mint continued to operate successfully in producing numismatic and circulating coins for Australia.

Table 4: Financial and staffing resources summary for Outcome 3

	Budget 2005 \$'000	Actual 2005 \$'000	Budget 2006 \$'000
Administered expenses			
Appropriation Acts No 1 and 3	9,000	1,281	6,000
Appropriation Acts No 2 and 4	159,748	159,748	164,701
Appropriation Acts No 5 and 6	-	-	-
Special Appropriations	3,308	3,180	-
Other expenses	-	(2,007)	-
Total administered expenses	172,056	162,202	170,701
Revenue from Government			
Output Group 3.1 Markets			
Output 3.1.1 Foreign investment policy advice and administration	3,857	4,229	4,019
Output 3.1.2 Financial system and corporate governance policy advice	20,765	21,048	22,283
Output 3.1.3 Competition and consumer policy advice	18,678	19,012	19,223
Output 3.1.4 Actuarial Services	-	-	-
Output 3.1.5 Circulating coin and like products	-	-	-
Total revenue from Government contributing to the price of departmental outputs	43,300	44,289	45,525
Revenue from other sources			
Output Group 3.1 Markets			
Output 3.1.1 Foreign investment policy advice and administration	104	72	106
Output 3.1.2 Financial system and corporate governance policy advice	583	191	586
Output 3.1.3 Competition and consumer policy advice	502	126	505
Output 3.1.4 Actuarial Services	1,500	1,597	1,500
Output 3.1.5 Circulating coin and like products	41,841	55,289	42,070
Total revenue from other sources	44,530	57,275	44,767
Total revenue for departmental outputs (Total revenues from Government and other sources)	87,830	101,564	90,292
Price of departmental outputs			
Output Group 3.1 Markets			
Output 3.1.1 Foreign investment policy advice and administration	3,961	4,349	4,125
Output 3.1.2 Financial system and corporate governance policy advice	21,348	19,324	22,869
Output 3.1.3 Competition and consumer policy advice	19,180	12,015	19,728
Output 3.1.4 Actuarial Services	1,500	1,476	1,500
Output 3.1.5 Circulating coin and like products	41,841	54,518	42,070
Total price of departmental outputs	87,830	91,682	90,292
Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)	259,886	253,884	260,993
Average staffing levels (number)	324	319	338

Note:

The Budget for administered expenses for 2005 is as per the *2004-05 Portfolio Additional Estimates Statements*. The Actual for 2005 is as per the Audited 2004-05 Financial Statements.

The Budget for departmental price of outputs for 2005 and administered expenses and departmental price of outputs for 2006 is as per the *2005-06 Portfolio Budget Statements*.

Average staffing levels include locally engaged staff.

Output 3.1.1 Foreign investment and trade policy advice and administration

During 2004-05, the renamed Foreign Investment and Trade Policy Division in Markets Group was responsible for the delivery of Output 3.1.1, foreign investment and trade policy advice and administration.

Markets Group contributes to Outcome 3 by providing advice on foreign investment proposals, providing executive support to the Foreign Investment Review Board and making decisions under the *Foreign Acquisitions and Takeovers Act 1975* (FATA) and Australia's foreign investment policy under authorisations provided by the Treasurer, consistent with policy. It also advises the Government on foreign investment and trade policy as it relates to Australia's participation in multilateral and bilateral agreements on investment.

Performance information

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities;
- Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums;
- Australia's commitments are implemented on investment in the Australia-United States Free Trade Agreement (AUSFTA);
- the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises are promoted, and the responsibilities of the National Contact Point for the Guidelines are fulfilled;
- 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,
 - at least 90 per cent of the proposals received each year are processed within 30 days of receipt,
 - responses are provided, on average, to email and mail inquiries within five days and immediately to general telephone inquiries;
- Treasury effectively disseminates and explains the foreign investment policy to improve the standard of applications and compliance with policy requirements, thus reducing the proportion of foreign investment proposals requiring interim or final orders;
- Treasury undertakes a programme of compliance checks on previous proposals subject to conditions — possibly leading to prosecutions, but aimed at an overall reduction in non-compliance with policy; and
- ministerial correspondence is handled satisfactorily.

Analysis of performance

Advice on and processing of individual foreign investment proposals

The majority of proposals received require notification to the Treasurer under the FATA. Proposals are examined to determine whether they conform with the general and particular requirements of Australia's foreign investment policy. Under the FATA, a proposal can be prohibited where it is inconsistent with policy and involves national interest concerns.

Where a foreign person enters into an agreement to acquire an interest in Australian urban land they are required to notify the Treasurer under section 26A of the FATA. Where proposals are consistent with policy, no objections are usually raised. For the majority of real estate cases applicants are required to comply with specified conditions. Where a foreign person proposes to acquire a substantial interest — defined as 15 per cent or greater interest, or a 40 per cent or more aggregate interest by several foreign persons, foreigners and any associates — in an Australian corporation valued above \$50 million (\$800 million for a US enterprise, except in prescribed sensitive sectors), they are required to notify the Treasurer under section 26 of the FATA. No objections are usually raised, provided that the proposal is not deemed contrary to the national interest. Other proposals, including the establishment of a new business and direct investments by foreign governments and their agencies, are notifiable only under policy and therefore action is not enforceable under the FATA.

Arrangements are in place under which the Treasurer delegates authority to senior Treasury staff for decision-making on certain types of proposals that do not involve issues of high sensitivity. The majority of proposals (around 95 per cent) are decided under the authorisation provided by the Treasurer.

Treasury considered around 4,913 proposals in 2004-05, slightly fewer than in 2003-04. Of the total number of proposals received, about 88 per cent were decided within 30 days of receipt and 120 involved the issue of final, interim or divestment orders, mainly for real estate. This is a similar proportion to the number of orders issued last year. Treasury also received around 40,000 telephone inquiries and 2,000 written and email inquiries during the year, which were, on average, responded to within five days. In examining large or otherwise significant proposals, State and Australian Government departments and authorities with responsibilities relevant to the proposed activity are consulted to provide advice and comment to assist in assessing the implications of proposals.

