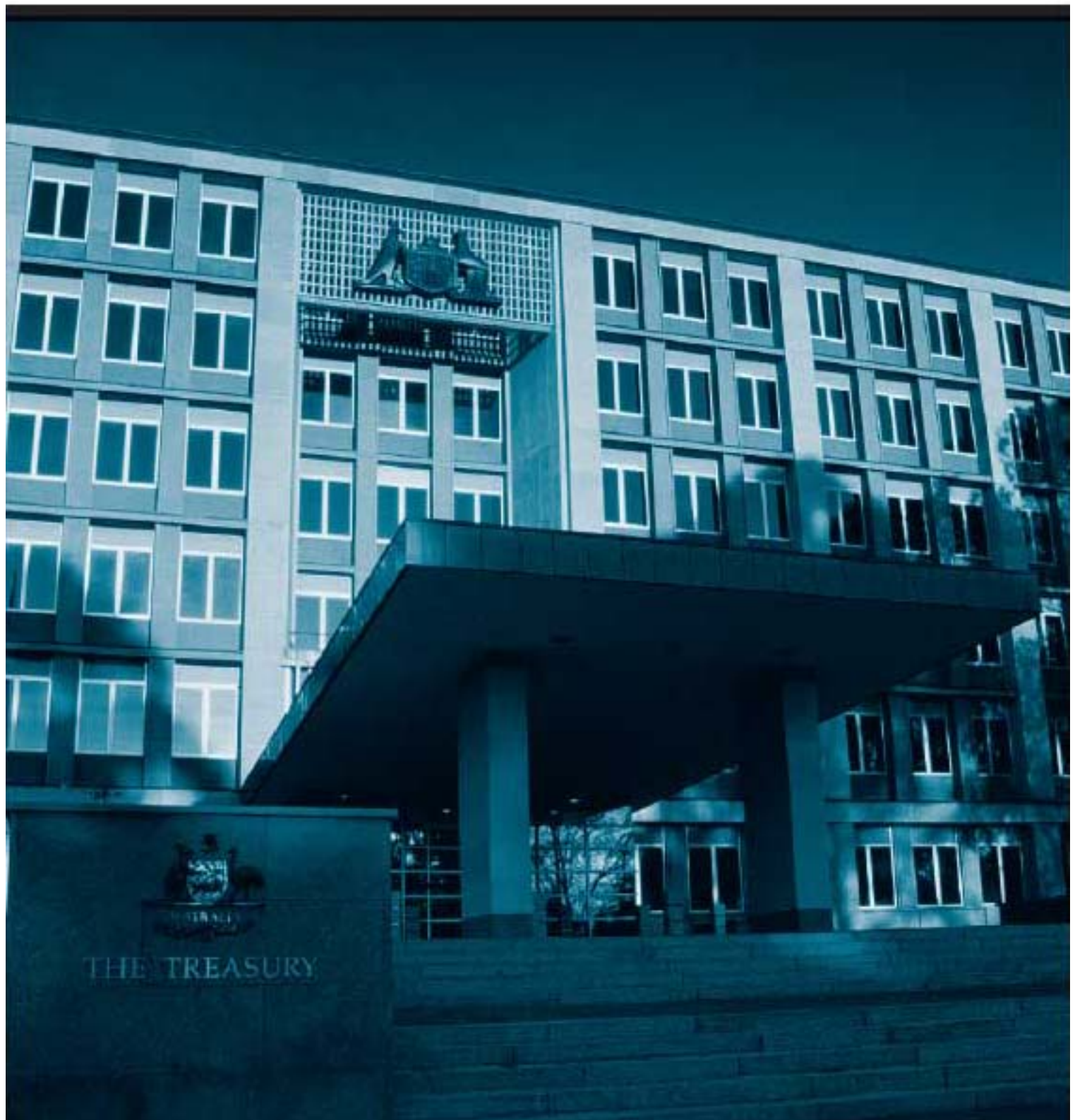




THE TREASURY ANNUAL REPORT
2001-02

OCTOBER 2002



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OFFICE OF THE SECRETARY
CANBERRA ACT 2600



THE TREASURY

11 October 2002

The Hon Peter Costello, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the Annual Report of the Treasury for the year ended 30 June 2002. The report has been prepared under section 63 of the *Public Service Act 1999*. Subsection 63 (1) of the Act requires that a Secretary of a Department provide a copy of the report to their Agency Minister for presentation to the Parliament.

As provided in subsection 63 (2) of the Act, the report has been prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit. These guidelines provide that a copy of the Annual Report be laid before each House of the Parliament on or before 31 October.

Yours sincerely

Ken Henry
Secretary to the Treasury



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Introduction and guide to the report

The 2001-02 Treasury Annual Report outlines performance against outcomes, outputs and performance information contained in the 2001-02 Portfolio Budget Statements.

The financial accounts presented in this report include the Royal Australian Mint. However, the performance reporting does not extend to the activities of that organisation which, although a division of the Treasury, is not budget-funded. Information in Part 3: Management and accountability and Part 5: Other statistical information (for example, staff numbers or expenditure on advertising) does not include information relating to the Mint unless expressly stated. The Mint publishes its own annual report.

Part 1 of this report includes the Secretary's review and an overview of Treasury's major outcomes during the year. The overview also outlines the changes in the organisation and senior management structure of Treasury and other significant management initiatives undertaken over the course of the year. Figures included in Part 1 depict the Treasury portfolio and departmental outcome and output structures, and the Treasury top management structure.

Part 2 of the report provides an analysis of performance against Treasury's policy outcomes. A review of Corporate Services Division performance is also provided in Part 2.

Part 3 reports on management and accountability issues as required under the Annual Report Guidelines.

Part 4 presents the audited financial status of the department as required under the annual report guidelines.

Part 5 of the report includes other statistical information required under the Annual Report Guidelines.

The report concludes with a list of abbreviations and acronyms and an index to the report and its appendices.

Other sources of information

Treasury releases information on its activities through many publications, press releases, speeches and reports including the annual report. Copies of all Treasury publications are available on our website at www.treasury.gov.au.

Inquiries

The contact officer to whom inquiries regarding this report may be directed is:

The General Manager
Corporate Services Division
The Treasury
Telephone: (02) 6263 3911
Fax: (02) 6263 2948

A copy of this document can be located on the Treasury website at: www.treasury.gov.au/annualreport.

Part 1

Overview



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Overview



Secretary's review

Overview

The Australian economy grew strongly in 2001-02, outpacing its major trading partners, many of which suffered recessions. Employment continued to grow at a moderate pace. Inflation remained within the target band. The resilience displayed by the economy owed much to supportive macroeconomic policy settings, within a framework of credible medium-term fiscal and monetary strategies, and to structural flexibility contributed by a sustained period of microeconomic reform.

We reviewed our organisational structure during the year, to improve our strategic capacity and to accommodate the transfer from the Australian Taxation Office of the tax legislative design function. The changes that have been implemented were designed to improve our responsiveness to government, improve the effectiveness of the leadership provided by the Executive Board, and enhance the capabilities of senior staff.

2001-02 Treasury highlights

Stronger growth in the Australian economy in 2001-02, of 3.8 per cent, reflected growth in residential construction and household consumption expenditure offset the decline in net exports associated with the weaker global economic environment and adjustment in the airline industry in Australia. Many trading partners experienced slower economic growth and the events of September 11 exacerbated the weakness in the US and the world economy: the world economy grew by 2.2 per cent in

2001, the slowest rate of growth in almost a decade. Inflation in Australia remained within the 2-3 per cent medium-term band. Growth in labour costs remained subdued and was accompanied by higher productivity. The terms of trade also improved. Employment growth moderated in 2001-02 although the unemployment rate declined through the year.

We provided the Government with assessments of the outlook and risks for the economy throughout the year and our analysis of macroeconomic developments underpinned the formulation of macroeconomic policy advice.

The resilience of the Australian economy reflected the support from fiscal and monetary policy that could be provided because of earlier implementation of credible medium-term fiscal and monetary strategies. Budgetary outcomes in 2001-02 were consistent with the objective of maintaining budget balance, on average, over the course of the economic cycle. This strategy allows for fiscal policy to respond to short-term economic fluctuations, such as those that occurred in 2001-02, to maintain economic growth in Australia. Monetary policy objectives also continued to be achieved, with low and stable inflation. Monetary policy responded, within the medium-term framework, to events during the year. After initially moving to a more expansionary stance as the international environment weakened after September 11, monetary policy was tightened a little in early 2002.



The weaker global economic environment provided impetus to international efforts to enhance crisis prevention and resolution. Progressing development of contractual and statutory approaches to sovereign debt restructuring was a key area of focus, and we participated actively in these discussions through its ongoing engagement with the international financial institutions and forums such as the G-20. In May 2002, we co-hosted with the Reserve Bank of Australia a workshop for G-20 members that explored the relationship between globalisation, living standards and inequality, including an assessment of recent progress and ongoing challenges. In addition, we made contributions to the economic policy dialogue in APEC and other regional forums.

The resilience of the Australian economy in 2001-02 was assisted by the gains from past microeconomic reform. We continued to provide advice on policy frameworks to ensure sustainable government finances and well-functioning markets, as well as on a range of specific issues and events throughout the year.

In the fiscal area, we produced the first Intergenerational Report, as required by the *Charter of Budget Honesty Act 1998*, as part of the 2002-03 Budget. The report provides a long-term perspective on the projected impact of demographic change on government finances over the next forty years. It establishes a baseline against which future policy choices can be assessed.

We implemented reforms to make retirement incomes more secure, attractive and accessible, and considered a diverse range of business taxation issues.

We also completed two major legislative projects in the areas of financial sector reform and corporations law during 2001-02.

The *Financial Services Reform Act 2001* commenced on 11 March 2002. It harmonises an improved regulatory regime for consumer protection and market integrity in the financial services industry. The passage of the new *Corporations Act 2001*, to support Australia's corporate regulatory framework, represented another major legislative task and involved negotiations with States to avert significant legal risks to Australia's business community.

We developed appropriate financial and performance reporting frameworks for the HIH Assistance Scheme, reviewed the cost and availability of medical indemnity insurance to develop reforms in this market, and enhanced prudential frameworks as a result of the passage of the *General Insurance Reform Act 2001*.

Our contribution to the public service was highlighted in 2001-02 through the participation of senior staff in service programs to develop leadership skills and increase the awareness of the broad framework for public policy.

Gary Potts, Executive Director, Markets Group, retired in February 2002. Gary made an extraordinary contribution to the Treasury and to public policy more generally, in a distinguished career. Gary joined the Treasury in February 1970. He worked in the Department of Finance from 1976 to 1984, and at Treasury, worked at SES level in the international area (including a three-year posting to Tokyo), taxation policy, and macroeconomic policy and forecasting. Gary was promoted to Deputy Secretary in 1993 and became Executive Director of Markets Group upon its creation in 1998.

Dr Jim Hagan was awarded the Public Service Medal in recognition of extraordinary leadership skills displayed as General Manager of the GST Start-up Assistance Office. The award also acknowledges Jim's significant contribution to public policy since joining the APS in 1983.



2001-02 portfolio highlights

Agencies within the Treasury portfolio completed a number of major projects during 2001-02 as well as taking on additional functions for the portfolio. Some of the highlights included the completion of the 2001 Census of Population and Housing by the Australian Bureau of Statistics; the establishment by the Australian Securities and Investments Commission of higher standards of compliance and capacity for financial services businesses; and the Productivity Commission's standing research responsibilities expanded to include support for the annual reporting of indicators of indigenous disadvantage.

2002-03 outlook

The outlook for the Australian economy remains positive and the medium-term prospects for growth continue to be healthy. A continuing challenge is to formulate appropriate policy settings in the face of global uncertainty and volatility. To address this challenge, we will continue to enhance our forecasting and modelling procedures, monitor closely national and international economic developments and assess the suitability of monetary and fiscal policy settings.

We will seek to improve advice on taxation matters by integrating the formulation of revenue policy and legislation, incorporating new consultation approaches, and reviewing approaches to legislation to seek greater clarity, certainty, consistency and compliance efficiency. Treasury will also be involved in the review of international taxation and the establishment of the office of Inspector-General of Taxation.

We will assist the Government in preparing the 2002-03 Mid-Year Economic and Fiscal Outlook and the 2003-04 Budget. It will be important to take further the issues raised by the Intergenerational Report, including those around population, participation and

productivity. We will also assist the Government in its review of debt management policy.

We will continue to progress matters related to the prudential supervision of financial institutions, particularly in the areas of general insurance and superannuation. This will include consideration of policy issues arising from the HIH Royal Commission. Somewhat related are a range of market access and pricing issues, including a review of the cost and availability of public liability insurance, medical indemnity insurance and insurance for terrorism.

We will coordinate the Government's response to the independent review of the competition provisions of the *Trade Practices Act 1974* and the review of the law of negligence. Ongoing work on the Corporate Law Economic Reform Program will continue to streamline document lodgment requirements, consider cross-border insolvency laws and review audit regulation and the wider corporate disclosure framework.

From 1 July 2002, we have been operating with four policy groups — Fiscal, Macroeconomic, Markets, Revenue. This new structure provides a better alignment of our capabilities with the Government's strategic policy objectives.

Finally, I wish to express my sincere thanks to all Treasury staff for their hard work and dedication to public service throughout the year.

Ken Henry
Secretary to the Treasury

Departmental overview

Treasury's mission

Treasury's mission is to improve the wellbeing of the Australian people by providing sound and timely advice to the Government, based on objective and thorough analysis of options, and by assisting Treasury ministers in the administration of their responsibilities and the implementation of government decisions.

Policy outcomes

In carrying out its mission, Treasury has regard to the following policy outcomes:

- sound macroeconomic environment;
- effective government spending and taxation arrangements; and
- well-functioning markets.

Outcome 1: Sound macroeconomic environment

A sound macroeconomic environment is an essential foundation for strong sustainable economic growth and the improved wellbeing of Australians. It is characterised by stable prices, low interest rates, healthy economic and employment growth, and a sustainable external position.

As many influences on macroeconomic outcomes are beyond the control of the Government, policy aims to improve the prospects of the Australian economy, rather than to target specific outcomes or major economic indicators. Success is judged more by medium to long-term performance relative to Australia's past and to other countries, rather than by particular results in any year.

Treasury aims to contribute to a sound macroeconomic environment through the delivery of the following outputs:

- ongoing development of a deep understanding of the operations of the Australian economy and how government action might influence it;
- monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy; and
- providing strategic influence on Australia's, and assisting portfolio ministers in their, international interactions.

Economic Group is responsible for the outputs associated with Outcome 1.

Outcome 2: Effective government spending and taxation arrangements

Government spending and taxation arrangements contribute to the overall fiscal outcome and also influence strong sustainable economic growth and the improved wellbeing of Australians.

Spending measures should be effective in meeting their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs, thus contributing to the wellbeing of Australians. Taxation measures should meet revenue objectives (or other public policy objectives) and have regard to the principles of economic efficiency, horizontal and vertical equity, certainty and transparency, whilst minimising compliance and administrative costs. By meeting these objectives, taxation measures contribute to wellbeing, either directly



or by providing the revenue base to finance government services.

Ongoing advice from Treasury to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions. Treasury does this by:

- monitoring and advising on the effective operation of the tax system;
- putting together the Budget as the key strategic government planning and resource allocation tool of the Government;
- providing high quality input into government consideration of expenditure programs; and
- advising on the effective financial operations of government collectively in Australia (including in relation to Commonwealth debt management).

Budget Group is responsible for the outputs associated with Outcome 2.

Outcome 3: Well-functioning markets

Well-functioning markets contribute to the achievement of high sustainable economic and employment growth and the wellbeing of Australians, by enabling resources to flow to those parts of the economy where they can be used most productively.

Well-functioning markets operate when investors and consumers have confidence and certainty about the regulatory framework and can make decisions that are well informed and free of market distortions and impediments.

Treasury provides advice on policy processes and reforms that promote a secure financial system and sound corporate practices, remove

impediments to competition in product and services markets and safeguard the public interest in matters such as consumer protection and foreign investment. This includes advice on the efficacy of alternative forms of regulation and enforcement over time. The effective implementation and communication of the Government's position also is critical to achieving this outcome.

Markets Group is responsible for the outputs associated with Outcome 3.

Treasury services

The policy priorities for the Treasury are shaped by the Government's policy objectives associated with each policy outcome. This requires Treasury to:

- service its ministers' needs for advice and assist with current issues;
- understand the broader framework within which policy issues will arise, and advise ministers of developments and implications in a timely manner; and
- be strategic in identifying and leading the management of policy issues, including influencing the broader debate on issues.

Treasury's prime output in doing so is the provision of policy advice to its ministers. The key services that underpin Treasury's outputs include:

- advice on policy development;
- quantitative analysis;
- policy implementation and legislation development;
- public information and understanding; and

- administration of legislation and programs.

Treasury usually works with other agencies and departments so the particular role of Treasury, and indeed each group, in relation to each service, can vary across different fields of policy work.

The delivery of Treasury's services is undertaken in accordance with Treasury's people values, embodied in Treasury's Performance Management System and the APS values framework more generally.

Organisational focus

Treasury seeks to carry out its mission by:

- maintaining effective liaison with portfolio ministers and their offices and with other government departments;
- maintaining extensive contact with other levels of government, research institutes and interest groups;
- giving priority in operational arrangements to identifying important emerging issues, undertaking longer-term research and ensuring regular internal discussion of key policy issues;
- creating an environment for better informed public debate by explaining the Government's policy settings and views on economic conditions;
- fostering a consultative management culture within the department;
- efficiently organising departmental resources to provide high quality, relevant and timely advice;

- promoting continuous improvement, including staff management, development and skills enhancement; and
- undertaking internal and external review and evaluation of strategies, processes and outcomes.

Key skills

Treasury needs a range of skills to deliver effectively the services required by the Treasury ministers. These include:

- a deep understanding of the operation of the economy and of the workings and priorities of government, and associated interrelationships;
- a capacity to conceptualise and analyse individual issues within this broad context;
- an ability to analyse issues from a broad public interest perspective, taking account of a wide range of information available;
- knowledge of the likely effects of policy choices (drawing on an authoritative understanding of economic, budgetary, social, cultural, political and compliance implications of change); and
- the ability to assist ministers in making sustainable judgements, including through clear and well thought out communication.

Key relationships

For the Treasury to be effective as a central portfolio department, it must foster productive working relationships across government and non-government sectors. These relationships need to be cultivated and maintained.

Treasury's most important relationship is with the Treasury ministers, built through effective service delivery. Effective service delivery, however, relies on other key relationships.



Strong, working relationships with the ministers' offices and other departments, as well as other parts of the Treasury portfolio, including Australian Taxation Office, Australian Bureau of Statistics and regulatory authorities, are imperative to effectively developing and communicating policy advice. Relationships with the States and community groups, including the business sector, also are important to develop trust and credibility in the community and gain the breadth of knowledge and differing perspectives required to undertake policy analysis.

Looking beyond the domestic setting, Treasury also needs to continually build links internationally including through the foreign posts and involvement in international forums.

Treasury people values

Treasury people management principles

- There will be open, two-way communication at all levels.
- Accountabilities will be clearly defined.
- Remuneration will be based on work performance and determined by fair and transparent processes.
- Staff will be assisted in achieving appropriate work and private life balance.

Treasury people

- Strive for excellence.
- Value teamwork, consultation and sharing ideas.
- Value diversity among our people.
- Treat everyone with respect.
- Exhibit honesty in all our dealings.
- Treat colleagues with fairness.

Table 1: Treasury financial and staffing resources summary

	Budget 2001-2002 \$'000	Actual 2001-2002 \$'000	Budget 2002-2003 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	12,000	9,064	164,084
Appropriation Acts Nos. 2/4	447,098	446,819	44,702
Advance to the Finance Minister	52,460	52,460	-
Special appropriations	30,687,062	31,495,797	31,886,715
Other expenses	-	514,749	-
Total administered expenses	31,198,620	32,518,889	32,095,501
Revenue from Government			
Output group 1.1 - Economic	20,239	20,314	18,928
Output group 2.1 - Budget	34,909	32,884	49,791
Output group 3.1 - Markets	32,261	34,489	30,065
Total revenue from Government contributing to price of departmental outputs	87,409	87,687	98,784
Revenue from other sources			
Output group 1.1 - Economic	504	606	431
Output group 2.1 - Budget	1,749	1,994	2,030
Output group 3.1 - Markets	31,557	66,998	44,463
Total revenue from other sources	33,810	69,598	46,924
Total revenue for departmental outputs (Total revenues from Government and other sources)	121,219	157,285	145,708
Price of departmental outputs			
Output group 1.1 - Economic	20,743	19,460	19,359
Output group 2.1 - Budget	36,658	29,730	51,821
Output group 3.1 - Markets	63,818	96,624	74,528
Total price of departmental outputs	121,219	145,814	145,708
Total estimated resourcing (Total price of outputs and administered expenses)	31,319,839	32,664,703	32,241,209
Average staffing levels (number)	684	661	795

Note:

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

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

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

Figure 1: Treasury portfolio outcome structure (as at 30 June 2002)

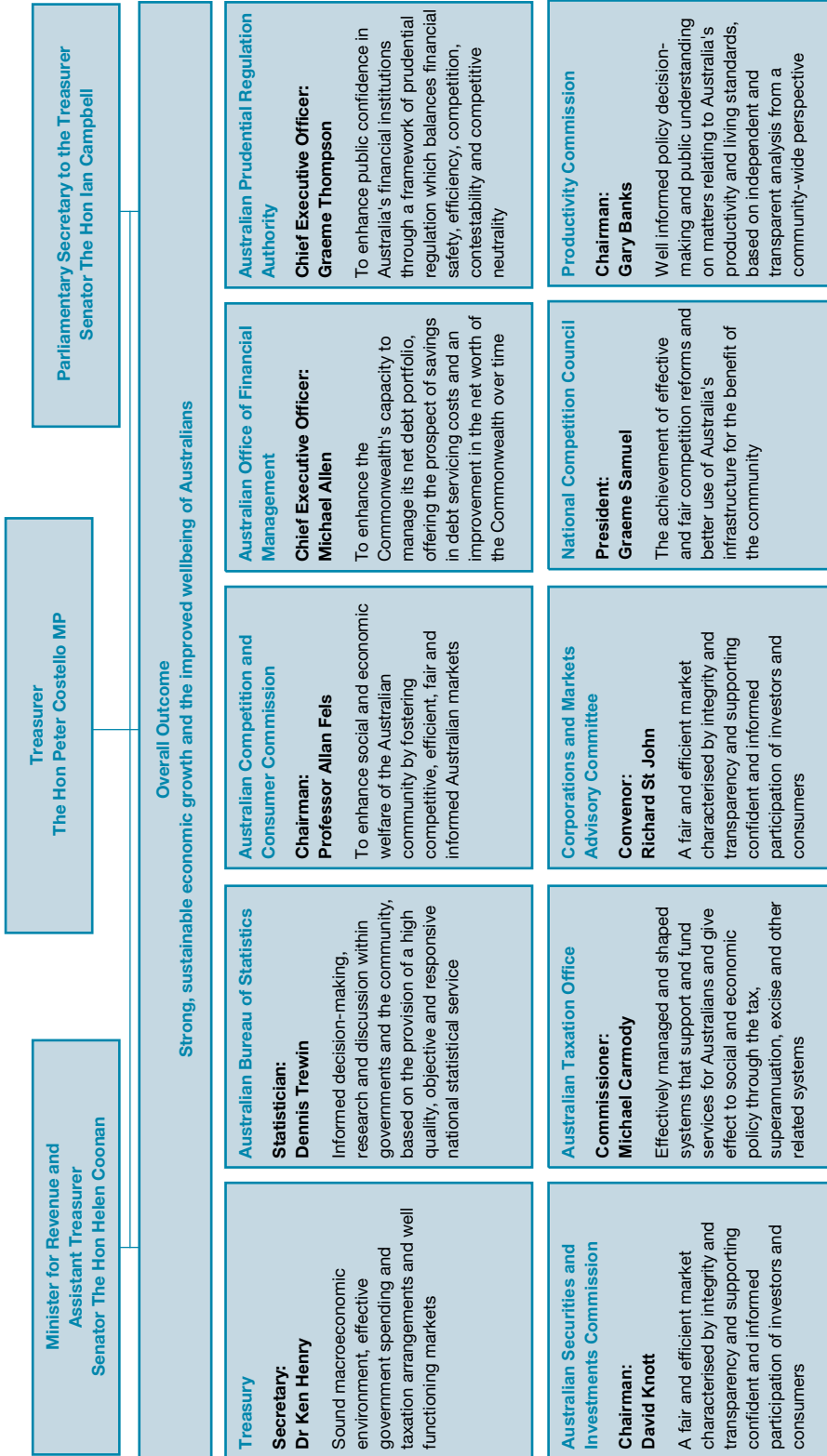


Figure 2: Portfolio output structure (as at 30 June 2002)

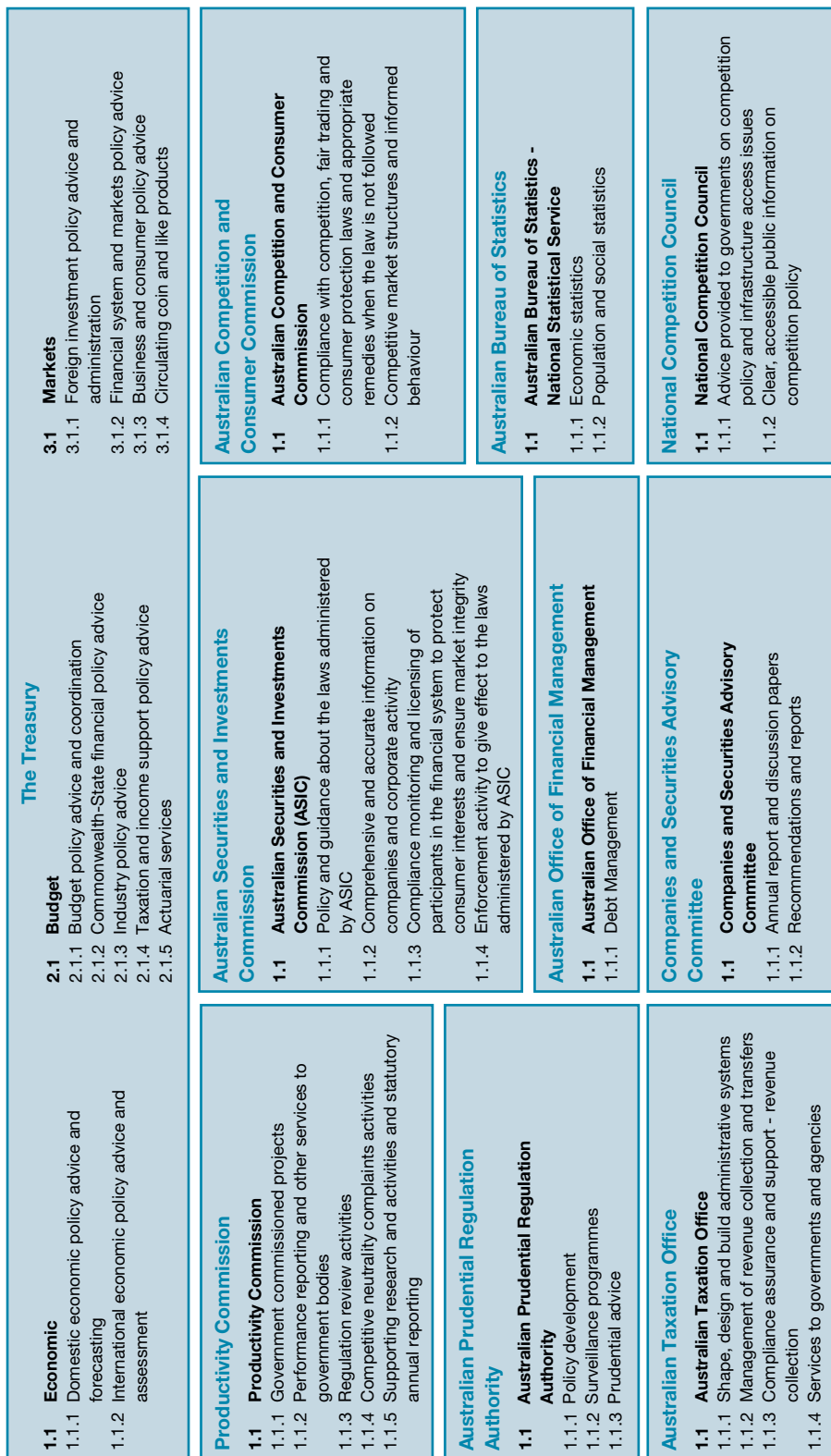


Figure 3: Treasury output structure (as at 30 June 2002)

