

Report on performance

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The report on performance covers Treasury's administered items and departmental outputs for 2001-02.

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

Treasury's 2001-02 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 2001-02 *Portfolio Budget Statements*. The performance reporting does not extend to the activities of the Royal Australian Mint which, although a division of Treasury, is not budget-funded. Details of the organisation of the Mint and its operations are published separately in its annual report.

The results of evaluations undertaken during the year, including those listed in the 2001-02

Portfolio Budget Statements, are incorporated into the performance information for the relevant output.

Treasury is predominantly a policy advising agency, and is not required to produce a service charter at this stage. The Foreign Investment Review Board, which is serviced by a secretariat located in the department, has published a service charter. Performance against the service charter customer service standards is contained in the Foreign Investment Review Board annual report.

Outcome 1

Sound macroeconomic environment

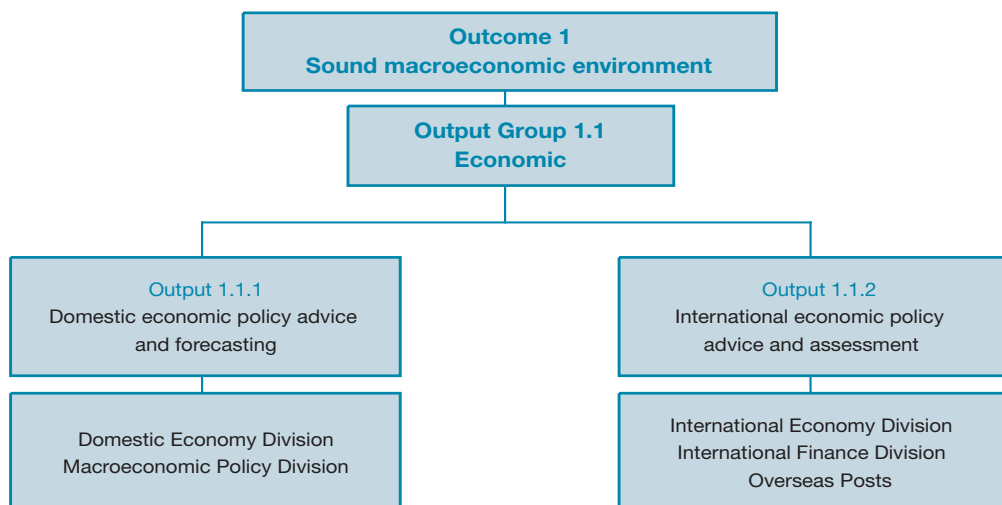
Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

Treasury provides advice on advancing Australia's interests at forums such as the Group of Twenty, and international institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank, and in

the Asia-Pacific Economic Cooperation process. Australia is making a significant contribution to international efforts to sustain international economic stability and growth through these forums.

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

Figure 5: Outputs contributing to Outcome 1





Key priorities in 2001-02

Treasury's 2001-02 Portfolio Budget Statements and internal planning processes identified the following key priorities for Outcome 1.

- Developing and presenting macroeconomic policy advice that maximises the length of the current expansion and maximises reductions in both cyclical and structural unemployment, noting the continuing possibility of adverse external shocks.
- Developing a better understanding of household net wealth issues and their implications for the Australian economy.
- Determining ways of addressing concerns about the geographic and socio-economic distribution of aggregate economic gains, drawing on overseas experience as appropriate.
- Advancing Australia's interests in the continuing development of policies affecting international economic arrangements. This includes enhancing regional cooperation and institution building, advancing bilateral economic relationships and addressing increasing demands for access to policy debates by stakeholders, including non-government organisations.
- Building internal structural arrangements that both facilitate a flexible use of resources and a fair sharing of work. At the same time, attracting and retaining the right people to maintain a core of expertise and build further on the use of networks of expertise and contacts to complement core Treasury staff.
- Making significant contributions to public awareness and debate about economic issues.

In addition to the above priorities, several other key areas of interest emerged over 2001-02.

- The need to further develop debt management policy and address issues concerning the future of the Commonwealth Government Securities market.
- The need to assess the effect of the events of September 11 on both the Australian and the global economy.
- An increased focus on combating terrorist financing and money laundering operations.

Key outcomes in 2001-02

Treasury's main outcomes relating to the above priorities are as follows:

- Treasury developed policy advice aimed at maintaining a sound macroeconomic environment.
 - Treasury produced forecasts to assist with policy formulation, and chaired the Joint Economic Forecasting Group, comprising representatives from the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics (ABS).
 - Treasury regularly provided advice on monetary policy for the Secretary, who is a member of the RBA Board.
 - Treasury advised the Treasurer on fiscal policy and strategy in developing the 2002-03 Budget.
 - Officers provided timely and relevant advice to the Treasurer on global economic developments and emerging international risks, including assessments of global economic

- conditions and outlook leading into the current global downturn and following September 11.
- The department provided briefings to the Treasurer and other members of the Government on a wide range of economic statistics released by the ABS and the private sector.
 - Treasury undertook the Business Liaison Program, to better monitor, analyse and report on economic conditions and prospects. The department provided regular briefing and analysis of liaison to the Treasurer.
 - The department produced analysis for Treasury portfolio ministers on household net wealth issues, following the significant increase in household debt in recent years.
 - Treasury continued to advise on and participate in advancing Australia's interests in international economic issues at a range of international financial institutions and forums. In 2001-02 increased attention was paid to the links between globalisation, growth, poverty and inequality, and focus given to enhancing regional cooperation and international institution building, whilst working to foster effective bilateral dialogue on issues of international interest with counterparts in the United States, Japan, the Republic of Korea, the People's Republic of China and the ASEAN economies. Treasury also addressed increasing demands for access to policy debates by stakeholders.
 - Treasury co-hosted with the RBA, a workshop for Group of Twenty (G-20) members in Sydney on *Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges*.
 - Australia's representatives also played a central role in debates at the International Monetary Fund (IMF) on the issue of the role of the private sector in preventing and resolving crises, and strongly supported the poverty reduction strategies of the multilateral development banks, including the enhanced Heavily Indebted Poor Countries Initiative.
 - Treasury led a review of the Manila Framework Group Financing Arrangements, examining the principles that might guide the coordination of bilateral financing as part of efforts to resolve regional financial crises.
 - Treasury's involvement in Asia-Pacific Economic Cooperation (APEC), included the establishment of a policy dialogue in collaboration with Mexico, the Republic of Korea and the Philippines on strengthening corporate governance in the region.
 - Australia hosted the second APEC Future Economic Leaders' Think Tank and continued to lead the APEC initiative on Managing Regulatory Change in Life Insurance and Pensions. Australia also led the APEC Task Force on Company Accounting and Financial Reporting and developed a 'pathfinder' proposal for APEC economies to voluntarily self assess their corporate governance frameworks.
 - Treasury initiated a review of the Papua New Guinea (PNG) Australia Treasury Twinning Scheme (PATTS), which seeks to enhance the capacity of the central PNG economic agencies to develop economic and financial policies through training, skill sharing, staff exchanges

and the establishment of cooperative relationships.

- Treasury worked to develop internal structures to optimise use of resources and build further networks of expertise.
 - Divisional restructuring occurred during 2001-02 to enhance the group's strategic focus on policy and issues, including those affecting regional engagement. This restructuring also facilitated the development of Treasury's modeling capacity and a more streamlined approach to international forecasting.
 - Treasury also participated in a continuing joint project by Japan's Ministry of Finance and the Australian National University to study the scope for enhancing regional financial cooperation, including the feasibility of a common currency for some economies.
 - Treasury delivered a paper on regional financial arrangements in Beijing in March and will continue to be involved in a series of conferences on this issue, building on the use of these expert networks.
- Treasury contributed to public awareness and debate on economic issues through publications and speeches:
 - A research paper was presented to the Bank of Italy conference on the efficiency of fiscal policy.
 - Three editions of the *Economic Roundup* were published in 2001-02, providing insights into economic developments and key issues relating to Australia's economic performance including analysis on household net wealth issues.
- Treasury provided advice on debt management policy including issues regarding the future of the Commonwealth Government Securities market.
- Treasury provided daily analysis of financial market developments to the Treasurer. These briefings were enhanced following the events of September 11.
- The international community increased the emphasis placed on anti-money laundering and combating terrorist financing efforts. As a member of the Financial Action Task Force and the Asia-Pacific Group on Anti-money Laundering, Australia strongly supported these efforts while also encouraging the IMF and other international institutions to assist such efforts within their mandates and, in particular, to provide technical assistance to developing countries.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2001-2002 \$'000	Actual 2001-2002 \$'000	Budget 2002-2003 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	-	-	-
Special appropriations	47,128	37,818	25,717
Other expenses	-	-	-
Total administered expenses	47,128	37,818	25,717
Revenue from Government			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,965	4,965	4,809
Output 1.1.2 - International economic policy advice and assessment	9,265	9,265	8,929
Corporate costs	6,009	6,084	5,190
Total revenue from Government contributing to price of departmental outputs	20,239	20,314	18,928
Revenue from other sources			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	32	40	26
Output 1.1.2 - International economic policy advice and assessment	123	204	91
Corporate costs	349	362	314
Total revenue from other sources	504	606	431
Total revenue for departmental outputs (Total revenues from Government and other sources)	20,743	20,920	19,359
Price of departmental outputs			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,997	5,021	4,835
Output 1.1.2 - International economic policy advice and assessment	9,388	9,285	9,020
Corporate costs	6,358	5,154	5,504
Total price of departmental outputs	20,743	19,460	19,359
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	67,871	57,278	45,076
Average staffing levels (number)	132	132	126

Notes:

The Budget for 2001-02 is as per the *2001-02 Portfolio Additional Estimates Statements*.

The Actual for 2001-02 is as per the *Audited 2001-02 Financial Statements*.

The Budget for 2002-03 is as per the *2002-03 Portfolio Budget Statements* (unless otherwise stated).

Output 1.1.1 Domestic economic policy advice and forecasting

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

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

Performance information

Performance indicators for Output 1.1.1

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.

Effective presentation of budget documents and other publications adequately informs public debate.

Analysis of performance

Policy advice and inputs into policy processes

During 2001-02, Treasury advised the Treasurer and other members of the Government about a range of macroeconomic issues.

- Treasury undertook analysis of and provided briefings on a wide range of economic statistics released by the ABS and the private sector. This included advice on their implications for the economic outlook and information to assist the Treasurer in responding publicly to the releases.
- As part of the Business Liaison Program, which aims to better monitor, analyse and report on economic conditions and prospects, Treasury officers discussed specific issues from business' point of view with companies and organisations in major business centres. The Treasurer received regular briefings and analysis of liaison findings, including business' views on the global economic slowdown.
- Treasury held discussions with visiting delegations from international organisations including the Organisation for Economic Co-ordination and Development (OECD), the IMF and international credit rating agencies.
- As part of the process of developing the 2002-03 Budget, Treasury advised the Treasurer on fiscal policy and strategies.
- The Secretary sits on the Board of the Reserve Bank of Australia. Economic Group regularly provided advice on monetary policy to the Secretary prior to Board meetings. In preparing this advice, Treasury monitored financial, economic and policy developments and forecasts to assess their implications for policy settings. The Treasurer also was kept abreast of developments in this area through regular briefings and analysis. These briefings were enhanced after the events on September 11. This advice contributed to the formation of sound macroeconomic policy.
- Treasury provided advice on the appointment of the Reserve Bank of Australia Deputy Governor and a board member.
- Treasury provided advice to and gave oral evidence at the Government submission for the Australian Industrial Relations Commission hearings on the Safety Net Adjustment.

- Treasury provided advice on debt management policy, including the objectives of the Commonwealth's debt policy and possible consolidation of Commonwealth and State government debt, and advice on the future of the Commonwealth Government Securities market.
- Economic Group provided analysis to Treasury portfolio ministers on household net wealth issues, following the significant increase in household debt in recent years. This analysis led to publication of Treasury *Economic Roundup* articles in the Spring 2001 and Summer 2002 editions.

Economic forecasts

Economic forecasts inform policy settings and enable the calculation of budget estimates. These forecasts took account of key assumptions about economic variables and judgements about likely outcomes. The events of September 11, the slowdown in the world economy, fluctuating oil prices and the movements in the Australian dollar were important factors taken into account when preparing economic forecasts during 2001-02.

For policy formulation purposes, forecasts provide an understanding of the broad developments within the economy and the balance of risks and uncertainties surrounding the outlook.

The 2001-02 Budget contained forecasts for 2001-02 which were reassessed in the Mid-Year Economic and Fiscal Outlook released in October 2001. These forecasts helped to develop policy which contributed to the strong performance of the domestic economy.

- In the Mid-Year Economic and Fiscal Outlook, the forecast gross domestic product growth rate in 2001-02 was 3 per cent, slightly lower than the 3¼ per cent forecast in the May Budget. The downward

revision reflected a less optimistic world growth outlook following the events of September 11, as well as lower forecast employment growth, lower consumer confidence and lower share prices. In the event, the domestic economy was more resilient than had been expected, growing by 3¼ per cent in 2001-02.

- The forecast for headline inflation was revised up from 2 to 2¾ per cent in the Mid-Year Economic and Fiscal Outlook, in line with the eventual outcome for the year. This reflected one-off factors such as higher insurance premiums, electricity prices, meat prices and domestic airline fares, rather than ongoing inflationary pressures.
- Average employment growth forecasts for 2001-02 were revised down slightly in the Mid-Year Economic and Fiscal Outlook from 1 to ¾ of one per cent, mainly reflecting the weakness in the global economy and lower business and consumer confidence. Consistent with the more resilient outcome for economic activity, employment grew by 1 per cent in 2001-02, slightly stronger than had been expected in the Mid-Year Economic and Fiscal Outlook.
- The 2002-03 Budget contained revised estimates of the outcomes for 2001-02, a fully elaborated set of forecasts for 2002-03 and projections for key parameters in the three years to 2005-06. These forecasts and projections will influence economic policy in the future, which will help in maintaining a sound domestic economy.
- At the time of the 2002-03 Budget the final outcome for gross domestic product growth in 2001-02 was not known. Based on the information available, economic growth in 2001-02 was expected to be 3¼ per cent, reflecting the Australian economy's

resilience, despite the global downturn, and strong domestic demand.

Economic Group also contributed forecasts and model simulations for *Budget Paper No. 5, Intergenerational Report*. The report was the focus of much media discussion, and led to extensive debate over the future direction of economic policy.

At the time, external commentators generally regarded the Mid-Year Economic and Fiscal Outlook and Budget forecasts as credible. The forecasts were consistent with the assessment of international forecasters such as the OECD and IMF. However, more recent data show that economic growth in 2001-02 was stronger than in the Mid-Year Economic and Fiscal Outlook forecasts, with resilient domestic demand supporting the economy.

The *Treasury Economic Roundup, Spring 2002* contained a review of 2001-02 domestic and international economic developments, including an assessment of Treasury forecasts made during that year. Australia's economy has become increasingly efficient and flexible, with higher productivity growth. Sound and credible frameworks for monetary and fiscal policies and ongoing reforms in competition policy, the tax system, the labour market, the financial sector and corporate law have underpinned this development. This level of increased efficiency and flexibility has enabled the economy to withstand the global economic slowdown and recover well from shocks such as the September 11 terrorist attacks. Treasury forecasts have helped to formulate government policy, which in turn has contributed to the increased flexibility of the Australian economy.

Treasury prepared forecasts with the benefit of input from members of the Joint Economic Forecasting Group comprising Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet,

the Department of Finance and the ABS. Treasury liaised with industry to obtain the most up to date information about business conditions. This liaison with the private sector and with other departments helped make the forecasts more robust and comprehensive. Treasury's macroeconomic model of the Australian economy also provided input into the forecasting process, as well as for the macroeconomic policy and sensitivity analyses, which strengthened policy advice.

Contributions to public awareness and debate

Treasury makes considerable contributions to public awareness and debate. Its publications have a wide audience, including international forums, foreign government agencies, tertiary institutions and the Australian public.

All economic publications are available free of charge at the Treasury website (www.treasury.gov.au). This makes publications more accessible.

The 2001-02 *Mid-Year Economic and Fiscal Outlook* reviewed the economic outlook, as prospects for prolonged global economic weakness increased after the September 11 terrorist attacks, and helped inform the public of the likely impacts of these developments. The forecasts noted that stimulatory monetary policy and high domestic demand countered this weakness, making the prospects for growth in the Australian economy significantly better than for most of the developed world.

In the 2002-03 Budget Papers, Statement 3 of *Budget Paper No. 1, Budget Strategy and Outlook 2002-03* discussed in detail international and domestic economic forecasts for 2002-03. This comprehensive report included forecasts for major variables including world growth, domestic growth, inflation and employment.

Statement 4 of Budget Paper No. 1 contained a discussion on Australia's terms of trade. It highlighted that in recent years Australia has had a stronger and less volatile terms of trade which has raised real incomes, contributed to macroeconomic stability and reduced inflationary pressures. This favourable conjunction of events has been supported by a more dynamic and efficient private sector in an environment of increased internationalism, sound macroeconomic policy and sustained microeconomic reform.

The *Budget Overview and Economic Outlook* is a brief, non-technical publication making budget estimates, including major policy developments and forecasts, widely accessible.

