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The Treasury Annual Report 2002-03

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Australian Government
The Treasury

OFFICE OF THE SECRETARY

11 October, 2003

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 2003. 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 is to 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 is to be laid before each House of the Parliament on or before 31 October.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Henry'.

Ken Henry
Secretary to the Treasury

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Note:

Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.

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Introduction and guide to the report

The 2002-03 Treasury Annual Report outlines performance against outcomes, outputs and performance information contained in the *2002-03 Portfolio Budget Statements*.

The 2002-03 Annual Report of the Treasury includes the reporting requirements and financial accounts for the Royal Australian Mint, Australian Government Actuary, Foreign Investment Review Board and Axis Australia. The financial accounts for the Takeovers Panel are included in this report, however, the performance reporting does not extend to the activities of the Takeovers Panel. The Takeovers Panel publishes its own annual report.

Part 1 of this report includes an overview of major outcomes during 2002-03, and outlines changes in the organisation and senior management structure of the department and other significant management initiatives undertaken over the course of the year. Charts 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.

Enquiries

The contact officer to whom enquiries 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:
<http://www.treasury.gov.au/annualreport>

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Part 1

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Overview



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Secretary's review

In 2002-03, through our policy advice and other leadership services to the Treasury ministers, and through our central policy agency work, we made considerable progress in pursuit of our mission to improve the wellbeing of the Australian people.

Economic challenges

While aggregate economic outcomes for 2002-03 compared favourably with much of the rest of the world, with GDP growth of 2.7 per cent and the unemployment rate falling to about 6 per cent, the economic environment was challenging. The economy was buffeted by a weak world economy, the most extensive drought in Australian meteorological records, the Severe Acute Respiratory Syndrome epidemic and the war in Iraq.

A strong budget outcome was achieved, with an underlying cash surplus of \$7.5 billion, and a further reduction in the level of net Australian Government general government debt to 3.9 per cent of GDP (the lowest in 20 years).

Australia's macroeconomic resilience owes a considerable amount to the credible medium-term frameworks that have been implemented to guide monetary and fiscal policies. But macroeconomic resilience has been enhanced too by the extensive program of reforms in competition policy, the tax system, the labour market, the financial sector and corporate law.

Policy priorities

Across the activities for which the Treasury has responsibility four themes dominated in 2002-03: (1) the pressure of international events; (2) an enhanced contribution to the whole-of-government work on the Government's strategic priorities; (3) major policy reviews in several areas of core policy responsibility; and (4) a substantial program of policy reform implementation.

International developments affected our work in a number of ways. We have contributed directly to the efforts to re-build Iraq and to technical capacity building with our counterparts in Asia and the Pacific. In addition, we have continued to work through multilateral forums to address development needs

to reduce poverty and to build policy capacity around the world. We have also contributed to efforts to deal with the new security environment. (One consequence of terrorism incidents around the world was a disruption of the domestic insurance market. The disruption has been addressed, with the creation by the Government of the Australian Reinsurance Pool Corporation.) And we have worked to create stronger trade and investment links through the review of international taxation arrangements, the development of a model law for cross-border insolvency, and participation in free trade agreement negotiations.

A second theme in our work in 2002-03 was an enhanced contribution to cross-agency reviews of public policy.

As a central policy agency we have sought to make a useful contribution to the whole-of-government work on the Government's strategic policy priorities. We are leading the work of the inter-departmental demographic task force. During 2002-03 we also played a strong role in the consideration of energy and environmental issues, and in the consideration of social welfare policy issues.

2002-03 was a particularly busy year for reviews and reform initiatives in core areas of policy responsibility — a third theme for the year. We undertook a review of the Commonwealth securities market, provided the secretariat for the review of the Trade Practices Act, and prepared and consulted on CLERP 9 regarding an effective regulatory and disclosure regime for corporations. A range of insurance market issues were handled, including providing the secretariat to, and then managing the outcomes from, the review of the law of negligence, and contributing to the HIH Royal Commission.

The fourth theme was our work in implementing and administering government decisions. During 2002-03, we continued to work on the implementation of the Government's taxation and superannuation reforms, including the creation of the position of the Inspector-General of Taxation, and a range of changes to market and corporate governance regulation flowing from earlier reviews.

We worked closely with the agencies within the portfolio that administer the regulatory frameworks for markets — notably the Reserve Bank of Australia, Australian Prudential Regulation Authority, Australian Securities and Investments Commission and Australian Competition and Consumer Commission — in implementing the Government's reforms. The major changes for the portfolio agencies were in the implementation of new governance arrangements for Australian Prudential Regulation Authority and the shift from the Australian Taxation Office to Treasury of responsibility for the tax law design function.

Our organisational changes

In 2002-03, we significantly restructured the department, with a move from three to four policy groups. We continued to implement changes to our governance and people management systems, enhancing our central policy agency capabilities. A separate Revenue Group was formed to incorporate the tax law design function transferred from the Australian Taxation Office. And a new Fiscal Group was created.

In June 2003, the Government announced that, from 1 July, Axiss Australia would operate as a division of Invest Australia, the national inward investment agency, in the Department of Industry, Tourism and Resources.

The governance arrangements of the department were also strengthened with clearer roles being established for the work of the executive and a strengthening of the audit committee. Human resource systems were improved. A more competitive pay model was introduced with the implementation of our third certified agreement and the offer of workplace agreements to middle-level staff.

In 2002-03 Graeme Moffatt retired from the position of Controller of the Royal Australian Mint (part of the Treasury department), after almost five years. Graeme's term included major successes, such as the management, jointly with The Perth Mint, of the Sydney 2000 Olympic Coin Program and conduct of the Centenary of Federation Coin Program. We wish him well in his retirement. Dr Vivienne Thom, formerly Commissioner of Patents at IP Australia was appointed Mint Controller in October.

2003-04 outlook

In 2003-04, three substantial drivers will have a particular impact on our work: the short-term economic outlook; the immediate policy priorities of government; and longer-term factors affecting the wellbeing of the Australian people.

The work involved in addressing these drivers is complex. We will have to ensure that our resources and management systems, which define and support our capabilities, are aligned with these challenges.

I want to thank all Treasury staff for their extraordinary, highly professional commitment to the demanding work that supported good public policy outcomes in 2002-03. For some of our people 2002-03 was a demanding year for personal reasons as well. Some lost their homes in the severe bushfires that affected Canberra and surrounding areas early in 2003. I know that they would want me to pay tribute to their colleagues and other people in the broader Canberra community who were so generous with their support in this time of crisis.

Ken Henry
Secretary to the Treasury

01

Corporate statement

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 is currently responsible for 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.

Macroeconomic 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).

Responsibility for the outputs associated with Outcome 2 are shared between Fiscal Group and Revenue Group. Fiscal Group is responsible for budget policy advice and coordination and for Commonwealth-State financial policy advice. Fiscal Group also provides advice on social policy, industry and environment policy, defence and national security policy. Revenue Group is responsible for taxation and income support policy advice, including responsibility for the development of tax legislation.

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 in making 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. The effective implementation and communication of the Government's position is also 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 sound 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 the 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 values¹

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.

¹ Treasury has its own agency values reflecting and supporting the way it functions. The Australian Public Service (APS) recognises that agencies may adopt their own values and that these do not override the APS Values.

Table 1: Treasury financial and staffing resources summary

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	11,000	3,888	10,000
Appropriation Acts Nos. 2/4	227,784	222,985	178,419
Special appropriations	31,760,726	32,510,135	33,586,722
Other expenses	519,379	411,741	126,906
Total administered expenses	32,518,889	33,148,749	33,902,047
Revenue from Government			
Output group 1.1 - Macroeconomic	19,379	19,869	19,069
Output group 2.1 - Fiscal	11,219	11,525	11,366
Output group 2.2 - Revenue	37,790	37,394	35,804
Output group 3.1 - Markets	36,073	36,025	34,123
Total revenue from Government contributing to price of departmental outputs	104,461	104,813	100,362
Revenue from other sources			
Output group 1.1 - Macroeconomic	371	1,057	484
Output group 2.1 - Fiscal	260	531	110
Output group 2.2 - Revenue	756	1,207	858
Output group 3.1 - Markets	45,315	43,684	46,933
Total revenue from other sources	46,702	46,479	48,385
Total revenue for departmental outputs (Total revenues from Government and other sources)	151,163	151,292	148,747
Price of departmental outputs			
Output group 1.1 - Macroeconomic	19,750	20,025	19,553
Output group 2.1 - Fiscal	11,479	12,201	11,476
Output group 2.2 - Revenue	38,546	35,653	36,662
Output group 3.1 - Markets	81,388	79,112	81,056
Total price of departmental outputs	151,163	146,991	148,747
Total estimated resourcing (Total price of outputs and administered expenses)	32,670,052	33,295,740	34,050,794
Average staffing levels (number)	822	830	816

Note:

Budget 2002-2003: refer to Outcome Financial and Staffing Resource Summary Tables 2, 3 and 4 for details of variations.

Actual 2002-2003: as per the Audited 2002-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 Portfolio Budget Statements (unless otherwise stated).

Figure 1: Treasury portfolio outcome structure
(as at 30 June 2003)

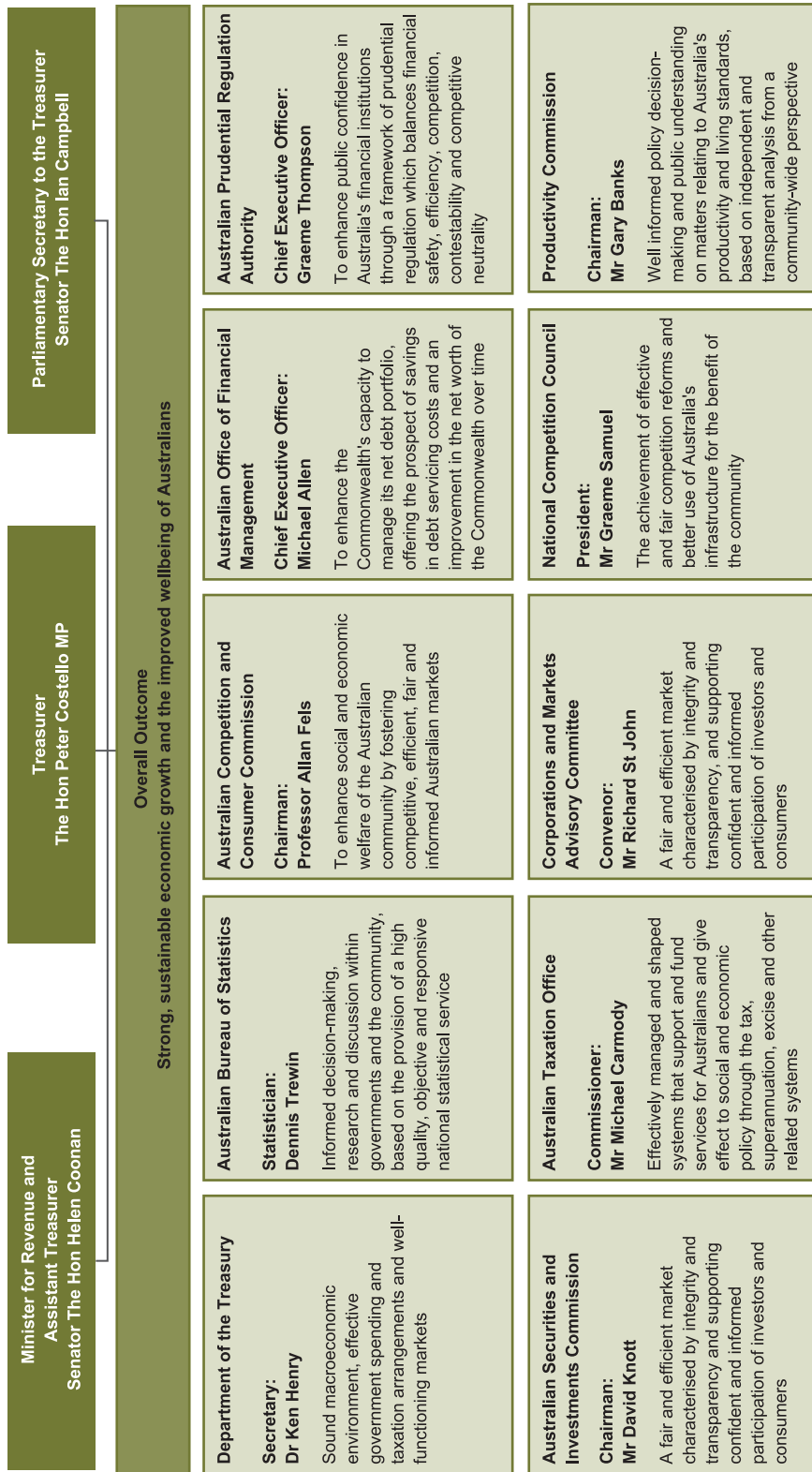


Figure 2: Portfolio output structure (as at 30 June 2003)

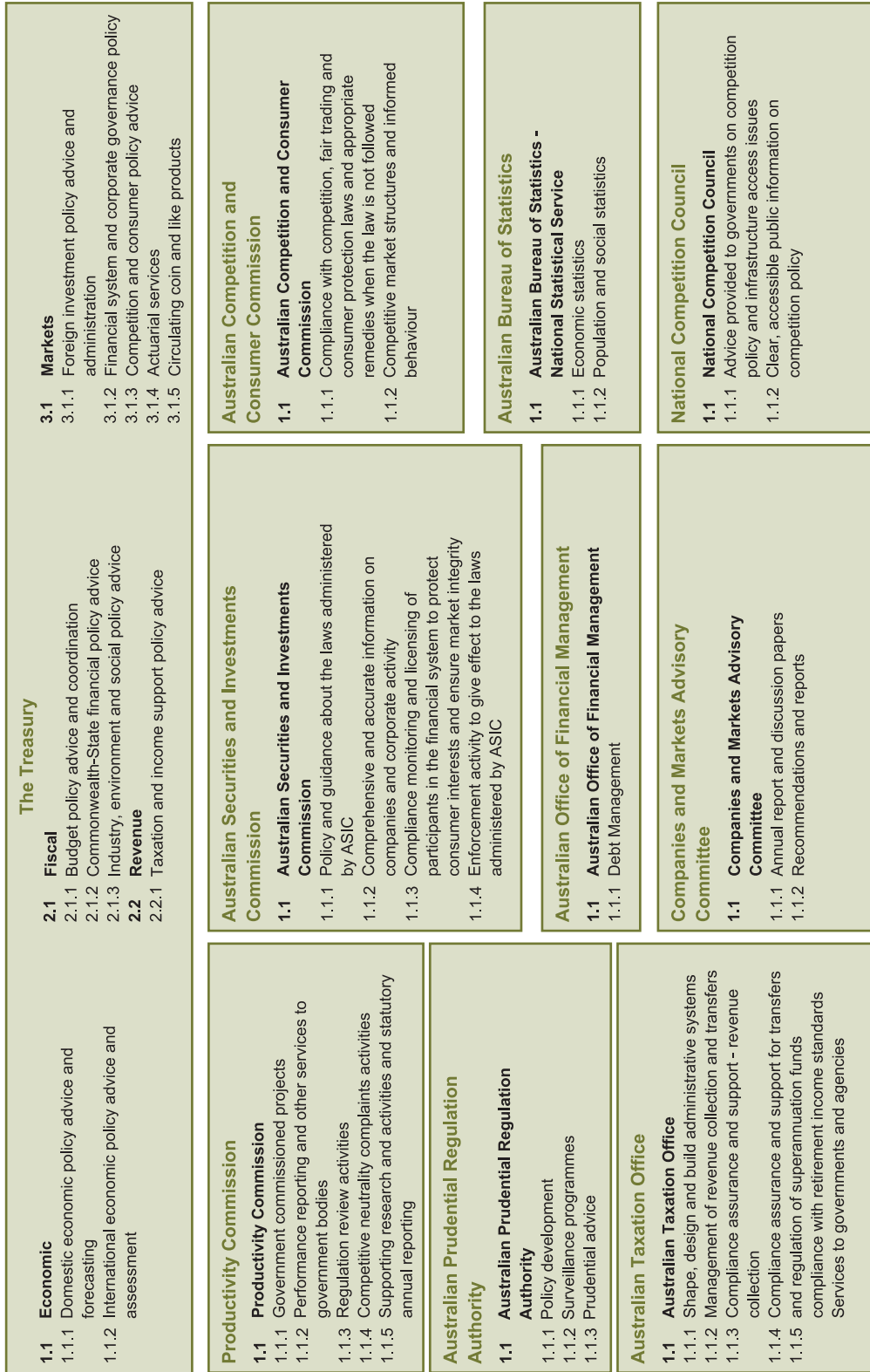


Figure 3: Treasury output structure (as at 30 June 2003)

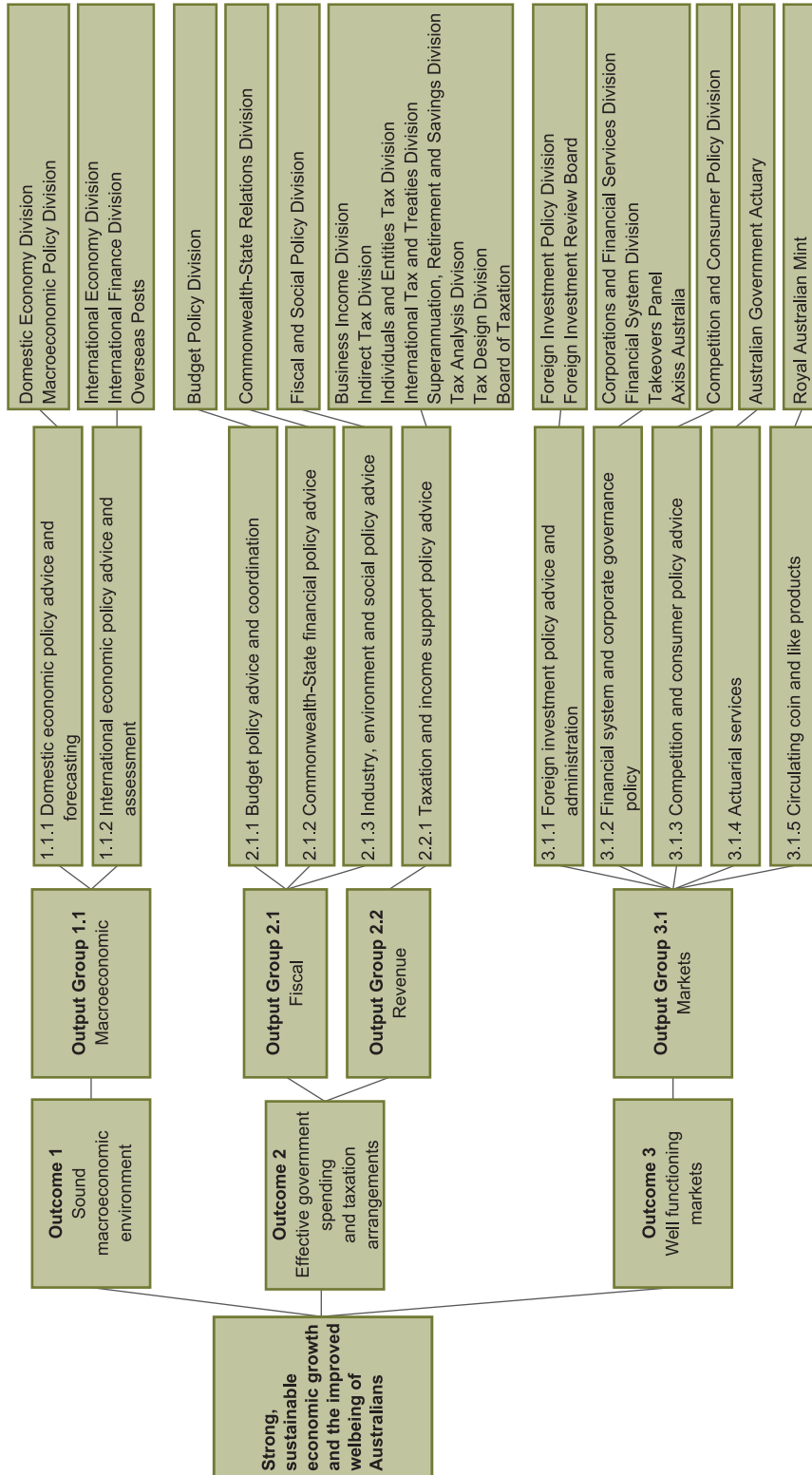


Figure 4: Treasury top management structure
(as at 30 June 2003)

Secretary: Ken Henry	
Corporate Strategy Principal Adviser: Peta Furnell	Corporate Services General Manager: Ian Robinson
Macroeconomic Group: Executive Director Martin Parkinson	
Chief Adviser, International: Veronique Ingram	Washington Minister-Counsellor (Economic) Nigel Bailey
Domestic Economy Division General Manager: Jim Hagan Principal Adviser (Forecasting): Steve Morling Principal Adviser (TRYM): Bruce Taplin	London Counsellor (Economic) Olaf Schuermann
Macroeconomic Policy Division General Manager: Graeme Davis	Paris Minister-Counsellor (Economic) Paul Tilley
International Economy Division General Manager: Heather Smith	Tokyo Minister-Counsellor (Economic) Ron Foster
International Finance Division General Manager: Janine Murphy	Beijing Minister-Counsellor (Financial) Michael Willcock
	Jakarta Counsellor (South East Asia Financial) Karen Whitham
Fiscal Group: Executive Director Richard Murray	
Budget Policy General Manager: David Martine	Commonwealth-State Relations General Manager: Jan Harris
Industry, Environment and Defence General Manager: Maryanne Mrakovcic	Social Policy Division General Manager: David Tune
Revenue Group: Executive Director Greg Smith	
International Tax and Treaties Division General Manager: David Parker	Tax Design Division General Manager: Deidre Gerathy
Individuals and Entities Tax Division General Manager: Paul McCullough	Superannuation, Retirement and Savings Division General Manager: Roger Brake
Tax Analysis Division General Manager: John Lonsdale	Indirect Tax Division General Manager: Patrick Colmer
Business Income Division General Manager: Peter Mullins	Board of Taxation General Manager: Gerry Antioch
Markets Group: Executive Director Jim Murphy	
Foreign Investment Policy Division General Manager: Chris Legg	Corporation and Financial Services Division General Manager: Mike Rawstron
Strategy, Consumer and Group Services Division General Manager: Sue Vroombout (A/g)	Australian Government Actuary General Manager: Peter Martin
Financial System Division General Manager: Nigel Ray	Takeovers Panel Director: Nigel Morris
Competition and Consumer Policy Division General Manager: Steve French	Axiss Australia Chief Executive Officer: Les Hosking

Part 2

02



Performance report

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02

Report on performance

The report on performance covers Treasury's administered items and departmental outputs for 2002-03.

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

Treasury's 2002-03 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 *2002-03 Portfolio Budget Statements*. Details of changes to Treasury's structure and performance information are outlined in the group overviews, and results of evaluations undertaken during the year, including those listed in the *2002-03 Portfolio Budget Statements*, are incorporated into the performance summary for the relevant output.

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

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.

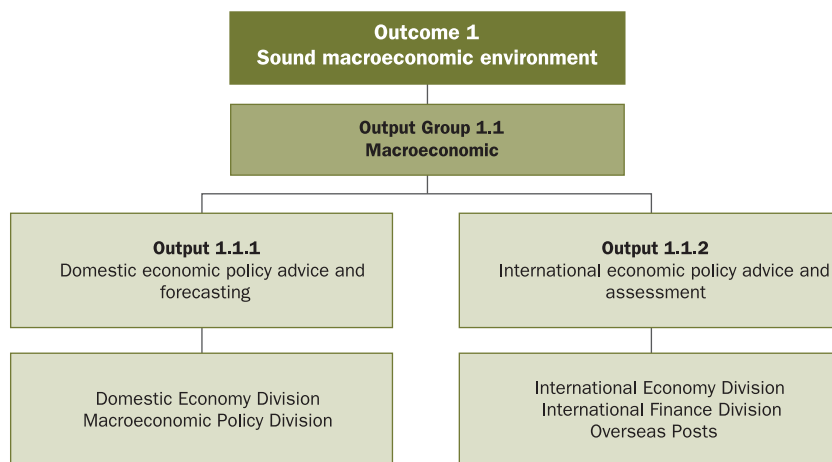
Treasury provides advice on advancing Australia's interests at forums such as the Group of Twenty, and international institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank, and in the Asia-Pacific Economic Cooperation process. Australia is making a significant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

Economic Group changed its name to Macroeconomic Group during the year. This name change was to better reflect the nature of the group and was not accompanied by any significant restructuring.

During 2002-03, Macroeconomic Group contributed to policy development and advice on government decisions by monitoring and assessing economic conditions and prospects, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy. The Group also provided advice to government ministers on strategic international economic policy issues, advanced Australia's interests through the international financial institutions and international forums and bilaterally with relevant countries, and monitored and analysed global economic developments.

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

Figure 5: Outputs contributing to Outcome 1



Key priorities in 2002-03

Treasury's *2002-03 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- continue to examine domestic and international developments affecting the economy directly and through the way in which fiscal and monetary policy is formulated and applied;
- assist in identifying policies likely to increase economic performance and wellbeing in the medium term;
- further develop analysis of, and evidence on, the forces driving future productivity performance and growth potential including demographic changes, technology and innovation, and market reforms;
- assist the government in taking an active role in shaping global and regional forums that seek to strengthen the international financial architecture and contribute to an effective and coordinated approach to Australian international economic policy;
- participate more intensively in policy dialogue, cooperation and institution building in the Asia-Pacific region.

Key outcomes in 2002-03

- Treasury examined domestic and international developments affecting the economy:
 - Treasury produced economic forecasts to assist with policy formulation, and chaired the Joint Economic Forecasting Group, comprising representatives from the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics;
 - officers in Treasury provided regular advice to the Treasurer on global economic developments and emerging international risks;
 - Treasury provided briefing for the Treasurer on economic statistics released by the Australian Bureau of Statistics, including advice on their implications for the economic outlook;
 - the department undertook a Business Liaison Program to better monitor, analyse and report on economic conditions and prospects, and provided regular briefings and analysis of liaison to the Treasurer and published summaries in the Economic Roundup.
- Treasury provided advice on macroeconomic policies likely to increase economic performance and wellbeing in the medium term:
 - Treasury provided advice on fiscal policy and strategies in developing the 2003-04 Budget;
 - the department provided regular advice on monetary policy for the Secretary, who is a member of the Reserve Bank of Australia Board.
- Treasury provided advice to the Treasurer on Australia's productivity performance and growth potential, including in the context of preparing Budget Paper No. 1, Statement 4 of the 2003-04 Budget.
- Treasury continued to assist the Government to take an active role at the international financial institutions:
 - Australia's representatives played central roles in the debates at the International Monetary Fund (IMF) and World Bank on issues including sovereign debt restructuring, the Heavily Indebted Poor Countries (HIPC) initiative, improving governance and harmonising policies between the multilateral development banks;

- Australia’s representatives at the Asian Development Bank also played a key role in the continuing transformation of the Bank to a broad-based development institution, including during discussions of enhancing accountability and transparency and the Asian Development Bank’s inspection function;
- Australia also participated in discussions on global and regional economic and financial developments at the Group of Twenty (G-20), including through Treasury representation at G-20 Deputies meetings.
- Treasury continued to play an active role in the International Economic Policy Group to ensure a coordinated and whole-of-government approach to international economic policy issues.
- Treasury participated intensively in policy dialogue, cooperation and institution building in the Asia-Pacific region:
 - Australia continued to lead the Asia-Pacific Economic Cooperation (APEC) ‘pathfinder’ initiative on corporate governance. Australia also hosted a conference as part of the APEC Future Economic Leaders’ Think-Tank, which was attended by 27 participants from 14 APEC economies, and hosted a training course for insurance and pension regulators which 26 participants from 9 APEC economies attended;
 - Australia, along with Japan and the Republic of Korea, successfully proposed changes to the Manila Framework Group to enhance its focus on the key strategic economic issues affecting regional economies;
 - officers from Treasury delivered a program of workshops to the Royal Thai Government on macroeconomic forecasting and risk monitoring and assessment;
 - Treasury continued to develop the Papua New Guinea-Australia Treasury Twinning Scheme to enhance Papua New Guinea’s economic governance capacity;
 - the department received delegations from Asia for policy discussions, hosted officials from Papua New Guinea and Mongolia, and facilitated the short-term placement of officials from China in the Victorian and Australian Capital Territory Treasuries.
- Treasury, in response to demands arising during the year and consistent with overall government policy, provided policy advice and skilled staff to assist countries in severe economic difficulties (including Iraq and the Solomon Islands).

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	-	-	-
Special appropriations	25,717	22,695	20,055
Other expenses	12,101	411,741	126,906
Total administered expenses	37,818	434,436	146,961
Revenue from Government			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5,099	5,048	5,167
Output 1.1.2 - International economic policy advice and assessment	4,255	4,306	4,328
Corporate costs	10,025	10,515	9,574
Total revenue from Government contributing to price of departmental outputs	19,379	19,869	19,069
Revenue from other sources			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5	91	7
Output 1.1.2 - International economic policy advice and assessment	52	170	70
Corporate costs	314	796	407
Total revenue from other sources	371	1,057	484
Total revenue for departmental outputs (Total revenues from Government and other sources)	19,750	20,926	19,553
Price of departmental outputs			
Output group 1.1 - Macroeconomic			
Output 1.1.1 - Domestic economic policy advice and forecasting	5,104	4,936	5,174
Output 1.1.2 - International economic policy advice and assessment	4,307	4,299	4,398
Corporate costs	10,339		9,981
Total price of departmental outputs	19,750	20,025	19,553
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	57,568	454,461	166,514
Average staffing levels (number)	118	125	122

Note:

Budget 2002-2003: as per the *2002-03 Portfolio Additional Estimates Statements*, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the *2003-04 Portfolio Budget Statements* (unless otherwise stated).

Output 1.1.1

Domestic economic policy advice and forecasting

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

Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

Performance information

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 to adequately inform public debate.

Analysis of performance

Policy advice and inputs into policy processes

During 2002-03, Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- Treasury analysed and provided briefings on a wide range of economic statistics released by the Australian Bureau of Statistics and the private sector. This included advice on implications for the economic outlook and information to assist the Treasurer in responding 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 a business point of view with organisations of all sizes in both major business centres and regional Australia. The Treasurer received regular briefings and analysis of liaison findings, and summaries of liaison were published in the Treasury Roundup.
- Treasury held discussions with visiting delegations from organisations including the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and international

credit rating agencies. The Treasurer was briefed on the outcomes of these processes.

- As part of the process of developing the 2003-04 Budget, Treasury advised the Treasurer on fiscal policy and strategies.
- The Secretary sits on the Board of the Reserve Bank of Australia. Treasury regularly provided advice on monetary policy to the Secretary prior to Board meetings. In preparing this advice, Treasury monitored economic, financial and policy developments and forecasts to assess their implications for policy settings. The Treasurer was kept abreast of developments in this area through regular briefings and analysis. This advice contributed to the formation of sound macroeconomic policy.
- Treasury provided advice on appointments to the Board of the Reserve Bank of Australia.
- Treasury provided advice to the Government submission for the Australian Industrial Relations Commission hearings on the Safety Net Adjustment.
- Macroeconomic Group contributed to the work on drivers of economic growth and implications for economic performance of demographic changes.

Economic forecasts

Economic forecasts inform policy settings and enabled the calculation of budget estimates. These forecasts took account of key assumptions about economic variables and judgements about likely outcomes. The weak world economy, the most extensive drought in Australian meteorological records, the impact of the outbreak of Sudden Acute Respiratory Syndrome (SARS) and movements in the Australian dollar were important factors taken into account when preparing economic forecasts during 2002-03.

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 2002-03 Budget contained forecasts for 2002-03 that were reassessed in the *2002-03 Mid-Year Economic and Fiscal Outlook* in November 2002 and the 2003-04 Budget in May 2003. These forecasts helped to develop policy that contributed to the strong performance of the domestic economy.

Economic growth in 2002-03 was forecast to be 3 per cent in the Mid-Year Economic and Fiscal Outlook, down from 3¾ per cent forecast at Budget. The downward revision largely reflected the impact of the drought, which was more

extensive and severe than initially anticipated. The 2003-04 Budget further updated the outlook for 2002-03, with the forecast for economic growth left unchanged at 3 per cent.

These forecasts were consistent with the assessment of international forecasters such as the OECD and IMF, and commentators generally regarded them as credible. Recent data confirm the economic outlook Treasury presented in the *2002-03 Mid-Year Economic and Fiscal Outlook* and 2003-04 Budget, with strong growth in the non-farm economy partly offset by one of the most severe droughts on record.

The Treasury *Economic Roundup, Spring 2003* reviewed 2002-03 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 underpin this development. This level of increased efficiency and flexibility has enabled the economy to continue to grow solidly despite ongoing global economic weakness and shocks such as the drought, SARS and the strong appreciation of the exchange rate in the second half of 2002-03. 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 Administration and the Australian Bureau of Statistics. Treasury liaised with industry to obtain the most up-to-date information about business conditions. 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 free from the Treasury website (www.treasury.gov.au). This makes publications more accessible.

The *2002-03 Mid-Year Economic and Fiscal Outlook* reviewed the economic outlook and helped inform the public of the likely impacts of key developments such as the increasingly extensive and protracted drought and ongoing weakness in the global economy. While describing a sobering backdrop, the forecasts noted that prospects for growth in the Australian economy remain strong, and significantly better than for most of the developed world, reflecting solid fundamentals and supportive policy settings.

In the 2003-04 Budget Papers, *Budget Paper No. 1, Statement 3: Economic Outlook* discussed in detail international and domestic economic forecasts for 2003-04. This comprehensive report included forecasts for major variables including world growth, domestic growth, inflation and employment.

Budget Paper No. 1, Statement 4: Sustaining Growth in Australia's Living Standards explored the ways to maintain the recent strong rates of growth in living standards as the population ages. International evidence points to a range of benefits from mutually reinforcing policies in a sound macroeconomic environment, such as higher participation in the labour force and faster rates of productivity growth. Such changes would result in faster growth in GDP per person than projected in the Intergenerational Report published in the 2002-03 Budget.

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 about the Australian economy's performance in the recent past and its prospects.

