

PART TWO

REPORT ON PERFORMANCE

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INTRODUCTION

The report on performance covers the Treasury's departmental and administered items for 2013-14.

Departmental items are the goods and services the department provides for, and on behalf of, the Government. This involves the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Programme 1.1 relates mainly to departmental items.

Administered items are revenues, expenses, assets or liabilities managed by the Treasury on behalf of the Government and include subsidies, grants and benefits. Programmes 1.2 to 1.10 relate to administered items.

The Treasury's 2013-14 performance is reported at the Programme level for its policy outcome:

- Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.

Performance outcomes for each Programme are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2013-14* and the *Treasury Portfolio Additional Estimates Statements 2013-14*.

The key strategies for 2013-14 are to provide advice on:

- macroeconomic policy, based on careful monitoring and analysis of economic conditions in Australia and overseas;
- fiscal strategy, budget priorities and measures, debt and balance sheet management, as well as a budget coordination role;
- Commonwealth-State financial policy, industry, environment and defence policy and housing, social and income support policy;
- taxation and retirement income arrangements consistent with the Government's reform priorities;
- policies that promote competitive, efficient markets that work to enhance consumer wellbeing, deliver a secure financial system and sound corporate practices, and foreign investment consistent with Australia's national interest;
- policies that promote well-regulated, competitive and efficient infrastructure and address supply constraints in the housing market that impact on housing affordability;
- a range of international economic policy issues, including strengthening multi-lateral regimes underpinning open trade and capital flows, supporting developing countries' development aspirations, and shaping the evolution of regional economic architecture; and
- administration of a range of payments to the states and territories, which are reported in Programmes 1.4 to 1.10.

An assessment of this advice is included under each Programme.

PROGRAMME 1.1: DEPARTMENT OF THE TREASURY

PROGRAMME OBJECTIVE

The objectives of programme 1.1 are to:

- promote a sound macroeconomic environment by monitoring and assessing economic conditions and prospects both in Australia and overseas, and provide advice on macroeconomic policy including fiscal and monetary policy;
- promote effective government spending arrangements that contribute to overall fiscal outcomes, influence strong sustainable economic growth and improve the wellbeing of Australians;
- develop effective taxation and retirement income arrangements consistent with the Government's reform priorities; and
- ensure well-functioning markets by providing advice on policies that promote competitive, efficient markets that work to enhance consumer and investor wellbeing, a secure financial system and sound corporate practices, and foreign investment consistent with Australia's national interest.

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PROGRAMME KEY PERFORMANCE INDICATORS

- Advice that meets the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of a high quality, and based on an objective and thorough understanding of issues and a whole-of-government perspective. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through feedback mechanisms.
- Timely, high-quality, accurate and transparent Budget, Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome documents that meet the expectations of the Government, the Parliament and the public. The budget preparation and coordination process is subject to an annual evaluation.
- Published reports and other information that stimulate and inform government and public debate through robust analysis, modelling and research. Publications are timely, of high quality and widely available to the public.
- Legislation progressed by the Treasury is in accordance with the principles of good law design and is delivered according to government priorities;
 - the majority of prospective tax and retirement income legislation is ready to be introduced into Parliament within 12 months, and the majority of retrospective tax and retirement income legislation within six months of the Government announcing it, and
 - at least one tax or retirement income legislative measure is the subject of a post-implementation review annually.

An assessment of the key performance indicators is included under the group responsible for the corresponding objective.

MACROECONOMIC GROUP

Overview

Macroeconomic Group provided the Government with macroeconomic policy advice on economic conditions and prospects in Australia and overseas, including assessment of key risks to the outlook as discussed in detail in Budget Paper No.1, *Budget Strategy and Outlook 2014-15*.

Macroeconomic Group boosted Australia's bilateral engagement and multilateral outreach, and worked extensively with stakeholders to develop the Government's 2014 G20 agenda. The G20 presidency, which Australia assumed on 1 December 2013, has helped Australia shape the international economic agenda.

Macroeconomic Group continued to deepen Australia's engagement in global and regional forums, and its bilateral cooperation with key strategic partners in the Asia-Pacific region. It has also expanded its strategic analysis and advice on developments within key regional economies, particularly China.

Group deliverables

Macroeconomic Group's key deliverables are to provide advice on:

- domestic and international developments affecting the Australian economy and Australian and international economic forecasts;
- the setting of sound macroeconomic policies and high priority structural reforms;
- economic modelling in support of a range of government policies, and modelling advice to other departments and agencies;
- policy issues, risks and challenges as discussed by the G20 with a view to shaping the G20 agenda and actions;
- deepening Australia's bilateral engagement with a number of strategically important regional partners in the Asia-Pacific region; and
- improving the linkages between the priorities of the G20, the Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit processes.

During Australia's G20 host year, another key deliverable for Macroeconomic Group was the organisation and delivery of a number of G20 events.

Group outcomes

Macroeconomic Group's key outcomes were:

- advice on macroeconomic policy, domestic and international forecasts, and assistance in the formulation of policy solutions;
- modelling analysis for the Climate Change Authority's Caps and Targets Review;
- modelling assistance to other divisions within Treasury and to other government departments and agencies as required;

- presentations, speeches and published material, including economic forecasts and analysis in budget papers and the Treasury's *Economic Roundup* and Working Papers series, to increase public awareness of economic issues and development;
- strengthening key relationships through a number of G20 related meetings with stakeholders, including both member and non-member countries, as well as domestic and international communities;
- a more focused G20 agenda and streamlining G20 processes, resulting in more effective and reinvigorated finance track of the G20, and better G20 cooperation on the key economic challenges facing the global economy;
- advice on changing global economic conditions and influencing the development of international economic policy through engagement with global and regional institutions and forums;
- broadening and deepening engagement with key Asian and Pacific economies and improved policy outcomes through policy dialogue, cooperation, research and capacity building; and
- advice on government initiatives to encourage broad-based, stable and inclusive economic growth and developing well-functioning economic ministries in the South Pacific.

Analysis of performance

During the 2013-14 year, Macroeconomic Group advised Treasury ministers, other members of the Government and relevant stakeholders on a range of macroeconomic issues.

- *Economic and Fiscal Outlook.* Macroeconomic Group provided analysis of the Australian and international economic outlook, including the Australian fiscal outlook, and prepared macroeconomic forecasts.
- *Monetary and Fiscal Policy.* Macroeconomic Group monitored domestic and international economic, financial and policy developments to assess their implications for Australia's macroeconomic policy settings.
- *Economic growth, living standards and wellbeing.* Macroeconomic Group analysed drivers of the Australian economy and factors likely to influence medium-term economic performance, particularly productivity. This analysis was used to develop policy recommendations to improve Australia's economic growth, living standards and wellbeing.

Economic modelling

Macroeconomic Group's economic modelling contributed to the development of evidence-based policy analysis.

Macroeconomic Group provided modelling advice and support on a wide range of issues including long-run economic structural change, productivity, macroeconomic analysis and forecasting.

Cross-departmental modelling advice was also provided to a range of portfolios on policy issues including the Renewable Energy Target Review and completion of specific modelling analysis for the Climate Change Authority's Caps and Targets Review.

Economic forecasting

Macroeconomic Group provided advice on domestic and international economic developments and associated risks. The Group's economic forecasts informed policy and underpinned expenditure and revenue budget estimates.

Macroeconomic Group met and consulted with numerous parties to formulate its advice on the domestic and international economy. Domestic and international forecasters were consulted and government agencies were brought together as part of the Joint Economic Forecasting Group (JEFG) Committee (consisting of the Treasury, the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and the Australian Bureau of Statistics). Businesses and sector experts were consulted as part of the Treasury Business Liaison Programme.

Over the 2013-14 year, Macroeconomic Group's analysis of the economic outlook contributed to four economic and fiscal updates: the August Economic Statement; the Pre-election Economic and Fiscal Outlook; the Mid-Year Economic and Fiscal Outlook; and the 2014-15 Budget.

In response to Recommendation 5 of the *2012 Review of Treasury's Forecasting Methodology and Performance*, Statement 2 of Budget Paper No. 1 included a high-level review of economic forecast errors.

Budget papers, economic publications and speeches

Macroeconomic Group contributed to public awareness and debate on economic policy issues through economic analysis underpinning the 2014-15 Budget Papers and the 2013-14 Mid-Year Economic and Fiscal Outlook.

Statement 4 of Budget Paper No. 1, *Sustaining Strong Growth in Living Standards*, reported on the factors that will affect income, productivity growth and living standards over the medium-term.

Over the 2013-14 year, Macroeconomic Group produced a number of other publications that also included contributions from the other Treasury groups. The Group published: five articles in the two issues of the *Treasury Economic Roundup*; five Treasury Working Papers and the *2012-13 Australia and the International Financial Institutions annual report*.

Macroeconomic Group Executive Directors facilitated broader understanding of domestic and international macroeconomic issues by speaking on a diverse range of topics across multiple organisations in Australia and overseas.

International policy advice

Macroeconomic Group worked towards enhancing international economic cooperation, including through the G20. The Group also provided economic analysis and advice on the implications of international developments and associated risks for the Australian economy.

To achieve these outcomes, Macroeconomic Group supported active Australian participation in global and regional forums, assisted Treasury ministers at international meetings, and

helped strengthen bilateral relations. There are Treasury officials at posts in Washington DC, London, Beijing, New Delhi, Jakarta, Tokyo and the Organisation for Economic Cooperation and Development (OECD). Treasury maintained close contact with its constituency offices of the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD).

G20

Macroeconomic Group has helped shape the international economic agenda through Australia's G20 presidency, which it assumed on 1 December 2013. During the 2013-14 year, the Treasury supported the policy development of seven Finance Deputies Meetings and four Finance Ministers and Central Bank Governors Meetings. In addition, Macroeconomic Group supported two International Financial Architecture Working Group Meetings, three Framework Working Group Meetings and three Infrastructure and Investment Working Group Meetings, as well as events such as the G20-B20 Infrastructure Roundtable, the G20 International Tax Symposium, the G20 Seoul Conference and a workshop and conference on small and medium enterprises. All G20 finance track events during Australia's G20 host year have been delivered by a comprehensive team of specialists brought together to oversee and deliver the operations and logistics of the G20 meetings. A particular focus of this team has been to ensure that the opportunity presented by the G20 presidency is used to effectively showcase Australia to the international audience.