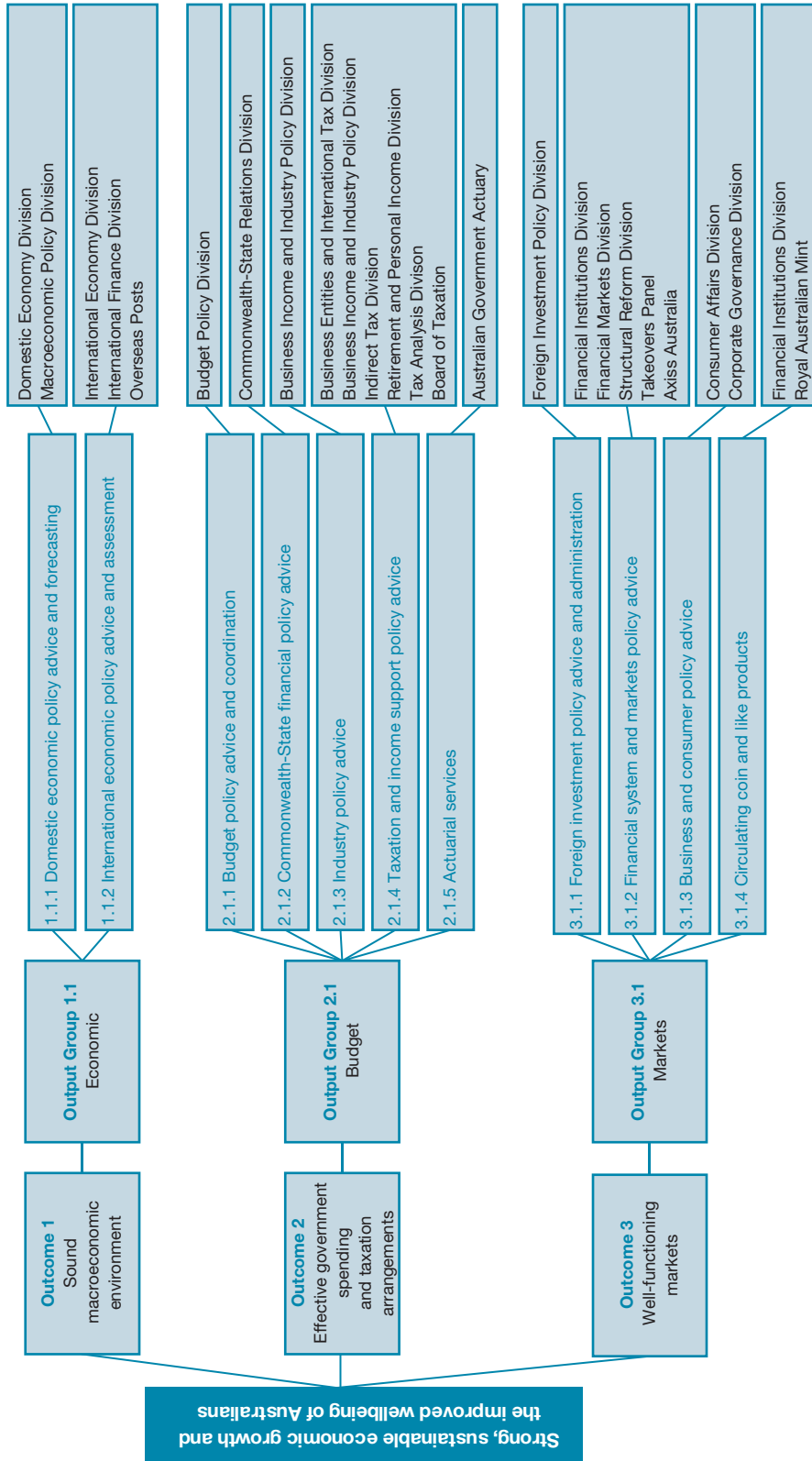


Figure 4: Treasury top management structure (as at 30 June 2002)

Secretary: Ken Henry Chief Advisor: Richard Murray	
Economic Group: Executive Director Martin Parkinson	
Chief Advisor, International: Veronique Ingram Specialist Advisor, International: Terry O'Brien Specialist Advisor, Group Strategy and Coordination: Peta Furnell Domestic Economy General Manager: Paul O'Mara Specialist Advisor Forecasting: Paul Lindwall (A/g) International Economy General Manager: Chris Legg International Finance General Manager: Maryanne Mrakovcic Macroeconomic Policy General Manager: Blair Comley	Washington Minister-Counsellor (Economic) Janine Murphy London Counsellor (Economic) Olaf Schuermann Paris Minister-Counsellor (Economic) Paul Tilley Tokyo Minister-Counsellor (Economic) Brenda Berkeley Beijing Minister-Counsellor (Financial) Michael Willcock Jakarta Counsellor (South East Asia Financial) Mike Waslin
Budget Group: Executive Director Greg Smith	
Chief Advisor, Taxation: Paul McCullough Budget Policy General Manager: Paul Grimes Commonwealth-State Relations General Manager: Jan Harris Business Entities and International Tax General Manager: David Martine Business Income and Industry Policy General Manager: David Tune Indirect Tax and payment Design General Manager: Tim Pyne (A/g)	Retirement and Personal Income General Manager: Roger Brake Tax Analysis Division General Manager: John Lonsdale Manager Specialist, Retirement and Income Modelling: Phil Gallagher Board of Taxation Secretariat Secretary: Murray Edwards Australian Government Actuary Australian Government Actuary: Peter Martin Actuary: Michael Burt, Susan Antcliff
Markets Group: Executive Director John Jepsen (Acting)	
Consumer Affairs General Manager: John Hill (A/g) Corporate Governance General Manager: Rob Heferen Financial Institutions General Manager: Lynne Curran Financial Markets General Manager: Nigel Ray Foreign Investment Policy General Manager: Jim Hagan	Structural Reform General Manager: Stewart Jones (A/g) Chief Advisor: Tony Hinton Axiss Australia Chief Executive Officer: Les Hosking HIH Royal Commission Task Force General Manager: Steve French Takeovers Panel Director: Nigel Morris
Corporate Services: General Manager Ian Robinson	
Accounting and Financial Management Chief Financial Officer: John Coleman Contracts, Audit and Facilities Management Manager: Graham Smith Human Resources Manager: Pamela Henderson Information Management Manager: Geoff De La Motte	IT Training and Publications Manager: Anne Fornasiero Liaison Manager: Peter Coan Specialist Adviser, Legal Andrew Buckland Market Testing Team Manager: Bede Fraser

Part 2

Report on performance



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REPORT ON PERFORMANCE

Report on performance

Report on performance

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

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

Treasury's 2001-02 performance is reported at the outcome and output levels for its three policy outcomes:

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

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

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

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

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

Outcome 1

Sound macroeconomic environment

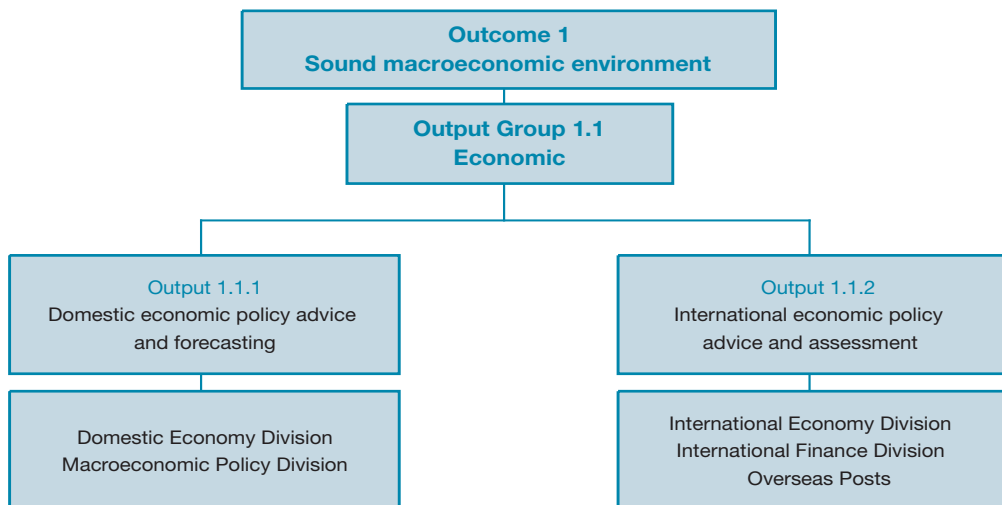
Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

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

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

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

Figure 5: Outputs contributing to Outcome 1





Key priorities in 2001-02

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

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

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

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

Key outcomes in 2001-02

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

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

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

and the establishment of cooperative relationships.

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

Table 2: Financial and staffing resources summary for Outcome 1

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

Notes:

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

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

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

Output 1.1.1 Domestic economic policy advice and forecasting

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

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

Performance information

Performance indicators for Output 1.1.1

Advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound domestic economy.

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

Analysis of performance

Policy advice and inputs into policy processes

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

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

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

Economic forecasts

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

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

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

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

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

- The forecast for headline inflation was revised up from 2 to 2¼ per cent in the Mid-Year Economic and Fiscal Outlook, in line with the eventual outcome for the year. This reflected one-off factors such as higher insurance premiums, electricity prices, meat prices and domestic airline fares, rather than ongoing inflationary pressures.
- Average employment growth forecasts for 2001-02 were revised down slightly in the Mid-Year Economic and Fiscal Outlook from 1 to ¾ of one per cent, mainly reflecting the weakness in the global economy and lower business and consumer confidence. Consistent with the more resilient outcome for economic activity, employment grew by 1 per cent in 2001-02, slightly stronger than had been expected in the Mid-Year Economic and Fiscal Outlook.
- The 2002-03 Budget contained revised estimates of the outcomes for 2001-02, a fully elaborated set of forecasts for 2002-03 and projections for key parameters in the three years to 2005-06. These forecasts and projections will influence economic policy in the future, which will help in maintaining a sound domestic economy.
- At the time of the 2002-03 Budget the final outcome for gross domestic product growth in 2001-02 was not known. Based on the information available, economic growth in 2001-02 was expected to be 3¼ per cent, reflecting the Australian economy's

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

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

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

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

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

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

Contributions to public awareness and debate

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

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

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

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

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

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

The media and market commentators drew extensively on discussions in the Mid-Year Economic and Fiscal Outlook and Budget papers. The reports contributed significantly to public debate on economic issues, and helped increase public awareness on the Australian economy's performance, both in the recent past and prospects in the future.

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

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

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

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

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

Reviews of economic data

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

Output 1.1.2 International economic policy advice and assessment

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

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

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



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

Performance information

Performance indicators for Output 1.1.2

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

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

Analysis of performance

Facilitation of government objectives in international forums

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

International developments

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

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

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

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

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

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

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

International Monetary Fund

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

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

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

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

United Nations Conference on Financing for Development

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

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

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

Heavily Indebted Poor Countries Initiative and Bilateral Debt Relief

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

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

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

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

World Bank

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

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

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

Asian Development Bank

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

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

European Bank for Reconstruction and Development

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

The Group of Twenty

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

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

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



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

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

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

Manila Framework Group

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

Manila Framework Group in Auckland on 4-5 December.

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

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

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

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

Financial Stability Forum

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

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

Four Markets Group

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

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

Asia-Pacific Economic Cooperation Finance Ministers

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

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

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

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

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

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

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

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

Investment Experts Group

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

Economic Committee

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

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

Relations with Asia

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

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

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

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

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

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

Papua New Guinea

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

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

following the first such placements in early 2001.

Relations with Pacific Economies

South Pacific Forum Economic Ministers' Meeting

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

Organisation for Economic Co-operation and Development

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

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

Policy advice

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

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

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

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

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

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

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

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

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

The International Economic Policy Group

Treasury continued to play an active role in the International Economic Policy Group, which remained instrumental in maintaining a coordinated whole-of-government approach to international economic developments and consideration of relevant policy issues. The group meets approximately every six weeks, or as needed. It comprises high-level officers from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury and the Reserve Bank of Australia, with other departments attending as required.

Outcome 2 Effective government spending and taxation arrangements

Effective government spending and taxation arrangements are crucial to achieving the Government's economic objectives and the wellbeing of Australians. Budget Group focused on the Government's direct activities, its spending programs, industry assistance, funding of other levels of government and use of taxation powers. Treasury advice to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions.

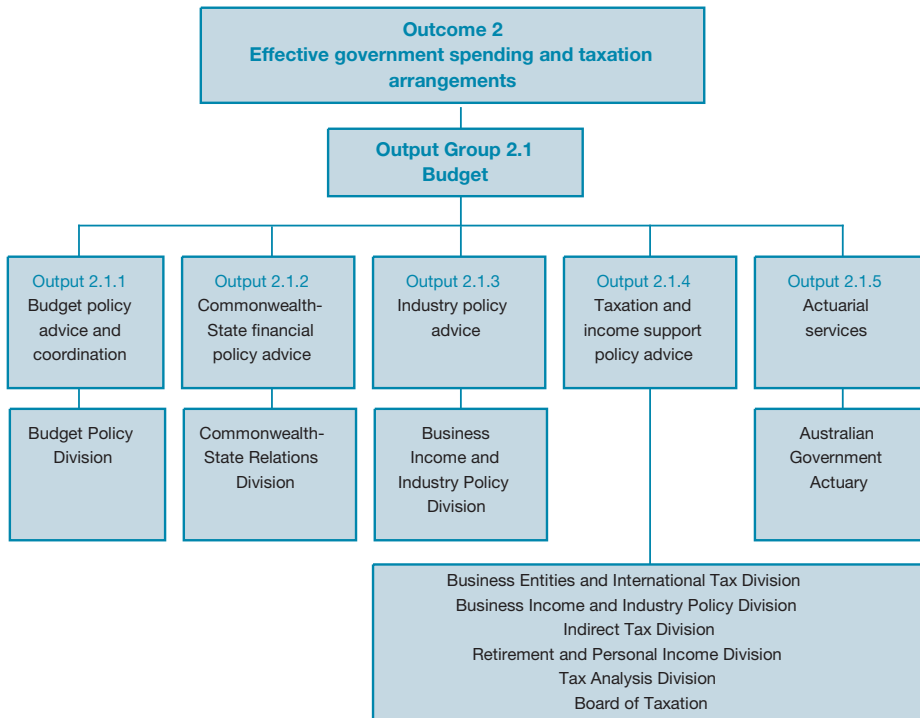
During 2001-02, Treasury devoted significant resources to implementing the Government's taxation reform agenda. The year also saw further development in budget policy processes, Commonwealth-State financial relations

and the implementation of election policy commitments.

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

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

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



Key priorities in 2001-02

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

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

Key outcomes in 2001-02

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

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

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



Table 3: Financial and staffing resources summary for Outcome 2

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

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

Notes:

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

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

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

Output 2.1.1 Budget policy advice and coordination

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

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

Performance information

Performance indicators for Output 2.1.1

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to assessments of the budget position and outlook, and budget strategy.

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

Analysis of performance

Advice on the budget outlook

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

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

Final budget outcome for 2000-01

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

Budget forecasts

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

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

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

Taxation revenue estimates

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

Final taxation outcome for 2000-01

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

Budget taxation forecasts for 2001-02

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

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

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

Intergenerational Report

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

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

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

Program analysis and policy advice

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

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

Budget publications

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

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

In general terms, Treasury is primarily responsible for preparing budget documentation on:

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

The Government's budget reporting requirements are set out in the *Charter of Budget Honesty Act 1998*. These requirements are consistent with leading international practice. To help achieve better fiscal outcomes, the Charter promotes:

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

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

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

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

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

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

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

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

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

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

Tax Expenditures Statement

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

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

Output 2.1.2 Commonwealth-State financial policy advice

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

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

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

Performance information

Performance indicators for Output 2.1.2

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

Payments to State and Territory governments:

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

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

Analysis of performance

Advice on reform of Commonwealth-State financial relations

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

The Ministerial Council for Commonwealth-State Financial Relations

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

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

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

Heads of Treasuries

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

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

GST Administration Sub-committee

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

Specific Purpose Payments

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

The First Home Owners Scheme

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



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

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

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

Payments to the States and Territories

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

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

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

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

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

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

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

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

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

Budget publications

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

Output 2.1.3 Industry policy advice

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

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

Performance information

Performance indicators for Output 2.1.3

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

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

Analysis of performance

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

Advice on industry policy

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



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

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

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

Advice on regional policy

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

Advice on environment policy

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

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

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

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

importance of environmental sustainability for intergenerational equity.

Publications

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

Output 2.1.4 Taxation and income support policy advice

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

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

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

Performance information

Performance indicators for Output 2.1.4

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

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

Analysis of performance

Taxation and income support policy

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

The New Business Tax System

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

Demergers

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

Consolidation

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



Imputation system

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

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

Taxing of financial arrangements

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

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

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

Tax value method

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

Statutory effective life caps for certain classes of assets

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

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

Other measures

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

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

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

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

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

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

Other business tax policy advice Timor Sea Treaty

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

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

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

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

Research and development tax concession

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

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

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

Tax incentive for film production

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

Review of international taxation arrangements

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

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

Double tax agreements

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

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

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

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

Venture capital

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

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

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

Triangular taxation

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

Prepayment rule for investors in plantation forestry

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

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

Personal tax

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

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

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

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

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

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

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

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

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

A Better Superannuation System

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

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

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

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

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

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

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

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

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

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

Treasury also advised the Government on:

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

1993 and certain other superannuation legislation;

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

GST and indirect taxation measures

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

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

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

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

Treasury also provided input to policy measures, including:

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

contributions made by developers as part of government planning processes;

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

Inspector-General of Taxation

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

Other policy advice

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

Community consultation

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

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

Publications

Budget documents

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

Informing the public on personal taxation and superannuation policies

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

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

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

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

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

GST and indirect taxation measures publications

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

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

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

Inspector-General of Taxation

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

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

Output 2.1.5 Actuarial services

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

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

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

Performance information

Performance indicators for Output 2.1.5

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

Analysis of performance

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. Income, including funding under an agreement with Treasury to directly fund policy advising work, should cover total costs.

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

Consultancy services

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

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

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

Services to Treasury

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

The funding Treasury provided for this work accounted for around 15 per cent of the office's total revenue for the year.

Operational outcomes

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

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

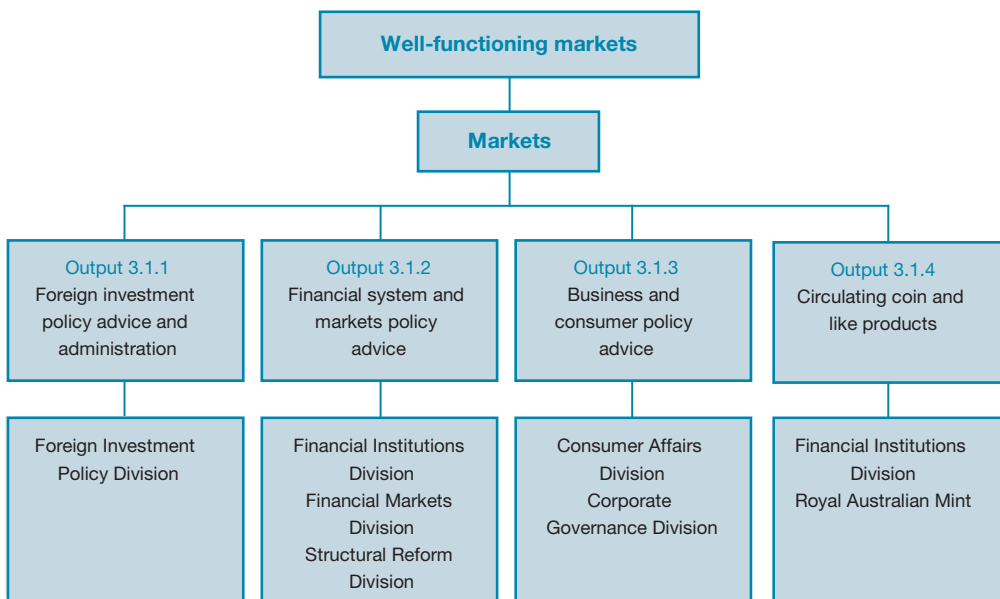


Outcome 3 Well-functioning markets

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

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

Figure 7: Outputs contributing to Outcome 3



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

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

Key priorities in 2001-02

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

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

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

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

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

Key outcomes in 2001-02

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

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

- Treasury responded to the events of September 11 by participating in the Government's efforts to fight money laundering and suppress terrorist financing.

- The *Financial Services Reform Act 2001* became effective from 11 March 2002, harmonising and streamlining the regulatory regime for the financial services industry, creating a more effective consumer protection framework and providing an improved platform for growth and global competition.

- A federalised corporate regulatory framework, based on a referral of legislative power from the States, began operation in July 2001. By 30 June 2002, the States and the Northern Territory could execute the new agreement because they all had their Cabinet or Premier's approval.

- Treasury representatives contributed to the work by the OECD Steering Group on Corporate Governance and the related experts group on combating the use of corporate vehicles for illicit purposes, and on developing a model legislative guide for domestic insolvency laws by the United Nations Commission on International Trade Law.

- The Government released Professor Ramsay's report on *Independence of Company Auditors* in October 2001. Subsequently, Treasury began a review of audit regulation and the wider corporate disclosure framework as Phase 9 of the Government's Corporate Law Economic

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



Table 4: Financial and staffing resources summary for Outcome 3

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

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

Notes:

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

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

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

Output 3.1.1 Foreign investment policy advice and administration

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

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

Performance information

Performance indicators for Output 3.1.1

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

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

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

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

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

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

Analysis of performance

Treasury advice

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

International forums

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

Free Trade Agreements/Closer Economic Cooperation

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

Organisation for Economic Co-operation and Development

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

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

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

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

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

Asia-Pacific Economic Cooperation

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

Liaison with Department of Foreign Affairs and Trade

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

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

Processing of proposals

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

Improving standards

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

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

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

Compliance

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

Output 3.1.2 Financial system and markets policy advice

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

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

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



Performance information

Performance indicators for Output 3.1.2

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

Effective progress in developing Australia as a financial centre.

Effective presentation of relevant information to adequately inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

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

Analysis of performance

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

Structural reform

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

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

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

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

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

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

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

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

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

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

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

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

Financial markets

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



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

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

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

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

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

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

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

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

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

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

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

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

Financial institutions

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

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

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

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

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

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

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

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



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

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

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

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

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

Axis Australia

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

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

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

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

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

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

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

Output 3.1.3 Business and consumer policy advice

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

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

Performance information

Performance indicators for Output 3.1.3

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

Effective presentation of relevant information to adequately inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

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

Analysis of performance

Business and consumer affairs policy

Consumer affairs

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

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

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

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

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

Company law and corporate governance

Corporate Law Economic Reform Program 7

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

Corporate Law Economic Reform Program 8

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

Ramsay Report and Corporate Law Economic Reform Program 9

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

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

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

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

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

Federalisation of the corporations legislation

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

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

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

Informing public debate

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

Consumer Information Program

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

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

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

Electronic commerce

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

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

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

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

Statutory and other procedural requirements

Appointments

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

Names applications

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

Notification of voluntary recalls

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

Regulation Impact Statements

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

Secretariat services

Ministerial Council on Consumer Affairs

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

Commonwealth Consumer Affairs Advisory Council

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

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

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

Financial Reporting Council

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

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

National Review of Home Builders Warranty Insurance and Consumer Protection

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

Representation

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

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

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

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

Business law dialogue with New Zealand

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

International corporate governance

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

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

International insolvency

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



International partnerships

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

Liaison

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

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

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

OECD Committee on consumer policy

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

Output 3.1.4 Circulating coin and like products

Royal Australian Mint

Overview

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

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

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

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

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

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

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

Corporate services

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

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

Key priorities in 2001-02

Key corporate priorities identified in 2001-02 were to:

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

functions associated with Ministerial liaison; and

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

Key outcomes in 2001-02

Outcomes relating to the above priorities are;

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

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

Part 3

Management and accountability



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Management and accountability

Corporate governance

Corporate governance practices in Treasury are designed to ensure efficient, effective and ethical use of Treasury's resources, as well as compliance with statutory and other external requirements aimed at achieving sound administrative and financial management practice.

Key aspects of Treasury's corporate governance practices include:

- clearly established role accountabilities, including clear delegations of authority and responsibilities;
- the planning and monitoring of outputs; and
- the monitoring of the department's resource usage, based on budgeting, financial accounting, audit, fraud control, risk management and other reporting systems.

The Executive Board is the primary decision-making body. The Audit Committee is the other body that ensures accountability.

Role and responsibilities

The Treasury Management Model sets out the role accountabilities of the five levels of the Treasury management structure. In summary, Treasury management levels and primary role accountabilities are:

- Secretary — accountable for the management and strategic leadership of the department;

- Executive Director — accountable for the management and strategic leadership of the group;
- General Manager — accountable for the management and strategic leadership of the division;
- Manager — accountable for the management and leadership of the unit; and
- Specialist and Analysts — accountable for the provision of specialist advice and leadership of teams.

Details of Treasury's management structure is set out in Figure 4.

The Executive Board

Treasury's Executive Board comprises the Secretary, the Executive Directors and the General Manager, Corporate Services. The Executive Board is responsible for high-level policy issues relating to the strategic leadership and management of the department, including:

- organisational development — shaping the future of the department;
- policy development and coordination — involving major and/or new economic policy issues, generally with implications that involve more than one group;
- corporate governance — ensuring the efficient, effective and ethical use of resources; and

- planning and allocating resources — meeting current and future work priorities.

Meetings of the Executive Board are generally held fortnightly, although the Board meets more frequently when circumstances require.

Executive Board members as at 30 June 2002

Dr Ken Henry

Secretary to the Treasury

Martin Parkinson

Executive Director
Economic Group

Greg Smith

Executive Director
Budget Group

Nigel Ray

Executive Director (A/g)
Markets Group

Ian Robinson

General Manager
Corporate Services Division

Committee met 11 times in 2001-02 with regular meetings of the Financial Statements Subcommittee conducted separately. Treasury's external and internal auditors participate as observers at Audit Committee and subcommittee meetings.

Audit committee members as at 30 June 2002

Martin Parkinson (Chair)

Paul Grimes (Deputy Chair)

Ian Robinson

Steve French

Rob Heferen

David Martine

Maryanne Mrakovcic

Graeme Moffatt

John Coleman

Graham Smith

Andrew Alexander

Peter Bell (Observer)

Trevor Burgess (Observer)

Michael White (Observer)

Audit committee

The Audit Committee functions as a forum of review of audit issues by:

- supporting and enhancing the control framework;
- ensuring the objectivity and reliability of published financial information; and
- assisting the Secretary to comply with all legislative and other obligations.

The committee is chaired by an Executive Director and comprises at least one senior executive from each of Treasury's Groups, the General Manager, Corporate Services Division and the Chief Financial Officer. The Audit



External representation

In 2001-02, the following senior Treasury officers were members of various committees, boards and other bodies.

Ken Henry, Secretary to the Treasury: member, by legislation, of the Board of the Reserve Bank of Australia; alternate Governor of the International Monetary Fund for Australia; chair of the Australian Office of Financial Management Advisory Board; and, ex-officio member of the Board of Taxation.

Martin Parkinson, Executive Director, Economic Group: member of the Australian Office of Financial Management Advisory Board; Australian Statistics Advisory Council; School of Economics Advisory Board; University of Adelaide; and Australia's deputy to the International Monetary and Finance Committee and Asia-Pacific Economic Cooperation (APEC).

Gary Potts, Executive Director, Markets Group until December 2001: chair of the Regulatory Advisory Committee; chair of the Royal Australian Mint Advisory Board; member of the Financial Reporting Council; and Secretary to the Financial Sector Advisory Council.

John Jepsen, Acting Executive Director, Markets Group from December 2001 to April 2002: chair of the Regulatory Advisory Committee; chair of the Royal Australian Mint Advisory Board; member of the Financial Reporting Council; and Secretary to the Financial Sector Advisory Council.

Nigel Ray, Acting Executive Director, Markets Group from April 2002: chair of the Regulatory Advisory Committee; chair of the Royal Australian Mint Advisory Board; member of the Financial Reporting Council; and Secretary to the Financial Sector Advisory Council.

Les Hosking, Chief Executive Officer, Axiss Australia: member of Finance Sector Advisory Council, Chairman of Financial Sector Advisory Council Task Force for Australia as a Financial Centre; and member of the Regulation Advisory Committee.

Susan Antcliff, Actuary, Australian Government Actuary: member, Public Awareness Council Committee of the Institute of Actuaries of Australia.

Michael Burt, Actuary, Australian Government Actuary: member of Private Health Insurance Advisory Board.

Joseph Castellino, Analyst, Commonwealth-State Relations Division: member of the GST Administration Performance Agreement Working Group.

Stephen Chambers, General Manager, Business Development, Axiss Australia: member of the Securities Institute of Australia, International Advisory Committee.

Blair Comley, General Manager, Macroeconomic Policy Division: member of the Australian Bureau of Statistics Labour Statistics Advisory Group; and member of the Unemployment SPIRT¹ Advisory Committee, Melbourne Institute of Applied Economic and Social Research, University of Melbourne.

Geoff Clark, Manager, State Finances and Reporting Unit, Commonwealth-State Relations Division: chair of the Heads of Treasuries' Working Party on a National Tax Equivalent Regime for Income Tax for State and Territory Government Business Enterprises.

¹ The Strategic Partnerships with Industry Research and Training (SPIRT) scheme is administered by the Australian Research Council.

John Coleman, Chief Financial Officer: member of the Chief Financial Officers' Forum, Department of Finance and Administration.

Laurene Edsor, Specialist Advisor, Commonwealth-State Relations: member of the Heads of Treasuries' Commonwealth, State and Territories Specific Purpose Payments Working Group.

Murray Edwards, Secretary to the Board of Taxation.

Steve French, General Manager, Financial Institutions Division: member of the Royal Australian Mint Advisory Board.

Paul Grimes, General Manager, Budget Policy Division: member of the Housing Working Group, the Steering Committee for the Review of Commonwealth-State Service Provisions.

Jan Harris, General Manager, Consumer Affairs Division: member of the Standing Committee of Officials on Consumer Affairs; member of the Environment, Safety and Material Standards Sector Board; and member of the Commonwealth Food Regulation Officials Group.

Jan Harris, General Manager, Commonwealth-State Relations Division from June 2002: secretary to the Australian Loan Council; and chair of the Fiscal Reporting Committee.

Jim Hagan, General Manager, Foreign Investment Policy: executive member of the Foreign Investment Review Board; and Australia's National Contact Point for the Organisation for Economic Co-operation (OECD) and Development Guidelines for multinational enterprises.

Rob Heferen, General Manager, Business Entities and International Tax Division until December 2001: member of National Tax

Liaison Group and National Tax Liaison Group Subcommittees.

Rob Heferen, General Manager, Corporate Governance Division from January 2002, Law of Negligence Review Secretariat from June 2002: observer on the Companies and Securities Advisory Committee and its legal subcommittee.

John Hill, Manager and Simon Cobcroft, Analyst, Market Place Strategies and New Technologies Unit, Consumer Affairs Division: members of the Digital Broadcasting Australia Consumer Education Subgroup.

Veronique Ingram, General Manager, Corporate Governance Division until October 2001: chair of OECD Steering Group on Corporate Governance; chair of the APEC Task Force on Company Accounting and Financial Reporting; member of the OECD-World Bank Regional Roundtable on Corporate Governance; alternate member of the Financial Reporting Council; and observer on the Companies and Securities Advisory Committee and its legal subcommittee.

Veronique Ingram, Chief Advisor (International), Economic Group, from November 2001: chair of the OECD Steering Group on Corporate Governance; and co-chair of the APEC Finance Ministers' Core Group on Corporate Governance.

John Jepsen, General Manager, Structural Reform Division to December 2001: Treasury representative on the Council of Australian Governments Committee on Regulatory Reform.

Ray Jones, Manager, Intergovernmental Relations Unit, Commonwealth-State Relations Division: member of Heads of Treasuries' Working Group on Private Sector Involvement in Public Sector Infrastructure Provision.

Stewart Jones, Acting General Manager, Structural Reform Division from December

2001: Treasury representative on the Council of Australian Governments Committee on Regulatory Reform.

Stephen Joske, Manager, International Economic Cooperation Unit, International Economy Division: member the APEC Economic Committee and the APEC Investment and Experts Group.