During 2004-05, the Foreign Investment Review Board provided advice to portfolio ministers on a number of larger, more important or sensitive foreign investment cases requiring ministerial decisions against associated legislation and policy. These included significant proposals such as Xstrata Plc's proposed takeover, BHP Billiton's ultimately successful takeover of Western Mining Resources Limited, and San Miguel Corporation's takeover of National Foods Limited. The Foreign Investment Review Board, established in 1976 to advise the Treasurer, continued its role of overseeing the functions of the division on a weekly basis.

Compliance standards

Treasury's efforts through 2004-05 to strengthen compliance focused on three broad elements:

- developing a new case management system and integrated online application facility to improve application accuracy and reduce processing times;
- enhancing communication about foreign investment policy to foreign investors, their agents, industry associations and other government agencies involving a continuing programme of targeted public speeches, ongoing improvements to the Foreign Investment Review Board website and the development of easy-to-follow written materials; and
- monitoring compliance with foreign investment policy through a rolling programme. Treasury examined around 2,900 decided proposals in 2004-05, to ensure fulfilment of conditions and monitors all major conditional business sector approvals. Targeted follow-up is also carried out in the real estate sector ranging from routine checking of compliance with conditions to more complex investigations based on information received and interagency cooperation. In some instances, this resulted in punitive action against foreign parties, including prosecution.

Representation in international forums

Treasury provides policy input on international investment issues in multilateral forums, such as the World Trade Organization (WTO) and OECD, in regional forums such as Asia-Pacific Economic Cooperation (APEC), and bilaterally through free trade agreements, investment protection and promotion agreements and other bilateral partnerships.

Free trade agreements/closer economic cooperation

Concluded agreements

Negotiations on the AUSFTA were finalised in February 2004 and the Agreement entered into force on 1 January 2005. The Agreement liberalises trade in goods and services, including professional and financial services, and Australia's foreign investment policy as it applies to US investors.

The AUSFTA preserves the main features of Australia's foreign investment policy, including the Government's ability to screen all investment of major significance. It also provides a strong framework of legal protections for investors. The Investment Chapter provides investors of both countries with national treatment and most-favoured nation treatment when investing in the other country. These commitments will ensure that Australian investors are treated no less favourably than domestic investors in the United States or investors from third countries investing in the United States, except in areas specifically exempted. An article outlining foreign investment issues in the AUSFTA was published in the Summer 2004-05 edition of the *Economic Roundup*.

The Australia-Thailand Free Trade Agreement was signed in Canberra on 5 July 2004, and entered into force on 1 January 2005. The agreement benefits Australian investors inter alia, by providing for majority Australian ownership in a number of sectors and sub-sectors, including mining, and by providing Australian investors with legal protection against expropriation.

New negotiations

During 2004-05, Australia announced the commencement of Free Trade Agreement (FTA) negotiations with the Association of Southeast Asian Nations (ASEAN) in partnership with New Zealand; the United Arab Emirates (UAE); Malaysia; and China.

- On 30 November 2004, Australia, New Zealand and ASEAN leaders announced the commencement of negotiations on an FTA. All leaders committed to a comprehensive agreement covering both goods and services and the progressive elimination of all forms of barriers to trade. Negotiations are expected to take two years.
- On 15 March 2005, Australia and the UAE announced the commencement of negotiations on a bilateral FTA. Both countries agreed to work towards concluding a comprehensive and liberalising FTA in 2006.
- On 7 April 2005, Australia and Malaysia agreed to launch FTA negotiations. The decision to begin negotiations on an FTA follows consideration of comprehensive scoping studies into the likely impact of a bilateral economic agreement.
- On 18 April 2005, Australia and China agreed to launch negotiations on an FTA. The decision to proceed to negotiations followed Australia's formal recognition of China as a market economy and the completion of a joint feasibility study, which found that an FTA would provide substantial economic benefits to both countries.

Other agreements

On 18 April 2005, Australia and Indonesia announced the development of a bilateral Trade and Investment Framework.

On 20 April 2005, Australia and Japan announced the commencement of an FTA feasibility study. The study will examine the pros and cons of a bilateral FTA, as part of measures to advance economic relations between the two countries.

On 19 May 2005, Australia and India announced the start of work on a Trade and Economic Framework Agreement.

During 2004-05, Australia signed an investment treaty with Turkey and completed negotiations with Mexico, with the intention to sign in the near future.

Organisation for Economic Co-operation and Development

Foreign Investment and Trade Policy Division represented Australia at the meetings of the OECD's Investment Committee. The Committee addresses policy issues facing OECD and non-OECD countries in attracting investment and maximising its associated social benefits.

Treasury is responsible for implementing and promoting the OECD Guidelines for Multinational Enterprises in Australia. This voluntary code for responsible business conduct is recommended by governments to multinational enterprises operating in or from the 30 OECD member countries and eight non-member adhering countries. The principles and standards for responsible business behaviour cover employment, industrial standards, disclosure, the environment, human rights and bribery.

Each adhering country has a national contact point to ensure effective implementation and promotion. The General Manager, Foreign Investment and Trade Policy Division,

who is also Executive Member of the Foreign Investment Review Board, is the Australian National Contact Point. In 2004-05, the programme focused on four outcomes:

- continuing constructive dialogue established with non-government organisations and engaging interested parties on key issues arising from implementing the guidelines;
- initiating outreach to the business community to promote the Guidelines and increasing efforts to establish a network of business contacts for consultation;
- continuing contact with officials from other government agencies to discuss the Guidelines and other corporate social responsibility initiatives; and
- enhancing promotional efforts through the review and upgrade of the website www.ausncp.gov.au and continuing efforts to incorporate the Guidelines into domestic corporate governance and social responsibility reporting frameworks.

At the OECD Annual Meeting of National Contact Points in June, the Australian National Contact Point tabled a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year and attended an OECD roundtable on the interaction between the Guidelines and developing countries.

In June 2005, the Australian National Contact Point received a submission from several Australian and overseas non-government organisations alleging that a UK-controlled multinational had breached the Guidelines in respect of its operations in Australia. At the end of June 2005, the matter was still under active consideration.