In the lead up to 2014, and throughout the G20 host year, Macroeconomic Group boosted bilateral engagement and multilateral outreach, and worked extensively with stakeholders to develop the Government's 2014 G20 agenda. In particular, the Group has engaged closely with representatives from the G20 engagement groups — the Business 20, Civil Society 20, Labour 20, Think 20 and Youth 20 — and introduced innovative outreach mechanisms, including a joint session with these groups, finance deputies and sherpas held in June, to diversify and enrich discussion of G20 issues.

Macroeconomic Group has also supported extensive bilateral engagement with G20 members by the Treasurer, Assistant Treasurer, Minister for Small Business, Parliamentary Secretary to the Treasurer, and senior officials to build the consensus necessary to set up delivery of the Government's objectives for the Brisbane Summit in November 2014.

Under Australia's presidency, the G20 has focused on progressing Government's G20 priorities, in particular: promoting ambitious growth strategies for the G20 members; developing strategies to increase long-term investment (including infrastructure); collectively addressing the integrity of international tax systems through initiatives around base erosion and profit shifting; working towards completing the core financial regulatory reforms identified from the global financial crisis and progressing International Monetary Fund governance reform.

Financial Stability Board

Macroeconomic Group used Australia's position as a member of the Financial Stability Board (FSB) decision-making Plenary, and temporary membership of the agenda-setting Steering Committee (as a member of the G20 Troika), to advance the Government's G20 agenda. Meetings were used as opportunities to undertake extensive bilateral engagement with G20 members. This included securing support for a streamlined financial regulation agenda to substantially complete key aspects of the core reforms set out in response to the financial

crisis. The Group has also used the FSB Regional Consultative Group for Asia to advance G20 outreach and engagement in our region.

International Financial Institutions

Macroeconomic Group supported the IMF in its role of ensuring the stability of the international monetary system. This occurred through the IMF Executive Board, attendance at the IMF World Bank Spring and Annual Meetings, and participation in relevant G20 working groups.

Macroeconomic Group supported the World Bank Group's role in improving the living standards of the world's poor by providing advice to the World Bank's Executive Board and supporting Australia's attendance at the World Bank Spring and Annual meetings.

Macroeconomic Group continued to support and advance reforms of International Financial Institutions (IFIs), particularly the IMF and the World Bank, to ensure that IFIs continue to remain legitimate, credible and effective. The Group also advised the Government on the implications for Australia of developments at these institutions.

Regional development banks

Macroeconomic Group continued to support the Asian Development Bank (ADB) efforts to promote development in the Asia-Pacific region through close engagement with the Australian ADB Executive Director. The Group also contributed to the work of the European Bank for Reconstruction and Development (EBRD).

Official development assistance

Macroeconomic Group provided advice on general development and aid issues, including Australia's multilateral and bilateral aid programmes and the framework for Australia's aid budget.

Asia-Pacific

Macroeconomic Group shaped policy agendas and priorities at regional fora and strengthened the Government's understanding of regional economic developments by engaging with Australia's key regional partners in the Asia-Pacific and relevant multilateral organisations. The Group:

- worked closely with China — the 2014 APEC host — to develop the agenda and priorities for the Finance Ministers' process; build support for the Asia Region Funds Passport; and support Indonesia as 2013 APEC host;
- strengthened regional financial cooperation by supporting the East Asia Summit Finance Ministers' process;
- supported the Treasurer at bilateral meetings with senior Chinese officials, and furthered Treasury's engagement with key Chinese policy-making agencies including the National Development and Reform Commission;
- participated in the Second Australia-Hong Kong RMB Trade and Investment Dialogue, held in Hong Kong in May 2014;
- promoted Australia's collaboration with India on economic policy by facilitating visits from senior Indian government officials, private sector representatives and the Australian leg of a global investor roadshow;

- continued to support economic stability in Indonesia through a A\$1 billion contingent loan facility. The Group also helped strengthen Indonesian economic policy advising capabilities and develop a lasting institutional relationship by deploying three Treasury staff under the Government Partnerships Fund to provide advice and support to Indonesian Ministry of Finance officials on revenue, macroeconomic and infrastructure policy; and
- strengthened engagement with its other Asia-Pacific partners through: a bilateral dialogue with the Vietnamese Ministry of Finance and implementation of the recently signed memorandum of understanding; attendance at the Annual Economic Policy Dialogue with the Japanese Ministry of Finance; and hosting the Korean Ministry of Strategy and Finance for the Annual Australia-Korea Strategic Economic Dialogue.

Macroeconomic Group continued to promote economic management and development in the Pacific by undertaking research and analysis and providing policy advice on a range of issues. The Group also supported the attendance of the Parliamentary Secretary to the Treasurer at the 2013 Pacific Islands Forum Economic Ministers' Meeting.

The Group assisted the building of sustainable and effective economic ministries in Pacific Island countries by deploying four Treasury officials to the Solomon Islands and six Treasury officials to Papua New Guinea to provide advice and support to government officials on economic and fiscal issues.

FISCAL GROUP

Overview

Fiscal Group aims to ensure government spending arrangements are effective and that key social and economic reforms are supported. This is crucial to facilitating strong, sustainable economic growth and the improved wellbeing of Australians. Advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions.

Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998* (the Charter);
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including through the ongoing management of the *Intergovernmental Agreement on Federal Financial Relations*;
- policy development in infrastructure, industry, regional, environment, communication, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, disability, family payments, Indigenous welfare and immigration.

Fiscal Group works with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on social policy and labour market issues of national significance and policy issues, that support Australia's productivity capacity and sustainable economic growth. Fiscal Group brings a broad perspective to issues, appropriately

balancing fiscal and broader wellbeing dimensions, including consideration of the fiscal impacts of decisions across all levels of government.

Fiscal Group also coordinates the preparation of the Commonwealth Budget and other documents required under the Charter and administers National Specific Purpose Payments (National SPPs), National Health Reform payments, National Partnership payments, goods and services tax (GST) payments and other general revenue assistance to the states. Details of these payments can be found in Programmes 1.4 to 1.10.

Group deliverables

Fiscal Group's key deliverables are advice on:

- fiscal strategy that aims to ensure fiscal sustainability;
- effective government spending arrangements which contribute to improving the wellbeing of Australians;
- strategies that address intergenerational challenges, including social, fiscal and environmental sustainability;
- input into a range of policy issues including welfare, education funding, health and hospitals, aged care, skills, employment, immigration, industry, regional, environment, communications, energy, infrastructure, and defence and national security; and
- Commonwealth-State financial relations.

Group outcomes

In 2013-14, Fiscal Group's key outcomes were:

- advising on the fiscal outlook and delivering the Government's commitments on fiscal policy;
- preparing the Government's first medium-term fiscal strategy and budget repair strategy, published in the 2014-15 Budget (May 2014) as required by the *Charter of Budget Honesty Act 1998*, and advising on budget priorities consistent with these strategies;
- preparing, with the Department of Finance, the Economic Statement (August 2013), the Pre-election Economic and Fiscal Outlook (PEFO) 2013 (August 2013), the Final Budget Outcome 2012-13 (September 2013), the Mid-Year Economic and Fiscal Outlook (MYEFO) 2013-14 (December 2013) and the 2014-15 Budget (May 2014);
- advising, in consultation with the Australian Office of Financial Management (AOFM), on debt issuance and debt policy issues;
- advising on issues related to the Parliamentary Budget Office (PBO);
- developing legislation to remove the limit on Commonwealth Government Securities and replace it with measures to improve the transparency and accountability of the quantum and use of debt;
- preparing the first debt statement, as part of MYEFO, to outline information on current and projected debt on issue, drivers of the change in debt and non-resident holdings of Commonwealth Government Securities on issue;

- advising on operational and policy issues related to the Future Fund, Asset Recycling Fund, Medical Research Future Fund, and the three Nation-Building Funds;
- advising on industry and regional policy responses to continued structural change, environment and agricultural policy, communications, energy and resources policy and on defence and national security matters;
- advising on the Clean Energy Finance Corporation;
- providing secretariat support to the Joint Commonwealth and Tasmanian Economic Council;
- developing and implementing the policy agenda and performing secretariat functions for the Council on Federal Financial Relations, the Australian Loan Council and Heads of Treasuries;
- advising on the framework for federal financial relations, including the development of new National Partnerships and other agreements;
- payments to the states totalling over \$97.9 billion including National Health Reform funding, National SPPs (in schools, skills and workforce development, disability services and affordable housing), GST payments and other general revenue assistance and National Partnership payments;
- advising on the development and implementation of the National Disability Insurance Scheme and the National Injury Insurance Scheme;
- advising on key social and economic policies in education, employment, immigration, families, health, ageing, disability and Indigenous issues; and
- continuing to participate in the Centre for Market Design in collaboration with the Victorian Department of Treasury and Finance, and the University of Melbourne.

Analysis of performance

During 2013-14, the Treasury supported portfolio ministers with the transition into Government following the September 2013 election. The Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position over the forward estimates and the medium-term, to inform overall policy settings and to provide context for the Government's decision-making. The fiscal outlook was updated in the Economic Statement (August 2013), the 2013 PEFO (August 2013), 2013-14 MYEFO (December 2013) and the 2014-15 Budget (May 2014).

As fiscal estimates are a joint responsibility, the Treasury worked extensively with the Department of Finance, the Australian Taxation Office (ATO) and other government departments and agencies. Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available at the time the economic statements and Budget were prepared.

The 2014-15 Budget, published in May 2014, reported that the budget is projected to build to a surplus of over one per cent of GDP by 2023-24, taking into account future tax relief.

The Treasury assisted the Government in producing its first medium-term fiscal strategy and also assisted the Government in preparing a budget repair strategy, which imposed additional restrictions on fiscal policy over the shorter term. The budget repair strategy is designed to help

achieve the Government's target of returning the budget to surplus and building surpluses to at least one per cent of GDP by 2023-24.