Michael Kooymans, Manager, Accounting Policy and Information Economy Unit, Acting General Manager from 12 June 2002, Corporate Governance Division: secretary of the Financial Reporting Council.

Peter Martin, Acting Australian Government Actuary, until April 2002; Australian Government Actuary from April 2002: member of the International Accounting Standards Taskforce of the Institute of Actuaries of Australia; member of the Medical Indemnity Insurance Task Force of the Institute of Actuaries of Australia; and member of the Australian National University Accreditation Panel.

David Martine, General Manager, Business Entities and International Tax Division: member of the National Tax Liaison Group.

John Nagle, Manager, International Tax Unit, Business Entities and International Tax Division: representative at the Committee of Fiscal Affairs and Forum on Harmful Tax Practices, OECD; representative at the National Tax Liaison Group and National Tax Liaison Group Subcommittees.

Terry O'Brien, Specialist Adviser (International): Australia's deputy to the Group of 20.

Paul O'Mara, General Manager, Domestic Economy Division: member of the Australian Bureau of Statistics Economic Statistics User Group.

Bruce Paine, General Manager, Commonwealth-State Relations Division until May 2002: secretary to the Australian Loan Council; chair of the Fiscal Reporting Committee; and chair of the Heads of Treasuries' Working Party on a National Excise Concession Scheme for Low Alcohol Beer.

Les Pascoe, Specialist Adviser Accounting, Accounting Policy and Information Economy Unit, Corporate Governance Division until October 2001: Treasury representative on the Australian Accounting Standards Board's Consultative Group.

May Priddle, Manager, Information and Records Unit: member of the Federal Libraries Network; and member of the Australian Library Copyright Committee.

Dehne Taylor, Manager, Labour Market Unit, Macroeconomic Policy Division: member of the Australian Bureau of Statistics Labour Statistics Advisory Group.

Paul Tilley (Minister Counsellor Economic), Australian Delegation to the OECD: vice-chair OECD Economic Development Review Committee.

John Wunsch, Manager, Safety Policy Unit, Consumer Affairs Division: member of the Infant and Nursery Products Association of Australia; the Australian Gas Association Technical Committee; the Strategic Injury Prevention Partnership; and the Standards Australia Committees for Vehicle Stands and Ramps and Vehicle Jacks, Ladders and Exercise Cycles.

Internal and external scrutiny

Risk management

Under the *Financial Management and Accountability Act 1997*, Treasury meets its specific risk management requirements through a single, integrated framework. Key components of the risk management framework are as follows:

- The **Fraud Control Plan** complies with Commonwealth Fraud Control Guidelines. Treasury revised and amended its plan during 2001-02 after extensive consultation with managers, staff and the Audit Committee. All staff have electronic access to the Fraud Control Plan.
- The **Chief Executive Instructions** are the core of financial management in Treasury and put into effect the requirements of the Financial Management and Accountability Act. The Chief Executive Instructions are being reviewed to reflect Commonwealth wide best practice standards as determined by the Australian National Audit Office (ANAO) and Department of Finance and Administration.
- The **Security Risk Review**. In 2001-02, Treasury engaged the Australian Security Intelligence Organisation (ASIO) to conduct a security risk review of Treasury's tenancy following the completion of the refurbishment of the building. In 2002-03, the Security Risk Review will be revised to incorporate changes in the national and international security environment following the events of September 11.
- The **Internal Audit Plan** identifies areas, services and functions for auditing and the timetable for a departmental-wide business risk assessment project. The plan

incorporates issues raised by ANAO in its audit of Treasury's financial statements, recent ANAO reports on cross-agency subjects, upcoming management issues and previous internal audits.

- Treasury's **IT Disaster Recovery Plan** sets out the strategies and processes that would be used to restore services in the event of a complete or partial loss of Treasury's central computing infrastructure. The main objective of the Plan is to restore services within an appropriate timeframe. **Business Continuity Plans** have been developed for major Treasury applications and systems. These Plans set out alternate methods and processes to be used to allow work in Treasury to continue until the IT environment is restored.
- **Comcover insurable risk assessments** are conducted annually as part of the process for applying for Comcover Insurance renewal. Treasury participates in the Comcover Benchmarking Risk Management Program by completing a self-assessment questionnaire relating to Treasury's overall level of risk management development. The program is based on the Risk Management standard AS/NZS 4360:1999 and measures Treasury's performance in implementing risk management processes and policies against the national benchmark.

Audit

Treasury's Audit Committee follows the recommended best practice guidelines issued by the ANAO. The ANAO also attends Treasury Audit Committee meetings as an observer. The Audit Committee reviews internal and external audits relating to Treasury and oversees follow-up action.

An Executive Director chairs the committee which met 11 times during 2001-02. Key issues included examining a review of a business risk assessment program for Treasury, reviewing the Audit Charter and Terms of Reference, reviewing Treasury's Fraud Control Plan, ongoing monitoring of the corporate governance processes in place for the HIH Claims Support scheme and developing new risk assessment processes.

Additionally, a subcommittee oversees the presentation of Treasury's financial statements. The Financial Statements Subcommittee meets as needed and has representatives from the ANAO, Treasury's Chief Financial Officer and relevant Treasury officers.

Treasury engaged Ernst & Young to develop the 2001-02 Internal Audit Plan. The Audit Committee assisted by Ernst and Young has a continuous improvement approach to audit services and regularly reviews Treasury's audit program and scrutinises recommendations arising from completed internal audits.

Internal audits

Treasury conducted six internal audits during 2001-02.

Payroll processing

The audit identified and tested controls associated with payroll processing, including new starters, pay variations and terminations. Controls within the payroll processing function operate effectively and Treasury's control environment is being improved.

Assets management

The review assessed Treasury's asset management policies and procedures against better practice guidelines. Treasury does not have any major concerns in relation to asset management although performance could be enhanced in some areas.

Procurement and contracting

The review assessed the efficiency and effectiveness of current Treasury arrangements to procure and contract for goods and services, and assessed the extent to which Treasury's contracting activities comply with Commonwealth, Treasury and ANAO requirements and guidelines. Comprehensive information is readily available to all staff involved in procurement and contracting. Treasury also conducts well-targeted training programs on procurement and contracting.

Funds management

The audit assessed the efficiency and effectiveness of the policies and procedures to manage Treasury's funds and operate its banking arrangements. The audit is ongoing.

Review of Government Online requirements

The audit identified and assessed the management strategies in place to ensure that Treasury meets its Government Online obligations and addresses opportunities to develop longer-term strategic goals and objectives. The audit is ongoing.

Other reviews

Four internal audits were ongoing at the end of 2000-01.

Business risk assessment

The audit provided a comprehensive business risk assessment with a focus on insurable risk, fraud risk and business continuity. When considering the draft report, the Audit Committee determined that the review provided a basis for further work to be undertaken on risk assessment and management in Treasury, including the revision of Treasury's Fraud Control Plan.

Performance Management System

The audit provided a comprehensive assessment of Treasury's Performance Management System which is directed at helping the

department meet its outputs and outcomes whilst developing staff professionally and personally. The review concluded that the system was applied consistently across groups and classifications. It also noted that the purpose of the Performance Management System had been largely achieved but some areas could be improved.

GST Assistance Office — direct assistance payments

The audit provided assurance on expenditure reported in Treasury's Financial Statements, adequacy of system controls and potential for error and fraud within the GST Assistance Office. A paper presented to Treasury's Audit Committee identified governance issues to be addressed when managing a major new project in Treasury.

IT Network administration and password control

The audit reviewed the adequacy and effectiveness of security and administration controls in the Treasury's internal IT network environment. Overall management of the IT network is adequate but security administration could be improved.

Reports by the ANAO

ANAO released the following reports relevant to Treasury during 2001-02.

Audit Report No 8: Disposal of infrastructure, plant and equipment

The audit assessed whether organisations disposed of infrastructure, plant and equipment assets in accordance with Government policy, relevant asset management principles and applicable internal controls. It identified better practices in managing asset disposal and recommended improvements in the controls and practices relating to the asset disposal process.

The ANAO concluded that organisations were disposing of their assets in accordance with

government policy; however, improvements could achieve more effective disposal outcomes. Treasury supported the eight recommendations.

Audit Report No 10: Management of bank accounts by agencies

The audit determined whether agencies have implemented appropriate risk management strategies for the new banking arrangements which came into operation on 1 July 1999 and whether they are managing cash funds in accordance with appropriate legislation, the Commonwealth's agency banking guidance and generally accepted practices.

ANAO concluded, in general that the daily operation of bank accounts was satisfactory; however, adoption of risk assessments, development of appropriate performance measures and increased monitoring and review would enhance better practice. Treasury supported the seven recommendations.

Audit Report No 12: Selection, implementation and management of financial management information systems in Commonwealth agencies

This audit was started in 1999. The audit assured Parliament on the effectiveness of financial management information systems implementations by evaluating the effectiveness of selection and implementation management and evaluating whether the implemented system met agency needs.

Overall ANAO concluded that few agencies in the audit had selected a financial management information system appropriate to their size or complexity. The subsequent implementation resulted in functionality gaps and concerns about ongoing cost effectiveness. ANAO made nine recommendations as a framework agencies could use to optimise outcomes in the future. Treasury supported the recommendations.

Audit Report No 18: Performance information in Portfolio Budget Statements

The audit assessed the appropriateness of the performance information in a selection of Portfolio Budget Statements and annual reports and assessed agency arrangements to identify and collect this information.

ANAO concluded that overall performance information in the Portfolio Budget Statements should be improved to enable agencies to establish and demonstrate links between outcomes, outputs and performance indicators. Treasury supported the three recommendations.

Audit Report No 19: Payroll management

The audit:

- (i) determined whether organisations had established effective internal control frameworks for managing payroll operations;
- (ii) assessed whether payment of salaries and related expenditure was made in accordance with the relevant terms and conditions of employment; and
- (iii) identified better practices in payroll system management and operations.

ANAO considered agencies could improve their risk management and could apply risk frameworks developed at the strategic level to the process level. Treasury supported the nine recommendations.

Audit Report No 22: Personnel Security — Management of security clearances

This audit related to the 1996 audit of the security classification of information in Commonwealth organisations. This current audit determined if organisations were

managing security and vetting processes effectively and efficiently, and in accordance with Commonwealth policy and as outlined in the Public Service Manual (PSM) 2000. It also provided recommendations for improvement and disseminated any identified better practice.

ANAO suggested that all organisations with a personnel security requirement review their personnel security arrangements as a matter of priority and pay particular attention to its recommendations. Treasury supported the recommendations.

Audit Report No 25: Accounts receivable

This audit considered the processing, collection overall management of accounts receivable against applicable legislation, government policy and applicable internal controls; identified better practice; and made recommendations to improve controls and practices.

ANAO concluded that, in general, the processing of accounts receivable was in accordance with legislation and policy; however, some areas could be improved. Treasury supported the seven recommendations.

Audit Report No 27: Agency management of software licensing

This audit was to assure the five selected agencies and Parliament that effective controls were in place for software use, licence conditions and physical security.

ANAO concluded that the appropriate security arrangements were in place; most audited agencies had a sound control framework around licences and their use. However to take preventative action with regard to controls, agencies should do more comprehensive compliance monitoring. Treasury supported the two recommendations.

Audit Report No 28:
An analysis of the Chief Financial Officer (CFO) function in Commonwealth organisations

ANAO undertook a benchmarking study of the CFO function in Commonwealth organisations, surveying the roles and functions of CFOs from 15 Commonwealth organisations. The result identified that CFOs consider their role to be mainly focused on broader financial management of the organisation and indicated they are becoming better placed to address a range of contemporary financial management issues. The report highlighted key areas for opportunities for improvement. Treasury sees the study and subsequent report as a sound management tool for application across the Commonwealth and Treasury.

Audit Report No 34:
Management of travel — Use of taxis

ANAO undertook an Assurance and Control Assessment audit of six Commonwealth agencies to assure the Parliament and those organisations that the risks associated with the use of and payment for taxi services were managed effectively and that the organisations complied with legislative guidelines.

The overall framework for administering the use of and payment for taxi services is sound, although agencies need comprehensive CABCHARGE registers and more vigorous acquittal procedures. Treasury supported the two recommendations.

Audit Report No 41:
Transactional banking practices in selected agencies

The audit reviewed five selected agencies' implementation and ongoing management of contractual banking arrangements and tendering for the procurement of banking services, and identified practices that improve administrative arrangements.

Finance and Australian Customs Service implemented new banking arrangements and

market testing that other agencies could benefit from examining. Treasury supported the four recommendations.

Audit Report No 45:
Record keeping

The ANAO undertook an Assurance and Control Assessment audit of record keeping across four Commonwealth organisations to assess whether their record keeping policies, systems and processes were in accord with the *Archives Act 1983* and relevant Government policies, and to identify better practices and recommend improvements. Most of the audited organisations had commenced systematically analysing their record keeping and business information strategies but had not committed to full system development and implementation. Treasury supported the six recommendations.

Audit Report No 52:
Internal budgeting

The audit evaluated the efficiency and effectiveness of internal budget processes in view of their contribution to business planning, resource allocation decisions and management financial performance, and assessed approaches in the light of the accrual framework.

Most organisations had sound and well established processes, integrated with business planning processes but with shortcomings in the ongoing management of the internal budgets and financial management reporting to senior management. Treasury supported the five recommendations and identification of better practice.

Audit Report No 53:
GST administration by Commonwealth organisations

This audit was to determine whether organisations had implemented adequate control frameworks and processes to mitigate the risks associated with GST obligations and transactions.

The ANAO made eight recommendations for all Commonwealth organisations to consider. For those recommendations not already in place Treasury is implementing the suggested processes.

Treasury pricing review

During 2001-02, Treasury conducted an Output Pricing Review of its operations, in conjunction with the Department of Finance and Administration. The Output Pricing Review found that Treasury was operating efficiently and effectively and that it was significantly underpriced in several areas. The Government deferred consideration of the Treasury Output Pricing Review until the 2003-04 Budget, when agencies may opt into Reviews under the revised arrangements that will then apply.

Fraud against Treasury

During 2001-02, Treasury was involved with an investigation by the Australian Federal Police. This investigation related to a suspected fraud in the GST Start-Up Assistance Office. A former contractor has been charged with offences related to this fraud. The matter is currently before the courts.

Comments by the Ombudsman, decisions by the courts and administrative tribunals

Ombudsman

There were no comments by the Ombudsman on matters within the department in 2001-02.

Courts and proceedings

During 2000-01, proceedings commenced in the Federal Court's Western Australia District Registry between *Broadway Fiduciary Pty Ltd and Ors v Australian Prudential Regulation Authority and Minister for Financial Services and Regulation*. The proceedings related to a decision made by the Australian Prudential

Regulation Authority (APRA) to remove Broadway Fiduciary Pty Ltd as the trustee of the Australian Independent Superannuation Fund under the *Superannuation Industry (Supervision) Act 1993*. During 2001-02, the matter was settled. Broadway Fiduciary Pty Ltd and Ors withdrew from the proceedings, agreeing to meet a proportion of APRA's costs.

Proceedings commenced in the Supreme Court of Western Australia in the matter of *The Commonwealth of Australia v Temwood Holdings & Ors* continued in 2001-02. In these proceedings the Commonwealth is seeking to be released from any undertaking in relation to the use of documents provided to the Commonwealth that relate to the first defendant.

Criminal and civil proceedings were commenced in the Australian Capital Territory as a consequence of a suspected fraud in the GST Start-Up Assistance Office. The allegedly defrauded money has been recovered and the proceedings are continuing.

Administrative Appeals Tribunal

There were two matters relating to the Treasury in the Administrative Appeals Tribunal (AAT) during 2001-02.

An application was made to the AAT in 2001 for an extension of time to apply for review of a decision of the department under the *Freedom of Information Act 1982* (the FOI Act) in the matter of ASEAN Australian Assets Pty Ltd (Applicant) and the Treasury (Respondent). The application was dismissed on the grounds that the Tribunal did not have jurisdiction to grant the extension.

An application was made to the AAT in 2002 for review of a decision by the department to partially withhold information in response to a request under the FOI Act. The application was dismissed on the grounds that the Tribunal did not have jurisdiction in the matter. The department offered to extend the time for the applicant to apply for an internal review.

Management of human resources

Treasury's Performance Management System and Career Development System are the key components of Treasury's people management systems. These systems provide the framework for human resource strategies by identifying work level standards, encouraging both formal and informal opportunities to appraise performance, identifying and managing longer-term skill development and contributing to career planning and staff retention. In the long term, this framework should be a major factor in Treasury's ability to attract and retain people with suitable skills to perform core functions.

Performance management

The Performance Management System provides a biannual performance management cycle. The system includes context setting processes, capability frameworks, ongoing task assignment, performance feedback and coaching, role development between appraisals and provisions to manage under-performance.

The Secretary and all the Senior Executive Service attend a context setting meeting prior to each appraisal round. The meetings ensure a consistent approach to the appraisal process, set the broad context for appraisals and provide the opportunity to discuss relevant issues, for example, outcomes of Performance Management System reviews and recommendations. The outcomes of the meeting are disseminated throughout the department. Additional context setting meetings at the divisional and unit level enhance consistency and assist staff managing appraisals at the operational level.

Ongoing training ensures staff members are prepared for appraisals. This includes briefing sessions for new starters prior to each performance appraisal round and Giving and

Receiving Feedback workshops for managers and staff to develop skills related to performance appraisals and general interpersonal communication.

The Treasury Performance Management System promotes fairness through clearly defining expectations and building in system controls that include:

- the application of capability frameworks that set out the standards expected of staff at each classification level and define the assessment criteria against which performance will be measured;
- clearly defined role accountabilities for all levels of work;
- use of upward feedback to the manager-one-removed (that is, two levels more senior), so employees have an additional opportunity to comment on the appraisal process and their manager's performance as a manager;
- use of review panels comprising the manager-one-removed, the immediate manager and other relevant managers to facilitate fairness and consistency;
- use of structured under-performance provisions and strategies that require approval and monitoring by the manager-one-removed; and
- transparent appraisal outcomes for all staff.

A contributing factor to staff satisfaction with the Performance Management System is Treasury's commitment to continuously improve and enhance the performance management processes. Treasury undertakes regular, comprehensive reviews of the objectives,



processes and outcomes, and employees participate in reviews and provide feedback on all aspects of the appraisal process through the consultative processes, including meetings with the Workplace Relations Committee.

Following Ernst & Young's 2001 audit of the non-SES Performance Management System, Treasury conducted an internal review and identified several key issues for further discussion. These included:

- consistency of application;
- suitability of the work value matrix;
- alternative approaches to appraising Executive Level 2 employees;
- improved processes and documentation for obtaining upward feedback;
- identification of more targeted staff development initiatives; and
- the frequency of appraisal cycles.

A range of enhancements and clarification of processes was agreed by the Senior Executive Service (SES) Context Setting Meeting in June 2002 for implementation in the August 2002 appraisal round.

Treasury was represented on the Management Advisory Committee Working Group on Performance Management in the Australian Public Service and provided case studies in both the Report of the Committee and the 2001 State of the Service Report. Outcomes of the review fed into Treasury's internal review processes.

APS Values

The Treasury Certified Agreement 1999-2002 includes a segment reinforcing APS Values that existed before the passage of the *Public Service*

Act 1999. While the Certified Agreement does not incorporate the amended and additional values contained in that Act, key Treasury documents such as departmental operational plans, the Treasury Induction Package and the Performance Management System refer prominently to the current APS Values. In addition, Treasury publishes the APS Values on the intranet.

In June 2001, a staff survey was conducted to measure how well Treasury had incorporated the APS Values and APS Code of Conduct. Of the staff who responded, more than 70 per cent indicated they understood the values and Code of Conduct and their application.

Treasury Values, which are embedded in the department's Performance Management System, closely align with the APS Values. The Treasury Staff Opinion Survey conducted in December 2001, indicated high levels of satisfaction with these values.

Treasury Certified Agreement

The Treasury Certified Agreement 1999-2002 forms the framework for remuneration and conditions of service for employees other than those in the Senior Executive Service and those on Australian Workplace Agreements.

In January 2002, Treasury commenced work on a replacement agreement that would commence as close as possible to the nominal expiry date of the current Agreement — 3 September 2002. A Certified Agreement Team sought views from all employees and drafted the new agreement. The Workplace Relations Committee then negotiated with management on behalf of employees.

The primary focus of the draft agreement was to increase pay rates. In addition, negotiations covered a number of suggestions to further simplify a number of features relating to leave.

The draft agreement also strengthened a number of commitments relating to the evaluation of performance. Prominent amongst those are:

- corporate planning;
- resource allocation; and
- hours of work.

The Secretary made an initial offer of a new Agreement to employees on 29 May 2002. Then followed a further series of negotiations with the Workplace Relations Committee, leading up to a final offer in late July. The Certified Agreement Team made a series of presentations to employees so they could understand the features of the draft agreement and how they were determined.

At the time of the initial offer, the Secretary also announced that he would introduce a program of Australian Workplace Agreements (AWAs) to allow greater flexibility in remuneration than would be achievable through the Certified Agreement. Complementing the AWAs will be a remuneration model that will be based on individual performance but will also allow some flexibility for the Secretary to address particular issues relating to attracting, rewarding and retaining staff.

Workplace relations

Treasury continues to consult extensively with employees on workplace matters. The key consultative body is the Workplace Relations Committee. The Workplace Relations Committee played a key role in the internal review of the Performance Management System and participated in the steering committee on the market testing of corporate services.

The terms of the Certified Agreement allow for direct consultation with employees as

appropriate, in accordance with government policy. The main medium for consultation is the Treasury intranet site, which allows access to a wide range of Staff Notices, guidelines and policies.

The principal focus of staff consultation in the first half of 2002 was in relation to the draft Certified Agreement.

The new agreement, which commenced in September 2002, increases the size of the Workplace Relations Committee from six to eight members. In addition, the Community and Public Sector Union (CPSU) is invited to participate on the Workplace Relations Committee.

To enhance the rights of review and dispute resolution of employees, the new agreement will also provide for the appointment of Staff Advisers. Staff Advisers will assist employees in any matters that might be the subject of a dispute.

Recruitment and succession planning

Graduate recruitment forms a major part of Treasury's overall recruitment and succession planning strategies. The recruitment strategy includes investing resources in university career fairs, participating in Economic Society information sessions, disseminating Graduate Careers in Treasury brochures to university careers advisors and targeting university faculties. A Graduate Careers section on Treasury's website details the Graduate Development Program and Treasury's Graduate Recruitment processes. There has been a steady increase in graduate intake numbers from 37 in 2000 to 45 in 2002.

Treasury advertises nationally for policy staff in twice yearly bulk-round recruitment processes. It regularly conducts internal transfer rounds

and advertises specialist and non-policy job opportunities as required. The Treasury website invites those interested in employment with the department to lodge expressions of interest.

Treasury will review its bulk-round selection processes and outcomes in the second half of 2002, targeting improvements in its capacity to attract staff, and evaluating the links with people management systems and corporate planning processes. It is currently doing the initial scoping on an E-Recruitment system and improving its Human Resource Management System (Aurion) to provide demographic and qualitative data about Treasury's workforce, a necessary tool for workforce planning.

Training and development

Treasury's Performance Management System and Career Development System regularly provide data to identify staff training and development needs. This data is used to identify key modules for the training program and to align development opportunities with business needs. Training activities are mapped against the performance management criteria to ensure wide coverage across all criteria and staff levels. Key training included leadership, coaching, oral and written communication, information technology training, performance management, policy advising and technical skills, as well as induction for new staff.

During 2001-02, the Treasury Seminar Series was reintroduced to provide staff with access to presentations on current economic research and issues by prominent guest speakers.

This year, Treasury introduced a targeted development program for APS 1-4 employees in administrative roles. The non-accredited program, the Treasury Certificate in Business Services, consists of six tailored modules fostering development in administrative and personal career areas. Participants benefit

from enhanced skills as well as increased self-awareness and confidence.

Information technology training programs delivered in-house to Treasury staff include training for a wide range of Microsoft, Web, TRIM, SAP and in-house developed systems. In 2001-02, the focus of training moved from the standard off the shelf applications to Treasury-specific training. Tailored training programs for key departmental projects such as the Budget and IMF/World Bank briefing provided participants with the skills to produce high quality documentation.

In their first week of employment, new employees attend an introductory course on Treasury computing. An electronic records management system now forms part of Treasury's knowledge and information management strategy. A training and support program assists employees with the transition from the manual record system to the electronic one.

Writing skills workshops specifically targeted Treasury requirements. Two workshops on Writing for Publications helped those involved with preparing Budget documents. In addition, *Providing Oral Advice* workshops met the requirements of Senior Executive and EL2 employees. The workshops included the following topics: briefing ministers; participating in inter-departmental committees; and, appearing before parliamentary committees. Treasury employees also attended Presentation Skills workshops.

Performance appraisal data indicates that more than 50 per cent of employees identify on-the-job training as a key method of development. Accordingly, training options include developing coaching skills for managers. Individual coaching is available from the Human Resource Unit, external consultants and through Treasury's Employee Assistance

Program. Development of team skills continues with many areas conducting planning days and team building exercises.

Treasury's studies assistance policy provides for leave provisions and, in some cases, financial assistance for employees to access tertiary study. Employees continue to use external courses, conferences, workshops and seminars for suitable development opportunities.

The Treasury Graduate Development Program is structured to meet the needs of graduate policy analysts in their first year in Treasury. The program assists graduates enhance and develop skills and knowledge necessary to work effectively in Treasury and in the Australian Public Service. Through a combined approach of formal and on-the-job training and development, graduate analysts are provided with opportunities to demonstrate their ability, skills and knowledge against the criteria of Treasury's Performance Management System.

Six Treasury EL2s participated in the Career Development Assessment Centre managed by the Australian Public Service Commission.

SES employees attend a number of external development activities including Australian Public Service Commission programs and planning for a Treasury SES Leadership Development Program is underway.

Treasury's training costs totalled \$1,045,125 in 2001-02. This included information technology training, internally delivered training and externally attended development opportunities. (This figure excludes salary costs associated with attending training.)

Both Treasury employees and external consultants provide training. Training consultancies are reported in Table 12.

Staffing information

The employment of ongoing staff increased in 2001-02, reflecting an increased graduate recruitment program and intakes from departmental wide bulk selection exercises. The number of non-ongoing staff decreased slightly.

Tables 5 represents the number of Treasury staff, by category and gender, as at 30 June 2002. Staff paid by other agencies are not included. All staff are employed under the *Public Service Act 1999*.

Changes in staffing at overseas posts

There were no staffing changes at overseas posts during 2001-02. See Table 6 for details of staff located at overseas posts.

Senior Executive Service — remuneration and performance appraisal

All SES remuneration and conditions are determined by Australian Workplace Agreements (AWAs). The AWAs are supplemented by a remuneration model, which allows for progression through a number of salary points and payment of performance bonuses. See Table 7 for details of SES salary scales.

Since September 2000, SES employees have been appraised using the Australian Public Service Commission's Senior Executive Leadership Capability Framework. In Treasury, this process has two steps; initially, SES staff are assessed as performing satisfactorily or unsatisfactorily against each appraisal criterion and overall; then they receive an individual quintile ranking for each criterion and an overall quintile ranking, reflecting their performance relative to their peers.

As a result of appraisal, base salary loadings and bonuses of up to 15 per cent of base salary are determined, in accordance with the SES pay model and, as appropriate, the terms of individual AWAs.



The total amount of performance pay made to SES in 2001-02 was:

SES Band 1	\$237,407
SES Band 2	\$74,489
SES Band 3	\$84,972
Total	\$396,868

Note 15 in Part 4: Financial statements shows more information on Executive Remuneration over the financial year. In 2000-01, for the first time, performance pay reported in Note 15 Executive Remuneration represents amounts that were accrued in that period, not the actual amounts paid.

All SES employees have access to private plated vehicles (or, by choice, a payment in lieu) and where applicable, parking paid for by the Treasury. Other benefits include airline lounge membership, mobile phones and in some cases, home office facilities.

Remuneration — employees other than SES

Under the Treasury Certified Agreement 1999-2002 non-SES salary outcomes are determined on the basis of performance appraisal under the Performance Management System. See Table 8 for the Certified Agreements salary scales for non-SES.

A small number of non-SES employees are covered by AWAs for the purposes of remuneration and conditions of service, reflecting the need to attract and retain employees with particular skills or qualifications. Although conditions of service are usually identical to those contained in the Certified Agreement, the AWAs allow remuneration outside the pay model which applies to all other non-SES staff.

Some non-SES AWA holders also earn performance pay of up to 15 per cent of salary, based on assessments made under the

Performance Management System. In 2001-02, six EL2 staff received performance pay totalling \$47,439. Non-SES staff also have access to loadings where performance has been appraised to be of a level higher than their substantive classification.

Mobile phones and home office facilities are provided to some non-SES employees where justified.

Senior management changes

Senior management movements within Treasury are outlined below.

Departures from Treasury were:

- Gary Potts retired on 14 February 2002;
- Mathew Ryan resigned on 22 April 2002; and
- Rodney Shogren resigned on 24 April 2002.
- Anthony Hinton was granted long-term leave to take up a position with the Productivity Commission on 26 March 2002.

Senior staff commencements were:

- Richard Murray returned from temporary transfer from the Department of the Prime Minister and Cabinet on 27 August 2001; and
- Anthony Hinton returned from the OECD, Paris in August 2001.

No internal promotions occurred during 2001-02.

See Tables 9 and 10 for details of SES commencements and movements in 2001-02.

Table 5: Operative and paid inoperative staff by classification and gender (as at 30 June 2002)(a)

Classification	Ongoing				Non-ongoing				Total
	Full-time		Part-time		Full-time		Part-time		
	Male	Female	Male	Female	Male	Female	Male	Female	
Cadet	0	1	0	0	1	0	0	0	2
APS1	0	2	0	0	0	1	0	0	3
APS2	1	2	0	0	2	3	0	1	9
APS3	30	47	0	2	2	9	0	5	95
APS4	12	32	0	2	2	2	2	1	53
APS5	36	35	0	3	4	5	0	0	83
APS6	63	35	0	4	0	2	0	0	104
EL1	74	42	1	3	1	2	1	0	124
EL2	73	19	1	7	7	3	1	0	111
SEB1	19	7	0	0	0	0	0	0	26
SEB2	9	1	0	0	0	0	0	0	10
SEB3	2	0	0	0	0	0	0	0	2
Secretary	1	0	0	0	0	0	0	0	1
Total	320	223	2	21	19	27	4	7	623

(a) Includes staff located outside Canberra.