Asia-Pacific Economic Cooperation

During 2004-05, Treasury revised and updated the investment chapter of the annual APEC Individual Action Plan, and contributed to peer reviews of the investment chapters of China, the United States, Chile and Peru.

In early 2005, Treasury increased its role in APEC's trade and investment liberalisation agenda when it filled the vacant convenorship of the Investment Experts Group. It is expected that our leading role in this Group will form a significant part of Treasury's contribution to the development of key policy themes and priorities in the lead up to 2007, the year Australia hosts APEC.

Liaison with Department of Foreign Affairs and Trade

A dedicated Trade Policy Unit was formed in mid-2005 to coordinate Treasury's involvement in bilateral, regional and multilateral trade matters. Treasury provided specialised advice to the Department of Foreign Affairs and Trade on Australia's involvement in the WTO Working Group on Trade and Investment and the WTO Doha round of negotiations on the General Agreement on Trade and Services. Treasury also provides advice to the Department of Foreign Affairs and Trade on Australia's negotiation of bilateral and regional free trade agreements and bilateral investment treaties. A model Australian investment protection and promotion agreement text provides the basis for negotiating investment agreements. Australia has 19 bilateral investment treaties in force.

Output 3.1.2

Financial system and corporate governance policy advice

The Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel, were responsible for the delivery of Output 3.1.2, financial system and corporate governance policy advice.

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

Performance information

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing Government decisions as they relate to financial system and markets issues;
- effective presentation of relevant information to inform public debate;
- statutory and other procedural requirements are met;
- secretariat services provided to advisory bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, are assessed by participants as effective;
- ministerial correspondence is handled satisfactorily; and
- the Takeovers Panel achieves intended results.

Analysis of performance

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

Financial system reform

Superannuation

Treasury provided advice to the Government on possible enhancements to Part 23 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act), following a public review of these provisions. The Government subsequently released an outcomes paper containing recommendations for legislative change. Part 23 of the SIS Act provides for financial assistance to superannuation funds that suffer loss due to fraudulent conduct or theft.

The *Superannuation Safety Amendment Act 2004* introduced a universal licensing regime for trustees of superannuation funds regulated by the Australian Prudential Regulation

Authority (APRA). These reforms commenced on 1 July 2004, with a two-year transition period for existing trustees. Treasury has been liaising with APRA and industry stakeholders to ensure a smooth transition to the new licensing regime.

Corporations regulations were made that provide for enhanced fee disclosure. They promote consumer understanding of fees and costs through standardised presentation and allow for better comparability between superannuation funds.

Response to the collapse of the HIH Group

Treasury has been assisting the Government in the consideration of issues raised by Professor Kevin Davis in the Study of Financial System Guarantees (Davis Report). To help facilitate the public consultation process after the release of the Davis Report, the Government prepared a discussion paper outlining the key issues and questions on which it sought public comment. Treasury coordinated the public consultation process. Submissions were received from industry groups and participants, consumer organisations and individuals.

Treasury continued to progress the recommendations of the HIH Royal Commission, including work to implement the key findings of the Review of Discretionary Mutual Funds and Direct Offshore Foreign Insurers and to review the application of merits review of APRA decisions.

The final report of the Review of the *Insurance Contracts Act 1984* was released in January 2005.

Review of financial sector levies

Treasury provided advice in relation to the development and passage of legislation to implement the Government's response to the recommendations of the Review of Financial Sector Levies. It also consulted with industry on the possible implications of the new levy determination framework for levies paid by various types of financial sector entities. The amended legislative framework allows greater flexibility in the determination of the financial sector levies through which regulated entities in the financial sector fund the cost of the operations of APRA and certain other activities.

Money laundering

Treasury continued to assist the Attorney-General's Department in formulating proposals to implement the recommendations of the Financial Action Task Force on Anti-money Laundering (FATF). Treasury consulted with financial sector representatives on the potential implications of the revised anti-money laundering and counter-terrorism financing standards and possible legislative approaches, and remains in close contact with other Government departments and regulators.

Medical indemnity reform

Treasury provided substantial input to the review of competitive neutrality in the medical indemnity insurance market, announced by the Government in December 2004. Treasury engaged Mr Graham Rogers to conduct the review and provided secretariat support, together with the Department of Health and Ageing. Treasury also published the review report. The review found that the Incurred But Not Reported (IBNR) indemnity scheme gave participating insurers a competitive advantage. The Government accepted the review's recommendations in May 2005. Legislation to

give effect to the Government's decision was introduced into Parliament in April 2005. The package will require insurers participating in the IBNR indemnity scheme to make competitive advantage payments, and will also reduce the contribution doctors make towards the cost of the IBNR indemnity scheme through United Medical Protection (UMP) support payments.

Professional indemnity and public liability insurance

Treasury closely monitored developments and responded to issues in public liability and professional indemnity insurance markets.

Treasury provided policy advice and support for a ministerial meeting on insurance issues. Treasury worked with the States and Territories through the Insurance Issues Working Group and participated in the development of a framework for national cooperation in administering professional standards legislation.

Treasury developed the Trade Practices Amendment (Personal Injuries and Death) Bill 2004, introduced into Parliament on 9 December 2004. The amendments, which were supported by the majority of State and Territory Governments, will prevent individuals and the Australian Competition and Consumer Commission in a representative capacity from bringing actions for damages for personal injury or death resulting from contraventions of Division 1 of Part V (the misleading and deceptive conduct and other unfair practices provisions) of the *Trade Practices Act 1974*. This will prevent the Trade Practices Act being used to undermine State and Territory tort law reforms.

Natural disaster insurance

Treasury has been working with the Insurance Council of Australia to progress the insurance recommendations contained in several recent reports to the Government on natural disasters. The reports include: the Council of Australian Governments (COAG) report, *Natural Disasters in Australia: Reforming mitigation, relief and recovery arrangements*; the COAG National Inquiry on Bushfire Mitigation and Management; and the House of Representatives Select Committee on 2002-03 bushfires (the Nairn report).