The 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 on economic issues, and helped increase public awareness on the Australian economy's performance, both in the recent past and prospects in the future.

Treasury also contributed to international awareness and debate over the efficacy of fiscal policy by presenting a research paper to a Bank of Italy conference held in Perugia.

The three issues of Treasury's *Economic Roundup* published in 2001-02 provided an overview of economic developments and commentary on key issues underpinning Australia's recent economic performance.

The Spring 2001 edition examined the sharp slowdown in Australian economic growth in the second half of 2000, led by the housing industry after the introduction of *The New Tax System*, and the rebound in the first half of 2001. The Winter 2001 edition focused on the combination of policy and technology which is helping create a more productive Australian economy.

Roundup articles produced as part of the output included: Economic Overview (Winter 2001); A More Productive Australia — Policy and Technology (Winter 2001); 2000-2001 in Review: Housing Leads a Temporary Slowdown in Australian Economic Growth (Spring 2001); Australia's Economic Development (Spring 2001); The Household Balance Sheet in Australia (Spring 2001); and Australian Net Private Wealth (Summer 2002).

Treasury distributed quarterly updates of its macroeconomic model of the Australian economy and associated database to the ABS for wider distribution. Since its public release in 1995-96, the Treasury macroeconomic model has continued to evolve in light of ongoing research and development. The most recent redevelopment of the model will expand the industry and expenditure detail to enhance its role in forecasting and policy analysis.

Reviews of economic data

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

Output 1.1.2 International economic policy advice and assessment

International Economy Division, International Finance Division and Asia-Pacific Division¹ in Economic Group are responsible for the delivery of Output 1.1.2, international economic policy advice and assessment.

Economic Group contributes to Outcome 1 by providing advice to government ministers on strategic international economic policy issues, advancing Australia's interests through

¹ Asia-Pacific Division was merged with International Economy Division with effect from February 2002.

the international financial institutions and international forums, advancing Australia's interests in key IMF, World Bank and Asian Development Bank (ADB) program countries, and monitoring and analysing developments in the global economy.

Performance information

Performance indicators for Output 1.1.2

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

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

Analysis of performance

Facilitation of government objectives in international forums

Treasury's involvement in international institutions and forums facilitates the achievement of government objectives, including strengthening the international financial system, multilateral debt relief and institutional reform in the multilateral development banks.

International developments

The world economy weakened in 2001-02. The United States experienced a recession, and the Japanese economy entered recession for the third time in the last ten years. Growth in the European Union stalled and the economies of Australia's major trading partners in East Asia also weakened. The events of September 11 brought the risk of a sharper and deeper downturn. However, the downturn was milder than many expected.

Global recovery is expected to be moderate and uneven. Growth is expected to pick up in the

latter part of 2002 and into 2003, underpinned by supportive monetary and fiscal policies in many countries. However, continuing risks to the strength and sustainability of the recovery weigh heavily on the outlook, as corporate and financial sector problems in the United States and elsewhere remain.

Development and reform of the international financial architecture remained a key area of focus. Measures aimed at both the prevention of crises and their resolution were progressed within the international financial institutions and given impetus by discussions in other international forums such as the G-20.

As a member of the IMF, the World Bank, the ADB, APEC, the G-20, the Manila Framework Group, the Four Markets Group, and the Financial Stability Forum, Australia continued to support the efforts of these international and regional institutions and forums to promote financial stability and sustainable economic growth.

- The links between globalisation, growth, poverty and inequality continued to receive attention during 2001-02. The links remain contentious and the data are imperfect, but important new international research showed that not only has the global proportion of people in extreme poverty continued to fall, but also that the absolute number has begun to fall. Furthermore, the data indicate that inter-country and global inequality has narrowed more than national inequality has widened.
- Treasury contributed substantially to understanding of this issue by co-hosting with the Reserve Bank of Australia, a workshop for G-20 members in Sydney on *Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges*. Workshop papers are available on the Reserve Bank of

- Australia website at www.rba.gov.au, and will be published as the 2002 Reserve Bank of Australia conference volume.
- The Secretary to the Treasury presented the paper, *Spreading the Benefits of Globalisation: 'Selling' the Compounding Benefits* to the above G-20 workshop as well as presenting the paper, *Towards Opportunity and Prosperity — Globalisation, Poverty and Inequality: Friends, Foes or Strangers?* to the 2002 Economic and Social Outlook Conference. These papers are available on the Treasury website at www.treasury.gov.au.
 - The IMF further examined the role of the private sector in preventing and resolving crises, particularly the role of collective action clauses and a sovereign debt restructuring mechanism. Australia played a central role in the debate, emphasising the importance of considering all aspects of private sector involvement in crisis resolution, the complementary nature of the various tools for encouraging private sector involvement and these tools as a means to promote sustainable economic growth and not ends in themselves.
 - The international community increased the importance placed on anti-money laundering and combating terrorist financing efforts. As a member of the Financial Action Task Force and the Asia-Pacific Group on Anti-money Laundering Australia strongly supports these efforts while also encouraging the IMF and other international institutions to provide technical assistance to developing countries.
 - Treasury led a review of the Manila Framework Group Financing Arrangements which examined the principles that might guide the coordination of bilateral financing to resolve regional financial crises.
 - Poverty reduction strategies of the multilateral development banks continued to receive strong support. The World Bank and the ADB direct considerable resources towards programs that aim to assist the world's poorest people. Australia has encouraged the continuing coordination of activities between these institutions, especially in the Asia-Pacific region. During the year, Australia participated in negotiations for the thirteenth funding replenishment of the International Development Association (the World Bank's concessional lending arm) and further committed \$18 million to the enhanced Heavily Indebted Poor Countries Initiative, established by the IMF and the World Bank. By June, the initiative had delivered substantial debt relief to 26 countries.

International Monetary Fund

During 2001-02, the IMF, in part driven by financial instability in Argentina, Turkey and other emerging markets, emphasised improving its capacity to prevent and resolve financial crises. A key agenda item is to examine further the private sector's role in resolving crises including encouraging debate on the need for an international debt work-out mechanism. Australia has supported the IMF's framework for private sector involvement, recognising financial crises are costly and official financing is limited. Australia also encouraged the IMF to examine the full range of tools for promoting financial stability, such as collective action clauses and a sovereign debt restructuring mechanism. However, Australia emphasises that crisis prevention and resolution mechanisms are not ends in themselves, but tools to promote global sustainable growth. Consequently, Australia has actively contributed to the debate on private sector involvement and the IMF's reviews of program conditionality and surveillance.



The IMF also increased its emphasis on anti-money laundering efforts and combating terrorist financing after the events of September 11. In addition to Australia's involvement with the Financial Action Task Force and the Asia-Pacific Group on Money Laundering, Australia has encouraged the IMF to, within its mandate, assist members introduce the reforms.

In January 2002, Treasury coordinated IMF First Deputy Managing Director Anne Krueger's visit to Australia. During this visit Ms Krueger discussed relevant policy issues with the Treasurer and Treasury officials and delivered a speech on the proposed Sovereign Debt Restructuring Mechanism.

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

United Nations Conference on Financing for Development

To mobilise crucial resources to boost economic growth and fulfil internationally agreed development goals, the International Conference on Financing for Development was held in Monterrey, Mexico, from 18-22 March. An unprecedented feature was participation of World Bank, IMF and World Trade Organisation officials, along with members of the United Nations system and community and business representatives.

The conference adopted the Monterrey Consensus to eradicate poverty, achieve sustained economic growth and promote sustainable development in a fully inclusive and equitable global economic system. The consensus also commits to strengthening the United Nations as the main organisation to revamp the international financial system, working with the World Bank, the IMF and the World Trade Organisation.

In pre-conference negotiations, Australia worked to ensure that the outcome supported efforts to focus development financing on poverty reduction and sustainable development, emphasising the policy environment and good governance. Australia also argued for appropriate consideration of Asian-Pacific interests, particularly small island developing states. Treasury participated in pre-conference negotiations and comprised part of the Australian conference delegation.

Heavily Indebted Poor Countries Initiative and Bilateral Debt Relief

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

At the November annual meetings of the IMF and the World Bank, Australia supported steps to accelerate the implementation of this initiative. During the April meetings of the IMF and the World Bank, Australia supported their efforts to actively engage countries that had not yet received debt relief due to their recent armed conflict. The Parliamentary Secretary to the Treasurer, together with other ministers from around the world, committed the World Bank and the IMF to consider providing, case by case, additional debt relief to countries reaching the completion point. This will further assist countries completing the enhanced initiative to ensure an enduring exit from unsustainable debt. By June, 26 countries had qualified for over US\$40 billion in debt relief.

The Australian Government announced in the 2002-03 Budget a new commitment of \$18 million to the enhanced initiative. This maintains Australia's burden share and brings total Australian contributions to HIPC to \$77 million.

On 12 November, the Treasurer and Minister for Foreign Affairs announced that following Ethiopia's qualification for debt relief, Australia no longer expected repayment of Ethiopia's debt, totalling \$11.5 million. This provision of 100 per cent debt relief was in accordance with the policy, previously announced on 21 April 2000, that Australia would forgive bilateral debts of countries qualifying for debt relief under the HIPC Initiative. Two countries, Nicaragua and Ethiopia, have benefited from Australian bilateral debt forgiveness.

World Bank

Throughout 2001-02, Australia supported the World Bank's emphasis on reducing poverty and improving aid effectiveness. Australia also supported World Bank involvement in global initiatives, including the United Nations' Financing for Development Conference.

Australia's involvement in the World Bank focused on making World Bank activities more effective, efficient and transparent. Australia also sought to strengthen the complementarities between World Bank and Australia's aid programs in the Asia-Pacific region. Australia continued to emphasise the importance of close World Bank coordination with other multilateral organisations, notably, the IMF and the Asian Development Bank.

During 2001-02, donor countries met to discuss financing requirements and lending policy for the thirteenth replenishment process for the International Development Association, the concessional lending arm of the World Bank.

Asian Development Bank

In 2001-02, Australia encouraged the Asian Development Bank (ADB) to continue its transformation to a broad-based development institution by fully implementing agreed policy reforms across all of its operations. Australia focused on the continuing improvement in internal governance to enhance accountability,

effectiveness and transparency and ongoing financial viability through prudent banking policies. Australia encouraged the ADB to coordinate and cooperate more with all of its development partners. Australia considered the major issue of the ADB's Inspection Function, allowing affected communities to request a review of projects they consider harm them because the ADB fails to follow its own policies. The ADB is reviewing this function, with a report to the Executive Board scheduled for late 2002.

European Bank for Reconstruction and Development

Australia continued to support the European Bank for Reconstruction and Development (EBRD) work in assisting in reconstruction and development of Russia, Eastern Europe and Central Asia. Australia has promoted a greater focus on countries with a less advanced transition.

The Group of Twenty

The G-20 provides a high-level mechanism for informal dialogue on international economic issues within the framework of the Bretton Woods institutional system. It aims to broaden the discussions on key economic and financial policy issues and promote cooperation to achieve stable and sustainable world economic growth.

Participants included finance ministers and central bank governors from the Group of Seven nations and other significant developed and developing countries, including Australia. The heads of the IMF, World Bank and their ministerial-level advisory committees are ex-officio G-20 members.

Treasury officers attended the G-20 deputies meeting in Toronto, Canada in October, in preparation for the Treasurer's participation in the November meeting. The Treasurer and Reserve Bank Australia Governor attended



the G-20 Ministerial meeting. Discussions focused on policy responses to the slowing global economy; policy challenges arising from globalisation and measures to best spread its benefits; application of standards and codes to improve transparency and quality of policies and institutions; application of appropriate exchange rate regimes, prudent liability management and orderly liberalisation of the capital account; and combating the financing of terrorism.

Treasury played a central role in promoting G-20 discussion about globalisation. On 26-27 May, Treasury and the Reserve Bank of Australia jointly hosted on a workshop for G-20 members in Sydney on Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges. The workshop considered recent evidence and argument presented by leading researchers, and compared national experiences. Workshop papers are available on the Reserve Bank of Australia website at www.rba.gov.au, and will be published as the 2002 Reserve Bank of Australia conference volume. At this workshop, the Secretary presented a speech, *Spreading the Benefits of Globalisation: 'Selling' the Compounding Benefits*. This speech is available at both the above Reserve Bank of Australia website and at Treasury's website at www.treasury.gov.au.

In April, the Secretary presented *Towards Opportunity and Prosperity — Globalisation, Poverty and Inequality: Friends, Foes or Strangers?* to the 2002 Economic and Social Outlook Conference. This paper addressed the international impacts of globalisation on poverty and inequality, its likely contribution to Australian trends, and conceptual issues in defining and measuring relative poverty. This paper is available at www.treasury.gov.au.

Manila Framework Group

Treasury officials attended and played an active role at the ninth meeting of the

Manila Framework Group in Auckland on 4-5 December.

The Manila Framework Group comprises finance and central bank deputies from 14 economies: Australia, Brunei, Canada, China, Hong Kong SAR, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States. The IMF, the ADB and the World Bank are also represented. The Manila Framework Group meets twice each year to review economic developments in the Asia-Pacific region and discuss issues affecting regional economic and financial stability.

The ninth meeting acknowledged that many regional economies were experiencing a slowdown, and some were in recession. It noted how the September 11 terrorist attacks and related events had increased uncertainty in the international economy. The deputies acknowledged supportive macroeconomic policies and structural policies would facilitate a return to growth, stability and poverty reduction. The deputies were confident the longer-term economic outlook remained positive, despite short-term difficulties. The group noted regional economies had progressed substantially in implementing reforms and agreed economies must continue to address structural issues, including restructuring the banking and corporate sectors and improving public and corporate governance and disclosure arrangements to sustain future recovery.

The ninth meeting also reviewed the role of the cooperative financing arrangement envisaged in the Manila Framework of 1997. Australia had initiated this review a year earlier and facilitated the task force which considered principles for an arrangement to supplement resources available from the IMF, the ASEAN+3 network of currency swap arrangements and other sources, for use in any future financial crisis. The

meeting endorsed a number of key principles the task force identified.

Financial Stability Forum

The Financial Stability Forum continued its work in enhancing information sharing and cooperation in financial market supervision and surveillance. It reviewed its progress in addressing concerns about the regulatory practices of offshore financial centres and the activities of highly leveraged institutions. The Financial Stability Forum also established a Crisis Management Contact List to improve coordination of international responses to financial crises.

In October, Treasury participated in the forum's first regional meeting in the Asia-Pacific region. Participants discussed ways to further strengthen domestic and regional financial systems with better national accounting and auditing standards and corporate governance.

Four Markets Group

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

The Four Markets Group met in Sydney in December to discuss the status and future prospects of member economies and financial markets, and general developments in international and regional markets. The meeting also discussed issues relating to the development of regional bond markets, including the role of credit rating agencies and securitisation. Australia facilitated a discussion of issues on integrating regional securities and futures markets.

Asia-Pacific Economic Cooperation Finance Ministers

In 2001-02, Treasury provided policy advice and briefings for the Treasurer at the eighth APEC Finance Ministers' meeting in Suzhou, China in September. Treasury officers attended the APEC Finance and Central Bank Deputies' meeting in Washington DC in May, and the APEC Technical Working Group meetings in Puerto Vallarta and Oaxaca, Mexico, in December and June respectively.

The APEC Finance Ministers process has remained focused on encouraging structural reform, particularly in financial markets, since the 1997 economic crisis. Treasury remained active in this process, leading three initiatives, the APEC Future Economic Leaders' Think Tank, an initiative to manage regulatory change in life insurance and pensions, and one to strengthening corporate governance in the APEC region. The Australia-led task force on Company Accounting and Financial Reporting also presented its report to Finance Ministers.

Australia hosted training courses for Managing Regulatory Change in Life Insurance and Pensions in July and March. Twenty-six insurance and pension regulators from ten APEC economies attended the March session. Annual symposiums complement these courses and encourage dialogue among regulators and industry representatives. The most recent symposium was in Beijing in November.

As part of the APEC Future Economic Leaders' Think-Tank, Australia hosted two events in Sydney in August and April to focus on networking, problem solving and developing fresh solutions to priority regional economic and financial challenges.

Australia co-chaired the initiative on Strengthening Corporate Governance in the APEC Region, which involved developing a policy dialogue on market incentives for

strengthening corporate governance and advocating a 'pathfinder' initiative following the endorsement given by Leaders at their 2001 meeting for sub-groups of APEC economies to explore new approaches to issues.

Australia's proposed corporate governance 'pathfinder', the first of its kind in the APEC Finance Ministers' process, will focus on strengthening self-assessment of the participating APEC economies' corporate governance frameworks against the principles endorsed by Finance Ministers in 1999.

Treasury supported and contributed to a review of the strategic objectives of the Finance Ministers' process and its relevance to APEC's vision. Treasury also contributed to various continuing APEC Finance Ministers' initiatives including strengthening banking supervision and training for bank supervisors and securities market regulators, developing effective corporate governance structures and practices, and supporting freer and more stable capital flows through a voluntary action plan. Such initiatives support the Finance Ministers' objective of establishing a framework for building sound domestic institutions in the region, emphasizing the development of effective and stable capital markets.