Table 6: Staff located at overseas posts

Overseas Post	SES Band 1	EL2	Total
Beijing	1	-	1
Jakarta	-	1	1
London	-	1	1
Paris	1	-	1
Tokyo	1	-	1
Washington	1	-	1
Total	4	2	6

Note: Locally engaged staff are not included in the table.

Table 7: Salary scales — SES

Classification	3 September 2000		3 September 2001	
	Maximum	Minimum	Maximum	Minimum
	\$	\$	\$	\$
SES Band 1	101,488	88,250	103,518	90,015
SES Band 2	130,716	113,667	133,330	115,940
SES Band 3	170,085	147,900	173,487	150,858



Table 8: Certified Agreement salary scales – Non-SES

Classification	3 September 2000		3 September 2001	
	Maximum	Minimum	Maximum	Minimum
	\$	\$	\$	\$
Cadet				
APS1	28,630	26,265	29,203	26,790
APS2	32,569	30,467	33,220	31,077
APS3	36,771	34,670	37,506	35,363
APS4	40,973	38,872	41,792	39,649
APS5	46,752	43,863	47,687	44,740
APS6	52,530	49,641	53,581	50,634
EL1	65,137	58,650	66,440	59,823
EL2	79,846	72,491	81,443	73,941

Table 9: SES commencements

Reason for commencement	SES Band 3	SES Band 2	SES Band 1	Total
Engagement (ongoing)	-	-	-	-
Internal promotion	-	-	-	-
Movement from other agencies	-	1	-	1
Return from leave	-	1	-	1
Total	0	2	0	2

Table 10: SES cessations

Reason for movement	SES Band 3	SES Band 2	SES Band 1	Total
Resignation	-	1	1	2
Retirement	1	-	-	1
Long term leave	-	1	-	1
External transfer	-	-	-	-
Promotion to other agencies	-	-	-	-
Appointment as Secretary	-	-	-	-
Total	1	2	1	4

Purchasing

The Chief Executive Instructions outline Treasury's policy and procedures for the procuring of goods and services. Internal policy and procedure manuals also support the Chief Executive Instructions. These internal instructions are consistent with the Commonwealth Procurement Guidelines.

Responsibility for procurement is devolved to line managers.

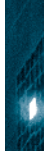
To maintain procurement expertise and procedural compliance with the guidelines, all internal procurement documentation including the Commonwealth Procurement Guidelines and ANAO better practice reports are readily available within the department. The guidelines are also summarised on Treasury's intranet site.

The intranet site is updated regularly to incorporate contemporary procurement practice such as the better practice principles outlined in ANAO audit reports; *Engagement of Consultants*, *Senate Order of June 2001 (February 2002)*, and *The Use of Confidentiality Provisions in Commonwealth Contracts*. In addition, Treasury-specific training courses are conducted in-house for departmental procurement officers.

During the year, Ernst & Young conducted an internal audit on Treasury's procurement and contracting functions to assess the efficiency and effectiveness of the procurement and contracting arrangements. The report noted that the contracting and procurement information available to staff was comprehensive and high quality.

Assets management

Treasury manages over 650 assets with a book value of over \$16 million. Treasury assets are predominantly furniture, fittings, software and plant. Treasury manages these assets in accordance with the guidelines set out in the Chief Executive Instructions. All assets are subject to an annual stocktake which updates and verifies the accuracy of asset records. Treasury performed a valuation of buildings, infrastructure, plant and equipment on 30 June 2002. The valuation was performed by the Australian Valuation Office and was based on valuing assets using the deprival method of valuation.



Consultancies

Consultants

Consistent with the Chief Executive Instructions and the Commonwealth Procurement Guidelines, Treasury engages consultants and contractors on the basis of:

- value for money;
- open and effective competition;
- ethics and fair dealing;
- accountability and reporting;
- national competitiveness and industry development; and
- support for other Commonwealth policies.

Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined research, reviews or evaluations; and provide independent advice, information

or creative solutions to assist the department in managing its decision-making. The most frequent reasons for Treasury’s utilisation of consultancy services were:

- unavailability of specialist in-house resources in the short time frame allowed;
- the need for an independent study or review; and
- specialist skills and knowledge not available in-house.

The selection methods used for consultancies are categorised in column five of Table 12.

During 2001-02 Treasury engaged 116 consultancies valued at \$6,519,852. Eighty-eight consultancies were above \$10,000 and valued at \$6,377,287. Twenty-eight consultancies were under \$10,000 and valued at \$142,565.

Table 11: Consultancies over \$10,000 in 2001-02 by output group

Output Group		Consultancies number	Cost \$
1.1	Economic	3	123,250
2.1	Budget	18	1,373,175
3.1	Markets	33	3,004,048
	Corporate Services	34	1,876,814
Total		88	6,377,287

Table 12 List of consultancies over \$10,000 in 2001-02 by output group

Consultant	Project	Cost ⁽ⁱ⁾ \$	Reason	Procurement Method ⁽ⁱⁱ⁾
Output Group 1.1 (Economic)				
Dungey, Mardi Helen	Improve economic analysis and provide assistance with macroeconomic modelling efforts	58,000	(e)	Select
Martin, V L and Lye, J	Provide services in relation to presentation of an econometrics training course	24,000	(e)	Direct engagement
McKibbin Software Group Pty Ltd	Provide specific Asia-Pacific G-Cubed Model software licence	41,250	(e)	Direct engagement
Total Output Group 1.1		123,250		
Output Group 2.1 (Budget)				
A J Baxter and Associates	Develop Option 3 to compare to the proposed TVM income tax system	11,000	(c),(e)	Direct engagement
AEA Technology	Provide advice to the Fuel Tax Inquiry into Air Pollution Costings	27,500	(a), (b), (e)	Direct engagement
Australian Taxation Studies (ATAX)	Organise and coordinate the Tax Value Method conference	78,871	(b),(e)	Direct engagement
Australian Taxation Studies (ATAX)	Evaluate the compliance costs and benefits of the Tax Value Method	36,080	(c)	Direct engagement
Cultural Partners Australia (*)	Undertake the Community Information Program-Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	194,617	(a),(b),(e)	Direct engagement
Duffy, Ann	Provide editorial and writing services for the 2002-03 Budget	14,652	(e)	Select
Econtech Pty Ltd	Undertake economic modelling for the Fuel Tax Inquiry	54,340	(a),(b),(c)	Select
Griffin Interlink Pty Ltd	Act as communication Strategy Advisor for the Tax Value Method	53,395	(e)	Select
Mitchell & Partners Australia Pty Limited (*)	Community Information Program-Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	487,605	(a),(b),(e)	Direct engagement

Table 12: List of consultancies over \$10,000 in 2001-02 by output group (continued)

Consultant (*)	Project	Cost(i) \$	Reason	Procurement Method(ii)
Output Group 2.1 (Budget)				
PricewaterhouseCoopers	Progress of Option 3 in relation to the Tax Value Method	38,500	(c),(e)	Direct engagement
Quantum Market Research (*)	Undertake community Information Program- Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	107,216	(a),(b),(e)	Direct engagement
Raydawn Pty Ltd	Provide technical advice in support of the Australian Government Actuary	22,000	(e)	Direct engagement
Shaddick & Spence Chartered Accountants	Provide advice to the Consolidation Regime Steering Committee as a representative of the Board of Taxation	76,424	(b),(e)	Direct engagement
The Institute of Chartered Accountants in Australia	Develop Tax Value Method conceptual testing and compliance evaluation	68,189	(c),(e)	Direct engagement
University of Melbourne	Provide assessment of asserted increase in certainty arising from the introduction of the Tax Value Method	37,928	(b),(e)	Direct engagement
Vann, Richard	Provide assistance in the preparation of a consultation paper on international tax issues	25,000	(e)	Select
Walsof Pty Ltd (Trading as Golsby-Smith and Associates)	Provide strategic policy development seminars	11,717	(b),(e)	Select
Wood, Richard	Provide material and advice in relation to the taxation of financial arrangements and associated issues	28,141	(e)	Select
Total Output Group 2.1		1,373,175		
Output Group 3.1 (Markets)				
Abbott Tout Solicitors	Provide legal advice in relation to the HIH Royal Commission	100,000	(a),(b),(c),(e)	Select
Advance Consulting and Evaluation	Provide an overview of the Venture Capital Industry	40,900	(e)	Direct engagement
Andersen	Undertake a benchmark study of comparable conditions for financial institutions	90,000	(e)	Direct engagement

Table 12: List of consultancies over \$10,000 in 2001-02 by output group (continued)

Consultant	Project	Cost(i) \$	Reason	Procurement Method(ii)
Output Group 3.1 (Markets)				
Azeel-Doherty, Natasha	Provide marketing and research services for AXISS Australia	65,000	(e)	Select
Basis Point Consulting	Report on the players in and value of the Australian hedge fund industry	27,200	(e)	Direct engagement
Blake Dawson Waldron	Provide legal advice on public liability issues	60,228	(b),(c),(e)	Direct engagement
Capital Markets CRC Ltd	Research by Phd students on (1) comparisons of Regulatory Controls across Asian Markets and (2) contribution of the financial services market to the overall economy	180,000	(e)	Direct engagement
Clayton Utz	Assist in drafting regulations under the Financial Service Reform Act	115,659	(a)	Select
Deacons	Provide legal advice on public liability issues	32,715	(b),(c),(e)	Direct engagement
Ernst & Young	Provide internal audit planning and risk management for the HIH Assistance Scheme	42,731	(c),(e)	Direct engagement
Ernst & Young	Audit of the Housing Loans Insurance Corporation 'Old Book'	165,000	(c),(e)	Direct engagement
Green and Green Group Pty Ltd	Provide recruitment services and advice to Treasury staff selection panels	10,500	(b)	Open
Hosking, Leslie	Act as CEO of AXISS Australia	293,304	(e)	Select
KPMG	Undertake an operational review of the Royal Australian Mint	48,510	(e)	Select
Mercer, Donald	Prepare a report to Government arising from the issues paper, <i>Options for Improving the Safety of Superannuation</i>	55,000	(b),(e)	Select
Michael Page International	Recruit manager of Enterprise and Career Education Foundation (ECEF) joint venture with Department of Education, Science and Training (DEST)	20,000	(e)	Direct engagement



Table 12: List of consultancies over \$10,000 in 2001-02
by output group (continued)

Consultant	Project	Cost(i) \$	Reason	Procurement Method(ii)
Output Group 3.1 (Markets)				
Netluminous Australia	Develop Australian Financial Services Training Alliance (AFSTA) website	35,750	(e)	Select
One Planet Solutions	Develop a case management data base system	321,320	(a),(b)	Open
Percy Allen and Associates Pty Ltd	Review home builders warranty insurance and consumer protection	130,000	(c),(e)	Direct engagement
Phillips Fox Lawyers	Prepare the Financial Services Reform Bill Executive Summary	43,335	(e)	Direct engagement
Powerlan Ltd	Conduct an expert usability and accessibility review of the seven Consumer Affairs websites	10,769	(a),(c),(e)	Select
PricewaterhouseCoopers	Undertake competitiveness study on understanding Australia's competitive position versus India, Hong Kong and Singapore	29,950	(e)	Direct engagement
Ramsay, Professor Ian	Provide a final report to the Government which reviews auditor independence in Australia	34,815	(c)	Direct engagement
Roslyn Pty Ltd	Study the cost, quality and availability of Prime Office Space in Australia	40,000	(e)	Direct engagement
Starcom (Worldwide) Australia Pty Limited (*)	Seek submissions for the review of the Managed Investments Act 1998	17,765	(a),(b),(e)	Direct engagement
Techne Ventures Pty Ltd	Provide advertising and editorial support in two issues of <i>Axiss Capital Markets</i>	77,000	(e)	Direct engagement
The Partners of Prentice Parbery Barilla Chartered Accountants	Provide professional advice and assistance on all issues in relation to UMP/AMIL by the Commonwealth	38,335	(e)	Direct engagement
Tillinghast-Towers Perrin	Actuarial advice on medical indemnity insurance issues	63,332	(e)	Direct engagement
Tony Beck Consulting Services	Establish an advisory group and prepare a report on internet emissions trading	31,000	(e)	Direct engagement
Trowbridge Consulting	Conduct actuarial review of the Commonwealth's liability under the HIH Support Scheme	182,600	(c)	Direct engagement

Table 12: List of consultancies over \$10,000 in 2001-02 by output group (continued)

Consultant	Project	Cost(i) \$	Reason	Procurement Method(ii)
Output Group 3.1 (Markets)				
Trowbridge Consulting	Provide analytical report including presentation and attendance at the Minister's meeting on Public Liability Insurance	77,000	(e)	Select
Trowbridge Consulting	Provide actuarial advice to the Heads of Treasuries Insurance Issues Working Group	359,330	(a),(b),(c)	Direct engagement
Walter and Turnbull	Conduct performance and compliance audit of the HIH Assistance Scheme	165,000	(c)	Select
Total Output Group 3.1		3,004,048		
Corporate Services				
Acumen Alliance	Provide financial analysis and modelling services associated with IT outsourcing	19,217	(b)	Select
Acumen Alliance	Assist with financial evaluation and cost modelling for the IT outsourcing project	187,345	(c)	Direct engagement
Acumen Alliance	Provide financial modelling, management services, tender evaluation and IT management support	55,000	(b),(c),(e)	Direct engagement
Acumen Alliance	Provide financial modelling, management services, tender evaluation and IT management support	77,000	(b),(c),(e)	Direct engagement
Acumen Alliance	Advise and prepare Treasury's financial statements	61,321	(e)	Direct engagement
Aspect Computing Pty Ltd	Provide database administration, specialist programming and analysis services to the SAP system	110,000	(b)	Direct engagement
Aspect Computing Pty Ltd	Provide SAP and specialised programming support and services	35,384	(e)	Direct engagement
Business Synetics Pty Ltd	Provide specialised technical services for IT outsourcing and market testing	30,101	(e)	Direct engagement
Carlton Consulting	Conduct presentation skills workshops	13,140	(e)	Select



Table 12: List of consultancies over \$10,000 in 2001-02 by output group (continued)

Consultant (*)	Project	Cost(i) \$	Reason	Procurement Method(ii)
Corporate Services				
Datavoice	Provide facilities management and telephonist services	153,115	(d)	Select
Davidson Trahaire	Deliver the Employee Assistance Program	22,594	(e)	Select
Deloitte Touche Tohmatsu Consulting (ICS)	Provide specialist advice on enhancements to SAP FMIS	76,123	(e)	Select
Eaton and Partners	Document new procedures for the processing of accounts payable	16,640	(b)	Direct engagement
Excelerated Consulting Pty Ltd	Assist with the establishment, implementation, training and documentation of the budgeting and reporting tool iTM1-phase 2	177,867	(e)	Direct Engagement
Fieldenhummer Consulting	Assist with the establishment, implementation and documentation of re-centralisation of Purchasing and Accounts Payable	25,218	(a),(b),(d)	Select
Infosec Solutions	Provide specialised technical services for Intranet/Internet development and quality assurance	22,688	(a)	Direct engagement
Integrated Asset Management Pty Ltd	Provide data storage equipment and maintenance	86,191	(a)	Select
Mastec Asia-Pacific	Provide specialised technical services for the Treasury Intranet/Internet	123,152	(a)	Direct engagement
Mastec Asia-Pacific	Provide support and leadership to Treasury for Intranet/Internet team	22,361	(b),(e)	Select
Professional Careers Australia Pty Ltd	Assist with accounting functions	20,380	(b)	Select
Professional Careers Australia Pty Ltd	Assist with accounting functions	79,569	(b)	Select
Results Consulting	Provide a development program for APS 1-4	22,000	(e)	Select
SAP Australia Pty Ltd	Provide training and up-graded services	48,642	(e)	Direct engagement
Sparke Helmore	Act as probity advisor to the 2001 Market Testing Project	35,000	(c),(e)	Direct engagement

Table 12: List of consultancies over \$10,000 in 2001-02 by output group (continued)

Consultant	Project	Cost(i) \$	Reason	Procurement Method(ii)
Corporate Services				
Staffsure Pty Ltd	Provide security vetting services	..(v)	(a),(b)	Direct engagement
StratAust Pty Ltd	Develop a strategic property plan	14,400	(b),(c),(e)	Direct engagement
The Empower Group	Review implementation of the Treasury management model	90,000	(a),(c),(d)	Direct engagement
True North Consulting Pty Ltd	Redevelop the Treasury website as a database application	57,412	(b),(e)	Select
Universal Express	Provide mail and courier services to the department	47,291	(b)	Select
Upton Martin Consulting	Develop a Performance Management Training System	12,600	(f)	Direct engagement
Walter and Turnbull	Provide specialised financial services	30,000	(a),(e)	Select
Walter and Turnbull	Advise and prepare the Treasury financial statements	20,902	(a),(e)	Select
Wizard Personnel	Provide specialised accounting services	64,161	(b)	Select
World Competitive Practices Pty Ltd	Review implementation of the Treasury management model	20,000	(a),(c),(d)	Direct engagement
Total Corporate Services		1,876,814		
Total Consultancies over \$10,000		6,377,287		

(a) Need for rapid access to latest technology and expertise in its application.

(b) Specialist in-house resources unavailable in time allowed.

(c) Need for an independent study or review.

(d) Need for a change agent or facilitator.

(e) Specialist skills or knowledge not available in-house.

Notes

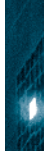
i. Any cost increase or decrease not paid in 2001-02 will be paid in 2002-03.

ii. Direct engagement includes the engagement of: a consultant selected from a pre-qualified panel arrangement; a recognised and pre-eminent expert; a consultant who had previously undertaken closely related work for the department; or a consultant known to have the requisite skills where the value of the project did not justify the expense or delay associated with seeking tenders.

iii. Axiss Australia was formerly known as the Australian Centre for Global Finance.

iv. If a Consultancy is let for Advertising and Market Research, that Consultancy will be reported in both the 'Consultancy' and 'Advertising and Market Research' categories and flagged (*) as such.

v. The contract with Staffsure was entered into in 2001-02, however, no payments were made in 2001-02.



Workplace diversity

The strategies and initiatives of Treasury’s Workplace Diversity Program encourage and foster the contributions of people of different backgrounds, experiences and perspectives. The program’s focus is to implement strategies that attract, develop and support employee participation reflecting the broad cross-section of the Australian community.

Treasury’s Disability Action Plan is linked to the Commonwealth Disability Strategy to ensure equal opportunities for people with disabilities to access government programs and services. The principles and objectives of Treasury’s Workplace Diversity Program support these.

During 2001-02, 34 staff worked part-time; 23 were ongoing and 11 were non-ongoing. The previous year, 26 staff worked part-time with 16 ongoing and 10 non-ongoing.

The Treasury Certified Agreement provides for a carer’s room offering a safe and quiet workplace for employees while they work and care for sick children, nurse infants or provide substitute care for children while the primary carer is unavailable. Employees are asked to provide ongoing feedback, to evaluate the use of the

room and have generally indicated that they are happy with the current facilities.

Treasury has a number of workplace harassment contact officers who are fully trained to provide advice and assist staff members. They receive regular ongoing training and all Treasury employees receive a list of workplace harassment contact officers through the Treasury Staff Bulletin and electronic mail.

Treasury continues to participate in the National Indigenous Cadetship Program. Treasury employs four staff (two operative and two inoperative) who self-identify as from an Indigenous background.

Women’s representation in senior levels in the department is supported through overall people management strategies, including the Performance Management System and Career Development System. Particular strategies include coaching and on-the-job training, internal and external development programs and mobility within the department.

The following charts shows gender trends within Treasury over the past four financial years.

Chart 1: Number of new entrant graduates — by gender

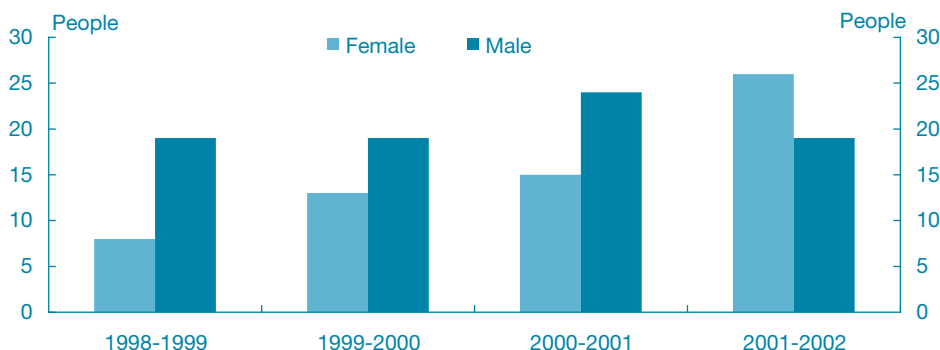


Chart 2: Number of SES staff members — by gender

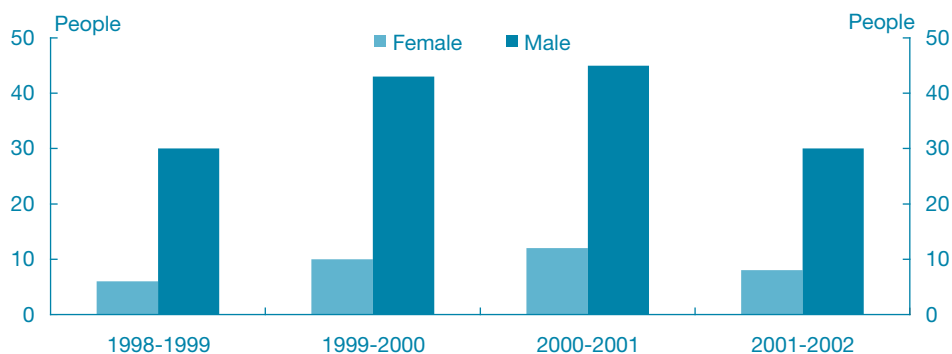


Chart 3: Treasury staff levels — by gender

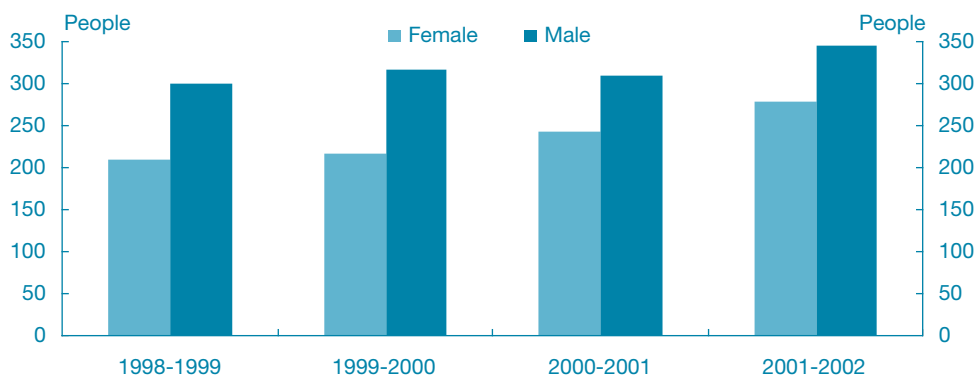


Table 13: Operative and paid inoperative staff by EEO target group

Classification	Female	Born Overseas	ESL	AATSI	Disability
Cadets	1	0	0	2	0
APS1	3	0	1	0	0
APS2	6	3	1	0	0
APS3	63	17	13	0	1
APS4	39	6	9	1	2
APS5	44	14	15	0	1
APS6	48	24	23	0	2
EL1	50	23	9	1	3
EL2	34	25	12	0	3
SESB1	7	4	2	0	0
SESB2	1	2	1	0	0
SESB3	0	0	0	0	0
Total	296	118	86	4	12

Note: For categories other than gender, identification is on a voluntary basis and employees may be included in more than one category. The above table is not directly comparable with Table 5 as it is compiled on a basis which recognises acting (as at 30 June 2002) rather than substantive classifications.



Table 14: EEO appointments to boards (or equivalent) of statutory and non-statutory bodies (as at 30 June 2002)^(a)

	Total Positions filled as at 30 June	Number from EEO Target Groups	Number of appointments made during the year	Number of appointments from EEO target groups
Australian Accounting Standards Board	1	0	0	0
Australian Competition and Consumer Council	12	2	2	2
Australian Competition Tribunal	10	2	1	1
Australian Prudential Regulation Authority	9	2	2	1
Australian Securities and Investments Commission	3	1	1	1
Australian Statistics Advisory Council	15	6	11	4
Board of Taxation	10	2	0	0
Business Regulation Advisory Group	9	2	0	0
Commonwealth Consumer Advisory Council	10	5	3	1
Companies Auditors & Liquidators Disciplinary Board	6	0	0	0
Corporations and Markets Advisory Committee	8	5	5	3
Financial Reporting Council	12	1	4	1
Financial Sector Advisory Council	8	1	8	1
Foreign Investment Review Board	3	1	1	0
HIH Assistance Review Panel	3	2	3	2
Legal Committee of the Corporations and Markets Advisory Committee	11	6	10	5
Life Insurance & Actuarial Standards Board	7	0	1	0
National Competition Council	5	1	0	0
Payments System Board	7	1	0	0
Productivity Commission	9	2	3	0
Reserve Bank of Australia Board	8	1	2	0
Superannuation Complaints Tribunal	19	10	2	1
Takeovers Panel	45	23	8	5
Tax Agents' Boards	17	1	2	1
Total	247	77	69	29

(a) In this table, the only EEO target group notified was women.

Part 4

Financial statements



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Auditor-General for Australia



INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Department of the Treasury for the year ended 30 June 2002. The financial statements comprise:

- Statement by the Secretary;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments; and
- Notes to and forming part of the Financial Statements.

The Department of the Treasury's Secretary is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Department of the Treasury's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Department of the Treasury as at 30 June 2002, and its financial performance and cash flows for the year then ended.

Inherent Uncertainty regarding the liabilities for the HIH Claims Support Scheme and MDO Assistance Package

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Notes 1.32 and 1.33 to the financial statements, the Department of the Treasury has recorded estimates of \$496.35 million and \$500.80 million respectively in relation to the Commonwealth's liabilities for the HIH Claims Support Scheme and a component of the Commonwealth's assistance package for the UMP/AMIL Group and other Medical Defence Organisations. These estimates are based on independent actuarial assessments. As explained in the notes, there is inherent uncertainty regarding these estimates of the Commonwealth liabilities and the Commonwealth will continue to assess them in future years.

The issue regarding the HIH Claims Support Scheme liability resulted in a similar emphasis of matter in the prior year.



P.J. Barrett
Auditor-General

Canberra
17 September 2002



Audit Report

Department of the Treasury statement by the Departmental Secretary

Certification of financial statements

In my opinion, the attached financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.

Ken Henry
Secretary to the Treasury

16 September 2002

Department of the Treasury statement of financial performance
for the year ended 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
REVENUES FROM ORDINARY ACTIVITIES			
Revenues from Government	3A	87,687	74,435
Sales of goods and services	3B	67,696	51,632
Assets recognised for the first time		274	-
Interest		1,495	1,045
Net gain from sale of assets	3C	8	-
Other revenues	3D	125	27
Total revenues from ordinary activities		157,285	127,139
EXPENSES FROM ORDINARY ACTIVITIES (excluding borrowing costs expense)			
Employees	4A	51,726	47,111
Suppliers	4B	85,175	65,587
Write down of assets	4D	2,191	-
Depreciation and amortisation	4C	3,968	4,196
Net loss from sale of assets	4E	-	300
Other operating expenses	4F	2,005	3,211
Total expenses from ordinary activities (excluding borrowing costs expense)		145,065	120,405
Borrowing costs expense	5	749	1,097
Net operating surplus from ordinary activities		11,471	5,637
Company tax expense equivalent	9G	(603)	(79)
Net surplus		10,868	5,558
Net surplus attributable to the Commonwealth		10,868	5,558
Net credit (debit) to asset revaluation reserve		(96)	(1,501)
Total revenues, expenses and valuation adjustments recognised directly in equity		(96)	(1,501)
Total changes in equity other than those resulting from transactions with owners as owners		10,772	4,057

The above statement should be read in conjunction with the accompanying notes.

Department of the Treasury statement of financial position as at 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
ASSETS			
Financial assets			
Cash	8A	10,432	4,823
Investments	8B	8,000	13,675
Receivables	8C	2,310	6,027
Total financial assets		20,742	24,525
Non-financial assets			
Infrastructure, plant and equipment	9A,B,D	17,217	17,333
Inventories	9E	17,222	14,016
Intangibles	9C,D	2,436	2,665
Other	9F	6,852	6,554
Total non-financial assets		43,727	40,568
Total assets		64,469	65,093
LIABILITIES			
Interest bearing liabilities			
Loans	10A	-	9,101
Leases	10B	736	869
Total interest bearing liabilities		736	9,970
Provisions			
Employees	11	16,839	15,536
Other	11	181	452
Total provisions		17,020	15,988
Payables			
Suppliers	12A	5,655	10,552
Other	12B	7,004	2,454
Total payables		12,659	13,006
Total liabilities		30,415	38,964
NET ASSETS		34,054	26,129
EQUITY			
Parent entity interest			
Asset revaluation reserve	13	3,618	3,714
Contributed equity	13	4,076	3,763
Retained surpluses	13	26,360	18,652
Total parent entity interest	13	34,054	26,129
Total equity	13	34,054	26,129
Current liabilities		20,689	20,722
Non-current liabilities		9,726	18,242
Current assets		44,816	41,435
Non-current assets		19,653	23,658

The above statement should be read in conjunction with the accompanying notes.