Payments system reforms

Treasury continued to support the Reserve Bank of Australia's payments system reforms through a technical amendment to the *Payment Systems (Regulation) Act 1998*. The Payment Systems (Regulation) Amendment Bill 2005 received Royal Assent in June 2005 and allows the Act to operate as intended. Specifically, the amendment ensures that payment system participants complying with Reserve Bank standards are not inadvertently in conflict with the competition provisions of the *Trade Practices Act 1974*.

HIH Claims Support Scheme

Treasury provided policy advice on the management of the HIH Claims Support Scheme and its future. Treasury has implemented the Government's decision to restructure the HIH Claims Support Scheme. The eligibility assessment and claims management functions have been contracted to one service provider who acts as an agent for the Government. Arrangements are being finalised for the sale and transfer of HIH Claims Support Limited from the Insurance Council of Australia to Commonwealth ownership.

Financial services refinements

Treasury assisted the Government to prepare proposed refinements to the regulatory regime, then consulting widely on their implementation. These refinements were set out in a Proposals Paper entitled *Refinements to Financial Services Regulation*, released in May 2005.

International liaison

IMF Financial Sector Assessment Program

Treasury advised the Government in relation to Australia's participation in the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP), to which the Government agreed in late 2004. The FSAP involves assessments of Australia's observance of various international standards and codes relating to financial sector regulation, and analysis of financial system soundness, governance framework and official oversight and regulation of the financial system. The FSAP is well underway and expected to be completed in June 2006. Treasury is coordinating Australia's participation in the FSAP and maintains close contact with the IMF and Australia's financial sector regulators.

Financial Action Task Force mutual evaluation

Treasury assisted the Attorney-General's Department in relation to the Financial Action Task Force (FATF) mutual evaluation of Australia's anti-money laundering and counter-terrorist financing regime. Treasury contributed to Australia's self-assessment questionnaire in late 2004 and organised the on-site visit by the team of FATF assessors in March 2005. The evaluation is expected to be completed in October 2005.

Treasury was represented at FATF meetings in 2004-05 and was in regular contact with Australia's financial sector and money laundering regulators in relation to FATF issues.

Organisation for Economic Co-operation and Development (OECD)

Treasury was represented at Organisation for Economic Co-operation and Development (OECD) Insurance Committee meetings and provided advice to the OECD on medical indemnity, corporate governance and natural disasters. In addition, a Treasury officer was involved in OECD Insurance Committee outreach activities in Bolivia.

Trade

Treasury is the lead agency in advancing Australia's interests in the Financial Services Committee (FSC) under the AUSFTA. The first meeting of the FSC was held in June and discussed a range of issues that would lead to the closer integration of the Australian and US financial services sectors. The US agreed to further consider the issues raised by Australia in a meeting in scheduled for early 2006.

Treasury participated in negotiations on financial services for the World Trade Organization Doha round, and contributed to work being done by the Department of Foreign Affairs and Trade to progress free trade agreements with China, the ASEAN region, Malaysia and the United Arab Emirates.

Joint Trans-Tasman Council on Banking Supervision

Treasury provided policy advice and support to the Government on trans-Tasman banking regulation matters, including for the annual meeting between the Australian Treasurer and New Zealand Minister of Finance.

The Secretary to the Treasury, together with the Secretary to the New Zealand Treasury, is the Joint Chair of the Joint Trans-Tasman Council on Banking Supervision, established by the Australian Treasurer and the New Zealand Minister of Finance on 17 February 2005. Membership of the Council also comprises APRA, the Reserve Bank of Australia and the Reserve Bank of New Zealand (RBNZ). Treasury provided secretariat support to this Council.

As a member of the Council, Treasury has been involved in work on promoting a joint approach to trans-Tasman banking supervision, including on legislative changes that may be required to ensure APRA and the RBNZ can support each other in the performance of their current regulatory responsibilities at least regulatory cost.

Financial Reporting Standards

Treasury participated in a Trans-Tasman Accounting Standards Advisory Group with representatives from the Financial Reporting Council, Australian Accounting Standards Board, Financial Reporting Standards Board (New Zealand), Accounting Standards Review Board (New Zealand) and officials from the New Zealand Ministry of Economic Development. Markets Group is working toward consistency in financial reporting frameworks and the implementation of International Financial Reporting Standards in both countries.

Securities offerings

Treasury progressed work on a mutual recognition arrangement governing offers of securities and managed investment scheme interests between Australia and New Zealand. The proposed regime will allow issuers to offer securities in both Australia and New Zealand using the same offer documents and offer structure, with minimal additional obligations. Further steps towards adoption of the proposed regime are expected to be achieved in 2005-06.

Takeovers Panel

The Takeovers Panel contributed to well-functioning securities markets in Australia by resolving 31 applications, based on the policy and purposes of the Takeovers Chapter of the *Corporations (Repeals, Consequential and Transitional) Act 2001*, that is, ensuring that the acquisition of control over voting shares in listed companies takes place in efficient, competitive and informed markets. The Panel also fosters the confidence and efficiency of the market by publishing Guidance Notes setting out how the Panel is likely to address specific issues if they come before it. In 2004-05, the Panel published revised versions of a number of its Guidance Notes to keep them relevant to current market practices.

Financial Reporting Panel

Provision for the establishment of a Financial Reporting Panel is made in Part 13 of the *Australian Securities and Investments Commission Act 2001*, which commenced on

1 January 2005. Panel members are appointed by the Minister. Treasury has been engaged in the acquisition and fit-out of premises and other preparatory work in readiness for the Panel's commencement of operations. Treasury will provide executive support for the Panel.

Currency

Treasury chaired and served on the Royal Australian Mint Advisory Board. In the 2005-06 Budget, funding of \$41.2 million over three years was provided to fund the refurbishment of the Royal Australian Mint buildings. This is the first major upgrade to the Mint buildings since construction in 1965.

Treasury also prepared currency determinations for the Perth Mint's numismatic coin programmes.

Company law and corporate governance

Corporate Law Economic Reform Program 9

Treasury continues to monitor the implementation of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*, and consulted with the Australian Securities and Investments Commission and industry stakeholders regarding its implementation.