The four issues of Treasury's *Economic Roundup* published in 2002-03 contained overviews of economic developments and commentary on key issues underpinning Australia's recent economic performance. The Spring 2002 overview reflected on the strong rebound in economic growth in 2001-02, despite a global economic slowdown and an Autumn 2003 article assessed the short-term macroeconomic impact of *The New Tax System*.

Other Economic Roundup articles included: The Effectiveness of Fiscal Policy in Australia — Selected Issues (Winter 2002); Key Themes from the Treasury Business Liaison Program — May/June 2002 (Winter 2002); 2001-2002 in Review: Strong Growth in the Midst of an International Slowdown (Spring 2002); Australian Net Private Wealth (Summer 2003); Key Themes from

the Treasury Business Liaison Program — November 2002 (Summer 2003); Preliminary Assessment of the Impact of The New Tax System (Autumn 2003); and Key Themes from the Treasury Business Liaison Program — February 2003 (Autumn 2003).

Treasury distributed quarterly updates of its macroeconomic model of the Australian economy and associated database to the Australian Bureau of Statistics for wider distribution. Since its public release in 1995-96, the Treasury macroeconomic model has continued to evolve. The model is currently being redeveloped to reflect changes in the structure of the Australian economy.

The Secretary to the Treasury, Dr Ken Henry, presented a number of speeches over the year in which he highlighted economic issues surrounding Australia's demographic trends. These included giving the Chris Higgins Memorial Lecture in November 2002 and presenting speeches at the Melbourne Institute's 40th Anniversary Dinner in February 2003 and to the Australian Business Economists in May 2003.

Reviews of economic data

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

Output 1.1.2 International economic policy advice and assessment

International Economy Division and International Finance Division in Macroeconomic Group are responsible for the delivery of Output 1.1.2, international economic policy advice and assessment.

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

Performance information

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 and the IMF.

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

International developments

The world economy remained subdued in 2002-03. The tenuous recovery in the United States (US) failed to gather momentum, while Germany experienced its second recession in less than three years. Growth in the Euro area stalled and the economies of Australia's major trading partners in East Asia also weakened. Subdued equity prices, high oil prices, geo-political uncertainties including the war in Iraq, and unanticipated shocks including the SARS outbreak, affected the global economy. Global exchange rates began to realign during the year, with the US dollar depreciating significantly.

Macroeconomic policies continued to be eased as concerns increased about the weak global economic outlook. Economic growth in the US and East Asia is expected to pick up gradually in the latter part of 2003 and into 2004. However, the Euro area is unlikely to experience a significant recovery, while deflation and a weak financial sector continue to hamper Japan's growth prospects.

International Monetary Fund

During 2002-03, the IMF continued to consider measures to improve its capacity to prevent and resolve financial crises. Australia has actively contributed to this debate through its representation on the IMF Board, and ministerial participation in the Spring and Annual Meetings of the IMF, regular meetings of International Monetary and Financial Committee Deputies, and other forums. Dr Martin Parkinson, Executive Director of Macroeconomic Group, presented a paper on the role of the IMF in the international financial architecture at the International Monetary Convention in Madrid in May 2003.

Treasury continued to support the IMF's financial activities by participating in the Financial Transactions Plan. Treasury conducted timely, accurate and cost-efficient financial transactions with the IMF.

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

Heavily Indebted Poor Countries Initiative and bilateral debt relief

Australia continued its strong support for international debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative as one strand of the strategy to reduce poverty for the world's poorest countries. This initiative supports the adoption of sound policies, good governance practices and effective poverty reduction programs which will further assist countries completing the enhanced Initiative to ensure an enduring exit from unsustainable debt.

At the September annual meetings of the IMF and the World Bank, ministers called upon those official and commercial creditors that had not already done so to participate fully in the enhanced HIPC Initiative. Australia supported ministers' calls for a review into the difficult issues of HIPC-to-HIPC debt relief and creditor litigation, and emphasised that the HIPC Initiative should be seen as only one element of a broader development strategy. During the April 2003 meetings of the IMF and the World Bank, Australia welcomed the continuing progress made in the Initiative, and highlighted the importance of economic growth in maintaining debt sustainability and achieving poverty reduction more broadly.

In the 2002-03 Budget, the Australian Government announced a new commitment of \$18 million to the World Bank and IMF costs of debt relief under the enhanced Initiative. This maintains Australia's burden share and brings total Australian contributions to \$77 million. This multilateral contribution complements Australia's commitment to provide 100 per cent bilateral debt relief to those heavily indebted poor countries with outstanding debts to Australia.

World Bank

In 2002-03, Australia supported the World Bank's efforts to reduce poverty, promote sustainable development and attain the Millennium Development Goals including via its representation on the Bank Board, Ministerial participation in the Spring and Annual Meetings and meetings of Deputies Committee. Australia focused on making World Bank activities more effective, efficient and transparent. Australia also sought to strengthen the links between the World Bank and Australia's aid programs in the Asia-Pacific region. In addition, Australia continued to emphasise the importance of close World Bank coordination and harmonisation with other multilateral financing organisations, notably, the IMF and the Asian Development Bank.

During 2002-03 Australia, along with other donor countries, finalised the thirteenth replenishment process for the International Development Association (IDA13) and agreed to a total replenishment of SDR18 billion (Australia's total contribution is SDR146 million, around A\$360 million). Also, after substantial negotiation, between 18 and 21 per cent of the IDA13 replenishment will be provided in the form of grants rather than as concessional loans.

Asian Development Bank

In 2002-03, Australia encouraged the Asian Development Bank to continue its process of transformation from a project financier to a broad-based development institution. Australia focused on the continuing improvement in internal governance to enhance accountability, effectiveness and transparency. Australia contributed to the review of the Bank's inspection function, which establishes a formal channel for addressing the concerns of local communities affected by certain Asian Development Bank-financed projects. The board of directors approved the establishment of a revised mechanism in late May 2003.

Australia also participated in the mid-term review of the current replenishment (known as ADF VIII) of the Asian Development Fund, the Bank's concessional lending arm. The objective of the mid-term review meeting, held in Washington in April 2003, was to evaluate the Bank's progress in implementing the recommendations contained in the ADF VIII Donors' Report.

European Bank for Reconstruction and Development

In 2002-03, Australia continued to support the European Bank for Reconstruction and Development work in assisting in reconstruction and development of Russia, Eastern Europe and Central Asia. In particular, Australia promoted a greater focus on countries with a less advanced transition of Eastern Europe and central Asia.

The Group of Twenty

The Group of Twenty (G-20) discussed key economic and financial policy issues and promoted cooperation to achieve stable and sustainable world economic growth. Participants include finance ministers and central bank governors from the Group of Seven (G-7) nations, other significant developed countries (including Australia) and developing countries. The heads of the IMF, World Bank and their ministerial-level advisory committees are ex-officio members.

Treasury officers attended the G-20 Deputies meeting in New Delhi, India in July 2002, in preparation for the Treasurer's participation in the November meeting. The Treasurer and Reserve Bank Australia Governor attended the ministerial meeting which considered the global economic outlook, financial

crisis prevention and resolution, globalisation, growth and development issues and measures to combat the financing of terrorism.

Treasury officers represented Australia at the G-20 Deputies meeting in March 2003, and later in May at the G-20 seminar on sovereign debt restructuring. At both meetings, discussions focused predominantly on measures to better prevent and resolve financial crises.

Manila Framework Group

Officials from Treasury and the Reserve Bank of Australia attended and played an active role at the tenth meeting of the Manila Framework Group in Brunei Darussalam in October 2002.

The tenth meeting agreed that the global recovery, stronger domestic demand and intra-regional trade had supported the pick up in many member economies in 2002. However, the deputies recognised a number of risks could affect the strength and durability of the global and regional recovery, including terrorist activities and the risks of deflation at the global level as well as in some member economies. Given the risky environment, deputies acknowledged the need to maintain accommodative macroeconomic policies. They also agreed on the importance of addressing structural issues in the banking and corporate sectors, and promoting good public and corporate governance.

The meeting also considered options to strengthen the Manila Framework process. It agreed to a proposal, initiated by Australia, Japan and the Republic of Korea, to refocus the policy discussion on key strategic economic issues affecting regional economies to add value to discussions in other regional economic forums. Korea will host the next Manila Framework Group meeting in Seoul in October 2003.

Financial Stability Forum

Treasury participates in some activities of the Financial Stability Forum. The forum promotes international financial stability through information exchange and international cooperation in financial supervision and surveillance. During 2002-03, the forum reviewed potential vulnerabilities in the international financial system and progress to address weaknesses in market foundations in the wake of recent corporate scandals in major markets.

In October 2002, senior representatives from 15 regional economies, including Australia, and five international institutions participated in the second Asia-Pacific regional meeting. Discussion focused on potential vulnerabilities of the regional and international financial system, especially the need to deal proactively with existing and/or future non-performing loans. Participants also

agreed that enhancing corporate governance practices and strengthening of accounting and auditing standards and practices remained critical.

Four Markets Group

Through the Four Markets Group, Australia, Hong Kong SAR, Japan and Singapore shared their perspectives on macroeconomic and financial market developments, including financial 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 group met in Singapore in October 2002 and discussed the outlook for member economies and potential vulnerabilities in their financial markets. Members also updated the group on efforts to improve corporate governance in their jurisdictions. Australia facilitated a discussion on the key role of clearing and settlement services for the efficient operation of financial markets as well as for wider financial stability.

Asia–Pacific Economic Cooperation

Finance Ministers

In 2002-03, Treasury provided policy advice and briefings for the Treasurer at the ninth APEC Finance Ministers' meeting in Los Cabos, Mexico in September 2002. Treasury officers also attended a Technical Working Group meeting in Chiang Mai, Thailand in December 2002.

The APEC Finance Ministers' process remains focused on encouraging structural reform in financial markets. Treasury led three initiatives: the APEC Future Economic Leaders' Think Tank; managing regulatory change in life insurance and pensions; and strengthening corporate governance in the APEC region.

Australia hosted a training course for Managing Regulatory Change in Life Insurance and Pensions in March 2003 attended by 26 insurance and pension regulators from nine APEC economies. Annual symposiums complement these courses and encourage dialogue among regulators and industry representatives. The most recent symposium was in Singapore in November 2002.

As part of the APEC Future Economic Leaders' Think-Tank, Australia hosted a conference in Sydney in June 2003 to network, problem-solve and develop creative solutions to priority regional economic and financial challenges. Twenty-seven participants attended from 14 APEC economies.

Australia chairs a 'pathfinder' initiative on corporate governance aimed at implementation of corporate governance best practice principles within APEC economies. Participating economies include Korea, Malaysia, Mexico,

New Zealand and Singapore. In July 2003 the US and the Philippines also joined the pathfinder.

Treasury supported and contributed to the Finance Ministers' action plan to combat the financing of terrorism and money laundering. Treasury also contributed to continuing 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 voluntary action plans. These initiatives support the Finance Ministers' objective of establishing a framework for building sound domestic institutions in the region, emphasising 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 the group focused on investment liberalisation and facilitation rather than investment promotion. Treasury also participated in the group meetings in Acapulco, Mexico, in August 2002, and then in Chiang Rai and Khon Kaen in Thailand in February and May 2003 respectively.

Economic Committee

Treasury represented Australia on APEC's Economic Committee in striving to improve output and ensure the work program met the needs of leaders, ministers and other APEC forums. The work program involves high quality research on economic issues and trends in the APEC region.

Australia drafted a chapter on statistical indicators on knowledge-based economies for the *2002-03 APEC Economic Outlook*.

Relations with Asia

Treasury's work in this area benefited from a sharper focus during 2002-03, through more intensive policy dialogue, cooperation and institution building. The Treasurer's speech to the Asia Society in October 2002 on Australia's role in Asia reinforced the Government's commitment to close engagement with Asia and provided support for Treasury's activities in the region.

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

To assist capacity building and policy dialogue, Treasury continued to receive delegations from Asia for discussions of policy issues. In addition, Treasury hosted PNG and Mongolian officials on short-term work experience and facilitated placements of Chinese officials in the Victorian and ACT Treasuries for short-term training on budgeting and public management issues.

On 30 March-1 April 2003, a senior level Treasury official visited Jakarta to give seminars on Australia's fiscal and monetary policy frameworks to senior officials of Bank Indonesia and the Ministry of Finance, and to staff and postgraduate students at the Faculty of Economics of University of Indonesia.

In June 2003, senior officials from Domestic Economy Division undertook a consultancy project in Bangkok as part of AusAID's Thailand-Australia Capacity Building Facility. The project culminated in a week-long series of seminars on Australia's approach to macroeconomic forecasting and risk monitoring and risk assessment early warning systems. Seminar attendees represented the Bank of Thailand, the Ministry of Finance and the Office of the National Economic and Social Development Board.

In early July 2003, Mr Richard Murray, Executive Director of Fiscal Group, and Mr Graeme Davis presented a seminar on Treasury's experience in formulating the Australian Government Budget and Australia's macroeconomic policy framework to the Indonesian Coordinating Minister for the Economy, the Minister for Finance and senior economic officials. Mr Murray and Mr Davis also met with Indonesian Parliament Budget Committee members.

Treasury continued to provide inputs into the regional trade negotiations, including the Australia-Singapore Free Trade Agreement, the Australia-Thailand Closer Economic Relations Agreement and the wider trade and economic agreements with China, Japan and the Republic of Korea.

Treasury 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. Dr Martin Parkinson, Executive Director of Macroeconomic Group, delivered a paper on fiscal policy and Australia's government bond market at a conference in Kuala Lumpur in March 2003.

Relations with Papua New Guinea

Treasury continued its support for Papua New Guinea (PNG) economic and governance reform. After the Somare Government took office, Treasury assisted with the preparation of a medium-term fiscal strategy to incorporate into PNG's 2003 budget. Treasury also encouraged PNG's further constructive engagement with the IMF and World Bank in the promotion of responsibly

managed reform. In May 2003, Treasury convened a roundtable of Australian Government agencies to consider prospects for the PNG economy and policy options for Australia.

The PNG-Australia Treasury Twinning Scheme continued to develop economic governance capacity in PNG's central economic agencies. Under the scheme Treasury advisers worked in PNG Treasury to build skills in taxation policy and revenue forecasting. Treasury also provided technical support to PNG's review of its tariff reform program and contributed to improving the skills of PNG Treasury officers through short-term placements in Treasury.

Relations with Pacific Economies

South Pacific Forum Economic Ministers' Meeting

The Treasurer attended the sixth Pacific Islands Forum Economic Ministers' Meeting (FEMM) in Port Vila, Vanuatu, in July 2002 and the Parliamentary Secretary to the Treasurer attended the seventh meeting in Majuro, Marshall Islands in June 2003. The meetings progressed the implementation of the FEMM action plan for economic liberalisation, which aims to foster greater competitiveness and self-reliance and raise living standards in forum island countries. Treasury continued to work actively to reinforce the focus on core economic challenges and encourage further development of its biennial stocktake of island country progress in implementing economic and governance reform.

Australia-New Zealand Closer Economic Relations

As part of the twentieth anniversary of Closer Economic Relations, the Treasurer visited New Zealand in February 2003 to meet the New Zealand Finance Minister. Both governments agreed to extend their imputation regimes to include companies resident in the other country and endorsed ongoing work on business law coordination, including competition law and policy. The Treasurer and New Zealand Finance Minister agreed to meet each year to pursue further economic policy coordination and the Treasurer addressed the Auckland Chamber of Commerce on 20 February 2003 on the benefits of Closer Economic Relations to both economies and scope for further economic integration.

Organisation for Economic Co-operation and Development

Treasury officers participated in the work of OECD committees on macroeconomic and microeconomic policies, forecasting, taxation, budget policy, consumer policy, competition policy, corporate governance, insurance, financial markets, investment and capital markets. Australia chairs the OECD Steering Group on Corporate Governance and the Joint Working Group on Trade and Competition.

In April 2003, the Treasurer addressed the OECD's annual Ministerial Council Meeting on policies to maintain confidence and enhance growth. He also spoke to two related forums on Australia's links and shared interests with Europe and East Asia.

In February 2003, Dr Martin Parkinson led the Australian delegation to the OECD Economic and Development Review Committee's annual examination of Australia. The Committee gave strong support for the pursuit of broad ranging structural reforms and prudent macroeconomic policies which have combined to make the Australian economy 'one of the best performers in the OECD' and one that is noticeably resilient to internal and external shocks.

Policy advice

Economic reconstruction issues

In response to growing demands for policy advice and skilled staff to assist countries in economic difficulty, Treasury began to dedicate more resources to the International Economy Division. Much additional effort was focused on Iraq where Australia played a significant role in establishing the new Coalition Provisional Authority to administer Iraq following the removal of Saddam Hussein's regime. In addition to providing high-level policy advice, Treasury sent three officers to work with the Provisional Authority in Baghdad. Treasury staff involvement in Iraq is ongoing and focuses on a broad range of issues including establishing a payments system and preparing a national budget. Towards the end of 2002-03, focus increased on assisting the Solomon Islands as part of the Government's offer of cooperative intervention. The aim is to assist in rectifying serious problems in administering the Solomon Islands that have caused economic activity to contract.

Regional economic policy

Treasury worked with its counterparts in Japan and the Republic of Korea to refocus the discussions in the Manila Framework Group on key strategic economic policy issues affecting member economies and to add value to the process of policy dialogue in the East Asian region.

The Treasurer initiated the work which culminated in the Government's removal of all tariffs and quotas for all imports originating in 49 less developed countries and East Timor, commencing on 1 July 2003. The Prime Minister announced this initiative at the APEC Leaders' meeting in November 2002. This measure has the potential to help less developed countries expand their exports to Australia and reduce poverty.

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, AusAID, the Office of National Assessments and the Reserve Bank of Australia, with other departments attending as required.

Outcome 2

Effective government spending and taxation arrangements

Effective government spending and taxation arrangements are crucial to achieving the Government's economic objectives and the wellbeing of Australians. Ongoing advice to the portfolio Ministers from Treasury assists in formulating, implementing and explaining government spending and taxation decisions.

In May 2002, the Government announced a major change to agency accountability for tax law design. Responsibility for the design of tax laws and regulations was shifted from the Australian Taxation Office to Treasury from 1 July 2002. The transfer created a stronger and more direct link between ministers and policy and legislation development processes. This, in turn, has resulted in a greater alignment between legislation and the policy intent set by Government.

The transfer of the tax law design functions had a number of much wider impacts on Treasury's operations. A significant consequence of the move of the law design function was the transfer of 104 staff from the Australian Taxation Office to Treasury. Treasury used the opportunity to merge these staff with the existing staff in Budget Group to create two new Groups — Fiscal Group and Revenue Group. The purpose of the new structure is to enhance Treasury's organisational capability in a number of areas and to allow it to be more flexible and responsive in delivering the Government's agenda.

The formation of Fiscal Group has enabled Treasury to increase its capacity for strategic, coordinated policy advice on government spending in order to improve the wellbeing of the Australian people. In addition, the formation of Fiscal Group has increased our flexibility and responsiveness in the face of new policy challenges, such as contributing advice on several of the Government's key strategic priorities. These benefits have been achieved by consolidating most of the advice on government spending into a single group and by bringing related program advising functions into a single division within the group.

Fiscal Group is responsible for Budget policy advice and coordination and for Commonwealth-State financial policy advice. Fiscal Group also provides advice on social policy, including health policy, industry and environment policy, defence and national security policy, and labour market participation policy.

The enhanced organisational capability has allowed Revenue Group to increase Treasury's capacity to advise the Government on taxation and income support

policy. There is now a greater ability to assess policy and legislation in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility. There is also a closer nexus between the development of tax and income support policy and the design of legislation to give effect to these policies.

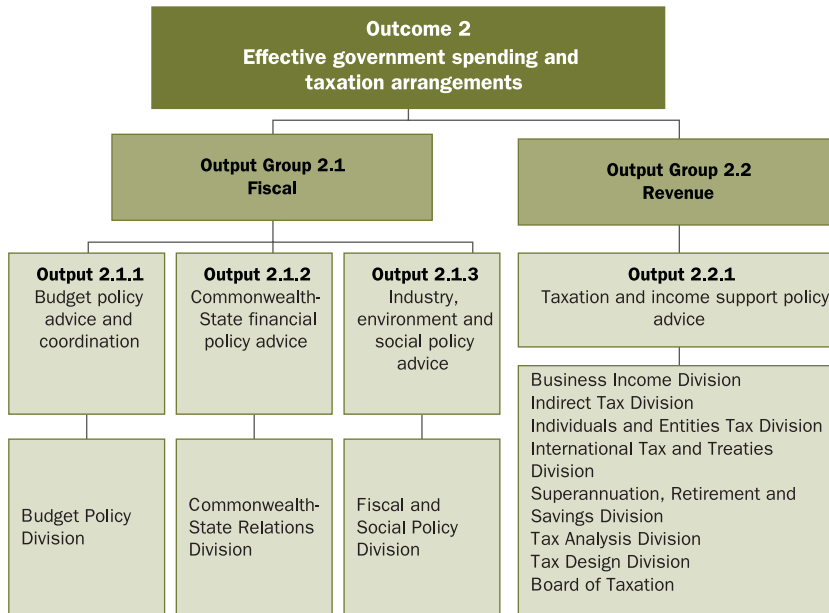
Given the restructure, the output structure in the *2002-03 Portfolio Budget Statements* does not match the current Treasury structure well. Therefore, this report uses the updated output structure from the *2003-04 Portfolio Budget Statements*. This means that health, social, labour market, industry, environment and defence policy advice functions are reported under Output 2.1.3 now called Industry, environment and social policy advice.

During 2002-03, Treasury contributed policy development and advice on a number of the Government's key strategic priorities, such as work and family policies, health, education, demographic change, environment, defence and national security. Treasury also conducted a comprehensive review of the Commonwealth Government Securities market, taking the view of key stakeholders into account.

Treasury also devoted significant resources to implementing the Government's business taxation reform agenda and superannuation election commitments. Priority was also given to the Government's review of international tax arrangements. 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 2003)



Key priorities in 2002-03

Fiscal Group and Revenue Group's policy advice covered a broad agenda, including many of the strategic priorities identified by the Prime Minister in November 2002, and the taxation legislative function previously held by the Australian Taxation Office. Strategies for delivery of outputs included developing specialist expertise in policy and taxation design areas, further developing key partnerships with other participants in the policy process, and focusing more on the strategic assessment of emerging core issues. Key priorities included:

- further refining budget policy processes, producing the annual budget and mid-year review, and meeting the requirements of the *Charter of Budget Honesty Act 1998*;
- delivering the Government's tax legislation program;
- reviewing the Commonwealth Government Securities market;
- integrating economic policy, tax policy and tax legislative functions to deliver the Government's tax reform agenda more effectively;

- taking a leadership role in the Demographics Taskforce, which will build on the work of the Intergenerational Report;
- implementing the Government's superannuation election commitments;
- reviewing international tax arrangements;
- servicing the needs of the Treasury ministers, including enhancing group-wide systems to improve service delivery to ministers; and
- improving the effectiveness of policy advice by building stronger relationships with other departments and agencies.

Key outcomes in 2002-03

- Treasury, together with the Department of Finance and Administration, produced the 2003-04 Budget on 13 May 2003.
- Integration of the law design functions transferred from the Australian Taxation Office into the new group structure.
- Treasury delivered key elements of the Government's tax legislation program.
- Treasury reviewed and advised on whether to retain the Commonwealth Government Securities market. The Government has decided to maintain this market and will ensure sufficient Commonwealth Government Securities remain on issue to support the Treasury bond futures market.
- Treasury assisted the Department of Finance and Administration in a joint review of the budget estimates and advice system. The Government endorsed recommendations that seek to improve the accuracy, responsiveness and effectiveness of the Australian Government's budget estimates and framework system.
- Treasury was involved in a wide range of policy processes, such as defence spending, regional policy, the post 2005 automotive assistance arrangements, innovation, the Work and Family Taskforce, Australian Health Care Agreements, reforms to Medicare and the Government's higher education reforms.
- Treasury implemented key elements of the Government's package of reforms to increase the security, attractiveness and accessibility of superannuation.
- Treasury provided advice to the Government on a range of business tax policy issues, including demergers of entities, tax exempt leasing, the

consolidation regime, taxation of financial arrangements and reforms to the imputation system and on the Timor Sea Treaty, double tax agreements and triangular taxation arrangements with New Zealand.

Table 3: Financial and staffing resources summary for Outcome 2

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	74,700	71,230	20,900
Special appropriations	31,735,009	32,212,893	33,554,934
Other expenses	-	-	-
Total administered expenses	31,809,709	32,284,123	33,575,834
Revenue from Government			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	2,815	2,836	2,348
Output 2.1.2 - Commonwealth-State financial policy advice	1,245	1,241	1,312
Output 2.1.3 - Industry, environment and social policy advice	2,961	2,944	4,408
Corporate costs	4,198	4,504	3,298
Total Output group 2.1 - Fiscal	11,219	11,525	11,366
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	25,513	25,514	25,796
Corporate costs	12,277	11,880	10,008
Total Output group 2.2 - Revenue	37,790	37,394	35,804
Total revenue from Government contributing to price of departmental outputs	49,009	48,919	47,170
Revenue from other sources			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	-	1	-
Output 2.1.2 - Commonwealth-State financial policy advice	-	1	-
Output 2.1.3 - Industry, environment and social policy advice	-	12	-
Corporate costs	260	517	110
Total Output group 2.1 - Fiscal	260	531	110
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	-	28	25
Corporate costs	756	1,179	833
Total Output group 2.2 - Revenue	756	1,207	858
Total revenue from other sources	1,016	1,738	968
Total revenue for departmental outputs (Total revenues from Government and other sources)	50,025	50,657	48,138

continued

Table 3: Financial and staffing resources summary for Outcome 2
(continued)

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Price of departmental outputs			
Output group 2.1 - Fiscal			
Output 2.1.1 - Budget policy advice and coordination	2,815	2,880	2,348
Output 2.1.2 - Commonwealth-State financial policy advice	1,245	1,260	1,312
Output 2.1.3 - Industry, environment and social policy advice	2,961	3,002	4,408
Corporate costs	4,458	5,059	3,408
Total Output group 2.1 - Fiscal	11,479	12,201	11,476
Output group 2.2 - Revenue			
Output 2.2.1 - Taxation and income support policy advice	25,513	23,590	25,821
Corporate costs	13,033	12,063	10,841
Total Output group 2.2 - Revenue	38,546	35,653	36,662
Total price of departmental outputs	50,025	47,854	48,138
Total estimated resourcing for outcome 2 (Total price of outputs and administered expenses)	31,859,734	32,331,977	33,623,972
Average staffing levels (number)	377	373	367

Note:

Budget 2002-2003: as per the 2002-03 Portfolio Additional Estimates Statements, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 Portfolio Budget Statements (unless otherwise stated).

Output 2.1.1 Budget policy advice and coordination

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

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

Following Treasury's restructure, the program and policy advice functions previously undertaken by Budget Policy Division were moved to the Fiscal and Social Policy Division, except for defence and health policy advice which remained in Budget Policy Division.

The restructure enabled Budget Policy Division to focus more on its core activities of providing budget policy advice and coordination. It also improved budget coordination and information across the spending areas during the budget cycle.

Performance information

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

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

Analysis of performance

Advice on the budget outlook

During 2002-03, Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide context for the Government's decision making. The fiscal outlook was updated in the *2002-03 Mid-Year Economic and Fiscal Outlook* and the 2003-04 Budget.

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

Final budget outcome for 2001-02

The *2001-02 Final Budget Outcome* was published in September 2002. In 2001-02, the Australian general government sector recorded a small underlying cash deficit of \$1.3 billion. This was \$0.1 billion greater than estimated at the 2002-03 Budget, reflecting lower than expected income tax receipts largely offset by some slippage of defence expenditure and lower than expected personal benefit payments. The accrual fiscal deficit of \$4.7 billion was \$0.7 billion larger than estimated at the 2002-03 Budget. This larger

fiscal deficit partly reflected the recognition in accrual terms of the Australian Government liabilities associated with post-Budget measures to address medical indemnity issues.

Budget forecasts

The 2002-03 Budget, published in May 2002, contained forecasts for 2002-03 and the next three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in November 2002, forecast an underlying cash surplus of \$2.1 billion for 2002-03, unchanged from estimates at the 2002-03 Budget.

The 2003-04 Budget further updated these forecasts for 2002-03, with the estimated underlying cash balance being revised upwards to a surplus of \$3.9 billion. This improvement reflected higher company and indirect tax collections and lower estimated payments.

Taxation revenue estimates

Treasury has prime responsibility for taxation revenue estimates and Revenue Group worked closely with the Australian Taxation Office and the Department of Finance and Administration 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.

Final taxation outcome for 2001-02

The final assessment of the taxation revenue outcome for 2001-02 was published in the *2001-02 Final Budget Outcome*, published in September. Taxation receipts for 2001-02 were around \$1.3 billion lower than forecast at the 2002-03 Budget. The subdued increase in wages in 2001-02 contributed to the lower than anticipated taxation revenue in 2001-02. Accrual taxation revenue was around \$0.9 billion below the corresponding estimate at the 2002-03 Budget, while gross income tax withholding was \$1.1 billion lower than expected at Budget 2002-03.

Budget taxation forecasts for 2002-03

The estimate for 2002-03 of total taxation revenue made at the Mid-Year Economic and Fiscal Outlook in November remained relatively unchanged from 2002-03 Budget expectations. However, the expected composition of revenue changed with gross income tax withholding revised down by \$1.3 billion, while companies and gross other individuals both increased by around \$0.8 billion.

The 2003-04 Budget revised up estimated total taxation revenue for 2002-03 by around \$1.3 billion relative to the Mid-Year Economic and Fiscal Outlook,

largely due to stronger than expected revenue from company tax and Australian Government indirect taxes.

Budget and financial frameworks policy advice

Treasury's contribution to developing policy seeks to assist ministers in making Australian Government 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. This included facilitating the Government's key budget decision-making processes, as well as providing accurate and timely advice to ministers throughout the year.

Treasury assisted the Department of Finance and Administration in a joint review of the budget estimates and advice system to improve its accuracy, responsiveness and effectiveness. The Government endorsed the recommendations of the review in late 2002. Treasury continues to play a leading role in overseeing implementation of the review's recommendations, which are expected to be fully implemented by 2005.

Review of Commonwealth Government Securities market

The Government indicated in the 2002-03 Budget that it would consider the future of the Commonwealth Government Securities market, in consultation with key stakeholders. Following a public review conducted by Treasury, the Government decided to maintain the Commonwealth Government Securities market. This will entail ensuring sufficient Commonwealth Government Securities remain on issue to support the Treasury bond futures market. Retaining the Commonwealth Government Securities market to support the Treasury bond futures market will require ongoing issuance of Treasury bonds, both at the middle and long-end of the yield curve.

Financial assets will continue to be held on deposit with the Reserve Bank of Australia to meet short-term liquidity needs. These needs are assessed to be up to around \$25 billion over the course of a year. If deposits held at the Reserve Bank exceed that sum for a sustained period, the Government will consider arrangements to allocate some funds to other liabilities, possibly superannuation. However, this would be the subject of further consultation.

Debt management policy

While the Australian Office of Financial Management (AOFM) is responsible for operational aspects of the management of the Australian Government debt portfolio, Treasury has primary responsibility for the development of advice to the Treasurer on strategic debt policy issues and relevant wider public policy issues. This included providing advice to the Treasurer on matters where debt management issues may carry implications for other arms of government policy

or for the effective functioning of markets and/or the real economy, and where broader macroeconomic developments or public policy considerations may have implications for debt management. Treasury also played an important role in the governance structures around the management of the Australian Government debt portfolio.

During 2002-03, Treasury worked closely with the AOFM on the review of the Commonwealth Government Securities market, the review of the interest rate risk benchmark used by the AOFM to manage the Australian Government debt portfolio, the elimination of the foreign currency exposure in the Australian Government debt portfolio and continuing to strengthen the governance framework around the debt portfolio. These issues are discussed further in the AOFM's annual report.

Contribution to public debate and awareness

Budget publications

The Government's budget publications are available free 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 the Department of Finance and Administration jointly prepare the Government's budget documentation. Treasury also prepares the Budget Overview and Budget at a Glance, providing more accessible summaries 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;
- accountability, with information allowing an informed assessment of the conduct of fiscal policy; and
- reporting against external accounting standards.

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

During the year, the Government released the *2001-02 Final Budget Outcome* in September 2002, the *2002-03 Mid-Year Economic and Fiscal Outlook* in November 2002 and the 2003-04 Budget in May 2003.

The 2003-04 Budget was the fifth Australian Government budget presented on an accrual basis. In 2002-03, Treasury met with representatives of countries interested in learning about the budgeting and reporting framework applied in Australia, including delegations from Japan and China. In addition, Treasury shared its budget experiences with countries within the region at the OECD-Asian Senior Budget Officials meeting in Bangkok.

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 2002*, published in January 2003, reported on the cost of tax expenditures with estimates and projections to 2005-06. The production of this statement allows for independent review of whether government objectives are being met at reasonable cost and makes the Australian Government's activity more transparent.

Output 2.1.2

Commonwealth-State financial policy advice

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

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

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

Performance information

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

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

Analysis of performance

Advice on reform of Commonwealth-State financial relations

2002-03 was the third year of full operation of the Intergovernmental Agreement. Treasury provided advice to the Treasurer on various aspects of the Intergovernmental Agreement, particularly 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 Intergovernmental Agreement. Treasury coordinates the agenda for the Ministerial Council. At the fourth annual meeting of the Ministerial Council, in March 2003, Treasurers discussed expected payments to the States and Territories, GST administration issues and other policy and administrative matters, including specific purpose payments. Treasury advised the Treasurer on the key issues and coordinated arrangements for the meeting.

The Loan Council traditionally meets annually in March to consider jurisdictions' Loan Council Allocation nominations for the forthcoming year. Treasury also advised the Treasurer on the key issues and coordinated arrangements for this meeting which was held in conjunction with the Ministerial Council meeting.

Heads of Treasuries

The Heads of Treasuries, comprising the Secretary to the Treasury and his State and Territory counterparts, met three times during 2002-03. These meetings are a forum for Heads of Treasuries to share information on issues common to the Australian and State governments. In 2002-03, discussions focused on issues arising under the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, fiscal reporting, taxation and financial issues, Specific Purpose Payments (SPPs) and preparations for meetings of the Ministerial Council and the Loan Council.