The Treasury also assisted the Government in implementing these strategies by managing budget processes and advising on the overall budget strategy and priorities. In this respect, good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Contribution to public debate and awareness

The Government's Budget publications are available at www.budget.gov.au. Between the 2014-15 Budget and 30 June 2014, there have been roughly 460,000 unique visitors to the Budget website and over 3.9 million pages have been viewed. Widespread access to these documents helps keep the public informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries of key budget decisions. This year, these were the *Budget Overview*, *Building Australia's Infrastructure*, and information books on the topics of *Higher Education*, *Health*, and *Social Services*.

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

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- medium-term projections (the ten years following the budget year) of the Government's budget position;
- economic assumptions underpinning the budget estimates;
- the level of current and projected debt on issue;
- tax revenue estimates;
- tax expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

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

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

Under the Charter, budget reporting follows an annual cycle comprising the budget in May, a midyear update before 31 January and a final budget outcome the following September.

The *Final Budget Outcome 2012-13* was published in September 2013. In 2012-13, the Australian Government general government sector recorded an underlying cash deficit of \$18.8 billion. This

outcome was around \$543 million better than estimated at the 2013-14 Budget, reflecting higher than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local Governments is detailed in the 2014-15 Budget, Budget Paper No. 3, *Federal Financial Relations*. This paper, produced by the Treasury, is the main public source of information on Australian Government payments to the states. It also informs the states of their expected payments in the upcoming financial year.

In addition, Budget Paper No. 3 also includes information on fiscal developments in the states, as well as advice on policies relating to Commonwealth-State financial relations.

Relevant information is also included in MYEFO and the Final Budget Outcome documents.

Information on the federal financial framework is available on the Council on Federal Financial Relations website at www.federalfinancialrelations.gov.au.

Debt management policy

In consultation with the AOFM, Treasury provided advice on debt issuance and debt policy issues. This included advice on issues affecting the Government's debt management operations including the performance, governance and functioning of the Commonwealth debt market.

Specific details of the Government's debt issuance programme are on the AOFM website at www.aofm.gov.au.

Future Fund

During 2013-14, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund. Further information regarding the performance of the Future Fund is at www.futurefund.gov.au.

Australia's Federal Financial Relations

GST and other general revenue assistance

Under the Intergovernmental Agreement, the Commonwealth makes payments to the states equivalent to the revenue received from the goods and services tax (GST). GST revenue is paid on a monthly basis and distributed in accordance with relativities determined by the Treasurer. This follows recommendations by the Commonwealth Grants Commission and discussion at the Council on Federal Financial Relations meeting.

The ATO and Australian Customs and Border Protection Service collect GST revenue on behalf of the states, and the states compensate them for the costs incurred in administering and collecting GST revenue. The Treasury managed the payments made to the states and ensured they were administered accurately.

General revenue assistance is provided to the states, including GST payments, without conditions, to spend according to their own budget priorities.

Details on general revenue assistance are provided under Programme 1.4.

Payments for specific purposes (National SPPs and National Partnerships)

The Commonwealth supports the states in five key service delivery sectors as follows:

- Three National Specific Purpose Payments (National SPPs) provide funding which states are required to spend in the relevant sectors — Skills and Workforce Development, Disability Services and Affordable Housing.
- On 1 July 2012, the former National Healthcare SPP was replaced by National Health Reform funding.
- From 1 January 2014, the former National Schools SPP was replaced by funding through the Students First programme.

In addition, National Partnerships support the delivery of specific projects, facilitate reforms and/or reward those jurisdictions that deliver on nationally significant reforms.

Details on National SPPs, National Health Reform, Students First and National Partnerships are provided under Programmes 1.5 to 1.10.

Council on Federal Financial Relations

The Council, comprising the Commonwealth Treasurer and the Treasurer of each state and territory, is a Council of Australian Governments (COAG) body. The Council oversees the *Intergovernmental Agreement on Federal Financial Relations* (which includes oversight of the operation of the GST), monitors economic conditions and progresses economic reform. The Treasury advised the Treasurer in relation to these matters and provided secretariat support to the Council.

In 2013-14, the Council developed and agreed new Terms of Reference as part of the new COAG Council system. At their two meetings during 2013-14, Treasurers focused on monitoring the national and state and territory economies, overseeing the operation of the GST, discussing infrastructure investment and developing the Asset Recycling Initiative.

The Council is supported by Heads of Treasuries. This forum is comprised of the Secretary to the Treasury and state and territory counterparts from each jurisdiction. Heads of Treasuries met four times in 2013-14 to discuss the general operation of the federal financial relations framework, current economic conditions and the fiscal outlook, tax and financial issues, and other matters referred to it by the Council or COAG.

Australian Loan Council

The Australian Loan Council is a Commonwealth-State ministerial council that meets annually to consider jurisdictions' nominated borrowings for the forthcoming year with regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

GST Administration Subcommittee

The Treasury chairs the GST Administration Subcommittee, which comprises officials from the Treasury, the ATO and state treasuries. The subcommittee met once in 2013-14. The subcommittee provides advice to the Council on GST policy and administrative issues.

Infrastructure, Industry, Agriculture and Environment, Communications, Energy and Resources, Defence and National Security

Infrastructure

The Treasury provided advice on a broad range of transport infrastructure policy issues, including in the areas of road and rail, aviation and maritime, and on the funding and financing of projects. The Treasury provided advice on the Government's Infrastructure Growth Package announced in the 2014-15 Budget, which included additional funding for road infrastructure under the Infrastructure Investment Programme and a new Asset Recycling Initiative. The \$5 billion Asset Recycling Initiative, which is being administered by Treasury, provides financial incentives to the states and territories to sell assets and reinvest the proceeds into additional productive economic infrastructure. Treasury was represented on the Infrastructure Australia Council and on the Infrastructure Working Group, under the Standing Council on Transport and Infrastructure.

Agriculture and Environment

The Treasury provided advice on agriculture and environment policy, including the repeal of the carbon tax, the abolition of the Clean Energy Finance Corporation and support for farmers affected by drought.

Communications policy

The Treasury provided advice on communications policy issues including the National Broadband Network, postal services and the efficient use of radiofrequency spectrum.

The Treasury also provided advice on the National Access Regime.

Energy and resources policy

The Treasury provided advice on energy markets and resources policy. This included advice on energy market reform policies that promote competition and ensure appropriate regulation.

Industry and regional policy

The Treasury provided advice on industry policy, innovation, and regional development issues. This included advice on the manufacturing industry, structural and regional adjustment and tourism.

The Treasury provided advice on developing a stronger, more competitive Tasmanian economy following the establishment of the Joint Commonwealth and Tasmanian Economic Council in April 2014.

Social, Disability, Education, Indigenous, Labour Market, Immigration and Health policy

Disability policy

The Treasury worked with the Department of Social Services and other agencies to develop and implement the National Disability Insurance Scheme and to progress the Disability Care Australia Fund.

The Treasury worked with the states and territories to progress the National Injury Insurance Scheme (NIIS). A consultation Regulation Impact Statement for the NIIS for motor vehicle accidents has been published on the Treasury website, and work has progressed on developing minimum benchmarks for workplace accidents and medical treatment injury.

Education policy

The Treasury provided advice on education and skills policy during 2013-14, working with other agencies on the development of higher education reforms and a range of other education and training-related budget initiatives.

Indigenous policy

The Treasury provided advice on the Government's commitment to closing the gap in Indigenous disadvantage.

Labour market programmes, participation and workplace relations

The Treasury provided advice on a range of employment and participation issues, including working closely with the Department of Employment to develop a whole-of-government approach and Government submissions to the 2014 Annual Wage Review, and in the development of a new employment services model.

Immigration

The Treasury provided advice that links Australia's immigration policy to labour market needs and prevailing economic conditions. In particular, advice was provided on reforms to the *Migration Act 1958* and policy arrangements applying to temporary visas for skilled workers.

Health and aged care policy

The Treasury provided advice on a range of health and aged care policy issues, with a particular focus on the sustainability of the growth in health expenditure. The Treasury worked closely with the Department of Health to advise on a number of budget measures including the design of the Medical Research Future Fund, changes to funding arrangements for public hospitals, and the introduction of patient contributions for general practitioner, pathology and diagnostic imaging services.

The Treasury assisted the Department of Health in the lead up to the July 2014 commencement of new arrangements directly linking Commonwealth National Health Reform funding to the level of services delivered by public hospitals. This included implementing changes to the financial framework and modelling of fiscal implications of the new arrangements.

Early Childhood

The Treasury provided advice on paid parental leave, child care and early childhood issues including input into the establishment of the *Productivity Commission Inquiry into Childcare and Early Childhood Learning*.

Welfare Reform

The Treasury provided advice in relation to the Age Pension, working age payments and family payments, to inform Government decisions announced in the 2014-15 Budget. This involved working closely with the Department of Finance, the Department of Social Services and the Department of Employment.

Natural Disasters policy

The Treasury provided advice on the Commonwealth's response to natural disasters, the Terms of Reference for the *Productivity Commission Review of Natural Disaster Funding Arrangements* and on natural disaster recovery policy more broadly.

Centre for Market Design

The Centre for Market Design (the Centre) is a collaborative venture between the Commonwealth Treasury, Victorian Department of Treasury and Finance (DTF) and the University of Melbourne (UoM). Involvement in the Centre is an opportunity to work with academics to build capacity and capability in the areas of market design and experimental economics and to apply economic design techniques to public policy, procurement and resource allocation problems.

During 2013-14, the Treasury participated in work related to the allocation of exploration licenses for black coal in New South Wales.

Further information on the Centre is available at www.cmd.org.au.

REVENUE GROUP

Overview

Revenue Group provides policy advice, and designs legislative proposals to give effect to Government decisions affecting the Australian tax and retirement income systems. Tax and retirement income policy advice is formulated through an integrated process that emphasises close and early consultation with business and other stakeholders, and close cooperation with the ATO and relevant Commonwealth departments.

A key focus of Revenue Group for 2013-14 has been to assist the Government with implementing election commitments, and taxation measures announced in the 2014-15 Budget. Revenue Group has also played a key role in contributing to work on improvements to the international tax framework as part of the G20 tax agenda.