Investment Experts Group

Treasury participated in APEC's investment liberalisation, facilitation and cooperation activities by leading Australia's representation in the APEC Investment Experts Group. Treasury worked to ensure that the Investment Experts Group remained focused on investment liberalisation and facilitation rather than investment promotion. Treasury also participated in the Investment Experts Group meetings in Dalian, China, in August, in Mexico City in February, and in Merida, Mexico in May.

Economic Committee

Treasury led Australia's representation on APEC's Economic Committee and worked to improve the committee's output and ensure committee activities met the needs of leaders, ministers and other APEC forums.

Australia's draft research paper, the *Impact of E-Commerce on Service Industries*, was well received. The Economic Committee continues to produce the APEC Economic Outlook. Australia provided a draft chapter on statistical indicators on knowledge-based economies for the 2001-02 publication. Given the strong support for this work, the Economic Committee agreed to include it in the Economic Outlook with indicators to be published annually in future.

Relations with Asia

Relations with Asia are important to Treasury, and three senior-level officials have regional posts. These representatives in Tokyo, Beijing and Jakarta continued to maintain and develop relations with Treasury's counterparts in Japan, the Republic of Korea, China, Hong Kong SAR, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines. They also continued to assist Treasury's understanding of conditions in these economies and, as part of the team at the relevant embassies, helped enhance Australia's economic relations with the region.

Treasury also enhanced its strategic focus on analysing cooperative economic arrangements in Asia and regional economic policy issues more generally, and took a more active role in building closer economic links with the region.

During the year, official delegations from Asia visited Australia and Treasury officials visited the region to help increase Treasury's understanding of Asian economies and foster greater cooperation between Treasury and its counterparts in Asia. Treasury aided regional capacity building by hosting officials from

Papua New Guinea and Mongolia for short-term working experience.

Treasury input into international trade negotiations, including the Australia-Singapore Free Trade Agreement and the Australia-Thailand Closer Economic Relations Agreement, continued.

It also participated in a continuing joint project by Japan's Ministry of Finance and the Australian National University to study the scope for enhancing regional financial cooperation, including the feasibility of a common currency for some economies. Consequently, Dr Martin Parkinson, the Executive Director of Economic Group, delivered a paper on regional financial arrangements at a conference in Beijing in March and a series of conferences will be held over the next two years.

Papua New Guinea

Treasury maintained its support of the economic and governance reform program of Papua New Guinea's Government and encouraged continuing constructive engagement with the World Bank and IMF. In late 2001, Papua New Guinea completed, for the first time, an IMF/World Bank structural adjustment program, for which Australia was leading co-financier through two government loans totalling US\$110 million. The loans underpinned Papua New Guinea's reform program and contributed to the strengthening of investor and donor confidence in its economy.

Australia also supported reform through capacity building assistance for Papua New Guinea's Departments of Treasury and Finance under the Papua New Guinea-Australia Treasury Twinning Scheme. Advisers worked in Port Moresby on macroeconomics, superannuation reform, fiscal strategy, and accounting policy. Capacity building also included hosting two Papua New Guinea Treasury officers in Treasury in Canberra for several months in early 2002,

following the first such placements in early 2001.

Relations with Pacific Economies

South Pacific Forum Economic Ministers' Meeting

Treasury continued to be active in support of the Pacific Islands Forum Economic Ministers' Meeting, which seeks to assist members in developing appropriate economic policies for achieving their sustainable development goals. In the lead up to the sixth Ministerial meeting in mid-2002, Treasury encouraged members to participate in a stock-take of progress against reform objectives, and worked to maintain focus on core governance and development challenges.

Organisation for Economic Co-operation and Development

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

The Ministerial Council Meeting is the main OECD meeting. Treasury officials supported the Australian delegation at the May, Partnership for Growth and Development meeting. The meeting also launched the Doha Development Agenda to reaffirm the OECD's pledge to reject the use of protectionism. Australia also continued as chair of the OECD Steering Group on Corporate Governance.

Policy advice

During 2001-02, Treasury reviewed its capacity to provide relevant policy advice with a view to enhancing the focus on regional policy developments and issues, to better inform the Government's regional engagement. This resulted in a restructuring of the international

Divisions to enable the streamlining of resources and processes involved in international forecasting and an increased emphasis on strategic policy issues.

The restructuring also facilitated an enhanced use of modelling tools to support the preparation of international forecasts and to strengthen the analysis of emerging issues and risks.

Through the year, Treasury closely monitored international economic developments and overseas experience relevant to domestic economic policy formulation. With economic growth weakening across the globe leading up to, and in the wake of September 11, and increased fiscal pressures on many governments, challenges for policymakers increased. Policy development benefited from increased monitoring and surveillance supported by information and analysis from Treasury's overseas posts in Washington, Tokyo, London, Beijing, Jakarta and Paris (OECD Delegation).

In addition to helping address immediate policy challenges, lessons were identified which were also relevant to medium-term policy formulation. Some countries performed better during the slowdown than others. The more flexible United States economy had only a mild recession and growth resumed relatively quickly with supportive monetary and fiscal policy. However, ongoing financial market imbalances, and accounting and corporate governance problems still threaten to derail the recovery. In Europe, the slowdown was relatively mild but growth was slow to resume, with market rigidities impeding adjustment. Japan's economy performed poorly with financial and other structural problems unresolved. The East Asian economies also suffered, partly due to their concentration on producing information and communication technology products. These developments reinforced the importance of

sound fiscal policy and macroeconomic reform in increasing an economy's resilience to shocks.

Treasury produced regular briefings on these international economic developments, including for portfolio ministers' meetings with international visitors.

Treasury coordinated and contributed to briefings for portfolio and other ministers regarding attendance at meetings of international forums, including the IMF, APEC, the G-20, Multilateral Development Banks and the OECD.

Treasury also continued to coordinate and provide sound policy advice to the Treasurer in his capacity as the Governor of the IMF, World Bank, ADB and EBRD.

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 Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury 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 the wellbeing of Australians. Budget Group focused on the Government's direct activities, its spending programs, industry assistance, funding of other levels of government and use of taxation powers. Treasury advice to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions.

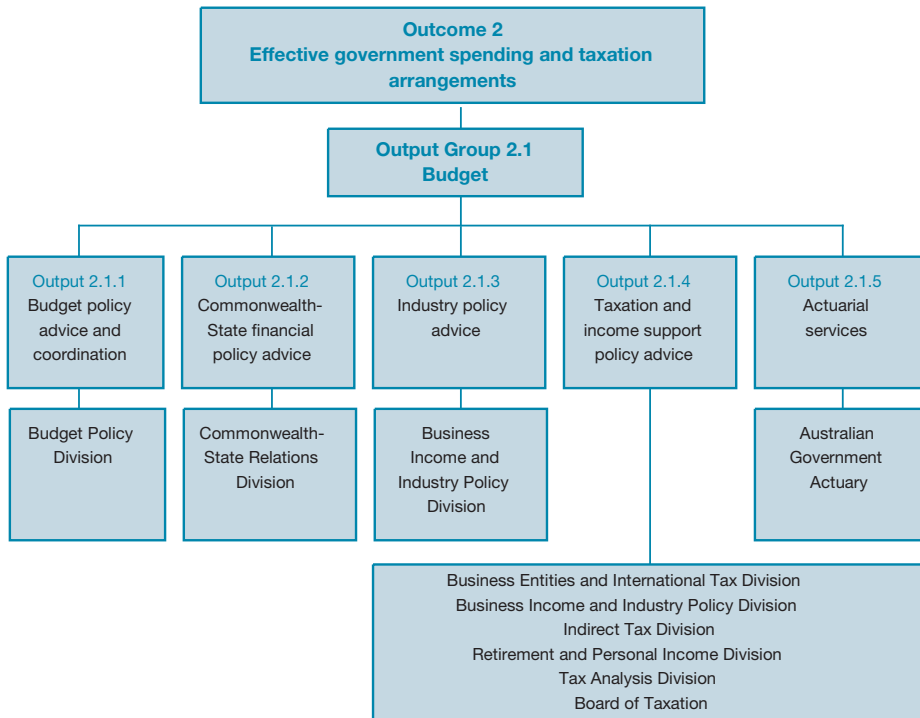
During 2001-02, Treasury devoted significant resources to implementing the Government's taxation reform agenda. The year also saw further development in budget policy processes, Commonwealth-State financial relations

and the implementation of election policy commitments.

The reformed taxation system will provide a stable and equitable revenue source to fund government services essential to the wellbeing of Australians. Taxation reform is an important element of an integrated economic policy framework ensuring stronger economic and employment growth, thereby improving living standards.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating, implementing and explaining government spending and taxation decisions.

Figure 6: Outputs contributing to Outcome 2 as at 30 June 2002



Key priorities in 2001-02

Budget Group's policy advice was increasingly diverse, in line with the Government's broadening policy agenda. Strategies for delivery of outputs included developing highly capable and adaptive project teams, further developing key partnerships with other participants in the policy process, and focusing more on the strategic assessment of emerging core issues.

- Servicing the needs of the Treasury ministers, including the new role of Minister for Revenue.
- Developing an enhanced capacity for tax policy advising and legislative management within the framework of an integrated tax design partnership with the Australian Taxation Office (ATO) and Office of Parliamentary Counsel, and in consultation with the new Board of Taxation.
- Continuing work on major business tax reform proposals, including the taxation of consolidated company groups and international tax arrangements.
- Developing and implementing the Government's 2001 superannuation election commitments on retirement income policy.
- Further refining budget policy processes, delivering the annual budget and mid-year review, and meeting requirements of the Charter of Budget Honesty, including in relation to the 2001 election.
- Developing and operating effective arrangements involving State and Territory Governments for ongoing GST policy development and administration.
- Enhancing group-wide systems to improve service delivery to ministers.
- Establishing the Fuel Tax Enquiry secretariat and delivery of its subsequent report.

Key outcomes in 2001-02

- Delivery of the 2002-03 Budget on 14 May 2002.
- Release of the first Intergenerational Report, as specified in the *Charter of Budget Honesty Act 1998*, presenting a long-term outlook on Australia's budget provision.
- As part of the Charter of Budget Honesty, coordination of costings of election commitments for the Liberal Party – National Party Coalition and the Australian Labor Party leading up to the 2001 Federal Election.
- Preparation and provision of advice to the incoming government following the 10 November 2001 Federal Election.
- Development and implementation of the Baby Bonus, one of the Government's main election commitments, which came into effect on 1 July 2002.
- Implementation of the Government's package of reforms to increase the security, attractiveness and accessibility of superannuation. These reforms were announced in the Government's 2001 election statement, *A Better Superannuation System*, and included in the 2002-03 Budget.
- Advice to the Government on various business taxation issues, including demergers of entities, the consolidation regime, reforms to the imputation system, taxation of financial arrangements, the tax value method and statutory effective life caps for certain classes of assets. Advice was also provided on the Timor Sea Treaty, taxation concessions for research and development, taxation of films, double tax agreements,

including a revised protocol to the United States agreement, venture capital, and triangular taxation arrangements with New Zealand.

- Treasury provided ongoing policy analysis and advice on the implementation, operation and impact of *The New Tax System*.
- Advice on Commonwealth-State financial relations, including in the context of the Commonwealth budget. Officers efficiently administered GST revenue and payment of general revenue assistance to the States, in line with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.
- Treasury advised the Government on operation of the First Home Owners Scheme, including the original and additional scheme, in the States and Territories.
- Treasury provided secretariat support and a submission to the Fuel Taxation Inquiry.
- Treasury provided actuarial assistance to other agencies on policy development and financial risk management.



Table 3: Financial and staffing resources summary for Outcome 2

	Budget 2001-2002 \$'000	Actual 2001-2002 \$'000	Budget 2002-2003 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	299,198	299,198	44,702
Advance to the Finance Minister	52,460	52,460	-
Special appropriations	30,639,934	31,457,979	31,860,998
Other expenses	-	72	-
Total administered expenses	30,991,592	31,809,709	31,905,700
Revenue from Government			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,724	2,724	2,345
Output 2.1.2 - Commonwealth-State financial policy advice	2,158	2,158	1,182
Output 2.1.3 - Industry policy advice	1,491	1,491	1,280
Output 2.1.4 - Taxation and income support policy advice	15,269	15,269	29,546
Output 2.1.5 - Actuarial services(a)	-	-	-
Corporate costs	13,267	11,242	15,438
Total revenue from Government contributing to price of departmental outputs	34,909	32,884	49,791
Revenue from other sources			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	14	21	4
Output 2.1.2 - Commonwealth-State financial policy advice	7	14	2
Output 2.1.3 - Industry policy advice	8	9	2
Output 2.1.4 - Taxation and income support policy advice	45	84	31
Output 2.1.5 - Actuarial services(a)	960	1,191	1,059
Corporate costs	715	675	932
Total revenue from other sources	1,749	1,994	2,030
Total revenue for departmental outputs (Total revenues from Government and other sources)	36,658	34,878	51,821
Price of departmental outputs			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,738	2,756	2,349
Output 2.1.2 - Commonwealth-State financial policy advice	2,165	2,176	1,184
Output 2.1.3 - Industry policy advice	1,499	1,453	1,282
Output 2.1.4 - Taxation and income support policy advice	15,314	15,305	29,577
Output 2.1.5 - Actuarial services(a)	960	1,191	1,059
Corporate costs	13,982	6,849	16,370
Total price of departmental outputs	36,658	29,730	51,821
Total estimated resourcing for outcome 2 (Total price of outputs and administered expenses)	31,028,250	31,839,439	31,957,521
Average staffing levels (number)	232	224	369

(a) Actuarial services have moved to Output 3.1.4 as per the 2002-03 Portfolio Budget Statements. They are included in this table for comparison with 2001-02.

Notes:

The Budget for 2001-02 is as per the 2001-02 Portfolio Additional Estimates Statements.

The Actual for 2001-02 is as per the Audited 2001-02 Financial Statements.

The Budget for 2002-03 is as per the 2002-03 Portfolio Budget Statements (unless otherwise stated).

Output 2.1.1 Budget policy advice and coordination

In 2001-02 Budget Group was responsible for the delivery of Output 2.1.1, budget policy advice and coordination.

Budget Group contributed to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues, current and prospective trends in Commonwealth revenue and major fiscal aggregates, major program outlays, and the fiscal framework. In addition, Budget Group coordinated the preparation of budget and related documents together with the Department of Finance and Administration (Finance).

Performance information

Performance indicators for Output 2.1.1

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.

Effective presentation of budget documents for which Treasury has accountability and other publications to adequately inform public debate.

Analysis of performance

Advice on the budget outlook

During the year, Treasury provided advice to the Treasurer and other portfolio ministers on the Commonwealth's budget position to inform overall policy settings and provide context for the Government's decision making. The fiscal outlook was updated in the 2001-02 *Mid-Year Economic and Fiscal Outlook* and 2002-03 Budget. In addition, Treasury and Finance produced the 2002 *Pre-Election Economic and Fiscal Outlook*.

Reflecting the joint responsibility for producing budget estimates, the preparation of this advice required extensive liaison with Finance, the ATO and other Commonwealth departments and agencies. Assessments of the Commonwealth's budget position incorporated changes to the economic outlook, so that advice was based on the most reliable and up-to-date information available.

Final budget outcome for 2000-01

The 2000-01 *Final Budget Outcome* was published in September 2001. In 2000-01, the Commonwealth general government sector recorded its fourth consecutive underlying cash surplus, and a significantly stronger outcome than was budgeted. The cash surplus of \$5.6 billion was almost \$3.4 billion higher than estimated in the 2001-02 Budget. The accrual fiscal balance outcome, while also strong, was around \$0.5 billion higher than expected. The stronger outcome was the result of higher than expected company taxation receipts, higher non-tax receipts and lower than expected total operating cash payments.

Budget forecasts

The 2001-02 Budget, published in May 2001, contained forecasts for 2001-02 and the next three years. The *Mid-Year Economic and Fiscal Outlook*, released by the Treasurer and Minister for Finance and Administration in October 2001, forecast an underlying cash surplus of \$0.5 billion for 2001-02, lower than the \$1.5 billion surplus estimated in the 2001-02 Budget. This reduction was the combined result of higher estimated cash payments and lower anticipated proceeds from the sale of non-financial assets, partly offset by higher estimated taxation revenue.

The 2002-03 Budget further updated these forecasts for 2001-02, with the estimated underlying cash balance being revised downwards to a small deficit of \$1.2 billion. This was principally the result of higher anticipated

defence and border protection expenditure and strong demand for First Home Owners Scheme grants.

Taxation revenue estimates

Treasury has prime responsibility for taxation revenue estimates and Budget Group worked closely with the ATO and Finance to produce these. These estimates took into account trends in taxation revenue collections and the outlook for the economy. As familiarity with *The New Tax System* has increased, understanding of the patterns of revenue collection has improved. Treasury's capacity to analyse taxation revenue and policy was enhanced during 2001-02 by the creation of a dedicated Taxation Analysis Division.