GST Administration Subcommittee

The GST Administration Subcommittee assists the Ministerial Council in monitoring GST operation and administration. It advises the Ministerial Council on modifications to the GST base and Australian Taxation Office administration of the GST. Treasury chairs the subcommittee, which comprises officials from Treasury, the Australian Taxation Office and the State and Territory Treasuries. Participants in the three meetings monitored the operation of the GST Administration Performance Agreement between the States and Territories and the Australian Taxation Office. The subcommittee discussed GST revenue receipts and payments to the States and Territories, GST implementation issues and administrative issues.

The First Home Owners Scheme

The First Home Owners Scheme provides \$7,000 grants to eligible applicants buying or building their first home. The States and Territories administer the scheme on the basis of principles agreed by all jurisdictions in the Intergovernmental Agreement. Under their legislative provision for the First Home Owners Scheme, the States provide mechanisms for adequate administrative review, appeal and prevention of abuse. Under the arrangements, all States audit their First Home Owners Scheme expenditure data and publish it in audited accounts.

In 2002-03, 135,869 grants were paid, totalling approximately \$1.035 billion, including funding for additional grants. Treasury assists with First Home Owners Scheme policy issues and the Additional First Home Owners Scheme.

The Additional First Home Owners Scheme initiative doubled the grant to \$14,000 for eligible first home owners purchasing new or previously unoccupied homes who entered into contracts between 9 March 2001 and 31 December 2001. The additional First Home Owners Scheme was extended with a phased-down grant of \$3,000 available for contracts entered into between 1 January 2002 and 30 June 2002. Although the additional First

Home Owners Scheme ended on 30 June 2002, some payments continued to be made to eligible applicants.

Payments to the States and Territories

Treasury administers payments made under Commonwealth-State financial relations to the States, totalling \$32.2 billion in 2002-03, including GST revenue, Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance.

Goods and Services Tax Revenue

A key element of *The New Tax System*, introduced on 1 July 2000, is for States to receive all GST revenue. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government 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 2002 Ministerial Council meeting. In 2002-03, the States received around \$30.5 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

The Australian Taxation Office collects GST revenue on behalf of the States. The States compensate the Australian Government for this. Payments by the States to the Australian Government in 2002-03, amounted to around \$563 million. Treasury monitored payments to ensure States made full and timely payments.

Budget Balancing Assistance

Under *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Australian Government guaranteed that in the transitional years of tax reform, each State's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. Treasury provides advice to the Treasurer on how much funding each State would have received under the previous system to enable the Treasurer to determine the Guaranteed Minimum Amount.

To meet its guarantee, the Australian Government pays the Budget Balancing Assistance to cover any shortfall of GST revenue compared with each State's Guaranteed Minimum Amount. In 2002-03, the States received \$1.5 billion in Budget Balancing Assistance payments.

Treasury pays Budget Balancing Assistance in four quarterly advances based on estimates through the year. These advances are based on the States' estimated Budget Balancing Assistance entitlements at the time of each advance. Upward revisions to the GST revenue in the 2002-03 Budget resulted in

the estimated entitlements for 2002-03 Budget Balancing Assistance being revised downwards. Queensland and the Northern Territory did not require Budget Balancing Assistance as their GST revenue exceeded their Guaranteed Minimum Amount. Furthermore, other States had been paid more Budget Balancing Assistance than required. These results were confirmed when final determinations of GST revenue, the Guaranteed Minimum Amount and Budget Balancing Assistance were made in June 2003.

Consistent with the provisions of the *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Treasury will deduct the amount of excess Budget Balancing Assistance of \$544.9 million paid in 2002-03 from payments made in 2003-04.

A number of decisions the Government took, in consultation with the States and Territories, also affected the calculation of Budget Balancing Assistance:

- from 1 July 2002, calculation of each States' Guaranteed Minimum Amount has excluded the indexation of Petroleum Revenue Replacement Payments forgone;
- at the March 2002 Ministerial Council meeting the Government and States agreed to implement a National Excise Scheme for Low Alcohol Beer from 1 July 2002;
- the Government, in consultation with the States, accepted the recommendation of the independent pricing review of the Australian Taxation Office that resulted in additional funding for tax administration functions, including GST administration.

National Competition Policy Payments

In 2002-03, National Competition Policy Payments to the States totalled \$739.9 million. Each State's full entitlement to National Competition Policy Payments is subject to it 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 Government's approval of the National Competition Council's recommendations.

Revenue Assistance for the Australian Capital Territory

The Australian Capital Territory received a Specific Purpose Payment of \$14.7 million in 2002-03 for Special Revenue Assistance, paid in weekly instalments. All payments were made on the scheduled dates.

Budget publications

Information on the Government's financial relations with State, Territory and local governments is documented in *Budget Paper No. 3, Federal Financial Relations 2003-04*. This document is the main public source of information on Australian Government 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 and National Competition Policy Payments.

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 Australian and State governments.

In 2002-03, the format and information included in *Budget Paper No. 3, Federal Financial Relations* was substantially updated to provide more readily accessible information about recent developments in Commonwealth-State relations.

Output 2.1.3 Industry, environment and social policy advice

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

Fiscal Group contributes to Outcome 2 by working in conjunction with other departments and agencies to develop and progress reform in industry, regional assistance, agriculture, environment, defence and national security, social, labour market participation, and health policy. The bringing together of these responsibilities in Fiscal Group has allowed for a more strategic, coordinated approach to policy advising in areas of government priority. While other departments have major responsibility for policy and programs in these areas, Fiscal Group focuses on improving productivity, economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

Performance information

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

Effective presentation of relevant information should adequately inform public debate.

Analysis of performance

Treasury contributed to policy formulation in a diverse range of industry, environment and social policy areas.

Advice on industry policy

During 2002-03 Treasury participated in policy development processes, working with other agencies to develop policy, providing coordination comments on policy for the consideration of Cabinet Ministers, and briefing the Treasurer for his participation in Cabinet.

Treasury was a lead agency in developing the Government's post-2005 automotive assistance arrangements. The Government package, announced in December 2002, will assist industry achieve long-term sustainability, while minimising the impact of continuing assistance on consumers and other industries. Tariffs are scheduled to fall from 15 to 10 per cent in 2005 and from 10 to 5 per cent in 2010.

Treasury provided advice to the Treasurer on the Government's Strategic Investment Coordination process as well as on specific proposals for strategic investment.

Treasury has also worked with agencies, and provided advice to the Treasurer, on the Tourism Green Paper: a Medium to Long-term Strategy for Tourism. The Green Paper has been released and a White Paper is scheduled for late 2003.

Treasury provided advice on future assistance arrangements for the pharmaceutical industry once the current Pharmaceutical Industry Investment Program expires. The current program is providing \$300 million to the industry from 1 July 1999 to 30 June 2004. The replacement program will provide \$150 million from 1 July 2004 to 30 June 2009.

Treasury was also involved, together with the Departments of Finance and Administration, Prime Minister and Cabinet, and Communications, Information Technology and the Arts, in a review of Australia's cultural agencies. The recommendations should help national cultural agencies continue to pursue efficiency and best practice.

Advice on agriculture policy

Treasury was involved in ongoing work on the Australian Government's Drought Policy and provided advice on the Government's Additional Drought Assistance Package of 9 December 2002. The package will help farmers, small business and regional communities in managing the impact of the worst drought on record, and protect Australia's agricultural and environmental resource base.

Treasury was involved in interdepartmental committees and provided advice on the Sugar Industry Reform Package, announced by the Minister for Agriculture, Fisheries and Forestry on 25 September 2002. The package improves the industry's long-term competitiveness and productivity.

Advice on environment policy

Treasury participates in the High Level Group advising the Sustainable Environment Committee of Cabinet. It also participates in a range of interdepartmental committees considering natural resource management policy issues. Treasury seeks to help ensure the development of policies promoting efficient and sustainable use of resources.

Treasury has briefed Cabinet and the Treasurer on natural resource management issues including protection of the Great Barrier Reef, integrated oceans management, salinity and land clearing. In particular, Treasury contributes to the ongoing development of a nationally consistent water-trading regime for the sustainable use of Australia's water supplies.

Treasury monitors implementation of the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust to advise on policy effectiveness.

Treasury participates in a number of policy processes developing a whole-of-government position on climate change including the Interdepartmental Greenhouse Projections Group, and interdepartmental committees for International Climate Change, Climate Change Forward Strategy, and the high level sub-group as well as a number of working groups, to develop a long-term policy framework for climate change. Treasury helps bring an economy-wide focus to climate change policy and greater understanding of the economic implications. Treasury also provides advice on greenhouse programs in the budget context.

Treasury was involved in ongoing work in relation to biofuels, alternative fuels and national fuel standards.

Treasury participated in interdepartmental committees and provided advice to the Treasurer that resulted in the development of the Australian Government's

response to the Johannesburg World Summit on Sustainable Development. Treasury coordinated briefings for Australia's delegate to the OECD Ad Hoc Group on Sustainable Development meeting and hosted the OECD mission aimed at integrating sustainable development into the Economic Development Review Committee review. This involved coordinating presentations by external agencies and coordinating responses to the questionnaire.

Advice on defence and national security policy

During 2002-03, Treasury provided advice and participated in a range of policy development processes on defence and other national security issues. In particular, Treasury participated in the Secretaries Committee on National Security to enhance the rigour of policy proposals to the National Security Committee of Cabinet. Treasury also provided advice to the Treasurer on major defence acquisition projects, deployments of Australian Defence Force personnel (including to Iraq and the Solomon Islands) and a range of defence operational and capability issues. In this regard, Treasury is a participant in the Government's Defence Capability Review, which is examining the balance, effectiveness and relevance of our present and planned defence capabilities.

Treasury also played a role in efforts to enhance the efficiency and transparency of Defence's financial management processes by seconding an officer to the Review of Defence Procurement. Treasury also participated in an interdepartmental committee overseeing Defence's management of its property estate and disposal program.

Treasury provided advice and participated in a range of policy development processes on domestic security, national law enforcement and other issues relating to the Attorney-General's portfolio. Since 11 September 2001 and the Bali terrorist attacks, the Government has implemented measures worth more than \$1.8 billion over six years to enhance Australia's security. Treasury participated in an interdepartmental committee that developed a package of domestic security measures which the Government considered in the 2003-04 Budget.

Advice on social policy

During 2002-03, Treasury increased the resources it devotes to social policy issues. Treasury is now more actively involved in interdepartmental committees and other working groups concerned with developing new policy and reviewing government programs in the portfolios of Family and Community Services, Attorney-General's, Veterans' Affairs, Immigration, Indigenous Affairs, Education, Science and Training.

Treasury participated in interdepartmental policy forums and provided advice to the Treasurer on the Government's \$1.5 billion Our Universities: Backing Australia's Future package, announced in the 2003-04 Budget.

Treasury provides advice on immigration issues ranging from settlement services, contract renegotiation and repatriation, and is chairing an interdepartmental committee on modelling the effects of immigration on the Budget.

Treasury also contributed to the OECD's understanding and analysis of the economic benefits of Australia's migration program. Australia was the first country to participate in the OECD's review program. Subsequent reviews of some other OECD countries' programs will help provide cross country comparisons so broader lessons can be learned.

Treasury contributed to policy formulation and provided advice on a range of social policy measures announced in the 2003-04 Budget. Details of these measures are provided in Budget Paper No. 2, *Budget Measures 2003-04*.

Treasury also actively participated in the interdepartmental Work and Family Taskforce which is reviewing policy and options to facilitate choice for families to help them balance their work and family responsibilities.

Advice on labour market participation policy

During 2002-03, Treasury participated in task forces and interdepartmental committees on a range of policy issues relating to labour force participation. In particular, Treasury led the Demographics Taskforce, which builds on the work of the Intergenerational Report. The Taskforce reports to the Treasurer and advises on policy options centred on an ageing society. This work includes developing policy proposals to address ageing of the population through increasing labour force participation, sustainability of retirement incomes, and managing expected increased government spending in areas affected by demographic change, particularly health and aged care. A discussion around some of these issues was included in the 2003-04 Budget, in Budget Paper No. 1, Statement 4.

Treasury is a member of the interdepartmental committee developing advice for the Government in its response to the Royal Commission into the Building and Construction Industry. The Government's initial response was announced in April 2003.

Treasury also assisted with the Government's submission and other related work associated with the Australian Council of Trade Unions' (ACTU) application

to the Australian Industrial Relations Commission to increase minimum award rates of pay.

During 2002-03, Treasury provided other labour market participation advice including on work incentives associated with welfare reform proposals and the Job Network.

Advice on health policy

Treasury participated in an interdepartmental committee and advised the Treasurer on the \$917 million *A Fairer Medicare* package that aims to make Medicare more accessible and affordable for all Australians.

Treasury participated in an interdepartmental committee that developed the new Australian Health Care Agreements with the States and Territories. These agreements will see the Government contributing up to \$42 billion between 2003-04 and 2007-08 for the operation of public hospitals. This package is designed to ensure Australians can continue to access free high quality hospital services.

Treasury also participated in interdepartmental committees examining private health insurance, the Pharmaceutical Benefits Scheme and population health. The private health insurance committee examined options to make the private health insurance system more efficient, competitive and sustainable. The Pharmaceutical Benefits Scheme interdepartmental committee examined the scheme's effectiveness and the population health committee evaluated the effectiveness of population health programs and established a mechanism to inform future decisions on population health funding.

Publications

Two articles, published in the Spring edition of Economic Roundup, contributed to the public debate on sustainable development and renewable energy.

Output 2.2.1

Taxation and income support policy advice

The transfer of the tax law design functions from the Australian Taxation Office to Treasury and the subsequent formation of Revenue Group has had a significant impact on the delivery of Output 2.2.1 in 2002-03. The transfer provided additional resources and skills that have allowed Revenue Group to consolidate and build its organisational capability to provide strategic advice to Government on taxation system and income support policies.

To leverage this capability the divisions that had previously handled tax and income support issues in Budget Group were restructured to allow integration of the available expertise in economic policy, tax policy and law design. This has resulted in effective multidisciplinary teams that are able to provide a more comprehensive approach to the design and development of tax policy and legislation. This includes better analysis of the economic impacts of different policy options and a more systematic approach to each stage of the policy development and law design cycle.

The benefits of the new arrangements have been demonstrated in the delivery of the Government's tax legislation program in 2002-03 and the increased investment in strategic projects, such as the community consultation processes and the good law project, that are fundamental to the delivery of the Government's tax reform agenda.

Seven divisions contribute to Output 2.2.1. The International Tax and Treaties Division, Individuals and Entities Tax Division, Business Income Division, Indirect Tax Division, and Superannuation, Retirement and Savings Division are responsible for the delivery of taxation and income support policy advice. The Tax Analysis Division contributes to this output through the preparation of costings and analysis of taxation policy proposals. Tax Design Division contributes to this output by providing key services to other Revenue Group divisions, the Treasury Executive and Ministers and developing the key strategic investment projects.

Revenue 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.

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

Performance information

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.

Legislation delivered according to government programs.

Analysis of performance

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, and tax exempt leasing.

Demergers

Treasury provided advice on the policy framework to provide taxation relief for demergers and helped develop the accompanying legislation. The provisions were included in the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002*, which received Royal Assent on 24 October 2002.

Consolidation

The new consolidation regime, which involves taxing wholly-owned corporate groups as a single entity, is one of the most significant and far-reaching changes to the taxation of corporate groups in decades. It will deliver improved commercial flexibility, reduce on-going compliance costs and address concerns about the integrity of the tax system.

Treasury finalised the main elements of legislation for the consolidation regime. The legislation consisted of *The New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* which received Royal Assent on 2 December 2002 and the *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2003* which received Royal Assent on 12 April 2003. Additional consolidation rules were contained in the *Taxation Laws Amendment Act (No. 6) 2003* which received Royal Assent on 30 June 2003 and in the *Taxation Laws Amendment Bill (No. 7) 2003* which was introduced into Parliament on 26 June 2003.

Given the importance of the consolidation legislation, the Government undertook unprecedented consultation with industry. The consultations have been open, given taxpayers a say in designing the new rules, and have resulted in legislation responsive to business needs.

Imputation system

The Government introduced the core provisions of the simplified imputation system in the *New Business Tax System (Imputation) Act 2002* (which received Royal Assent on 29 June 2002).

Treasury continued to develop remaining aspects of the simplified imputation system. Primary amongst these were the imputation rules for life insurance

companies which were contained in Taxation Laws Amendment Bill (No. 7) 2003 (introduced into Parliament on 26 June 2003). The rules significantly streamline the operation of the imputation rules applying to life insurance companies. Treasury conducted consultation with the life insurance industry in developing these rules.

Treasury also developed imputation rules to make it easier for cooperative companies to frank distributions to their shareholders. Measures contained in Taxation Laws Amendment Bill (No. 8) 2002 (introduced into Parliament on 5 December 2002) allow cooperative companies a choice between franking distributions they make to their shareholders or to receive a tax deduction for those distributions.

Taxing of financial arrangements

Following an exposure draft released in December 2002 and consultation, The New Business Tax System (Taxation of Financial Arrangements) Bill (No. 1) 2003 was introduced into Parliament in May 2003. The Bill contains measures to:

- reform the taxation of foreign currency gains and losses, including the introduction of functional currency and other rules to reduce compliance costs; and
- remove the taxing point at conversion or exchange of traditional securities issued after 7.30pm EST on 14 May 2002.

Treasury consulted with stakeholders, provided advice on the outcome of consultations, instructed the Office of Parliamentary Counsel on the drafting of the measures and prepared the explanatory material accompanying the Bill.

Treasury also provided advice on extending the exclusion of certain 'at call' loan arrangements from equity interest treatment (from 31 December 2001 to 1 July 2004), regulations concerning certain instruments for the purposes of classification under the debt/equity tax rules and treating the capital protection component of capital protected loan products as not 'interest' for income tax purposes.

Tax exempt leasing

The New Business Tax System (Tax Preferred Entities — Asset Financing) Bill 2003 was publicly released in June 2003 for technical comment. Before this, Treasury consulted with stakeholders, provided advice on the outcome of consultations, instructed the Office of Parliamentary Counsel on the drafting of the measures and prepared the explanatory material accompanying the Bill.

Other business tax policy advice

Timor Sea Treaty

Treasury continued its involvement in matters related to the Timor Sea Treaty. Advice was provided on gas pricing principles to be applied in the Greater Sunrise International Unitisation Agreement and the fiscal arrangements for the production sharing contract for the Bayu-Undan gas project in the Joint Petroleum Development Area of the Timor Sea.

Petroleum Resource Rent Tax (PRRT)

Treasury provided advice on proposed amendments to the *Petroleum Resource Rent Tax Act 1987* designed to provide a more equitable and uniform treatment of partial use arrangements and the appropriate determination of PRRT liability when a facility converts to an infrastructure licence. These changes ensure that the PRRT taxation regime does not hinder the economic use of petroleum facilities.

Review of international taxation arrangements

Treasury assisted in the Government's Review of International Tax Arrangements. The review focused 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 tax treaty policy. Treasury prepared a paper that addressed these issues. The paper was released by the Treasurer in August 2002.

This paper formed the basis of consultations by the Board of Taxation. The Board was assisted by Treasury with costings for the various options under consideration and with other advice. The Board reported to the Government in February 2003. Treasury provided policy advice to Government in its consideration of the Board's Report.

The Government announced wide-ranging changes to Australia's international taxation arrangements in the 2003-04 Budget.

Double tax agreements

Treasury progressed Australia's treaty program as follows:

- A tax treaty with Mexico was signed on 9 September 2002. Both countries have expressed a desire to have the treaty enter into force as soon as possible.
- The Canadian Protocol entered into force on 18 December 2002.
- The taxation code for the Timor Sea Treaty entered into force on 2 April 2003.

- Changes to tax sparing provisions under the Vietnamese agreement entered into force on 11 February 2003.
- The United States Protocol entered into force on 13 May 2003.
- Negotiations with the United Kingdom and Germany moved closer towards conclusion.
- Australian domestic requirements have been completed for the entry into force of the Malaysian and Russian treaties. These treaties are awaiting the completion of Malaysian and Russian domestic requirements.

Venture capital

Treasury provided advice to the Government and helped develop legislation and accompanying explanatory material to give effect to a measure to facilitate non-resident investment in the Australian venture capital industry. The *Taxation Laws Amendment (Venture Capital) Act 2002* extends the tax exemption provided to certain foreign pension funds to all tax-exempt residents and foreign funds from Canada, France, Germany, Japan, the United Kingdom or the United States of America and certain taxable foreign investors. This Act also provides Australian venture capital limited partnerships with flow through taxation treatment and taxes the carried interest of certain venture capital managers as a capital gain. The venture capital legislation received Royal Assent on 19 December 2002 and applies from 1 July 2002.

Farm Management Deposits

Treasury provided advice on amendments to the Farm Management Deposits (FMD) provisions of the *Income Tax Assessment Act 1936* that will allow primary producers in Exceptional Circumstances declared areas to maintain their FMD tax benefits where deposits are withdrawn within a 12 month period. Advice was also provided about an announced measure to protect primary producers who have made deposits with ineligible financial institutions provided they transfer those deposits within a specified period.

Excise administration

Following the Government's decision to transfer the excise administration function from the Australian Customs Service to the Australian Taxation Office, Treasury provided advice on the assignment of Ministerial responsibility for the *Petroleum Excise (Prices) Act 1987* from the Minister Industry, Tourism and Resources to the Treasurer. The transfer is designed to help streamline the administration of crude oil excise.

Triangular taxation

From 1 October 2003, Australian shareholders of New Zealand companies maintaining an Australian franking account can access franking benefits arising from the payment of Australian tax by these companies. Treasury assisted the Government in the policy and legislation advice and supported trans-Tasman negotiations in this issue

The reform of what was known as the ‘triangular taxation problem’ will improve the ease of trans-Tasman capital flows by reducing an additional layer of tax on those flows and further strengthening the existing economic integration between Australia and New Zealand.

Other measures

Treasury provided advice and helped develop legislation and accompanying explanatory material in relation to other important amendments to the tax law introduced in 2002-03 including:

- measures to implement the new general value shifting regime. Legislation was included in the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002*, which received Royal Assent on 24 October 2002;
- measures to amend the provisions of the uniform capital allowance system relating to mining capital and mining transport expenditures. These provisions were amended in *Taxation Laws Amendment Act (No. 4) 2003*, which received Royal Assent on 30 June 2003;
- measures to ensure that corporate tax entities are no longer required to use up (‘waste’) losses that could be deductible in a later year of income against franked dividend (effectively tax-free) income. Legislation was included in *Taxation Laws Amendment Bill (No. 5) 2003*, which was introduced into Parliament on 27 March 2003; and
- measures to allow a new capital gains tax roll-over to facilitate the transition by financial services providers and advisors to the new financial sector reform regime. Legislation was included in *Taxation Laws Amendment Bill (No. 7) 2003*, which was introduced into Parliament on 26 June 2003.

Treasury also provided policy advice to ministers on:

- the operation of tax expenditures, such as the research and development concession and concessions for film investment; and
- a number of other tax issues, such as issues surrounding the operation of the Uniform Capital Allowance system and capital gains tax.

Personal tax

Treasury provided advice to the Government on the design and implementation of a number of personal tax measures including:

Reductions in personal income tax

Reductions for all Australian taxpayers worth \$10.7 billion over the next four years were announced in the 2003-04 Budget and took effect on 1 July 2003.

The personal income tax thresholds were increased as follows: the 30 per cent threshold was increased from \$20,000 to \$21,600; the 42 per cent threshold was increased from \$50,000 to \$52,000; and the 47 per cent threshold was increased from \$60,000 to \$62,500.

The low income tax offset was increased from \$150 to \$235 per year. The income threshold from which the low income tax offset begins to phase out was also increased from \$20,700 to \$21,600.

The increase in the low income tax offset means that taxpayers who receive the Senior Australians Tax Offset (SATO) will be able to earn an additional \$500 annual income before they have a tax liability. Consequently, the Medicare levy threshold for single seniors was increased from \$20,000 to \$20,500 to ensure that they do not pay Medicare levy until they are liable for income tax.

These changes mean that Australian taxpayers can keep a higher proportion of the earnings they receive after tax, providing improved incentives to pursue work, advancement and higher skills.

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 \$15,062 for individuals and \$25,417 for families, with effect from 1 July 2002. The additional threshold for each dependent child or student also increased to \$2,334. 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 was increased to \$17,164.

Incentives to encourage conservation and philanthropy

A number of incentives to encourage conservation and philanthropy in Australia were implemented, including income tax deductions for landowners who enter into perpetual conservation covenants and an extension of the list of organisations to which donations may be tax deductible.

Employee share schemes (ESS)

To further encourage the growth of employee share ownership in Australia, from 1 July 2004, employees who have deferred their employee share scheme income tax liability will be able to roll-over their ESS income taxing point in the event of a corporate restructure such as a merger, demerger or takeover.

This measure was part of the Government's response to the report of the Inquiry into employee share ownership in Australia (the Nelson Report).

Medical expenses offset

Payments for the maintenance of properly trained dogs for guiding or assisting the hearing impaired or other disabled individuals will now be included as eligible medical expenses under the medical expenses tax offset, with effect from 1 July 2002.

Payments for maintaining properly trained guide dogs for the blind can currently be claimed under the offset. This measure ensures that similar treatment is available for expenses incurred in maintaining properly trained dogs for the guidance or assistance of the hearing impaired or other disabled individuals.

Tax exemption for Second World War compensation payments

Payments received from Second World War compensation funds will now be exempt from tax, with effect from 1 July 2001.

A number of specific Second World War funds were receiving income tax or capital gains tax exemptions. This measure ensures that all payments received by Australian residents from Second World War compensation funds are not subject to income tax or capital gains tax.

Tax exemption for structured orders

A tax exemption was introduced for certain annuities and deferred lump sums ordered by a court as compensation for catastrophic injuries, known as structured orders, with effect from 26 September 2001.

This measure extends the exemption provided to certain annuities or deferred lump sums as part of a settlement between the injured person and the defendant (structured settlements).

Fringe Benefits Tax exemption for employee entitlement funds

Certain payments to approved worker entitlement funds are exempt from fringe benefits tax (FBT) from 1 April 2003. This exemption ensures that payments

into such funds are not taxed twice — once as a fringe benefit when paid into the fund and once in the hands of the employee when paid out of the fund.

Charities

Following the Government's response to the Report of the Inquiry into the Definition of Charities and Related Organisations, Treasury developed exposure draft legislation which is intended to codify the definition of a charity. The Treasurer announced in his Press Release No. 49 of 2002 that the Board of Taxation would undertake consultations on the workability of the legislative definition.

Taxation of Trusts

In response to the Board of Taxation's report on the Taxation of Discretionary Trusts, the Treasurer announced in his press release of 12 December 2002 that the Government would improve the effectiveness and fairness of the deemed dividend rules contained in Division 7A of the *Income Tax Assessment Act 1936*. After developing options to give effect to the Treasurer's press release, Treasury consulted with industry and provided advice to the Government on the outcome of consultation.

Tax administration policy

Treasury provided advice on, and prepared legislation relating to systemic issues in the administration of the tax system. Matters addressed by tax administration policy include the tax assessment process, tax offences and penalties, tax collection and recovery systems, tax relief, tax identity, access, record keeping obligations, and tax agent matters. Tax administrative systems must contribute to the tax policy outcomes intended by Parliament, while avoiding the pitfalls of unnecessary risk, complexity, and high transaction costs.

Foreign resident withholding arrangements

The Government introduced this measure, which applies Pay As You Go withholding arrangements to certain payments to foreign residents, to improve the compliance of foreign residents with their Australian income tax obligations. The payments covered by this measure will be prescribed in regulations. Treasury assisted the Government in developing the legislative framework for the measure.

This measure was contained in *Taxation Laws Amendment Act (No. 4)*, which received Royal Assent on 30 June 2003. The framework legislation can apply to payments made on or after 1 July 2003, but so far no payments have been prescribed.

Treasury has held targeted confidential consultations to assist the Government to develop the proposed regulations.

Release from taxation liabilities in cases of serious hardship

A new, more efficient and accountable system for affording release from taxation liabilities in cases of serious hardship will commence from 1 September 2003. The system will be streamlined by transferring the existing authority to grant release from Tax Relief Boards to the Commissioner of Taxation. Consistent with contemporary review practices, the amendments will also introduce a new right to have tax relief decisions reviewed internally under the Australian Taxation Office objections process, and externally by the Administrative Appeals Tribunal sitting as the Small Taxation Claims Tribunal. Also, the scope of the release arrangements will be expanded to cover instalments of Pay As You Go and fringe benefit tax under *The New Tax System*. The measure received the Royal Assent on 30 June 2003, as part of *Taxation Laws Amendment Act (No. 6) 2003*.

A Better Superannuation System

Treasury advised and assisted the Government in further progressing its superannuation election commitments, announced in *A Better Superannuation System* in November 2001. In summary, Treasury assisted the Government in:

- establishing the regulations to complement legislation requiring employers to make 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;
- refining the legislation to give employees a choice of superannuation fund and consulting with industry on enhancing the portability of existing benefits. Treasury has continued to advise the Government on the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002. The Bill would allow employees to choose the superannuation fund to which their employers' superannuation contributions are made. Following consultations on the Government's commitment to allow individuals to transfer existing benefits to their fund of choice, draft amendment regulations were circulated for public comment. The draft regulations have been referred to the Senate Select Committee on Superannuation;
- consulting on the splitting of superannuation contributions. Under the measure, members of accumulation funds will be allowed to split future personal and employer contributions with their spouse. Receiving spouses will have access to their own eligible termination payment tax-free threshold

and reasonable benefit limit. The Government is currently considering the responses received;

- progressing a reduction of the superannuation and termination payment surcharge rates from the current level of 15 per cent. Legislation to implement the measure was defeated in the Senate and the Government has announced an alternative proposal which would see the surcharge reduced by 1 per cent per year for 3 years as opposed to the original 1.5 per cent per year for 3 years;
- progressing an improvement in 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. Legislation to implement the measure has been introduced to Parliament, however, to increase the proportion of the benefit going to low-income earners from the combined measures of surcharge reduction and co-contribution, the Government has announced an increase in the upper threshold for people to receive co-contributions from \$32,500 per year to \$40,000;
- undertaking industry consultations in relation to the Government's commitment to examine whether to provide tax and social security benefits to a new class of market-linked 'complying' pension, often called a growth pension; and
- introducing legislation to reduce the tax rate on excessive eligible termination payments. The tax rate applying to eligible termination payments from a superannuation fund which are above the reasonable benefit limit will be reduced from 48.5 per cent to 39.5 per cent (including Medicare levy).

Treasury also assisted the Government in:

- reforming family law to help couples divide their superannuation assets in a marital breakdown. Superannuation regulations were amended to provide further options to facilitate the splitting of superannuation interests between a person who holds a superannuation interest and the spouse, if they separate;
- amending the tax law to ensure that roll-overs within the same superannuation fund are treated as eligible termination payments. This change allows internal roll-overs to be reported to the Australian Taxation Office for reasonable benefit limit purposes, thereby avoiding the potential

adverse tax consequences that arose under the previous treatment. Amendments will also be made to improve the integrity of the standards for the payment of income streams. Minimum amounts will be required to be paid as income when income streams are commuted and rules allowing the deferral of the first income payment from an allocated pension or annuity in the last quarter of a financial year will also be tightened;

- negotiating agreements to avoid double superannuation coverage for employees working temporarily overseas or in Australia. Agreements with the USA, Portugal and the Netherlands have commenced, agreements with Chile, Belgium and Croatia have been settled but are yet to commence and a number of others are being negotiated;
- its final response to the Productivity Commission's review of the *Superannuation Industry (Supervision) Act 1993* and other superannuation legislation;
- relation to the report by the Senate Select Committee on Superannuation and Financial Services on *Early Access to Superannuation Benefits*. The Government is considering the Committee's recommendations;
- relation to the report by the Senate Select Committee on Superannuation on *Taxation of Transfers from Overseas Superannuation Funds*. The Government is considering the Committee's recommendations; and
- responding to the High Court decision regarding superannuation surcharge and State judges and consulting with the States on a legislative solution.

Treasury also made submissions to:

- the Senate Select Committee on Superannuation inquiry into *Planning for Retirement*; and
- the Senate Select Committee inquiry into *Superannuation and Standards of Living in Retirement*.

GST and indirect taxation measures

Treasury provided ongoing policy advice on GST, excise and fuel grants issues, including: GST treatment of financial supplies, education and charities; excise collections and grants systems; and the wine equalisation tax.

As part of whole of government actions to address the priority areas announced by the Prime Minister in 2002, Treasury provided extensive advice about reform options for fuel excise to the Energy Task Force. The Government has since announced that all fuels used in internal combustion engines will be brought

into the excise net by 1 July 2008, with phased offsetting production grants to produce phased effective excise rates which will rise in equal steps to a final rate from 1 July 2012.

Treasury advised on the GST treatment of Compulsory Third Party insurance and compensation schemes including the development of accompanying legislation. The new provisions address many of the substantive issues identified by the Compulsory Third Party insurance industry, which were expected to arise when the special three-year transitional rule concluded on 30 June 2003.

Treasury also provided advice on extending the GST grouping rules for partnerships and trusts and helped develop the accompanying regulations. The extended regulations allow a broader range of business structures to access the benefits of forming a GST group.

Building on the 1999 *Measures for a Better Environment* commitments, Treasury also developed legislation to implement the Energy Grants (Credits) Scheme, which replaced the Diesel Fuel Rebate Scheme and the Diesel and Alternative Fuels Grants Scheme on 1 July 2003.

Together with Environment Australia, Treasury also provided policy analysis and advice to inform the announcement of measures to support clean fuels, including production grants, the introduction of the ultra low sulphur diesel excise differential and approval of LNG and biodiesel as alternative fuels for the Energy Grants (Credits) Scheme. These measures further deliver against the Government's *Measures for a Better Environment commitments*.

Inspector-General of Taxation

The Board of Taxation reported in July 2002 that there was strong community support for the establishment of an Inspector-General of Taxation. Legislation to establish an Inspector-General was subsequently developed by Revenue Group based on, inter alia, the recommendations made by the Board of Taxation. The Inspector-General of Taxation Bill 2002 was introduced into Parliament in October 2002 and the Senate Economics Legislation Committee undertook further community consultation in its inquiry on the Bill (see December 2002 Report). Treasury provided a submission to the Senate inquiry and participated in the public hearing conducted by the Senate Committee.