International Financial Reporting Standards

Treasury provided advice to the Government regarding Australia's adoption of International Financial Reporting Standards and issues surrounding their implementation. Treasury also consulted with the Australian Accounting Standards Board, Financial Reporting Council, accounting supervisory bodies, industry groups and individual companies on this issue.

Statutory and other procedural requirements

Financial sector levies

Treasury consulted with industry and provided advice to the Government in relation to the determination of financial sector levies (which primarily support the Australian Prudential Regulation Authority's operations) for the 2005-06 financial year. These were the first levies to be determined under the new levy determination framework.

Ministerial decisions under statutes

Under the Corporations Act, portfolio ministers have a significant role in ensuring market integrity. Treasury provided ongoing policy advice in relation to ministerial powers to disallow the operating rules of markets and clearing and settlement facilities and approve new market applications.

Treasury advised on applications for financial assistance under Part 23 of the SIS Act. Part 23 provides for financial assistance to superannuation funds that suffer loss due to fraudulent conduct or theft. In 2004-05, the Government made 79 determinations, granting approximately \$7 million in financial assistance.

In 2004-05, Treasury advised on and prepared associated instruments on: eight applications under the *Financial Sector (Shareholdings) Act 1998*; two applications under

section 63 of the *Banking Act 1959*; three applications under the *Insurance Acquisitions and Takeovers Act 1991*; and two applications under the *Financial Sector (Transfers of Business) Act 1999*.

Appointments

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

Secretariat services

Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2004-05. Treasury also assisted the Parliamentary Secretary to fulfil the Government's obligations under the Corporations Agreement 2002.

Treasury provided secretariat support for the Financial Reporting Council, a stakeholder body that provides broad oversight of the accounting and audit standard setting process, including the Australian Accounting Standards Board. Treasury also provided secretariat support for the Trans-Tasman Accounting Standards Advisory Group.

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

Treasury provided secretariat services to the HIH Assistance Review Panel.

Output 3.1.3

Competition and consumer policy advice

Competition and Consumer Policy Division, the Financial Literacy Foundation and the Strategy, Consumer and Group Services Division (now the Strategy, Communications and Group Services Unit) were responsible for the delivery of Output 3.1.3, competition and consumer policy advice.

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

Markets Group also contributed to Output 3.1.3 by implementing the Government's decision to establish the Financial Literacy Foundation under its Election 2004 Policy, *Super for All and Understanding Money*. The Foundation's key objectives are to raise awareness of financial literacy and its benefits, and provide consumers and stakeholders with well-organised and accessible information to enable them to use financial literacy programmes and resources.

Performance information

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in discharging their responsibilities under legislation and in implementing Government decisions in relation to competition and consumer policy;
- statutory and other procedural, administrative and reporting requirements are met;
- effective representation and/or liaison with other agencies, private sector organisations and international bodies promotes competitive, efficient and well-informed markets;
- effective presentation of relevant information to inform consumers and businesses;
- secretariat services provided to advisory bodies are effective;
- implementation of the Super Choice initiative; and
- ministerial correspondence is handled satisfactorily.

Analysis of performance

Competition policy

During 2004-05, Treasury provided advice on a range of issues affecting Australia's competition framework.

Treasury developed the Trade Practices Legislation Amendment Bill (No. 1) 2004 which implements the Government's response to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration (the Dawson Review). The Bill was introduced into Parliament on 17 February 2005. (An earlier version of the Bill was introduced on 24 June 2004.) The reforms aim to improve the competition and authorisation provisions and administration of the Trade Practices Act by including a voluntary formal clearance process for mergers, direct application to the Australian Competition Tribunal for merger authorisation and a notification process to facilitate collective bargaining by small businesses with large businesses.

Treasury also advised on the Government response to the March 2004 report by the Senate Economics References Committee, *The effectiveness of the Trade Practices Act 1974 in protecting small business*. The Government response was released on 23 June 2004, and a three-month consultation process with State and Territory governments commenced on the same day. Since then, Treasury has been developing the Trade Practices Legislation Amendment (Small Business Protection) Bill 2005 to implement the Government response.

Treasury developed the Trade Practices Amendment (National Access Regime) Bill 2005, which implements the Government's final response to the Productivity Commission's review of the National Access Regime for infrastructure facilities of national significance. The Bill was introduced into the House of Representatives on 2 June 2005 and is expected to be debated in the 2005 Spring sittings.

Treasury has an advisory, reporting and coordination role for the Government's implementation of National Competition Policy (NCP). During 2004-05, Treasury provided advice to ministers on NCP payments to the State and Territory governments, sector-specific reforms and inter-jurisdictional issues. During 2004-05, the Productivity Commission released its inquiry report on NCP arrangements. The report was commissioned to inform the 2005 Council of Australian Governments' (COAG) review of NCP, scheduled to be completed by the end of 2005. Treasury is now working closely with the NCP Review Secretariat within the Department of the Prime Minister and Cabinet to develop a future reform framework that will be progressed through the COAG NCP Review.

Treasury prepared policy advice on issues concerning energy market reform. Treasury has worked with the Department of Industry, Tourism and Resources and State and Territory governments towards implementing the COAG Australian Energy Market Agreement 2004, which will create a new national institutional and regulatory framework for Australia's energy markets. In particular, Treasury has been actively involved in processes to enable the new Australian Energy Regulator's operations to commence on 1 July 2005.

Treasury's policy advice on transport covered a diverse range of issues including the adequacy of rail and port infrastructure associated with coal; the Government's national land transport plan, *AusLink*; conditions in international aviation markets; and international cargo liner shipping. Treasury was also involved in the Australian Competition Tribunal's review of the Parliamentary Secretary to the Treasurer's decision regarding declaration of airside services at Sydney Airport.

Treasury also provided policy advice on a range of telecommunications issues and issues relating to the digital broadcasting regulatory review process.

Treasury coordinates and advises the Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2004-05, this involved four public inquiries and three commissioned research references.