Revenue Group also provides secretariat services to the Board of Taxation. The Board publishes its own annual report at www.taxboard.gov.au.

Group deliverables

Revenue Group's key deliverables were to provide advice on:

- implementing the Government's taxation and retirement income reform agenda, including election commitments and decisions in the Government's 2014-15 Budget; and
- impacts of tax system and retirement income proposals, measures and expenditures, including on government finance and economic growth, and their distributional impact and overall efficiency and effectiveness.

Group outcomes

Revenue Group's key outcomes were:

- providing quantitative work for the August 2013 Economic Statement, the 2013 Pre-election Economic and Fiscal Outlook, the 2013-14 Mid-Year Economic and Fiscal Outlook and 2014-15 Budget;
- advising on, and developing legislation for, changes to:
 - corporate tax;
 - indirect tax;
 - personal income tax;
 - superannuation and retirement income policies; and
 - tax administration;
- assisting the Government to prioritise its tax and retirement income policy legislative agenda;
- contributing to the development of the G20 tax agenda, including by contributing to the development of the OECD Action Plan on base erosion and profit shifting (BEPS) and consulting with business on exchange of information proposals;
- providing secretariat support to the Board of Taxation; and
- assisting the Parliamentary Budget Office to fulfil its obligations, including providing data, models and related advice.

Analysis of performance

Implementing election commitments

The Treasury provided timely advice and law design input on implementing the Government's election commitments, including signature commitments relating to the repeal of the Minerals Resource Rent Tax, and measures related to the Carbon Tax Repeal Package. Legislation to give effect to these commitments was initially introduced into the Parliament on 13 November 2013.

The Treasury worked with the ATO to provide every pay-as-you-go taxpayer with a taxation receipt setting out details of how their tax has been spent and the level of Australian Government debt, and provided advice on the development of related legislation.

The Treasury also advised the Government on a number of election commitments for which the measure details, or related legislation, are still being developed. These include:

- introducing paid parental leave, with an associated reduction in the company tax rate by 1.5 per cent, from 1 July 2015;
- introducing a Mining Exploration Development Incentive;
- progressing work on certain tax-related recommendations of the Australian Financial Centre Forum in its report *Australia as a Financial Centre: building on our strengths* (the Johnson Report); and
- reforming the taxation of employee share schemes.

Developing and managing legislation

The Treasury managed and progressed the preparation of other tax and superannuation law measures, working with the Office of Parliamentary Counsel and the ATO.

A total of 50 tax bills containing 46 measures were introduced into Parliament in 2013-14.

38 Measures announced but not yet enacted by former governments

Following the election of the Abbott Government, the Treasury and the Board of Taxation coordinated a stocktake of 92 tax and superannuation measures that were announced but not legislated by former governments, and consulted key stakeholders on the handling of these measures. The Government decided to proceed with 35 of these measures. Of these, legislation has been introduced for 15 measures and 10 have been passed and implemented. These include:

- the phase out of the Net Medical Expense Tax Offset;
- staged increases in excise on tobacco and tobacco-related products;
- amendments to prevent 'dividend washing';
- limiting the immediate deduction for assets first used in exploration; and
- improvements to the Farm Management Deposits Scheme.

Improving the international tax framework — OECD and G20

The Treasury has contributed to work on improvements to the international tax framework as part of the G20 tax agenda. This work covers the OECD base erosion and profit shifting project, international standards for the exchange of tax information between countries, and tax and development. Treasury has provided this support as part of Australia's G20 presidency, as well as participating in international forums, including the OECD and the Global Forum on Transparency and Exchange of Information for Tax Purposes.

In May 2014, the Treasury joined the Japanese Ministry of Finance and four private sector sponsors to host the G20 International Tax Symposium in Tokyo. The event attracted over 230 delegates from nearly 40 countries, including non-G20, non-OECD countries such as Papua New Guinea, Thailand, Fiji and Mongolia. It brought together a wide range of

representatives from business, civil society, academia and government to discuss the G20 tax agenda.

International tax agreements

Officials from the Australian Treasury and the United States Treasury concluded negotiations for an intergovernmental agreement to implement the US *Foreign Account Tax Compliance Act* (FATCA) in Australia. The agreement entered into force on 30 June 2014.

The Treasury also concluded negotiations for a revised tax treaty between Australia and Switzerland. The treaty is expected to enter into force in late 2014.

The Treasury also contributed to international tax treaty policy development through its work with the OECD's Committee on Fiscal Affairs, and provided ongoing advice to other agencies on various international agreements, including free trade agreements.

Personal tax policy reform

The Treasury provided timely advice on, and assisted in developing legislation for, a range of 2014-15 Budget measures. These included: introducing the Temporary Budget Repair Levy; abolishing the mature age workers tax offset; abolishing the dependent spouse tax offset and ceasing the First Home Saver Accounts scheme.

Superannuation and retirement income policy reform

The Treasury provided advice on implementing the Government's election commitments to reduce superannuation compliance costs for small business. Treasury and ATO officials consulted with a range of stakeholders to better understand the superannuation compliance concerns of small business employers, as part of developing reform options for government consideration in late 2014.

In December 2013, the Treasury consulted on an exposure draft Bill to increase the lost member superannuation small account threshold. Treasury officials also consulted with key stakeholders in late May and early June on the detailed design for a measure announced in the 2014-15 Budget to make the taxation of excess superannuation non-concessional contributions fairer.

Treasury also advised on 'SuperStream' reforms that will introduce industry-wide e-commerce standards for superannuation and streamline the processing of over 100 million superannuation transactions annually.

Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues. The Treasury also developed costings underpinning taxation proposals, and developed demographic and labour force projections.

In November 2013 the Treasury published a Working paper, *Estimates of Uncertainty around Budget Forecasts*, which aims to illustrate the risks associated with forecasts of the economic and fiscal outlook.

Tax Expenditures Statement

The Treasury also coordinated the *Tax Expenditures Statement 2013* and provided quantitative advice on estimates of tax expenditures associated with taxation policy.

Tax policy consultation

In 2013-14, the Treasury continued with a programme of regular high-level stakeholder consultation meetings. Two consultation meetings were held in 2013-14 with representatives from taxation advisory organisations, and other business and community groups. These meetings have been effective in helping engage the taxpayer community in a wider conversation about strategic tax policy issues.

Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to the:

- review of debt and equity tax rules;
- post-implementation review into Division 7A of Part III of the *Income Tax Assessment Act 1936*;
- review of tax impediments facing small business; and
- review of the thin capitalisation arms' length debt test.

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MARKETS GROUP

Overview

In 2013-14, the Treasury provided advice on policies that promote competitive, efficient markets and that work to enhance consumer wellbeing; a secure financial system and sound corporate practices; and foreign investment consistent with Australia's interest.

The Treasury implemented measures designed to enhance the availability and quality of financial advice. The Treasury continued to monitor and provide advice on the prudential framework applying to financial markets, including the banking sector, insurers, superannuation funds and capital markets. This included working towards making substantial progress on completing the core financial regulatory reforms identified for the global financial crisis.

The Treasury participated in international forums to enhance the regional and global financial system. In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in free trade agreement negotiations. Treasury also played an active role in progressing work to establish an Asia Region Funds Passport.

During 2013-14, the Treasury continued to promote the stable and efficient provision of financial market infrastructure, particularly through emphasising the role of competition. Treasury also provided policy advice regarding the improved operation of Australia's financial reporting, corporate governance and corporate insolvency regimes.

The Treasury also provided advice to promote competition in product and services markets, and to support the interests of Australian consumers. The Treasury has assumed the lead role in advising the Government on whole of government policy settings to support the efficient operation of the Australian small business sector.

In 2013-14, the Treasury began implementing the Government's deregulation agenda, focusing on eliminating inefficient or unnecessary regulation that imposes unwarranted burdens on business, individuals and the community. The Treasury established a Deregulation Division with the role of driving deregulation activity and managing the Treasury portfolio's contribution towards the Government's red tape reduction target.

Group deliverables

Markets Group's key deliverables are to provide advice on:

- measures to promote competition, macroeconomic stability and market confidence, including advice on prudential frameworks applying to the banking sector, insurers and superannuation funds, and implementation of the Government's non-taxation superannuation election commitments;
- initiatives arising from the Johnson report to strengthen Australia as a regional financial services centre;
- measures to promote the efficient allocation of capital and management of risk through effective corporate governance and financial markets infrastructure frameworks, including commitments to address financial instrument risks;
- measures to implement the Government's election commitment to reduce compliance costs and regulatory burden on the financial services sector;
- Australia's competition and consumer policy framework including competition and regulatory reforms to improve Australia's productivity;
- foreign investment initiatives to ensure that proposals are not contrary to Australia's national interest, the development and implementation of a national foreign ownership register for agricultural land, and representing Australia's interests on investment, competition and financial service issues in free trade agreements and international forums;
- policies that support the efficient operation of the Australian small business sector;
- actuarial matters through the Australian Government Actuary which provides actuarial services to the Government, the Treasury and other agencies; and
- policies that help improve Australia's productivity by reducing the regulatory burden imposed on business, individuals and the community.