Following Government amendments, the Bill was passed by Parliament and received Royal Assent in April 2003.

The *Inspector-General of Taxation Act 2003* outlines the powers of the Inspector-General to review administration systems established both by the Australian Taxation Office and under tax legislation, and report on how the

system reviewed could be improved. Reports of the Inspector-General must be released to the public.

Revenue Group provided support to Ministers in establishing the office of Inspector-General of Taxation. The first Inspector-General of Taxation, Mr David Vos, was appointed in August 2003.

Community consultation

Work has continued on implementing the Government's reforms, announced on 2 May 2002, to community consultation processes on tax design. These changes were designed to enhance consultation on tax issues.

The Board of Taxation monitors the consultation process. Reports to the Board indicate that there has been consultation on nearly all announced measures since that time. Of those measures on which there was no consultation, all but one was of a minor or technical nature and the other was politically sensitive. In the main, feedback from those consulted has been positive.

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

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 2002-03 on implementing the Government's remaining 2001 superannuation election commitments and a number of other measures.

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.

An officer attended a China-Australia symposium on pension reform in Shanghai, and a number of international visitors were received in Australia, to discuss Australia's retirement income system and to compare it with international experience.

Treasury prepared a booklet titled *A Brief Guide to Superannuation* that provides an overview of superannuation including recent developments in the area.

Inspector-General of Taxation

Treasury provided a submission to the Economics Legislation Committee's inquiry into the Inspector-General of Taxation Bill 2002. A copy of the Treasury Submission was made available on the Parliament of Australia website.

Outcome 3

Well-functioning markets

Treasury provides advice to the Government on forming and implementing policy in support of well-functioning markets. Treasury's advice and other outputs help maintain and improve markets so investors and consumers can have confidence and certainty in making decisions that are well informed and free of market distortions and impediments. Treasury also provides the Executive for the Takeovers Panel and assists the Royal Australian Mint, a semi-autonomous Treasury division, with responsibility for producing circulating and numismatic coin for Australia, through representation on its Advisory Board.

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

On 1 July 2002, Treasury was restructured. As a result, the performance information for Outcome 3 has been updated to reflect this new structure and varies from the *2002-03 Portfolio Budget Statements*. The major changes are to include corporate governance policy advice, Takeover Panel and Axiss under Output 3.1.2 and rename Output 3.1.3 to competition and consumer policy advice to more aptly reflect the nature of the policy and the synergies within the outcome of well-functioning markets.

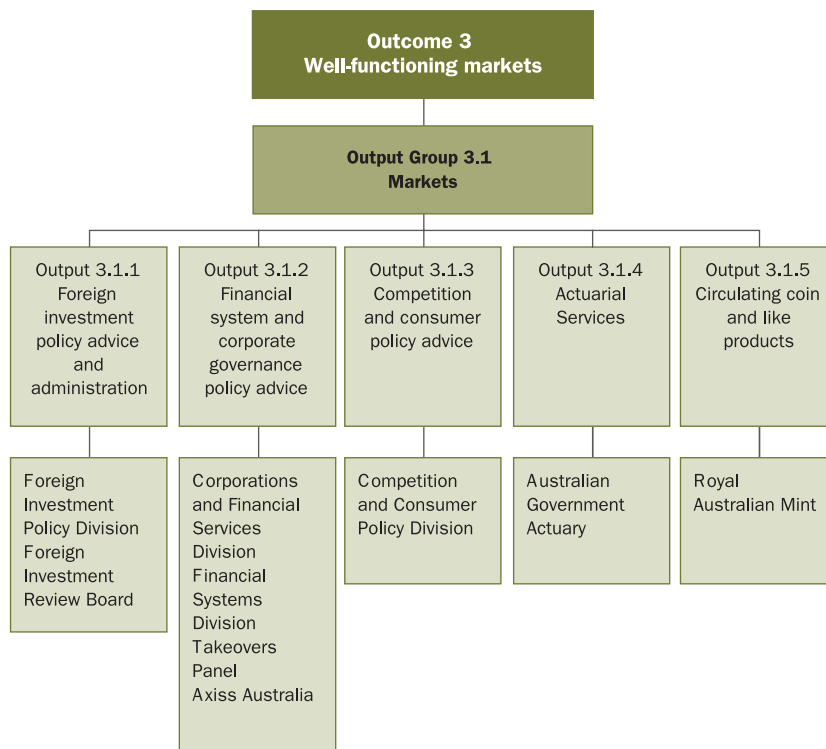
The performance information for the Royal Australian Mint, Output 3.1.5, has been reviewed since the release of the *2002-03 Portfolio Budget Statements* to ensure it comprehensively covers the Royal Australian Mint's business in a balanced way, including the core business of providing circulating coin as well as its community service obligations.

In 2002–03, Markets Group, under Outcome 3, contributed to Government decisions and objectives through:

- providing advice on a range of issues including:
 - prudential regulation of the financial sector;
 - market access and pricing for the financial sector;
 - structural reform matters, including those arising through the operation of the Government's competition policy;

- foreign investment policy including international investment matters and processing of foreign investment proposals;
- financial services and corporate regulation;
- consumer information and product safety issues to assist consumer participation in markets;
- professional actuarial services analysing and quantifying uncertain future financial flows for public sector clients;
- participating in international discussions strengthening international cooperation for the regulatory framework and promotion of Australia as a financial centre;
- consulting with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders on various issues including coinage.

Figure 7: Outputs contributing to Outcome 3



Key priorities in 2002-03

Treasury's 2002-03 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 3:

- progress prudential supervision of financial institutions, including considering policy issues arising out of the HIH Royal Commission and options to improve the safety of superannuation;
- coordinate the Government's response to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration;
- establish a scheme managed by a statutory authority, for temporary terrorism risk insurance cover until market coverage resumes;

- contribute to the World Trade Organisation and Free Trade Agreement negotiations with the United States;
- progress the Corporate Law Economic Reform Program through the review of audit regulation and corporate disclosure, taking into account developments overseas, and implementing resulting government decisions (CLERP 9) and reducing the paper compliance burden on Australian companies (CLERP 7);
- monitor the transition to the new system of financial services regulation, and consulting on and developing options for the compensation regime to support the new framework;
- consider market access and pricing issues, including a review of the cost and availability of public liability, medical indemnity and terrorism insurance;
- establish a Principles Based Review of the Law of Negligence; and
- provide policy advice to assist the Government on issues surrounding United Medical Protection and its wholly-owned subsidiary Australasian Medical Insurance Limited and provide a guarantee to the provisional liquidator for obligations for valid claims under current or past policies.

Key outcomes in 2002–03

- Treasury provided a submission to the HIH Royal Commission and provided advice to the Government on each of the Commissioner’s 61 recommendations. Treasury implemented the major recommendations on the governance model for Australian Prudential Regulation Authority through the *Australian Prudential Regulation Authority Amendment Act 2003*, and provided for the transfer of custody of certain records of the HIH Royal Commission to Australian Securities and Investments Commission through the *HIH Royal Commission (Transfer of Records) Act 2003*.
- Treasury provided the secretariat to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration (Dawson Review). Treasury assisted in the development of the Government’s response, and is currently working on its implementation, including through liaison with the States and Territories and Australian Competition and Consumer Commission.
- In response to the continued unavailability of terrorism risk cover for commercial property, Treasury developed the *Terrorism Insurance Act 2003*, which effectively deemed terrorism risk cover in certain insurance policies

from 1 July 2003, and facilitated the creation of the Australian Reinsurance Pool Corporation. The Corporation is a statutory body, located in Canberra, which has the responsibility for the overall management of the scheme.

- Australia concluded a Free Trade Agreement with Singapore in October 2002. Treasury is negotiating agreements with the United States and Thailand to further liberalise trade in services and investment.
- The Corporate Law Economic Reform Program (CLERP) reached some milestones during 2002–03. CLERP 7 legislation was introduced in December 2002 with effect from April 2003 to simplify document lodgement and compliance between Australian Securities and Investments Commission and its business clients. CLERP 8 (a model law on cross-border insolvency) and CLERP 9 (the effective regulatory and disclosure framework for corporations) discussion papers were released and consultations conducted.
- Treasury developed measures to facilitate transition to the new financial services regime to clarify the operation of the *Financial Services Reform Act 2001* and address practical issues for industry transition.
- Treasury developed the exposure draft of the Superannuation Safety Amendment Bill 2003, to improve the safety of superannuation.
- Treasury contributed to the Government's response to the increasing price and decreasing availability of public liability insurance. In line with the Government's response to the Review of the Law of Negligence, Treasury developed draft legislation to amend the *Trade Practices Act 1974*, which has been introduced into Parliament.
- Treasury, through the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*, developed a prudential and product regulation framework for medical indemnity insurance. On 1 November 2002, Treasury transferred formal and administrative responsibility for the Government's guarantee commitments to United Medical Protection and Australian Medical Indemnity Insurance Limited to the Department of Health and Ageing.
- In December 2002, the Heads of the Australian Government, the States and the Northern Territory signed a revised Corporations Agreement with new constitutional arrangements.
- Treasury provided advice on product safety standards and managed the Consumer Information Program.

Other key outcomes in 2002-03 were:

- the Australian Government Actuary contributed to policy development through the provision of specialist actuarial and related advice to the Government and its departments and agencies;
- the Takeovers Panel continued to provide the mechanism for resolving disputes and raising the standards of market behaviour in takeovers;
- Axiss continued to promote Australia's attraction as a base from which to deliver financial services throughout the Asia-Pacific;
- the Royal Australian Mint continued to operate successfully in producing circulating and numismatic coins for Australia. Treasury undertook a review of the Mint's operating structures. Following on from the review, the Government provided funding through an appropriation to the Mint for the purchase of new capital equipment.

Table 4: Financial and staffing resources summary for Outcome 3

	Budget 2002-2003 \$'000	Actual 2002-2003 \$'000	Budget 2003-2004 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	11,000	3,888	10,000
Appropriation Acts Nos. 2/4	153,084	151,755	157,519
Special appropriations	-	274,547	11,733
Other expenses	507,278	-	-
Total administered expenses	671,362	430,190	179,252
Revenue from Government			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,385	2,381	2,445
Output 3.1.2 - Financial system and markets policy advice	15,730	15,706	13,609
Output 3.1.3 - Competition and consumer policy advice	6,379	6,405	5,259
Output 3.1.4 - Actuarial services	-	-	-
Output 3.1.5 - Circulating coin and like products	-	-	-
Corporate costs	11,579	11,533	12,810
Total revenue from Government contributing to price of departmental outputs	36,073	36,025	34,123
Revenue from other sources			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1	9	-
Output 3.1.2 - Financial system and markets policy advice	1,717	1,757	48
Output 3.1.3 - Competition and consumer policy advice	2	6	-
Output 3.1.4 - Actuarial services	1,574	1,565	1,493
Output 3.1.5 - Circulating coin and like products	40,507	39,899	45,348
Corporate costs	1,514	448	44
Total revenue from other sources	45,315	43,684	46,933
Total revenue for departmental outputs (Total revenues from Government and other sources)	81,388	79,709	81,056
Price of departmental outputs			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	2,386	2,510	2,445
Output 3.1.2 - Financial system and markets policy advice	17,447	17,847	13,657
Output 3.1.3 - Competition and consumer policy advice	6,381	6,736	5,259
Output 3.1.4 - Actuarial services	1,574	2,009	1,493
Output 3.1.5 - Circulating coin and like products	40,507	38,199	45,348
Corporate costs	13,093	11,811	12,854
Total price of departmental outputs	81,388	79,112	81,056
Total estimated resourcing for outcome 3 (Total price of outputs and administered expenses)	752,750	509,302	260,308
Average staffing levels (number)	327	332	327

Note:

Budget 2002-2003: as per the 2002-03 Portfolio Additional Estimates Statements, any variations are due to internal reallocations.

Actual 2002-2003: as per the Audited 2003-03 Financial Statements.

Budget 2003-2004: as per the 2003-04 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 agreements on investment.

Performance information

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

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

Foreign investment policy is effectively disseminated and explained to achieve a high standard of applications and compliance with policy requirements, while minimising the proportion of foreign investment proposals requiring interim or final orders.

Implementation of an effective system of monitoring compliance with policy — possibly leading to prosecutions, but aimed at an overall reduction in non-compliance.

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

The OECD Guidelines for Multinational Enterprises are effectively promoted, consistent with the responsibilities of the National Contact Point for the Guidelines.

Analysis of performance

Advice and input into policy processes

During 2002-03 Treasury and the Foreign Investment Review Board provided advice to portfolio ministers on larger, more important or sensitive foreign investment cases requiring ministerial decisions against associated legislation and policy. Significant cases such as Xstrata Plc's acquisition of MIM Holdings Limited, Burns, Philp & Company Limited's takeover of Goodman Fielder Limited and Constellation Brands Inc's purchase of BRL Hardy Limited were referred to the Treasurer, or a ministerial delegate for a decision. However, Treasury officers under delegation reviewed most cases, with senior management and the board overseeing those decisions on a weekly basis for consistency of process and policy.

Representation in international forums

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

Free Trade Agreements/Closer Economic Cooperation

As noted in Output 1.1.2, Treasury is negotiating free trade agreements with the United States and Thailand to further liberalise trade in services and investment. Australia concluded a Free Trade Agreement with Singapore in October 2002. High-level consultations between Australia and Japan to explore options for deeper economic links have similar objectives. Treasury provides expert advice on the impact of, and implications for, Australia's foreign investment policy regime.

Organisation for Economic Co-operation and Development

Treasury promotes compliance with the OECD Guidelines for Multinational Enterprises. The guidelines recommend responsible business conduct by multinational enterprises operating in or from the 30 OECD member countries, and other adhering countries, in employment and industrial standards, disclosure, the environment and bribery. Compliance is voluntary.

Each adhering country has a national contact point to ensure effective implementation and promotion of the guidelines. The General Manager of the Foreign Investment Policy Division is the Australian national contact point. In 2002-03, the focus was on four main outcomes:

- finalising the national contact point's structure and refining procedures for handling specific instances of Australian adherence to the guidelines;
- continuing the constructive dialogue established with stakeholders and engaging interested parties on key issues arising from implementing the guidelines;
- initiating outreach to Australia's top 100 companies to promote the guidelines;
- enhancing promotional efforts through developing a new website www.ausncp.gov.au and increasing efforts to incorporate the guidelines into domestic corporate governance and social responsibility reporting frameworks.

At the annual meeting in June, the national contact point tabled a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year and attended an OECD Roundtable on the role of the guidelines in tackling corruption.

Asia-Pacific Economic Cooperation

During 2002–03, Treasury revised and updated the investment chapter of the annual APEC Individual Action Plan. Australia's plan was subject to peer review and received very positive feedback.

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 Organization Working Group on Trade and Investment. In 2002-03 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. Australia is close to completing new investment treaties with Mexico and Turkey.

Processing of proposals

Treasury considered about 5,400 proposals in 2002-03, around 10 per cent more than in 2001-02. About 94 per cent of cases were decided within 30 days of receipt of sufficient information. Treasury also responded to thousands of

telephone inquiries and written and email inquiries, generally within five days. During the year, 153 final, interim or divestment orders were issued, mainly for real estate. While a similar number of orders were issued last year, this is a smaller proportion of the overall number of cases, an encouraging outcome in terms of continuing efforts to improve compliance.

Compliance standards

Treasury's efforts through 2002-03 to strengthen compliance focused on three broad elements:

- developing a new case management system and integrated online application facility to improve application accuracy and reduce processing times; and
- enhancing communication of the requirements of foreign investment policy to foreign investors and their agents, involving a continuing program of targeted public speeches, the redesign of the Foreign Investment website and the development of easy-to-follow written materials:
 - the Urban Land Policy was redrafted in 2002-03, with other policy statements due to be redrafted in 2003-04;
 - a review of the telephone answering system for handling inquiries was completed; and
 - a rolling program of monitoring compliance with foreign investment policy. Treasury examined around 1,500 decided proposals in 2002-03, particularly in the real estate sector, to ensure fulfillment of conditions. In some instances, this resulted in punitive action against foreign parties.

Output 3.1.2 Financial system and corporate governance policy advice

The Financial System Division and former Corporate Governance Division (now incorporated into the Corporations and Financial Services Division) in Markets Group, together with the Takeovers Panel and Axiss Australia, were responsible for the delivery of Output 3.1.2, financial system and corporate governance policy advice.

Markets Group contributes to Outcome 3, well-functioning markets, by providing advice to Treasury ministers on financial system and financial market operation, including market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting,

the responsible portfolio agencies and currency. Markets Group, through Axis Australia, implemented the program to develop Australia as a global financial centre.

Performance information

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

Effective presentation of relevant information to inform public debate.

Statutory and other procedural requirements are met.

Secretariat services provided to advisory bodies are effective.

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

Implementation of Axis Australia program achieves intended results.

The Takeovers Panel achieves intended results.

Analysis of performance

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

Financial system

Response to the collapse of the HIH Group

During 2002-03, Treasury provided policy advice to ministers and oversaw management agreements relating to the HIH Support Scheme.

In October 2002, Treasury provided a submission to the HIH Royal Commission. The Government tabled the report of the HIH Royal Commission on 16 April 2003. Treasury provided advice on each of 61 policy recommendations covering corporate governance and financial reporting,

governance arrangements and internal processes for the Australian Prudential Regulation Authority and the regulation of general insurance.

Treasury was instrumental in implementing the major recommendations on the governance model for the Australian Prudential Regulation Authority through the *Australian Prudential Regulation Authority Amendment Act 2003* (the APRA Amendment Act), which received Royal Assent on 19 June 2003. The APRA Amendment Act achieved a number of major objectives, including replacing the Australian Prudential Regulation Authority part-time board with a full-time executive group, clarifying its role within the financial system, enhancing its disclosure and conflict of interest framework, and clarifying its relationship with other agencies.

The commissioner identified 56 possible breaches of the *Corporations Act 2001 and the Crimes Act (NSW) 1900*. The Government has referred those matters to the Australian Securities and Investments Commission or, in a small number of cases, to the New South Wales Director of Public Prosecutions. To overcome potential procedural impediments, Treasury prepared the *HIH Royal Commission (Transfer of Records) Act 2003*, which provides for the transfer of custody of certain records of the HIH Royal Commission to the Australian Securities and Investments Commission.

Medical indemnity reform

Treasury continued to provide advice on developing and implementing the Government's package of medical indemnity reforms. Treasury was responsible for the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*, which established a prudential and product regulation framework for medical indemnity insurance. As with all package components, the Act was the subject of detailed consultations with medical indemnity providers and doctors' groups. Treasury also provided advice on doctors' personal exposure to liability payouts and provision of indemnity cover for retired medical practitioners.

On 1 November 2002, Treasury transferred responsibility for the Government's guarantee commitments to United Medical Protection and Australian Medical Indemnity Insurance Limited, to the Department of Health and Ageing.

Australian Reinsurance Pool Corporation

Following continued unavailability of insurance risk cover for commercial property in relation to acts of terrorism, Treasury provided advice to ministers on a reinsurance scheme after consulting with stakeholders, including banking, property and insurance industry representatives. The resultant *Terrorism Insurance Act 2003* effectively deems terrorism risk cover into certain insurance contracts from 1 July 2003. Treasury presented a speech on terrorism insurance

to the Insurance Council of New South Wales Conference and to the third International Conference for Emerging Insurance Markets, in Delhi.

Public liability and professional indemnity insurance

On public liability and professional indemnity insurance, Treasury provided policy advice and support for three ministerial meetings, provided 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 effective secretariat services to the Principles Based Review of the Law of Negligence, chaired by Justice David Ipp.

Financial services reform

Treasury has responded to issues arising out of the implementation of the *Financial Services Reform Act 2001* (FSR Act). The FSR Act is a harmonised licensing, conduct and disclosure regime for financial products, markets and service providers. In cooperation with the Australian Securities and Investments Commission, industry and consumer stakeholders, Treasury is working to ensure that transition to the new regime by 11 March 2004 is as smooth as possible. Treasury developed the Financial Services Reform Amendment Bill 2003, introduced to Parliament on 26 June, to clarify the operation of the FSR Act and remove practical difficulties encountered during transition. In addition, Treasury has instructed on the development of several sets of corporations regulations. In keeping with the Government's Corporate Law Economic Reform Program processes, consultation on proposals for legislative and regulatory changes has been extensive.

Payments system reform

Treasury assisted the Reserve Bank of Australia in implementing reforms to the Australian Payments System regarding credit cards. Treasury consulted with industry stakeholders on drafting regulations and provided advice to portfolio ministers on the progress of the reforms, and on responses to public concerns. Treasury provided documents, under the *Freedom of Information Act 1982*, in response to a request from MasterCard Australia.

Superannuation

Subsequent to the response to the Superannuation Working Group's final report into options to improve the safety of superannuation, Treasury provided advice on developing the exposure draft of the Superannuation Safety Amendment Bill 2003. The Bill amends the *Superannuation Industry (Supervision) Act 1993* (SIS Act) in line with the recommended reforms.

In response to the Superannuation Working Group's recommendations, the Government announced that Treasury would review the compensation arrangements under Part 23 of the SIS Act to grant financial assistance to Australian Prudential Regulation Authority regulated superannuation funds that suffer losses as a result of fraudulent conduct or theft. These grants are conditional, including the loss must have led to a substantial diminution in the fund leading to difficulty in paying benefits. Grants to superannuation funds that suffered loss through fraudulent conduct or theft totalled \$27 million during 2002-03.

Financial Sector Levies review

Treasury chaired a review of financial sector levies to evaluate arrangements to determine levies imposed on the financial services sector to support the Australian Prudential Regulation Authority's operations, and certain operations of the Australian Securities and Investment Corporation and the Australian Taxation Office.

International liaison

Treasury continued work with other portfolio agencies and key stakeholders to expand Australia's links to regional and global financial markets. Treasury officers liaised with their New Zealand and Singaporean counterparts on mutual recognition of cross-border offerings of securities.

Treasury participated in the Financial Action Task Force workshop meetings on money laundering and consulted extensively with the Australian financial sector. Treasury was represented at OECD Insurance Committee meetings and provided advice to the OECD on flood mitigation, claims management, corporate governance for insurers and terrorism cover.

Trade in financial services

Treasury provided support for negotiations on financial services for the free trade agreements with Singapore and the United States, and the Doha Round of the World Trade Organization.

Takeovers Panel

The Takeovers Panel is the primary forum for resolving disputes that arise during a takeover. Treasury advises portfolio ministers on panel operations and appointments. During 2002-03, the panel dealt with 40 applications under Part 6.10 of the Corporations Act including five internal reviews and three reviews of decisions by the Australian Securities and Investments Commission. No panel decision was subject to external review.

Currency

Treasury chaired and served on the Royal Australian Mint Advisory Board during the year. In 2002, Treasury reviewed the Mint's operations. As a result of the review, the Government has approved the funding to enable the Mint to purchase new capital equipment.

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

Company law and corporate governance

Corporate Law Economic Reform Program 9

This project seeks to ensure Australia has an effective regulatory and disclosure framework for corporations, improving the structures and incentives for a fully informed market. In September 2002, Treasury ministers released a discussion paper canvassing options to improve audit and corporate disclosure practices in Australia, as well as analyst independence and shareholder participation. It attracted over 60 submissions. Treasury consulted the Business Regulation Advisory Group on the proposals and is expected to release draft legislation in late 2003 for consultation.

International corporate governance

Treasury led the establishment of the APEC Pathfinder Initiative on corporate governance and disclosure regimes. The initiative is designed to raise awareness of and promote improvements in corporate governance frameworks in the region, and is expected to report in 2004. Treasury also led a review of the OECD Principles of Corporate Governance by the OECD Steering Committee on Corporate Governance.

Corporate Law Economic Reform Program 7

Treasury assisted the Government to introduce and pass legislation to streamline the relationship between the Australian Securities and Investments Commission and its business clients by simplifying document lodgment and compliance. The *Corporations Legislation Amendment Act 2003*, the *Corporations (Fees) Amendment Act 2003* and the *Corporations (Review Fees) Act 2003* were passed on 27 March 2003 and generally took effect from 1 July 2003.

Corporate Law Economic Reform Program 8

Treasury published the proposals on adopting the United Nations Commission on International Trade Law (UNCITRAL) Model Law on cross-border insolvency for public comment in September 2002. Most submissions favoured

adopting the model law, which is likely to be enacted in a Bill to be introduced in 2004.

Through contributing to the working group on insolvency law of the United Nations Commission on International Trade Law, Treasury provided input on developing a set of legislative guidelines for domestic insolvency frameworks. This work is expected to be completed in 2004.

Directors' bonuses

Treasury advised on the development of the *Corporations Amendment (Repayment of Directors' Bonuses) Act 2003*, which took effect from April 2003 and permits liquidators to reclaim unreasonable payments by a company to directors in the lead-up to insolvency.

Statutory and other procedural requirements

Ministerial decisions under statutes

Under the *Corporations Act 2001*, portfolio ministers have a significant role in ensuring market integrity. Treasury provided ongoing policy advice in relation to ministerial powers to disallow the operating rules of markets and clearing and settlement facilities and approve new market applications.

Treasury provided ministers with advice and Treasury officers prepared instruments to authorise individual financial institutions under the *Financial Sector (Shareholdings) Act 1998* and the *Banking Act 1959*.

Appointments

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

Secretariat services

Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2002-03. In December 2002, the Heads of the Australian Government, the States and Northern Territory signed a revised Corporations Agreement, which supports the Ministerial Council and provides the political underpinning for the new constitutional arrangements supporting the *Corporations Act 2001*.

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.

Treasury provided secretariat services to the HIH Assistance Review Panel and the Financial Sector Advisory Council.

Axiss Australia

Throughout 2002-03, Axiss focused strongly on the promotion and development of Australia's funds management sector. The size of the pool of funds (currently in excess of \$600 billion and the fifth largest in the world) and projections for growth make it especially attractive to global firms.

Among the firms that Axiss assisted was Mellon Financial Corporation, one of the world's largest asset managers. Assistance included building a business case to support the firm's establishment in Australia and addressing queries regarding the structure of the local investment industry. Axiss undertook a marketing mission to New York and Washington DC in February and held bilateral meetings with senior representatives of global investment banking and asset management firms, including Citigroup, Lehman Brothers and Goldman Sachs.

Axiss met with key executives from leading private equity and hedge fund firms such as Bear Stearns, Credit Suisse Asset Management and Tremont Advisors and international delegates from the World Council of Credit Unions.

Axiss submitted to the Board of Taxation's review of Australia's international taxation arrangements that aspects of the foreign investment funds and capital gains tax regimes impede the expansion of domestic operations and regional businesses from Australia.

Axiss launched finance@work in May 2003 so Year 11-12 students can spend a minimum of one week in a financial services organisation, undertaking structured tasks focused on work skills, money management and career planning. In November 2002, Axiss led a mission to China to showcase Australia's excellence in finance education and training. The mission visited Beijing, Shanghai and Shenzhen, and gave presentations to more than 200 representatives from government, regulators and finance industry participants.

Another of its education initiatives, the Axiss Scholar Program, has provided work experience for 55 tertiary-level students and generated over \$560,000 in scholarship funds.

In June 2003, Axiss hosted the third APEC Future Economic Leaders Think-Tank in Sydney to encourage cooperative approaches to financial issues in the APEC region. The four-day event gathered together future ‘influencers’ of economic policy.

In June 2003, the Government announced that, from 1 July, Axiss would operate as a division of Invest Australia, the national inward investment agency. As a result, Axiss has transferred from Treasury to the Department of Industry, Tourism and Resources. It will retain its brand name and continue to provide the Treasurer with six-monthly reports on its activities.

Output 3.1.3

Competition and consumer policy advice

Competition and Consumer Policy Division was responsible for the delivery of Output 3.1.3, competition and consumer policy advice.

Markets Group contributed to Outcome 3 by providing advice on policy issues and the legislative framework for the development and operation of competition and consumer policy, and markets more broadly. This advice included the areas of the competition and consumer provisions of the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983* and structural reform of key sectors of the economy, including those providing essential infrastructure.

Performance information

Advice meets Treasury portfolio Ministers’ needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy.

Statutory and other procedural, administrative and reporting requirements are met.

Effective representation and/or liaison with other agencies, private sector organisations and international bodies to promote competitive, efficient and well-informed markets.

Effective presentation of relevant information to inform consumers and businesses.

Secretariat services provided to advisory bodies are effective.

Progress in providing effective and relevant consumer information and mechanisms to promote consumers protection in areas of product safety and support effective self-regulation in the marketplace.

Analysis of performance

Competition policy

During 2002-03, Treasury provided advice to Ministers on reviews that recommended amendments to Australia's competition framework and progressed their implementation.

An independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* and their administration (Dawson Review) was undertaken in 2002-03, supported by a secretariat located in Treasury. On 16 April 2003, the Treasurer released the Dawson Review and the Government's response. The response endorsed the Review, and accepted recommendations aimed at improving the competition and authorisation provisions, and administration of the Trade Practices Act. Treasury assisted with the Government's response, and is developing its implementation, in consultation with the States and Territories and Australian Competition and Consumer Commission.

Treasury also finalised or progressed Government responses to the Productivity Commission's reviews into the *Prices Surveillance Act 1983* (including repeal and amendment of legislation); and section 2D (local government exemptions) and Part IIIA (National Access Regime) of the *Trade Practices Act 1974*.

Treasury has an advisory, reporting and coordination role in the Australian Government's implementation of the national competition policy. Treasury provided advice to ministers on NCP payments to the States and Territories, sector specific reforms and inter-jurisdictional issues during 2002-03. Treasury also oversees the preparation and publication of the Australian Government's NCP annual report, which details the Government's performance and operation in relation to its national competition policy obligations.

Treasury provided guidance on competition review and reform issues to other departments and agencies, in conjunction with the Office of Regulation Review of the Productivity Commission. The Commonwealth Legislation Review Schedule outlines the reviews of existing Australian Government legislation that restricts competition or imposes costs or confers benefits on business. In 2002-03, six legislation reviews listed were finalised, some in conjunction with other portfolios, and one review commenced.

Treasury worked closely with the Department of Finance and Administration to update the *Commonwealth Competitive Neutrality: Guidelines for Managers*. The revised guidelines will be published in 2003-04.

Treasury advice on structural policy covered a wide range of issues. Treasury prepared policy advice on issues affecting the electricity and natural gas markets, including proposed changes to the structure and operation of Australia's national energy market following the release of the Council of Commonwealth Independent Review of Energy Market Directions Report in December 2002.

Treasury's policy advice on transport markets focused on land transport including the Government's *AusLink* proposals and arrangements for interstate rail transport. Treasury also advised on developments in the aviation sector, in particular, on evolving competitive pressures, and on the airports economic regulatory regime in the context of the international downturn in aviation.

Treasury coordinates and advises on the preparation of terms of reference for research and inquiries by the Productivity Commission. In 2002-03, the Government provided five public inquiries and five commissioned research references to the Productivity Commission.

Treasury had extensive dealings with other agencies, private sector organisations and international bodies to promote competitive, efficient and well-informed markets. In 2002-03, Treasury also dealt with a large volume of correspondence relating to competition and consumer policy.

Treasury contributed to the development of competition and regulatory frameworks in OECD member and non-member countries, through involvement in the OECD's competition committees. Treasury made contributions in the areas of competitive neutrality and regulatory policy.

Treasury has contributed actively to Australia's participation with the work of the World Trade Organization to realise a multilateral competition framework agreement as part of the Doha Round, participating in discussions and informing World Trade Organisation members of Australia's experiences in the development of competition law and policy.

Treasury has also been involved in negotiating competition chapters in free trade agreements with Thailand, Singapore and the United States of America, and in supporting the Australia-Japan trade and economic consultations.

Consumer policy

Treasury provided advice to the Government on regulatory frameworks that support consumer confidence and help consumers actively participate in the market.

In December 2002, the *Trade Practices Amendment Act (No 1) 2002* received Royal Assent. This redrafted the sections on the prohibition of pyramid selling in plain English.

The *Trade Practices Amendment (Liability for Recreational Services) Act 2002* was also passed by Parliament in December 2002, to permit participants in inherently risky activity to waive their rights to sue for breach of the contractual condition implied by section 74 of the *Trade Practices Act 1974*. Without this amendment, the public liability insurance crisis could have caused many recreational service suppliers to cease providing services.

Treasury also continued to participate in international consumer policy meetings. In particular, Treasury hosted the 65th session of the OECD Committee on Consumer Policy, which finalised the OECD *Guidelines for Protecting Consumers across Borders from Fraudulent and Deceptive Commercial Practices*. These guidelines, launched in June 2003, outline a framework for cooperation between enforcement agencies to protect consumers against the growing problem of cross-border fraud and deceptive practices.

In December 2002, the Parliamentary Secretary to the Treasurer re-appointed an Expert Group of leading industry and consumer professionals to advise him on consumer policy in e-commerce. Treasury continued to provide secretariat support to the Expert Group.

Treasury provided secretariat support to the Ministerial Council on Consumer Affairs and government consumer advisory bodies. The Council comprises Australian Government, State, Territory and New Zealand Ministers responsible for consumer policy and legislation.

Treasury also provided the secretariat for the Commonwealth Consumer Affairs Advisory Council. This Council advises the Parliamentary Secretary to the Treasurer on current and emerging consumer policy issues, and in 2002-03 released *Consumer Issues and Youth*, a research report examining consumer issues affecting young Australians.

Consumer safety

Treasury provided advice on product safety standards including bunk beds, on product bans including children's dart gun sets, and possible hazards with the use of liquid filled yo-yo balls.

Treasury oversaw, monitored and assessed the effectiveness of over 800 safety-related voluntary product recalls, in conjunction with other Australian Government and State authorities.

Treasury also participated in the work of the Standards Australia Technical Committees developing and updating standards as well as developing a national coronial database.

Treasury continued to work closely with Standards Australia, industry organisations and State and Territory Governments to promote safer markets and worked closely with New Zealand and the States and Territories to harmonise consumer safety regulation under the Trans-Tasman Mutual Recognition Arrangement.

Consumer information

Treasury manages the Consumer Information Program to promote greater national consistency in providing information to consumers and addressing areas of identified consumer need. Key elements include:

- offline centralised referral through *The Australian Consumer Handbook*;
- online centralised referral through www.consumersonline.gov.au;
- information targeting consumer scams through *The Little Black Book of Scams* and www.scamwatch.gov.au;
- product safety information initiatives; and
- resources to assist consumers shopping online, for example the release of free consumer software to help those shopping on the internet www.consumerping.gov.au.