Department of the Treasury statement of cash flows
for the year ended 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		87,409	74,180
Sale of goods and services		72,250	52,123
Interest		1,421	1,121
GST refunds		2,665	2,138
Total cash received		163,745	129,562
Cash used			
Employees		51,143	46,695
Suppliers		98,985	63,677
Borrowing Costs		749	1,097
Total cash used		150,877	111,469
Net cash from operating activities	14	12,868	18,093
INVESTING ACTIVITIES			
Cash received			
Proceeds from the sale of investments		5,000	-
Proceeds from sales of property, plant and equipment		42	13
Other		620	-
Total cash received		5,662	13
Cash used			
Purchase of property, plant and equipment		3,489	1,383
Purchase of investments		-	3,500
Total cash used		3,489	4,883
Net cash from / (used by) investing activities		2,173	(4,870)
FINANCING ACTIVITIES			
Cash received			
Transfer from Trust Fund		3,303	-
Total cash received		3,303	-
Cash used			
Repayment of leases		133	430
Repayment of debt		10,762	2,963
Capital use paid		1,681	3,369
Trust fund surplus transferred		159	4,280
Total cash used		12,735	11,042
Net cash (used by) financing activities		(9,432)	(11,042)
Net increase in cash held		5,609	2,181
Cash at the beginning of the reporting period		4,823	2,642
Cash at the end of the reporting period	8A	10,432	4,823

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments as at 30 June 2002

	2001-02 \$'000	2000-01 \$'000
BY TYPE		
CAPITAL COMMITMENTS		
Infrastructure, plant and equipment ^(a)	36	16,878
Total capital commitments	36	16,878
OTHER COMMITMENTS		
Operating leases ^(b)	105,877	105,402
Other commitments	8,932	1,606
Total other commitments	114,809	107,008
COMMITMENTS RECEIVABLE		
GST receivable	(8,446)	(9,022)
Net commitments	106,399	114,864
BY MATURITY		
All net commitments		
One year or less	14,958	9,978
From one to five years	37,553	35,677
Over five years	53,888	69,209
Net commitments	106,399	114,864
Operating lease commitments		
One year or less	8,705	8,030
From one to five years	38,559	27,461
Over five years	58,613	69,911
Net commitments	105,877	105,402

(a) Plant and equipment commitments are primarily for purchases of furniture and fittings for building refurbishment.

(b) Operating leases included cannot be cancelled and comprise the following:

Nature of lease	General description of leasing arrangement
1. Leases for accommodation	<ul style="list-style-type: none"> ▪ Commercial — leases comprise various periods, including both initial and options periods. ▪ Overseas estate — commercial lease payments are adjusted annually by 2 per cent and residential lease payments are reviewed biennially to reflect market movements. ▪ The initial periods of office accommodation leases are still current and each may be renewed with options for a further 3 or 5 years. ▪ Australian estate — residential lease payments are reviewed biennially to reflect market movements.
2. Agreements for the provision of motor vehicles to Senior Executive Officers	<ul style="list-style-type: none"> • No contingent rentals exist. • No renewal or purchase options are available to the department.
3. Leases for computer equipment	<ul style="list-style-type: none"> • The lessor provides all computer equipment designated as necessary in the supply contract for 3 years with an option to extend the term for a fixed period as agreed by both parties. • Included in other commitments is \$2 million related to two finance leases for computer equipment. At the date of the financial report these leases had not been executed, and hence not recognised as liabilities. The leases were executed on 5 July and 10 July 2002 and have been accounted for as finance leases from these dates.

Note: All 2001-02 commitments are GST inclusive where relevant.
The above schedules should be read in conjunction with the accompanying notes.



Schedule of contingencies as at 30 June 2002

	2001-02	2000-01
	\$'000	\$'000
CONTINGENT LOSSES		
Claims for damages/costs ^(a)	400	400
Total contingent losses	400	400
CONTINGENT GAINS		
Claims for damages ^(b)	80	-
Total contingent gains	80	-
Net contingencies	320	400

(a) The amount represents an estimate of the department's liability based on precedent cases. The department is defending the claims.

(b) The department is expecting to succeed in claims, although the cases are continuing. The estimate is based on precedent in such cases.

The above schedules should be read in conjunction with the accompanying notes.

Schedule of unquantifiable contingencies

As at 30 June 2002, the department had a number of legal claims outstanding. It is not possible to estimate the amounts of any eventual payments which may be required in relation to these claims.

The above schedules should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements for the year ended 30 June 2002

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Note 1: Summary of significant accounting policies

1.1 Objectives of the Department of the Treasury

The Department of the Treasury is structured to meet three outcomes:

Outcome 1: Sound macroeconomic environment;

Outcome 2: Effective government spending and taxation arrangements; and

Outcome 3: Well-functioning markets.

The objective of the Department of the Treasury is to improve the wellbeing of the Australian community through strong sustainable economic growth. It does so by providing sound and timely advice to the government, based on objective and thorough analysis of options, and by assisting Treasury portfolio ministers in the administration of their responsibilities and implementation of government decisions.

The reporting entity comprises the Department of the Treasury, the Australian Government Actuary and the Royal Australian Mint (the Mint) hereafter referred to as 'the Department'. In these statements, 'the Department' does not correspond with the Department of the Treasury.

Department activities contributing toward these outcomes are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Department in its own right. Administered activities involve the management or oversight by the department on behalf of the Government of items controlled or incurred by the Government. For these purposes, the HIH Claims Support Limited (HCS) and the HIH Claims Support Scheme Trust have been included in the administered statements.

Only one output group is identified for each of Outcomes 1, 2 and 3.

1.2 Basis of accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the Financial Management and Accountability (Financial Statements 2001-02) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The Statements have been prepared having regard to the Explanatory Notes to Schedule 1, and Finance Briefs issued by the Department of Finance and Administration.

The Department's Statements of Financial Performance and Financial Position have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Department's Statement of Financial Position when, and only when, it is probable that future economic benefits will flow and that amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets, which are unrecognised, are reported in the Schedule of commitments and the Schedule of contingencies (other than remote contingencies, which are reported in Note 21H).

Revenue and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of the Department in its present form, and with its present programmes, is dependent on government policy and on continuing appropriations by Parliament for the Department's administration and programmes.

Administered revenues, expenses, assets and liabilities, and cash flows, reported in Note 21 are prepared on the same basis and using the same policies as the departmental items, except where otherwise stated in notes 1.26-1.33.

1.3 Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000-01, except in respect of:

- (a) Output Appropriations (Note 1.4(a));
- (b) Equity Injections (Note 1.5); and
- (c) Presentation and Disclosure of Administered Items (Note 1.26).

1.4 Revenues

Revenues described in this note are revenues relating to the core operating activities of the Department.

(a) Revenues from government — departmental appropriations

The full amount of the appropriation for departmental outputs for the year (less any savings offered up at Additional Estimates) is recognised as revenue. This is a change in accounting policy caused by the introduction of a new requirement to this effect in the Finance Minister's Orders. (In 2000-01, output appropriations were recognised as revenue to the extent the appropriations had been drawn down from the Official Public Account).

The change in accounting policy had no financial effect in 2001-02 as the full amount of the output appropriation for 2000-01 had been drawn down in that year.

(b) Resources received free of charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition.



(c) Other revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Agency revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from disposal of non-current assets is recognised when control of the asset is passed to the buyer.

1.5 Transactions by the Government as owner

From 1 July 2001, appropriations designated as ‘capital — equity injections’ are recognised directly in contributed equity according to the following rules determined by the Finance Minister:

- to the extent that the appropriation is not dependent on future events, as at 1 July; and
- to the extent that it is dependent on specified future events requiring future performance, on drawdown.

The change in accounting policy has no financial effect in 2001-02 because there were no equity injections in 2000-01 and 2001-02 that met the criteria now required by the Finance Minister.

Net assets received under a restructuring of administrative arrangements are designated by the Finance Minister as contributions by owners and adjusted directly against equity. Net assets relinquished are designated as distributions to owners.

1.6 Employee entitlements

Leave

The liability for employee entitlements includes provisions for annual leave and long service leave. No provision is made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Department is estimated to be less than the annual entitlement for sick leave.

The liability for superannuation includes a provision of \$579,431 for superannuation on-costs. This represents a calculation of the proportion of employer superannuation contributions accrued on leave, that is likely to be settled and is in accordance with the accounting principles contained in AAS 30 *Accounting for Employee Entitlements*.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 2002 and is recognised at the nominal amount.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2002. In determining the present value of the liability, the Department has taken into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is also made for separation and redundancy payments in circumstances where the Department has formally identified positions as excess to requirements and a reliable estimate of the amount of the payments can be determined.

Superannuation

Staff of the Department contributes to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$4,539,983 (\$4,528,050 in 2000-01) have been expensed in these financial statements.

A liability for accruals, annual leave and long service leave is included in the Statement of Financial Position. However, the employer contributions fully extinguish the accruing liability, which is then assumed by the Commonwealth.

In 2001-02 Employer Superannuation Productivity Benefit contributions totalled \$935,799. In 2000-01 contributions totalled \$922,343.

1.7 Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

1.8 Borrowing costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in the reporting period does not exceed the amounts of costs incurred in that period.

1.9 Cash

Cash means notes and coins held, deposits held at call with a bank or financial institution and balances of Special Accounts held in the Official Public Account, which are not legal trusts. Most Special Accounts have been recorded using the revenue and expense method in accordance with Finance requirements.

1.10 Financial instruments

Accounting policies for financial instruments are stated at Notes 19 and 21J.



1.11 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost or for nominal consideration are initially recognised as assets and revenue at their fair value at the date of acquisition, unless they are acquired as a consequence of restructuring administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor department's accounts immediately prior to the restructuring.

1.12 Infrastructure plant and equipment

Asset recognition threshold

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Department's Statement of Financial Position, except for purchases of less than \$2,000 and computer equipment of less than \$1,000. These are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluation

Buildings, infrastructure, plant and equipment will be revalued progressively in accordance with the 'deprival' method of valuation in a successive three-year cycle, so that no asset has a value greater than three years old.

Revaluations of infrastructure, plant and equipment are accounted for by separately restating the gross amount and the related accumulated depreciation of the revalued asset.

The Department of the Treasury performed a valuation of buildings, infrastructure, plant and equipment on 30 June 2002. The valuation was performed by the Australian Valuation Office and was based on valuing assets using the deprival method of valuation.

The Mint performed a valuation of infrastructure, plant and equipment (except master tooling) on 30 June 2001. The valuation was performed by the Australian Valuation Office and was based on valuing the assets at depreciated replacement cost.

Valuations are on a three-year basis. Acquisitions subsequent to the valuation are valued at historic cost.

Assets in each class acquired after the commencement of the progressive revaluation cycle will be reported on the basis of the value initially recognised on acquisition for the duration of the progressive revaluation then in progress.

The financial effect of the move to progressive revaluation is that the carrying amounts of assets will reflect current values, and depreciation charges will reflect the current cost of the service potential consumed in each period.

Recoverable amount test

Schedule 1 requires the application of the recoverable amount test to departmental non-current assets in accordance with AAS 10 *Recoverable Amount of Non-current Assets*. The carrying amounts of infrastructure, plant and equipment held by the Department have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts the relevant cash flows have been discounted to their present value.

Depreciation and amortisation

Depreciable infrastructure, plant and equipment are written off to their estimated residual values over their estimated useful lives to the Department using the straight line method of depreciation. Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease. Useful lives and residual values are reviewed at each balance date and necessary adjustments made.

Depreciation and amortisation rates applying to each class of depreciable assets are based on the following useful lives:

	2001-02	2000-01
Computers, plant and equipment	3-10 years	3-10 years
Leasehold improvements	5-10 years	5-10 years
Motor vehicles	4 years	4 years
Office equipment	5 years	5 years
Capitalised software	3-5 years	3-5 years
Factory machinery	10-20 years	10-20 years

Depreciation and amortisation rates and methods are reviewed at each balance date and necessary adjustments are recognised in the current and future reporting periods as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4C.

1.13 Inventories

Inventories are brought to account at the lower of cost or net realisable value. Work in progress and finished goods are brought to account to include direct costs and a proportion of direct labour and overhead. All precious metals are purchased and brought to account at cost and expensed as used. Indirect materials are expensed at the time of purchase.

1.14 Intangible assets

In-house software has been revalued over the financial year 1999-00 and brought to account at valuation. As of 1 July 2001, the carrying amount of intangibles is deemed to be at cost. The remaining purchased software has been recorded at the lower of cost or recoverable amount. Software is amortised on a straight line basis over its anticipated useful life to the Department.

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flow, including the expected cash inflows from future appropriations by the Parliament, have been discounted to their present value.

No write-down to recoverable amount was made in 2001-02.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives.



Useful lives are:

	2001-02	2000-01
Internally developed software	2-5 years	2-5 years

1.15 Taxation

The Department of the Treasury is exempt from all forms of taxation except for Fringe Benefits Tax and Goods and Services Tax. The Mint is liable for all forms of taxation including Payroll Tax, Company Tax equivalent, Fringe Benefits Tax and Goods and Services Tax on sales of products. Company Tax equivalent became applicable for the first time in 1998-99, as a result of the competitive neutrality arrangements.

1.16 Capital use charge

A capital use charge of 11 per cent (12 per cent in 2000-01) is imposed by the Government on the net departmental assets. The charge is adjusted to take account of asset gifts and revaluation increments during the financial year.

1.17 Foreign currency

Transactions denominated in foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency monetary items are translated at the exchange rates current as at balance date and any differences are brought to account in the Statement of Financial Performance. Where a purchase is specifically hedged, exchange gains and losses on hedging transactions arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are included with the purchase or sale. Exchange gains and losses arising from the hedge transaction after that date are taken to the Statement of Financial Performance.

1.18 Insurance

The Department has insured for risks through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is insured through Comcare Australia.

1.19 Comparative figures

Comparative figures have been adjusted to conform to changes in presentation within these financial statements where required.

1.20 Rounding

Amounts are rounded to the nearest \$1,000 except in relation to the following items:

- act of grace payments and waivers;
- special accounts and special public monies;
- remuneration of executives; and
- remuneration of auditors.

1.21 Bad and doubtful debts

Bad debts are written off during the year in which they are identified to the extent to which they have not been provided for.

A provision is raised for any doubtful debts based on a review of all outstanding accounts as at year-end.

1.22 Principles of consolidation/aggregation

The financial statements of the Mint are consolidated into the Department's financial statements. All balances and transactions between the Mint and the Department of the Treasury have been eliminated on consolidation. Australian Government Actuary (AGA) has also been consolidated into the Department's financial statements and all balances and transactions between AGA and the Department of the Treasury have been eliminated on consolidation. The HCS Scheme has been consolidated into the Administered Notes and all balances and transactions between the HCS Scheme and Administered have been eliminated on consolidation.

1.23 Royal Australian Mint — seigniorage and repurchase of circulating coins

Seigniorage is collected by the Mint on behalf of the Commonwealth. Seigniorage represents the difference between the face value of coinage sold to the Reserve Bank of Australia and its cost of production to the Mint.

The Mint repurchases circulating coins on behalf of the Commonwealth. The costs incurred by the Mint in repurchasing circulating coins are offset to an extent by the sale of scrap metal and the balance is supplemented by the Commonwealth through a reduction in the total amount paid to the Commonwealth (see Note 7).

The revenues from circulating coin sales are not directly available to be used by the Mint for its own purposes and are remitted to the Commonwealth's Official Public Account. Seigniorage for 2001-02 is \$129.538 million (\$59.839 million in 2000-01).

1.24 Investment in Sydney 2000 Olympic Coin Program

General

The Royal Australian Mint and the Perth Mint were joint venturers in the Sydney 2000 Olympic Coin Program (STOCP), marketing and distributing Sydney 2000 Olympic Coins. This joint venture concluded in June 2002.

The Royal Australian Mint's interest in STOCP is carried at the recoverable amount.

The Sydney 2000 Olympic Coin Program consists of 28 base metal coins, 17 silver coins, 8 gold coins and a one kilo silver coin.



Profit distribution

The distribution of any profit is made on the following basis:

	Royal Australian Mint Per cent	Perth Mint Per cent
Base metal	50	50
Silver	50	50
Gold	50	50

1.25 Economic dependency

The Mint is economically dependent on the Reserve Bank of Australia for the purchase of circulating coin.

1.26 Reporting of administered activities

Administered revenues, expenses, assets and liabilities and cash flows are presented in the notes to these financial statements. In 2000-01, summary information was presented in schedules following the primary agency statements. Either presentation is permitted by AAS 29 *Financial Reporting by Government Departments*.

These financial statements do not report the receipt of administered appropriations from the Official Public Account (OPA) as administered revenues, nor are transfers of administered receipts to the OPA reported as administered expenses. This change in 2001-02 acknowledges that the administered activities of agencies are performed on behalf of the Commonwealth Government and it is not appropriate to identify resources transferred between administered activities of different agencies as revenues and expenses of the administered entity. Generally, therefore, the notes to these financial statements do not report any transactions or balances that are internal to the administered entity. One exception is the disclosure of administered cash flows, since cash transferred between the OPA and Treasury's administered bank account is necessary for the completeness of cash flow disclosures.

Accounting policies for administered items are as stated in Note 1.2 above and those accounting policies that are relevant to particular administered activities only are discussed below.

(a) Revenue from government — administered appropriations

All administered revenues described in this note are revenues relating to the core operating activities performed by the Department on behalf of the Commonwealth.

(b) Other revenue

Guarantees

Guarantees provided under legislation within the portfolio responsibility of the Treasurer are recognised as liabilities when it is probable that the guarantee will be called and it can be reliably measured. In all other instances such guarantees are disclosed in the Schedule of Administered Remote Contingencies (Note 21H).

Reserve Bank of Australia dividend

Dividends from the Reserve Bank of Australia (RBA) are recognised when determination is made by the Treasurer. The basis of payment of dividends is a memorandum of understanding with the Treasurer. Dividend revenue is brought to account once the right to control the income stream is established. On this basis the RBA's dividend for 2001-02 will be recognised in Treasury's financial statements in 2002-03.

The amount of the dividend for 2001-02 was \$1.889 billion.

1.27 Administered capital

Appropriations of 'administered capital' are recognised in administered equity as the amounts appropriated by Parliament are drawn down.

1.28 Grants

Treasury administers a number of grant schemes on behalf of the government.

Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied. A commitment is recorded when the government has a binding agreement to make the grants but services have not been performed or criteria satisfied. Where grants moneys are paid in advance of performance or eligibility, a prepayment is recognised.

Payments to the States and Territories

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

The largest payment is the provision of GST revenue. The Commonwealth pays to the States all GST collected, and commenced monthly payments of GST revenue to the States in July 2000. GST revenue payments to the States in 2001-02 were distributed in accordance with relativities recommended by the Commonwealth Grants Commission. Treasury also administers General Revenue Assistance payments to the States and Territories consisting of Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance.

- Budget Balancing Assistance arises from the Commonwealth's guarantee that in each of the transitional years following the introduction of the GST, each State's budgetary position will be no worse off than had the reforms in the Intergovernmental Agreement on Commonwealth State Financial Relations not been implemented.
- National Competition Policy Payments to the States and Territories are conditional on the States and Territories meeting their obligations under the Agreement to implement the National Competition Policy and related reforms.
- Special Revenue Assistance is provided to the ACT for special fiscal needs. Special fiscal needs take account of the differences between the Commonwealth's financial arrangements with the ACT and those generally existing between the Commonwealth and the States.

As a consequence of the Australian Taxation Office (ATO) collecting GST for distribution to the States, the States make payments to the Commonwealth to meet the agreed costs incurred in administering the GST. The Department is responsible for collection of GST administration fees from the States and Territories.



A new First Home Owners Scheme commenced on 1 July 2000. Under the First Home Owners Scheme, a grant of \$7,000 is available to eligible applicants who are buying or building their first home. The First Home Owners Scheme is administered by the States on the basis of principles agreed to by all jurisdictions in the Intergovernmental Agreement.

- On 9 March 2001, the Commonwealth announced that an additional \$7,000 grant, fully funded by the Commonwealth, would be available for first home owners building or purchasing new but previously unoccupied homes before 31 December 2001. In December 2001, the Government announced a phase down of the additional grant making it available for a further six months, from 1 January 2002, at a reduced rate of \$3,000 per grant. The additional grant ceased on 30 June 2002, while the original scheme will continue to offer \$7,000 grants to eligible first home buyers. The Government also announced that more liberal construction commencement and completion requirements will apply to additional First Home Owners Scheme grants for contracts made on or after 9 October 2001.

Mirror taxes collected by State and Territory governments

On behalf of the States, the Commonwealth imposes mirror taxes, which replace State taxes in relation to Commonwealth places that may be constitutionally invalid. Mirror taxes are collected by the States and are paid to the Commonwealth and immediately repaid to the States. State governments bear the administration costs of collecting mirror taxes.

1.29 Administered investments

Development banks

Investments in development banks are classified as non-monetary assets and owing to their nature, these investments are not revalued. As such, these investments are recognised at historical cost where the information is available. Where historical cost records are not readily obtainable, a notional cost has been established at 30 June 1993 by reference to the development banks' financial statements and exchange rates at that time.

Initial investments in the European Bank for Reconstruction and Development, Asian Development Bank, the International Finance Corporation and the International Bank for Reconstruction and Development have been recognised at notional cost. Subsequent capital subscriptions have been recognised at historical cost.

Investment in the Multilateral Investment Guarantee Agency is recognised at historical cost.

International Monetary Fund (IMF)

The *quota* is the current value in Australian dollars of Australia's subscription to the IMF.

The Special Drawing Rights allocation liability reflects the current value in Australian dollars of the liability to repay to the IMF Australia's cumulative allocation of SDRs, and is classified as an 'Other payables'.

Portfolio agencies

The Commonwealth's investment in other controlled authorities and companies in this portfolio is valued at the aggregate of the Commonwealth's share of the net assets and net liabilities of each entity as at 30 June 1997.

1.30 Promissory notes

Promissory notes, which have been issued in foreign currencies, are translated at the spot rate at balance date. Foreign currency gains and losses are recognised where applicable. Promissory notes have been issued to the International Monetary Fund, International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the Asian Development Bank and the Multilateral Investment Guarantee Agency.

1.31 Mortgage insurance policies written by Housing Loans Insurance Corporation up to 12 December 1997

The Commonwealth sold the Housing Loans Insurance Corporation (HLIC) on 12 December 1997. Terms and conditions of the sale included that the Commonwealth shall remain responsible for the mortgage insurance policies written up to the time of the sale.

The sale of the HLIC was conducted by the Office of Asset Sales and Information Technology Outsourcing.

Accounting policies adopted are:

Premiums

Premiums comprise amounts charged to the policyholder or other insurer, excluding amounts collected on behalf of third parties, principally stamp duties. The earned portion of premiums received and receivable is recognised as revenue. Premiums are treated as earned from the date of attachment of risk.

Premiums received in respect of insured loans are apportioned over a number of years in accordance with an actuarial determination of the pattern of risk in relation to the loans. Premium amounts carried forward in this way are credited to 'Provision for unearned premiums'.

Recoveries

Claims incurred recoveries and a receivable for outstanding recoveries are recognised in respect of insurance policies. The asset is assessed on an actuarial basis and covers recoveries incurred but not yet received, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The asset (HLIC premiums receivable) has been recognised in Note 21C, based on the estimated discounted future cash flows.

Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of insurance policies. The liability is assessed on an actuarial basis and covers claims incurred but not yet paid, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The liability has been recognised based on the estimated discounted future cash flows.

Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits. Deferred acquisition costs are amortised on an actuarial basis over the reporting periods expected to benefit from the expenditure.

1.32 HIH Claims Support Scheme Liability

HIH Claims Support Limited (HCS) was established as a not-for-profit company to provide Commonwealth funded assistance to policyholders suffering financial hardship as a result of the



failure of the HIH Group Companies and the appointment on 15 March 2001 of the Provisional Liquidators of the HIH Group Companies. The HCS Trust was established in order to perform its obligations under the Commonwealth Management Agreement dated 6 July 2001. As the Beneficiary of this Trust, the Commonwealth is entitled to any residual balance of the Trust, after the collection of recoveries and making of payments to claimants.

An actuarial assessment was conducted by an independent actuary as at 31 March 2002 and the results of the review indicated that the overall cost of the scheme is estimated to be \$597 million. At the year-end the remaining estimated liability was \$496.35 million (see Note 21D) after making payments during the year. This estimate incorporates an allowance for future inflation and provides for the estimated costs of both the claim handling expenses and the scheme management fees, but does not take account for discounting of future cash flows to the valuation date.

There is inherent uncertainty regarding the measurement of the Commonwealth liability. One of the key results of the independent actuarial assessment was that due to the relative immaturity of the Scheme, and because at the time of the assessment a significant portion of the major claim types were yet to be reviewed by the claims managers, the result remains highly uncertain and requires close monitoring. As the Scheme matures, this element of the uncertainty should reduce (see Note 21G).

The Commonwealth will therefore continue to assess the estimated liability in future years. Further assessments will also include quantifying possible recoveries to be made by HCS, which is acting as the Trustee on behalf of the Commonwealth in relation to the HIH Claims Support Scheme.

1.33 United Medical Protection Limited and Australasian Medical Insurance Limited

Following the decision on 29 April 2002 by the Boards of United Medical Protection Limited and Australasian Medical Insurance Limited (UMP/AMIL) to seek the appointment of a Provisional Liquidator, the Commonwealth committed to providing an indemnity to the Provisional Liquidator. The terms of the indemnity were set out in a letter from the Minister for Health and Ageing to medical practitioners, dated 1 May 2002 and in the Prime Minister's subsequent press release of 31 May 2002.

There are four components of the Commonwealth assistance package in relation to UMP/AMIL and other Medical Defence Organisations (MDOs) (components (a) to (c) only relate to UMP/AMIL).

The components are:

- (a) an indemnity for claims notified before 29 April 2002 that are finalised on or before 31 December 2002 (see also Note 21H);
- (b) an indemnity for claims notified in the period 29 April 2002 to 31 December 2002 (see also Note 21H);
- (c) an indemnity for claims as a result of incidents that occur between 29 April 2002 and 30 June 2002 (see also Note 21G); and
- (d) the establishment of a scheme to fund currently unfunded incurred but not reported (IBNRs) liabilities of MDOs.

The Commonwealth's commitments under components (a) through to (c) are set out in a Deed of Indemnity between the Commonwealth and UMP/AMIL and the Provisional Liquidator of UMP/AMIL that was approved by the NSW Supreme Court on 25 July 2002.

An Appropriation Bill (the Medical Indemnity Agreement (Financial Assistance — Binding Commonwealth Obligations) Bill 2002), was introduced on 26 June 2002, to cover payments by the Commonwealth in accordance with this Deed.

The cost of any liability of components (a) and (b) of the indemnity for the period 1 July 2002 to 31 December 2002 will be met by a levy on medical practitioners. It is noted that a final actuarial assessment of the liabilities under components (a) and (b) has not been undertaken. The outcome is further contingent on the UMP/AMIL sale process currently being conducted by the Provisional Liquidator (who has received several expressions of interest).

It is expected that for component (c) of the Commonwealth's assistance package, there will be a net liability and the Commonwealth had commissioned an independent actuary to determine the likely exposure. This work was still being completed at the time of reporting.

In relation to component (d), a figure of \$500.8 million has been recognised in the accounts in respect of IBNR claims, which represent the estimated liability to UMP/AMIL for claims that result from incidents that have occurred prior to 3 May 2002 but not yet notified to the group (see Note 21D). This estimate is inherently uncertain and that in this case the uncertainty is exacerbated by the instability in the number and risk composition of incidents and claims notified in recent years, and by uncertainty regarding the effects on claim costs of recent legislative changes and the Visiting Medical Officer (VMO) initiative in New South Wales.

The estimate is based on the latest information available to the Department from a report provided by the provisional liquidator of UMP/AMIL to the NSW Supreme Court in a report dated 29 August 2002. It represents the upper figure of a range nominated by the report for the estimated liability. Further actuarial assessments of the estimated liability are currently being undertaken on behalf of the Provisional Liquidator. The assessments had not been completed at the time of reporting.

It should be noted that the estimate may cover some incidents that are not intended to be covered by the Commonwealth's proposed IBNR scheme. UMP is the largest of the six MDOs currently operating in Australia and the IBNRs of the other MDOs are expected to be immaterial (furthermore there is a lack of recent or consistent information available on the other MDOs).

It should also be noted that the Government has announced that it will recoup the Commonwealth's liability by a levy on medical practitioners in those MDOs with unfunded IBNRs.

Note 2: Events occurring after balance date

1. The RBA has calculated a dividend of \$1.889 billion in respect of its results for the year ended 30 June 2002. The Treasurer will ratify the payment in accordance with the recommendation of the RBA's Board of Directors.

As a consequence, Treasury will record this dividend income in its accounts for the year ended 30 June 2003 in accordance with its accounting policy (Note 1.26).

2. On 1 July 2002 responsibility for the design of tax laws and regulations was relocated from the Australian Taxation Office (ATO) to the Department of the Treasury and this resulted in a transfer of 102 staff.

Note 3: Operating revenues

	2001-02 \$'000	2000-01 \$'000
Note 3A: Revenues from government		
Appropriations for outputs	87,409	74,180
Resources received free of charge		
ANAO audit fees	278	255
Total	87,687	74,435
Note 3B: Sales of goods and services		
Sale of goods and services	5,236	9,432
Net coin sales	62,460	42,200
Total	67,696	51,632
Goods and services were sold as follows:		
Government	2,113	2,714
Non-Government	65,583	48,918
Total	67,696	51,632
Note 3C: Net gains from sales of assets		
Non-financial assets - infrastructure, plant and equipment		
Proceeds from sale	52	-
Net book value at sale	44	-
Net gain	8	-
Less: Infrastructure, plant and equipment written off on disposal	(67)	-
Net loss on disposal of infrastructure, plant and equipment	(59)	-
Note 3D: Other revenue		
Revenue from STOC Program	125	-
Other	-	27
Total	125	27

Note 4: Operating expenses

	2001-02 \$'000	2000-01 \$'000
Note 4A: Employee expenses		
Remuneration (for services provided)	50,049	46,161
Separation and redundancy	727	115
Total remuneration	50,776	46,276
Other employee expenses	950	835
Total	51,726	47,111
Note 4B: Suppliers expenses		
Supply of goods and services	77,131	59,271
Operating lease rentals ¹	8,044	6,316
Total	85,175	65,587
Note 4C: Depreciation and amortisation		
Depreciation of property, plant and equipment	2,231	2,003
Amortisation of software	874	1,182
Amortisation of leased assets	863	1,011
Total	3,968	4,196
Note 4D: Write down of assets		
Plant and equipment - write-off on disposal	67	-
Plant and equipment - revaluation decrement	2,124	-
Total	2,191	-
Note 4E: Net loss on sale of Asset		
Revenue (proceeds) from sale	-	13
Net book value	-	(313)
Net loss on sale	-	(300)
Note 4F: Other operating expenses		
Other	-	1,624
Repurchase of numismatic coins	660	537
Royalty on numismatic sales	1,345	1,050
Total	2,005	3,211

¹ These comprise minimum lease payments only.