Group outcomes

Markets Group's key outcomes for 2013-14 were:

- implementing measures designed to protect financial consumers and enhance the availability and quality of financial advice, and continued monitoring and provision of advice on the prudential framework applying to financial markets, including the banking sector, insurers, superannuation funds and capital markets;

- making progress towards implementing the Government's election commitments in relation to the small business sector, including the establishment of the Small Business and Family Enterprise Ombudsman and the Government's deregulation and competition reform agendas;
- establishing the Government's Financial System and Competition Policy Review inquiries including the provision of administrative support;
- providing advice to the Government on policies that support the efficient operation of the Australian small business sector; providing support to the activities of the Australian Small Business Commissioner; supporting the small business sector by providing policy design advice to the Small Business Advisory Services and the Small Business Support Line, including on the integration of these programmes into the Government's Single Business Service;
- coordinating the Productivity Commission's work programme and advising departments, and the Government, on preparing terms of reference for reviews. In 2013-14, the Productivity Commission commenced five public inquiries and two commissioned studies. In 2013-14, the Productivity Commission also completed seven public inquiries and three commissioned research studies;
- providing advice on the Government's regulatory framework for inbound foreign investment, significant foreign investment cases (in consultation with the Foreign Investment Review Board), and investment aspects of free trade agreement negotiations;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary;
- continuing to maintain and enhance a national consumer law through engagement with the ACCC and states and territories to support consistency in consumer protection, product safety regulation, and cooperative enforcement;
- developing the new monitoring and enforcement role of the ACCC in relation to the carbon tax repeal, and progressing the implementation of the Government's election commitment to extend unfair contract protections to small business;
- establishing and providing policy and secretariat support for the Small Business Ministerial Advisory Council, a forum of business stakeholders that provide advice and input to the Government's deregulation agenda and small business policy issues;
- developing the model for a Small Business and Family Enterprise Ombudsman to be a concierge for dispute resolution, a Commonwealth-wide advocate for small business and family enterprise, a contributor to small-business friendly regulation and to provide a single entry point for small businesses accessing Commonwealth programmes and information;
- implementing *Dispute Support*, an online tool to help small businesses in a dispute to find the information and assistance they need;
- developing legislation to introduce a penalty regime into the *Competition and Consumer Act 2010* for breaches of industry codes and providing ongoing policy advice on competition policy, including developing a new Franchising Code of Conduct to implement the recommendations of the Wein Review into the Code; and
- providing advice on competition policy, as well as supporting links with economies in the region to encourage the development of sound competition regulatory regimes.

Analysis of performance

Superannuation

Treasury released the Assistant Treasurer's discussion paper *Better regulation and governance, enhanced transparency and improved competition in superannuation* on 28 November 2013. Public consultation closed on 12 February 2014 and Treasury received 90 submissions. All public submissions have been published.

The discussion paper canvasses improving trustee board governance, greater provision of information about fund performance (through a choice product dashboard and disclosure of portfolio holdings), and enhancing competition in the default superannuation market.

Financial system reform

Markets Group officials were involved in progressing the financial reform agenda of the G20 in Australia's Presidency which it assumed on 1 December 2013. Markets Group worked with the G20 area in Treasury, and with APRA, ASIC and the RBA, to coordinate the design and implementation of the four key reform areas: building resilient financial institutions; ending too-big-to-fail; addressing shadow banking risks; and making derivatives markets safer.

The Treasury contributed to the work of other international bodies, including the Financial Stability Board to foster international cooperation in financial system regulation.

Domestically, the Government committed to a moratorium on significant new financial sector regulation whilst the Financial System Inquiry is underway.

Financial System Inquiry

Treasury assisted the Government to establish the Financial System Inquiry, which is examining how the financial system can be positioned to best meet Australia's evolving needs and support Australia's economic growth. This included assisting the Government in drafting and finalising the inquiry's terms of reference, and appointing the members of the Inquiry Committee, International Advisory Panel and Secretariat.

Financial sector crisis management

Treasury worked with Australia's financial regulators to ensure the adequacy of our arrangements for crisis management and resolution including assessing their consistency with new and emerging international standards. The Treasury continued to work with the Council of Financial Regulators and liaised with other government agencies to monitor developments in the global and domestic financial markets, and provided policy advice. As part of this work, Australian authorities engaged with their New Zealand counterparts under the framework of the TransTasman Council on Banking Supervision. The department continued to monitor developments in overseas and domestic financial markets to inform policy considerations across the financial system.

Unclaimed moneys

Treasury released a discussion paper in May 2014 proposing options to better balance the dual objectives of protecting the value of account holders funds, while ensuring account holders can be efficiently and effectively reunited with their money.

Treasury aims to consult further with industry and community stakeholders on changes to the unclaimed moneys provisions to reduce the regulatory burden of the provisions.

In the 2014-15 Budget farm management deposits were exempted from the unclaimed moneys provisions.

North Queensland insurance affordability package

Over the past few years many Australians have faced significantly increased premiums for home, home contents and strata property insurance, particularly in North Queensland. In response, Treasury released the Assistant Treasurer's discussion paper *Addressing the high cost of home and strata title insurance in North Queensland* on 9 May 2014. The discussion paper canvassed policy options to help consumers compare insurance products by developing an insurance information and comparison website (or an insurance 'aggregator'); promote resilience of strata title buildings by facilitating engineering assessments of strata title properties in North Queensland; and expand North Queensland insurance markets by encouraging participation by foreign insurers.

In the 2014-15 Budget, the Government allocated funds toward the establishment of an insurance comparison website and an engineering grant programme to address the unique circumstances of the North Queensland insurance markets. These measures will be offset by savings of \$72.2 million over two years from 2013-14 from the cessation of the National Insurance Affordability Initiative.

Securitisation market

Treasury provided advice on developments in the domestic securitisation market. In 2008, the then Government agreed to provide temporary support to the securitisation market during a period of severe dislocation. The then Government invested in the highly-rated securitisation issuances of smaller lenders to support competition in the banking sector. Following a substantial market recovery, on 9 April 2013 the former Government ceased new investment in the securitisation market. On behalf of the Government, the Australian Office of Financial Management continues to manage the existing portfolio of securitisation investments and is adjusting down its holdings consistent with supporting the market's ongoing sustainability.

Financial industry supervisory levies

During 2013-14 the Treasury, in conjunction with APRA, completed its four-yearly review of the parameters and methodology underpinning the financial industry supervisory levies. This culminated in the release of a Treasury response paper to the methodology review in April 2014.

Adopting a number of the conclusions of the methodology review, the Treasury, in conjunction with APRA, consulted with industry on the proposed 2014-15 financial institutions supervisory levies in May and put forward two potential calculation options for industry's consideration in

2014-15, and a further potential change to the calculation of the levy paid by superannuation funds in 2015-16.

Following industry consultation, the Treasury recommended that the levies be calculated on a new basis. This was implemented by the Acting Assistant Treasurer for the coming financial year. The Treasury will continue to consult with industry on the viability of any future changes to the supervisory levies methodology throughout 2014-15.

G20 commitments on over-the-counter derivatives

The Australian Government continued its efforts to implement the agreed global reforms to OTC derivatives markets. Following the implementation of trade reporting requirements in 2013, the Government, in February and July 2014, issued two proposal papers on mandatory central clearing requirements for interest rate derivatives denominated in Australian dollars and four global currencies transacted between internationally active dealers. At the conclusion of the consultation process, the Government will decide whether to make a ministerial determination formalising a clearing obligation later in 2014.

A key objective of the Government's proposals is to support Australian banks and businesses active in overseas markets, by helping them to secure relief from duplicative and burdensome foreign regulations. Significant concessions of this nature were achieved in the United States in December 2013, and Australian Government agencies and regulators are continuing their efforts in this direction with a focus on the United States and the European Union as key global markets for Australian banks and businesses.

Competition in clearing

During the 2013-2014 financial year, Treasury — together with RBA and ASIC— continued to engage with the ASX in relation to its Code of Practice for Clearing and Settlement of Cash Equities in Australia, to ensure that it was developed with industry and consistent with the Council of Financial Regulators' advice on competition in this market. ASX implemented the Code in August 2013. ASX developed the code as part of the decision made in February 2013 to place a two-year moratorium on competition in cash equity clearing in Australia.

In July 2013, ASX and London Clearing House (LCH) were given approvals to clear interest rate derivatives in Australia. Treasury worked with RBA and ASIC to ensure that necessary arrangements were in place to facilitate the effective functioning of competition in this market. A competitive market for clearing derivatives supports the implementation of the G20 OTC derivative commitments.

In March 2014, the Council of Financial Regulators (CFR) released a paper on the application of the regulatory influence framework to clearing facilities in various Australian financial markets. The paper included guidance on ASIC's and the RBA's likely approaches to location requirements for overseas-based applicants seeking a clearing and settlement facility licence. This paper is based on the regulatory structure described by the CFR in their July 2012 publication *Ensuring Appropriate Influence for Australian Regulators over Cross-border Clearing and Settlement Facilities*.

Australian Government Bonds and Retail Corporate Bonds

The Government has committed to encouraging the development of a deep and liquid corporate bond market to enable greater funding opportunities for business and greater diversity in investment options for investors.

In 2013-14, the Treasury continued work to reduce the disclosure burden on businesses issuing simple corporate bonds. The reform work focused on streamlining disclosure, refining director liabilities, and establishing a framework for greater trading of bonds in the retail market.

The Corporations Amendment (Simple Corporate Bonds and Other Measures) Bill 2014 was introduced into Parliament on 15 May 2014. The Treasury also undertook work developing supporting regulation.

Deregulation

The Government has set a target of reducing regulatory compliance costs on businesses, individuals and the community by \$1 billion every year. The Treasury is currently making progress in contributing to this target. Treasury has completed a qualitative stocktake of existing regulations within the portfolio and has begun a quantitative analysis. The stocktake will help identify areas for reform and will establish a baseline against which government and stakeholders can measure reductions in red tape. The Treasury will continue to engage with stakeholders, including our consultative bodies and our portfolio agencies, to further identify red tape reduction opportunities in the coming year.

Financial services reforms

National regulation of credit

The *National Consumer Credit Protection Amendment (Small Amount Credit Contracts) Regulation 2014* commenced on 13 June 2014 to address avoidance issues with the national consumer credit regime.

From 1 July 2013 there has been a cap on costs for small amount credit contracts, which are loans of less than \$2,000 cash in hand to the consumer, with a maximum term of 12 months. Some fringe providers had been attempting to avoid the cap on costs, as well as other licensing and responsible lending obligations, under the credit laws.

The Regulation has addressed these avoidance practices in relation to small amount credit contracts, as well as other avoidance practices around continuing credit contracts and short term credit.

In February 2014, the Government announced its intention to explore options to address problems with indefinite and short term leases, which are currently exempt from regulation under the national consumer credit regime. Concerns have been raised by stakeholders that consumers may be disadvantaged by the use of an unregulated lease relative to a regulated lease through, for example, the absence of mandatory external dispute resolution. The Treasury will continue this work in 2014-15.

Future of Financial Advice

As part of its pre-election policy commitments prior to the 2013 election, the Government undertook to reduce compliance costs for small businesses, financial advisers, and the broader financial services industry, while maintaining the quality of advice for consumers who access financial advice.