Treasury had extensive dealings with other agencies, private sector organisations and international bodies, and contributed to the development of competition and regulatory frameworks in Organisation for Economic Co-operation and Development (OECD) member and non-member countries, through involvement in OECD competition committees and Asia-Pacific Economic Cooperation (APEC) work. Treasury has also been involved in negotiating competition chapters in free trade agreements with several countries.

Consumer policy

In 2004-05, Treasury provided advice to the Government on regulatory frameworks that support consumer confidence and help consumers to participate actively in the market. A major focus was providing advice on the review of Australia's product safety framework. On 16 March 2005, the Productivity Commission was asked to undertake a research study into Australia's consumer product safety system. The final report of the Commission is expected by 16 January 2006. The study has been endorsed by the Ministerial Council on Consumer Affairs (MCCA) and will examine the impacts of

various reform options for the Australian consumer product safety system as set out in the MCCA discussion paper, *Review of the Australian consumer product safety system*.

Treasury continued to provide secretariat support to the MCCA. The Parliamentary Secretary to the Treasurer, representing the Commonwealth, commenced as Chair of the Ministerial Council in September 2004. Treasury has also continued to provide secretariat support to the Commonwealth Consumer Affairs Advisory Council. The Council was strengthened during the year through a merger with the Electronic Commerce Expert Group, leading to some members of that group becoming Council representatives.

During 2004-05, Treasury participated in international consumer policy meetings including the OECD workshop on consumer redress held in Washington in April 2005.

Treasury has worked with relevant Commonwealth agencies to assess Australia's compliance with the OECD *Guidelines for protecting consumers across borders from fraudulent and deceptive commercial practices*. To this end, Australia has completed the first part of an OECD questionnaire in relation to these guidelines.

On 21 April 2005, the Treasurer announced that the Australian Government would be making an amendment to the *Trade Practices Act 1974* to respond to the increased use of component pricing in a number of industries.

Consumer information

In December 2004, consumer product safety regulatory functions were transferred to the Australian Competition and Consumer Commission (ACCC). The major work carried out by staff up until the time of their transfer included developing regulations allowing for a new consumer product information standard for tobacco products.

Staff and resources associated with the Consumer Information Programme were also transferred to the ACCC. The Treasury maintained its role in providing consumer policy advice. It is anticipated that the remaining elements of the Consumer Information Programme will be transferred to the ACCC in 2005-06. These include:

- the ConsumersOnline website, which is the Government's one-stop shop for consumer information;
- an indigenous consumer website; and
- the ScamWatch website, which provides information on targeting scams.

Financial Literacy Foundation

The Financial Literacy Foundation was launched in June 2005, and will take forward a national strategy to deliver the Government's commitment to help all Australians increase their financial knowledge and better understand their options and the choices they can make in using and managing their money.

Key elements of the national strategy are to:

- implement an Australia-wide information and awareness-raising campaign;
- incorporate financial literacy programmes in schools and workplaces;

- establish a website to serve as a portal for financial literacy education and information resources; and
- conduct original research to build understanding of both influences on community attitudes to financial literacy and best practice approaches to extending and measuring literacy.

The Foundation is a division of Treasury. Its financial and administrative arrangements are consistent with the legislative and departmental requirements which apply to all divisions.

The Financial Literacy Advisory Board was established in June 2005 to provide independent expert advice, guidance and strategic direction on financial literacy issues. It consists of 10 high-profile members who are leaders in their respective fields and is chaired by Mr Paul Clitheroe. Board members have been appointed by the Minister for Revenue and Assistant Treasurer in consultation with the Prime Minister and Treasurer.

Treasury has assisted in the implementation of Superannuation Choice in the area of consumer protection and education. The Financial Literacy Foundation has worked collaboratively with the Australian Taxation Office and the Australian Securities and Investments Commission on the implementation of Super Choice, including the information campaign, call centre and website.

Appointments

Treasury processed appointments to the Australian Competition Tribunal, Australian Competition and Consumer Commission, National Competition Council, Health Services Advisory Committee, Commonwealth Consumer Affairs Advisory Council and the newly established Australian Energy Regulator.

Output 3.1.4 Actuarial services

The Australian Government Actuary is responsible for the delivery of Output 3.1.4, actuarial services.

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

The office has an ongoing support role.

Performance information

The key performance indicator is:

- efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

Analysis of performance

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is therefore a primary indicator of performance. The Australian Government Actuary operates a

special account to ensure its financial operations are managed properly and transparently. At 30 June 2005 the account was in a sound financial position.

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

Consultancy services

Australian Government Actuary consultancy services typically involve analysing uncertain future financial flows using financial modelling techniques, documenting the analysis and presenting the results to clients.

Departments which sought advice included Defence; Attorney-General's; Education, Science and Training; Family and Community Services; Health and Ageing; Veterans' Affairs; and Finance and Administration. Centrelink, the Health Insurance Commission and the Australian Taxation Office also sought advice.

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

Services to Treasury

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

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

Operational outcomes

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

Output 3.1.5 Circulating coin and like products

The Mint is a semi-autonomous operating division of Treasury, responsible for producing circulating and numismatic coin for Australia. The Mint also produces a range of high quality collector coins together with minted non-coin products including medallions. The Mint's collector coin and minted non-coin business is commercial, within government-set parameters.

In 2004-05, the Government provided funding of \$2.165 million as part of a five-year capital replacement program.

Performance information

Key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to coinage and Royal Australian Mint operations;
- produces circulating coin to Reserve Bank of Australia forecasts;
- meets financial performance targets; and
- maintains the National Coin Collection and the Royal Australian Mint's visitors' gallery, and promotes public understanding about the cultural and historical significance of coins.

Analysis of performance

Treasury and the Mint provided advice on a range of currency related matters including coin designs.

The supply of circulating coin in 2004-05 was high and deviated considerably from original forecast. Despite this, the coin was delivered on time. Increased demand raised the value of the seigniorage to \$102.5 million (from \$59.098 million in 2003-04).