Note 5: Borrowing cost expenses

	2001-02 \$'000	2000-01 \$'000
Loans	667	1,017
Leases	82	80
Total	749	1,097

Note 6A: Consolidation

	Treasury		Royal Australian Mint		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2001-02 \$'000
Revenues from ordinary activities						
Revenues from government	87,607	74,355	80	80	87,687	74,435
Sales of goods and services	2,219	2,715	65,477	48,917	67,696	51,632
Assets recognised for the first time	274	-	-	-	274	-
Interest	731	872	764	173	1,495	1,045
Net gain from sale of assets	8	-	-	-	8	-
Other Revenue	-	27	125	-	125	27
Total revenues from ordinary activities	90,839	77,969	66,446	49,170	157,285	127,139
Expenses from ordinary activities						
Employee expenses	45,594	40,792	6,132	6,319	51,726	47,111
Suppliers expenses	29,456	27,248	55,719	38,339	85,175	65,587
Write down of assets	2,191	-	-	-	2,191	-
Net loss from sale of assets	-	219	-	81	-	300
Depreciation and amortisation	3,440	3,222	528	974	3,968	4,196
Other operating expenses	-	20	2,005	3,191	2,005	3,211
Total expenses from ordinary activities	80,681	71,501	64,384	48,904	145,065	120,405
<i>Borrowing costs expense</i>	749	1,097	-	-	749	1,097
Operating surplus before income tax expense	9,409	5,371	2,062	266	11,471	5,637
Company tax expenses equivalent	-	-	(603)	(79)	(603)	(79)
Net surplus after income tax expense	9,409	5,371	1,459	187	10,868	5,558
Net surplus attributable to the Commonwealth	9,409	5,371	1,459	187	10,868	5,558
Net credit (debit) to asset revaluation reserve	(96)	-	-	(1,501)	(96)	(1,501)
Total revenues, expenses and valuation adjustments recognised directly in equity	(96)	-	-	(1,501)	(96)	(1,501)
Total changes in equity other than those resulting from transactions with owners as owners	9,313	5,371	1,459	(1,314)	10,772	4,057

Note: The above amounts have been consolidated into the department's balances shown in these financial statements.

Note 6B: Consolidation (continued)

	Treasury		Royal Australian Mint		Total	
	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Financial assets						
Cash	8,368	3,194	2,064	1,629	10,432	4,823
Investments	8,000	13,000	-	675	8,000	13,675
Receivables	1,213	1,674	1,097	4,353	2,310	6,027
Total financial assets	17,581	17,868	3,161	6,657	20,742	24,525
Non-financial assets						
Infrastructure, plant and equipment	14,146	14,755	3,071	2,578	17,217	17,333
Inventories	-	-	17,222	14,016	17,222	14,016
Intangibles	2,010	2,208	426	457	2,436	2,665
Other	1,968	1,340	4,884	5,214	6,852	6,554
Total non-financial assets	18,124	18,303	25,603	22,265	43,727	40,568
Total assets	35,705	36,171	28,764	28,922	64,469	65,093
LIABILITIES						
Interest bearing liabilities						
Loans	-	9,101	-	-	-	9,101
Leases	736	869	-	-	736	869
Total interest bearing liabilities	736	9,970	-	-	736	9,970
Provisions						
Employees	14,410	12,788	2,429	2,748	16,839	15,536
Other	160	-	21	452	181	452
Total provisions	14,570	12,788	2,450	3,200	17,020	15,988
Payables						
Suppliers	3,725	4,839	1,930	5,713	5,655	10,552
Other	3,659	1,760	3,345	694	7,004	2,454
Total payables	7,384	6,599	5,275	6,407	12,659	13,006
Total liabilities	22,690	29,357	7,725	9,607	30,415	38,964
EQUITY						
Parent entity interest						
Asset revaluation reserve	624	720	2,994	2,994	3,618	3,714
Contributed equity	3,763	3,763	313	-	4,076	3,763
Retained surpluses	8,628	2,331	17,732	16,321	26,360	18,652
Total parent entity interest	13,015	6,814	21,039	19,315	34,054	26,129
Total equity	13,015	6,814	21,039	19,315	34,054	26,129

Note: The above amounts have been consolidated into the department's balances shown in these financial statements.



Note 7: Business operations

	2001-02	2000-01
	\$'000	\$'000
Seigniorage	129,538	59,839
Royalty on numismatic coin sales	1,319	1,049
STOCP royalty to Treasury	113	4,961
Loss from withdrawn circulating coin	(857)	(582)
Trust fund surplus	159	4,280
Company and payroll tax equivalents	924	453
STOCP royalties prior years overpaid	(447)	-
Capital injection	(313)	-
Seigniorage withheld	(2,990)	-
Actual surplus funds paid to the Commonwealth	127,446	70,000

Note 8: Financial assets

	2001-02	2000-01
	\$'000	\$'000
Note 8A: Cash		
Cash at bank and on hand	10,432	4,823
All cash recognised is a current asset		
Note 8B: Investments		
Term deposits (current)	8,000	13,000
RAM interest in the STOCP at recoverable amount	-	675
Total	8,000	13,675
Note 8C: Receivables		
Goods and services	1,972	4,888
Net GST receivable	258	669
Other debtors	134	555
Less: Provision for doubtful debts	(54)	(85)
Total	2,310	6,027
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	1,732	5,482
Overdue by		
Less than 30 days	459	285
30 to 60 days	89	40
60 to 90 days	61	305
More than 90 days	23	-
Total receivables (gross)	2,364	6,112

Note 9: Non-financial assets

Note 9A: Leasehold improvements

	2001-02 \$'000	2000-01 \$'000
Leasehold improvements - at valuation	8,760	6,450
Accumulated amortisation	(1,580)	(347)
Total leasehold improvements (non-current)	7,180	6,103

Note 9B: Infrastructure, plant and equipment

	2001-02 \$'000	2000-01 \$'000
Plant and equipment - at cost	1,724	717
Accumulated depreciation	(227)	(100)
	1,497	617
Plant and equipment - at 2002 valuation	8,299	7,739
Accumulated depreciation	(2,153)	(1,250)
	6,146	6,489
Plant and equipment - at 2001 valuation	8,163	10,764
Accumulated depreciation	(6,589)	(7,705)
	1,574	3,059
Plant and equipment under finance lease	1,672	3,216
Accumulated amortisation	(852)	(2,150)
	820	1,066
Total infrastructure, plant and equipment (non-current)	10,037	11,231
Total leasehold improvements, infrastructure, plant and equipment (non-current)	17,217	17,334

Note 9C: Intangibles

	2001-02 \$'000	2000-01 \$'000
Computer Software:		
Intangibles - at cost	5,821	3,495
Accumulated amortisation	(3,385)	(2,188)
	2,436	1,307
Intangibles - at 1999-2002 valuation	-	1,695
Accumulated amortisation	-	(337)
	-	1,358
Total intangibles (non-current)	2,436	2,665



Note 9: Non-financial assets (continued)

Note 9D: Analysis of property, plant, equipment and intangibles

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles

	Buildings - leasehold improvements \$'000	Plant & equipment \$'000	Intangibles - computer software \$'000	Total \$'000
Gross value as at 1 July 2001	6,450	22,436	5,193	34,078
Additions: Purchases of assets	1,146	4,093	490	5,729
Revaluations:				
write-ups/(write-downs)	1,273	(2,615)	-	(1,342)
Assets transferred in/(out)	-	(172)	172	-
Write-offs	(34)	(1,132)	(34)	(1,200)
Disposals	(75)	(2,751)	-	(2,826)
Gross value as at 30 June 2002	8,760	19,859	5,821	34,440
Accumulated depreciation/ amortisation as at 1 July 2001	347	11,205	2,528	14,080
Disposals	-	(2,642)	-	(2,642)
Depreciation/amortisation charge for the year	690	2,404	873	3,967
Revaluations:				
write-ups/(write-downs)	576	(716)	18	(122)
Assets transferred in/(out)	-	1	(1)	-
Write-offs	(33)	(430)	(33)	(496)
Accumulated depreciation/ amortisation as at 30 June 2002	1,580	9,822	3,385	14,787
Net book value as at 30 June 2002	7,180	10,037	2,436	19,653
Net book value as at 1 July 2001	6,103	11,231	2,665	19,998

Table B: Assets at valuation

	Buildings - leasehold improvements \$'000	Plant & equipment \$'000	Intangibles - computer software \$'000	Total \$'000
As at 30 June 2002				
Gross value	8,760	16,462	-	25,222
Accumulated depreciation/ amortisation	(1,580)	(8,742)	-	(10,322)
Net book value	7,180	7,720	-	14,900
As at 30 June 2001				
Gross value	-	10,764	1,695	12,459
Accumulated depreciation/ amortisation	-	(7,705)	(337)	(8,042)
Net book value	-	3,059	1,358	4,417

Note 9: Non-financial assets (continued)

Note 9D: Analysis of property, plant, equipment and intangibles (continued)

Table C: Assets held under finance lease

	Buildings - leasehold improvements \$'000	Plant & equipment \$'000	Intangibles - computer software \$'000	Total \$'000
As at 30 June 2002				
Gross value	-	1,672	-	1,672
Accumulated depreciation/ amortisation	-	(852)	-	(852)
Net book value	-	820	-	820
As at 30 June 2001				
Gross value	-	3,216	-	3,216
Accumulated depreciation/ amortisation	-	(2,150)	-	(2,150)
Net book value	-	1,066	-	1,066

Table D: Assets under construction

	Buildings - leasehold improvements \$'000	Plant & equipment \$'000	Intangibles - computer software \$'000	Total \$'000
As at 30 June 2002				
Gross value	-	149	-	149
Accumulated depreciation/ amortisation	-	-	-	-
Net book value	-	149	-	149
As at 30 June 2001				
Gross value	75	179	-	254
Accumulated depreciation/ amortisation	-	-	-	-
Net book value	75	179	-	254

Note 9E: Inventories

	2001-02 \$'000	2000-01 \$'000
Raw materials	6,620	7,632
Work in progress	2,249	2,901
Finished goods	8,353	3,483
Total	17,222	14,016

All departmental inventories are current assets.

Note 9: Non-financial assets (continued)

Note 9F: Other non-financial assets

	2001-02	2000-01
	\$'000	\$'000
Coin collection	3,660	3,660
Prepayments	2,470	2,355
Prepaid precious metal	722	539
Total	6,852	6,554

All other non-financial assets are current assets

Note 9G: Company tax equivalent

	2001-02	2000-01
	\$'000	\$'000
Company tax equivalent for business operations	603	79
Total	603	79

Note 10: Interest bearing liabilities

	2001-02 \$'000	2000-01 \$'000
Note 10A: Loans		
Loans from government	-	9,101
Total	-	9,101
Maturity schedule for loans:		
Payable		
within one year	-	1,263
in one to five years	-	5,052
in more than five years	-	2,786
	-	9,101
Note 10B: Leases		
Finance lease commitments:		
Payable		
within one year	378	661
in one to five years	437	216
in more than five years	-	63
Minimum lease payments	815	940
Deduct: future finance charges	(79)	(71)
Lease liability	736	869
Total lease liability is represented by:		
Current	330	610
Non-current	406	259
Total lease liability	736	869

Finance leases exist in relation to certain major office equipment assets. The leases are non-cancellable and for fixed terms averaging three years, with a maximum of five years. The Department guarantees the residual values of all assets leased. There are no contingent rentals.



Note 11: Provisions

	2001-02 \$'000	2000-01 \$'000
Note 11: Employee provisions		
Salaries and wages	1,176	1,091
Annual leave	5,597	5,163
Long service leave	9,321	8,772
Superannuation	746	510
Aggregate employee entitlement liability	16,839	15,536
Other employee entitlements	181	452
Total	17,020	15,988
Current	7,700	7,216
Non-current	9,320	8,772

Note 12: Payables

	2001-02 \$'000	2000-01 \$'000
Note 12A: Supplier payables		
Trade creditors	5,655	10,552
Total	5,655	10,552
All supplier payables are current liabilities		
Note 12B: Other payables		
Other creditors	6,250	1,325
STOCP payables	-	217
Trust fund surplus	754	912
Total	7,004	2,454

All other payables are current liabilities.

Note 13: Equity

	Accumulated results		Asset revaluation reserves		Total reserves		Contributed equity		TOTAL EQUITY	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Note 13: Analysis of equity										
Balance 1 July 2001	18,652	16,198	3,714	3,714	5,215	3,763	26,129	25,176		
Operating result	10,868	5,558	-	-	-	-	10,868	5,558		
Injection of capital	-	-	-	-	-	-	313	-		
Capital use charge	(3,160)	(3,104)	-	-	-	-	(3,160)	(3,104)		
Capitalisation of assets	-	-	-	-	-	-	-	-		
Net asset revaluation decrease	-	-	(96)	(96)	(1,501)	-	(96)	(1,501)		
Closing balance 30 June 2002	26,360	18,652	3,618	3,618	3,714	3,763	34,054	26,129		
Less: outside equity interests	-	-	-	-	-	-	-	-		
Total equity attributable to the Commonwealth	26,360	18,652	3,618	3,618	3,714	3,763	34,054	26,129		

Transactional banking arrangements introduced from 1 July 1999 enabled agencies to manage their surplus cash balances and earn interest on them. Reviews are being conducted by the Department of Finance and Administration with each agency to determine whether interest earned to 30 June 2002 was consistent with the Government's budget-neutrality condition for the arrangements. The review in this agency indicated excess interest amounting to \$1.145 million. However, as at the date of signing these financial statements, no decision had been made by the Government of the amount, if any, of the distribution of equity to be made to it by Treasury.

Note 14: Cash flow reconciliation

	2001-02 \$'000	2000-01 \$'000
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus before extraordinary items	10,868	5,558
Restructuring	-	-
Net surplus	10,868	5,558
Profit distribution	-	1,604
Depreciation/amortisation	3,939	4,196
Loss on disposal of non-current assets	69	300
Write down of assets	2,127	-
Assets recognised for the first time	(274)	-
Profit on sale of non-current assets	(9)	-
Provision for doubtful debts	-	21
(Increase)/decrease in receivables	3,714	(2,149)
(Increase)/decrease in prepayments	(298)	4,460
Increase in inventories	(3,208)	(2,037)
Increase in employee liabilities	988	790
Increase/(decrease) in suppliers	(2,667)	6,894
Decrease in other liabilities	(2,382)	(1,544)
Net cash provided by operating activities	12,868	18,093

Note 15: Executive remuneration

Total remuneration includes actual salary, all allowances, employer superannuation component, vehicle costs and an estimate of the non-salary component of the Senior Executive Service package.

For 2001-02, remuneration includes net accruals for annual leave and long service leave.

	2001-02 Number	2000-01 Number
\$120,001 to \$130,000	1	3
\$130,001 to \$140,000	2	9
\$140,001 to \$150,000	7	10
\$150,001 to \$160,000	8	4
\$160,001 to \$170,000	5	2
\$170,001 to \$180,000	3	2
\$180,001 to \$190,000	1	3
\$190,001 to \$200,000	5	-
\$200,001 to \$210,000	-	1
\$210,001 to \$220,000	1	-
\$230,001 to \$240,000	1	1
\$240,001 to \$250,000	-	1
\$260,001 to \$270,000	1	-
\$270,001 to \$280,000	-	1
\$300,001 to \$310,000	-	1
\$330,001 to \$340,000	1	-
	36	38
The aggregate amount of total remuneration of executive officers shown above	\$6,194,862	\$6,184,010
The aggregate amount of performance payments during the year to executive officers shown above	\$340,005	\$170,422



Note 16: Services provided by the Auditor-General

	2001-02	2000-01
	\$	\$
Financial statement audit services are provided free of charge to the department.		
The fair value of the services provided was:		
Royal Australian Mint	80,000	80,000
Treasury	198,000	175,000
Total	278,000	255,000

Note: the above amounts are exclusive of GST.

Note 17: Average staffing levels

	2001-02	2000-01
	Number	Number
Treasury	562	525
Royal Australian Mint	99	115
Total	661	640

Note 18: Act of grace payments, waivers and amounts written off

	2001-02	2000-01
	\$	\$
One act of grace payment was made during the reporting period.	7,000	-
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i>	-	-
Amounts written off in accordance with subsection 47 (1) of the <i>Financial Management and Accountability Act 1997</i>	7,000	-

Note 19: Financial instruments

Note 19A: Terms, conditions and accounting policies

Financial instruments	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial assets			
Cash — at bank	8A	<p>Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.</p> <p>Deposits are recognised at their nominal amounts.</p>	<p>The Department of the Treasury maintains bank accounts with the Reserve Bank of Australia for the administration of petty cash and for the receipt and payment of monies.</p> <p>The Royal Australian Mint maintains its own commercial accounts for the conduct of its business operations.</p> <p>Credit sales are normally on 30 day terms.</p>
Receivables for goods and services	8C	<p>These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.</p>	
Investments	8B	<p>Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.</p>	<p>The Department of the Treasury maintains term deposit accounts with the Reserve Bank of Australia. Rates have averaged 4.4 per cent for 2001-02.</p>

Note 19: Financial instruments (continued)

Note 19A: Terms, conditions and accounting policies (continued)

Financial instruments	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial liabilities			
Trade creditors and accruals	12A	<p>Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.</p> <p>Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).</p>	Trade liabilities are normally settled on 30 day terms.
Finance lease liabilities	10B	Liabilities are recognised at the present value of minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	At reporting date, the department had finance leases with terms averaging 3 years. The interest rate implicit in the leases averaged 9.06 per cent. The lease assets secure the lease liabilities.



Note 19: Financial instruments (continued)

Note 19B: Interest rate risk

Financial instrument	Notes	Floating interest rate		Fixed interest rate			Non-interest bearing		Total		Weighted average effective interest rate	
		01-02 \$'000	00-01 \$'000	1 year or less	Maturing in 1 to 5 years	> 5 years	01-02 \$'000	00-01 \$'000	01-02 \$'000	00-01 \$'000	01-02 %	00-01 %
Financial assets												
Cash at bank	8A	10,432	4,823	-	-	-	-	-	10,432	4,823	4.4	4.9
Investments	8B	-	-	8,000	13,000	-	-	-	8,000	13,000	4.4	4.9
Receivables for goods and services	8C	-	-	-	-	-	-	1,917	1,917	5,178	n/a	n/a
Total financial assets		10,432	4,823	8,000	13,000	-	-	1,917	20,349	23,001		
TOTAL ASSETS								1,917	64,469	65,093		
Financial liabilities												
Finance lease liabilities	10B	-	-	330	610	406	259	-	736	869	9.06	9.6
Trade creditors	12A	-	-	-	-	-	-	5,655	5,655	10,552		
Total financial liabilities (recognised)		-	-	330	610	406	259	5,655	6,391	11,421		
TOTAL LIABILITIES									30,415	38,964		
Unrecognised indemnity		-	-	-	-	-	-	-	-	-	n/a	n/a



Note 19: Financial instruments (continued)

Note 19C: Net fair values of financial assets and liabilities

	Note	2001-02		2000-01	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Departmental financial assets					
Cash at bank	8A	10,432	10,432	4,823	4,823
Investments	8B	8,000	8,000	13,000	13,000
Receivables for goods and services	8C	1,917	1,917	5,178	5,178
Total financial assets		20,349	20,349	23,001	23,001
Financial liabilities (recognised)					
Finance lease liabilities	10B	736	736	869	869
Trade creditors	12A	5,655	5,655	10,552	10,552
Total financial liabilities (recognised)		6,391	6,391	11,421	11,421

Note 19D: Credit risk exposures

The department's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The department has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 20: Related party transactions

	2001-02 \$'000	2000-01 \$'000
Sale of goods and services		
Coin sales	-	4,629
Other income		
Profit share	125	(1,604)
Investments		
Interest in STOCP	-	675

Note 21: Administered items

Note 21A – Revenue administered on behalf of government
for the year ended 30 June 2002

Revenues	2001-02	2000-01
	\$'000	\$'000
Interest		
Interest on Papua New Guinea loan	13,136	10,855
Other	543	138
Total	13,679	10,993
Dividends		
Reserve Bank of Australia	2,833,702	803,084
Net foreign exchange gain		
IMF quota revaluation	-	717,642
IMF maintenance of value	-	(561,449)
IMF SDR allocation revaluation	-	(104,339)
Other	-	(13,552)
Total	-	38,302
Other revenue		
Write back of HCS Scheme	43,000	-
GST Administration Fees	516,133	616,068
IMF remuneration	52,879	82,067
Other	149,050	107,173
Total	761,062	805,308
Total revenues administered on behalf of government	3,608,443	1,657,687



Note 21: Administered items (continued)

Note 21B: Expenses administered on behalf of government for the year ended 30 June 2002

Expenses	2001-02 \$'000	2000-01 \$'000
Grants		
Grants to State and Territory governments	31,620,953	27,773,800
Other	347,450	30,424
Total	31,968,403	27,804,224
Subsidies		
GST direct assistance payments	-	6,043
Net foreign exchange loss (gain)		
IMF SDR allocation	(54,253)	-
IMF maintenance of value	(307,611)	-
IMF quota revaluation	373,151	-
Other	(1,870)	-
Total	9,417	-
Other expenses		
IMF charges	28,401	50,378
HLIC claims ¹	11,867	15,643
HCS Scheme claims ²	-	640,906
UMP/AMIL claims	500,800	-
Other	1	-
Total	541,069	706,927
Total expenses administered on behalf of government	32,518,889	28,517,194

1 HLIC claims expenses include payments and management fees.

2 HCS Scheme claims expenses include payments and management fees.

Note 21: Administered items (continued)

Note 21C: Assets administered on behalf of government as at 30 June 2002

Financial assets	2001-02	2000-01
	\$'000	\$'000
Cash		
Cash at bank and on hand	8,041	2,599
Receivables		
Repayment of subsidies	-	97
Net GST receivable	1,308	99
PNG loan interest receivable	13,136	10,855
HLIC premiums receivable	4,852	-
IMF related moneys owing	315,879	11,127
Gold Corporation royalty receivable	980	1,300
Other	15	-
Total receivables	336,170	23,478
<i>Receivables (gross) are aged as follows:</i>		
Not overdue	336,170	23,478
Loans		
Loan to Papua New Guinea	192,152	192,152
Maturity schedule for Loans as at 30 June 2002 is as follows:		
Payable:		
within one year	49,246	-
in one to two years	64,050	49,246
in two to five years	78,856	142,906
	192,152	192,152
Investments		
International financial institutions		
Asian Development Bank	281,431	281,431
European Bank for Reconstruction and Development	87,262	87,262
International Finance Corporation	69,144	69,144
International Bank for Reconstruction and Development	258,958	265,115
Multilateral Investment Guarantee Agency	10,818	10,818
	707,613	713,770
Quota		
International Monetary Fund	7,566,986	7,940,137
Commonwealth entities		
Reserve Bank of Australia	8,035,041	8,035,041
Australian Securities and Investments Commission	4,267	4,267
Corporations and Markets Advisory Committee	332	332
	8,039,640	8,039,640
Total investments	16,314,239	16,693,547
Non-financial assets - other		
Deferred acquisition costs	1,781	2,845
Prepayment of BBA grants States and Territories	-	1,153
Property, plant and equipment	106	-
Other prepayments	242	-
Total other non-financial assets	2,129	3,998
Total assets administered on behalf of government	16,852,731	16,915,774

Note 21: Administered items (continued)

Note 21D: Liabilities administered on behalf of government
as at 30 June 2002

	2001-02 \$'000	2000-01 \$'000
Loans		
IMF promissory notes	4,843,440	5,176,501
Other promissory notes	98,497	113,724
Total loans	4,941,937	5,290,225
Maturity schedule for loans is as follows:		
Payable:		
within one year	7,018	8,880
in one to two years	6,427	6,343
in two to five years	6,427	10,999
Promissory notes payable on demand	4,922,065	5,264,003
	4,941,937	5,290,225
Grants		
Grants		
IMF - poverty reduction and growth facility	17,500	20,000
Maturity schedule for grants is as follows:		
Payable:		
within one year	2,500	2,500
in one to two years	2,500	2,500
in two to five years	7,500	7,500
in more than five years	5,000	7,500
	17,500	20,000
Subsidies		
Provision for direct assistance payments	189	309
Suppliers		
Trade creditors	4,237	70
GST appropriation payable	1,540	98
Total suppliers	5,777	168
Other payables		
IMF SDR allocation	1,100,175	1,154,427
IMF related monies owing	4,186	7,603
Other	14,764	21,201
Total other payables	1,119,125	1,183,231
Other provisions		
Provision for insurance claims	18,320	15,986
Provision for unearned premiums	11,557	24,835
Provision for HCS Scheme	496,350	640,000
Provision for UMP/AMIL claims	500,800	-
Total other provisions	1,027,027	680,821
Total liabilities administered on behalf of government	7,111,555	7,174,754

Note 21: Administered items (continued)

Note 21E: Administered cash flows for the year ended 30 June 2002

	2001-02 \$'000	2000-01 \$'000
OPERATING ACTIVITIES		
Cash received		
GST administration fees	516,133	993,468
IMF remuneration	55,739	84,041
Dividends	2,833,702	1,479,084
Cash from Official Public Account	32,459,855	27,943,365
Goods and Services Tax refunds received	1,228	3,907
Other	147,586	100,363
Total cash received	36,014,243	30,604,228
Cash used		
Borrowing costs	31,818	50,585
Grants	31,968,718	27,678,948
Subsidies	-	266,533
Cash to Official Public Account	3,548,922	2,650,998
Other	117,587	151,851
Total cash used	35,667,045	30,798,915
Net cash from / (used in) operating activities	347,198	(194,687)
INVESTING ACTIVITIES		
Cash used		
Loans	340,261	-
Purchase of property, plant and equipment	106	-
Other	2,500	84,290
Total cash used	342,867	84,290
Net cash (used in) investing activities	(342,867)	(84,290)
FINANCING ACTIVITIES		
Cash received		
Cash from Official Public Account	-	17,784
GST Appropriations	2,339	4,005
Total cash received	2,339	21,789
Cash used		
Return of GST appropriations to Official Public Account	1,228	3,907
Total cash used	1,228	3,907
Net cash from financing activities	1,111	17,882
Net increase / (decrease) in cash held	5,442	(261,095)
Cash at the beginning of the reporting period	2,599	263,694
Cash at the end of the reporting period	8,041	2,599

Note 21: Administered items (continued)

Note 21F: Administered commitments as at 30 June 2002

	2001-02 \$'000	2000-01 \$'000
BY TYPE		
CAPITAL COMMITMENTS	-	-
OTHER COMMITMENTS		
Other commitments	-	2,140
Total other commitments	-	2,140
COMMITMENTS RECEIVABLE	-	-
Net commitments	-	2,140
BY MATURITY		
All net commitments		
One year or less	-	2,140
From one to five years	-	-
Over five years	-	-
Net commitments	-	2,140

Note: All 2001-02 commitments are GST inclusive where relevant.

Note 21G: Administered contingencies as at 30 June 2002

	2001-02 \$'000	2000-01 \$'000
CONTINGENT LOSSES		
Uncalled shares	9,563,998	10,622,039
Claims for damages/costs	29	-
Total contingent losses	9,564,027	10,622,039
CONTINGENT GAINS	-	-
Net contingencies	9,564,027	10,622,039

Administered remote contingencies are disclosed in Note 21H.

Unquantifiable administered contingencies

Contingent Gain

As beneficiary of the HIH Claims Support Trust, the Commonwealth will be entitled to the residual balance of the Trust, after the collection of recoveries and making of payments to claimants. Due to the inherent uncertainty regarding the measurement of the recoveries, it is not possible to quantify these amounts at this time.

Contingency

Following the decision on 29 April 2002 by the Boards of United Medical Protection Limited and Australasian Medical Insurance Limited (UMP/AMIL) to seek the appointment of a provisional liquidator, the Commonwealth committed to providing an indemnity to the provisional liquidator. The Commonwealth's commitments are set out in a Deed of Indemnity between the Commonwealth and UMP/AMIL and the provisional liquidator of UMP/AMIL that was approved by the NSW Supreme Court on 25 July 2002 (see Note 1.33).

Component (c) of the indemnity provides a guarantee to the provisional liquidator of UMP and AMIL to cover payments for incidents that occur between 29 April and 30 June 2002. The provisional liquidator will issue AMIL incident occurring policies to those doctors that were members of UMP on 29 April 2002 to meet this commitment. The full cost of these policies (administration and claims) will be met by the Commonwealth on the basis that incident-occurring cover is not the ordinary business of UMP/AMIL. No premiums will be charged for these policies.

The Commonwealth has commissioned an actuarial firm to determine the likely liability. The report was not available at the time of completion of audit cleared accounts.

Note 21H: Administered remote contingencies

The following borrowings have been guaranteed by the Commonwealth in respect of authorities within the Treasury portfolio:

Borrower	Legislation Authorising Guarantee	Principal Covered by Guarantee	Balance outstanding	Balance outstanding
		2001-02 \$'000	2001-02 \$'000	2000-01 \$'000
Papua New Guinea	<i>PNG Act 1949-75 and PNG Loans Guarantee Act 1975</i>	5,470	5,470	5,775
Commonwealth Bank of Australia(a)	<i>CBA Act 1959 s117</i>	(c)	(c)	(c)
Commonwealth Bank of Australia Officers' Superannuation Fund(a)	<i>CBA Act 1959 s117</i>	(c)	(c)	(c)
Commonwealth Development Bank(a)	<i>CBA Act 1959 s117</i>	(c)	(c)	(c)
Reserve Bank of Australia(b)	<i>RBA Act s77</i>	48,724,000	48,724,000	45,848,000

- (a) In relation to the Commonwealth Bank of Australia, the Commonwealth Bank of Australia Officers' Superannuation Fund and the Commonwealth Development Bank, the Commonwealth guarantees all monies that are, or may at any time become, payable to a person other than the Commonwealth. Such guarantee will be progressively phased out following the government sell-down on 19 July 1996.
- (b) In relation to the Reserve Bank of Australia, the Commonwealth guarantees all monies that are, or may at any time become, payable to a person other than the Commonwealth.
- (c) At the finalisation of these statements this figure was not reliably measurable.

HIH Claims Support Scheme

The Commonwealth has a number of indemnities and guarantees in respect of the HIH Support Scheme.

UMP/AMIL

Following the decision on 29 April 2002 by the Boards of United Medical Protection Limited and Australasian Medical Insurance Limited (UMP/AMIL) to seek the appointment of a provisional liquidator, the Commonwealth committed to providing an indemnity to the provisional liquidator. The Commonwealth's commitments are set out in a Deed of Indemnity between the Commonwealth and UMP/AMIL and the provisional liquidator of UMP/AMIL that was approved by the NSW Supreme Court on 25 July 2002 (see Note 1.33).