On 20 December 2013, the Government announced a package of changes to the Future of Financial Advice (FOFA) provisions to implement its election commitment. On 20 June 2014, the Government announced the final package of changes to FOFA.

In 2013-14, the Treasury worked to implement the Government's announced changes. The department has worked on the development of a Bill and a Regulation to give effect to the measures announced by the Government: the Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014 (the FOFA Bill), which was introduced into Parliament on 19 March 2014 as part of the Government's Autumn Repeal Day; and the *Corporations Amendment (Streamlining Future of Financial Advice) Regulation 2014*, which was registered on the Federal Register of Legislative Instruments on 30 June 2014 and commenced on 1 July 2014.

The Treasury will continue to support the Government in progressing the FOFA Bill through the Australian Parliament.

Increased professionalism of the financial advice industry

In January 2014, the Government announced its intention to work with industry to review the professional standards of financial advisers including issues such as the education and training standards of advisers in Australia and any proposed move to a national exam.

The Treasury has engaged with the financial advice industry on initiatives to improve professional standards and the quality of advice provided to consumers, including advice on how a broad professional standards framework for financial advisers could be introduced. The Treasury will continue this work in 2014-15.

Financial sector trends and structures

The Treasury continues to advise the Government on emerging market trends and structures by assessing market developments and new products, monitoring trends affecting competition and efficiency in the financial sector, and considering potential developments that may affect the effectiveness of existing policy settings. In addition, the Treasury has advised the Government on developments in banking, the affordability and availability of insurance, and the operation, structure and cost of the superannuation system.

Corporations regulation reforms

In July 2013, regulations were made to facilitate the efficient operation of the Takeovers Panel and require the disclosure of information on ASIC's use of its information gathering powers.

In April 2014, the Acting Assistant Treasurer released a draft package of amendments to reduce compliance costs for business under the *Corporations Act 2001* and the *Australian Securities and Investments Commission Act 2001*. The proposed amendments seek to streamline the

requirements for companies paying dividends, remove obligations on companies to hold a general meeting when requested by 100 shareholders and improve the disclosure of executive remuneration. The Government's response will be informed by the issues raised in the submissions received in response to the draft legislation.

The Treasury continues to advise the Government on the operation of the legal frameworks applying to corporate insolvency including the regulation of the insolvency profession, the obligations of directors, and the preparation and content of financial reporting obligations.

International liaison

Asia Region Funds Passport

The development of the Asia Region Funds Passport (the passport) is being led by the Treasury and progressed under the auspices of Asia-Pacific Economic Cooperation (APEC). Considerable progress was made in 2013-2014 to develop the proposed arrangements including the public release of the *Consultation Paper: Arrangements for an Asia Region Funds Passport* and subsequent industry consultations. To facilitate broad input into the development of these arrangements, policy and technical workshops were held in Kuala Lumpur, Malaysia in March 2014 attended by officials from 12 APEC economies.

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In leading development of the passport, the Treasury also managed the provision of targeted capacity building to financial regulators in Indonesia, the Philippines, Thailand and Vietnam. This focused on enhancing regulators' capacity to regulate and supervise the cross-border trade in collective investment schemes, and has contributed to the Philippines and Thailand joining the passport working group with Australia, Korea, New Zealand and Singapore.

The development of the passport and the provision of capacity building formed part of broader efforts led by The Treasury to strengthen financial cooperation with targeted countries across the region.

G20/Financial Stability Board

Markets Group officials have undertaken extensive international engagement during Australia's Presidency of the G20.

Treasury has provided Australian representatives to Financial Stability Board (FSB) committees that provide input into the G20 Finance Ministers' meetings. Markets Group officials represented Australia on the Standing Committee on Standards Implementation (SCSI), and the Standing Committee for Supervisory and Regulatory Cooperation (SRC).

The SCSI monitors the implementation of international financial regulations standards agreed by the G20 and FSB and undertakes peer reviews of individual FSB countries and on key priorities. The SRC aims to address key financial stability issues relating to the development of supervisory and regulatory policy and assist in enhancing cross-border cooperation between national supervisors.

Trans-Tasman coordination to develop a Single Economic Market

In August 2009, the Australian and New Zealand Prime Ministers agreed to principles and a range of shared short- and medium-term practical outcomes in business law for developing

the Single Economic Market. A Trans-Tasman Outcomes Implementation Group comprising senior officials from the Australian and New Zealand governments was tasked with overseeing and, wherever possible, accelerating the progress of the reform agenda. The Treasury and the New Zealand Ministry of Economic Development co-chair the group. The majority of the reforms, including those relating to financial services, consumer credit and intellectual property, have either been completed or are scheduled for completion by the end of 2014.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and the New Zealand Minister of Finance on promoting a joint approach that delivers a seamless regulatory environment for banking services, and considers broader financial sector and stability issues. The Secretaries to the Treasuries of Australia and New Zealand jointly chair the council, and its membership includes senior officials from the financial system regulators. The Treasury has pursued the council's work programme, focusing on improved cooperation on crisis management.

Financial Reporting Council

The Financial Reporting Council (FRC) comprises up to 19 members responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include overseeing the accounting and auditing standards-setting processes for the private and public sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the minister on these and related matters to the extent that they affect the financial reporting framework.

The Treasury provides secretariat support to the FRC, including its meetings, and is also responsible for advising the minister on the appointment of members to the FRC to ensure that it is broadly representative of stakeholders with an interest in financial reporting. The Treasury maintains a close relationship with the FRC and engages in high-level discussions with the FRC, which benefits both the Treasury in developing policy advice and the FRC in guiding their strategic direction.

The FRC has three committees — nominations, audit quality, and strategic planning. The FRC currently also has a Financial Report Taskforce. The Treasury has engaged with the activities of the taskforce and committees by providing secretarial support, fostering dialogue with stakeholders on the issues being explored, liaising with the chairs of the committees and taskforces to form their strategic direction and providing assistance to deliver key outputs.

Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency-related matters. It chaired the Royal Australian Mint Advisory Board to assist the mint in developing its policy and administering its initiatives. The Treasury also assisted the Perth Mint in relation to its currency determinations (legislative instruments), which are tabled in Parliament before the release of numismatic (collector) coins. In the 2014-15 Budget, the Government announced it would conduct a scoping study into future ownership options for the Royal Australian Mint.

Secretariat services

The Treasury provided secretariat services to the Legislative and Governance Forum for Corporations (formerly constituted as the Ministerial Council for Corporations (MINCO)). The Treasury also assisted ministers in fulfilling the Government's obligations under the Corporations Agreement 2002, the *Intergovernmental Agreement for Business Names Agreement*.

Takeovers Panel

The Takeovers Panel contributed to well-functioning securities markets in Australia by dealing with applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001* and other control transactions. The panel, a peer review body with regulatory functions, has 37 members who are specialists in mergers and acquisitions as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely-held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The panel also publishes guidance notes to help foster market confidence and efficiency.

In 2013-14, the panel considered 26 commercially significant and complex applications, including matters relating to truth in takeovers, association and rights issues.

Individual foreign investment proposals

Foreign investment proposals that fall within the scope of Australia's foreign investment policy or the *Foreign Acquisitions and Takeovers Act 1975* (the Act) are examined to determine whether they are contrary to Australia's national interest.

During 2013-14, Markets Group provided advice on the Government's regulatory framework for inbound foreign investment; significant foreign investment cases (in consultation with the Foreign Investment Review Board); and investment aspects of free trade agreement negotiations.

Markets Group also contributed to the work of the OECD Investment Committee, and is the home of the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises. Additional information on this role is provided at www.ausncp.gov.au.

Australian Government Actuary

Australian Government Actuary provides actuarial services to government, the Treasury and other agencies within a contestable and competitive market. Demand for services was again high during 2013-14. Income from services relative to total costs is a primary indicator of performance. Australian Government Actuary maintains a special account to ensure its financial operations are managed properly and transparently and, at 30 June 2014, the account was in a sound financial position.

Small Business

In 2013-14, responsibility for small business policy and advice was transferred to Treasury. Treasury provided advice and input to the Government's small business agenda with a focus on policy and regulatory issues including deregulation, small business productivity and innovation. General small business policy advice was provided on a range of existing or emerging issues including competition, access to finance, taxation, superannuation and industry development policy.

The Treasury supported the Government's deregulation agenda through the establishment of the Small Business Ministerial Advisory Council and provides ongoing Secretariat support to this council.

Treasury conducted ongoing stakeholder engagement, research and analysis to support policy advice and assistance to small business on new and emerging issues. This included consulting with stakeholders in the Government, state governments, industry associations, private sector service providers, small businesses and other interested parties in developing the model for the operation of the Small Business and Family Enterprise Ombudsman.

Treasury provided oversight for small business advisory publications: *Starting your Business Checklist*, *Growing your Business Checklist*, and the *Small Business Resource Kit*.

Treasury's work in reducing the regulatory burden for small businesses included contributing to the COAG end-to-end regulation mapping process, focusing on issues for small business in the residential building industry, and consulting with Small Business Advisory Council members on deregulatory priorities.

Treasury supported policy work in key forums including representing Australia's interests in multilateral forums such as the OECD and APEC.

Treasury also provides support for the operations of the Australian Small Business Commissioner. The Commissioner provides information and assistance to small businesses including referral to dispute resolution services; represents small business interests and concerns to the Australian Government; and works with industry and government to promote a consistent and coordinated approach to small business matters.

As part of this role in 2013-14, the Commissioner developed *Dispute Support*, an online tool to help small businesses in a dispute to find information and assistance. With three easy steps, the tool assists small businesses to find the most appropriate low cost service to help resolve a business dispute. There is also information to help small businesses to understand and manage their dispute and tips for avoiding disputes in the future.

Consumer Policy

In 2013-14, the Treasury provided advice to the Government on Australia's consumer policy framework, including ongoing work to support and maintain the Australian Consumer Law (ACL). The ACL includes provisions about unfair practices and fair trading, unfair contract terms, consumer guarantees and product safety.

The Treasury worked with both national and state and territory consumer agencies during 2013-14 to maintain the policy and enforcement framework for the ACL.