Final taxation outcome for 2000-01

The assessment of the taxation revenue outcome for 2000-01 published in the 2000-01 *Final Budget Outcome*, released in late September, noted that stronger corporate profitability in the year to December 2000 resulted in higher than expected company taxation receipts in June 2001. Taxation cash receipts were around \$1.4 billion higher than forecast at the 2001-02 Budget. This was partly due to fewer than expected companies choosing to defer payments under the transitional provision laid down for movements to the Pay As You Go system, and payment of company refunds, relating to company balancing payments due in June 2001, in the following financial year. Accrual taxation revenue was around \$0.5 billion above the corresponding estimate at the 2001-02 Budget.

Budget taxation forecasts for 2001-02

The Mid-Year Economic and Fiscal Outlook in October reflected continued strength in collections to 30 September in its upwards revision of 2001-02 revenue estimates.

The 2002-03 Budget estimated a higher level of total revenue (around \$2.5 billion more) for 2001-02 than was predicted in October, largely

due to stronger growth in income tax revenue from small, unincorporated businesses, primary producers and companies, and higher indirect tax revenue.

Intergenerational Report

The first Intergenerational Report, released in the 2002-03 Budget, assessed the possible impact of demographic and other changes on government finances over the next 40 years. The report found that a steadily ageing population could place significant pressure on Commonwealth government finances. In addition, the report concluded that, on the basis of recent trends, technological advancement in health care and the community's expectation of accessing the latest health treatments could continue placing increased demands on taxpayers' funds.

The Intergenerational Report noted that the budget outlook for the next decade or so is positive, with the budget projected to remain in surplus. However, the projections suggest that to maintain budget balance, a fiscal adjustment of around 5.0 per cent of GDP would be required by 2041-42. This fiscal adjustment could involve reducing spending growth through policy change, or higher taxes on future generations of taxpayers.

The first Intergenerational Report received a considerable degree of attention from commentators and has stimulated substantial public debate on future demographic, economic and budget trends, and possible policies to respond to these trends.

Program analysis and policy advice

Treasury's contribution to developing policy seeks to assist ministers in making Commonwealth expenditure more effective and efficient, and to ensure program policy options are considered in the context of the Government's broader economic and fiscal objectives.

To fulfil this role, Budget Group participated in a number of interdepartmental committees and other working groups concerned with developing and reviewing government programs, including in defence, security, health and aged care, family and community services and education.

Budget publications

The Government's budget publications are available free of charge at www.budget.gov.au. Providing widespread access to these documents helps improve policy making in Australia by ensuring the public is kept well informed of budget decisions and the fiscal outlook.

Treasury and Finance jointly prepare the Government's budget documentation. Treasury also prepares the Budget Overview, providing a more accessible summary for non-specialist readers.

In general terms, 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.

The Government's budget reporting requirements are set out in the *Charter of Budget Honesty Act 1998*. These requirements 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; and
- accountability, with information allowing an informed assessment of the conduct of fiscal policy.

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 an intergenerational report be produced on a five yearly cycle.

The *2000-01 Final Budget Outcome*, published in September 2001, comprehensively summarised the budget outcome for that year. This was the second Final Budget Outcome reported on an accrual basis, completing the second accrual budget cycle.

The Government released the *2001-02 Mid-Year Economic and Fiscal Outlook* in October 2001.

Following the calling of the Federal Election on 5 October 2001, and consistent with the Charter of Budget Honesty Act, the Treasury and Finance Secretaries published the *Pre-election Economic and Fiscal Outlook* on 17 October 2001.

As required under the Charter of Budget Honesty Act, Treasury and Finance also provided the major political parties with costings of their election commitments, where such costings were requested in accordance with the Act. Budget Policy Division coordinated Treasury's contribution to these costings and worked with Finance to coordinate the two agencies' handling of requests, preparation of costings and their public release.

Treasury was responsible for releasing costings of policies affecting revenue. Of the requests made by the Prime Minister under the Charter, Treasury prepared 14 costings, including two expenses costings that were reviewed and released by the Secretary to the Department of Finance and Administration. (The Charter requires that outlays costings are released by the Secretary to the Department of Finance and Administration). Of the requests made by the Leader of the Opposition, six costings were prepared by Treasury, including one expense costing that was released by Finance.

The 2002-03 Budget was the fourth Commonwealth budget presented on an accrual basis. The Commonwealth's experience with accrual budgeting has attracted a great deal of international interest. In 2001-02, Treasury met with a number of international delegations interested in learning about the budgeting and reporting framework applied in Australia. These included delegations from the International Monetary Fund, China, Vietnam, Bangladesh and Papua New Guinea.

The 2002-03 Budget included several changes to the structure of Budget Paper No. 1 to help readers using the budget papers by:

- presenting a stand-alone risk statement, Risks to the Budget (Statement 9), to reflect an increased focus on risk management in financial reporting and government decision making; and
- creating a new statement, External Reporting Standards and Budget Concepts (Statement 10), to provide a summary guide to the financial reporting concepts used in the budget papers.

Tax Expenditures Statement

Treasury publishes an annual Tax Expenditures Statement to estimate the revenue cost associated with the concessional taxation

treatment of specific groups and activities. The *Tax Expenditures Statement 2001*, published in December, reported on the cost of tax expenditures with estimates and projections to 2004-05. The production of this statement allows for independent review of whether government objectives are being met at reasonable cost and makes the Commonwealth Government's activity more transparent.

Output 2.1.2 Commonwealth-State financial policy advice

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

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

Budget Group also provides the efficient administration of GST revenue provision and general revenue assistance payments to the States.

Performance information

Performance indicators for Output 2.1.2

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations.

Payments to State and Territory governments:

- accurate calculation of amounts payable according to agreed formulae; and
- payment made according to agreed schedules.

Effective presentation of relevant information, including in the budget documentation and other publications, to adequately inform public debate.

Analysis of performance

Advice on reform of Commonwealth-State financial relations

2001-02 was the second year of full operation of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Arrangements. Treasury provided advice on various aspects of the agreement, particularly the transitional arrangements such as calculating the Guaranteed Minimum Amount and paying Budget Balancing Assistance.

The Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council comprising the Treasurer and all State and Territory Treasurers, oversees the implementation and operation of the agreement. Treasury coordinates the agenda for the Ministerial Council. At the third annual meeting of the Ministerial Council, held in March 2002, Treasurers discussed expected payments to the States, tax reform issues and GST administration. Treasury advised the Treasurer on the key issues and coordinated arrangements for the meeting.

The Ministerial Council agreed to implement a National Excise Scheme for Low Alcohol Beer, as recommended by an officials' working party chaired by Treasury. The scheme came into effect from 1 July 2002 and provides a nationally uniform and administratively efficient concession in the rate of excise on low alcohol beer.

The Commonwealth also sought and reached agreement on a number of improvements to the transparency, consistency and comparability of government financial data across the Commonwealth and States.

Heads of Treasuries

The Heads of Treasuries, comprising the Secretary and his State and Territory counterparts, met three times during 2001-02. Discussions focused on the continuing

implementation of reforms agreed in the Intergovernmental Agreement, economic conditions, fiscal reporting, taxation and financial issues, and preparations for meetings of the Loan Council and the Ministerial Council.

GST Administration Sub-committee

The GST Administration Sub-committee assists the Ministerial Council in monitoring GST operation and administration. It recommends modifications to the GST base and ATO administration of the GST. Treasury chairs the sub-committee which comprises officials from Treasury, the ATO and State and Territory Treasuries. Over the four meetings held in 2001-02, participants drafted a GST Administration Performance Agreement between the States and the ATO, and discussed GST revenue receipts and GST payments to the States and Territories. The Sub-committee also monitored the First Home Owners Scheme.

Specific Purpose Payments

In 2001-02, Specific Purpose Payments to the States totalled around \$21 billion. The Government has reviewed its approach to Specific Purpose Payments. The Commonwealth will look to all new and renegotiated Specific Purpose Payments providing clear statements on the outcomes of the Specific Purpose Payments, including the key objectives sought by the Commonwealth, as well as agreed reporting on financial information and detailed performance indicators. A more outcome-focused accountability framework will improve policy outcomes and deliver better value for money in this significant area of Commonwealth expenditure. Treasury advised the Treasurer on this issue.

The First Home Owners Scheme

The First Home Owners Scheme provided \$7,000 grants to eligible applicants buying or building their first home. The States administer the scheme on the basis of principles agreed by all jurisdictions in the Intergovernmental Agreement.



In addition to this ongoing scheme, the Government announced a new initiative on 9 March 2001 to double the grant to \$14,000 for first home owners who entered into contracts between 9 March 2001 and 31 December 2001 to build or purchase new but previously unoccupied homes. The additional grant was also available for owner-builders who started building their home between these dates. The Commonwealth Government fully funded the additional grants. Treasury assisted in concluding an agreement with the States to administer and fund the scheme through a Specific Purpose Payment. In 2001-02, the Commonwealth funded some 41,000 additional grants of \$7,000, totalling around \$293 million.

In December 2001, the Government announced a phase down of the additional grant, making it available for a further six months, from 1 January 2002, at a reduced rate of \$3,000 per grant. The additional grant ceased on 30 June 2002. However, the original scheme continues to offer \$7,000 grants to eligible first home buyers. Treasury helped implement this phase down, including renegotiating the Specific Purpose Payment agreement with the States. In 2001-02, the Commonwealth funded some 2,200 grants of \$3,000, totalling around \$6.5 million.

In 2001-02, Treasury dealt with numerous public inquiries about the scheme's operation and eligibility criteria.

Payments to the States and Territories

Treasury is responsible for administering payments made under Commonwealth-State financial relations to the States, totalling \$31.4 billion in 2001-02, including GST revenue, Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance.

The largest payment to the States is GST revenue. The Commonwealth provides

all GST revenue in monthly payments, in accordance with relativities determined by the Treasurer following recommendations by the Commonwealth Grants Commission and discussion at the March 2001 Ministerial Council meeting. In 2001-02, the States received around \$26.6 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

Under the *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Commonwealth guaranteed that in the transitional years following the introduction of tax reform, each State's budgetary position would be no worse off than had the reforms not been implemented. This has been achieved through the use of the Guaranteed Minimum Amount and provision of Budget Balancing Assistance. Treasury provides advice to the Treasurer on the amount of funding each State would have received under the previous system to enable the Treasurer to determine the Guaranteed Minimum Amount.

The Commonwealth pays the States transitional assistance, Budget Balancing Assistance, to cover any shortfall of GST revenue below the Guaranteed Minimum Amount, thereby meeting the 'no worse off' guarantee. Treasury pays it in four quarterly instalments with the final one representing a balancing payment. In 2001-02, the States received \$4.1 billion in Budget Balancing Assistance payments. All payments were calculated correctly and paid on the scheduled dates.

In 2001-02, National Competition Policy Payments to the States totaled \$733.3 million. Each State's full entitlement to National Competition Policy Payments is subject to that State satisfactorily progressing specified reform conditions in the *Agreement to Implement the National Competition Policy and Related Reforms*. Payments were calculated correctly and paid immediately following the Commonwealth

Government's approval of the National Competition Policy Council's recommendations.

The Australian Capital Territory received Special Revenue Assistance of \$14.2 million. This payment recognises differences between Commonwealth financial arrangements with the Australian Capital Territory and those with the States. Special Revenue Assistance is paid in weekly instalments. All payments were made on the scheduled dates.

The ATO collects all GST revenue on behalf of the States. The States compensate the Commonwealth for the costs of collecting and administering the GST. Payments by the States to the Commonwealth in 2001-02, reflecting costs incurred in 2000-01 and 2001-02, amounted to around \$517.2 million. Treasury monitored payments to ensure States made full and timely payments.

Budget publications

Information on the Commonwealth Government's financial relations with State, Territory and local governments is documented in the 2002-03 *Budget Paper No. 3, Federal Financial Relations*. This documentation is the main public source of information on Commonwealth payments to the States. It also informs States and Territories of their expected payments in the upcoming financial year, including GST revenue, Budget Balancing Assistance, Specific Purpose Payments, National Competition Payments and Special Revenue Assistance. *Budget Paper No. 3 Federal Financial Relations* also includes a calculation of each State's Guaranteed Minimum Amount, as well as any policy changes affecting the relationship between the Commonwealth and State and Territory governments.

Output 2.1.3 Industry policy advice

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

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

Performance information

Performance indicators for Output 2.1.3

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to industry, regional and environmental policy.

Effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

Analysis of performance

Treasury contributed to policy formulation in a diverse range of industry, regional and environmental policy areas.

Advice on industry policy

During 2001-02, Treasury participated in inter-departmental committees on a range of policy issues. It provided advice to the Treasurer on the draft recommendations of various industry action agendas, including for aqua-culture, environment industries and the pharmaceutical industry. Treasury also provided advice to the Treasurer on the Government's Strategic Investment Coordinator's provision of strategic investment incentives. The Department of



Industry, Tourism and Resources invited Treasury to sit on several steering committees set up to oversee evaluations of industry programs such as the Innovation Investment Fund and the Commercialising Emerging Technologies (COMET) program. Treasury commented on each evaluation's terms of reference, assisted in choosing consultants and commented on draft reports.

Treasury participated in an inter-departmental committee and advised the Treasurer on the ongoing development of quarantine and border protection policies relating to agriculture. Treasury met with other agencies in the continuing development of a comprehensive response plan for the possible outbreak of Foot and Mouth Disease.

It was a member of the inter-departmental committee that developed the Government's \$21.8 million small business assistance package, announced in September. Treasury advised the Treasurer on policy options the Government considered. The initiatives in the package focused on reducing red tape and compliance costs, improving the weight given to small business matters in government decision-making, developing a range of online services to improve small business access to government information and services, and encouraging more small businesses to take up e-commerce.

Advice on regional policy

Treasury participated in inter-departmental policy meetings and provided advice to the Treasurer on the Government's \$115 million *Stronger Regions, A Stronger Australia* package, which the Minister for Transport and Regional Services released in August. The package should help regional Australia adapt to economic, environmental, social and technological challenges.

Advice on environment policy

Treasury provided advice and participated in a range of policy development processes arising from the Government's commitments in *A Better Environment*. In particular, Treasury formulated policy design and administrative criteria for incentives encouraging primary producers to adopt environmental management systems to reduce the environmental impacts of agricultural production. Treasury also advised the Treasurer on the policy design and implementation of *The National Action Plan for Salinity and Water Quality* and the extension of *The Natural Heritage Trust*. These policies aim to improve the management of Australia's natural resource base.

Participation in an officials' committee allowed Treasury to provide high-level support to the Sustainable Environment Committee of Cabinet. Treasury participated on the Inter-departmental Greenhouse Projections Group and provided advice to the Government on international and domestic climate change policy. It also participated in the transport fuels round table and its submission to the Fuel Tax Inquiry focused on environmental issues associated with the use of fuels.

Treasury contributed to the debate on environmental sustainability by coordinating a visit of OECD officials. The OECD mission examined Australia's progress in dealing with environmental issues. Its results appear in the chapter on 'Enhancing Environmentally Sustainable Growth' in the *OECD Economic Surveys: Australia 2001*. Treasury also provided guidance more generally to OECD work on environmental sustainability and assisted in briefing Australia's delegation to the World Summit on Sustainable Development.

Treasury also contributed to the debate on environmental sustainability through the Intergenerational Report, which discussed the

importance of environmental sustainability for intergenerational equity.

Publications

Treasury contributed to budget documents on industry, regional and environment policy, which are published on the budget website (www.budget.gov.au).

Output 2.1.4 Taxation and income support policy advice

Business Entities and International Tax Division, Business Income and Industry Policy Division, Indirect Tax Division and the Retirement and Personal Income Division are responsible for the delivery of Output 2.1.4, taxation and income support policy advice. During the year, the newly formed Tax Analysis Division also contributed to this output through the preparation of costings and analysis of taxation policy proposals.

Budget Group contributed to Outcome 2 by assessing and advising on the general design of the tax system and its components and retirement incomes policy in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility.

Budget Group also provided the secretariat to assist the Board of Taxation.

Performance information

Performance indicators for Output 2.1.4

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to taxation and income support policy.

Effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

Analysis of performance

Taxation and income support policy

Treasury contributed to policy formulation and implementation on a diverse range of taxation and income support policy matters.

The New Business Tax System

Treasury provided policy advice on a range of business taxation issues including demergers of entities, the consolidation regime, reforms to the imputation system, taxation of financial arrangements, the tax value method and statutory effective life caps for certain classes of assets.

Demergers

Treasury provided advice on the policy framework to provide taxation relief for demergers and helped develop the accompanying legislation, New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002 introduced into Parliament on 27 June 2002. Providing tax relief for demergers should increase efficiency by allowing greater flexibility in restructuring businesses, providing an overall benefit to the economy. Furthermore, it enhances the competitiveness of Australia's business sector.

Consolidation

The New Business Tax System (Consolidation) Bill (No. 1) 2002 (introduced into Parliament on 16 May 2002) represents the first tranche of legislation which forms the income tax consolidation regime for wholly owned groups. The Bill includes the core rules (single entity rule, inherited history rule and cost setting rules for assets) and the removal of grouping provisions from 1 July 2003. Additional consolidation rules were included in the New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002 introduced into Parliament on 27 June 2002.



Imputation system

The *New Business Tax System (Imputation) Act 2002* (which received Royal Assent on 29 June 2002) includes the core provisions of the simplified imputation system which broadly changes the mechanics of the current imputation system to:

- simplify rules and reduce compliance costs;
- increase flexibility in franking distributions; and
- consistently treat entities receiving franked dividends.