Components (a) and (b) of the indemnity provides a guarantee to the provisional liquidator of UMP and AMIL to cover claims notified before 29 April 2002 that are finalised on or before 31 December 2002, and claims notified in the period 29 April 2002 to 31 December 2002.

These components of the indemnity allow for the ordinary business of UMP/AMIL to continue. The Commonwealth's indemnity for these elements will only be called on to the extent there is a shortfall in UMP/AMIL funds. The Government has announced that UMP members will be levied to pay for any Commonwealth liability that arises from claims and renewals from 1 July 2002 to 31 December 2002.

Note 21I: Administered consolidation

	Treasury		HCS Scheme		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Interest revenue						
Interest on Papua						
New Guinea loan	13,136	10,855	-	-	13,136	10,855
Other	79	138	464	-	543	138
Total interest revenue	13,215	10,993	464	-	13,679	10,993
Dividend revenue						
Reserve Bank of Australia	2,833,702	803,084	-	-	2,833,702	803,084
Net foreign exchange gain						
IMF quota revaluation	-	717,642	-	-	-	717,642
IMF maintenance of value	-	(561,449)	-	-	-	(561,449)
IMF SDR allocation revaluation	-	(104,339)	-	-	-	(104,339)
Other	-	(13,552)	-	-	-	(13,552)
Total	-	38,302	-	-	-	38,302
Other revenue						
Write back of HCS Scheme	43,000	-	-	-	43,000	-
GST administration fees	516,133	616,068	-	-	516,133	616,068
IMF remuneration	52,879	82,067	-	-	52,879	82,067
Other	149,049	107,173	1	-	149,050	107,173
Total other revenue	761,061	805,308	1	-	761,062	805,308
Total revenues administered on behalf of government	3,607,978	1,657,687	465	-	3,608,443	1,657,687

Note 21: Administered items (continued)

Note 21: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Grants						
Grants to State and Territory governments	31,620,953	27,773,800	-	-	31,620,953	27,773,800
Other	347,450	30,424	-	-	347,450	30,424
Total	31,968,403	27,804,224	-	-	31,968,403	27,804,224
Subsidies						
GST direct assistance payments	-	6,043	-	-	-	6,043
Net foreign exchange loss						
IMF SDR allocation	(54,253)	-	-	-	(54,253)	-
IMF maintenance of value	(307,611)	-	-	-	(307,611)	-
IMF quota revaluation	373,151	-	-	-	373,151	-
Other	(1,870)	-	-	-	(1,870)	-
Total	9,417	-	-	-	9,417	-
Suppliers						
Suppliers	-	-	-	-	-	-
Other expenses						
IMF charges	28,401	50,378	-	-	28,401	50,378
HLIC claims ¹	11,867	15,643	-	-	11,867	15,643
HCS Scheme claims ²	-	640,906	-	-	-	640,906
UMP/AMIL claims	500,800	-	-	-	500,800	-
Other	1	-	-	-	1	-
Total other expenses	541,069	706,927	-	-	541,069	706,927
Total expenses administered on behalf of government	32,518,889	28,517,194	-	-	32,518,889	28,517,194

1 HLIC claims expense includes claims payments and management fees.

2 HCS Scheme claims expense includes claims payments and management fees.

Note 21: Administered items (continued)

Note 21I: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Financial assets						
Cash at bank and on hand	3,087	2,599	4,954	-	8,041	2,599
Receivables						
Repayment of subsidies	-	97	-	-	-	97
Net GST receivable	1,193	99	115	-	1,308	99
PNG loan interest receivable	13,136	10,855	-	-	13,136	10,855
HLIC premium receivable	4,852	-	-	-	4,852	-
IMF related monies owing	315,879	11,127	-	-	315,879	11,127
Gold Corporation	-	-	-	-	-	-
Royalty receivable	980	1,300	-	-	980	1,300
Other	-	-	15	-	15	-
Total receivables	336,040	23,478	130	-	336,170	23,478
Loans						
Loan to Papua New Guinea	192,152	192,152	-	-	192,152	192,152
Investments						
International financial institutions						
Asian Development Bank	281,431	281,431	-	-	281,431	281,431
European Bank for Reconstruction and Development	87,262	87,262	-	-	87,262	87,262
International Finance Corporation	69,144	69,144	-	-	69,144	69,144
International Bank for Reconstruction and Development	258,958	265,115	-	-	258,958	265,115
Multilateral Investment Guarantee Agency	10,818	10,818	-	-	10,818	10,818
	707,613	713,770	-	-	707,613	713,770
Quota						
International Monetary Fund	7,566,986	7,940,137	-	-	7,566,986	7,940,137
Commonwealth entities						
Reserve Bank of Australia	8,035,041	8,035,041	-	-	8,035,041	8,035,041
Australian Securities and Investments Commission	4,267	4,267	-	-	4,267	4,267
Corporations and Markets Advisory Committee	332	332	-	-	332	332
	8,039,640	8,039,640	-	-	8,039,640	8,039,640
Total investments	16,314,239	16,693,547	-	-	16,314,239	16,693,547
Non-financial assets - other						
Deferred acquisition costs	1,781	2,845	-	-	1,781	2,845
Prepayment of BBA grants States and Territories	-	1,153	-	-	-	1,153
Property, plant and equipment	-	-	106	-	106	-
Other prepayments	16,000	-	(15,758)	-	242	-
Total other non-financial assets	17,781	3,998	(15,652)	-	2,129	3,998
Total assets administered on behalf of government	16,863,299	16,915,774	(10,568)	-	16,852,731	16,915,774

Note 21: Administered items (continued)

Note 21I: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Loans						
IMF promissory notes	4,843,440	5,176,501	-	-	4,843,440	5,176,501
Other promissory notes	98,497	113,724	-	-	98,497	113,724
Total loans	4,941,937	5,290,225	-	-	4,941,937	5,290,225
Grants						
Grants						
IMF - poverty reduction and growth facility	17,500	20,000	-	-	17,500	20,000
Subsidies						
Provision for direct assistance payments	189	309	-	-	189	309
Suppliers						
Trade creditors	-	70	4,237	-	4,237	70
GST appropriation payable	1,540	98	-	-	1,540	98
Total suppliers	1,540	168	4,237	-	5,777	168
Other payables						
IMF SDR allocation	1,100,175	1,154,427	-	-	1,100,175	1,154,427
IMF related moneys owing	4,186	7,603	-	-	4,186	7,603
Other	14,764	21,201	-	-	14,764	21,201
Total other payables	1,119,125	1,183,231	-	-	1,119,125	1,183,231
Other provisions						
Provision for insurance claims	18,320	15,986	-	-	18,320	15,986
Provision for unearned premiums	11,557	24,835	-	-	11,557	24,835
Provision for HCS Scheme	511,620	640,000	(15,270)	-	496,350	640,000
Provision for UMP/AMIL claims	500,800	-	-	-	500,800	-
Total other provisions	1,042,297	680,821	(15,270)	-	1,027,027	680,821
Total liabilities administered on behalf of government	7,122,588	7,174,754	(11,033)	-	7,111,555	7,174,754

Note 21: Administered items (continued)

Note 21J: Administered financial instruments

(a) Terms, conditions and accounting policies

Financial instruments	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash — at bank	21C	Deposits are recognised at their nominal amounts.	The department maintains two bank accounts with a commercial bank for the purposes of administering mortgage insurance policies written by the Housing Loans Insurance Corporation (HLIC) up to 12 December 1997 and a bank account for administering the wrap-up of the final accounts and other minor details up to the point of wind-up or sale of the HLIC.
International Monetary Fund monies owing	21C	Amounts owing from the International Monetary Fund are credited to revenue as they accrue.	Where the IMF's holdings of Australian dollars fall below a specified level, it pays remuneration on Australia's average remunerated reserve tranche position. The rate of remuneration is equal to the Special Drawing Rights (SDR) interest rate. This rate is then adjusted for burden sharing. Remuneration is calculated and paid at the end of the IMF's financial quarters.
Loan receivable	21C	The loan to Papua New Guinea is measured at the amount lent. Collectability of amounts outstanding is reviewed at balance date. Provision is made for bad and doubtful loans where collection of the loan or part thereof is considered to be less rather than more likely. Interest is credited to revenue as it accrues.	The loan to Papua New Guinea is made under contract with the principal and interest components of the loan to be repaid in full by 30 June 2006. The interest rate on the loan is fixed at 7.05 per cent per annum.

Note 21: Administered items (continued)**Note 21J: Administered financial instruments**

(a) Terms, conditions and accounting policies (continued)

Financial instruments	Notes	Accounting policies and methods	Nature of underlying instruments
Financial liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Grant liabilities	21D	Grants are recognised as liabilities and expensed in the year in which the grant agreements are made.	This represents Australia's contribution to the Poverty Reduction and Growth Facility (PRGF), previously known as the Enhanced Structural Adjustment Facility (ESAF), of the IMF. The PRGF will enable the IMF to provide concessional funding to support medium term macroeconomic adjustment and structural reforms in low income countries. The PRGF will assist Australia to promote its international economic and aid interests with developing countries in the Asian region. Australia's contribution involves \$30 million to be paid in annual instalments of \$2.5 million over a 12-year period.

Note 21: Administered items (continued)

Note 21J: Administered financial instruments

(a) Terms, conditions and accounting policies (continued)

Financial instruments	Notes	Accounting policies and methods	Nature of underlying instruments
International Monetary Fund (IMF) Special Drawing Right (SDR) allocation liability	21D	This liability is recognised as a monetary liability. It is valued at the Australian dollar equivalent of its liability in Special Drawing Rights. Interest expense is recognised as it accrues.	The SDR allocation liability reflects the current value in Australian dollars of the department's liability to repay to the IMF Australia's cumulative allocations of SDRs. Interest is payable to the IMF in relation to the amount of SDR holdings that are below Australia's net cumulative allocations.
Loans — promissory notes	21D	The promissory notes are measured at nominal face value.	The Department has on issue promissory notes to the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD). These promissory notes are in relation to undrawn paid-in capital subscriptions. Promissory notes to the value of \$4.92 billion do not possess established drawdown schedules. The promissory notes are non-interest bearing.

Note 21: Administered items (continued)

Note 21J: Administered financial instruments

(b) Interest rate risk

The Department's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

Financial instrument	Notes	Floating interest rate		Fixed interest rate				Non-interest bearing			Total		Weighted average effective interest rate	
		01-02 \$'000	00-01 \$'000	1 year or less	1 to 5 years	> 5 years	00-01 \$'000	01-02 \$'000	00-01 \$'000	01-02 \$'000	00-01 \$'000	01-02 \$'000	00-01 Per cent	01-02 Per cent
Administered financial assets														
Cash	21C	7,857	2,290	-	-	-	-	-	184	309	8,041	2,599	4.10	-
Interest receivable	21C	-	-	13,136	10,855	-	-	-	-	-	13,136	10,855	7.05	7.05
IMF monies owing	21C	-	-	-	-	-	-	315,879	11,127	315,879	11,127	-	-	-
Loan to Papua New Guinea	21C	-	-	49,246	-	142,906	192,152	-	-	192,152	192,152	192,152	7.05	7.05
Other receivables	21C	-	-	-	-	-	-	995	1,397	995	1,397	-	-	-
Total financial assets (recognised)		7,857	2,290	62,382	10,855	142,906	192,152	317,058	15,123	530,203	218,130	218,130	-	-
Total assets								16,852,731	16,915,774					

Note 21: Administered items (continued)

Note 21J: Administered financial instruments

(b) Interest rate risk (continued)

Financial instrument	Notes	Floating interest rate		Fixed interest rate				Non-interest bearing		Total		Weighted average effective interest Rate	
		rate		1 year or less		1 to 5 years		> 5 years		Total		01-02	00-01
		01-02	00-01	01-02	00-01	01-02	00-01	01-02	00-01	01-02	00-01	Per cent	Per cent
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Per cent	Per cent
Financial liabilities													
Grant liabilities	21D	-	-	-	-	-	-	17,500	20,000	17,500	20,000	-	-
IMF allocation liability	21D	-	-	-	-	-	-	1,100,175	1,154,427	1,100,175	1,154,427	-	-
Loans - promissory notes	21D	-	-	-	-	-	-	4,941,937	5,290,225	4,941,937	5,290,225	-	-
Other	21D	-	-	-	-	-	-	1,020,526	669,183	1,020,526	669,183	-	-
Total financial liabilities (recognised)		-	-	-	-	-	-	7,080,138	7,133,835	7,080,138	7,133,835	-	-
Total Liabilities								7,111,555	7,174,754	7,111,555	7,174,754		
Unrecognised indemnity								48,729,470	45,853,775				

Note 21: Administered items (continued)

Note 21J: Administered financial instruments

(c) Net fair values of administered financial assets and liabilities

Administered	Notes	2001-02		2000-01	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Financial assets					
Cash		8,041	8,041	2,599	2,599
Interest receivable		13,136	13,136	10,855	10,855
IMF related monies owing	21C	315,879	315,879	11,127	11,127
Loan to Papua New Guinea	21C	192,152	192,152	192,152	192,152
Other receivables	21C	995	995	1,397	1,397
Total financial assets		530,203	530,203	218,130	218,130
Financial liabilities					
Grant liabilities	21D	17,500	17,500	20,000	20,000
IMF allocation liability	21D	1,100,175	1,100,175	1,154,427	1,154,427
Loans - promissory notes	21D	4,941,937	4,941,937	5,290,225	5,290,225
Other	21D	1,020,526	1,020,526	669,183	669,183
Total financial liabilities (recognised)		7,080,138	7,080,138	7,133,835	7,133,835
Financial liabilities (unrecognised)					
Guarantees		48,729,470	48,729,470	45,853,775	45,853,775
Total financial liabilities (unrecognised)		48,729,470	48,729,470	45,853,775	45,853,775

(d) Credit risk exposures

The administered maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the fair value of those assets as indicated above.

Note 22: Appropriations

Note 22A: Appropriation Acts (No. 1/3) 2001-02

	Administered expenses			Departmental outputs	Total
	Outcome 1 - Economic (\$'000)	Outcome 2 - Budget (\$'000)	Outcome 3 - Markets (\$'000)		
Year ended 30 June 2002					
Balance carried from previous year	-	10,063	5,391	16,481	31,935
Appropriation for reporting period (Act 1)	-	-	12,000	81,809	93,809
Appropriation for reporting period (Act 3)	-	-	-	5,600	5,600
Adjustments determined by the Finance Minister	-	-	-	-	-
Amounts from advance to the Finance Minister	n/a	n/a	n/a	-	-
Amounts from Comcover receipts	-	-	-	-	-
Refunds credited (FMA s 30)	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	2,692	2,692
Annotations to 'net appropriations' (FMA s 31)	-	-	-	3,456	3,456
Other annotations	-	-	-	-	-
Transfer to/from other agencies (FMA s 32)	-	-	-	-	-
Administered expenses lapsed (expended)	-	-	-	-	-
Available for payments	-	10,063	17,391	110,038	137,492
Payments made	-	-	9,064	93,356	102,420
Balance carried to next year	-	10,063	8,327	16,682	35,072
Year ended 30 June 2001					
Available for payments 2001	-	10,063	16,000	93,458	119,521
Payments made 2001	-	-	10,609	76,977	87,586
Balance carried forward to 1 July 2001	-	10,063	5,391	16,481	31,935

FMA = Financial Management and Accountability Act 1997

Act 1 = Appropriation Act (No. 1) 2001-2002

Act 3 = Appropriation Act (No. 3) 2001-2002

Note 22: Appropriations (continued)

Note 22B: Appropriation Acts (No. 2/4) 2001-02

Particulars	Administered						Capital				Total (\$'000)	
	Outcome 1 - Economic		Outcome 2 - Budget		Outcome 3 - Markets		Departmental		Admin			
	SPPs (\$'000)	Other (\$'000)	SPPs (\$'000)	Other (\$'000)	SPPs (\$'000)	Other (\$'000)	Equity (\$'000)	Loans (\$'000)	Carryovers (\$'000)	Capital (\$'000)		
Year ended 30 June 2002												
Balance carried from previous year	-	-	-	12,230	-	-	-	-	3,763	-	-	15,993
Current appropriation (Act 2)	-	-	104,200	-	147,900	-	-	-	-	-	9,683	261,783
Current appropriation (Act 4)	-	-	194,998	-	-	-	-	-	-	-	179	195,177
Adjustments determined by the Finance Minister	n/a	n/a	n/a	n/a	n/a	n/a	-	-	-	-	n/a	-
Amounts from Advance to the Finance Minister	-	-	52,460	-	-	-	-	-	-	-	-	52,460
Amounts from Comcover receipts	-	-	-	-	-	-	-	-	-	-	-	-
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-	-	-	-	-
Annotations to 'net appropriations' (FMA s 31)	-	-	-	-	-	-	-	-	-	-	-	-
Other annotations	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to/from other agencies (FMA s 32)	-	-	-	-	-	-	-	-	-	-	-	-
Administered expenses lapsed under determination	-	-	-	-	-	-	-	-	-	-	-	-
Available for payments	-	-	351,658	12,230	147,900	-	-	-	3,763	9,862	-	525,413
Payments made	-	-	351,658	-	147,621	-	-	-	-	9,506	-	508,785
Balance carried to next year	-	-	-	12,230	279	-	-	-	3,763	356	-	16,628
Year ended 30 June 2001												
Available for payments 2001	-	-	13,500	53,005	139,266	-	-	-	3,763	-	-	210,309
Payments made 2001	-	-	13,500	40,775	139,266	-	-	-	-	-	-	194,316
Balance carried forward to 1 July 2001	-	-	-	12,230	-	-	-	-	3,763	-	-	15,993

Act 2 = Appropriation Act (No. 2) 2001-2002

Act 4 = Appropriation Act (No. 4) 2001-2002

Note 22: Appropriations (continued)

Note 22C: Special Appropriations (Unlimited Amount)

Particulars of legislation providing appropriation (including purpose)	Administered						Departmental			Total
	Outcome 1		Outcome 2		Outcome 3		2001-02	2000-01	2001-02	
	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	
<i>A New Tax System (Commonwealth - State Financial Arrangements) Act 1999</i>										
Budget estimate	-	-	31,122,976	28,034,664	-	-	-	-	31,122,976	28,034,664
Payments made	-	-	31,457,979	28,057,039	-	-	-	-	31,457,979	28,057,039
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-
<i>Appropriation (HIH) Act 2001</i>										
Budget estimate	-	-	-	-	-	-	-	-	-	-
Payments made	-	-	102,710	-	-	-	-	-	102,710	-
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-
<i>Asian Development Bank (Additional Subscription) Act 1995</i>										
Budget estimate	6,606	7,617	-	-	-	-	-	-	6,606	7,617
Payments made	6,606	7,550	-	-	-	-	-	-	6,606	7,550
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-
<i>Banking Act 1959</i>										
Budget estimate	-	-	-	-	-	-	-	-	-	-
Payments made	-	-	-	-	-	771	-	-	-	771
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-
<i>International Monetary Agreements Act 1947</i>										
Budget estimate	37,465	107,940	-	-	-	-	-	-	37,465	107,940
Payments made	364,904	109,492	-	-	-	-	-	-	364,904	109,492
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-

Note 22: Appropriations (continued)

Note 22C: Special Appropriations (Unlimited Amount) (continued)

Particulars of legislation providing appropriation (including purpose)	Administered						Departmental			Total	
	Outcome 1		Outcome 2		Outcome 3		2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)		2000-01 (\$'000)
	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2000-01 (\$'000)	2001-02 (\$'000)	2000-01 (\$'000)					
<i>Superannuation Industry (Supervision) Act 1993 (SIS Act)</i>											
Budget estimate	-	-	-	-	-	-	-	-	-	-	-
Payments made	-	-	-	-	-	-	-	-	-	-	-
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-	-
<i>Totals for unlimited special appropriations</i>	44,071	115,557	31,122,976	28,034,664	-	-	-	-	-	31,167,047	28,150,221
Payments made	371,510	117,042	31,457,979	28,057,039	114,889	771	-	-	-	31,944,378	28,174,852
Refunds credited (s 30)	-	-	-	-	-	-	-	-	-	-	-

The amount of the appropriation that lapsed is based on the amount to be determined by the Finance Minister under the Annual Appropriation Acts, to be the administered expenses by the Department in the current year.

Note 23: Special accounts

Other trust moneys

Legal authority

Financial Management and Accountability Act 1997, section 20.

Purpose

For the receipt of moneys temporarily held in trust for other people.

Particulars	Administered Account 1		Departmental Outputs		Capital		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	13,000	13,000	-	-	13,000	13,000
Appropriations for reporting period	-	-	-	-	-	-	-	-
Receipts from other sources	-	-	-	-	-	-	-	-
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-
Available for payments	-	-	13,000	13,000	-	-	13,000	13,000
Payments made	-	-	13,000	-	-	-	13,000	-
Balance carried to next year	-	-	-	13,000	-	-	-	13,000

Note 23: Special accounts (continued)**Royal Australian Mint and Coinage Trust***Legal authority*

Financial Management and Accountability Act 1997, section 20.

Purpose

- (a) Payment of goods and services, salaries and other expenses incurred for activities entered into by the Royal Australian Mint and approved by the Treasurer.
- (b) Repayment of capital funds and payment of moneys in excess of requirements to Consolidated Revenue Fund

Particulars	Administered Account 1		Departmental Outputs		Capital		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	1,629,000	423,000	-	-	1,629,000	423,000
Appropriations for reporting period	-	-	-	-	-	-	-	-
Receipts from other sources	-	-	74,180,000	50,623,000	-	-	74,180,000	50,623,000
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-
Available for payments	-	-	75,809,000	51,046,000	-	-	75,809,000	51,046,000
Payments made	-	-	73,745,000	49,417,000	-	-	73,745,000	49,417,000
Balance carried to next year	-	-	2,064,000	1,629,000	-	-	2,064,000	1,629,000

Note 23: Special accounts (continued)

Ministerial Council on Consumer Affairs

Legal authority

Financial Management and Accountability Act 1997, section 20.

Purpose

To receive funds from member bodies to provide secretariat support and funding for agreed MCCA projects.

Particulars	Administered Account 1		Departmental Outputs		Capital		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	421,928	621,765	-	-	421,928	621,765
Appropriations for reporting period	-	-	-	-	-	-	-	-
Receipts from other sources	-	-	231,949	220,671	-	-	231,949	220,671
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-
Available for payments	-	-	653,877	842,436	-	-	653,877	842,436
Payments made	-	-	217,776	420,508	-	-	217,776	420,508
Balance carried to next year	-	-	436,101	421,928	-	-	436,101	421,928

Note 23: Special accounts (continued)

Advisory Panel for Marketing in Australia of Infant Formula

Legal authority

Financial Management and Accountability Act 1997, section 20.

Purpose

To meet the administrative costs of APMAIF, a non-statutory body that advises government on the marketing in Australia of infant formulas: *Manufactures and Importers Agreement 1992.*

Particulars	Administered Account 1		Outputs		Departmental		Capital		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	22,829	31,730	-	-	-	-	22,829	31,730
Appropriations for reporting period	-	-	-	-	-	-	-	-	-	-
Receipts from other sources	-	-	-	-	-	-	-	-	-	-
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-	-	-
Available for payments	-	-	22,829	31,730	-	-	-	-	22,829	31,730
Payments made	-	-	22,829	8,901	-	-	-	-	22,829	8,901
Balance carried to next year	-	-	-	22,829	-	22,829	-	-	-	22,829

Note 23: Special accounts (continued)

Commonwealth Consumer Affairs Advisory Council

Legal authority

Financial Management and Accountability Act 1997, section 20.

Purpose

To fund projects on behalf of the Parliamentary Secretary to the Treasurer's advisory council on consumer issues.

Particulars	Administered Account 1		Departmental Outputs		Capital		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	18,657	24,828	-	-	18,657	24,828
Appropriations for reporting period	-	-	-	-	-	-	-	-
Receipts from other sources	-	-	(16)	-	-	-	(16)	-
Refunds credited (FMA s 30)	-	-	-	-	-	-	-	-
GST credits (FMA s 30A)	-	-	-	-	-	-	-	-
Available for payments	-	-	18,641	24,828	-	-	18,641	24,828
Payments made	-	-	16,310	6,171	-	-	16,310	6,171
Balance carried to next year	-	-	2,331	18,657	-	-	2,331	18,657

Note 24: Special public money

Comcare

Legal authority

Financial Management and Accountability Act 1997, section 20.

Purpose

Moneys held in trust and advanced to the Department by Comcare for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*.

	2001-02	2000-01
	Actual	Actual
	\$	\$
Balance carried forward from previous period	7,656	15,789
Plus receipts during the year	1,458	33,675
Available for payments	9,114	49,464
Less payments made during the year	526	41,808
Balance carried forward to next year	8,588	7,656

Revenue replacement payments

Legal authority

States Grants (General Purposes) Act 1994, schedule 5.

Purpose

For the payment of moneys to the States and Territories in connection with constitutionally invalid business franchise fees.

	2001-02	2000-01
	Actual	Actual
	\$	\$
Receipts from Consolidated Revenue Fund	-	434,851,910
Less payments to States and Territories	-	434,851,910
Balance at end of the reporting period	-	-
Accrued liability due to adjustments	-	-

Note 24: Special public money (continued)

Lloyds deposit trust fund

Legal authority

Insurance Laws Amendment Act 1998, schedule 2.

Purpose

To meet the costs of the judicial management and wind-up in the event the company ceases to trade.

	2001-02	2000-01
	Actual	Actual
	\$	\$
Balance carried forward from previous year	2,148,405	2,148,405
Plus receipts during the year	311,875	-
Available for payments	2,460,280	-
Less payments made	460,280	-
Balance carried forward to next year	2,000,000	2,148,405

Investments

The balance of investments at 30 June 2002 includes the following investments held in the corporate name of the Treasurer of the Commonwealth pursuant to subsection 93(1) of the *Insurance Act 1973* on behalf of the Trust.

Rate of Interest	Date of maturity	Face value of investment	Cost of investment
Per cent		\$	\$
10.0	15 October 2002	2,000,000	2,145,120
Total investment		2,000,000	2,145,120

Note 24: Special public money (continued)

Trustee companies (ACT) deposits trust fund

Legal authority

Trustee Companies Act 1947, subsection 10(1).

Purpose

For the purpose of administering the *Trustee Companies Act 1947* in relation to trustee companies.

	2001-02	2000-01
	Actual	Actual
	\$	\$
Balance carried forward from previous year	127,263	127,263
Plus receipts during the year	10,900	-
Available for payments	138,163	-
Less payments made	18,163	-
Balance carried forward to next year	120,000	127,263

Investments

The balance of investments at 30 June 2002 includes the following investments held in the corporate name of the Treasurer of the Commonwealth pursuant to subsection 10(1) of the *Trustee Companies Ordinance 1947* on behalf of the Trust.