The Treasury played an active role in developing the new monitoring and enforcement role of the ACCC in relation to the carbon tax repeal and released the consultation paper to implement the Government's election commitment to extend unfair contract protections to small business.

The Treasury provided secretariat support to the Legislative and Governance Forum on Consumer Affairs, as well as Consumer Affairs Australia and New Zealand (including its advisory committees). The Treasury also provided secretariat support to the Commonwealth Consumer Affairs Advisory Council, which, in 2013-14, gave independent advice to the Consumer Affairs Ministers on a range of consumer-related issues, including credit card surcharges.

In 2013-14, the Treasury continued to represent Australia in international forums on consumer policy, including as a member of the OECD Committee on Consumer Policy.

Competition Policy

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The Treasury provides advice on competition policy issues as they arise, including on competition laws in Part IV of the *Competition and Consumer Act 2010* (CCA). In 2013-14, this included considering competition issues and small business concerns in concentrated markets.

In March 2014, the Minister for Small Business announced the terms of reference for the Competition Policy Review led by Professor Ian Harper and assisted by an expert panel. The Harper Review is a broad review of competition laws and policies. Treasury assisted with the establishment of the Review, which will be important for shaping the future of Australia's competition policy.

The Treasury is responsible for the framework for industry codes of conduct. The major piece of work undertaken in this area during 2013-14 was the finalisation of the Government's response to the independent Franchising Code of Conduct review. Following extensive consultation with stakeholders, legislation to amend the CCA was finalised. It was introduced into the Parliament in July 2014. This includes amendments to the CCA to allow for pecuniary penalties and infringement notices to be imposed for breaches of prescribed industry codes. A new Franchising Code is also being developed with an intended commencement date of 1 January 2015.

Following the machinery of government changes in late 2013, Treasury took over the management of the contract for the provision of mediation services for the Franchising Code of Conduct, the Horticulture Code of Conduct, the Produce and Grocery Industry Code of Conduct and the Oilcode.

The Treasury coordinates the Productivity Commission's work programme and advises departments and the Government on preparing terms of reference for reviews. In 2013-14, the Productivity Commission commenced five public inquiries and two commissioned studies. In 2013-14, the Productivity Commission also completed seven public inquiries and two commissioned research studies.

CORPORATE STRATEGY AND SERVICES GROUP

Overview

The Corporate Strategy and Services Group (CSSG) helps set and deliver the corporate strategic direction of Treasury, and provides quality corporate advice and services for the department, its people and its portfolio ministers.

The four divisions in the group are Financial and Facilities Management, Information Management and Technology, Ministerial and Communications, and People and Organisational Strategy.

Key priorities

- Facilitating behavioural and organisational change by implementing the Strategic Review, Capability Action Plan and Progressing Women agendas;
- Implementing strategic and operational workforce planning, as well as considered analysis, reporting and evaluation of the Treasury workforce;
- Improving the availability and security of IT infrastructure, and its operational capabilities in the event of a disaster;
- Increasing productivity through flexible work arrangements and better IT mobility;
- Deploying technology that enhances internal and external collaboration;
- Implementing business process improvement initiatives;
- Improving the provision of financial information to assist decision-makers;
- Managing the election caretaker period and transition to the new government;
- Delivering production and logistics services for Budget 2013-14 and related processes (for example MYEFO);
- Ensuring Treasury's compliance with legal and government policy requirements, including Commonwealth financial framework requirements;
- Managing operational activities for all of Treasury's corporate functions;
- Ensuring effective working relationships with Treasury ministers' offices; and
- Evaluating the value to Treasury and government for us to build on the current shared service arrangements and offer them more broadly to other agencies.

Key outcomes

- Following the September 2013 election, Treasury successfully established four new Treasury ministers' offices and built and maintained effective working relationships with the ministers and their staff.
- Treasury continued its ongoing commitment to addressing barriers to recruiting, retaining and progressing women in Treasury. Treasury provided unrecognised bias awareness training to over 300 people and has made measuring and reporting gender diversity a regular practice, including by reporting recruitment, promotion and performance assessment results to staff.

- Quarterly workforce metrics reports were provided to all staff to help analyse, report on and evaluate workforce planning.
- The Disaster Recovery Project was implemented to safeguard the department's IT infrastructure and ensure business continuity. This project sets out the steps for recovery and restoration of information and communications services following a disaster. As a result of this project, Treasury's CIO, Peter Alexander, was nominated as ITnews CIO for 2014.
- Treasury demonstrated its commitment to flexible work arrangements with the use of a job share register, by fostering and supporting a flexible working culture and improving IT mobility.
- A new Treasury intranet was released in November 2013. The new site included new content structure and features that make it easier to use and access. The site integrates SharePoint to improve collaboration, productivity and efficiency for Treasury staff.
- Release of the Treasury Innovation Framework under the Capability Action Plan, the latter of which identified areas where Treasury can improve performance with fewer resources.
- Implementing the Expense Management System to streamline purchasing and payment processes.
- Treasury designed and produced the Budget and associated documents. This included briefings (both written and verbal) and logistics for the media and stakeholder lock-ups.
- The implementation of the Financial Management Compliance System to provide a more efficient way for delegates to report information in the annual Certificate of Compliance to the Minister for Finance.
- The evaluation highlighted that Treasury is well placed to offer shared services to agencies.

PROGRAMME 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

PROGRAMME OBJECTIVE

Payments are made to the International Monetary Fund (IMF), under the *International Monetary Agreements Act 1947*, to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustments.

Payments are made to other international financial institutions, as required, to facilitate the achievement of government objectives in international forums, including strengthening the international financial system, support for development objectives through the multilateral development banks, and multilateral debt relief.

Please see Part 5 Appendices — Australia and the International Financial Institutions for more information regarding the IMF and the World Bank Group.

PROGRAMME DELIVERABLES

Payments to international financial institutions, including the IMF, are made with due regard to minimising cost and risk for Australia.

KEY PERFORMANCE INDICATORS

Financial transactions with the international financial institutions, including the IMF, are timely and accurate.

ANALYSIS OF PERFORMANCE

Australia makes substantial financial payments to international financial institutions to support their operations.

The Treasury manages most of Australia's financial relations with the IMF and capital contributions to the World Bank Group (the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the International Development Association and the International Finance Corporation), the Asian Development Bank and the European Bank for Reconstruction and Development.

In 2013-14, the Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient (see Table 1 over).

Table 1: Financial transactions with international financial institutions in 2013-14^(a)

| | Nature of transaction | Number of transactions | Total \$'000 |
|--------------------------------------------------------------------------------|-----------------------|------------------------|--------------|
| Receipts | | | |
| IMF net remuneration | Revenue | 4 | 1,299 |
| IMF new arrangements to borrow — interest | Revenue | 4 | 880 |
| Payments | | | |
| IMF special drawing rights allocation charges ^(b) | Expense | 4 | 4,878 |
| IMF new arrangements to borrow — loans | Financing transaction | 6 | 209,461 |
| — repayments | | 5 | -130,899 |
| IMF maintenance of value | Financing transaction | 1 | 455,936 |
| Asian Development Bank general capital increase | Investing transaction | 1 | 16,510 |
| International Bank for Reconstruction and Development general capital increase | Investing transaction | 1 | 10,534 |

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- (a) Transactions are reported on a cash basis. There were no transactions relating to the European Bank for Reconstruction and Development, the International Finance Corporation or Multilateral Investment Guarantee Agency. Australia is a participant in the IMF's Financial Transactions Plan. More information on Australia's financial transactions with international financial institutions, including the IMF, is at Part 5 Appendices — Australia and the International Financial Institutions.
- (b) This amount includes the annual assessment fee paid to the SDR Department.

PROGRAMME 1.3: SUPPORT FOR MARKETS AND BUSINESS

PROGRAMME OBJECTIVE

The objectives of programme 1.3 are to:

- put Australia at the forefront of regional and global examination of financial sector developments and the design of regulatory responses by providing funding of \$12.1 million over four years for the Centre for International Finance and Regulation. The Centre comprises a consortium of Australian and international universities, research centres and financial organisations and is led by the University of New South Wales;
- make payments in respect of insurance claims arising from the residual Housing Loans Insurance Company Limited portfolio. The Housing Loans Insurance Company Limited pre-transfer contract portfolio will be managed to ensure all liabilities arising from claims under this portfolio are met and any related debts are recovered; and
- make payments of assistance to eligible HIH insurance policy holders under the HIH Claims Support Scheme. Work is now focused on finalising remaining claims so assistance can be paid, and the claims portfolio wound up.

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PROGRAMME DELIVERABLES

The programme deliverables are:

- payments to the Centre for International Finance are made according to agreed milestones and schedules; and
- payments of claims arising from the Housing Loans Insurance Company Limited residual and assistance under the HIH Claims Support Scheme are made according to agreed schedules.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- payments for the Centre for International Finance and Regulation will be made according to the agreed funding schedule; and
- payments of claims arising from the Housing Loans Insurance Company Limited residual and assistance under the HIH Claims Support Scheme are accurately determined and are made according to agreed schedules.

ANALYSIS OF PERFORMANCE

- Payments to the University of New South Wales for the Centre for International Finance and Regulation were accurately determined and made in a timely manner.
- Payments made from the Housing Loans Insurance Corporation Limited met the cost of administering and meeting the Commonwealth's obligations arising from ongoing management of the residual portfolio of lenders' mortgage insurance contracts.

- Payments made to the HIH Claims Support Scheme met the costs of operating the scheme and providing assistance to eligible policyholders. The Treasury continues to work closely with the HIH administrators, McGrathNicol, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims.
- All payments were accurately determined, in accordance with industry best practice and government regulations, and made in a timely manner.

PROGRAMME 1.4: GENERAL REVENUE ASSISTANCE

PROGRAMME OBJECTIVE

The Government will make general revenue assistance payments to the states and territories. General revenue assistance is a broad category of payments, provided to the states and territories without conditions, to spend according to their own budget priorities.

Under the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement), the states are entitled to receive payments from the Commonwealth equivalent to the revenue received from the GST.