Taxing of financial arrangements

The *New Business Tax System (Debt and Equity) Act 2001* received Royal Assent in October 2001. This Act sets a framework to determine whether a financial arrangement should be treated as debt or equity for taxation purposes. Treasury consulted with industry, then provided advice on legislative amendments before this Act passed through Parliament.

Treasury provided advice on implementing reforms to the taxing of financial arrangements over the next two years. The Review of Business Taxation (the Ralph Report) recommended the reforms. They include reforming the taxation of foreign exchange gains and losses and commodity hedging, new tax-timing arrangements (mark-to-market election, an accruals/realisation framework and internal hedging rules) and rules dealing with disposals and synthetic arrangements.

Treasury provided advice on removing the taxing point at conversion or exchange of traditional securities issued after 7.30 am EST 14 May 2002. The measure is aimed at relieving cash flow difficulties for taxpayers when there is a gain on conversion or exchange of traditional securities for shares rather than cash.

Tax value method

Following the Review of Business Taxation, the Government asked the Board of Taxation to undertake consultations on the tax value method of determining taxable income. Treasury was represented in the group which developed and drafted 'demonstration' legislation.

Statutory effective life caps for certain classes of assets

The Commissioner of Taxation's review of effective lives of assets significantly reduced the depreciation deductions that could be claimed for certain classes of assets, including aeroplanes and gas pipelines. On the basis of national economic considerations, Treasury assisted the Government in establishing statutory effective life caps on these assets.

The measure announced by the Minister for Revenue and Assistant Treasurer on 14 May 2002, was given legislative effect in Taxation Laws Amendment Bill (No. 4) 2002. This Bill was referred to the Senate Economics Legislation Committee, which received evidence from the Treasury. The legislation received Royal Assent on 28 June 2002 and took effect on 1 July 2002, when the Commissioner of Taxation's revised effective lives for the affected assets came into effect.

Other measures

Treasury provided policy advice on other important amendments/inclusions to the tax law introduced in 2001-02 including:

- legislating the General Value Shifting Regime (New Business Tax System (Consolidation, Value Shifting, Demergers and Other measures) Bill 2002) which replaces the share value shifting and asset stripping rules currently in the income tax law. (The Bill was introduced into Parliament on 27 June 2002);

- legislating a new capital gains tax rollover for a fixed trust to a company contained in Taxation Laws Amendment Bill (No. 4) 2002. (Royal Assent was received on 29 June 2002); and
- amending the inter-corporate dividend rebate for unfranked dividends contained in Taxation Laws Amendment Bill (No. 3) 2002. (The Bill was introduced into Parliament on 21 March 2002).

The Government decided not to proceed with the proposed ordinary life insurance policy holder reforms. Treasury and the ATO jointly arranged consultation on the measure which highlighted the unintended compliance costs such legislation would impose on affected taxpayers.

Treasury is continuing to develop amendments to the New Business Tax System (Thin Capitalisation) Bill 2001 to improve the integrity of the arrangements and address issues taxpayers raised during consultations.

Treasury provided policy advice on developing proposals to implement outstanding business tax measures, including the non-resident withholding tax and expatriate taxation measures.

Other business tax policy advice Timor Sea Treaty

Treasury participated in negotiating the Timor Sea Treaty, which was signed by the Commonwealth of Australia and the Democratic Republic of East Timor on 20 May 2002. This treaty provides a comprehensive regulatory framework for petroleum developments in the Joint Petroleum Development Area of the Timor Sea, and covers exploration, development and production, taxation and the allocation of revenue, the marine environment, employment, health and safety of workers, surveillance, security, air traffic services and criminal law.

Upon ratification by the Parliaments of Australia and the Democratic Republic of East Timor, the treaty applies from 20 May 2002. Australia and East Timor will share revenue derived from oil and gas production in the Joint Petroleum Development Area on a 90:10 basis in favour of East Timor.

In addition, on 20 May 2002, the Governments of Australia and East Timor also implemented an Exchange of Notes covering taxation arrangements applying before the treaty entered force, and signed a Memorandum of Understanding on the use of the Greater Sunrise field which straddles the Joint Petroleum Development Area and Australian waters.

During this process, Treasury provided advice on the taxation aspects of the treaty and Exchange Notes including gas valuation, taxation of individuals and companies operating in the Joint Petroleum Development Area, treatment of past business losses, application of Australia's GST and superannuation guarantee charge, and the application of dividend withholding tax.

Research and development tax concession

In January 2001, the Government announced re-vamped tax incentives for research and development: companies undertaking additional non-plant expenditure on research and development would receive a 175 per cent tax concession, and small companies unable to make use of the tax concession would receive a tax rebate. Where plant is used for research and development and production, companies receive the 125 per cent tax concession for the proportion of time the plant was used for research and development. Furthermore, research and development plant is depreciated over its effective life. Treasury provided advice on the development of this policy.

Taxation Laws Amendment (Research and Development) Bill 2001 was referred to the

Senate Economics Legislation Committee and Treasury presented evidence to the Committee. The legislation received Royal Assent on 1 October 2001.

Tax incentive for film production

Treasury assisted the Government in giving effect to its policy objective of encouraging the production of larger budget films in Australia. *Taxation Laws Amendment (Film Incentives) Act 2002* provides a refundable tax offset to producers of larger budget foreign and Australian films including telemovies and mini-series. The measure was announced as part of the Government's Integrated Film Package in September. To be eligible, films must have been completed on or after 4 September 2001.

Review of international taxation arrangements

The Government is reviewing international taxation arrangements, particularly whether current arrangements impede Australian companies from expanding offshore and attracting domestic and foreign equity, and how they affect holding companies and conduit holdings being located in Australia.

The review will focus on the dividend imputation system's treatment of foreign source income; the foreign source income rules; the overall treatment of conduit income; and high-level aspects of double tax agreement policy and processes. Treasury prepared a paper for public release to serve as a basis for consultations the Board of Taxation will undertake before it reports to government by the end of 2002.

Double tax agreements

The Government is giving priority to renegotiating double tax agreements with major trading partners. During 2001-02, Treasury participated in negotiations with the United States and the United Kingdom.

The United States Protocol was signed in Canberra on 27 September 2001. It will provide significant benefits to Australia by:

- allowing Australian companies to bring back profits from their United States subsidiaries largely free of United States dividend withholding tax;
- reducing the cost to Australian business of accessing United States capital and technology (through reducing Australian royalty and interest withholding taxes);
- clarifying Australia's right to apply capital gains tax to United States investors in Australia while ensuring that such investors are not double taxed; and
- addressing business concerns about the potential for double taxation arising from the application of capital gains tax to expatriates departing Australia to the United States.

Australia is to provide the instrument of ratification before the end of 2002. If the protocol enters into force during 2002, it will take effect from 1 July 2003.

Venture capital

In 1999, the Government introduced a measure to allow tax exempt pension funds in the United States and a few other countries to make investments in Australian venture capital free from capital gains tax. Non-residents normally are taxed on capital gains made on venture capital investments, so this measure aimed to stimulate foreign venture capital investment by removing a direct disincentive to foreign investment in Australia.

Treasury provided advice to the Government on the measure. The Government announced in October 2001 an enhancement to the measure to provide Australian venture capital limited partnerships with tax flow-through status (rather

than continuing to be taxed as companies). Treasury continues to participate in developing the implementation details.

Triangular taxation

Triangular taxation occurs where Australian shareholders in a New Zealand company operating in Australia are unable to access Australian sourced franking credits, with New Zealand shareholders in Australian companies operating in New Zealand facing the same problem. Treasury is working closely with New Zealand officials to solve these issues. A joint discussion document, *Trans-Tasman Triangular Tax*, released in March by the Treasurer and the New Zealand Finance and Revenue Minister, Dr Cullen sets out proposed changes. Treasury consulted business on these proposals, which included New Zealand officials and business representatives.

Prepayment rule for investors in plantation forestry

In October, the Government announced the introduction of a 12-month prepayment rule for investors in plantation forestry. This rule allows investors to obtain an immediate deduction for funds contributed in one financial year to undertake seasonally dependent agronomic operations during the following year.

The new rule took effect from 2 October 2001, and will support the Government's *Plantations 2020 Vision* target to treble the plantation estate to 3 million hectares by 2020.

Personal tax

During 2001-02, Treasury provided advice on taxation policies that increase the efficiency, equity and administrative simplicity of the Australian taxation system. Treasury provided advice to the Government on the design and implementation of a number of personal tax measures.

- The **Baby Bonus**: this refundable tax offset pays back up to one-fifth of the tax payable in

the year prior to the birth of a first child, up to a maximum of \$2,500 per year.

The Baby Bonus complements the Government's expected expenditure of \$13 billion in 2002-03 for Family Tax and Child Care Benefits. Around 245,000 families will benefit from the Baby Bonus in the first year, and eventually some 600,000 families will benefit at any one time.

- **Exemption from income tax for the language, literacy and numeracy supplement**: this supplement, available to people on income support, will be tax exempt. The supplement was announced in the 2001-02 Budget as part of *Australians Working Together*. The income tax exemption for this supplement is consistent with the tax treatment of other add-on payments, such as pharmaceutical allowance and rent assistance.
- **Extended eligibility for the Senior Australian's Tax Offset**: eligibility was extended to senior Australians of veterans' pension age who are eligible for a veteran's pension, allowance or benefit, whether or not they receive a payment. This makes eligibility consistent with that for other senior Australians. In addition, Treasury extended eligibility for the Senior Australian's Tax Offset to senior Australians who are eligible for an age pension but who do not meet the residency requirement.

As a consequence of this measure, all senior Australians eligible for the Senior Australian's Tax Offset under the extended eligibility criteria also are eligible for the Medicare levy threshold of \$20,000. This ensures that an eligible single senior Australian pays neither income tax nor the Medicare levy on income up to \$20,000.

- **Increase in Medicare levy thresholds:** to ensure that low-income families and individuals are exempt from paying the Medicare levy, the low-income thresholds were increased to \$14,539 for individuals and \$24,534 for families. The additional threshold for each dependent child or student also increased to \$2,253. This change takes into account movements in the CPI.

To ensure that pensioners below age pension age do not pay the Medicare levy until they have an income tax liability, this threshold also was increased to \$16,570.

- **Increase in the medical expenses offset threshold:** from 2002-03, the threshold for the medical expenses offset of 20 per cent will increase from \$1,250 to \$1,500.
- Implementation of incentives to encourage conservation and philanthropy in Australia. These incentives include an income tax deduction for landowners who enter into perpetual conservation covenants and allow donations of certain property to deductible gift recipients to be spread over a period of up to five income years.
- Changes to reduce the compliance cost to taxpayers of the alienation of personal services income provisions, including making the 'results test' available for self-assessment and alternative arrangements for commission agents.

A Better Superannuation System

Treasury provided advice and assistance to the Government to implement its package of superannuation election commitments announced in November in *A Better Superannuation System* and re-affirmed in the 2002-03 Budget. Many measures started on 1 July 2002 and required legislation. In summary, the measures:

- **give departing temporary residents access to their superannuation** benefits when they permanently depart from Australia (subject to tax arrangements and claw-back tax concessions). The measure is expected to benefit many temporary residents, including those who already have departed;
- **require quarterly Superannuation Guarantee contributions:** from 1 July 2003, employers must make Superannuation Guarantee contributions on behalf of their eligible employees, at least quarterly rather than annually. The new arrangements are designed to encourage employers to make regular superannuation contributions and will benefit employees by reducing risk of exposure to the loss of superannuation benefits in the event of employer bankruptcy or insolvency;
- **increase access to superannuation:** superannuation funds and retirement savings account providers now can accept contributions in a wider range of circumstances. Relatives or friends can make superannuation contributions on behalf of a child up to \$3,000 per child per three-year period, and Baby Bonus recipients can contribute to superannuation, even if they have never worked. Additionally, working people aged over 70 but less than 75 now can make personal superannuation contributions;
- **give employees a choice of superannuation fund and enhance portability of existing benefits:** the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002 was introduced into Parliament on 27 June 2002. The amendments would allow employees to choose the superannuation fund that their employers' superannuation contributions are made to. Furthermore, the Government reaffirmed its commitment, in respect of

accumulation funds, to allow individuals to transfer existing benefits to their fund of choice. This would benefit many members as they will be able to consolidate their superannuation accounts in one fund and be subject to only one set of fees;

- **will allow splitting of superannuation contributions:** from 1 July 2003, members of accumulation funds will be allowed to split future personal and employer contributions with their spouse, with a spouse's split contributions going into a separate account in the other spouse's name. Receiving spouses will have access to their own eligible termination payment tax-free threshold and reasonable benefit limit.

Contribution splitting will help families maximise superannuation benefits and provide an avenue for spouses to share their superannuation benefits. This is particularly important for families with one spouse working in the home or receiving a low income. Because this measure will assist spouses staying home to care for a family to accumulate their own superannuation, this measure is expected to benefit women in particular. Treasury will consult further on this measure in 2002-03;

- **increase the fully deductible amount for superannuation contributions by the self-employed:** the fully deductible amount for superannuation contributions by self-employed and other eligible people increased from \$3,000 to \$5,000 on 1 July 2002. This measure will increase the attractiveness to the self-employed of making superannuation contributions;
- **will reduce the superannuation surcharge rate:** the Government introduced legislation to reduce the superannuation and termination payment surcharge rates from 15 per cent to 12.5 per cent over three income years;

- **commit the Government to investigate growth pensions:** the Government made an election commitment in the policy document *A Better Superannuation System* to examine whether to allow a new class of market-linked 'complying' pension, often called a growth pension;

- **will reduce the tax rate on Excessive Eligible Termination Payments:** the tax treatment of Eligible Termination Payments from a superannuation fund will be modified to limit their applicable effective tax rate to no more than the top marginal income tax rate; and

- **will provide a government superannuation co-contribution for low-income earners:** legislation was introduced into Parliament to implement the Government's commitment to improve the retirement savings of low-income people. A more generous government co-contribution to match the personal undeducted contributions made by low-income earners will replace the existing rebate for personal undeducted superannuation contributions.

Treasury also contributed to the Government's Family Law Reforms designed to help couples divide their superannuation assets in a marital breakdown. The **Superannuation Industry (Supervision) Regulations** were amended to provide options to facilitate the splitting of superannuation interests between a person who holds a superannuation interest and the spouse, if they separate.

Treasury also advised the Government on:

- its interim response to the Productivity Commission report reviewing the *Superannuation Industry (Supervision) Act*

1993 and certain other superannuation legislation;

- its response to the Senate Select Committee on Superannuation and Financial Services' report, *Enforcement of the Superannuation Guarantee Charge*;
- the Senate Select Committee on Superannuation and Financial Services' recommendations following an inquiry into the effectiveness and efficiency of the current rules governing early access to superannuation benefits on compassionate and severe financial hardship grounds;
- the issue of internal superannuation fund rollovers;
- tax changes to encourage the use of structured settlements for personal injury compensation;
- the superannuation surcharge and its impact on defined benefit funds; and
- the adequacy of superannuation tax arrangements and related policy to address the retirement income and aged and health care needs of Australians in the context of the inquiry by the Senate Select Committee on Superannuation.

GST and indirect taxation measures

Treasury provided ongoing policy analysis and advice on the implementation, operation and impact of *The New Tax System*.

Treasury's submission to the Fuel Taxation Inquiry provided the Inquiry with a broad policy perspective on fuel taxation. Treasury also provided the Government with ongoing analysis and advice on the issues and recommendations contained in the Inquiry report.

During 2001-02, Treasury also provided ongoing policy advice on specific GST and excise issues. These included:

- general GST issues including financial services, education, charities, health, long-term commercial property leases, residential accommodation, second hand goods, going concerns, motor vehicles and luxury car tax. Advice was also provided on a range of specific transitional issues including transitional arrangements for compulsory third party insurance, and the corporatisation of the Snowy Mountains Hydro-electric Authority;
- coordinating and managing the update of the Treasurer's determination of compulsory taxes, regulatory fees and charges not subject to GST. This involved extensive consultation with Commonwealth agencies and the States and Territories;
- preparing analysis and advice on GST international comparisons, and export and import issues, including tourism, treaties and e-commerce;
- preparing analysis and advice on excise and its associated rebate and grant schemes, and the wine equalisation tax; and
- preparing analysis and advice on the Government's commitments for an ultra low sulphur diesel incentive and an energy grants (credits) scheme.

Treasury also provided input to policy measures, including:

- the GST treatment of HIH compensation schemes and transferred insurance portfolios (including that of HIH);
- the GST treatment of transfers by companies of income tax losses and of in-kind

contributions made by developers as part of government planning processes;

- changes to the excise on low alcohol beer, establishing a uniform rate of tax on these products;
- changes to the excise calculation for alcoholic ready-to-drink products;
- extension of the Diesel Fuel Rebate Scheme to small retail and hospitality businesses without access to commercial supplies of electricity;
- excise-free treatment of non-recyclable oils and lubricants used to produce non-oil products; and
- changes to excise calculation for diesel water fuel emulsion, so that excise is only paid on the diesel component of the emulsion.