For 2004-05, the Mint's operating profit before company tax and net of seigniorage was \$0.961 million. The profit was lower than in previous years due to overly optimistic forecasting of numismatic products leading to write offs of packaging and excess finished product. A focus for 2005-06, is to improve planning and forecasting, including introducing more rigorous planning for all products and product reviews.

Sales of corporate and overseas product increased by 48 per cent to \$2.350 million, partly due to foreign coin production orders.

The Mint was selected as the official supplier of coins and medals for the Melbourne 2006 Commonwealth Games. In March, the Treasurer released the first coins, the Queen's Baton Relay coins. In May, the M2006 Commonwealth Games Uncirculated Coin Collection was released; when finished it will include 16 individual sport coins highlighting the 16 individual sports showcased at the Games.

The Mint announced the 2005 winner of the Secondary Student Design Competition. Kelly Just from Victoria designed a coin featuring Australia's fauna imitating the actions of athletes in the Melbourne 2006 Commonwealth Games. This coin will be released into circulation later in 2005.

In August, the Bicentenary of Tasmania 'H' Mintmark coin was released. The Mint's mintmark machine was taken to Hobart to strike this coin, and the event created a great deal of excitement with hundreds of people lining up to obtain this coin. Strong sales through the mail order and corporate channels followed.

The theme for the 2005 year sets was to commemorate 60 years since the end of the Second World War. The 'Dancing Man' on the \$1 coin and the family greeting the returned prisoner of war on the 20 cent coin generated substantial community interest. The interest in these sets reflects the strong performance of themes of national and

historic significance. This was reinforced with the release of the 2005 \$1 mintmark coin commemorating 90 years since the Gallipoli landings. The 'G' mintmark release sold out in two weeks.

A new three-year coin gold series was released in July, highlighting three of Australia's most endangered birds. The Cassowary was the 2004 release; the Mallee Fowl will be the 2005 release; and the South Eastern Red Tailed Black Cockatoo will be the 2006 release.

The Mint attended a variety of coin shows and public exhibitions including the Royal Victorian Agricultural Exhibition, the Pacific Explorer Stamp Show as well as the Brisbane ANDA Coin Note and Stamp Show. Once again the Mint's portable mintmark press proved a strong attraction at these shows.

The Mint's capital equipment is being upgraded in a five-year programme. Four new circulating presses and a robot for bagging were installed.

Visitor numbers increased for the second consecutive year. Two major public events celebrated the Mint's fortieth anniversary. The Parliamentary Secretary launched a special exhibition showing every pre-decimal Australian gold coin. Valued at over \$7 million, it remained in place until the end of August 2005. The public was invited into the factory areas on two open days in April. Many of the 4,627 visitors travelled to Canberra especially for the chance to watch coining operations at close hand.

In May, the Government announced the refurbishment of the Mint building. The refurbishment will be through an integrated construction package, including the Department of Finance and Administration building owner base building works and Mint tenant fitout works. The project, starting in 2006, will take three years and cost around \$40 million.

Refurbishment will ensure compliance with Government accommodation standards and promote environmental policy initiatives. The fitout will provide for a standard commercial office, modern light industrial manufacturing environment and contemporary museum and gallery — refurbishment will better equip the Mint to respond to changing and fluctuating operational requirements and provide a level of public facilities in line with other national institutions.

The Mint was purpose built to produce Australia's decimal coinage and has not had a substantial upgrade since its original construction in 1965; refurbishment will ensure the continued economic viability of this landmark building and extend its useful life by some 25 years.

Customer service charter

The Mint's customer service charter is available in hard copy and on its website.

Customer complaints are managed within the context of the Mint's overall Quality Management System that meets with the ISO9001-2000 Quality System certification. Complaints are dealt with according to the Australian Standard AS 4269-19951 Complaints Handling. Relevant staff are trained in all aspects of customer service.

Mint staff regularly meet collectors and dealers. In addition, the public can raise matters directly with the Mint in letters, phone calls and emails to two dedicated email addresses.

Table 5: Australian decimal coin issued by Treasury

Year	\$2 \$'000	\$1 \$'000	50c \$'000	20c \$'000	10c \$'000	5c \$'000	2c \$'000	1c \$'000	Total \$'000
1965-92	395,960	319,780	217,625	161,303	93,532	84,652	48,793	31,162	1,352,807
1992-93	16,460	7,150	50	56	4,000	3,874	-	-	31,590
1993-94	26,100	24,075	2,349	280	2,440	5,716	-	-	60,960
1994-95	39,000	37,600	9,920	3,080	3,240	5,540	-	-	98,380
1995-96	27,000	32,200	8,000	1,040	-	4,140	-	-	72,380
1996-97	26,800	24,300	6,960	3,160	-	4,360	-	-	65,580
1997-98	22,200	20,500	4,320	4,340	820	4,660	-	-	56,840
1998-99	32,400	18,900	7,480	7,180	5,740	5,920	-	-	77,620
1999-00	64,000	23,200	15,930	10,700	7,080	6,210	-	-	127,120
2000-01	31,600	16,000	8,760	9,660	7,320	7,300	-	-	80,640
2001-02	67,200	37,400	27,080	18,020	11,520	10,680	-	-	171,900
2002-03	48,000	23,300	9,640	4,780	4,680	5,020	-	-	95,420
2003-04	33,800	12,300	8,920	7,700	7,360	6,600	-	-	76,740
2004-05	8,760	10,880	15,960	17,001	26,094	59,000	-	-	137,695
Total	839,280	607,585	342,994	248,300	173,826	213,672	48,793	31,162	2,505,672

Table 6: Circulating coin production 2004-05

Denomination	Design	Date of Coin	Alloy	Pieces (millions)
5c	Standard	2004	Cupro-Nickel	97.750
5c	Standard	2005	Cupro-Nickel	50.042
10c	Standard	2004	Cupro-Nickel	62.040
10c	Standard	2005	Cupro-Nickel	28.976
20c	Standard	2004	Cupro-Nickel	47.971
20c	Standard	2005	Cupro-Nickel	1.600
20c	WWII	2005	Cupro-Nickel	21.677
50c	Standard	2004	Cupro-Nickel	10.600
50c	Student	2004	Cupro-Nickel	10.577
50c	WWII	2005	Cupro-Nickel	11.033
\$1	Standard	2004	Aluminium Bronze	8.717
\$1	WWII	2005	Aluminium Bronze	10.607
\$2	Standard	2004	Aluminium Bronze	16.807
\$2	Standard	2005	Aluminium Bronze	6.335
Total				384.732

Table 7: Visitor numbers

	2000-01	2001-02	2002-03	2003-04	2004-05
Total visitor numbers	186,597	208,429	182,104	188,262	195,697

Production figures for proof and special coins, medal, medallions and circulating coin for other countries are available at www.ramint.gov.au.