Output 3.1.4 Actuarial services

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

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

The office also has an ongoing support role in Treasury policy issues with an actuarial component.

Performance information

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

Analysis of performance

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2003 the account was in a sound financial position.

Actuarial advice should be of the highest quality. The absence of any complaints about the quality of professional services indicates strong performance.

Consultancy services

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

Departments which sought advice included Defence; Attorney-General's; Education, Science and Training; Family and Community Services; Health and Ageing; and Veterans' Affairs. Centrelink and the Australian Prudential Regulation Authority also sought advice.

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

A structural increase in Centrelink case workload over the course of the year put pressure on turnaround times. This was addressed and largely resolved by the end of the year.

Services to Treasury

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

Treasury provided funding for this work which accounted for around 10 per cent of the office's total revenue for the year.

Operational outcomes

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

Output 3.1.5 Circulating coin and like products

The Royal Australian Mint is a semi-autonomous operating division of the Treasury, responsible for producing circulating and numismatic coin for Australia. The Mint also produces a range of high quality collector coins together with minted non-coin products including medallions. The Mint's collector coin and minted non-coin business is commercial, within government-set parameters. In 2002-03 the Mint received no direct budget funding.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to coinage and Royal Australian Mint operations.

Produce circulating coin to Reserve Bank of Australia forecasts.

Meets financial performance targets.

Maintain the National Coin Collection and the Royal Australia Mint's visitors gallery, and promote public understanding about the cultural and historical significance of coins.

Analysis of performance

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

2002-03 was another challenging year for the Mint in managing the business in uncertain times. Despite exchange rate swings and cautious customer spending, the Mint operated with a sound profit.

The Mint's operating profit before company tax and net of seigniorage was \$1.893 million. The profit before tax represents a return on gross assets, excluding the Coin Museum and approved excess circulating coining inventory of 11.02 per cent.

The Mint returned \$80.242 million to consolidated revenue in seigniorage, royalties and other payments.

Inventory holdings decreased from \$17.22 million in 2001-02 to \$15.42 million in 2002-03 due to decreased holdings of finished circulating coin and raw material blanks.

The Mint made a concerted effort to control discretionary expenditure, reducing it to \$12.98 million from \$13.8 million in 2001-02. Expenditure is 32.7 per cent of revenue.

Sales of corporate and other product was \$2.1 million for the year. This includes the sales of foreign coin production orders of \$0.608 million for New Zealand, Fiji and the Cook Islands. Sales of medals, medallions and tokens to government and the corporate sector remains a highly competitive market.

Demand for circulating coin was lower than previous years (Tables 5 and 6). The Reserve Bank of Australia purchased 238 million coins in 2002-03, compared to 544 million coins the previous year. This should allow the banking system to absorb surplus coins that have accumulated. These surpluses arose from prudent purchases to mitigate the risk of uncertainty during the Y2K calendar transition, and ownership transfer of coin pools to commercial banks.

The drop in demand for all denominations of circulating coin reduced seigniorage earnings from \$129.538 million last year to \$79.656 million this year.

The Mint's numismatic program yielded \$17.961 million. The Mint has divided collector coin issues into two broad categories. Products such as the year sets, baby sets and wedding sets are purchased both by serious and occasional coin collectors and are produced in unlimited or very large numbers. More numismatic products have limited mintages and the coins generally are available only from the Mint and coin dealers (with numismatic knowledge and who sell and buy back coins).

This results in many numismatic coin issues selling out, some in near-record times. In 2002-03 the following issues sold out: the \$1 silver proof coin commemorating the end of the Korean War, the fine proof silver 2003 year set, the proof Rugby World Cup coin, the selectively gold plated silver kangaroo, the hologram coin, and the \$10 proof commemorative 'Adelaide Pound' coin. As a result, many coins and coin sets issued over the past few years are in considerable demand, reinforcing the interest in current new issues of both the numismatic and generally available coins.

Sales to overseas dealers reached a very high level with coins having an overseas interest with Australian themes. These included the Battle of Sunda Strait, Masterpieces in Silver and Accession coins.

For the second year in a row, the Mint has won a prestigious international 'Coin of the Year' award by United States based Krause Publications. The design, an Aboriginal interpretation of the kangaroo, was commissioned from the Aboriginal artist Jeanette Timbery.

The Mint also uses collector coin issues to highlight Australia's numismatic and general history. Modern day issues featuring historic 'icon' coins can re-ignite interest in the older coin issues. Two modern issue coins featuring historic Australian coins were the \$10 Commemorative Numismatic of the Adelaide Pound and the Subscription Coin of the Holey dollar and dump.

Other coins issued this year commemorating Australian culture and history were the \$1 proof silver kangaroo coin with the kangaroo designed by Aboriginal artist Ray Thomas; the \$1 aluminium bronze paying tribute to Australia's Vietnam veterans and \$1 proof silver coin commemorating the fiftieth anniversary of the end of the Korean War. The Masterpieces in Silver set highlighted Australia's nautical history with the depiction of four historic sailing vessels. The Golden Jubilee of the Coronation of Queen Elizabeth II was commemorated on two precious metal collector coins. Possibly the most topical highlight was the theme of the 2003 proof and uncirculated year sets saluting Australia's volunteers.

The Mint also launched a design competition for primary school pupils to produce a design for a 50c coin. The winning designer will win \$10,000 for their school.

After strong support during the Olympic and Centenary of Federation years, visits to the Mint's visitors gallery weakened, reflecting a general decline in tourist activity throughout the region (Table 7).

Large numbers of school children visit the Mint so the cafeteria has been converted into an additional viewing room for the Mint video. This should greatly relieve congestion. At the Mint's first Open Day on Saturday 29 March 2003, visitors were escorted through the factory area and allowed close to the operating circulating coin presses. Mint staff acted as guides and a collection supported the Canberra Bushfire Relief Fund.

As part of the Coin Disposals and Acquisition Program, a set of 1916 proof coins was sold at public auction. Proceeds will be used to make strategic purchases of coins for the National Coin Collection.

Table 5: Australian decimal coin issued by Treasury

Year	\$2 \$'000	\$1 \$'000	50c \$'000	20c \$'000	10c \$'000	5c \$'000	2c \$'000	1c \$'000	Total \$'000
1965-92	395,960	319,780	217,625	161,303	93,532	84,652	48,793	31,162	1,352,807
1992-93	16,460	7,150	50	56	4,000	3,874	—	—	31,590
1993-94	26,100	24,075	2,349	280	2,440	5,716	—	—	60,960
1994-95	39,000	37,600	9,920	3,080	3,240	5,540	—	—	98,380
1995-96	27,000	32,200	8,000	1,040	—	4,140	—	—	72,380
1996-97	26,800	24,300	6,960	3,160	—	4,360	—	—	65,580
1997-98	22,200	20,500	4,320	4,340	820	4,660	—	—	56,840
1998-99	32,400	18,900	7,480	7,180	5,740	5,920	—	—	77,620
1999-00	64,000	23,200	15,930	10,700	7,080	6,210	—	—	127,120
2000-01	31,600	16,000	8,760	9,660	7,320	7,300	—	—	80,640
2001-02	67,200	37,400	27,080	18,020	11,520	10,680	—	—	171,900
2002-03	48,000	23,300	9,640	4,780	4,680	5,020	—	—	95,420
Total	796,720	584,405	318,114	223,599	140,372	148,072	48,793	31,162	2,291,237

Table 6: Circulating coin production 2002-03

Denomination	Design	Date of Coin	Alloy	Pieces (millions)
5 cents	Standard	2002	Cupro-Nickel	80.252
5 cents	Standard	2003	Cupro-Nickel	52.178
10 cents	Standard	2002	Cupro-Nickel	44.089
10 cents	Standard	2003	Cupro-Nickel	9.137
20 cents	Standard	2002	Cupro-Nickel	21.523
50 cents	CoF ¹	2001	Cupro-Nickel	0.080
50 cents	Outback	2002	Cupro-Nickel	11.507
50 cents	Volunteers	2003	Cupro-Nickel	5.725
1 Dollar	Outback	2002	Aluminium Bronze	16.025
2 Dollars	Standard	2002	Aluminium Bronze	14.099
Total				254.615

(1) Centenary of Federation



Table 7: Visitor numbers

	1998-99	1999-00	2000-01	2001-02	2002-03
Total visitor numbers	146,101	173,198	186,597	208,429	182,104

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

Customer service charter

The Mint's customer service charter is available in hard copy and on its website. The Customer service charter is due to be reviewed in December 2003.

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

The Mint carries out market research to establish customer satisfaction levels as well as views about the coins it is planning to issue, either through surveys or focus groups. Mint staff also regularly meet collectors. The Mint website hosts a forum for the public to comment on or discuss numismatic matters and it provides the Mint with direct feedback on many matters. In addition the public can raise matters directly with the Mint through letters, phone calls, emails and two dedicated email response addresses on the Mint's website.

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 2002-03

The priorities identified for Corporate Services Division in the 2002-03 Corporate Plan were to:

- finalise the review of the Chief Executive's Instructions;
- continue developing human resource information and management systems;
- continue improving budgeting and financial management, including upgrading Treasury's Financial Management Information System (FMIS);
- progress the implementation of the Knowledge and Information Management Framework:
 - commence phased implementation of electronic records management;
 - upgrade IT operating systems to Windows 2000 and Microsoft Office XP;
 - replace desktop IT equipment and Local Area Network infrastructure;
 - develop and deliver training programs to support Treasury projects and systems;
 - further develop online Internet services;
- contribute to the negotiation of Treasury's third Certified Agreement, including further refinements to the Performance Management System; and
- improve contract management and procurement policies and procedures.

Key outcomes in 2002-03

Outcomes relating to the above priorities are as follows:

- Treasury's Chief Executive Instructions were rewritten in 2002-03 to reflect Government best practice standards as determined by the Australian National Audit Office (ANAO) and Department of Finance and Administration. Staff have access to the Chief Executive Instructions on the intranet, and staff training should raise awareness of the Chief Executive Instructions.
- Staff access to personal and professional information using Aurion Employee Self-Service has been improved. The Employee Self-Service system enables staff to have 24-hour access to personal records, pay details, leave balances and training courses. In August 2003 the Performance Appraisals and Curriculum Vitae modules in the Aurion system were released, enabling employees and managers to complete all performance appraisal processes, including their professional curricula vitae, online.
- Treasury's FMIS (SAP R/3) was upgraded to version 4.6 on 31 March 2003. The upgrade provides a range of additional functionality and improved reporting. As part of the upgrade project, staff were provided with targeted training and updated user documentation.
- The core layer of the Information and Knowledge Management framework is Treasury's systems and information sources. The emphasis was on implementing TRIM electronic records management system and migrating IT systems to a common platform.
 - The progressive implementation of TRIM electronic records management commenced in May 2002. Corporate Services Division and several policy areas have implemented TRIM electronic records management. Full implementation will take 12 to 18 months as successful implementation depends on Treasury staff adopting effective change management practices.
 - IT systems upgrades included SAP R/3, Aurion and the ministerial correspondence system. New business systems development included the Balance of Payments system, the Foreign Investment system and Contracts Management system.
 - Treasury's desktop and laptop computers, printers, network servers, storage and backup facilities were upgraded. Treasury has a standard and consistent technical platform which provides cost and performance benefits.

- The Treasury Intranet Stage III development commenced in March 2003 and is due for release in November 2003. The project involves redeveloping the current intranet and will include a new interface, improved and faster retrieval of data, a restructuring of information and the inclusion of a content management system for content administrators.
- Treasury uses the Internet as its primary mechanism to disseminate information to the public. In 2002-03, 6,339 emails were received through the Treasury and ministerial websites, compared with 2,587 in 2001-02. Five new websites were released in 2002-03 to assist with the consultation process for public reviews undertaken by Treasury.
- A departmental training calendar was developed during 2002-03 combining professional, information technology, SAP and electronic records, training schedules. The training calendar is linked to departmental seminars and specialised training provided by the policy groups. The calendar provides a central point to access information on internally-delivered training and development opportunities.
- The Australian Industrial Relations Commission certified Treasury's third Certified Agreement on 10 September 2002, following negotiation with employees. The Certified Agreement is to run for two years and its accompanying new pay model introduces more flexible salary arrangements for Australian Public Service Level 6 (APS6), Executive Level 1 (EL1) and Executive Level 2, (EL2) level staff.
- In 2002-03 the Performance Management System was reviewed. Amendments included redefining role accountabilities, developing the Treasury organisational management principles and refining the performance appraisal processes.
- Treasury completed a review of its contract management and procurement policies in 2002-03 to better align Treasury policies with the ANAO Contract Management Better Practice Guide. The review included revision of standard contract documentation and development and implementation of a contract risk management framework. Awareness of contract management and procurement responsibilities is raised through training seminars.

Other key outcomes in 2002-03 for Corporate Services Division included:

- The appointment of a new internal auditor, a revision in the composition of the Treasury Audit Committee (including the appointment of an external

member), and refocus of the internal audit plan to concentrate more on key business activities and risks. These measures were designed to strengthen the audit function.

- The introduction of a more rigorous quality assurance control framework for Treasury's financial statement's and reporting processes.
- The development of a performance monitoring framework based on the balanced scorecard approach to more effectively evaluate divisional performance.
- Assistance in integrating some 100 additional staff into the department following the transfer of the tax law design function from the Australian Taxation Office to Treasury.

03

Part 3



Management and Accountability

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03

Corporate governance

Corporate governance practices in Treasury are designed to ensure efficient, effective and ethical use of Treasury's resources, as well as comply 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;
- planning and monitoring of outputs; and
- monitoring of Treasury's resource use, 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.

The Treasury Management Model sets out the role accountabilities of the five levels of the Treasury management structure. Treasury's management levels and primary role accountabilities are:

- Secretary — accountable for the department's management and strategic leadership;
- Executive Director — accountable for a group's management and strategic leadership;
- General Manager — accountable for a division's management and strategic leadership;
- Manager — accountable for a unit's management and leadership; and
- Specialist and Analyst — accountable for provision of specialist advice and team leadership.

In October 2002, the role accountabilities were reviewed following organisational and management changes. The review reaffirmed the five levels of management, but recommended adjustments to the role accountabilities at the Band 3, Band 2, Band 1 and EL2 levels to clarify roles and reporting lines.

Senior management committees and their roles

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 department's strategic leadership and management, including:

- organisational development — shaping Treasury's future;
- 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.

The Executive Board members as at 30 June 2002 were: Dr Ken Henry, Secretary to the Treasury; Greg Smith, Executive Director, Revenue Group; Dr Martin Parkinson, Executive Director, Macroeconomic Group; Richard Murray, Executive Director, Fiscal Group; Jim Murphy, Executive Director, Markets Group; and Ian Robinson, General Manager, Corporate Services Division.

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.

Treasury's Audit Committee follows the recommended best practice guidelines issued by the Australian National Audit Office (ANAO). The ANAO also attends Treasury Audit Committee meetings as an observer. The Audit

Committee reviews internal and external audits relating to Treasury and the Mint.

The Audit Committee members are Dr Martin Parkinson (Chair), Steve French (Deputy Chair), Ian Robinson, Mike Rawstron, David Martine and Tony Ayres (external representative). The Audit Committee met six times during 2002-03.

Treasury reviewed the role, functions and structure of the Audit Committee in 2002-03. This review was conducted in the context of best practice in corporate governance and Treasury's operating environment. The review streamlined the committee with members selected on a competency, rather than representational, basis and included an external representative.

Remuneration committee

Remuneration committees are established within the four groups in Treasury and Corporate Services Division to recommend to the Secretary the allocation of additional pay points available under AWAs for APS 6, EL1 and EL2 employees.

Each remuneration committee's membership is determined by the Executive Board. Remuneration committees are chaired by the Executive Director of the relevant group. The committee comprises the Chair, the Principal Adviser, Corporate Strategy and all General Managers in the group. One General Manager from another group is included to promote consistency of ratings between groups.

In April 2003, the Executive Board commissioned a consultative review of remuneration committee processes and outcomes. The recommendations of the review addressed identified employee concerns and sought to improve processes. The Executive Board accepted most of the recommendations.

Senior management structure and external representation

Details of Treasury's management structure is set out in Figure 4, in Part 1.

In 2002-03, the senior Treasury officers were members of various external committees, boards and other bodies. Details of the senior management external representation are published with the 2002-03 Annual Report at www.treasury.gov.au.

Corporate planning and reporting

Treasury's internal corporate planning and reporting framework is an integrated system linked to the department's financial management, human resource and business management systems. The framework accords with government planning and reporting requirements.

The Executive Board sets the broad strategic direction for the department. The corporate plan articulates this direction and provides context for policy group operational plans and Corporate Services Division. The corporate plan includes an identity statement based on Treasury's mission statement and people values, and sets out Treasury's outcomes and outputs, and identifies high level priorities for the following year.

Groups and divisions prepare operational plans at the beginning of the financial year. They identify key priorities, performance information, risks, relationships and financial information.

The Information Technology (IT) Infrastructure Statement of Direction is a three-year plan setting out Treasury's strategic directions in managing and accessing Treasury's information, knowledge and intellectual property. Underpinning the Statement of Direction is the Application Systems Forward Work Plan which identifies Treasury's systems development for the next year. The plan is linked to corporate and operational plans.

Treasury meets its external reporting responsibilities through the Portfolio Budget Statements and the Treasury Annual Report.

In June 2003, Corporate Services Division implemented a Balanced Scorecard Performance Reporting Framework so the division will be able to measure overall business performance against four perspectives of customer satisfaction, financial and operational efficiency and effectiveness and staff learning and growth. The division will report progress using the Balanced Scorecard System each August and January.

Risk management

Under the *Financial Management and Accountability Act 1997*, Treasury meets its specific risk management requirements through a single, integrated framework. The following are the key components of the risk management framework.

- The Fraud Control Plan complies with Australian Government Fraud Control Guidelines. The Fraud Control Plan put in place in 2001-02 was amended to include the tax law design function transferred from the Australian Taxation Office.
- 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 1997*. In 2002, the Chief Executive Instructions were rewritten to reflect government-wide best practice standards as determined

by the Australian National Audit Office (ANAO) and Department of Finance and Administration.

- The Security Risk Review: In 2002-03, the Security Risk Review was revised to incorporate changes in the national and international security environment following international terrorist incidents.
- The Internal Audit Plan identifies services and functions for auditing. The plan incorporates issues raised by ANAO in its audit of Treasury's financial statements, recent ANAO reports on cross-agency matters, upcoming management issues, policy evaluations, previous internal audits and strategic risk management issues.
- Comcover insurable risk assessments are conducted annually as part of the process for applying for Comcover Insurance renewal. 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.

Treasury has a number of strategies in place to ensure risks associated with the delivery of information technology services are identified and managed. Components of the information technology governance are listed below.

- The IT Disaster Recovery Plan sets out the strategies and processes to restore services if a complete or partial loss of Treasury's central computing infrastructure occurs. The plan aims to restore services within an appropriate timeframe.
- Business Continuity Plans for all Treasury's IT Application systems set out alternate methods and processes to be used so Treasury can continue to work until the IT environment is restored.
- The IT Security Policy addresses the requirements to protect information holdings and secure operation of Treasury IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communications Security Instruction — Electronic Security Instructions 33(A) and recommendations from the ANAO.
- The Internet and Email Acceptable Use Policy sets out individual user's responsibilities for the appropriate use of the Internet and email facilities and services. This policy refers to the Australian Public Service Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation, and the Treasury IT Security Policy.

- Website Development Standards and Guidelines are based on ISO 9001 and ACSI 33 International Standards Organisation and Defence Signals Directorate guidelines. The standards ensure compliance with best practice in relation to website security.
- IT Change Control Guidelines are an internal IT management tool which assists with quality assurance control over proposed changes to the IT technical environment and facilities. This change control process involves reviewing proposed variations and clearing them before releasing changes in the production environment.
- IT Risk Management Strategy, developed in accordance Defence Signals Directorate guidelines identifies technical risks associated with Treasury's IT infrastructure and IT management practices.
- Applications Development and Project Standards, are internal standards based on the Structured System Development Methodology PRINCE 2 for system development. The standards provide a phased system development life cycle to ensure correct project governance is applied to systems development.

Staff awareness of risk management policies and procedures is raised through training programs and departmental staff notices. All policies and procedures are available to staff in hardcopy and on the Intranet.

Ethical standards and accountability

Treasury has its own agency values reflecting and supporting the way it functions. The Treasury people values are closely aligned with the Australian Public Service (APS) Values and are embedded in the Treasury Management Model and Performance Management System.

The Treasury Certified Agreement and Australian Workplace Agreements contain a commitment from employees to uphold Treasury values and comply with the Code of Conduct.

Key departmental documents refer prominently to the current APS Values. Internal training programs, such as leadership programs, the APS 1-5 Treasury Certificate in Business Services and performance management workshops also reinforce the values and behaviours expected of staff both within the department and within the broader public sector.

Treasury has taken steps to establish and maintain ethical standards through developing policies such as the Fraud Control Plan, the Chief Executive

Instructions, Conflict of Interest Guidelines, Consultant Engagement and Management Guidelines and Appropriate Use of the Internet Email Policy.

All corporate governance policies and procedures are available to staff on the Intranet.

Senior Executive Service remuneration

All Treasury senior executive service officers have Australian Workplace Agreements in place.

Since September 2000, senior executive service employees have been appraised using the Australian Public Service Commission's Senior Executive Capability Framework. That involves making individual rankings against each of the five criteria of the framework, then arriving at an overall ranking for the employee, which reflects their performance relative to their peers.

An increase in relative ranking can lead to an increase in base salary. See Table 10 for details of Senior Executive Service (SES) salary scales. Additional information on remuneration and performance pay is set out in this section under SES remuneration and performance appraisal and in Note 15: Executive Remuneration in Part 4 of the Financial Statements.

Corporate governance — the Mint

The Mint's Advisory Board is responsible for ensuring good corporate governance, advising corporate strategy and providing guidance and oversight to the Mint's senior management team.

The Mint's Advisory Board members as at 30 June 2003 were: Jim Murphy, Executive Director, Markets Group, Treasury (Chair); Vivienne Thom, Controller, Royal Australian Mint; Michael Rawstron, General Manager, Corporations and Financial Services Division, Treasury; Michael Del Gigante, Chief Executive Officer, TransACT Communications; and Ross Macdiarmid, Chief Executive Officer, Canberra Tourism and Events Corporation.

The Mint's Senior Management Team comprises the Controller, the Directors of Marketing and Operations, and the Chief Financial Officer.

Risk management

The Mint's internal policies and procedures identify, plan for and manage the risks associated with the business of circulating and numismatic coin for Australia. These policies and procedures are consistent with the Treasury Chief

Executive Instructions. The Treasury Audit Committee reviews all the Mint's internal and external audits.

The Mint's Quality Management System was designed to capture its operations including occupational health and safety, security, environmental management, human resource and quality control. The Quality Management System ensures that the Mint's operations meet customer requirements and organisational goals, and comply with applicable regulatory requirements. An electronically based system of policies, procedures and records management ensures effective document control and easy accessibility for all intended users

The Mint's Quality Management System was upgraded to comply with the new International Standard ISO9001-2000. A comprehensive two-day audit by two auditors from SAI-Global resulted in awarding the Mint with the ISO9001-2000 Quality System certification. The Mint has maintained its quality system certification for the thirteenth successive year and is one of the few organisations certified to the new International Standard.

A comprehensive security plan based on a Security Risk Review carried out by the ANAO will ensure that the Mint meets the requirements of national security alert directives issued by the Protective Security Co-ordination Centre.

Internal and external scrutiny

Audit

The Audit Committee convened six times in 2002-03. Key issues included HIH Claims Support scheme corporate governance processes, review of strategic risk management plans and development of new risk assessment processes.

The Audit Committee's Financial Statements subcommittee, which oversees the presentation of Treasury's financial statements, met five times in 2002-03. The ANAO has confirmed that Treasury's published 2001-02 Financial Statements agreed with those certified by the Secretary and the Auditor-General, and were free of errors.

Treasury engaged Deloitte Touche Tohmatsu to develop the 2002-03 Internal Audit Plan. The Audit Committee assisted by Deloitte Touche Tohmatsu has a continuous improvement approach to audit services and regularly reviews Treasury's audit program and scrutinises recommendations arising from completed internal audits as well as relevant ANAO reviews.

Internal audits

Treasury completed two internal audits during 2002-03.

Upgrade of Aurion to Version 9

Treasury uses Aurion as its human resource management information system. The audit examined specified aspects of the activities to migrate to Aurion Version 9 and advised on potential areas for improvement to further manage the risks associated with the migration. The review found that the transition to Version 9 was well managed.

Upgrade of SAP to Version 4.6C

Treasury uses SAP as its financial management information system. The review examined the specified aspects of activities to upgrade to SAP Version 4.6C and advised on potential areas for improvement to further manage the risks associated with the project. A number of issues were raised and resolved with the project team in preparation for the upgrade. This project is subject to ongoing audit with a second phase of review.

Reports by the ANAO

In October 2002, the ANAO completed an audit of Treasury's management of international financial commitments. Treasury manages Australia's relations with the International Monetary Fund (IMF) and various development banks,

including those belonging to the World Bank Group. The audit examined Treasury's management of these obligations. In view of the size of Australia's investments and obligations, the audit focussed on financial management issues.

In Audit Report No 10: Management of international financial commitments, the ANAO recommended Treasury examine the merits of including performance information in relation to the financial commitments it administers in its Portfolio Budget Statements. It also recommended Treasury implement a more comprehensive framework of policies and procedures for the administration of these commitments. Treasury supported the two recommendations.

Treasury's Audit Committee follows ANAO best practice guidelines by actively reviewing relevant matters raised in performance audit reports, and overseeing any follow-up action. The following reports were relevant to Treasury operations in 2002-03:

- Audit Report No 8: The Senate Order for department and agency contracts;
- Audit Report No 18: Management of trust monies;
- Audit Report No 22: Payment of accounts and goods and services tax administration by small Commonwealth organisations;
- Audit Report No 23: Physical security arrangements in Commonwealth agencies;
- Audit Report No 24: Energy efficiency in Commonwealth operations;
- Audit Report No 27: Management of the Commonwealth guarantees, warranties, indemnities and letters of comfort;
- Audit Report No 32: The Senate Order for departmental and agency contracts (Spring 2002 compliance);
- Audit Report No 45: Reporting of financial statements and audits reports in annual reports;
- Audit Report No 50: Managing people for business outcomes, year two;
- Audit Report No 53: Business continuity management follow-on audit;
- Audit Report No 54: Capitalisation of software; and
- Audit Report No 60: Closing the books.

Treasury supported the relevant recommendations. Details of the ANAO audit reports are available at www.anao.gov.au.

Internal and external scrutiny — the Mint

The Mint engaged Ernst and Young as internal auditors. Five internal audits were conducted during 2002-03; two of which are ongoing.

IT management and planning

This audit reviewed the control environment at the Mint governing the management and planning of the IT infrastructure and measured it against the COBIT IT governance control framework. Currently these processes are immature. This means there is evidence that the Mint has recognised that issues exist, but it has no standardised processes, formal training or communication of procedures for addressing these.

Review of tendering and contracting

This audit reviewed a selection of contracts to assess whether the Mint has procured goods/services and managed associated contracts in accordance with leading practice. This assessment was based on compliance with the *Commonwealth Procurement Guidelines and the ANAO Contract Management Better Practice Guideline 2001*. Procurement was not in accordance with leading practice. Since the review, significant improvements have been made in the procurement area.

Records management

The review identified records management and planning controls within the Mint, and provided recommendations to address any control deficiencies. The audit found that although business areas are making an effort to manage records that relate to their area of work, the Mint has no consistent corporate approach to recordkeeping.

Review of costing

This audit was to examine the costing approach the Mint currently employs and identify areas for improvements. To assist in identifying the true cost of products, the Mint should adopt a full standard costing system, using the functionality of the Manufacturing and Resource Planning System and regularly reviewing standards.

Issue of promotional product

The review assessed the adequacy of and compliance with policies, procedures and controls relating to the issue of product for promotional purposes. Controls for the issue of product operate effectively and accord with the policies and procedures.

Reports by the ANAO

The following ANAO reports were relevant to the Mint's operations in 2002-03:

- Audit Report No 13: Benchmarking the internal audit function follow-on report;
- Audit Report No 22: Payment of accounts and goods and services tax administration by small Commonwealth organisations;
- Audit Report No 23: Physical security arrangements in Commonwealth agencies;
- Audit Report No 24: Energy efficiency in Commonwealth operations;
- Audit Report No 52: Absence management in the Australian Public Service;
- Audit Report No 54: Capitalisation of software; and
- Audit Report No 60: Closing the books.

The Mint supported the relevant recommendations. Details of the audit reports are available at www.anao.gov.au.

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 was charged with offences related to this fraud. The money alleged to have been defrauded has been recovered and the matter is currently before the courts.

The Reserve Bank, Canberra, advised Treasury that a cheque in the name of a company had been dishonoured. Internal inquiries resulted in the matter being referred to the Australian Federal Police which referred it to the New South Wales Police.

A GST direct assistance certificate valued at \$200 was requested by a tax services company in Victoria, on behalf of another business. Information indicated this business did not receive any goods or services relating to the certificate. The matter was referred to the Australian Federal Police and brought to the attention of the Fraud Prevention and Internal Assurance Branch of the Australian Taxation Office.

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

Ombudsman

There were no comments by the Ombudsman on matters within Treasury in 2002-03.

Courts and proceedings

During 2002-03, Australian Superannuation Nominees Limited (ASN) commenced proceedings against the Australian Prudential Regulatory Authority (APRA) and the Minister for Revenue and Assistant Treasurer in the Federal Court's New South Wales District Registry. The proceedings related to the decisions of APRA and the Minister to revoke the status of ASN as an approved trustee, and to remove ASN as trustee of 228 small APRA funds under the *Superannuation Industry (Supervision) Act 1993*. During 2002-03, the matter was settled. APRA set aside the decision to remove ASN as an approved trustee. The Minister and APRA agreed to meet the costs of ASN.

Proceedings commenced in the Supreme Court of Western Australia in the matter of *The Commonwealth of Australia v Temwood Holdings & Ors* continued in 2002-03. In these proceedings the Australian Government sought to be released from any undertaking in relation to the use of documents provided to the Australian Government that relate to the first respondent. Orders were made on 25 June 2003 releasing the Australian Government from the undertaking.

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 2002-03.

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 Freedom of Information Act. The Treasury agreed to provide access in full to the information prior to the matter coming on before the Tribunal.

An application was made to the AAT in 2002 for a review of a decision by the department to refuse to waive or remit charges relating to an Freedom of Information application. The application was withdrawn in January 2003.

Management of human resources

Treasury devotes considerable energy to examining and improving the integration and alignment of its people management systems with its business and management systems. Treasury's people management systems include the Treasury Management Model, the Performance Management System and the Career Development System. Treasury's people management systems were implemented in 1999 and since then, its review and refinement have continued. They are now well embedded in Treasury culture.

In 2002-03, working groups comprising senior managers and human resource staff reviewed and refined recruitment processes, and developed a professional training and development framework to ensure that Treasury has the capabilities needed to deliver its outputs. Capability frameworks underpinning the Performance Management and Career Development Systems provide the basis for Treasury recruitment, development and retention strategies, and align with the organisation's core business.

Staff surveys, exit interview data, focus groups and context setting meetings of senior executive and divisional staff before each appraisal round provide feedback on Treasury's people management systems. The feedback indicates staff have embraced a performance culture, and a high percentage of staff agree that the people management system, including the Performance Management System, improves the performance of Treasury staff.

Performance management

The Performance Management System is based on a biannual performance management cycle. Since September 2002, the Performance Management System has provided the performance appraisal outcomes to remuneration committees to determine the salary levels for APS6, EL1 and EL2 staff under Australian Workplace Agreements.

Before each appraisal round, the Secretary and senior executive service staff attend a context setting meeting. The meetings ensure a consistent approach to the appraisal process, set the broad context for appraisals and provide the opportunity to discuss relevant issues. The outcomes are disseminated to staff. Additional context setting meetings at the divisional and unit level enhance consistency and assist staff managing appraisals.

Ongoing training ensures employees are prepared for appraisals. This includes briefing sessions for new starters and new managers before each performance appraisal round and Giving and Receiving Feedback workshops for managers and staff to develop skills related to performance appraisals.

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

- the application of capability frameworks that set the standards expected of staff at each classification level and define the assessment criteria for measuring performance;
- 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 staff 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; 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 performance management processes. Treasury undertakes regular, comprehensive reviews of the objectives, processes and outcomes, and staff can provide feedback on all aspects of the appraisal process through the consultative processes, including meetings with the Workplace Relations Committee.

The system is reviewed regularly, to ensure that it keeps pace with developments in human resource management, and draws on staff experiences and feedback. Recent refinements to the system include redefined role accountabilities and better articulated organisational management principles.

Treasury Certified Agreement

The Treasury Certified Agreement 2002-04 was certified by the Australian Industrial Relations Committee on 10 September 2002; the Agreement is Treasury's third since 1998, and has a nominal expiry date of 3 September 2004.

The Agreement was the result of an intensive process of consultation and negotiation between Treasury management and employees, who were represented by the staff-elected Workplace Relations Committee. That process included several presentations to employees and surveys by management and the Workplace Relations Committee, followed by a formal offer by the Secretary. All eligible employees were asked to indicate their acceptance of the offer

through a postal ballot. Over 80 per cent of staff who responded accepted the offer.

The Certified Agreement included a 6 per cent pay increase in each of the two years for all non-SES employees over the life of the Agreement. Other features relate to increased options for leave and attendance, allowing staff more flexibility in planning their personal commitments. The Agreement also reinforces Treasury's commitment to staff through initiatives that foster staff and career development and a healthy work environment.

The Agreement also strengthened a number of management commitments relating to evaluation of performance. Prominent amongst those are corporate planning, resource allocation and hours of work.

Shortly after the Agreement was certified, Treasury introduced a program of Australian Workplace Agreements (AWAs) for employees classified at APS6, EL1 and EL2. The AWAs call on the terms of the Certified Agreement in determining conditions of service, and also allow access to a performance based pay model that has salary levels above those available under the Certified Agreement.