Inspector-General of Taxation

Budget Group advised on implementing the Government's commitment to establish an Inspector-General of Taxation. In May, the Minister for Revenue and Assistant Treasurer released a consultation paper, *The Inspector-General of Taxation in the Taxation System*, so the Board of Taxation could publicly consult on proposals for the new office. The 2002-03 Budget included funding of \$2 million per year, anticipating the office would be operational by the end of 2002.

Other policy advice

Treasury provided policy advice on the recommendations of the independent output pricing review of the ATO.

Community consultation

The Board of Taxation's March report recommended enhanced community consultation arrangements in developing tax legislation. Treasury advised the Treasury

ministers on the report, which the Government subsequently adopted in principle. Treasury will provide further advice to the Government on consultation processes and approaches during 2002-03.

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 personal taxation and superannuation policies

Treasury is committed to enhancing public awareness of the Government's personal income tax policies. It regularly helps its Ministers inform the public through press releases, fact sheets and tax-time information in conjunction with the ATO. Treasury worked closely with the ATO to fully inform the public about the Baby Bonus through assisting in drafting pamphlets, fact sheets and the Baby Bonus calculator and putting that information on the web.

Treasury officers also respond to public inquiries and inform individuals on personal income tax provisions and their rationale.

An ongoing role is for Treasury to communicate government superannuation policy to the superannuation industry, key stakeholders and the public. It undertook significant consultation in 2001-02, in conjunction with the ATO, on implementing the Government's 2001 superannuation election commitments which the 2002-03 Budget re-affirmed. During 2002, it also held a round table meeting with key stakeholders on the superannuation election commitments.

As part of its communication processes, Treasury also prepares and issues consultation papers for public comment. It provides these

directly to key superannuation industry associations but they are available on Treasury's website for public comment. Treasury officials also present papers at relevant industry and academic conferences, respond to inquiries from the general public and inform the public on how to pursue any superannuation-related queries.

GST and indirect taxation measures publications

In 2001-02, Treasury organised the publication of the Fuel Taxation Inquiry report, and disseminated it to all those who made submissions to the inquiry, and to government agencies and government bookshops. The Fuel Taxation Inquiry report was available on the Internet on the evening of its release, and Treasury handled telephone inquiries from the public about accessing or obtaining the report.

Treasury described relevant indirect tax policy measures in the Budget Papers and the Mid-Year Economic and Fiscal Outlook, and provided analysis of indirect tax concessions in the Tax Expenditures Statement. It also organised the publication and Internet version of the updated Treasurer's determination of compulsory taxes, regulatory fees and charges not subject to GST.

The new public information tax category at Treasury's website makes it easy to locate and access these publications. Treasury's media releases highlighted budget measures, with the labelling of alcoholic beverages measure receiving widespread media coverage. Similarly, the pre-Budget measure to implement a uniform rate of tax on low-alcohol beer also received significant exposure, informing consumers.

Inspector-General of Taxation

On 29 May, the Minister for Revenue and Assistant Treasurer, Senator the Hon Helen Coonan released the consultation paper on the Inspector-General of Taxation (www.taxboard.gov.au). The paper invited

comments from the community, including the business community, on the Government's proposals for the Office of the Inspector-General of Taxation.

Output 2.1.5 Actuarial services

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

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

The office also has an ongoing support role on Treasury policy issues with an actuarial component. In 2001-02, this role was recognised through the Executive Board's decision to fund this work.

Performance information

Performance indicators for Output 2.1.5

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. Income, including funding under an agreement with Treasury to directly fund policy advising work, should cover total costs.

Actuarial advice should be of the highest quality. This cannot be measured directly, but the absence of any complaints regarding the quality of professional services indicates strong performance.

Consultancy services

Australian Government Actuary consultancy services typically involve the analysis of uncertain future financial flows using financial modeling techniques, the documentation of the analysis and the presentation of results to clients. During 2001-02, fee income fully covered the cost of providing these services.

Departments which sought advice included Defence, Attorney-General's, Education, Science and Training, Family and Community Services, Immigration and Multicultural and Indigenous Affairs, and Finance. ComSuper and the ATO also sought advice.

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

Services to Treasury

The Australian Government Actuary contributed its technical expertise on a range of policy issues, including HIH's collapse, consideration of medical indemnity arrangements and the superannuation system.

The funding Treasury provided for this work 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.

During 2001-02, the office was relocated to within Markets Group for organisational purposes. This reflects the major policy areas on which the Australian Government Actuary has been contributing to Treasury work.

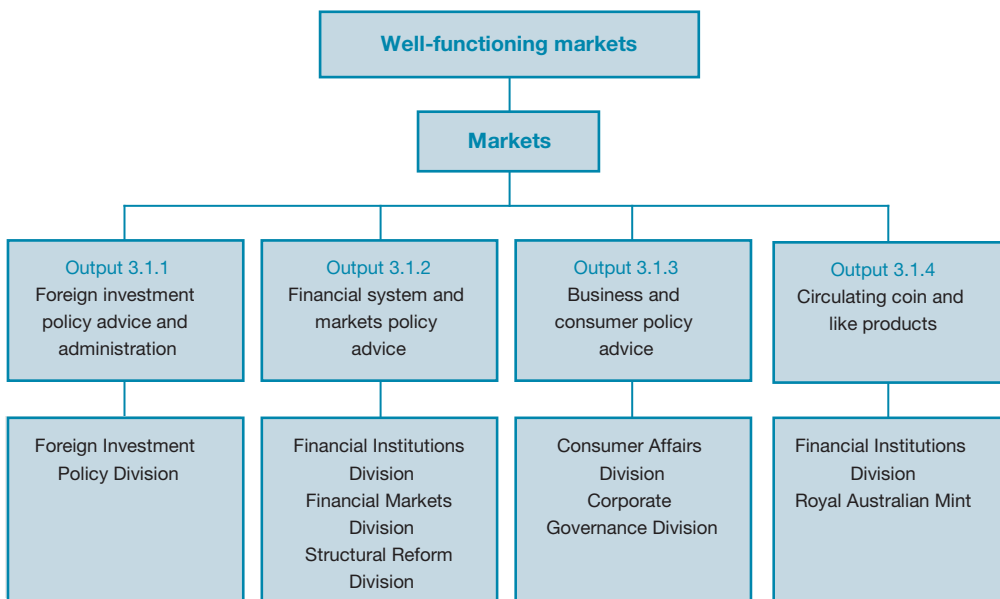


Outcome 3 Well-functioning markets

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

Markets Group's advice and other outputs are directed towards maintaining and improving markets so that investors and consumers can have confidence and certainty about the regulatory framework and are able to make decisions that are well informed and free of market distortions and impediments.

Figure 7: Outputs contributing to Outcome 3



In 2001-02, Markets Group contributed to government decisions and objectives through:

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

Key priorities in 2001-02

Treasury's 2001-02 Portfolio Budget Statements and internal planning processes identified the following key priorities for Outcome 3.

- Developing the prudential supervision framework for general and life insurance, superannuation and authorised deposit-taking institutions, enforcing and managing failure, including introducing legislative reforms to harmonise the legislation applying to different sectors of the financial industry; and, ensuring Australia's compliance with international best practice, where applicable.
- Responding appropriately to international and global developments, trends and events affecting the financial sector and progressing regional harmonisation of financial regulation.
- Facilitating the passage through Parliament and implementation of the Financial Services Reform Bill to promote well-functioning markets by harmonising and improving the regulation of financial services, products and markets.
- Advising on general company law issues, including the corporate regulatory framework.
- Fostering international cooperation to address global trends and influences.
- Progressing implementation of the Corporate Law Economic Reform Program on corporate governance and accounting policy issues.
- Presenting legislation to Parliament enabling the electronic issue and transfer of title to Commonwealth Government Securities and facilitating the appointment of registrars for the stock.

- Progressing structural reform in key sectors of the economy and providing advice and other activities to promote competitive and informed markets.

In addition to the above priorities, several other key areas of interest developed over 2001-02.

- Responding effectively to the failure of the HIH Insurance Group.
- Responding to issues and implications arising from the difficulties in the insurance industry, particularly public liability and terrorist risk insurance.
- Addressing issues emerging from the provisional liquidation of the United Medical Protection and Australasian Medical Indemnity Insurance Limited (UMP/AMIL).
- Facilitating the establishment of an independent review of the competition provisions of the *Trade Practices Act 1974*.

Key outcomes in 2001-02

- Treasury developed and strengthened prudential frameworks through legislative reforms including *General Insurance Reform Act 2001*, and amendments to the *Banking Act 1959*.
- The Superannuation Working Group considered enhancing the prudential framework applying to superannuation with new licensing, standards and capital adequacy requirements.
- Treasury liaised with government authorities in Singapore, Hong Kong and New Zealand, on accommodating and facilitating the global operations of financial markets and the financial services industry within regulatory regimes.

- Treasury progressed free trade agreements and World Trade Organisation negotiations, participating in and advising on the ongoing negotiation to establish the Singapore Free Trade Agreement.

- Treasury responded to the events of September 11 by participating in the Government's efforts to fight money laundering and suppress terrorist financing.
- The *Financial Services Reform Act 2001* became effective from 11 March 2002, harmonising and streamlining the regulatory regime for the financial services industry, creating a more effective consumer protection framework and providing an improved platform for growth and global competition.
- A federalised corporate regulatory framework, based on a referral of legislative power from the States, began operation in July 2001. By 30 June 2002, the States and the Northern Territory could execute the new agreement because they all had their Cabinet or Premier's approval.
- Treasury representatives contributed to the work by the OECD Steering Group on Corporate Governance and the related experts group on combating the use of corporate vehicles for illicit purposes, and on developing a model legislative guide for domestic insolvency laws by the United Nations Commission on International Trade Law.
- The Government released Professor Ramsay's report on *Independence of Company Auditors* in October 2001. Subsequently, Treasury began a review of audit regulation and the wider corporate disclosure framework as Phase 9 of the Government's Corporate Law Economic

- Reform Program. Phase 9 includes a response to Professor Ramsay's report.
- Secretariat support included administrative services and assistance, and preparation of the Financial Reporting Council's annual report.
 - The *Commonwealth Inscribed Stock Amendment Act 2002* passed through Parliament in March 2002.
 - The independent review of the competition provisions of the *Trade Practice Act 1974* was established and the review committee is expected to report in November 2002.
 - Treasury provided advice on key structural reform issues including, for example, difficulties and developments in the aviation industry, changes to telecommunications regulation and advice on government responses to Productivity Commission reports. This included the preparation and implementation of the Government response to the Report on Price Regulation of Airport Services (in conjunction with the Department of Transport and Regional Services).
 - A consumer protection arrangement between Australia and the European Commission was initiated which will improve the exchange of information on issues of mutual significance.
 - Treasury provided advice on consumer safety standards, including the new mandatory standard for bunk beds, baby walkers and heavily tinted headlight covers. Treasury also produced a range of consumer information initiatives, including publication of the *Little Black Book of Scams* and the *Scamwatch* website, in consultation with States and Territories.
 - Officers developed appropriate risk management, financial and performance reporting frameworks for the HIH Assistance Scheme and liaised with the HIH Royal Commission and prepared for the Commission's final report expected by 28 February 2003.
 - Officers provided policy advice in response to premium increases in public liability and terrorist risk insurance, and worked with the States and Territories through the Insurance Issues Working Group.
 - Treasury responded to the need to reform medical indemnity insurance and the difficulties of UMP/AMIL.



Table 4: Financial and staffing resources summary for Outcome 3

	Budget 2001-2002 \$'000	Actual 2001-2002 \$'000	Budget 2002-2003 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	12,000	9,064	164,084
Appropriation Acts Nos. 2/4	147,900	147,621	-
Advance to the Finance Minister	-	-	-
Special appropriations	-	-	-
Other expenses	-	514,677	-
Total administered expenses	159,900	671,362	164,084
Revenue from Government			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,136	2,136	2,086
Output 3.1.2 - Financial system and markets policy advice	17,460	17,460	14,481
Output 3.1.3 - Business and consumer policy advice	4,535	4,535	4,390
Output 3.1.4 - Circulating coin and like products	-	-	-
Corporate costs	8,130	10,358	9,108
Total revenue from Government contributing to price of departmental outputs	32,261	34,489	30,065
Revenue from other sources			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	7	34	6
Output 3.1.2 - Financial system and markets policy advice	104	208	18
Output 3.1.3 - Business and consumer policy advice	10	10	7
Output 3.1.4 - Circulating coin and like products	30,354	66,366	43,882
Corporate costs	1,082	380	550
Total revenue from other sources	31,557	66,998	44,463
Total revenue for departmental outputs (Total revenues from Government and other sources)	63,818	101,487	74,528
Price of departmental outputs			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,143	2,161	2,092
Output 3.1.2 - Financial system and markets policy advice	17,564	17,449	14,499
Output 3.1.3 - Business and consumer policy advice	4,545	4,586	4,397
Output 3.1.4 - Circulating coin and like products	30,354	64,431	43,882
Corporate costs	9,212	7,997	9,658
Total price of departmental outputs	63,818	96,624	74,528
Total estimated resourcing for outcome 3 (Total price of outputs and administered expenses)	223,718	767,986	238,612
Average staffing levels (number)	320	305	300

Actuarial services have moved to Output 3.1.4 as per the 2002-03 Portfolio Budget Statements. They are shown in Table 3 for comparison with 2001-02.

Notes:

The Budget for 2001-02 is as per the 2001-02 Portfolio Additional Estimates Statements.

The Actual for 2001-02 is as per the Audited 2001-02 Financial Statements.

The Budget for 2002-03 is as per the 2002-03 Portfolio Budget Statements (unless otherwise stated).

Output 3.1.1 Foreign investment policy advice and administration

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

Markets Group advises on foreign investment proposals; services the Foreign Investment Review Board; and makes decisions under staff authorisations consistent with policy. It also advises the Government on foreign investment policy as it relates to Australia's participation in multilateral and bilateral international agreements on investment.

Performance information

Performance indicators for Output 3.1.1

Treasury advice meets portfolio ministers' needs in fulfilling their responsibilities.

Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums.

Proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents. Performance is currently regarded as satisfactory if:

- around 90 per cent of proposals of the roughly 4,500 proposals received each year are processed within 30 days of receipt of a completed application; and
- responses are provided on average within 5 days to around 40,000 general telephone and mail inquiries received each year.

Treasury effectively disseminates and explains the foreign investment policy to improve the standard of applications and compliance with policy requirements so as to continue to reduce the proportion of foreign investment proposals requiring Interim or Final Orders.

Treasury undertakes compliance checks on previous proposals subject to conditions — possibly leading to prosecutions, but aimed at an overall reduction in non-compliance with policy.

Analysis of performance

Treasury advice

Treasury and the Foreign Investment Review Board provided advice to portfolio ministers on larger, more important or sensitive foreign investment cases requiring ministerial decision against associated legislation, regulation and policy and national interest considerations. Significant cases such as those submitted by Singapore Telecommunications Limited, Brambles Industries Limited and Newmont Mining Corporation were referred to the Treasurer, or a delegate for a decision. However Treasury officers under delegation reviewed most cases, with senior management and the Foreign Investment Review Board overseeing those decisions on a weekly basis for consistency of policy and process.

International forums

Treasury provides policy input into international investment issues either multilaterally such as through the World Trade Organisation, the OECD, APEC, or bilaterally through free trade agreements with various countries and the ongoing Investment Protection and Promotion Agreements.

Free Trade Agreements/Closer Economic Cooperation

As noted in Output 1.1.2, Treasury is negotiating with Singapore and Thailand for a Free Trade Agreement to further liberalise trade in services and investment. High-level consultations between Australia and Japan to explore options for deeper economic links have similar objectives. Markets Group's expert advice ensures the objectives continue to align with Australia's existing foreign investment policy regime.

Organisation for Economic Co-operation and Development

Treasury promotes use of the OECD Guidelines for Multinational Enterprises. The guidelines, first adopted in 1976, recommend responsible

business conduct by multinational enterprises on employment and industrial standards, the environment, and bribery in or from the 30 OECD member countries and Argentina, Brazil and Chile. Adherence to the guidelines is voluntary.

Each adhering country has a National Contact Point for the Guidelines, to promote them and consider issues arising under them. Treasury officer, Dr Jim Hagan, is the Australian National Contact Point. In 2001-02, the contact point focused on three main outcomes:

- retaining the current structure for the national contact point during consolidation and confidence-building, but enhancing social partners and non-government organisation involvement;
- continuing the constructive dialogue established last year with social partners and engaging interested parties on key issues arising from the guidelines' implementation. Consultations cover particular themes and links, such as human rights and link compliance with the guidelines to the receipt of government grants and export credit insurance; and
- better understanding what information is already available on corporate social responsibility (Australian enterprises' implementation of ethical standards) and deciding where more research is needed.

The national contact point also attended the OECD meeting in June and tabled a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year. The national contact point also sponsored an Australian non-government organisation representative at the OECD Roundtable of National Contact Points. Their presentation focused on implementing the guidelines through the supply chain.

Asia-Pacific Economic Cooperation

During 2001-02, Treasury revised and updated the investment chapter of the annual Asia-Pacific Economic Cooperation Individual Action Plan. The plan describes member economies' investment environment and policies to clearly indicate their progress in achieving the Bogor goal of free and open trade and investment.