Strategic Communications Division

Strategic Communications Division assists in the achievement of Treasury's outcomes by providing services in relation to: Cabinet liaison, parliamentary liaison, ministerial correspondence, ministerial briefing coordination, issues management, and freedom of information requests. It also undertakes Treasury-wide projects directed at enhancing the services provided to ministers, including on knowledge and information management and quality assurance. Since December 2004, the division has also provided secretariat services to the Executive Board.

Key priorities in 2004-05

The key priorities were to:

- ensure the delivery of appropriate services to Treasury ministers;
- monitor and manage issues, in partnership with relevant policy areas in groups;
- implement measures endorsed by the Executive Board to improve issues and knowledge management in Treasury.

Key outcomes in 2004-05

The key outcomes achieved were:

- provision of issues management services and support across Treasury;
- continued enhancement of Treasury's knowledge management and quality assurance capabilities;
- an upgrade of the electronic tracking system for advice sent to ministers;
- enhanced reporting of ministerial correspondence; and
- integration of secretariat services to the Executive Board into the division.

Corporate Services Division

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

Corporate services include information technology, information and records management, information technology training, publishing, web page and other communications support, human resource management, financial and accounting services, and contracting, security and facilities management.

Key priorities in 2004-05

Corporate Services Division priorities identified in the 2004-05 Corporate Plan were to:

- continue to progress knowledge management initiatives, including continuing to implement electronic records management, enhancing the departmental intranet and continuing the development of departmental internet sites;
- promote a risk management framework across the Treasury;
- negotiate and implement Treasury's fourth certified agreement and Australian workplace agreement framework;
- enhance further human resource and financial information management systems;
- develop further Treasury's internal financial management processes, including the implementation of a long-term capital management plan;
- implement Treasury's 2003-06 Workplace Diversity Programme;
- maintain and expand information technology applications to support departmental operations;
- continue to ensure the security of the information technology network and systems, including a re-accreditation of the internet gateway;
- enhance professional development programmes for staff at all levels to strengthen organisational capability; and
- recruit and retain a capable and agile workforce, including graduates.

Key outcomes in 2004-05

- Knowledge management continued to be a major focus with implementation of the Electronic Records Management System completed in December.
 - With its volume of email holdings and transactions increasing rapidly, Treasury sought to identify and test a facility to manage and store the data. Planning for, and testing of the Email Vault began in early 2005. The system will be commissioned in October, and will minimise the impact on network performance, reduce backup times, provide enhanced retrieval processes for archived email and ensure minimal email losses in the event of a major network outage.

- Treasury's 44 websites are a primary mechanism for disseminating information to the public. In 2004-05, three new websites were released to support government policy priorities. In addition, the 2005-06 Budget website, the online version of the 2003-04 Treasury Annual Report, and the Australian Office of Financial Management website were redesigned to improve navigation and usability.
- Initiatives to develop and promote Treasury's risk management framework included implementing risk assessment pilots in two groups, developing risk management guidelines, developing contract risk assessments and continuing risk management training.
- The 2004-2006 Treasury Certified Agreement came into operation on 20 September. It aims to improve the flexibility of working conditions in Treasury and help make Treasury a more satisfying and rewarding place in which to work. Conditions and pay adjustments matching those contained in the new agreement were incorporated in Australian Workplace Agreements for non-SES employees. Staff at APS 6, EL1 and EL2 levels have access to additional pay points, as determined by the Remuneration Committee System. The system uses demonstrated performance, skills and responsibilities as the primary factors in arriving at relative rankings of staff.
- Treasury's Human Resource Management Systems were enhanced to improve the delivery of client services, particularly the reporting of staffing information, security vetting, performance management and remuneration processes. These systems are supported by a third party reporting tool, TM1, providing senior managers and relevant staff with desktop access to tailored and timely management information. Increasingly, managers and staff are using Job Office, Treasury's online recruitment system.
- Treasury continued to develop its internal financial management processes with the upgrade and improvement of systems and development of more robust procedures in line with better practice guidelines for the public sector. Treasury also reviewed its accounting treatment of financial accounts to ensure they complied with the new Australian Equivalent International Accounting Standards.
- A draft capital management plan identifies major long-term capital expenditure and raises awareness of capital budgeting and asset management processes throughout Treasury.
- Progress on implementing the 2003-06 Workplace Diversity Programme was monitored and recorded against the performance indicators. A higher percentage of staff are accessing flexible working arrangements, with more staff choosing to work part time, including at the senior executive level. In 2004-05, Treasury revised its home-based work policy to assist staff and managers manage the process more effectively. An external service provider can help staff manage their caring responsibilities by providing better access to information and services.

- Information technology application development included developing a new website and database to support the Foreign Investment area. The new system will allow overseas investment applications in Australian real estate to be registered online. The ministerial, facilities management and security breaches systems also were enhanced to improve performance.
- Treasury's internet gateway and information technology platform received re-accreditation on 11 February 2005. This process involved progressively revising all information technology security governance, including the disaster recovery and business continuity plans, threat risk assessment and related documentation.
- Following a report on Treasury's professional development framework the Executive Board agreed to a review of the department's studies assistance policy and the introduction of executive coaching. Treasury's capability framework aligns learning and development opportunities with current and future capability requirements.
- In 2004-05, priorities for learning and development included leadership skills, policy advising, economics, law, performance management, the Treasury seminar series and training in corporate systems. New courses offered for the first time included a tax policy framework course and a macroeconomic policy course.