Workplace relations

The Treasury continues to consult extensively with employees on matters in the workplace. The Certified Agreement reinforces the commitment to involve employees in decision making. The primary conduit for consultation is the Workplace Relations Committee. The Certified Agreement provides for eight employees to be elected to the Workplace Relations Committee (two more than under the previous Agreement). The Community and Public Sector Union is invited to participate on the Workplace Relations Committee. The Workplace Relations Committee regularly meets with the Secretary to discuss a wide range of employment-related matters.

The Certified Agreement provides for direct consultation with employees as appropriate. As part of an enhancement of employees' rights of review and dispute resolution, the Certified Agreement provides for the appointment of Staff Advisers, whose role is to assist employees in any issues relating to such matters as performance appraisal, remuneration, AWAs or relations with managers.

Recruitment and succession planning

Graduate recruitment forms a major part of Treasury's recruitment and succession planning strategy. The Treasury's graduate recruitment strategy includes attending university career fairs and economic society information

sessions, disseminating *Graduate Careers in the Treasury* brochures to university careers centres and faculties, placing graduate recruitment information on university intranets, making presentations to final year students and advertising in all major national and state newspapers. A graduate careers section on Treasury's website provides information on graduate recruitment, including information on the role and expectations of Treasury graduates. Treasury continues to be an attractive employer of graduates and the retention rate is high, at around 65 per cent after five years. The graduate intake in 2002 was 45 graduates and in 2003 was 61 graduates.

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 website provides information on employment opportunities and invites those interested in employment with Treasury to lodge an expression of interest.

In 2002-03, Treasury reviewed recruitment, including bulk-round selection processes and outcomes. The review confirmed improvements in standardising selection approaches and the value of using bulk rounds as a major source of attracting talent to Treasury. Review recommendations included using the flexibility of bulk-round selection process to target specialist skills, and to enhance links between recruitment and other management systems such as the Performance Management System and promotion referee scales, mentoring and career management.

A request for proposal was conducted for an e-recruitment system to offer online lodgement of applications and recruitment management facilities. The system, when implemented, will administer annual graduate campaigns, bi-annual bulk round recruitment, job specific recruitment exercises and Treasury's non-ongoing employment registers.

Training and development

The 2002-04 Certified Agreement reinforced Treasury's commitment to staff development including development of a professional training and development framework. The framework aims to develop and sustain the capabilities needed to fulfil Treasury's mission, and builds on the Australian Public Service Leadership Capability Framework, development needs identified in performance appraisals and career development discussions, and priorities identified in corporate planning processes.

One of the key initiatives in the framework is the introduction of tertiary level semester courses in Economics for Policy Analysts and Law for Policy Analysts to complement the tertiary studies of policy analysts within the department.

From an organisational perspective, Treasury's Performance Management and Career Development Systems continue to shape learning and development strategies by informing internally offered training and development programs. Treasury's Training Plan maps activities offered against the Work Value Matrix (performance management criteria) to ensure appropriate coverage across all criteria and staff levels. All learning activities are tailored to Treasury business needs and include development in the areas of leadership and management, Treasury-specific oral and written communication, information technology, performance management, policy advising and other technical skills, as well as induction for new staff.

With the Treasury restructure in July 2002 and the transfer of the tax law design function from the Australian Taxation Office, a key training focus has been orientation workshops and development activities in taxation and legislation.

The popular Treasury Seminar Series continued, with prominent guest speakers giving presentations on current economic issues and research.

Treasury also developed a comprehensive Executive Level Development Program for EL2s and EL1s to be delivered in 2003/04. This program is modular and spans six months. It provides a broad range of opportunities to build management and leadership skills in technical and non-technical areas, building on Treasury's Work Value Matrix and taking account of the Australian Public Service Commission's Senior Executive Leadership Capability Framework. The program consists of a core module on Leading and Managing and six other modules on project management, strategic thinking to operational planning, output and risk management, influencing skills, teamwork and coaching.

A program for APS 1-5 administrative staff, the Treasury Certificate in Business Services was introduced last year with around 80 staff completing the course. Formal reviews of the program were positive and participants benefited from enhanced skills and increased self-awareness and confidence.

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

Writing skills workshops are specifically tailored to Treasury business. In addition, Providing Oral Advice workshops enhance the skills of senior executives and EL2 employees. In-house workshops on presentation skills also are provided.

Information technology training programs delivered in-house included training on Microsoft, Web, TRIM, SAP and in-house developed systems. In 2002-03, the focus was on introductory training for new staff and training on core business systems.

In 2002-03, 255 new staff attended the Introduction to Treasury Computing course in their first week at Treasury. The training figures included the 2003 graduates and staff from the Australian Taxation Office following the transfer of the tax law design function to Treasury.

New training programs developed in 2002-03 included TRIM electronic records management and FMIS (SAP R/3). The progressive implementation of TRIM electronic records management commenced in May 2002 and to-date, 90 staff have received training on the new system. The training program assists in the transition from manual record-keeping to an electronic system. The SAP (R/3) upgrade was completed in March 2003 and 80 staff received training on the system.

Development needs identified at performance appraisal discussions indicate that more than 50 per cent of employees identify on-the-job development as a key method of learning, leading to coaching skills workshops for managers. Development of planning and team skills continues, with many areas conducting planning days.

Treasury revised its studies assistance policy in 2002-03. Staff can access study leave and, in some cases, receive financial assistance for tertiary study. The Studies Assistance Program was accessed widely, including by staff who transferred from the Australian Tax Office and who learn through the ATAX Program. New guidelines for postgraduate study provide study awards for up to four staff per year.

Six Treasury EL2s participated in the Career Development Assessment Centre managed by the Australian Public Service Commission. In addition, two Treasury employees will participate in the Australian and New Zealand School of Government programs in public policy, management and administration.

Treasury continues to offer exchanges to other Treasuries, including the New Zealand and Canadian Treasuries, to facilitate best practice public policy and the career development of Treasury staff.

Treasury's staff development costs totaled \$5.3 million (including participant salary and on costs) in 2002-03. This represents 5.1 per cent of departmental running costs.

Staffing information

The employment of ongoing staff increased in 2002-03, reflecting an increased graduate program and transfer of staff from the Australian Taxation Office. The number of non-ongoing staff decreased.

Table 8 represents the number of Treasury staff, by category and gender, as at 30 June 2003. Staff paid by other agencies are not included. All staff are employed under the *Public Service Act 1999*.

Table 8: Operative and paid inoperative staff by classification and gender (as at 30 June 2003)^(a)

Classification	Ongoing				Non-ongoing				Total
	Full-time		Part-time		Full-time		Part-time		
	Male	Female	Male	Female	Male	Female	Male	Female	
APS1	0	2	0	0	0	0	0	0	2
APS2	4	5	0	1	0	2	0	2	14
APS3	43	52	0	2	1	1	1	2	102
APS4	10	34	0	4	3	5	0	0	56
APS5	51	59	0	3	2	1	0	0	116
APS6	71	53	1	4	0	3	0	0	132
EL1	95	47	0	9	1	3	1	0	156
EL2	94	29	4	12	7	3	0	0	149
SEB1	34	12	1	1	0	0	0	0	48
SEB2	9	1	0	1	0	0	0	0	11
SEB3	4	0	0	0	0	0	0	0	4
Secretary	1	0	0	0	0	0	0	0	1
Total	416	294	6	37	14	18	2	4	791

(a) Includes staff located outside Canberra.

Table 9: 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 have not been included in tables.

Senior Executive Service — remuneration and performance appraisal

All remuneration and conditions for Treasury senior executives are determined under Australian Workplace Agreements. A remuneration model provides for a number of pay levels within each Senior Executive Service level, accessible on the basis of performance.

Table 10: Salary scales — SES

Classification	3 September 2001		4 September 2002	
	Maximum \$	Minimum \$	Maximum \$	Minimum \$
SES Band 1	103,518	90,015	126,188	98,278
SES Band 2	133,330	115,940	162,529	126,583
SES Band 3	173,487	150,858	211,481	164,707

Since September 2000, senior executives have been appraised using the Australian Public Service Commission's Senior Executive Capability Framework to assess performance and rank each employee relative to their peers. An increase in relative ranking can lead to an increase in base salary.

Until September 2002, senior executives were eligible for performance pay based on their appraisal rankings. Performance bonuses could be up to

15 per cent of base pay. The total amount of performance pay made to senior executives in 2002-03 was:

SES Band 1	\$149,671
SES Band 2	\$ 54,559
SES Band 3	\$ 31,309
Total	\$235,539

Performance pay in Treasury ceased on 4 September 2002. The salary rates shown in Table 10 take account of the fact that performance pay is no longer available.

At the same time, senior executive access to a private plated vehicle started to be discontinued and provisions made for a payment in lieu. Continuing leases for private plated vehicles will be retained until they expire.

Other benefits for senior executives include airline lounge membership, mobile phones and, in some cases, home office facilities. Where applicable, parking charges are paid for by the Treasury, although presently, parking in the vicinity of the Treasury Building is free.

Remuneration — employees other than SES

The Treasury Certified Agreement 2002-04 determines salary rates for all non-SES employees. See Table 11.

Table 11: Certified Agreement salary scales — non-SES

Classification	3 September 2001		4 September 2002	
	Maximum \$	Minimum \$	Maximum \$	Minimum \$
APS1	29,203	26,790	30,956	28,398
APS2	33,220	31,077	35,214	32,942
APS3	37,506	35,363	39,757	37,485
APS4	41,792	39,649	44,300	42,028
APS5	47,687	44,740	50,549	47,425
APS6	53,581	50,643	56,796	53,672
EL1	66,440	59,823	70,427	63,413
EL2	81,443	73,941	86,330	78,378

From September 2002, Treasury adopted a policy of offering Australian Workplace Agreements to all employees classified as APS6, EL1 and EL2. Under these agreements, staff have access to salary levels above those available under the certified agreement.

Salary levels under the Certified Agreement are determined on the basis of performance appraisal under Treasury's Performance Appraisal System. Salary levels under workplace agreements are determined by the Secretary on the basis of recommendations from Remuneration Committees and take account of demonstrated performance as indicated by the Performance Management System, as well as relevant skills and responsibilities of the employees.

A small number of non-SES employees were eligible to receive performance pay until, in keeping with the policy for senior executives, performance pay was discontinued from September 2002.

EL2 transfers from the Australian Taxation Office who undertook the tax legislative design function were eligible for a residual amount of performance pay, which had been a condition of employment at the Australian Taxation Office.

The total amount paid to non-SES employees in 2002-03 relating to performance pay was \$54,288.

Senior management changes

Senior management movements in 2002-03 within Treasury and the Mint are shown in Tables 12 and 13.

Table 12: SES commencements

Reason for commencement	SES Band 3	SES Band 2	SES Band 1	Total
Internal promotion	1	0	9	10
Transfer from other agencies	-	-	3	3
Machinery of Government Change	-	1	9	10
Promotion from other agencies	1	1	1	3
Return from leave	-	1	1	2
Total	2	3	23	28

Table 13: SES cessations

Reason for movement	SES Band 3	SES Band 2	SES Band 1	Total
Resignation	-	-	1	1
Retirement	-	1	-	1
Long term leave	-	-	1	1
External transfer	-	-	2	2
Temporary transfer	-	-	1	1
Total	0	1	5	6

Management of human resources — the Mint

The Mint's workload and organisational arrangements were steady throughout the year. A decrease in circulating production was offset to some extent by a healthy numismatic program.

Performance Management System

Recent changes to the Mint's Performance Management System followed from an audit review in 2002. Supervisor guidelines now bring together all the relevant information required for monitoring performance. Measures also ensure consistency of ratings across work areas, addressing concerns about fairness of the system. The system also provides employees at APS1 level greater scope to increase their skills to advance.

Royal Australian Mint Certified Agreement and APS Values

The third Royal Australian Mint Agency Agreement was in place throughout 2002-03. This agreement delivered a 3 per cent pay increase in March 2003, funded by specific productivity initiatives. Crucial to this was the Productivity Improvement Committee which facilitated and coordinated a continuous productivity improvement program.

The certified agreement commits all parties to the agreement, and encourages other parties to commit to the Mint's values which are consistent with APS values. The values are also embedded in the performance management system.

Table 14: The Mint Certified Agreement salary scales — non-SES

Classification	Maximum	From 27/3/2003
	\$	Minimum \$
Cadet		
APS1	31,901	28,862
APS2	36,221	33,172
APS3	40,749	36,221
APS4	45,022	41,408
APS5	49,953	45,022
APS6	59,188	51,469
EL1	73,740	63,960
EL2	87,890	73,740

Workplace relations

The Mint has a range of formal and informal consultative arrangements including the Mint Consultative Forum which meets regularly. It is chaired by the Controller and comprises management representatives, elected employee representatives and representatives of the Community and Public Sector Union and the Australian Manufacturing Workers Union.

The certified agreement commits to discussing workplace issues in a spirit of cooperation and trust, and to ensuring employees receive information on workplace issues that affect them including business progress and the impacts of new programs. The agreement also allows employees to contribute their views on these issues.

Recruitment and succession planning

The Mint has a stable workforce with low turnover of staff. Recruitment activity 2002-03 was limited to six new, ongoing staff.

The corporate development and training committee was tasked with identifying organisational skill gaps and formulating strategies to ensure the Mint has the organisational capacity it requires for the future.

Training

The Mint's Training and Development Program provides training to improve the skills, knowledge and attitudes of employees, to increase their competence and performance.

All employees, whether ongoing or non-ongoing, receive induction training within one week of commencement to ensure that they are familiar with the values, organisation, policies, occupational health and safety, functions and priorities of the Mint.

The Australian Institute of Management developed and delivered a training course for middle managers to further develop the skill base of supervisory staff.

Occupational health and safety training continues to be an important focus and development included representative training; Senior Level 2 First-aid; advanced resuscitation; confined space entry; fork-lift operation; and warehousing, distribution and chemical awareness training.

Training was also provided in staff selection, information technology, environmental management and strategic marketing.

The total cost of training for the Mint for 2002-03 was \$75,897 excluding salary costs.

Staffing information

After a number of years of reductions in staffing levels, the average Mint's staffing level remained almost constant at 98 for 2002-03 compared to 99 for 2001-02. Overall labour costs were reduced as the number of casual personnel reduced from 26 at 30 June 2002 to 16 at 30 June 2003. Table 15 shows the number of Mint staff, by category and gender, as at 30 June 2003. All staff are employed under the Public Service Act 1999.

Details of the Mint's Senior Executive Service remuneration and performance pay is included in the Treasury performance pay table in the Senior Executive Service remuneration and performance appraisal section of the report.

Table 15: The Mint operative and paid inoperative staff by classification and gender (as at 30 June 2003)

Classification	Ongoing				Non-ongoing				Total
	Full-time		Part-time		Full-time		Part-time		
	Male	Female	Male	Female	Male	Female	Male	Female	
Apprentice	4	0	0	0	0	0	0	0	4
APS1	0	2	0	0	0	0	0	0	2
APS2	13	14	0	0	0	0	0	0	27
APS3	17	4	0	0	1	0	0	0	22
APS4	7	5	0	0	0	0	0	0	12
APS5	4	0	0	0	0	0	0	0	4
APS6	14	1	0	0	0	0	0	0	15
EL1	8	1	0	0	0	0	0	0	9
EL2	2	1	0	0	0	0	0	0	3
SEB1	0	0	0	0	0	0	0	0	0
SEB2	0	1	0	0	0	0	0	0	1
SEB3	0	0	0	0	0	0	0	0	0
Total	69	29	0	0	1	0	0	0	99

Purchasing and assets management

Purchasing

Treasury and the Mint have developed internal policies and procedures for purchasing goods and services. These are consistent with the Treasury Chief Executive Instructions and 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 Australian National Audit Office better practice reports are readily available. The guidelines also are summarised on Treasury's Intranet.

The intranet site is updated regularly to incorporate contemporary procurement practice such as the better practice principles outlined in ANAO reports, *Engagement of Consultants, Senate Order of June 2002 (February 2003)*, and *The Use of Confidentiality Provisions in Commonwealth Contracts*. In addition, Treasury-specific training courses are conducted in-house for procurement officers.

During the year, Ernst & Young conducted an internal audit on the Mint's tendering and contracting arrangements. The report noted that although the decision making was usually correct, there was often insufficient documentation to substantiate obtaining value for money. The report also found that the Mint may not be able to enforce some contracts because of poor specifications. The Mint accepted these recommendations and is implementing improvements.

Assets management

Treasury manages both current and non-current assets in accordance with guidelines set out in the Department's Chief Executive Instructions and Australian Accounting Standards.

Treasury non-current assets are subject to an annual stocktake to ensure the accuracy of asset records. Revaluations undertaken up to 30 June 2002 were performed on a deprival basis; all revaluations from this date are conducted using the fair value method of valuation. This change in accounting policy is required by the Australian Accounting Standard AASB 1041 Revaluation of Non-Current Assets.

The Mint manages four types of fixed asset classes; plant and equipment, intangibles, master tooling and the National Coin Collection. The total value of these assets is \$8.634 million. The Mint manages these assets in accordance with the guidelines set out in the Chief Executive Instructions. Plant and equipment and intangibles were subject to a stocktake this financial year to ensure the accuracy of the asset records.

A valuation of the National Coin Collection this financial year was performed by Edlins and master tooling was valued by International Valuation Consultants. Plant and equipment was valued in 2001-02 by the Australian Valuation Office using the deprival method of valuation.

Consultancies

Consistent with the Chief Executive Instructions and the Commonwealth Procurement Guidelines, Treasury and the Mint engage 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;
- support for other Australian Government policies.

Consultants typically are 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 Treasury and the Mint manage their decision-making. In 2002-03 the most frequent reasons for engagement of consultancy services were:

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

The selection methods used for consultancies are categorised in column five of Table 17.

During 2002-03, Treasury and the Mint engaged 121 consultancies in total valued at \$7,525,527. There were 87 consultancies over \$10,000 valued at \$7,376,379 and 34 consultancies under \$10,000 valued at \$149,148.

Table 16: Total number and value of consultancies in 2002-03 by output group(a)

Output Group		Consultancies number	Cost \$
1.1	Macroeconomic	4	207,146
2.1	Fiscal	1	2,475
2.2	Revenue	12	361,578
3.1	Markets	29	4,156,620
	Corporate Services Division	45	2,016,923
	Royal Australian Mint	30	780,785
Total		121	7,525,527

(a) Table 16 shows the total value of consultancies for 2002-03. This table does not correspond with Table 17 which shows the total value of consultancies over \$10,000.

Table 17: List of consultancies over \$10,000 in 2002-03 by output group

Consultant	Project	Cost \$	Reason	Procurement Method
Output Group 1.1 (Macroeconomic)				
Australian National University	Provide research assistance on electronic finance in the APEC region	50,000	(c), (d)	Direct engagement
Brouwer, Dr Gordon	Provide specialist economic advice on East Asia	40,000	(e)	Select
Dungey, Dr Mardi	Provide econometrics training for Domestic Economy Division	40,146	(e)	Select
SMS Management and Technology	Provide information management requirements analysis for Macroeconomic Group	77,000	(c), (e)	Select
Total Output Group 1.1		207,146		
Output Group 2.1 (Revenue)				
Brodie, John	Provide assistance in the preparation of the Board of Taxation's Report on the Review of International Taxation Arrangements (variation)	59,528	(c)	Select
Butt, Peter	Undertake a plain English/ consistency of style review of the Board of Taxation's Report on the Review of International Taxation Arrangements	17,900	(e)	Select
Shaddick & Spence Chartered Accountants	Provide assistance to the Board of Taxation in analysing option 3.4 of the Treasury Consultation Paper on the Review of International Taxation Arrangements	13,750	(e)	Select
The Allen Consulting Group Pty Ltd	Assist in preparing Chapter 1 of the Board of Taxation's Report on the Review of International Taxation Arrangements	87,040	(e)	Select
Taxing Times Australia	Provide advice and training on revenue issues for the Revenue Group	13,702	(e)	Direct engagement

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Output Group 2.1 (Revenue)(continued)				
Vann, Richard	Provide an assessment for the board of taxation of the Treasury consultation Paper on the Review of International Taxation Arrangements	47,648	(c), (e)	Direct engagement
Wood, Richard	Provide material and advice on taxing financial arrangements and associated issues	33,220	(e)	Select
Wood, Richard	Provide material and advice on taxing financial arrangements and associated issues	32,169	(e)	Select
Wood, Richard	Provide material and advice on taxing financial arrangements and associated issues	28,776	(e)	Select
Workplace Research Associates Pty Ltd	Undertake training needs analysis	22,095	(e)	Select
Total Output Group 2.1		355,828		
Output Group 3.1 (Markets)				
Abbott Tout Solicitors	Provide legal advice in relation to the HIH Royal Commission	1,218,924	(a),(b),(c), (e)	Select
Advance Consulting	Update overview of Venture Capital Industry	30,000	(e)	Direct engagement
Announce TV	Provide web casting services	11,359	(e)	Select
Aspect Financial Pty Ltd	Supply feed of raw financial data-annual subscription	13,200	(a), (b), (e)	Direct engagement
Austrade	Provide services for the Education Mission to China	57,040	(e)	Direct engagement
Australian National University	Review future financial arrangements in East Asia	165,000	(e)	Direct engagement
Clayton Utz	Provide drafting assistance on regulations under the Financial Service Reform Act	115,659	(a)	Select

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Output Group 3.1 (Markets) (continued)				
Clayton Utz	Provide services for HIH Support	145,604	(a)	Direct engagement
Clayton Utz	Provide legal advice on regulations under the Terrorism Insurance Bill 2002 and use of contracts by Australian Reinsurance Pool Corporation	93,692	(e)	Direct engagement
Curriculum Corporation	Develop a research report for Consumer Education in schools	47,290	(c), (e)	Select
CV Mail	Design and develop the Finance Scholars.com education portal	196,900	(e)	Select
Deloitte Touche Tohmatsu	Complete a strategic and actuarial review of the HIH Support Scheme	390,000	(b), (e)	Direct engagement
Glassfish Design	Provide graphic design services for Axis publications, web content and presentations	30,000	(e)	Select
Grey Interactive	Maintain the Product Recalls Australia website	27,539	(a), (b), (e)	Direct engagement
Griffin Interlink Pty Ltd	Communicate effectively information regarding the Terrorism Insurance Scheme to stakeholders	10,000	(e)	Direct engagement
Hosking, Leslie	Act as CEO of Axis	300,000	(e)	Direct engagement
Intermarket Communications	Provide public relations and marketing services in the USA (formally Trimedia)	241,486	(e)	Select
KPMG Australia	Complete risk assessment of the Australian Government's Medical Indemnity Insurance initiatives	103,015	(e)	Direct engagement

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Output Group 3.1 (Markets) (continued)				
KPMG Australia	Review seigniorage and Reserve Bank of Australia's coin forecasting and ordering arrangements	15,785	(e)	Direct engagement
PricewaterhouseCoopers Actuarial Pty Ltd	Complete actuarial assessment of report on review of Law of Negligence	110,000	(e)	Direct engagement
Scott, Stephen William	Provide strategic information technology advice and support	135,000	(e)	Direct engagement
Scott, Stephen William	Provide strategic information technology advice and support to Axiss	147,632	(e)	Select
The Partners of Prentice Parbery Barilla Chartered Accountants	Provide professional advice and assistance on issues in relation to UMP/ AMIL	26,992	(e)	Direct engagement
Tillinghast-Towers Perrin	Provide actuarial advice on medical indemnity insurance issues	226,928	(e)	Direct engagement
True North Consulting	Redevelop consumers online website	89,775	(e)	Select
TSA Consulting Group	Develop Consumer PING Software agent	22,627	(b)	Select
University of New South Wales	Provide services in relation to the APEC Future Leaders Think Tank	55,000	(e)	Direct engagement
Whittaker, Donna	Act as Liaison Officer for Axiss in New York	90,173	(e)	Direct engagement
Walter and Turnbull	Provide services for the management review of the HLIC Old Book by GE Mortgage Insurance Services	40,000	(c), (e)	Select
Total Output Group 3.1		4,156,620		

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Corporate Services				
Acumen Alliance	Provide financial analysis and modelling services	19,217	(b)	Select
Acumen Alliance	Provide services to develop the consumer online website	12,095	(b), (c)	Direct engagement
Acumen Business Solutions	Provide project management and support services for SAP R/3	52,924	(e)	Select
AlphaWest Pty Ltd	Provide services for the TRIM Records Management System upgrade	104,000	(e)	Direct engagement
Aurion Corporation	Provide support services and deliver training on the Performance Appraisal modules	27,054	(e)	Direct engagement
Australian Valuation Office	Complete stocktake and valuation of Treasury leasehold and library collection for 2001-02	30,250	(e)	Direct engagement
Carlton Consulting	Conduct presentation skills workshop	13,860	(e)	Select
Cycopic Pty Ltd	Develop and deliver information technology training services	10,000	(e)	Select
Datavoice	Provide facilities management and telephonist services	153,115	(d)	Select
Davidson Trahaire	Deliver the Employee Assistance Program	26,477	(e)	Select
DeakinKM Pty Ltd	Develop and deliver user documentation and training on SAP Version 4.6C	90,858	(e)	Select
DeakinKM Pty Ltd	Develop and deliver user documentation on TRIM electronic records training	10,000	(c), (e)	Select

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Corporate Services (continued)				
DeakinKM Pty Ltd	Develop template and e-learning modules using Knowledge Presenter	10,208	(a), (e)	Direct engagement
Decadec Pty Ltd	Provide technical support services for SAP financial management software	10,000	(e)	Direct engagement
Deloitte Touche Tohmatsu	Provide Internal Audit services	200,000	(e)	Select
Deloitte Touche Tohmatsu Consulting	Provide support for SAP Version 3.1H	91,662	(e)	Select
Excelerated Consulting Pty Ltd	Maintain Treasury's budgeting and reporting system, iTM1	39,677	(e)	Direct engagement
Mastec Asia-Pacific	Provide specialised technical services for the Treasury Intranet/Internet	120,253	(a)	Direct engagement
Outram Associates	Develop and deliver advanced writing courses	16,830	(e)	Direct engagement
Rengain Pty Ltd	Provide database administration and support for SAP, TRIM and Aurion	66,000	(a), (b)	Other
Results Consulting	Provide a professional development program for APS 1-4	22,000	(e)	Select
SMS Management and Technology	Complete a requirement analysis for Security Breaches and Security Clearances databases	14,300	(a), (b)	Select
SMS Management and Technology	Prepare Business Continuity Plans for departmental applications	16,500	(a), (b), (c)	Select
SMS Management and Technology	Prepare the IT Disaster Recovery Plan	90,000	(b), (c), (e)	Select
Southern Cross Computing	Provide specialist technical assistance on the SAP Version 4.6C upgrade	102,569	(e)	Select

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Corporate Services (continued)				
The Empower Group	Review role of the Executive Board and management accountabilities for EL2 and SES staff	162,000	(a), (b), (c), (d) (e)	Select
Mr Tony Ayers AC	Act as external representative on Treasury's Audit Committee	24,000	(c)	Select
University of Canberra	Deliver accounting for non-accountants training	11,830	(e)	Direct engagement
Upton Martin Consulting	Deliver performance management training	15,913	(e)	Direct engagement
Upton Martin Consulting	Deliver EL development program	42,872	(d), (e)	Select
Walter and Turnbull	Provide specialised technical financial services	116,886	(a),(e)	Select
Walter and Turnbull	Provide quality assurance analysis for financial statements	140,979	(a),(e)	Select
Walter and Turnbull	Provide interim chief financial officer	77,000	(c), (e)	Select
Total Corporate Services		1,941,329		
Royal Australian Mint				
Ants Pants Graphic Design Pty Ltd	Provide specialist graphic services on 2004 products	23,395	(a), (c)	Direct engagement
Australian Government Solicitor	Provide legal advice on coin related issues	66,448	(c), (e)	Direct engagement
Attorney General's Department	Provide currency determinations	14,561		Direct engagement
CSIRO Manufacturing Science	Provide research and development on new hologram coin technology	60,650	(a), (c), (e)	Direct engagement

continued

Table 17: List of consultancies over \$10,000 in 2002-03 by output group (continued)

Consultant	Project	Cost \$	Reason	Procurement Method
Royal Australian Mint (continued)				
Ernst & Young	Provide internal audit	124,732	(e)	Direct engagement
Ecolab Pty Ltd	Complete testing of air conditioning units	15,173	(e)	Select
GEAC Australia Pty Ltd	Maintain the Mint's FMIS System	171,124	(a)	Select
Infront Systems Pty Ltd	Provide specialist IT support	88,308	(e)	Direct engagement
Mindseye Photographics	Provide specialist photography work	58,294	(e)	Direct engagement
National Safety Council Australia	Provide five star safety audit	19,363	(c)	Direct engagement
Virtuoso Media	Provide specialised technical service for the Mint Internet	40,795	(b), (e)	Direct engagement
Zoo Communications Pty Ltd	Provide specialist promotion services and advice	32,613	(e)	Direct engagement
Total Royal Australian Mint		715,456		
Total consultancies over \$10,000		7,376,379		

(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 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.

ii Select tenders are invited from a short list of competent suppliers. This category is applied where there is a known limited market for the services required, and when value for money would not be achieved through a full open tender process.

iii 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.

Workplace diversity

Treasury endeavours to foster a working environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those with differing talents, experiences and perspectives and backgrounds. The Treasury values, one of which is 'value diversity among our people', underpin Treasury's people systems. As part of the Performance Management System, all staff members are appraised twice a year against Treasury values and the behaviours expected of all staff.

Staff members have access to home based work. Two people have formally accessed this provision and both are likely to continue to work from home for part of each week over an extended period. Flexible working hours, part-time work and job sharing policies are also in place and provide employees with strategies to balance their work life with their private life. In 2002-03, 49 employees worked part time, including six non-ongoing employees compared with 34 employees who worked part time, including 11 non-ongoing employees in 2001-02.

Treasury's Carer's Room provides facilities for staff members needing to care for a family member while managing work responsibilities. This facility has been well used, especially by staff members caring for children in emergency situations and for managing breast feeding arrangements.

Treasury staff members as co-tenants of the Treasury Building have priority access to the Abacus Early Childhood Centre, an on-site childcare centre managed on behalf of the Department of Finance and Administration. There are currently 20 children of Treasury staff attending the centre.

Several people continue to maintain their role as Workplace Harassment Contact Officers and their training has been updated. Information on their role and availability to discuss issues is on the Intranet.

Treasury continues to participate in the National Indigenous Cadetship Program. Two cadets completed their university degrees in 2002 and commenced full-time work in Treasury in 2003. They joined the Graduate Development Program as part of their induction. After interviews with five applicants, three students were offered cadetships to commence in 2003 but all declined. Treasury's revised Studies Assistance Guidelines continue to include special provisions for Indigenous staff. A Treasury representative participated in a workshop managed by the Australian Public Service Commission as part of the Commission's review of Aboriginal and Torres Strait Islander employment in the Australian Public Service.

Treasury's Workplace Diversity Program was reviewed during 2002-03 and the 2003-07 program will be launched early in 2003-04.

Table 18: Operative and paid inoperative staff by EEO target group

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS1	2	0	0	0	0
APS2	10	0	0	0	0
APS3	57	23	11	2	0
APS4	43	7	5	0	1
APS5	63	26	10	1	3
APS6	60	28	12	0	3
EL1	59	24	7	1	4
EL2	44	25	12	0	3
SESB1	13	7	2	0	1
SESB2	2	1	0	0	0
SESB3	0	0	0	0	0
Total	353	141	59	4	15

Note: For categories other than gender, identification is on a voluntary basis.

Disability Action Plan

Treasury's Disability Action Plan was initially developed in consultation with staff, lodged with the Human Rights and Equal Employment Commission and made accessible to the general public through www.hreoc.gov.au. The plan has since been reviewed in line with the Australian Government Disability Strategy and the Australian Government *Disability Discrimination Act 1992* to eliminate as far as possible, discrimination on the grounds of disability.

Treasury has developed links with Employers Making a Difference, an organisation that facilitates employment for people with disabilities. Suitable vacant positions that are being advertised externally are advertised on the Employers Making a Difference website to encourage applicants with relevant skills to consider Treasury as an employer. A senior staff member provided coaching to a student with a disability through our partnership with Employers Making a Difference.

The assistance tailored to the needs of employees with special needs includes coaching, counselling and translators for hearing impaired staff.

The following charts show gender trends within Treasury over the past four financial years.

Chart 1: Number of new entrant graduates

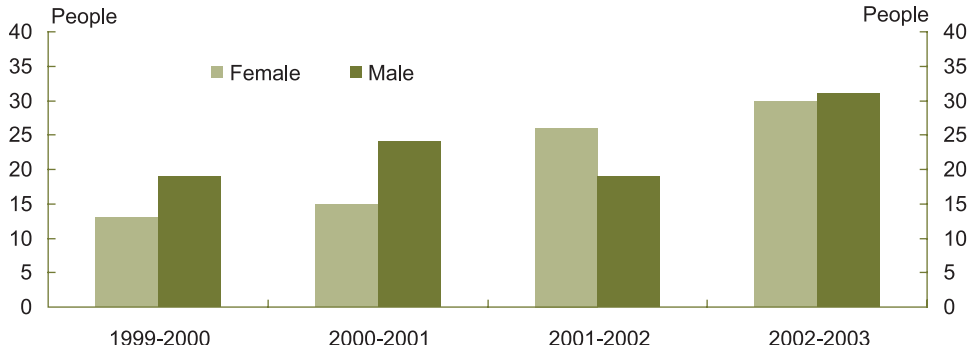


Chart 2: Number of SES staff members



Chart 3: Treasury staff levels

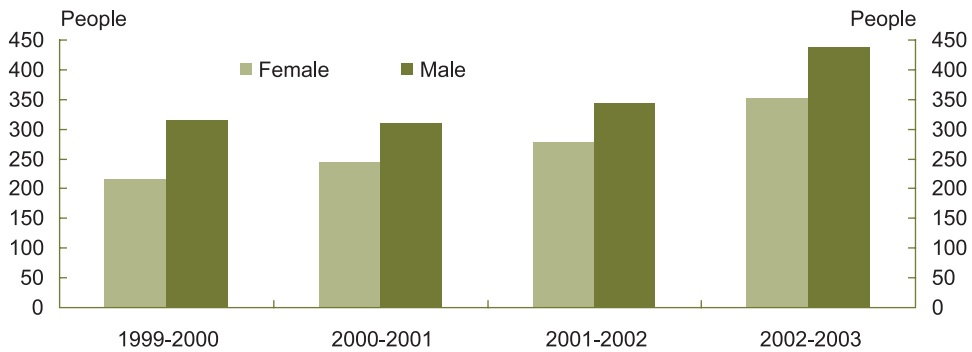


Table 19: EEO in appointments to boards (or equivalent) of statutory and non-statutory bodies (as at 30 June 2003)^(a)

	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	8	3	4	1
Australian Competition and Consumer Commission	19	3	7	2
Australian Competition Tribunal	10	2	7	1
Australian Prudential Regulation Authority ^(b)	9	2	3	0
Australian Securities and Investments Commission	3	1	1	0
Australian Statistics Advisory Council	19	6	1	1
AXISS Australia	11	5	0	0
Board of Taxation	9	2	6	1
Business Regulation Advisory Group	9	5	8	4
Commonwealth Consumer Advisory Council	9	5	0	0
Companies Auditors & Liquidators Disciplinary Board	6	0	2	0
Corporations and Markets Advisory Committee	14	7	8	4
E-Commerce Expert Group	11	2	0	0
Financial Reporting Council	16	3	14	3
Financial Sector Advisory Council	8	1	10	1
Foreign Investment Review Board	3	1	0	0
HIH Assistance Review Panel	3	2	0	0
Legal Committee of the Corporations and Markets Advisory Committee	13	6	3	1
Life Insurance & Actuarial Standards Board	7	0	0	0
National Competition Council	5	1	0	0
Payments System Board	7	1	0	0
Productivity Commission	13	3	6	1
Reserve Bank of Australia Board	9	1	4	1
Superannuation Complaints Tribunal	18	10	15	9
Takeovers Panel	42	19	4	0
Tax Agents' Boards	18	2	3	1
Total	299	93	106	31

(a) In this table, the only EEO target group notified was women.