Liaison with Department of Foreign Affairs and Trade

Treasury provides expert advice to Foreign Affairs and Trade on Australia's involvement in the World Trade Organisation Working Group on Trade and Investment. In 2001-02 the Working Group examined the nature, scope and operational characteristics of proposed multilateral rules on investment, including modalities for negotiation.

Treasury also provides expert advice to Foreign Affairs and Trade on Australia's negotiation of bilateral investment treaties. These Investment Protection and Promotion Agreements promote the international flow of capital for economic activity and development. A model Australian text provides the basis for negotiating these agreements. Two new investment treaties were signed in 2001-02 with Uruguay and Egypt, and Australia continues to negotiate bilateral investment treaties with Turkey, the United Arab Emirates, Mexico, Sri Lanka and South Africa.

Processing of proposals

Treasury considered around 4,900 proposals in 2001-02, nearly 25 per cent more than the previous year. It decided around 95 per cent of cases within 30 days, compared with 96 per cent in 2000-01. Considering the increased workload, this result was an excellent achievement. Markets Group also responded to around 40,000 telephone inquiries and thousands of written and email inquiries, generally within five days.

Improving standards

Continuing from last year, Markets Group's two internal projects continued to improve the understanding of, and compliance with foreign investment policy. Ultimately this work will improve the standard of applications and compliance levels. Last year work slowed down due to staff shortages and other resource priorities. The projects comprise:

- the Streamlining project to improve foreign investment application and case management processes. Treasury is developing a new case management system and integrating it with an online application facility. Development of the new database is well underway and should be functional within six months. The project should reduce processing times and improve application accuracy; improve compliance and reporting facilities; and result in a more efficient case management system; and
- the Communications project to improve stakeholders' understanding of foreign investment policy and its context. It targets, simplifies and strengthens communications between Treasury and stakeholders. Improved application forms are available for straight forward residential real estate applications; information cards are available for distributing to foreign investors; speech programs are underway; and liaison with other government departments and outside agencies continues. Other work will establish foreign investment links on stakeholders' websites, including the Department of Immigration and Multicultural and Indigenous Affairs.

Preliminary work on the redesign of the foreign investment website also is underway. In 2001-02 Treasury issued 144 interim and final orders, mainly in the real estate sector, a similar number to last year. Time constraints and staff resources restricted improvements in these areas.

Compliance

Compliance is integral to communication and streamlining issues. Markets Group aims to have all applications complying with policy and by September, it plans to finalise its internal procedural and compliance working document to reinforce consistency. Monitoring proposals and ensuring compliance with foreign investment policy is ongoing, with Treasury examining around 1,000 proposals in 2001-02, particularly in the real estate sector, to ensure conditions have been met. The Communications and Streamlining Projects are helping to further reduce compliance problems with efforts to date resulting in punitive action against foreign parties, particularly in the context of immigration policy. Compliance investigations continue, with the possibility of further legal action occurring.

Output 3.1.2 Financial system and markets policy advice

Financial Institutions Division, Financial Markets Division, Structural Reform Division, and Takeovers Panel in Markets Group were responsible for the delivery of Output 3.1.2, financial system and markets policy advice, in 2001-02.

Markets Group contributes to Outcome 3 by providing advice on policy issues and the legislative framework for the development and operation of the financial system and markets more broadly. This advice includes undertaking prudential supervision of certain financial institutions; monitoring market integrity regulation and investor protection mechanisms; undertaking structural reform of key sectors and markets of the economy, including sectors providing essential infrastructure; and ensuring competitive markets.

Markets Group is also responsible, through Axis Australia, for implementing the program to develop Australia as a global financial centre.



Performance information

Performance indicators for Output 3.1.2

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues.

Effective progress in developing Australia as a financial centre.

Effective presentation of relevant information to adequately inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

Representation and liaison by Treasury officers with other agencies, private sector organisations and international bodies, is assessed by participants as effective.

Analysis of performance

Treasury provided advice and program support to Treasury portfolio ministers, and engaged with other agencies on a range of issues relating to structural reform, financial institutions and markets, and the development of Australia as a financial centre. In addition to providing advice on these issues, Treasury was required to publish relevant information and ensure other procedural requirements were met, provide effective support services to advisory bodies, liaise and consult with a significant range of stakeholders and represent the Commonwealth at various meetings.

Structural reform

During 2001-02, Treasury provided advice on competition policy matters, including in relation to the *Trade Practices Act 1974* and National Competition Policy, and on structural issues affecting key sectors of the economy.

Markets Group is responsible for providing advice to Treasury ministers on the *Trade*

Practices Act 1974. Treasury helped implement a Government election commitment to establish a review into the Act's competition provisions. A secretariat located in Treasury supports the review committee, which is expected to report in November 2002. Treasury also released a discussion paper on possible amendments to the Act, relating mostly to procedural and technical issues. Staff also assisted in drafting amendments to intellectual property exemptions, as outlined in the Government's response to the Ergas Report reviewing intellectual property legislation under the Competition Principles Agreement.

Treasury continued to coordinate implementation of the National Competition Policy (NCP) at the Commonwealth level through advice to ministers, departments and agencies. Advice was provided to ministers on other aspects of the NCP including NCP payments to the States and Territories, sector-specific NCP reforms, structural reform of public monopolies and inter-jurisdictional issues. It also involved preparing the 2000-01 Commonwealth National Competition Policy Annual Report, which informs the public about the Government's performance and operation in this area.

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

Part IIIA of the *Trade Practices Act 1974* provides for the certification and declaration of State regimes that establish a framework for third parties to obtain access to essential

infrastructure. During 2001-02, the Parliamentary Secretary to the Treasurer accepted a National Competition Council recommendation not to declare the rail network Freight Australia leases from the Victorian Government. The Parliamentary Secretary to the Treasurer also certified the third party access regime for Northern Territory electricity networks, and the former Minister for Financial Services and Regulation certified, as effective, the third party access regime applying to natural gas pipelines in the Northern Territory.

Advice on structural policy issues covered a wide range of issues, but focused mainly on the transport, energy and communications sectors. Advice related to the transport sector ranged from regional matters to market developments, and included the failure of Ansett, the sale of Sydney (Kingsford Smith) Airport and the National Rail Corporation, regulatory arrangements at Australian airports, and land transport matters including the East Coast Very High Speed Train proposal. Treasury ministers also received advice on a wide range of policy issues affecting the electricity and natural gas markets. Policy advice related to communications focused on changes to regulation, particularly the Government's response to the Productivity Commission's report on telecommunications-specific competition regulation and to the ACCC review of the Telstra price cap. In April, the Government announced significant changes to the price cap, which seek to remove impediments to competition resulting from the cap, while providing appropriate safeguards for low-income phone users.

Treasury also advised on responses to other Productivity Commission reports, including the reviews of Cost Recovery, Price Regulation of Airport Services, the National Access Regime (Part IIIA of the *Trade Practices Act 1974* and Clause 6 of the Competition Principles Agreement) and the *Prices Surveillance Act 1983*.

Further, Treasury advised on the Government's response to the ACCC's December 2001 report on Fuel Price Variability.

The Productivity Commission is the Government's principal advisory body on microeconomic reform. Its broad charter is to conduct research and hold inquiries into industry, industry development and productivity matters referred to it by Treasury ministers. During 2001-02, Markets Group coordinated, and advised on, the preparation of terms of reference for the following public inquiries and commissioned research references that the Government provided to the Productivity Commission:

- review of the Radiocommunications Acts and market-based reforms and activities the Australian Communications Authority undertakes;
- independent review of the Job Network;
- citrus growing and processing;
- Section 2D of the *Trade Practices Act 1974*: Local Government Exemptions;
- harbour towage and related services;
- review of automotive assistance;
- impact of a Foot and Mouth Disease outbreak on Australia; and
- international comparisons of the resourcing of universities.

Financial markets

Treasury provided advice on legislative initiatives to implement the Government's financial services reform policies. On 9 August 2001, the Financial Services Reform Bill 2001 and the Financial Services Reform (Consequential Provisions) Bill 2001 were introduced into the

Senate, after their successful passage through the House of Representatives. Both bills were debated and, with government amendments, passed on 23 August 2001. The bills became Acts of Parliament following the receipt of Royal Assent on 27 September 2001.

The *Financial Services Reform Act 2001* (FSR Act), which commenced from 11 March 2002, harmonises and improves the regulatory regime for the financial services industry. The FSR Act harmonises the licensing, disclosure and conduct framework for financial service providers, and creates a consistent and comparable financial product disclosure regime. It also streamlines the regulatory regime for financial markets and clearing and settlement facilities, boosting competition and efficiency.

After consulting extensively with industry and consumer representatives, Treasury instructed on the development of regulations for the FSR Act, with most regulations made before the Act commenced. The draft regulations benefited from a wide range of public comment, including written submissions and oral feedback. The commentaries on the draft regulations ensured public debate was well informed. Revised drafts attracted further public comment and discussion. In addition, Treasury established a Financial Services Reform Implementation Consultative Committee, which contributed views from 40 key interest groups and met five times to consider the draft regulations.

Treasury also instructed on amendments to the *Commonwealth Inscribed Stock Act 1911* to enable the electronic issue and transfer of title to Commonwealth Government securities, and the appointment of registrars for the stock. Parliament passed the Act on 14 March 2002 and it received Royal Assent on 4 April 2002.

In December, the Government released the *Review of the Managed Investments Act 1998*. The review conducted by Mr Malcolm Turnbull, at

the request of the Government, fulfilled a legal obligation to review the Act's operation three years after it came into effect. Treasury provided effective secretariat services to the review, which received 31 public submissions.

The review indicated overall regulatory arrangements for the managed investment industry worked effectively and some issues required further public consultation. The Parliamentary Secretary to the Treasurer asked Treasury to undertake this consultation. Treasury released a consultation paper in April.

Treasury also provided effective secretariat services to the Ministerial Council for Corporations, which met twice during 2001-02. The Ministerial Council for Corporations considers legislative proposals relating to the national corporations legislation. It also consults on members' appointments to certain bodies established under this legislation, such as the Takeovers Panel.

The Takeovers Panel is the primary forum for resolving company takeover disputes until the bid period has ended, in place of the courts. Treasury is responsible for advising the portfolio ministers on the Panel's operations and advising the portfolio ministers in recommending appointments to the Panel. In March, Treasury assisted the portfolio ministers to meet the statutory and procedural requirements in recommending to the Governor-General the appointment of a new member, and the re-appointment of the President and five existing members.

Treasury provided ongoing advice to portfolio ministers on the administration of market integrity responsibilities under the *Corporations Act 2001*. That advice focused on maintaining, facilitating and improving the performance of Australia's financial markets and the entities that operate within those markets. Advice covered new market applications, restructuring

of market operators, the exercise of ministerial functions in the approval of netting markets and exempt markets, and ministerial powers relating to disallowance of the operating rules of markets and clearing and settlement facilities.

During 2001-02, Treasury also monitored developments in global financial markets and examined market alliances and links between Australian and overseas participants in the market. It examined how to accommodate and facilitate the global operations of financial markets and the financial services industry. To this end, Treasury officers liaised effectively with government authorities in Singapore, Hong Kong and New Zealand about possible frameworks for recognising aspects of each other's financial services regulation.

Financial institutions

Treasury provided advice to portfolio ministers on policy for prudential regulation and further developments in the financial sector's operation and administration.

The Government continued to respond to the failure of the HIH Insurance Group with a range of measures including providing ongoing advice on eligibility policy and finalising agreements between the various parties involved in the Commonwealth's HIH Support Scheme.

Treasury provided advice on proposals to improve supervision and fund governance set out in the Government's 2 October 2001 Issues Paper entitled *Options for Improving the Safety of Superannuation*. The Superannuation Working Group chaired by Mr Don Mercer and comprising representatives from Treasury, Australian Prudential Regulation Authority and Australian Securities and Investment Commission, was set up to consult with the public on the proposals and report to the Government with recommendations for reform.

Determinations granting financial assistance under Part 23 of the *Superannuation Industry (Supervision) Act* to 182 superannuation funds totaled just over \$12 million.

Treasury provided advice on a range of issues relating to medical indemnity insurance and on the Government's response to the provisional liquidation on 3 May 2002 of United Medical Protection and Australasian Medical Indemnity Insurance Limited (UMP/AMIL). This included policy advice on the Commonwealth's offer of an indemnity (or guarantee) to the provisional liquidator or to any subsequently appointed liquidator of UMP/AMIL, to ensure doctors and other UMP members could continue to practice. Legislation appropriating funds for payments in accordance with the guarantee and confirming the effect of the guarantee (the Medical Indemnity Agreement (Financial Assistance – Binding Commonwealth Obligations) Bill 2002) was introduced into Parliament on 26 June 2002.

Treasury also started work on key elements addressing medical indemnity insurance difficulties, and helping to make medical indemnity insurance a viable commercial product, as announced by the Prime Minister on 31 May 2002. The Prime Minister stated a new comprehensive framework of measures would be in place by 31 December 2002.

On public liability insurance, Treasury provided policy advice and support for two ministerial meetings, offered policy advice on action to take in response to premium increases and worked with the States and Territories through the Insurance Issues Working Group. Treasury also provided advice to ministers on terrorist risk insurance after consulting with insurance industry stakeholders.

Treasury continued with reforms and amendments to various financial sector legislation to further strengthen and streamline

the system of prudential regulation. These include: the *Financial Sector (Collection of Data) Act 2001*, assented to on 16 September 2001, which centralises and modernises the collection of data by the Australian Prudential Regulation Authority (APRA) to make APRA more effective and efficient in the performance of its powers; the *Financial Sector Legislation Amendment Act (No. 1) 2002*, which was assented to on 26 June 2002; and the *Financial Sector Legislation Amendment Bill (No. 2) 2002*, which was introduced into Parliament on 26 June 2002.

Treasury provides secretariat services to the Financial Sector Advisory Council, an advisory body to the Government, providing a private sector view of finance industry developments and trends.

Treasury ministers received policy advice and Treasury officers prepared instruments to authorise individual financial institutions under the *Financial Sector (Shareholdings) Act 1998*, the *Insurance Acquisitions and Takeovers Act 1991*, the *Banking Act 1959* and the *Financial Sector (Transfers of Business) Act 1999* as required. Treasury advised the Government on issues concerning access to banking services in Australia and contributed to negotiations to improve access to foreign markets for Australian financial service providers. In preparation for negotiations in the World Trade Organisation during 2002-03, consultations were held with private and public stakeholders in trade in financial services. Treasury participated in Free Trade Agreement negotiations with Singapore and in developing a scoping study for a Free Trade Agreement with Thailand. Treasury also provided advice on trade in financial services with Japan, the United States and the Asia-Pacific Economic Cooperative.

Treasury chaired and served on the Royal Australian Mint Advisory Board during the year and prepared currency determinations for

the Perth Mint's numismatic coin programs. Advice to ministers was provided on a review of the Royal Australian Mint and a review was commenced in the second half of the year on the operating structures of the Mint within Government ownership. Treasury responded to numerous public inquiries for information on a wide range of issues about currency matters.

Axis Australia

Axis Australia helps position Australia as a centre for global financial services. The agency staffed by 14 financial sector specialists headed by Mr Les Hosking, former chief executive officer of the Sydney Futures Exchange, reports to the Treasurer. Axis was first funded in the 1999-2000 Budget; funding continued in the 2001-2002 Budget with \$11.4 million for the next three years. Axis promotes Australia's deep pool of skilled, educated and multilingual labour; low-cost infrastructure; stable and pro-business regulatory and political environment; strongly performing economy; advanced IT and support services; and enviable quality of life. It delivers these messages primarily through bilateral meetings with key international financial services decision-makers and regular dissemination of authoritative and high quality publications to targeted audiences around the globe. These highlight Australia's advantages as a base from which to deliver financial services throughout the Asia-Pacific. Axis provides international financial services firms with a one-stop reference point on the environment for financial services in Australia. In 2001-02, it helped OM Technology to base its Asia-Pacific headquarters in Sydney; Credit Suisse Asset Management to relocate its Asia (ex-Japan) portfolio management and trading activity to Australia; American Express to launch an Australian asset management business; JP Morgan to add 75 people to its institutional banking section; HSBC to purchase the NRMA building society; and ING to form a wealth management alliance with ANZ Bank.

Axiss' recent focus on the funds management sector resulted in missions to the United States (twice), United Kingdom and Hong Kong to encourage senior executives from over 60 leading financial services institutions to establish funds management operations in Australia, both to service Australia's burgeoning domestic market and leverage from an Australian base into the region's developing markets. Australia's pool of managed funds (around \$700 billion) is the second largest in Asia and the seventh biggest in the world. Its size and projections for growth make it especially attractive to global firms.

During 2001-02, Axiss' marketing, media and education activities included web casting (video) on the Axiss website (www.axiss.com.au) and creating an Axiss micro-site in partnership with Euromoney media (www.euromoney.com). These online initiatives deliver the Axiss message to a broader international audience. Axiss also supported key industry conferences as both a speaker and sponsor, including the Asia Australia Investment Conference and Expo in Sydney in May which the Prime Minister, the Hon John Howard, opened and which coincided with the APEC Business Advisory Council meeting. Media campaigns included regional outlets AsiaMoney and CNBC, foreign correspondents for *Asian Wall Street Journal* and *the Nikkei* based in Australia and the *Australian Financial Review*, *BRW* and *ABC*.