Rate of Interest Per cent	Date of maturity	Face value of investment \$	Cost of investment \$
10.0	15 October 2002	20,000	21,286
10.0	15 October 2002	20,000	20,599
10.0	15 October 2002	20,000	22,127
9.5	15 August 2003	10,000	12,119
7.5	15 July 2005	30,000	30,313
7.5	15 July 2005	20,000	20,208
Total		120,000	126,652

Note 25: Reporting of outcomes

Note 25A: Total cost/contribution of outcomes (whole-of-government)

	Outcome 1		Outcome 2		Outcome 3		Total	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other administered revenues	(2,899,717)	(28,277)	(516,133)	(351,658)	(192,593)	(159,622)	(3,608,443)	(539,557)
Net subsidies, benefits and grants expenses	-	-	31,809,709	31,794,887	158,694	147,622	31,968,403	31,942,509
Other administered expenses	37,818	28,277	-	-	512,668	54,535	550,486	82,812
Net cost of departmental outputs	18,808	20,268	27,663	32,811	29,467	34,330	75,938	87,409
Cost of outcome before extraordinary items	(2,843,091)	20,268	31,321,239	31,476,040	508,236	76,865	28,986,384	31,573,173
Extraordinary items	-	-	-	-	-	-	-	-
Net cost to Budget outcome	(2,843,091)	20,268	31,321,239	31,476,040	508,236	76,865	28,986,384	31,573,173

Note 25: Reporting of outcomes (continued)

Note 25B: Major departmental revenues and expenses by output group

	Outcome 1		Outcome 2		Outcome 3		Total	
	Output Group 1		Output Group 2		Output Group 3			
	Economic	2000-01 \$'000	Budget	2000-01 \$'000	Markets	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Operating revenues								
Revenues from government	20,314	18,621	32,884	29,129	34,489	26,685	87,687	74,435
Other non-taxation revenues	606	569	1,994	2,042	66,998	50,105	69,598	52,716
Total operating revenues	20,920	19,190	34,878	31,171	101,487	76,790	157,285	127,151
Operating expenses								
Employees	11,411	10,548	17,479	15,700	22,836	20,862	51,726	47,111
Suppliers	6,552	5,830	9,816	10,623	68,807	49,135	85,175	65,587
Depreciation	807	769	1,300	1,312	1,861	2,115	3,968	4,196
Other	690	404	1,135	554	3,120	3,664	4,945	4,622
Total operating expenses	19,460	17,551	29,730	28,189	96,624	75,776	145,814	121,516

Note 25: Reporting of outcomes (continued)

Note 25C: Major classes of departmental assets and liabilities by output group

	Outcome 1		Outcome 2		Outcome 3		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Output specific departmental assets								
Goods and services receivable	334	384	842	697	1,134	4,947	2,310	6,028
Net GST receivable	-	-	-	-	-	-	-	-
Less: provision for doubtful debts	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-
Buildings	-	-	-	-	-	-	-	-
Plant and equipment	3,607	3,197	9,111	6,114	4,499	8,480	17,217	17,791
Intangibles	456	490	1,194	929	786	1,246	2,436	2,665
Inventories held for sale	-	-	-	-	17,222	14,016	17,222	14,016
Total output specific departmental assets	4,397	4,071	11,147	7,740	23,641	28,689	39,185	40,500
Other departmental assets								
Cash at bank and on hand	2,246	731	5,668	1,331	2,518	2,760	10,432	4,822
Cash on deposit	-	-	-	-	-	-	-	-
Term deposits	2,147	2,975	5,419	5,419	434	5,281	8,000	13,675
Inventories not held for sale	-	-	-	-	-	-	-	-
Other	741	380	1,071	541	5,040	5,635	6,852	6,556
Total other departmental assets	5,134	4,086	12,158	7,291	7,992	13,676	25,284	25,053
Output specific departmental liabilities								
Leases	198	199	498	362	40	308	736	869
Employees	3,895	2,927	9,828	5,331	3,297	7,731	17,020	15,989
Suppliers	3,354	3,167	7,906	955	1,399	8,885	12,659	13,007
Total output specific departmental liabilities	7,447	6,293	18,232	6,648	4,736	16,924	30,415	29,865
Other departmental liabilities								
Loans	-	2,083	-	3,794	-	3,224	-	9,101
Capital use charge	-	-	-	-	-	-	-	-
Employees	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total other departmental liabilities	-	2,083	-	3,794	-	3,224	-	9,101

Note 25: Reporting of outcomes (continued)

Note 25D: Major classes of administered revenues and expenses by outcome

	Outcome 1		Outcome 2		Outcome 3		Total		
	Sound macroeconomic environment	2000-01 \$'000	Effective government spending and taxation arrangements	2000-01 \$'000	Well functioning markets	2000-01 \$'000	2001-02 \$'000	2001-02 \$'000	2000-01 \$'000
Operating revenues									
Dividends		803,084	-	-	-	-	2,833,702	803,084	
Other		131,224	516,133	632,868	192,593	90,511	774,741	854,603	
Total operating revenues		934,308	516,133	632,868	192,593	90,511	3,608,443	1,657,687	
Operating expenses									
Grants	-	-	31,809,709	27,664,959	158,694	139,265	31,968,403	27,804,224	
Subsidies	-	-	-	6,043	-	-	-	6,043	
Personal benefits	-	-	-	-	-	-	-	-	
Suppliers	-	-	-	-	-	-	-	-	
Other	37,818	50,378	-	-	512,668	656,549	550,486	706,927	
Total operating expenses	37,818	50,378	31,809,709	27,671,002	671,362	795,814	32,518,889	28,517,194	

Note 25: Reporting of outcomes (continued)

Note 25E: Major classes of administered assets and liabilities by Outcome

	Outcome 1		Outcome 2		Outcome 3		Non-Attributable		Total	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Outcome specific administered assets										
Cash	-	-	-	-	8,041	2,599	-	-	8,041	2,599
Receivables	329,015	21,982	-	97	5,832	1,300	-	-	334,847	23,379
Loans	192,152	192,152	-	-	-	-	-	-	192,152	192,152
Investments	8,274,599	8,653,907	-	-	8,039,640	8,039,640	-	-	16,314,239	16,693,547
Non-Financial assets - other	-	-	-	1,153	2,129	2,845	-	-	2,129	3,998
Total outcome specific administered assets	8,795,766	8,868,041	-	1,250	8,055,642	8,046,384	-	-	16,851,408	16,915,675
Other administered assets										
Net GST Receivable	-	-	-	-	115	-	1,193	99	1,308	99
Other Receivables	-	-	-	-	15	-	-	-	15	-
Total other administered assets	-	-	-	-	130	-	1,193	99	1,323	99
Outcome specific administered liabilities										
Loans	4,941,937	5,290,225	-	-	-	-	-	-	4,941,937	5,290,225
Grants	17,500	20,000	-	-	-	-	-	-	17,500	20,000
Subsidies	-	-	189	309	-	-	-	-	189	309
Provisions	-	-	-	-	1,027,027	680,821	-	-	1,027,027	680,821
Other Payables	1,104,361	1,162,030	-	-	-	-	-	-	1,104,361	1,162,030
Total outcome specific administered liabilities	6,063,798	6,472,255	189	309	1,027,027	680,821	-	-	7,091,014	7,153,385
Other administered liabilities										
Suppliers	-	-	-	-	4,237	-	1,540	168	5,777	168
Other	14,764	21,201	-	-	-	-	-	-	14,764	21,201
Total other administered liabilities	14,764	21,201	-	-	4,237	-	1,540	168	20,541	21,369

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Other statistical information

Occupational health and safety

The Occupational Health and Safety (Commonwealth Employment) Act 1991 and the *Safety, Rehabilitation and Compensation Act 1988* form the legislative basis of Treasury's Occupational Health and Safety (OH&S) and Rehabilitation policies.

Treasury's Occupational Health and Safety Committee meets quarterly and comprises representatives from staff, units and the Community and Public Sector Union.

Treasury maintained a close occupational health and safety focus during the extensive refurbishment of the Treasury building. The second stage of the refurbishment process is continuing and the OH&S Committee will maintain its involvement in this process.

Specialist OH&S consultants provide Occupational Health and Safety advice and workstation briefing sessions for employees. In addition, employees can have an extended individual assessment of their workstation. Employees relocating in the second stage of the refurbishment process also received Occupational Health and Safety briefings in August 2001.

The OH&S Committee deals with occupational health and safety issues and policies, staff wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports. The committee also considers reports from the Employee Assistance Program (EAP) provider, Davidson Trahaire.

Davidson Trahaire provides confidential counseling on work-related and personal matters to all Treasury staff and their families. Quarterly reports allow Treasury to monitor use of the EAP and identify workplace issues that need addressing. No significant issues were identified for action in 2001-02.

Training for OH&S committee members and the departmental OH&S coordinator assisted employees in balancing their work and home lives, recognising the role Treasury plays in promoting staff wellbeing and a healthy lifestyle. All Treasury staff also had access to flu immunizations.

Treasury reviewed and updated the Occupational Health and Safety Policy and Agreement in consultation with the OH&S Committee representatives, the Workplace Relations Committee and the Community and Public Sector Union. The new policy came into effect on 28 May 2002. The Policy Statement provides the framework for the general principles and agreed responsibilities of Treasury managers and staff to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health and Safety Act (1991)*. The OH&S Policy Statement and Agreement is available to all staff on the departmental intranet.

Treasury received 42 accident and incident reports during 2001-02. Three resulted in compensation claims, with one yet to be

determined. No notices were given under sections 29, 46 and 47 of the Act.

Workplace assessments are conducted regularly to prevent injuries in the workplace and enhance the safety of employees. The major types of accidents that continue to occur are occupational overuse syndrome and car accidents. All reported accidents and incidents are investigated and acted on.

Freedom of information

Treasury is responsible for handling Freedom of Information matters in respect of the department, the Royal Australian Mint, the Foreign Investment Review Board and the Australian Office of Financial Management.

Treasury's statement under section 8 of the *Freedom of Information Act 1982* follows. The Australian Competition Tribunal's statement follows the department's statement. The tribunal is a separate agency within the Treasury portfolio but does not publish an annual report.

Treasury statement

Section 8 of the *Freedom of Information Act 1982* requires that the department publish detailed information about:

- the way it is organised and its decision making powers;
- arrangements for public involvement in the work of the agency;
- types of documents held by the agency; and
- how the public can obtain access to these documents.

The following information addresses the formal requirements of section 8 of the *Freedom of Information Act 1982* in relation to the department.

Organisation of Treasury

Details of Treasury's organisational and top management structure are set out in Part 1, Figure 4 of this report. Treasury's functions, and the decision-making powers exercised in carrying out those functions are described in the departmental overview and corporate governance sections of this report.



Details of the organisation and structure of the Royal Australian Mint, the Foreign Investment Review Board and the Australian Office of Financial Management are published separately in the annual reports of each of those bodies. In summary, the Royal Australian Mint has responsibility for the provision of circulating and numismatic coin for Australia, while the Foreign Investment Review Board advises the Government on foreign investment policy and its administration.

The Australian Office of Financial Management is responsible for the Commonwealth's debt management operations which include debt issuance, portfolio management and debt administration.

Treasury delegations

The Treasurer has delegated certain powers to officials under Acts of Parliament and agreements. These delegations stand in force until renewed and are listed below.

- The Treasurer has the discretionary power to guarantee the borrowings of some Commonwealth statutory authorities, and in some cases, to delegate his guarantee powers to Treasury officers. The Treasurer has delegated his powers to guarantee the borrowings of Air Services Australia and Australian National Railways to the General Manager, Commonwealth-State Relations Division; Manager, Financial Relations Unit; Manager, Federal Analysis and Reporting Unit; and Manager, Commonwealth-State Taxation Unit.
- Under section 20 of the *States Grants (General Purposes) Act 1994*, the Treasurer has delegated the power to make payments of general revenue assistance and revenue replacement payments to the States to the General Manager, Commonwealth-State Relations Division; Manager, Financial Relations Unit; Manager, Federal Analysis and Reporting Unit; and Manager, Commonwealth-State Taxation Unit.
- Under section 21 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* the Treasurer has delegated the power to make payments to the States under sections 18 and 19 of the Act to the Executive Director, Budget Group; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- The Treasurer has delegated certain powers, under the *Disposal of Forfeited Articles Direction 1999*, to the Controller, Royal Australian Mint; and the Senior Manager, Currency Operations, Reserve Bank of Australia, pursuant to the definition of 'an authorised person' in subsection 3(1) of the *Crimes (Currency) Act 1981*.
- The Treasurer has delegated certain powers under the *Crimes (Currency) Authorisation 1999* to the General Manager, Financial Institutions Division; the Controller, Royal Australian Mint; and the Senior Manager, Currency Operations, Reserve Bank of Australia, pursuant to the definition of 'an authorized person' in subsection 3(1) of the *Crimes (Currency) Act 1981*.
- The Treasurer has delegated the power under the *Currency Delegation 1999* to determine the issue price of coins of certain denominations under subsection 14A(2) of the *Currency Act 1965* to the Executive Director, Markets Group, and the General Manager, Financial Institutions Division.
- The authority to approve a range of essentially administrative matters provided for under the Gold Corporation Agreement between the Commonwealth and Goldcorp Australia relating to gold, platinum and silver coins is delegated to the Executive

Director, Markets Group and the General Manager, Financial Institutions Division.

- The Treasurer has authorised the General Manager and the Managers of the Foreign Investment Policy Division, to act on his behalf to approve and conditionally approve various proposals and in specific circumstances, to make an order under subsections 22(1) or 21A(2) of the *Foreign Acquisitions and Takeovers Act 1975*.
- The Treasurer has delegated to Treasury the authority to vote on routine matters arising from the Treasurer's Governorship of the International Monetary Fund, the World Bank Group, the Asian Development Bank and the European Bank for Reconstruction and Development.
- The Treasurer holds certain delegated powers under the Constitution and the *Financial Management and Accountability Act 1997* in relation to departmental financial management. These powers are delegated to nominated departmental officers.
- The powers under subsections 147(2) and 601DC(2) of the *Corporations Act* to consent to a name being available to a body corporate have been delegated to the General Manager, Corporate Governance Division and the Specialist Adviser, Corporate Governance Division.
- The Assistant Treasurer, on behalf of the Treasurer, has delegated to a departmental officer the authorisation under section 35(1) of the *Archives Act 1983* relating to arrangements for exemption of records from open access period.
- The Minister for Finance and Administration has delegated to the Treasurer, the Secretary of the Treasury and

other departmental officers the authorisation under section 56(2) of the *Archives Act 1983* for approval of access to records not in the open access period.

- The Minister has delegated to the General Manager, Corporate Governance Division and the Specialist Adviser, Corporate Governance Division power under subsections 147(2) and 601DC(2) of the *Corporations Act 2001* to consent to a name being available to a body corporate.

Arrangements for outside participation

People or organisations outside the Commonwealth administration may participate in forming policy or administering enactments and schemes for which Treasury is responsible by making representations in writing to the Treasury portfolio ministers, to the Secretary to the Treasury, or directly to agencies in the Treasury portfolio.

Additionally, the following arrangements also exist for participation by bodies outside the Commonwealth administration in forming policy and administering enactments or schemes.

Board of Taxation

The Board of Taxation is a non-statutory advisory body established by the Treasurer in August 2000 to advise on the design and operation of Australia's tax laws, ensuring full and effective community consultation in the design and implementation of tax legislation.

The Board comprises ten members; seven are drawn from the business and community sectors, including the chair. These members are appointed on a part-time basis and with a view to their ability personally to contribute a broad range of relevant business, practitioner and broader community knowledge and experience to the development of the tax system. The appointments are for two years and members



may be reappointed. The Secretary to the Treasury, the Commissioner of Taxation and the First Parliamentary Counsel serve as ex officio members.

The board provides advice to the Treasurer on:

- the quality and effectiveness of tax legislation and the processes for its development, including the processes of community consultation and other aspects of tax design;
- improvements to the general integrity and functioning of the taxation system;
- research and other studies it commissions on topics approved or referred by the Treasurer; and
- other taxation matters referred to it by the Treasurer.

The Treasury, with the assistance of the Australian Taxation Office, provides secretariat support.

Business Regulation Advisory Group

The Business Regulation Advisory Group is a non-statutory consultative body of nine part-time members, appointed from the Australian business community and legal and accounting professions. These members provide advice on initiatives under the Government's Corporate Law Economic Reform Program and related financial services reform legislation.

The Corporate Law Economic Reform Program refocuses and improves laws governing Australian corporations and the financial markets to promote business and economic development. The Business Regulation Advisory Group provides an ongoing means of direct consultation with the business community on program position papers and draft legislation, providing their constituencies' input and opinions on proposed changes.

Commonwealth Consumer Affairs Advisory Council

The Commonwealth Consumer Affairs Advisory Council is a non-statutory body established by the Minister for Financial Services and Regulation in May 1999 to provide independent advice on current and emerging consumer issues.

The Commonwealth Consumer Affairs Advisory Council comprises eight members, including the chair. Members present a range of consumer perspectives and all serve as individuals rather than as representatives of organisations or interest groups.

The Commonwealth Consumer Affairs Advisory Council meets regularly to investigate, advise and report to the Minister on consumer issues the Minister refers to them.

Corporations and Markets Advisory Committee

The Corporations and Markets Advisory Committee (CAMAC) was established under Part 9 of the *Australian Securities and Investments Commission Act 1989* (the ASIC Act). It was formed in September 1989. Prior to 11 March 2002, the Advisory Committee was known as the Companies and Securities Advisory Committee. It continues section 261 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act).

CAMAC is a body corporate, comprising part-time members appointed by the Treasurer. Members are selected from throughout Australia on the basis of their knowledge of, or experience in, business, the administration of companies, the financial markets, law, economics or accounting. The Chairman of the Australian Securities and Investments Commission (ASIC) is an ex-officio member of the Advisory Committee by the operation of section 147 of the ASIC Act.

The functions of CAMAC, set out in subsection 148(1) of the ASIC Act, are on its own initiative

or when requested by the Minister, to advise the Minister, and to make to the Minister such recommendations as it thinks fit, about any matter connected with:

- a) a proposal to make corporations legislation, or to make amendments of the corporations legislation (other than the excluded provisions);
- b) the operation or administration of the corporations legislation (other than the excluded provisions);
- c) law reform in relation to the corporations legislation (other than the excluded provisions);
- d) companies or a segment of the financial products and financial services industry; or
- e) a proposal for improving the efficiency of the financial markets.

In fulfilling these functions, CAMAC seeks to stimulate and lead public debate on the enhancement of standards for corporations and participants in financial markets, and propose suitable regulatory reform when necessary.

To achieve its statutory objectives, CAMAC is assisted by its legal sub-committee and considers public submissions on its discussion papers. It seeks to ensure that all interested people in the commercial community have an adequate opportunity to make submissions on particular matters and otherwise express their views to CAMAC.

Financial Sector Advisory Council and Task Force

The Financial Sector Advisory Council is a non-statutory body established in April 1998 by the Treasurer as part of the Government's response to the Financial System Inquiry. The council brings together a broad range of financial sector

experts to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial system. The Treasurer appoints members to the council in their personal capacity for two years, subject to their continued involvement in the relevant area of the financial sector.

The council can act on its own motion or a government reference. Submissions made to the Financial Sector Advisory Council and its recommendations to Treasury ministers are confidential.

Treasury provides secretariat support to the council.

Foreign Investment Review Board

The Foreign Investment Review Board is a non-statutory body that advises the Government on foreign investment policy and its administration. The board comprises four members; three, including the chair, are drawn from the business and community sectors. These members are appointed on a part-time basis. The General Manager of the Foreign Investment Policy Division also serves on the board as an executive member.

The board:

- examines proposals by foreign interests for acquisitions and new investment projects in Australia and, against the background of the Government's foreign investment policy, makes recommendations to the Treasurer on those proposals;
- advises the Government on foreign investment matters generally;
- fosters an awareness and understanding, both in Australia and abroad, of the Government's foreign investment policy;

- provides guidance, where necessary, to foreign investors so that their proposals conform with policy; and
- monitors and ensures compliance with foreign investment policy.

The board's functions are advisory only. Responsibility for the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.

Financial Services Reform Implementation Consultative Committee

The Financial Services Reform Implementation Consultative Committee assists in developing regulations for the *Financial Services Reform Act 2001*, which introduces a harmonised licensing, disclosure and conduct framework for the financial services industry. The committee includes participants from 40 key interest groups representing the financial services industry and consumers.

Consultation arrangements regarding economic conditions

Treasury officers conduct regular private discussions with companies and organisations to monitor, analyse and report on economic conditions and prospects. They provide regular briefings and analysis of liaison findings to the Treasurer.

Categories of documents held by the Treasury

Treasury holds the following categories of documents and files, including correspondence, analysis and policy advice by Treasury officers, comments on cabinet submissions and drafts of these and other documents. Treasury puts an indexed list of its policy file titles on the web site (www.treasury.gov.au) every six months.

Representations to Treasury portfolio ministers

Treasury holds representations made to Treasury ministers on matters falling within their portfolio responsibilities, including:

- borrowing money on the public credit of the Commonwealth
- business law and practice
- census and statistics
- commonwealth-State financial relations
- consumer affairs
- corporate and securities law
- corporate insolvency
- currency and legal tender
- economic, fiscal and monetary policy
- excise
- financial sector policy
- foreign exchange
- foreign investment in Australia
- international economic conditions
- prices surveillance
- structural reform
- superannuation
- taxation
- valuation services

Working files

Treasury holds files dealing with policy and administration in each of the areas falling within the responsibilities of the Treasury portfolio detailed above. The documents on these files include correspondence, analysis and policy advice by Treasury officers, comments on cabinet submissions and drafts of these and other documents.

Documents on internal departmental administration

Treasury documents relating to staff and departmental organisation and operation include personal records, organisation and staffing records, financial and expenditure records, and internal operations such as office procedures and instructions.

Program documents

Treasury holds documents relating to grants that it provides to other levels of government and to certain organisations under the programs it administers.

Documents open to public access

A detailed listing of Treasury documents published during the year and available on request — publications, papers, plans and annual reports — is available on the Treasury website (www.treasury.gov.au), or from the Government Info Shops in each capital city.

Facilities for access to documents

If a member of the public requests a document and Treasury approves access, Treasury will provide copies of documents after the applicant pays any charges.

Alternatively, applicants may arrange to inspect documents at the Treasury, Langton Crescent, Parkes ACT between 9.00 am and 5.00 pm, Monday to Friday (except public and public service holidays).

Freedom of information applications and initial contact points

Corporate Services Division coordinates requests under the *Freedom of Information Act 1982*. Applicants seeking access under the Act to Treasury documents should apply in writing to:

The Secretary
Department of the Treasury
Langton Crescent
PARKES ACT 2600
Attention: Freedom of Information Coordinator

An application fee of \$30 or a written request, pursuant to subsection 30A(1) of the Act, that the application fee be waived should accompany requests. Telephone inquiries should be directed to the Freedom of Information Coordinator, telephone (02) 6263 3015, between 9.00 am and 5.00 pm Monday to Friday (except public or public service holidays).

Officers of the senior executive service in Treasury can grant or refuse requests for access to documents under section 23 of the *Freedom of Information Act 1982*. In accordance with section 54 of the Act, an applicant may, within 30 days of receiving notification of a decision under the Act, apply to the Secretary to the Treasury, seeking an internal review of a decision to refuse a request. The prescribed fee of \$40 should accompany the application. A Treasury officer who has been authorised under section 23 to make decisions on internal review (usually an Executive Director) will conduct an independent review.

Freedom of information activity

In 2001-02, Treasury received 16 requests for access to documents under the *Freedom of Information Act 1982*, compared with 36 requests in 2000-01. Further details are set out in Table 15.



Table 15: Freedom of Information statistics 2001-02

Description	Number
Requests received(a)	
On hand at 1 July 2002	9
Received	16
Break down across Treasury	
Treasurer	0
Executive	0
Budget Group	7
Economic Group	0
Markets Group	9
Corporate Services Division	0
Action on requests	
Access in full	4
Access in part	2
Access refused or no documents located	6
Transferred in whole(b)	3
Withdrawn/Lapsed	7
Current as at 30 June 2002	3
Internal review	
Applications	1
Review by Administrative Appeals Tribunal(c)	
Outstanding at 1 July 2002	1
New applications	0
Withdrawn	0
Fees and charges	
Total application fees collected	\$460
Total charges collected	\$3,351
Total application fees and charges collected	\$3,811

(a) A request does not include an internal review or an appeal to the Administrative Appeals Tribunal.

(b) Section 16 of the Freedom of Information Act provides that, as far as possible, the most appropriate agency will deal with a Freedom of Information request, regardless of which agency receives it.

(c) Details are provided in Part 3, Internal and external scrutiny section of this report.

Australian Competition Tribunal statement

The tribunal is an agency within the Treasury portfolio and its section 8 statement follows as it does not publish an annual report.

Establishment

The tribunal was established under *the Trade Practices Act 1965* and continues under the *Trade Practices Act 1974*.

Organisation

The tribunal consists of a president and such number of deputy presidents and other members the Governor-General appoints. A presidential member must be a federal court judge. Other members must have knowledge of, or experience in industry, commerce, economics, law or public administration. For the purposes of hearing and determining proceedings, the tribunal is constituted by a presidential member and two non-presidential members. Currently, all presidential members are judges of the Federal Court of Australia.

The tribunal has no staff or physical resources of its own. The Federal Court of Australia manages the tribunal's funds and provides registry services and administrative support. The registry receives documents, arranges tribunal sittings and does general administration.

Functions and powers

The tribunal is a review body that re-hears or reconsiders matters. It may perform all the functions and exercise all the powers of the original decision-maker and affirm, set aside or vary the original decision.

The tribunal hears applications for review of determinations of the Australian Competition and Consumer Commission granting or revoking authorisations that permit conduct and arrangements (including company mergers and acquisitions) that otherwise would be prohibited

under the Trade Practices Act because of their anti-competitive effect.

The Act establishes a legislative regime to facilitate third party access to the services of certain essential facilities of national significance, such as electricity grids or natural gas pipelines.

The tribunal also hears applications for review of determinations of the Australian Competition and Consumer Commission on exclusive dealing. The tribunal also can inquire into and report to the minister on whether a non-conference ocean carrier has a substantial degree of market power on a trade route.

Arrangements for outside participation

Tribunal review proceedings, except under special circumstances, are public.

When a new review application is made to the tribunal, the tribunal ascertains who made submissions to, or registered their interest with the Australian Competition and Consumer Commission or the National Competition Council on the decision. The tribunal directs the applicant to serve the application on each interested party. At the same time, these parties are advised when the application will first come before the tribunal, and their entitlement to seek leave to intervene in the proceedings.

The tribunal may permit a person to intervene in the proceedings before it. Participants may appear on their own behalf or represent a firm or association, subject to the tribunal's approval, or, be represented by a barrister or solicitor.

Categories of documents the tribunal holds

The tribunal maintains the following categories of documents:

- documents lodged with the registrar on particular proceedings, including

applications, notices of appearance, statements of facts and contentions, and witness statements;

- correspondence concerning particular tribunal proceedings;
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters;
- register of applications made to the tribunal;
- documents concerning administrative and financial aspects of the tribunal's operations; and
- general correspondence.

The public may inspect the following categories of documents free of charge:

- documents lodged with the registrar in respect of particular proceedings (except where the Act or the tribunal restricts public access on the ground of confidentiality);
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters; and
- register of applications made to the tribunal.

The public can obtain copies of the above four categories of documents after paying the fees set out in the Trade Practices Regulations.

Facilities for access to documents

Facilities are provided to access documents from 9.00 am to 4.00 pm, Monday to Friday (except public and public service holidays).

If an applicant does not live in Sydney, alternative arrangements could reduce the inconvenience to the applicant.

Freedom of information applications and initial contact points

General inquiries relating to freedom of information should be directed to:

Registrar
Australian Competition Tribunal
Level 16
Law Courts Building
Queens Square
SYDNEY NSW 2000
Tel: (02) 9230 8567
Fax: (02) 9230 8535
DX: 613 – Sydney

The Registrar of the Tribunal, as principal officer, can deny access to a document under the *Freedom of Information Act 1982*.

Freedom of information activity

The tribunal did not receive any requests for access to documents under the *Freedom of Information Act 1982* in 2001-02.

Advertising and market research

Table 16: 2001-02 Treasury expenditure for advertising and market research

Vendor	Purpose	Cost (\$)
Output Group 2.1 (Budget)		
Mitchell & Partners Australia Pty Limited	Community Information Program — Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	487,605
Cultural Partners Australia	Community Information Program — Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	194,617
Quantum Market Research	Community Information Program — Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	107,216
Black is White Communications Pty Limited	Community Information Program — Abolition of FID, Stamp Duty on Marketable Securities and availability of Refunds of Excess Imputation Credits	2,970
Total Output Group 2.1		792,408
Output Group 3.1 (Markets)		
Starcom (Worldwide) Australia Pty Limited	Submissions for the review of the <i>Managed Investments Act 1998</i> .	17,765
Total Output Group 3.1		17,765
Total		810,173

Ecologically sustainable development

Treasury participates in government forums on environmental issues and actively pursues measures to minimise the detrimental effects of its activities on the environment. Treasury belongs to various property and building industry groups including the Australian Property Institute and the Facilities Management Association of Australia; this facilitates the exchange of ideas and information on aspects of property and building management and environmental management.

With the recent refurbishment of its building, Treasury has taken the opportunity to introduce best practice initiatives to meet and improve on targets relating to government policy on environmental matters.

Energy management

The incorporation of contemporary energy management practices has reduced overall energy consumption to meet Commonwealth energy consumption targets.

Building design

The building design incorporates leading edge technology, which has effected an overall reduction in energy usage.

Building management system

Treasury's building is controlled by a building management system that provides energy management and reporting facilities. Tenancy areas are metered separately to allow monitoring, profiling and diagnosis of consumption. Incoming electricity supplies have power analysers fitted; these provide instant reading of kilowatt consumption, load, power factor correction, kVA, and line voltage. The

building management system monitors all of these.

Energy audit

As required after a building refurbishment, Treasury reviewed and audited its building energy management practices. The report reviewed design specifications and actual performance, and made recommendations for further improving energy usage. The report provides a working Energy Management Plan that reflects Treasury's objective of responsible energy management.

Power supply

The base building and tenancy power supplies are separate to allow accurate assessment of tenancy light and power consumption. Similarly, smaller tenancy power boards cover areas of 540m² to differentiate consumption.

Lighting

Timer switches control all general lighting in the building. Lights only operate during standard working hours although manually operated pass switches turn on lights in specific areas for up to two hours, after-hours.

An energy audit, after the lighting control system was installed, indicated electricity consumption had decreased by 10 to 15 per cent.

High performance light fittings have proved to be 35 per cent more efficient than standard fittings with low ballasts.

Air-conditioning

After-hours air-conditioning zones are smaller than before the refurbishment. The base building plant configuration economically handles these requirements.

Environment management system

Treasury is developing an environmental management system to be implemented by December.

- designed and made for reliability and long life; and
- environmental best practice in energy efficiency and/or energy consumption.

Paper and cardboard products

Treasury has recycled paper and cardboard products for a number of years. A local recycling firm collects desktop and workplace containers of paper and cardboard products. Classified waste paper is pulped and staff kitchen facilities use a recycling bin system that simplifies the separation of recyclable items that previously would have gone to landfill. This reduces the amount of waste sent to landfill by over 30 per cent.

Treasury recently entered into a whole-of-government contract (negotiated by the Australian Greenhouse Office) to purchase electricity, with some from green power sources.

Treasury's central reproduction area procures paper that is made from 80 per cent recycled fibre and actively encourages other areas to use recycled paper.

Toner cartridges

Treasury currently uses genuine printer and facsimile toner cartridges which the supplier recycles.

Compost recycling

All Treasury's staff kitchens have sealed compost waste containers. The service enables compost waste which would have gone to landfill (creating greenhouse gases), to be recycled organically. In the last year, Treasury recycled around 6,000 kilograms of compost, 20 per cent more than the previous year.

Procurement

Treasury purchases goods and services in accordance with the environmental procurement policy as set out in the Commonwealth Procurement Guidelines. This ensures that goods and services are:

- environmentally sound in manufacture;
- reusable or recyclable;

Discretionary grants

During 2001-02, Treasury administered two discretionary grants.

The Securities Institute's national prize, valued at \$500, for the Mergers and Acquisitions subject, is sponsored by the Takeovers Panel.

The Australian National University, Bachelor of Economics prize in Economics III is sponsored by the Treasury. The value of the prize is \$500.

Acronyms

AAT	Administrative Appeals Tribunal
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ADB	Asian Development Bank
AGA	Australian Government Actuary
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ASIC	Australian Securities and Investments Commission
ASIO	Australian Security Intelligence Organisation
ATO	Australian Taxation Office
AWAs	Australian Workplace Agreements
BAS	Business Activity Statements
CAMAC	Companies and Markets Advisory Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
DIRKS	Developing and Implementing Records Keeping System
EAP	Employee Assistance Program
EBRD	European Bank for Reconstruction and Development
EL	Executive Level
EL2	Executive Level 2
FIRB	Foreign Investment Review Board
FMA	Financial Management and Accountability Act 1997
FOI	Freedom of Information
FSAC	Financial Sector Advisory Council
G-20	Group of Twenty
GST	Goods and Services Tax
HIH	HIH Claims Support
HIPC	Heavily Indebted Poor Countries

HLIC	Housing Loans Insurance Corporation
IMF	International Monetary Fund
IT	Information Technology
MDDs	Medical Defence Organisations
NCC	National Competition Council
NCP	National Competition Policy
OECD	Organisation for Economic Co-operation and Development
OH&S	Occupational Health and Safety
OPA	Official Public Account
PATTS	Papua New Guinea Australia Twinning Scheme
PBS	Portfolio Budget Statements
PNG	Papua New Guinea
PSMPC	Public Service and Merit Protection Commission
RBA	Reserve Bank of Australia
SEB	Senior Executive Band
SES	Senior Executive Service
STOCP	Sydney 2000 Olympic Coin Program
UMP/AMIL	United Medical Protection and Australasian Medical Indemnity Insurance Limited
UNCITRAL	United Nations Commission on International Trade Law

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