(b) In June 2003, the APRA Act was amended to change APRA's governance arrangements with effect from 1 July 2003. Accordingly, on 1 July 2003 three full time members replaced the nine member board of APRA. The appointment of the new members was announced on 27 June 2003. During the 2002-03 financial year no new appointments were made to the previous board.

Workplace diversity — the Mint

The Mint respects and values the contributions of all employees in a workforce that is, and always has been, culturally diverse.

A key challenge for the Mint was to meet business demands with no growth in staffing levels. The Mint met those challenges through workplace planning, job rotation and provision of opportunities so all employees could learn new skills for advancement on an equal opportunity basis. Helping employees to meet work and family commitments outside the workplace was a challenge, especially for those with ageing parents, but this was achieved through measures already in place in the Agency Agreement.

One apprentice was recruited as part of Mint's commitment to train young trade people.

Table 20: The Mint operative and paid inoperative staff by EEO target group

Classification	Female	Born Overseas	ESL	AATSI	Disability
Apprentice	0	1	0	0	0
APS1	2	2	2	0	0
APS2	14	25	24	0	1
APS3	4	7	6	0	1
APS4	5	8	3	0	0
APS5	0	3	3	0	0
APS6	1	4	3	0	0
EL1	1	6	4	0	0
EL2	1	2	1	0	0
SESB1	0	0	0	0	0
SESB2	1	1	0	0	0
SESB3	0	0	0	0	0
Total	29	59	46	0	2

04

Part 4

04



Financial Statements

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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 2003. The financial statements comprise:

- Statement by the Secretary and the Chief Finance Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments;
- Schedule of Administered Items; 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, other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view of the Department of the Treasury which is consistent with my understanding of its financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

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 2003, and its financial performance and cash flows for the year then ended.

Inherent Uncertainty regarding the liability for the HIH Claims Support Scheme

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1.29 to the financial statements, the Department of the Treasury has recorded an estimate of \$457.83 million in relation to the Commonwealth's liability for the HIH Claims Support Scheme. This estimate is based on an independent actuarial assessment. As explained in the notes, there is inherent uncertainty regarding this estimate of the Commonwealth liability and the Commonwealth will continue to assess this amount in future years.

The issue regarding the HIH Claims Support Scheme liability resulted in a similar emphasis of matter in the prior year.

Other Statutory Matters

The Department of the Treasury has breached section 48 of the *Financial Management and Accountability Act 1997* as detailed in Note 30D of the financial statements.

Australian National Audit Office


P.G. Barrett
Auditor-General

Canberra
10 September 2003

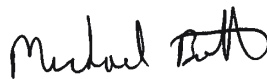
Department of the Treasury
statement by the Departmental Secretary

Certification of financial statements

In my opinion, the attached financial statements for the year ended 30 June 2003 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
8 September 2003



Michael Bott
Chief Finance Officer
8 September 2003

Department of the Treasury statement of financial performance

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
Revenues from ordinary activities			
Revenues from government	3A	104,813	87,687
Sales of goods and services	3B	43,621	67,696
Interest	3C	1,058	1,495
Revenue from sale of assets	3D	130	52
Reversals of previous asset write-downs	3E	-	-
Other	3E	1,671	399
Revenues from ordinary activities		151,293	157,329
Expenses from ordinary activities (excluding borrowing costs expense)			
Employees	4A	75,205	51,726
Suppliers	4B	66,075	87,180
Depreciation and amortisation	4C	5,172	3,968
Write-down of assets	4D	55	2,191
Value of assets sold	3D	289	44
Expenses from ordinary activities (excluding borrowing costs expense)		146,796	145,109
Borrowing costs expense	5	196	749
Net surplus from ordinary activities before income tax		4,301	11,471
Income tax expense equivalent		(569)	(603)
Net surplus		3,732	10,868
Net credit/(debit) to asset revaluation reserve	12	1,864	(96)
Decrease in accumulated results on initial application of fair value under accounting standard AASB 1041 <i>Revaluation of non-current assets</i>	12	-	-
Total revenues, expenses and valuation adjustments attributable to the Australian Government and recognised directly in equity		1,864	(96)
Total changes in equity other than those resulting from transactions with owners as owners		5,596	10,772

The above statement should be read in conjunction with the accompanying notes.

Department of the Treasury statement of financial position

as at 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
ASSETS			
Financial assets			
Cash	7A	9,211	10,432
Receivables	7B	15,025	2,310
Other investments	7C	-	8,000
Total financial assets		24,236	20,742
Non-financial assets			
Land and buildings	8A,D,E	7,866	7,180
Infrastructure, plant and equipment	8B,D	12,537	10,037
Inventories	8F	15,418	17,222
Intangibles	8C,D	2,157	2,436
Other	8G	8,101	6,852
Total non-financial assets		46,079	43,727
Total assets		70,315	64,469
LIABILITIES			
Interest bearing liabilities			
Loans	9A	-	-
Leases	9A	3,276	736
Other	9C	-	-
Total interest bearing liabilities		3,276	736
Provisions			
Capital use charge	10A	-	1,281
Other	10B	1,562	-
Employees	10C	24,514	17,020
Total provisions		26,076	18,301
Payables			
Suppliers	11A	3,907	5,655
Other	11B	3,503	5,723
Total payables		7,410	11,378
Total liabilities		36,762	30,415
NET ASSETS		33,553	34,054
EQUITY			
Asset revaluation reserve	12	5,482	3,618
Contributed equity	12	4,076	4,076
Retained surpluses	12	23,995	26,360
Total equity		33,553	34,054
Current liabilities		21,673	20,689
Non-current liabilities		15,089	9,726
Current assets		42,359	44,816
Non-current assets		27,956	19,653

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 2003

	Notes	2002-03 \$'000	2001-02 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		27,976	72,250
Appropriations		104,461	87,409
Face value - circulating coin		96,773	-
Interest		1,009	1,421
GST received from ATO		3,819	2,665
Other		1,671	-
Total cash received		235,709	163,745
Cash used			
Employees		68,109	51,143
Suppliers		69,568	98,985
Seigniorage - circulating coins		80,242	-
Borrowing costs		196	749
GST paid to ATO		1,197	-
Cash to OPA		12,000	-
Other		569	-
Total cash used		231,881	150,877
Net cash from operating activities	13	3,828	12,868
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		129	42
Proceeds from sale of financial instruments		8,000	5,000
Other		-	620
Total cash received		8,129	5,662
Cash used			
Purchase of property, plant and equipment		5,798	3,489
Purchase of financial instruments		-	-
Purchase of intangibles		-	-
Other		-	-
Total cash used		5,798	3,489
Net cash from investing activities		2,331	2,173
FINANCING ACTIVITIES			
Cash received			
Transfer from trust fund		-	-
Other		-	3,303
Total cash received		-	3,303
Cash used			
Repayment of leases		-	133
Repayment of debt		-	10,762
Dividends paid		1,145	-
Capital use charge paid		6,235	1,681
Trust fund surplus transferred		-	159
Total cash used		7,380	12,735
Net cash used by financing activities		(7,380)	(9,432)
Net increase/(decrease) in cash held		(1,221)	5,609
Cash at beginning of the reporting period		10,432	4,823
Cash at the end of the reporting period	7A	9,211	10,432

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments

as at 30 June 2003

	2002-03 \$'000	2001-02 \$'000
BY TYPE		
CAPITAL COMMITMENTS		
Infrastructure, plant and equipment ¹	-	36
Total capital commitments	-	36
OTHER COMMITMENTS		
Operating leases ²	107,938	105,877
Other commitments ³	5,783	8,932
Total other commitments	113,721	114,809
COMMITMENTS RECEIVABLE		
GST receivable	(10,338)	(8,446)
Net commitments	103,383	106,399
BY MATURITY		
Other commitments		
One year or less	4,958	6,796
From one to five years	372	1,843
Over five years	-	-
Operating lease commitments		
One year or less	11,319	8,162
From one to five years	36,777	35,710
Over five years	49,955	53,888
Net commitments by maturity	103,382	106,399

Note: Commitments are GST inclusive where relevant.

- Plant and equipment commitments are primarily contracts for purchases of furniture and fittings for new building.
- Operating leases included are effectively non-cancellable and comprise of :

Nature of lease	General description of leasing arrangement
Leases for accommodation	<p>Commercial — leases comprise various periods, including both initial and options periods.</p> <ul style="list-style-type: none"> ■ Overseas estate — commercial lease payments are adjusted annually by 2 per cent and residential lease payments are reviewed biannually 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 biannually to reflect market movements.
Agreements for the provision of motor vehicles to Senior Executive Officers	<ul style="list-style-type: none"> ■ No contingent rentals exists. ■ No renewal or purchase options are available to the department.
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.

- Other commitments includes commitments for contracted staff, electricity costs for the Treasury building, car lease expenses, and other miscellaneous commitments.

The above schedules should be read in conjunction with the accompanying notes.

Schedule of contingencies

as at 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
CONTINGENT LIABILITIES		
Claims for damages/costs ^a	400	400
CONTINGENT ASSETS		
Total contingent gains^b	7	80
Net contingent liabilities	393	320

(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.

Schedule of unquantifiable contingencies

As at 30 June 2003, 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.

Department of the Treasury schedule of administered items

for the year ended 30 June 2003

		2002-03	2001-02
	Notes	\$'000	\$'000
Revenues administered on behalf of government			
for the year ended 30 June 2003			
Non-taxation revenue			
Interest	21	12,523	13,679
Dividends	21	1,889,226	2,833,702
Goods and services	21	562,955	516,133
Other	21	147,586	244,929
Total revenues administered on behalf of government		2,612,290	3,608,443
Expenses administered on behalf of government			
for the year ended 30 June 2003			
Grants	22	32,458,438	31,968,403
Net foreign exchange losses	22	413,172	9,417
Other	22	277,138	541,069
Total expenses administered on behalf of government		33,148,748	32,518,889

		2002-03	2001-02
	Notes	\$'000	\$'000
Assets Administered on behalf of government			
as at 30 June 2003			
Financial assets			
Cash	23	5,665	8,041
Receivables	23	240,430	336,170
Loans	23	142,906	192,152
Investments	23	15,553,850	16,314,239
Non-financial assets	23	546,159	2,129
Total assets administered on behalf of government		16,489,010	16,852,731
Liabilities administered on behalf of government			
as at 30 June 2003			
Payables			
Loans	24	4,110,576	4,941,937
Grants and subsidies	24	15,183	17,689
Suppliers	24	-	4,237
Other provisions and payables	24	1,484,496	2,147,692
Total liabilities administered on behalf of government		5,610,255	7,111,555
Net assets administered on behalf of government	25	10,878,755	9,741,176

This schedule should be read in conjunction with the accompanying notes.

Administered cash flows

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
OPERATING ACTIVITIES			
Cash received			
GST administration fees		562,955	516,133
Interest received		25,659	13,769
IMF remuneration		51,810	55,739
Dividends		1,889,226	2,833,702
Cash from Official Public Account:			
- Appropriations		34,025,272	32,459,855
- Special Accounts		-	-
- Other	25	-	-
GST refunds received from ATO		996	1,228
Other		85,292	133,817
Total cash received		36,641,210	36,014,243
Cash used			
Borrowing costs		21,263	31,818
GST paid to ATO		-	-
Grants		33,005,817	31,968,718
Subsidies		-	-
Cash to Official Public Account:			
- Appropriations		-	-
- Special Accounts		-	-
- Other		2,972,773	3,548,922
Other		181,442	117,587
Total cash used		36,181,295	35,667,045
Net cash from operating activities		459,915	347,198
INVESTING ACTIVITIES			
Cash received			
IMF		307,611	-
Investments - redemption/maturity		-	-
Other		49,246	-
Total cash received		356,857	-
Cash used			
Loans		-	340,261
Settlement of IMF obligations		814,492	-
Investments - deposits made		-	-
Purchase of property, plant and equipment		-	106
Other		4,656	2,500
Total cash used		819,148	342,867
Net cash used by investing activities		(462,291)	(342,867)
FINANCING ACTIVITIES			
Cash received			
Cash from Official Public Account		-	-
GST Appropriations		-	2,339
Other financing		-	-
Total cash received		-	2,339
Cash used			
Repayment of borrowings		-	-
Return of GST appropriations to Official Public Account		-	1,228
Total cash used		-	1,228
Net cash from financing activities		-	1,111
Net increase/(decrease) in cash held		(2,376)	5,442
Cash at the beginning of the reporting period		8,041	2,599
Cash at the end of the reporting period	23	5,665	8,041

Administered commitments

as at 30 June 2003

	2002-03 \$'000	2001-02 \$'000
BY TYPE		
CAPITAL COMMITMENTS		
Total capital commitments	-	-
OTHER COMMITMENTS		
Total other commitments	-	-
COMMITMENTS RECEIVABLE		
Net commitments	-	-
BY MATURITY		
All net commitments		
Net commitments	-	-

Note: All 2002-03 commitments are GST inclusive where relevant.
This schedule should be read in conjunction with the accompanying notes.

Administered contingencies

as at 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Administered contingent liabilities		
Guarantees to public trading enterprises	-	-
Other guarantees ¹	8,111,660	9,563,998
Indemnities	-	29
Total contingent losses	8,111,660	9,564,027
Administered contingent assets		
Claims for damages	-	-
Net contingencies	8,111,660	9,564,027

Note: Administered remote and unquantifiable contingencies are disclosed in Note 26: Administered Contingent Liabilities and Assets.

1 Other guarantees comprise of EBRD, IBRD, MIGA and ADB uncalled shares.

Statement of activities administered on behalf of government

The major administered activities of Treasury are directed towards achieving the three outcomes described in Note 1 to the Financial Statements. Details of planned activities for the year can be found in the Treasury Portfolio Budget Statements and Portfolio Additional Estimates Statements for 2002-03, which have been tabled in Parliament.

This schedule is to be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

for the year ended 30 June 2003

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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 Department of the Treasury aims to improve the wellbeing of the Australian people. 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'.

Activities contributing toward the outcomes detailed above 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. From 1 July 2003 Outcome 2 will have two output groups.

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 (or FMOs, being the Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and,
- Consensus Views of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with 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 Statement of Financial Position when and only when it is probable that future economic benefits will flow and the 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 unquantifiable or remote contingencies, which are reported at Note 14).

Revenues 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 programs, is dependent on government policy and on continuing appropriations by Parliament for the department's administration and programs.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for Agency items, except where otherwise stated at Note 1.22.

1.3 Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2001-02, except in respect of:

- the accounting for output appropriations (refer to Note 1.4);
- recognition of equity injections (refer to Note 1.5);
- measurement of certain employee benefits at nominal amounts (refer to Note 1.6);
- the initial revaluation of property plant and equipment on a fair value basis (refer to Note 1.12);
- the imposition of an impairment test for non-current assets carried at cost (refer to Note 1.13);
- recognition of seigniorage received from the Mint in the Departmental statement of cash flows (refer note 1.19);
- recognition of Provisions, Contingent Liabilities and Contingent Assets (refer to Note 1.29); and
- recognition of the Reserve Bank of Australia (RBA) contingent liability (refer Note 1.29).

1.4 Revenues

Revenues from government

Departmental outputs appropriations for the year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

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, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

Other revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide services. 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 has passed to the buyer.

1.5 Transactions by the government as owner

Equity injections

From 1 July 2002, the Finance Minister's Orders require that amounts of appropriations designated as 'equity injections' (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in Contributed Equity as at 1 July or later date of effect of the appropriation.

This is a change of accounting policy from 2001-02 to the extent any part of an equity injection that was dependent on specific future events occurring was not recognised until the appropriation was drawn down.

The change in policy has no financial effect in 2002-03 because the full amount of the equity injections for 2001-02 were recognised in that year.

Restructuring of administrative arrangements

Net assets received from or relinquished to another Australian Government agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Capital Use Charge

A Capital Use Charge of 11 per cent (2002: 11 per cent) is imposed by the government on the departmental net assets of the department at year end. The net assets figure is adjusted to take into account of asset gifts and revaluation increments during the financial year. The Charge is accounted for as a dividend to the government.

In accordance with the recommendations of the Budget Estimates and Framework Review, the government has decided that the charge will not operate after 30 June 2003.

Other distributions to owners

The Finance Minister's Orders require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.6 Employee entitlements

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave, sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. This is a change in accounting policy from last year required by an initial application of a new Accounting Standard AASB 1028 from 1 July 2002. This change in accounting policy had an immaterial effect on employee benefits. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been 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 leave liabilities are calculated on the basis of employees' remuneration, including the department's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2003. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The department where considered necessary, will develop a detailed formal plan for the terminations and inform those employees affected that it will carry out the terminations.

Superannuation

Staff of the department are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The department makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Australian Government of the superannuation entitlements of the department's employees.

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 a reporting period does not exceed the amounts of costs incurred in that period.

1.9 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

1.10 Financial instruments

Accounting policies for financial instruments are stated at Notes 28A and 28B.

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 revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of 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 agency'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

Basis

Land, buildings, plant and equipment are carried at valuation. Revaluations undertaken up to 30 June 2002 were performed on a deprival basis; revaluations since that date are at fair value. This change in accounting policy is required by Australian Accounting Standard AASB 1041 Revaluation of Non-Current Assets.

Fair and deprival values for each class of asset are determined as shown below.

Asset Class	Fair Value Measured at:	Deprival value measured at:
Land	Market selling price	Market selling price
Buildings	Market selling price	Depreciated replacement cost
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost
Plant and equipment	Market selling price	Depreciated replacement cost
Heritage assets and artworks	Market selling price	Not applicable

The department 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 department had its heritage assets valued at 30 June 2003 by Herron, Todd and White (Canberra) Pty Ltd.

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 assets using the deprival method of valuation.

Master tooling was valued by an independent appraiser at 30 June 2003 and includes all dyes and plasters, although under the control of the Mint, not available to be sold or otherwise disposed of.

Under both deprival and fair value, assets, which are surplus to requirements, are measured at their net realisable value.

Frequency

Infrastructure, plant and equipment are revalued progressively in successive three-year cycles. All current cycles commenced on 1 July 2001 and finish on 30 June 2004.

Acquisitions subsequent to the valuation are valued at historic cost.

Conduct

All valuations are conducted by an independent qualified valuer.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the department using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2002-03	2001-02
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

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4C.

Recoverable amount test

From 1 July 2002, the Schedule 1 no longer requires the application of the recoverable amount test in Australian Accounting Standard AAS 10 Recoverable Amount of Non-Current Assets to the assets of agencies when the primary purpose of the asset is not the generation of net cash inflows.

No property, plant and equipment assets other than land now held for sale have been written down to recoverable amount per AAS 10. Accordingly, the change in policy has had no financial effect.

1.13 Inventories

The department's intangibles comprise externally acquired software and internally developed software for internal use. These assets are carried at cost.

From 1 July 2002, Schedule 1 no longer requires the application of the recoverable amount test in Australian Accounting Standard AAS 10 Recoverable Amount of Non-Current Assets to the assets of agencies when the primary purpose of the asset is not the generation of net cash inflows.

However Schedule 1 now requires such assets, if carried on the cost basis, to be assessed for indications of impairment. The carrying amount of impaired assets must be written down to the higher of its net market selling price or depreciated replacement cost. Software is amortised on a straight-line basis over its anticipated useful life.

Useful lives are:

	2002-03	2001-02
Internally developed software	2-5 years	2-5 years

1.14 Inventories

Inventories held for resale are valued at the lower of cost and 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 time of purchase.

Inventories not held for resale are valued at cost, unless they are no longer required, in which case they are valued at net realisable value.

1.15 Taxation

The department is exempt from all forms of taxation except for Fringe Benefits Tax and Goods and Services Tax. The Mint is liable for Fringe Benefits Tax and Goods and Services Tax on sales of products and via a tax equivalent payment to the Department of the Treasury for Payroll Tax and Company Income Tax. Companies Income Tax became applicable for the first time in 1998-99, as a result of the competitive neutrality arrangements.

Revenues expenses and assets are recognised net of GST, except for receivables and payables, and where the amount of GST incurred is not recoverable from the Australian Taxation Office.

1.16 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

1.17 Insurance

The department has insured for risks through the government's insurable risk managed fund, called Comcover. Workers' compensation is insured through the government's Comcare Australia.

1.18 Rounding

Amounts are rounded to the nearest \$1,000 except in relation to the following items:

- act of grace payments and waivers;
- Appropriations, special accounts and special public monies;
- remuneration of executives; and
- remuneration of auditors.

1.19 Royal Australian Mint — seigniorage and repurchase of circulating coins

Seigniorage is collected by the Mint on behalf of the Australian Government. 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 Australian Government. 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 Australian Government through a reduction in the total amount paid to the Australian Government.

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 Australian Government's Official Public Account.

Change in accounting policy reporting of seigniorage cash-flow.

From 2002-03 the departmental statement of cash-flow has recognised for the first time the inflow and outflow of costs associated with the collection of seigniorage for the Australian Government.

1.20 Investment in Sydney 2000 Olympic Coin Program

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.

1.21 Economic dependency

The Mint is economically dependent on the Reserve Bank of Australia for the purchase of circulating coin.

1.22 Reporting of administered items

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedule of Administered Items and related Notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application to the greatest extent possible of Accounting Standards, Accounting Interpretations and Urgent Issues Group Consensus Views.

Administered appropriations received or receivable from the Official Public Account are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the Official Public Account are not reported as administered expenses or payables. These transactions or balances are internal to the Administered entity.

These transfers of cash are reported as administered (operating) cash flows and in the administered reconciliation table in Note 25.

Accounting policies which are relevant to administered activities are disclosed below.

1.23 Revenue

All administered revenues are revenues relating to the core operating activities performed by the department on behalf of the Australian Government.

Reserve Bank of Australia dividend

Dividends from the Reserve Bank of Australia are recognised when a determination is made by the Treasurer. Dividend revenue is brought to account once the right to control the income stream is established. On this basis, the Reserve Bank of Australia's dividend for 2002-03 will be recognised in Treasury's Financial Statements in 2003-04.

The amount of the dividend for 2002-03 was \$2.397 billion.

Interest on Papua New Guinea loan

The interest on the outstanding principal amount is paid annually in arrears, due on 30 June every year until paid in full. The department received \$11.872 million in interest payments for 2002-03.

International Monetary Fund remuneration

Remuneration is interest paid by the International Monetary Fund to Australia for the use of its funds. It includes the proportion of the quota that was paid in special drawing rights and held by the Fund and money lent out under the Financial Transaction Plan.

Payments under *The New Tax System (Commonwealth- State Financial Arrangements) Act 1999*

The outcome of the taxation reform process is a taxation system, which provides a stable and equitable revenue source to fund governmental services essential to the wellbeing of Australians. Special appropriations relating to this legislation fall under three categories, GST Payments to the States, Budget Balancing Assistance Grants and National Competition Policy Payments.

1.24 Administered capital

Appropriations of 'administered capital' are recognised in administered equity as the amounts appropriated by Parliament are drawn down.

1.25 Grants

The department 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.

Grants to 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 Australian Government 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 2002-03 were distributed in accordance with relativities recommended by the Commonwealth Grants Commission. Treasury also administered General Revenue Assistance payments to the States and Territories consisting of Budget Balancing Assistance, National Competition Policy Payments and Special Revenue Assistance in 2002-03.

Budget Balancing Assistance arises from the Australian Government'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 the Reform of 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 was provided to the ACT in recognition that certain Commonwealth-State financial relations differ from Commonwealth-ACT financial relations in certain specific respects.

As a consequence of the Australian Taxation Office collecting GST for distribution to the States, the States make payments to the Australian Government 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 Australian Government announced that an additional \$7,000 grant, fully funded by the Australian Government, 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 Australian Government imposes mirror taxes, which replace State taxes in relation to Australian Government places that may be constitutionally invalid. Mirror taxes are collected by the States and are paid to the Australian Government and immediately repaid to the States. State governments bear the administration costs of collecting mirror taxes.

1.26 Administered investments

Development banks

Once crystallised, 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 related cost records are not readily available, 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 Asian Development Bank (prior to 1995), the International Finance Corporation (prior to 1991), and the International Bank for Reconstruction and Development (prior to 1988) have been recognised at notional cost. Any subsequent capital subscriptions to these development banks have been recognised at historical cost.

Investments in the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency are recognised at historical cost.

International Monetary Fund

The quota is the current value in Australian dollars of Australia's subscription to the International Monetary Fund.

The Special Drawing Rights allocation liability reflects the current value in Australian dollars of the liability to repay to the International Monetary Fund. This is classified as 'Other payables'.

Portfolio agencies

The Australian Government's investment in other controlled authorities and companies in this portfolio is valued at the aggregate of the Australian Government's share of the net assets and net liabilities of each entity as at 30 June 1997. Where Australian Government entities controlled by the portfolio came into existence after 30 June 1997, the investment is valued at the Australian Government's share of capital contributions by Government at the date of inception.

1.27 Promissory notes

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.

Where promissory notes have been issued in foreign currencies, they are translated at the spot rate at balance date. Foreign currency gains and losses are recognised where applicable.

1.28 Mortgage insurance policies written by the Housing Loans Insurance Corporation up to 12 December 1997

The Australian Government sold the Housing Loans Insurance Corporation on 12 December 1997. Terms and conditions of the sale included that the Australian Government shall remain responsible for the mortgage insurance policies written up to the time of the sale.

The sale of the Housing Loans Insurance Corporation 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 (Housing Loans Insurance Corporation 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.

1.29 Provisions and contingent liabilities

HIH Claims Support Scheme liability

HIH Claims Support Limited was established by the Insurance Council of Australia as a not-for-profit company to provide Australian Government 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 HIH Claims Support Trust was established in order to perform its obligations under the Australian Government Management Agreement dated 6 July 2001. As the beneficiary of this trust, the Australian Government 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 2003, and the results of the review indicated that the overall cost of the scheme discounted to present value is estimated to be \$732 million. 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.

There is inherent uncertainty regarding the measurement of the Australian Government 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.

The Australian Government will continue to assess the estimated liability in future years. Further assessments will also include quantifying possible recoveries to be made by HIH Claims Support Limited, which is acting as the Trustee on behalf of the Australian Government in relation to the HIH Claims Support Scheme.

Change in accounting policy — initial adoption of AASB 1044 ‘Provisions, Contingent Liabilities and Contingent Assets’

The department has adopted the treatment of provisions of AASB 1044 in 2002-03. This has led to the department discounting the provision for the overall cost of the scheme to present value for the first time in this financial year. The cumulative financial effect of the change has been adjusted directly against the opening balance of accumulated results in line with the specific transitional provisions in AASB 1044. The amount of the adjustment was a decrease of \$120.737 million to the value of the provision.

Remote contingency Reserve Bank of Australia

The Australian Government guarantees all monies that are, or has at any time become, payable, to a person other than the Australian Government. The department has changed the methodology for calculating this remote contingency to exclude *Financial Management and Accountability Act 1997* Agency deposits. The effect of this change in accounting policy for 2002-03 is to reduce the remote contingency by \$13.784 billion.

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 to seek the appointment of a provisional liquidator, the Australian Government committed to providing an indemnity to the provisional liquidator, the terms of which 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.

During 2002-03 the government has transferred responsibility for administering this liability to the Department of Health and Ageing. This has led to an adjustment of \$500.8 million directly against administered equity.

Note 2: Events occurring after balance date

- 1 The Reserve Bank of Australia has calculated a dividend of \$2.397 billion in respect of its results for the year ended 30 June 2003. The Treasurer will ratify the payment in accordance with the recommendation of the Reserve Bank of Australia's Board of Directors. As a consequence, Treasury will record this dividend income in its accounts for the year ended 30 June 2004 in accordance with its accounting policy (Note 1.23).
2. On 1 July 2003 the Australian Reinsurance Pool Corporation was created under the *Terrorism Insurance Act 2003*. For further information please refer to Note 26 Administered Contingent Liabilities and Assets.

Note 3: Operating revenues

	2002-03 \$'000	2001-02 \$'000
Note 3A: Revenues from government		
Appropriations for outputs	104,461	87,409
Resources received free of charge	352	278
Total revenues from government	104,813	87,687
Note 3B: Goods and services		
Sales of goods and services		
Goods	37,029	62,460
Services	6,592	5,236
Total sales of goods and services	43,621	67,696
Provision of goods		
Related entities	-	1,950
External entities	37,029	60,510
Total sales of goods	37,029	62,460
Rendering of services		
Related entities	2,277	163
External entities	4,315	5,073
Total rendering of services	6,592	5,236
Cost of sales of goods	39,999	64,384
Note 3C: Interest revenue		
Interest on deposits	1,058	1,495
Note 3D: Net gains from sale of assets		
Land and buildings		
Proceeds from disposal	(1)	-
Net book value of assets disposed	1	-
Net gain from disposal of land and buildings	-	-
Infrastructure, plant and equipment		
Proceeds from disposal	124	52
Net book value of assets disposed	(296)	(44)
Write-offs	29	(67)
Net loss from disposal of infrastructure	(143)	(59)
Plant and equipment	(143)	(59)
Intangibles:		
Proceeds from disposal	7	-
Net book value of assets disposed	(23)	-
Net loss from disposal of intangibles	(16)	-
Net Loss from disposal of assets		
Total proceeds from disposals	130	52
Total value of assets disposed	(289)	(44)
Total net loss from disposal of assets	(159)	8
Note 3E: Reversals of previous asset write-downs		
Financial assets		
Doubtful debts received - receivables	-	-
Non-financial assets		
Plant and equipment revaluation increment	-	-
Total reversals of previous asset write-downs	-	-

Note 3: Operating revenues (continued)

	2002-03	2001-02
	\$'000	\$'000
Note 3F: Other revenues		
Revenue from the Sydney 2000 Olympic Coin programme	17	125
Other	1,654	274
Total other revenue	1,671	399

Note 4: Operating expenses

	2002-03	2001-02
	\$'000	\$'000
Note 4A: Employee expenses		
Employee benefits expense		
Wages and salary	56,158	40,685
Superannuation	7,246	5,101
Leave and other entitlements	9,668	3,968
Separation and redundancy	75	727
Other employee expenses	1,921	950
Total employee benefits expense	75,068	51,431
Workers compensation premiums	137	295
Total employee expenses	75,205	51,726
Note 4B: Supplier expenses		
Goods from related entities	1,583	-
Goods from external entities	3,311	8,454
Services from related entities	285	-
Services from external entities	53,357	70,682
Operating lease rentals ¹	7,539	8,044
Total supplier expenses	66,075	87,180
Note 4C: Depreciation and amortisation		
Depreciation		
Other infrastructure, plant and equipment	1,527	2,231
Buildings	796	-
Total depreciation	2,323	2,231
Amortisation		
Intangibles - computer software	1,606	874
Leased assets	1,243	863
Total amortisation	2,849	1,737
Total depreciation and amortisation	5,172	3,968
Note 4D: Write down of assets		
Financial assets		
Bad and doubtful debts expense	6	-
Non-financial assets		
Plant and equipment - revaluation decrement	49	2,191
Total write down of assets	55	2,191

¹ These comprise minimum lease payments only.

Note 5: Borrowing cost expenses

	2002-03	2001-02
	\$'000	\$'000
Loans	-	667
Leases	196	82
Total borrowing costs expense	196	749

Note 6: Business operations

The Mint operates via a special account. Payments made from this account are for the purposes of business operations. The balance of the special account is disclosed at Note 30D.

The Australia Government Actuary operates via a special account. Payments made from this account are for the purposes of business operations. The balance of the special account is disclosed at Note 30D. The Australian Government Actuary has been granted an exemption under Sub Clause 1B.1 (C) of the 2002-03 Finance Minister's Orders for the preparation of a complete set of 2002-03 Financial Statements on materiality grounds. The exemption has been approved by the Minister for Finance and Administration.