Australia's skilled workforce is its primary attraction, so Axiss builds industry-education partnerships to promote excellence in finance education and encourage students to pursue careers in the financial services. The Axiss Scholar Program matches talented students doing finance majors at east coast universities with sponsoring financial services organisations for work experience. Axiss also coordinated the formation of the Australian Financial Services Training Alliance, so nearly 30 organisations work together to promote Australia's expertise

in finance education and training. A dedicated website, The Finance Skills Gateway at www.afsta.com.au showcases this expertise to a worldwide audience.

By working closely with the private sector and government departments, Axiss ensures a coordinated approach to financial services promotion. In April, with Reserve Bank of Australia and Australian Stock Exchange support, Axiss held the second *APEC Future Economic Leaders Think-Tank*, and in early 2002 partnered the Department of Education, Science and Training and the Enterprise and Career Education Foundation in establishing the *Workplace Learning Project*, to attract secondary school students to careers in financial services.

The Axiss Advisory Board formally met twice and produced a report on Australia's capital market participants, cost comparisons of re-locating to various regional centres from New York or London, IT providers for financial services in Australia and skills and training required by the finance sector.

Output 3.1.3 Business and consumer policy advice

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

Markets Group contributes to Outcome 3 by providing advice to Treasury ministers on: company law and corporate governance issues; corporate insolvency; corporate financial reporting; the oversight of portfolio agencies connected to corporate regulation; related international issues; and mechanisms, products and services designed to support and advance consumer and business interests in a well functioning market.

Performance information

Performance indicators for Output 3.1.3

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to business and consumer affairs policy.

Effective presentation of relevant information to adequately inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

Representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is assessed by participants as effective.

Analysis of performance

Business and consumer affairs policy

Consumer affairs

The Treasury advised the Government on regulatory frameworks that support consumer confidence and help consumers actively participate in the market. The Treasury advised on safety-net protection through the *Trade Practices Act 1974*, appropriate use of industry self-regulation and initiatives to promote consumer safety. It also provided advice on consumer protection issues surrounding new technologies such as e-commerce.

More specifically, in the area of consumer safety, Treasury provided advice on the new mandatory standard for bunk beds and prohibiting the supply of heavily tinted headlight covers, which are a road vision hazard.

Over 600 safety-related voluntary product recalls were posted to the Product Recalls Australia website. Treasury monitored and assessed the effectiveness of these recall campaigns, in conjunction with other Commonwealth and State authorities when necessary. The website's

development and upgrade continued, and other Commonwealth and State regulatory agencies expanded their use of the site, enhancing the effectiveness of communication on consumer safety matters.

In addition, in line with the Government's commitment to industry self-regulation, Treasury advised the Government and industry on implementing and promoting effective industry codes of conduct and dispute resolution schemes. The self-regulation website continued to promote effective self-regulation in Australia by providing a range of resources for industry, as well as links to national self-regulatory schemes currently operating. The address is www.selfregulation.gov.au.

Company law and corporate governance

Corporate Law Economic Reform Program 7

Continued progress was made in implementing measures to streamline the relationship between the Australian Securities and Investments Commission and its business clients by simplifying document lodgment and compliance. The measures are included in a Bill expected to be introduced in the Spring 2002 Sittings of Parliament, with debate anticipated in the Autumn 2003 Sittings.

Corporate Law Economic Reform Program 8

The Treasury commenced work on Phase 8 of the Government's Corporate Law Economic Reform Program. The project will consider the difficulty and expense created when conducting insolvency administrations involving assets, creditors and businesses spread across national borders. An international model law will possibly be adopted to help streamline cross-border insolvencies.

Ramsay Report and Corporate Law Economic Reform Program 9

The Treasury began work on a review of audit regulation and the wider corporate disclosure

framework as Phase 9 of the Government's Corporate Law Economic Reform Program.

A policy proposal paper will consider audit reform issues and provide a government response to the Ramsay report on *Independence of Australian Company Auditors*. It will also review the present continuous disclosure regime, consider conflicts of interest in relation to the provision of financial product advice, review the current disclosure requirements for shares and debentures, and consider ways of further encouraging shareholder participation in companies.

Treasury will assist the Government to develop the proposals in the paper in consultation with the Business Regulation Advisory Group and to guide the paper through the public consultation phase.

Treasury's work in this area will assist the Government in ensuring Australia has an effective regulatory and disclosure framework for corporations, providing the structures and incentives for a fully informed market.

Federalisation of the corporations legislation

A new corporate regulatory framework commenced operation in July 2001, completing a major legislative project to change the Corporations Law to a Commonwealth Act, based on a referral of power from the States. This followed High Court challenges to the previous State-based Corporations Law framework.

This work included revisions to the Corporations Agreement between the Commonwealth, the States and the Northern Territory, among other things to meet State concerns about limits to the referrals of power. During 2000-01 Treasury officials assisted Ministers in extensive negotiations on the terms of the new agreement. By 30 June 2002, all the States and the Northern

Territory had gained their Cabinet's or Premier's approval of the new agreement.

Informing public debate

The two main activities Treasury undertakes to inform public debate on consumer issues focus on consumer information and electronic commerce.

Consumer Information Program

The 2001-02 Budget introduced a four-year Consumer Information Program to increase consumer information. Key elements include an annual referral directory for consumer intermediaries, targeted information resources and the Government's consumer gateway site www.consumersonline.gov.au.

In 2001-02, two major resources were launched by Treasury to combat the growing number of consumer scams targeting Australians. *The Little Black Book of Scams*, the Commonwealth's 1998 publication on consumer scams, was redeveloped, covering a wider range of scams and better assisting consumers to determine the genuineness of unsolicited offers. States and Territories cooperated in developing a consumer scam website, launched on National Consumer's Day. The address is www.scamwatch.gov.au.

The Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell, announced new mandatory standards for bunk beds and baby walkers, and a national awareness campaign alerted consumers, with chemists and bedding shops distributing fliers.

Electronic commerce

Treasury continued to promote adoption of the Government's model code for consumer protection in e-commerce, *Building Consumer Sovereignty in Electronic Commerce: A Best Practice Model for Business*. This included ongoing consultations with business and industry associations, public speaking engagements and articles in periodicals to

promote uptake of the model. Treasury's e-commerce website, www.ecommerce.treasury.gov.au, also assisted in this regard. Several industry associations and businesses have already adopted the model.

The former Minister for Financial Services and Regulation, the Hon Joe Hockey, MP, released the discussion paper *Dispute Resolution in Electronic Commerce* on 8 October to promote the importance of dispute resolution mechanisms in business-to-consumer (B2C) e-commerce and encourage creative thinking in handling e-commerce disputes.

Treasury also continued to support the work of an Expert Group on Electronic Commerce, which advises on consumer protection issues in the online environment. The Expert Group leads the development and promotion of the Best Practice Model and dispute resolution in e-commerce.

Statutory and other procedural requirements

Appointments

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

Names applications

Under Ministerial delegation, Treasury processed applications for consent to use terms in body corporate names that would otherwise not be available for use under the *Corporations Act 2001*.

Notification of voluntary recalls

Treasury advised suppliers, where necessary, of their obligation to notify the Parliamentary Secretary to the Treasurer of all voluntary recalls within two working days of the recall under Section 65R of the *Trade Practices Act 1974*. To inform suppliers, consumers and regulators, Treasury published all recall notifications on the Product Recalls Australia website, www.recalls.gov.au.

Regulation Impact Statements

The department responsible for a regulatory proposal prepares a regulation impact statement after consulting with affected parties to formalise and present some of the steps taken in good policy formulation. All reviews of existing regulation, proposed new or amended regulation and proposed treaties involving regulation which will directly affect business, significantly but indirectly affect business, or restrict competition, require regulation impact statements. For example, Treasury developed regulation impact statements for bunk beds and baby walkers. Under the Trade Practices Act, a new mandatory standard for bunk beds was declared in April. The Treasury also substantially progressed a proposed standard to upgrade baby walker safety.

Secretariat services

Ministerial Council on Consumer Affairs

Treasury provided secretariat support to the Ministerial Council on Consumer Affairs and government consumer advisory bodies. The Council comprises Commonwealth, State, Territory and New Zealand ministers responsible for consumer protection laws, fair trading and credit laws.

Commonwealth Consumer Affairs Advisory Council

Treasury provided the secretariat for the Commonwealth Consumer Affairs Advisory Council, established in May 1999 and re-appointed by the Parliamentary Secretary to the Treasurer in February 2002. The Council

advises the minister responsible for consumer affairs (the Parliamentary Secretary) on current and emerging consumer policy issues. Its Chair, Mr Colin Neave, is the Australian Banking Industry Ombudsman, and its broad membership represents Australian consumer interests.

The Council played a key role in advising the Parliamentary Secretary to the Treasurer on issues relating to his involvement in appointing consumer representatives to industry-based dispute resolution schemes.

Financial Reporting Council

Treasury provided secretariat support for the Financial Reporting Council, a stakeholder body that provides broad oversight of the accounting standard setting process, including the Australian Accounting Standards Board. The Financial Reporting Council held four meetings during 2001-02.

Secretariat functions included policy advice and administrative support for meetings of the Council, its Audit Committee and its Nominations Committee.

National Review of Home Builders Warranty Insurance and Consumer Protection

Treasury also provided secretariat support to the National Review of Home Builders Warranty Insurance and Consumer Protection, established by the Ministerial Council on Consumer Affairs in 2001. An independent consultant, Professor Percy Allan, AM, was engaged to conduct the review.

Representation

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

The General Manager of the Corporate Governance and Accounting Policy Division chaired an APEC task force on Company Accounting and Financial Reporting, an Australian initiative aimed at promoting

high-quality internationally acceptable standards of accounting, disclosure and auditing practices by regional business enterprises.

The report of the task force was presented to APEC Finance Ministers in September 2001.

Business law dialogue with New Zealand

In August 2000, the Governments of New Zealand and Australia signed a revised Memorandum of Understanding on coordination of business law. In 2001-02, progress was made in the discussion of coordination and cooperation in areas such as competition policy, consumer protection laws and cross-investment activities. Interest in capital markets issues is particularly strong. Both governments are considering more formal arrangements to recognise financial services regimes, with business law officials planning to meet again in August 2002.

International corporate governance

Treasury officials participated in and chaired the OECD Steering Committee on Corporate Governance.

Treasury assisted in preparing the OECD Steering Group on Corporate Governance's *Report on the Misuse of Corporate Vehicles for Illicit Purposes*, available at the OECD website. Treasury continued its active involvement in other OECD and APEC work on corporate governance, including participating in the OECD Asian corporate governance roundtable.

International insolvency

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



International partnerships

In March, Australia and the European Commission signed a consumer protection arrangement to improve information sharing on important cross-border issues such as e-commerce and product safety. The arrangement also allows for joint activities in areas of mutual interest. The arrangement was first proposed in 1998 and was negotiated in consultation with Commonwealth, State and Territory consumer protection agencies. Treasury also continued to provide input on consumer protection and e-commerce issues in international negotiations, including the Australia-Singapore Free Trade Agreement.

Liaison

Treasury continued to work closely with Standards Australia, industry organisations and State and Territory Governments to promote safer markets and enhance consumer safety communication. For example, Treasury:

- participated in the review and ongoing development of safety standards for trampolines, sunglasses, children’s toys and motorcycle helmets;
- commenced work to revise current mandatory standards under the Trade Practices Act on disposable cigarette lighters, motor vehicle jacks, child restraints in motor vehicles, fire extinguishers and tobacco products’ health warnings;
- continued working with other agencies in developing reliable consumer product-related death and injury data;
- reviewed and revised consumer protection-related prohibited imports regulations, including for smokeless tobacco products; and
- worked closely with New Zealand and the States and Territories to harmonise

consumer safety regulation under the Trans-Tasman Mutual Recognition Arrangement.

OECD Committee on consumer policy

Treasury continued to participate in the development of international consumer protection policy through its participation in international meetings. This included contributing to the work of the OECD Committee on Consumer Policy and implementing the OECD *Guidelines for Consumer Protection in the Context of Electronic Commerce*.

Output 3.1.4 Circulating coin and like products

Royal Australian Mint

Overview

The Royal Australian Mint is a semi-autonomous operating arm of the Treasury, with responsibility 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 (for example, medals and tokens), for domestic and overseas customers. The Mint’s collector coin and minted non-coin business is conducted on a commercial basis, within the parameters set by the Government on the operation of government agencies. The Mint receives no direct Budget funding.

The Mint’s profit for 2001-02 was \$2.015 million, representing 14.8 per cent of gross assets (excluding the National Coin Collection, valued at \$3.7 million, and approved excess circulating coin inventory, valued at around \$1 million). This compared with the budgeted profit of \$1.5 million or 10 per cent of adjusted gross assets.

Of overall gross profit, 85 per cent was contributed by Australian numismatic product

and 8 per cent by minted non-coin product, with the balance derived from the sale of purchased finished goods, Olympic Coin Program products, Australian circulating coin and coin for other countries.

During the year demand for circulating coin was high, generating twice the budgeted seigniorage (\$129 million versus \$59 million). Due to the transfer price formula used for the Mint's circulating coin activities, this result did not reflect directly in the Mint's profit.

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

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

Corporate services

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

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

Key priorities in 2001-02

Key corporate priorities identified in 2001-02 were to:

- undertake market testing of key corporate functions in accordance with government policy;
- conduct a Pricing Review of Treasury Outputs in conjunction with the Department of Finance and Administration;
- negotiate Treasury's third Certified Agreement, including further refinements to the Performance Management System;
- progress the implementation of information and record keeping systems, processes and practices based on electronic applications;
- facilitate increased knowledge sharing and management, aimed at improved policy advising capacity.
- improve internal and external communication and, in particular, the

functions associated with Ministerial liaison; and

- continue involvement in the refurbishment of the Treasury building and the subsequent relocation of staff.

Key outcomes in 2001-02

Outcomes relating to the above priorities are;

- In accordance with the Government IT Outsourcing strategy, Treasury's IT Help Desk and Network Support services were market tested in 2001. The competitive tendering process indicated the market was unable to offer IT services to Treasury at a competitive price, without increased risk to the department. Following the market testing exercise, a Request for Tender to replace and upgrade departmental IT equipment was released in December 2001. The new equipment was replaced in the first quarter of 2002.
- Treasury market tested the human resource and financial functions in 2001-02, using a competitive tendering process. The services will be retained in-house because this represents overall value for money to the Commonwealth. Treasury will regularly review the delivery of corporate (and other) services in accordance with the Government's performance improvement cycle, which may include further market testing of services as appropriate.
- In 2001-02, Treasury developed internal service level agreements to ensure that services provided by the corporate units were delivered efficiently.

- In January 2002, Treasury commenced work on the third Certified Agreement. The Certified Agreement was voted in on 2 September 2002.
 - The Treasury Performance Management System was reviewed by both Ernst & Young and a team of policy officers in 2001. Recommendations relating to clarification of processes and user training were implemented prior to the August 2002 appraisal round.
 - During 2001-02, Treasury conducted an Output Pricing Review of its operations, in conjunction with the Department of Finance and Administration.
 - During the year the Ministerial Tracking and Answering System and the Minute Register System were upgraded to assist the handling of information flows between the Ministers' offices and Treasury. In 2001-02 Treasury processed 27,500 ministerial letters, prepared 2,257 Executive Minutes and 1,000 Question Time Briefings for Ministers.
 - In 2001-02 a progressive implementation commenced of the TRIM Electronic Records Management system for the capture, storage, indexing and retrieval of departmental records and official documents. This included the development of corporate Business Classification definitions and the successful progression of the DIRKS (Developing and Implementing Record Keeping Systems) methodology in liaison with the National Archives of Australia.
 - In July 2001 Treasury staff in Computer Associates House and the Australian Government Actuary were relocated into the Treasury building. Preparations began in March 2002 for the integration of the Tax Law Design staff from the Australian Taxation Office into Treasury. The integration was completed in August 2002.
- Other key outcomes in 2001-02 included:
- a departmental Staff Opinion Survey was conducted electronically in December 2001 to measure staff perceptions and attitudes about working in Treasury. The representative sample measured a high level of satisfaction with most aspects of the organisation, particularly commitment to Treasury, staff motivation and quality of management. An action plan was drawn up to address areas of concern;
 - the new Treasury website was released on 1 July 2002. The website was developed in accordance with Government Online standards and includes improved navigation, search and retrieval features;
 - all in-house applications were converted to Windows 2000, involving the redevelopment of major in-house business support applications;
 - a Statement of IT Future Directions was developed and published and the IT Security policies were updated;
 - The Treasury Intranet was upgraded to include the provision of a single entry point option for access to all in-house applications systems;
 - an in-house server of ABS products which provides 24 hour electronic access to all ABS material published since 1998 from the desktop was implemented;
 - the Library Online Catalogue was updated and access to electronic resources from the desktop improved; and
 - in consultation with the Treasurer's Office, Liaison organised the annual media lockup in conjunction with the 2002-2003 Budget.