In addition, the Government will make payments of other general revenue assistance to the states consisting of:

- payments to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the National Capital and to compensate for the additional costs resulting from the national capital planning influences on the provision of water and sewerage services;
- payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise in the 2008-09 Budget;
- payments to Western Australia as a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia;
- payments to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory; and
- payments to New South Wales and Victoria to compensate for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the states' shareholdings.
- Elements of this programme are linked to the Industry portfolio. Also refer to Budget Paper No. 3, *Federal Financial Relations 2014-15*.

PROGRAMME DELIVERABLES

The programme deliverables are:

- general revenue assistance payments to the states and territories made in accordance with the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will make general revenue assistance payments to the states and territories that reflect the requirements, the amounts and timeframes specified in the Intergovernmental Agreement; and

- the Commonwealth Treasury will provide GST revenue data on a monthly, quarterly and annual basis, and will maintain a schedule of estimates of annual net GST receipts in accordance with the requirements of the Intergovernmental Agreement.

ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of \$52.4 billion were made to the states and territories in 2013-14. Payments included:

- GST entitlements to the states and territories totalling \$51.1 billion;
 - payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* totalling \$1.1 billion; and
 - other general revenue assistance payments totalling \$184.3 million.
- The Treasury also recouped \$0.7 billion in GST administration costs in 2013-14.
- Monthly, quarterly and annual GST revenue data were provided each month in accordance with the requirements of the Intergovernmental Agreement.
 - All payments were accurately determined and made in a timely manner.

PROGRAMME 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

PROGRAMME OBJECTIVE

The Government provides financial support to the states and territories to be spent in the delivery of healthcare services.

This programme also has links to the Health portfolio.

In 2013-14, National Health Reform funding is set to the amount that would have been previously payable through the former National Healthcare Specific Purpose Payment (SPP).

National Health Reform funding is paid into a National Health Funding Pool. The Administrator of the National Health Funding Pool, jointly established by the Commonwealth and the states, is responsible for calculating the Commonwealth funding amount for public hospitals and advising the Treasurer of this amount; and making payments from the National Health Funding Pool.

PROGRAMME DELIVERABLES

The programme deliverable is:

- Payments to the states and territories are made according to the payment arrangements specified in the Intergovernmental Agreement and the National Health Reform Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to the National Health Funding Pool the amount of Commonwealth funding to which each state and territory (including Local Hospital Networks in each jurisdiction) is entitled, and will make the payments on the dates specified in the Intergovernmental Agreement on Federal Financial Relations;
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made; and
- the states and territories are required to spend National Health Reform funding in the healthcare sector. Each state and territory Treasurer will provide a report to the Council on Federal Financial Relations demonstrating expenditure of National Health Reform funding within the sector is in accordance with the Intergovernmental Agreement on Federal Financial Relations and the National Health Reform Agreement.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in the delivery of healthcare services.

- Total expenses for National Health Reform funding were \$13.8 billion. Payments were paid into the National Health Funding Pool in accordance with each state and territory's monthly and annual entitlements, as per the Administrator's advice to the Treasurer.
- Payments were made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the states and territories prior to each payment being made.

To demonstrate that the National Health Reform funding has been spent within the relevant sector, each state and territory Treasurer will provide a report to the Council within six months of 30 June 2014, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAMME 1.6: ASSISTANCE TO THE STATES FOR SCHOOLS

PROGRAMME OBJECTIVE

The Government provides financial support for the states and territories through the National Schools Specific Purpose Payment (SPP) to be spent in the delivery of government and non-government school services.

This programme also has links to the Education portfolio.

Payments under this programme ended in December 2013. From January 2014, the National Schools SPP was replaced by Students First funding, which is provided for under the *Australian Education Act 2013* and is reported in the Education portfolio. The non-government schools component of the National Schools SPP (to December 2013) also appears in the Education portfolio.

PROGRAMME DELIVERABLES

The programme deliverable is:

- payments to the states and territories are made in accordance with the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each state and territory the amounts of their monthly and annual entitlements under the National Schools SPP (to December 2013), and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made; and
- the states and territories are required to spend the National Schools SPP in the schools sector. Each state and territory Treasurer will provide a report to the Council on Federal Financial Relations demonstrating expenditure of the National Schools SPP (government schools component) within the sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the states and territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in the delivery of government schools services.

- Total expenses under the National Schools SPP (government schools component) were \$2.1 billion. Payments were made in accordance with each state and territory's monthly and annual entitlements (to December 2013).

- Payments were made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the states and territories prior to each payment being made.

To demonstrate that the National Schools SPP (government schools component) has been spent in the relevant sector, each state and territory Treasurer will provide a report to the Council within six months of 30 June 2014, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAMME 1.7: ASSISTANCE TO THE STATES FOR SKILLS AND WORKFORCE DEVELOPMENT

PROGRAMME OBJECTIVE

The Government provides financial support for the states and territories to be spent in the delivery of skills and workforce development services.

This programme also has links to the Education and Industry portfolios.

PROGRAMME DELIVERABLES

The programme deliverable is:

- payments to the states and territories are made in accordance with the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each state and territory the amounts of their monthly and annual entitlements under the National Skills and Workforce Development SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made; and
- the states and territories are required to spend the National Skills and Workforce Development SPP in the skills and workforce sector. Each state and territory Treasurer will provide a report to the Council on Federal Financial Relations demonstrating expenditure of the National Skills and Workforce Development SPP within the sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the states and territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in the delivery of skills and workforce development services.

- Total expenses under the National Skills and Workforce Development SPP were \$1.4 billion. Payments were made in accordance with each state and territory's monthly and annual entitlements.
- Payments were made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the states and territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP has been spent in the relevant sector, each state and territory Treasurer will provide a report to the Council within six months of 30 June 2014, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAMME 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

PROGRAMME OBJECTIVE

The Government provides financial support for the states and territories to be spent in the delivery of disability services.

This programme also has links to the Social Services and Health portfolios.

From 2011-12, an adjustment is made to the National Disability SPP to ensure that the changes to Commonwealth and state roles and responsibilities for aged care and disability services, as part of the *National Health Reform* arrangements, are budget neutral.

PROGRAMME DELIVERABLES

The programme objective is:

- payments to the states and territories are made in accordance with the payment arrangements specified in the Intergovernmental Agreement.

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KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each state and territory the amounts of their monthly and annual entitlements under the National Disability Services SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made; and
- the states and territories are required to spend the National Disability Services SPP in the disability services sector. Each state and territory Treasurer will provide a report to the Council on Federal Financial Relations demonstrating expenditure of the National Disability Services SPP within the sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the states and territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in the delivery of disability services.

- Total expenses under the National Disability SPP were \$1.3 billion. Payments were made in accordance with each state and territory's monthly and annual entitlements.
- Payments were made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the states and territories prior to each payment being made.

To demonstrate that the National Disability SPP has been spent in the relevant sector, each state and territory Treasurer will provide a report to the Council within six months of 30 June 2014, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that an adjustment is made to the National Disability SPP to ensure that the changes to Commonwealth and state roles and responsibilities for aged care and disability services, as part of the National Health Reform arrangements, are budget neutral for participating jurisdictions.

PROGRAMME 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

PROGRAMME OBJECTIVE

The Government provides financial support for the states and territories to be spent in the delivery of affordable housing services.

This programme also has links to the Social Services and Health portfolios.

PROGRAMME DELIVERABLES

The programme deliverable is:

- payments to the states and territories are made in accordance with the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each state and territory the amounts of their monthly and annual entitlements under the National Affordable Housing SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made; and
- the states and territories are required to spend the National Affordable Housing SPP in the affordable housing sector. Each state and territory Treasurer will provide a report to the Council on Federal Financial Relations demonstrating expenditure of the National Affordable Housing SPP within the sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the states and territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in the delivery of affordable housing services.

- Total expenses under the National Affordable Housing SPP were \$1.3 billion. Payments were made in accordance with each state and territory's monthly and annual entitlements.
- Payments were made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the states and territories prior to each payment being made.

To demonstrate that the National Affordable Housing SPP has been spent within the relevant sector, each state and territory Treasurer will provide a report to the Council within six months of 30 June 2014, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAMME 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

PROGRAMME OBJECTIVE

The Government provides financial support for the states and territories to be spent on improving outcomes in the areas specified in each of the National Partnership agreements. These payments support the delivery of specified outputs or projects, facilitate reforms or reward those jurisdictions that deliver on nationally significant reforms.

This programme is linked to the following portfolios: Agriculture; Attorney-General's; Defence; Education; Environment; Finance; Foreign Affairs and Trade; Health; Industry; Infrastructure and Regional Development; Prime Minister and Cabinet; and Social Services. Also refer to Budget Paper No. 3, *Federal Financial Relations 2014-15*.

PROGRAMME DELIVERABLES

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The key programme deliverable is:

- Payments to the states and territories will be made on the basis set out in each of the National Partnership agreements and any related agreements.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will make payments to the states and territories that reflect the requirements, the amounts and timeframes set out in each of the National Partnership agreements and any related agreements. These payments will only be made upon the Commonwealth Treasury's receipt of authorisations from the relevant agency in respect of performance benchmarks or payment schedules set out in each of the National Partnership agreements; and
- the Commonwealth Treasury will provide advice to the states and territories on the components of each payment prior to each payment being made.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2013-14 financial support for the states and territories in improving outcomes in areas specified in National Partnership agreements.

Total Commonwealth expenses for National Partnership payments for 2013-14 were \$14.5 billion (\$12.1 billion was recognised as an expense by the Treasury), comprising:

- payments to support state health services of \$2.0 billion;
- payments to support state education services of \$0.9 billion;
- payments to support state skills and workforce development-related services of \$0.3 billion;
- payments to support state community services of \$1.0 billion;

- payments to support affordable housing services of \$0.8 billion;
- payments to support state infrastructure services of \$6.9 billion;
- payments to support state environmental services of \$0.5 billion;
- payments to support other state services of \$1.7 billion; and
- contingent payments to the states of \$0.4 billion.

Payments were made by the Treasury on advice from portfolio agencies, with amounts certified as being correct for payment by the agency's Chief Financial Officer or other authorised delegate.

Payments were made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

Advice was provided to the states and territories prior to each payment being made.