Note 7: Financial assets

	2002-03	2001-02
	\$'000	\$'000
Note 7A: Cash		
Cash on hand:		
Special accounts	6,840	2,064
Departmental (other than special accounts)	2,371	8,368
Total cash	9,211	10,432
Note 7B: Receivables		
Goods and services	1,759	1,972
Less: provision for doubtful debts	(5)	(54)
Total goods and services	1,754	1,918
GST receivable from the Australian Taxation Office	614	258
Interest receivable	49	-
Appropriations receivable	12,000	-
Other debtors	608	134
Total receivables (net)	15,025	2,310
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	14,143	1,732
Overdue by:		
Less than 30 days	869	459
30 to 60 days	15	89
60 to 90 days	3	61
More than 90 days	-	23
Total receivables (gross)	15,030	2,364
The provision for doubtful debts is aged as follows:		
Not overdue	(5)	(54)
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
More than 90 days	-	-
Total provision for doubtful debts	(5)	(54)
The provision for doubtful debts is aged as follows:		
More than 90 days	5	54
Total provision for doubtful debts	5	54
Note 7C: Investments		
Term deposits	-	8,000
Total investments	-	8,000

Note 8: Non-financial assets

	2002-03 \$'000	2001-02 \$'000
Note 8A: Land and buildings		
Freehold land	-	-
Buildings on freehold land	-	-
Leasehold improvements:		
Leasehold improvements - at 2002 valuation (deprival)	10,236	8,760
Accumulated amortisation	(2,370)	(1,580)
Total leasehold improvements	7,866	7,180
Total land and buildings (non-current)	7,866	7,180
Note 8B: Infrastructure, plant and equipment		
Plant and equipment - at cost:		
Plant and equipment - at cost	8,042	1,724
Accumulated depreciation	(1,623)	(227)
Total plant and equipment - at cost	6,419	1,497
Plant and equipment - at 2003 valuation (master tooling):		
Master tooling - at valuation	463	-
Total plant and equipment - at 2003 valuation (master tooling)	463	-
Plant and equipment - at 2002 valuation (deprival):		
Plant and equipment - at 2002 valuation	3,040	8,299
Accumulated depreciation	(1,782)	(2,153)
Total plant and equipment - at 2002 valuation (deprival)	1,258	6,146
Plant and equipment - at 2001 valuation (deprival):		
Plant and equipment - at 2001 valuation	7,145	8,163
Accumulated depreciation	(6,064)	(6,589)
Total plant and equipment - at 2001 valuation (deprival)	1,081	1,574
Plant and equipment under finance lease:		
Plant and equipment under finance lease	4,857	1,672
Accumulated amortisation	(1,541)	(852)
Total plant and equipment under finance lease	3,316	820
Total infrastructure, plant and equipment (non-current)	12,537	10,037
Note 8C: Intangibles		
Computer software:		
Intangibles - at cost	7,123	5,821
Accumulated amortisation	(4,966)	(3,385)
Total computer software	2,157	2,436
Total intangibles (non-current)	2,157	2,436

Note 8: Non-financial assets (continued)

Note 8D: Analysis of property, plant, equipment and intangibles

Table A: Reconciliation of the opening and closing balances of property, plant, equipment and intangibles

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant & equipment \$'000	Computer software \$'000	Total \$'000
As at 1 July 2002:						
Gross book value	-	-	8,760	19,859	5,821	34,440
Accumulated depreciation / amortisation	-	-	(1,580)	(9,822)	(3,385)	(14,787)
Net book value	-	-	7,180	10,037	2,436	19,653
Additions						
By purchase	-	-	1,481	5,518	1,349	8,348
From acquisition of operations	-	-	-	-	-	-
Net revaluation increment / (decrement)	-	-	-	49	-	49
Depreciation / amortisation expense	-	-	(796)	(2,771)	(1,606)	(5,173)
Recoverable amount write-downs	-	-	-	-	-	-
Disposals						
From disposal of operations	-	-	-	-	-	-
From disposal of operations	-	-	1	(296)	(22)	(317)
As at 30 June 2003:						
Gross book value	-	-	10,236	23,547	7,123	40,906
Accumulated depreciation / amortisation	-	-	(2,370)	(11,010)	(4,966)	(18,346)
Net book value	-	-	7,866	12,537	2,157	22,560

Note 8: Non-financial assets (continued)**Note 8E: Analysis of property, plant, equipment and intangibles**

Table B: Assets at valuation

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant & equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2003:						
Gross book value	-	-	10,236	10,648	-	20,884
Accumulated depreciation / amortisation	-	-	(2,370)	(7,846)	-	(10,216)
Net book value	-	-	7,866	2,802	-	10,668
As at 30 June 2002:						
Gross book 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

Note: This table does not include assets purchased in 2002-03 as these assets are held at cost.

Table C: Assets held under finance lease

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant & equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2003:						
Gross book value	-	-	-	4,857	-	4,857
Accumulated depreciation / amortisation	-	-	-	(1,541)	-	(1,541)
Net book value	-	-	-	3,316	-	3,316
As at 30 June 2002:						
Gross book value	-	-	-	1,672	-	1,672
Accumulated depreciation / amortisation	-	-	-	(852)	-	(852)
Net book value	-	-	-	820	-	820

Note: This table does not include assets purchased in 2002-03 as these assets are held at cost.

Note 8: Non-financial assets (continued)

Note 8E: Analysis of property, plant, equipment and intangibles (continued)

Table D: Assets under construction

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant & equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2003:						
Gross book value	-	-	-	-	-	-
As at 30 June 2002:						
Gross book value	-	-	-	149	-	149

Note 8: Non-financial assets (continued)

	2002-03 \$'000	2001-02 \$'000
Note 8F: Inventories		
Raw materials	7,092	6,620
Work in progress (cost)	1,666	2,249
Finished goods (cost)	6,660	8,353
Inventories held for sale	15,418	17,222
Inventories not held for sale (cost)	-	-
Total inventories	15,418	17,222
Note 8G: Other non-financial assets		
Coin collection - at valuation	5,396	3,660
Prepayments	2,705	2,470
Prepaid precious metal	-	722
Total other non-financial assets	8,101	6,852

Note: Other non-financial assets except for the coin collection are current assets

Note 9: Interest bearing liabilities

	2002-03 \$'000	2001-02 \$'000
Note 9A: Loans		
Loans from government	-	-
Maturity schedule for loans:		
Payable:		
within one year	-	-
in one to five years	-	-
in more than five years	-	-
Total loan liability	-	-
Note 9A: Leases		
Finance lease commitments:		
Payable		
within one year	1,569	378
in one to five years	1,950	437
in more than five years	-	-
Minimum lease payments	3,519	815
Deduct: future finance charges	(243)	(79)
Net lease liability	3,276	736
Lease liability is represented by:		
Current	1,421	330
Non-current	1,855	406
Lease liability	3,276	736

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 10: Provisions

	2002-03 \$'000	2001-02 \$'000
Note 10A: Capital use charge provision		
Capital use charge	-	1,281
Balance owing 1 July	1,281	-
Capital use charge provided for during the period	4,954	1,281
Capital use charge paid	6,235	-
Balance owing 30 June	-	1,281
The capital use charge provision is a current liability		
Note 10B: Other provisions		
Fees and sales in advance	1,562	-
Total Other provisions	1,562	-
Note 10C: Employee provisions		
Salaries and wages	141	1,176
Leave	24,196	14,917
Superannuation	22	746
Separations and redundancies	-	-
Aggregate employee entitlement liability	24,359	16,839
Workers' compensation	-	-
Other employee entitlements	155	181
Aggregate employee entitlement liability and related on-costs	24,514	17,020
Current	11,280	7,700
Non-current	13,234	9,320

Note: The Capital Use Charge has been abolished from 1 July 2003.

Note 11: Payables

	2002-03 \$'000	2001-02 \$'000
Note 11A: Supplier payables		
Trade creditors	3,907	5,655
Total supplier payables	3,907	5,655
All supplier payables are current liabilities.		
Note 11B: Other payables		
Trust fund surplus	318	754
GST payable to ATO	234	-
Other creditors	2,951	4,969
Total other payables	3,503	5,723

Note: All other payables are current liabilities.

Note 12: Equity

	Accumulated results		Asset revaluation reserves		Contributed equity		Total equity	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Note 12: Analysis of equity								
Balance 1 July	26,360	18,652	3,618	3,714	4,076	3,763	34,054	26,129
Net surplus / (deficit)	3,732	10,868	-	-	-	-	3,732	10,868
Net revaluation increment / (decrement)	-	-	1,864	(96)	-	-	1,864	(96)
Transactions with owner:								
Distributions to owner:								
Returns on capital	(1,143)	-	-	-	-	-	(1,143)	-
Dividends	-	-	-	-	-	-	-	-
Capital use charge	(4,954)	(3,160)	-	-	-	-	(4,954)	(3,160)
Returns of capital:								
Restructuring	-	-	-	-	-	-	-	-
Returns of contributed equity	-	-	-	-	-	-	-	-
Contributions by owner:								
Appropriations (equity injections)	-	-	-	-	-	313	-	313
Restructuring	-	-	-	-	-	-	-	-
Closing balance as at 30 June	23,995	26,360	5,482	3,618	4,076	4,076	33,553	34,054
Less: outside equity interests	-	-	-	-	-	-	-	-
Total equity attributable to the Commonweath	23,995	26,360	5,482	3,618	4,076	4,076	33,553	34,054

Note: Return on capital in 2002-03 relates to monies returned to Government due to the cessation of the Agency Banking Incentive Scheme (ABIS).

Note 13: Cash flow reconciliation

	2002-03	2001-02
	\$'000	\$'000
Reconciliation of cash per statement of financial position to statement of cash flows		
Cash at year-end per statement of cash flows	9,211	10,432
Statement of financial position items comprising above cash: financial asset - cash	9,211	10,432
Reconciliation of net surplus to net cash from operating activities		
Net surplus	3,732	10,868
Depreciation / amortisation	5,172	3,939
Loss on disposal of non-current assets	159	69
Gain on disposal of non-current assets	-	(9)
Net write down of non-financial assets	55	2,127
Assets recognised for the first time	-	(274)
(Increase)/decrease in net receivables	(12,715)	3,714
(Increase)/decrease in other non financial assets	533	(298)
(Increase)/decrease in inventories	1,804	(3,208)
Increase/(decrease) in employee provisions	7,493	988
Increase/(decrease) in other liabilities	(657)	(2,382)
Increase/(decrease) in supplier payables	(1,748)	(2,667)
Net cash from operating activities	3,828	12,868

Note 14: Contingent liabilities and assets

Quantifiable Contingencies

The Schedule of Contingencies reports liabilities in respect of claims for damages/costs of \$400,000 (2002: \$400,000). The amount represents an estimate of Treasurer's liability based on precedent cases. Treasury is defending the claim.

The Schedule also reports contingent assets in respect of claims for damages/costs of \$7,000 (2002: \$80,000). Treasury is expecting to succeed in claims against suppliers, although the cases are continuing. The estimate is based on precedent cases.

Remote Contingencies

The Treasury has no remote contingencies.

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.

The number of senior executives who received or were due to receive total remuneration of \$100,000 or more:

	2002-03	2001-02
\$100,000 to \$110,000	1	-
\$110,001 to \$120,000	1	-
\$120,001 to \$130,000	2	1
\$130,001 to \$140,000	5	2
\$140,001 to \$150,000	8	7
\$150,001 to \$160,000	6	8
\$160,001 to \$170,000	6	5
\$170,001 to \$180,000	7	3
\$180,001 to \$190,000	4	1
\$190,001 to \$200,000	3	5
\$200,001 to \$210,000	2	-
\$210,001 to \$220,000	4	1
\$230,001 to \$240,000	1	1
\$240,001 to \$250,000	1	-
\$260,001 to \$270,000	-	1
\$280,001 to \$290,000	1	-
\$290,001 to \$300,000	1	-
\$300,001 to \$310,000	1	1
\$410,000 to \$420,000	1	-
	55	36
The aggregate amount of total remuneration of executives shown above	\$9,859,307	\$6,194,862
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	\$50,611	\$340,005

Note 16: Remuneration of Auditors

	2002-03	2001-02
	\$'000	\$'000
Financial statement audit services are provided free of charge to the department.		
The fair value of the services provided was:		
Royal Australian Mint	100	80
Treasury	252	198
Total	352	278

Note: the above amounts are exclusive of GST. No other services were provided by the Auditor General.

Note 17: Average staffing levels

	2002-03	2001-02
Treasury	732	562
Royal Australian Mint	98	99
Total	830	661

Note 18: Act of Grace payments, waivers and defective administration scheme

	2002-03	2001-02
	\$	\$
No 'Act of Grace' payments were made during the reporting period. (2002: one payment made)	-	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> . (2002: no waivers made)	-	-

Note 19: Consolidation

	Treasury		Royal Australian Mint		Total	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues from ordinary activities						
Revenues from government	104,713	87,607	100	80	104,813	87,687
Sales of goods and services	4,546	2,219	39,075	65,477	43,621	67,696
Interest	314	731	744	764	1,058	1,495
Revenue from sale of assets	67	52	63	-	130	52
Other	1,654	274	17	125	1,671	399
Total revenues from ordinary activities	111,294	90,883	39,999	66,446	151,293	157,329
Expenses from ordinary activities (excluding borrowing costs expense)						
Employees	69,305	45,594	5,900	6,132	75,205	51,726
Suppliers	34,504	29,456	31,571	57,724	66,075	87,180
Depreciation and amortisation	4,642	3,440	530	528	5,172	3,968
Write down of assets	-	2,191	55	-	55	2,191
Value of assets sold	239	44	50	-	289	44
Total expenses from ordinary activities (excluding borrowing costs expense)	108,690	80,725	38,106	64,384	146,796	145,109
Borrowing costs expense	196	749	-	-	196	749
Net surplus / (deficit) from ordinary activities before equivalent income tax	2,408	9,409	1,893	2,062	4,301	11,471
Income tax expense equivalent	-	-	(569)	(603)	(569)	(603)
Net surplus / (deficit) after income tax expense	2,408	9,409	1,324	1,459	3,732	10,868
Net credit / (debit) to asset revaluation reserve	-	(96)	1,864	-	1,864	(96)
Decrease in accumulated results on initial application of fair value under accounting standard AASB 1041 <i>Revaluation of Non-current Assets</i>	-	-	-	-	-	-
Total revenues, expenses and valuation adjustments attributable to the Australian Government and recognised directly in equity	-	(96)	1,864	-	1,864	(96)
Total changes in equity other than those resulting from transactions with owners as owners	2,408	9,313	3,188	1,459	5,596	10,772

Note: The above amounts have been consolidated into the department's balances shown in these financial statements.

Note 19: Consolidation (continued)

	Treasury		Royal Australian Mint		Total	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
ASSETS						
Financial assets						
Cash	3,754	8,368	5,457	2,064	9,211	10,432
Receivables	12,948	1,213	2,077	1,097	15,025	2,310
Other investments	-	8,000	-	-	-	8,000
Total financial assets	16,702	17,581	7,534	3,161	24,236	20,742
Non-financial assets						
Land and buildings	7,866	7,180	-	-	7,866	7,180
Infrastructure, plant and equipment	9,634	6,966	2,903	3,071	12,537	10,037
Inventories	-	-	15,418	17,222	15,418	17,222
Intangibles	1,822	2,010	335	426	2,157	2,436
Other	2,610	1,968	5,491	4,884	8,101	6,852
Total non-financial assets	21,932	18,124	24,147	25,603	46,079	43,727
Total assets	38,634	35,705	31,681	28,764	70,315	64,469
LIABILITIES						
Interest bearing liabilities						
Leases	3,276	736	-	-	3,276	736
Total interest bearing liabilities	3,276	736	-	-	3,276	736
Provisions						
Capital Use Charge	-	1,281	-	-	-	1,281
Employees	21,681	14,410	2,833	2,429	24,514	16,839
Other	-	160	1,562	21	1,562	181
Total provisions	21,681	15,851	4,395	2,450	26,076	18,301
Payables						
Suppliers	2,249	3,725	1,658	1,930	3,907	5,655
Other	2,103	2,378	1,400	3,345	3,503	5,723
Total payables	4,352	6,103	3,058	5,275	7,410	11,378
Total liabilities	29,309	22,690	7,453	7,725	36,762	30,415
NET ASSETS	9,325	13,015	24,228	21,039	33,553	34,054
EQUITY						
Asset revaluation reserve	624	624	4,858	2,994	5,482	3,618
Contributed equity	3,763	3,763	313	313	4,076	4,076
Retained surpluses	4,938	8,628	19,057	17,732	23,995	26,360
Total equity	9,325	13,015	24,228	21,039	33,553	34,054

Note: The above amounts have been consolidated into the department's balances shown in these financial statements.

Note 20: Financial instruments

Note 20A: 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	7A	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Receivables for goods and services	7B	Deposits are recognised at their nominal amounts. Interest on cash at bank is credited to revenue as it accrues. 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.	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. The Royal Australian Mint maintains its own commercial accounts for the conduct of its business operations. Credit terms are net 30 days (2002: 30 days).
Interest receivable	7B	Interest is accrued as it is earned.	The Treasury maintains term deposit accounts with the Reserve Bank of Australia.
Appropriations receivable	7B	These are recognised at their nominal amounts.	Amounts appropriated by the Parliament in the current or previous years which are available to be drawn down by Treasury. Also includes amounts to be appropriated by the Parliament in a future year for services provided in previous years under a purchasing, workload or similar agreement.

Note 20: Financial instruments (continued)

Note 20A: 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			
Finance lease liabilities	9	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured. 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 Treasury had finance leases with terms averaging 3 years and a maximum term of five years. The interest rate implicit in the leases averaged 5.18 per cent (2002: 9.06 per cent). The lease assets secure the lease liabilities.
Capital Use Charge payable	10A	This payable is recognised as the amount outstanding on the estimated amount to be paid in accordance with the calculations outlined by the Department of Finance and Administration.	There is no CUC payable in 2002-03. In 2001-02 the final amount payable was based on 11% of the closing balance of Equity less movements in the Asset Revaluation Reserve and any capital injections, less any amount settled before 30 June 2002.
Trade creditors and accruals	11A	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).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 20: Financial instruments (continued)

Note 20B: Interest rate risk

Financial instrument	Notes	Floating interest rate		Fixed interest rate						Non-interest bearing		Total		Weighted average effective interest rate		
		02-03 \$'000	01-02 \$'000	Maturing in			> 5 years			02-03 \$'000	01-02 \$'000	02-03 \$'000	01-02 \$'000	02-03 %	01-02 %	
				< 1 year	1 to 5 years	> 5 years	< 1 year	1 to 5 years	> 5 years							
Financial assets																
Cash at bank	7A	5,457	10,432	-	-	-	-	-	-	3,754	-	9,211	10,432	2.00	-	4.40
Investments	7C	-	-	8,000	-	-	-	-	-	-	-	-	8,000	-	-	4.40
Receivables for goods and services (gross)	7B	-	-	-	-	-	-	-	-	1,759	1,917	1,759	1,917	-	-	-
Other receivables	7B	-	-	-	-	-	-	-	-	1,222	-	1,222	-	-	-	-
Interest receivable	7B	-	-	-	-	-	-	-	-	49	-	49	-	-	-	-
Appropriation receivable	7B	-	-	-	-	-	-	-	-	12,000	-	12,000	-	-	-	-
Total financial assets		5,457	10,432	-	8,000	-	-	-	-	18,784	1,917	24,241	20,349	n/a	n/a	n/a
TOTAL ASSETS												70,315	64,469	n/a	n/a	n/a
Financial liabilities																
Finance lease liabilities	9	-	-	1,421	330	1,855	406	-	-	-	-	3,276	736	5.18	-	9.06
Capital usage charge	10A	-	-	-	-	-	-	-	-	-	1,281	-	1,281	-	-	11.00
Trade creditors	11A	-	-	-	-	-	-	-	-	3,907	5,655	3,907	5,655	-	-	-
Total financial liabilities		-	-	1,421	330	1,855	406	-	-	3,907	6,936	7,183	7,672	n/a	n/a	n/a
TOTAL LIABILITIES												36,762	30,415	n/a	n/a	n/a
Unrecognised indemnity																

Note 20: Financial instruments (continued)

Note 20C: Net fair values of financial assets and liabilities

	Note	2002-03		2001-02	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Departmental financial assets					
Cash at bank	7A	9,211	9,211	10,432	10,432
Interest receivable	7B	49	49	-	-
Appropriations receivable	7B	12,000	12,000	-	-
Investments	7C	-	-	8,000	8,000
Other receivables (net)	7B	2,976	2,976	1,917	1,917
Total financial assets		24,236	24,236	20,349	20,349
Financial liabilities (recognised)					
Finance lease liabilities	9	3,276	3,118	736	736
Capital usage charge	10A	-	-	1,281	1,281
Trade creditors	11A	3,907	3,907	5,655	5,655
Total financial liabilities (recognised)		7,183	7,025	7,672	7,672
Financial liabilities (unrecognised)					
Remote contingencies	14	-	-	-	-

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair values of the finance lease and government loan liabilities are based on discounted cash flows using current interest rates for liabilities with similar risk profiles.

The net fair values for trade creditors are approximated by their carrying amounts.

The net fair value of the indemnity given is taken to be nil as the likelihood of any part of it being called upon is regarded as remote.

Note 20: Financial Instruments (continued)

Note 20D: 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.

The Mint 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 21: Revenues administered on behalf of government

for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
Interest		
Interest on Papua New Guinea loan	11,872	13,136
Other	651	543
Total interest	12,523	13,679
Dividends		
Reserve Bank of Australia	1,889,226	2,833,702
Total dividends	1,889,226	2,833,702
Goods and services		
GST Administration fees - external entities	562,955	516,133
Total goods and services	562,955	516,133
Other revenue		
Write back of HCS Scheme	-	43,000
IMF remuneration	51,830	52,879
Royal Australian Mint - monies in excess of requirements	81,539	127,332
Other	14,217	21,718
Total other revenue	147,586	244,929
Total revenues administered on behalf of government	2,612,290	3,608,443

Note 22: Expenses administered on behalf of government

for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
Grants		
Grants to State and Territory governments	32,379,454	31,620,953
Other	78,984	347,450
Total grants	32,458,438	31,968,403
Net foreign exchange loss/(gain)		
IMF SDR allocation	(111,843)	(54,253)
IMF maintenance of value	(228,288)	(307,611)
IMF quota revaluation	769,255	373,151
Other	(15,952)	(1,870)
Total net foreign exchange loss	413,172	9,417
Other expenses		
IMF charges	21,263	28,401
HLIC claims ¹	86	11,867
HCS Scheme claims ²	255,789	-
UMP/AMIL claims	-	500,800
Other	-	1
Total other expenses	277,138	541,069
Total expenses administered on behalf of government	33,148,748	32,518,889

1. HLIC claims expenses include payments and management fees.

2. HCS Scheme claims expenses include payments and management fees.

Note 23: Assets administered on behalf of government

as at 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Financial assets		
Cash		
Administered bank accounts - Department of the Treasury	5,665	8,041
Receivables		
Net GST receivable	312	1,308
PNG loan interest receivable	-	13,136
HLIC premiums receivable	4,803	4,852
IMF related moneys owing	235,289	315,879
Gold Corporation royalty receivable	-	980
Other	26	15
Total receivables (net)	240,430	336,170
Receivables (gross) are aged as follows:		
Not overdue	240,430	336,170
Loans		
Loan to Papua New Guinea	142,906	192,152
Maturity schedule for loans as at 30 June 2003 is as follows:		
Payable:		
within one year	64,051	49,246
in one to two years	64,051	64,050
in two to five years	14,804	78,856
Total loans	142,906	192,152
Investments		
International financial institutions		
Asian Development Bank	287,069	281,431
European Bank for Reconstruction and Development	85,267	87,262
International Finance Corporation	69,144	69,144
International Bank for Reconstruction and Development	259,049	258,958
Multilateral Investment Guarantee Agency	10,694	10,818
Total international financial institutions	711,223	707,613
Quota		
International Monetary Fund	6,797,732	7,566,986
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
Australian Prudential Regulation Authority	5,255	-
Total Commonwealth entities	8,044,895	8,039,640
Total investments	15,553,850	16,314,239
Non-financial assets		
Deferred acquisition costs	817	1,781
Prepayment of BBA grants to States and Territories	544,879	-
Property, plant and equipment	80	106
Other prepayments	383	242
Total non-financial assets	546,159	2,129
Total assets administered on behalf of government	16,489,010	16,852,731

Note 24: Liabilities administered on behalf of government

as at 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Loans		
IMF promissory notes	4,028,948	4,843,440
Other promissory notes	81,628	98,497
Total loans	4,110,576	4,941,937
Maturity schedule for loans is as follows:		
Payable:		
within one year	6,967	7,018
in one to two years	6,390	6,427
in two to five years	1,734	6,427
Promissory notes payable on demand	4,095,485	4,922,065
Total loans	4,110,576	4,941,937
Grants		
IMF - poverty reduction and growth facility	15,000	17,500
Maturity schedule for loans 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	2,500	5,000
Total Grants	15,000	17,500
Subsidies		
Provision for direct assistance payments	183	189
Total grants and subsidies	15,183	17,689
Suppliers payable		
Trade creditors	-	4,237
Other Payables		
GST appropriation payable	347	1,540
IMF SDR allocation	988,332	1,100,175
IMF related monies owing	2,754	4,186
Other	16,840	14,764
Total other payables	1,008,273	1,120,665
Other Provisions		
Provision for insurance claims	12,809	18,320
Provision for unearned premiums	5,582	11,557
Provision for HCS Scheme	457,832	496,350
Provision for UMP/AMIL claims	-	500,800
Total other provisions	476,223	1,027,027
Total other provisions and payables	1,484,496	2,147,692
Total provisions and payables	1,484,496	2,151,929
Total liabilities administered on behalf of government	5,610,255	7,111,555

Note 25: Administered reconciliation table

	Note	2002-03 \$'000
Administered assets less administered liabilities as at 1 July		9,741,176
<i>Plus</i> Administered revenues		2,612,291
<i>Less</i> Administered expenses		(33,148,748)
Administered transfers to/from Government		
Appropriation transfers from OPA		34,025,272
Transfers to OPA		(2,972,773)
Administered revaluations taken to/from reserves		-
Transfer of UMP/AMIL Scheme	1.29	500,800
Change in Accounting Policy	1.29	120,737
Administered assets less administered liabilities as at 30 June		10,878,755

Note 26: Administered contingent liabilities and assets

Quantifiable administered contingencies

Quantifiable Administered Contingencies that are not remote are disclosed in the Schedule of Administered Items as Quantifiable Administered Contingencies.

Quantifiable administered contingencies.

Unquantifiable administered contingencies

Terrorism insurance — Australian Reinsurance Pool Corporation (ARPC)

The scheme will provide a pool of funds (initially planned to accumulate to about \$300 million) generated by reinsurance premiums paid to the ARPC. The pool will be supplemented by a back up line of credit of \$1 billion, underwritten by the Commonwealth, as well as a Commonwealth Government indemnity of \$9 billion, giving aggregate cover of up to \$10.3 billion when the fund is fully funded. Under the Terrorism Insurance Bill 2002, the Commonwealth guarantees the payment of liabilities incurred by the ARPC. The ARPC may recoup payouts under the scheme by increasing premiums for terrorism insurance, and pass these funds on to the Commonwealth. However, such repayments to the Commonwealth may take some years.

Contingent gain

As a 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.

Note 26: Administered contingent liabilities and assets (continued)

Remote administered contingencies

Guarantees

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 2002-03	Balance outstanding 2002-03	Balance outstanding 2001-02
Papua New Guinea	<i>PNG Act 1949-75 and PNG Loans Guarantee Act 1975</i>	5,170,000	5,170,000	5,470,000
Housing Loans Insurance Corporation	<i>HLIC Act 1965</i>	19,036,000	19,036,000	(c)
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>	41,131,000,000	41,131,000,000	48,724,000,000
Total		41,155,206,000	41,155,206,000	48,729,470,000

(a) Under the terms of the Commonwealth Bank Sale Act 1995, the Commonwealth has guaranteed various liabilities of the Commonwealth Bank of Australia (CBA), the Commonwealth Bank Officers' Superannuation Corporation (CBOSC) and the Commonwealth Development Bank. The guarantee for the CBA relates to both on and off balance sheet liabilities. The guarantee of the CBOSC covers the due payments of any amount that is payable to or from Officers' of the Superannuation Fund (the Fund), by CBOSC or by CBA, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. As of 1 July 1996 the Commonwealth Development Bank ceased to write new business and no additional liabilities are being incurred. The existing contingent liability will gradually decline with the retirement of existing loans and exposures.

(b) The contingent liability for the Reserve Bank of Australia, (RBA) relates to the Commonwealth's guarantee of the RBA. It is measured as the Bank's total liabilities excluding capital, reserves and Commonwealth deposits. The RBA Guarantee for 2001-02 includes Commonwealth deposits.

(c) At the finalisation of these statements this was not reliably measurable.

HIH Claims Support Scheme

The Commonwealth has a number of indemnities and guarantees in respect of the HIH Support Scheme.

Note 27: Administered investments

The principal activities of each of Treasury's administered investments are as follows:

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 the 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

The quota is the current value in Australian dollars of Australia's subscription to the International Monetary Fund.

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 '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. Where the Commonwealth entities controlled by the portfolio came into existence after 30 June 1997. The investment is valued at the Commonwealth's share of capital contributions by Government at the date of inception.

Note 28: 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			
Cash	21	<p>Financial assets are recognised when control over future economic benefits can be established and the amount of the benefit can be reliably measured.</p> <p>Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.</p>	<p>The department maintains 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.</p>
International Monetary Fund monies owing	21	<p>Amounts owing from the International Monetary Fund are credited to revenue as they accrue.</p>	<p>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.</p>
Loan receivable	21	<p>The loan to Papua New Guinea is measured at the amount lent. Collectibility 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 than rather than more likely. In rare circumstances, loan repayment may be waived. Interest is credited to revenue as it accrues.</p>	<p>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 6.80 per cent per annum.</p>

Note 28: Administered financial instruments (continued)

(a) 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			
Grant liabilities	22	<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>Grants are recognised to the extent that:</p> <ul style="list-style-type: none"> * the services required to be performed by the grantee have been performed; or * the grant eligibility criteria have been satisfied and settlement is outstanding. 	<p>This represents Australia's contribution to the Poverty Reduction and Growth Facility (PRGF), previously known as the Enhanced Structural Adjustment Facility (EASF), 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.</p>
International Monetary Fund (IMF) Special Drawing Right (SDR) allocation liability	22	<p>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.</p>	<p>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.</p>
Loans - promissory notes	22	<p>The promissory notes are measured at nominal face value.</p>	<p>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). Multilateral Investment Guarantee Agency (MIGA). These promissory notes are in relation to undrawn paid-in capital subscriptions. Promissory notes to the value of \$4.1 billion do not possess established drawdown schedules. The promissory notes are non-interest bearing.</p>

Note 28: Administered financial instruments (continued)

(a) 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)
UNRECOGNISED FINANCIAL LIABILITIES			
Other guarantees	26	The amounts guaranteed by the Commonwealth have been disclosed in Note 26. At the time of completion of the financial statements, there was no reason to believe that the guarantees would be called upon, and recognition of a liability was therefore not required.	The Guarantees are in relation to the Reserve Bank of Australia, Papua New Guinea, Commonwealth Bank of Australia, Commonwealth Bank of Australia Officers Superannuation Fund, the Commonwealth Development Bank and the HIH Claims Support Scheme.
Indemnities	26	The maximum amount payable under the indemnities given is disclosed in the Schedule of Contingencies. At the time of completion of the financial statements, there was no reason to believe that the indemnities would be called upon, and recognition of the liability was therefore not required.	The Commonwealth has a number of indemnities in respect of the HIH Claims Support Scheme.

Note 28: Administered financial instruments (continued)

(b) Administered interest rate risk

Financial instrument	Notes	Floating interest rate		Fixed interest rate					Non-interest bearing		Total		Weighted average effective interest rate		
		rate		Maturing in					bearing						
		02-03	01-02	< 1 year	1 to 5 years	> 5 years	01-02	02-03	01-02	02-03	01-02	02-03	01-02	02-03	%
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Financial Assets															
Cash	23	5,665	7,857	-	-	-	-	-	184	-	5,665	8,041	4,76	4.10	
Interest receivable	23	-	-	13,136	-	-	-	-	-	-	-	13,136	-	7.05	
IMF monies owing	23	-	-	-	-	-	-	235,289	315,879	235,289	315,879	-	-		
Loan to PNG	23	-	-	64,051	49,246	78,855	142,906	-	-	142,906	192,152	6.80	7.05		
Other receivables	23	-	-	-	-	-	-	26	995	26	995	-	-		
Total		5,665	7,857	64,051	62,382	78,855	142,906	-	235,315	317,058	383,886	530,203			
Total assets											16,489,010	16,852,731			
Financial Liabilities															
Grant liabilities	24	-	-	-	-	-	-	-	15,000	17,500	15,000	17,500	-	-	
IMF allocation liability	24	988,332	-	-	-	-	-	-	-	1,100,175	988,332	1,100,175	2.55	-	
Loans - promissory notes	24	-	-	-	-	-	-	-	4,110,576	4,941,937	4,110,576	4,941,937	-	-	
Other	24	-	-	-	-	-	-	-	496,347	1,020,526	496,347	1,020,526	-	-	
Total		988,332	-	-	-	-	-	-	4,621,923	7,080,138	5,610,255	7,080,138			
Total Liabilities											5,610,255	7,111,555			
Liabilities Unrecognised															
Unrecognised indemnity	26	-	-	-	-	-	-	-	41,155,206	48,729,470	41,155,206	48,729,470	n/a	n/a	

Note 28: Administered financial instruments (continued)

(c) Net fair values of financial assets and liabilities

Administered	Note	2002-03		2001-02	
		Total carrying amount	Aggregate net fair value	Total carrying amount	Aggregate net fair value
		2002-03 \$'000	2002-03 \$'000	2001-02 \$'000	2001-02 \$'000
Financial assets					
Cash	23	5,665	5,665	8,041	8,041
Interest receivable	23	-	-	13,136	13,136
IMF related monies owing	23	235,289	235,289	315,879	315,879
Loan to Papua New Guinea	23	142,906	142,906	192,152	192,152
Other receivables	23	26	26	995	995
Total financial assets		383,886	383,886	530,203	530,203
Financial liabilities (recognised)					
Grant liabilities	24	15,000	15,000	17,500	17,500
IMF allocation liability	24	988,332	988,332	1,100,175	1,100,175
Loans - promissory notes	24	4,110,576	4,110,576	4,941,937	4,941,937
Other	24	496,347	496,347	1,020,526	1,051,943
Total financial liabilities (recognised)		5,610,255	5,610,255	7,080,138	7,111,555
Financial liabilities (unrecognised)					
Guarantees	26	41,155,206	41,155,206	48,729,470	48,729,470
Total financial liabilities (unrecognised)		41,155,206	41,155,206	48,729,470	48,729,470

Financial assets

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts. The net fair value of loans receivable are based on discounted cash flows using current interest rates for assets with similar risk profiles. Loan to Papua New Guinea is carried at cost which is above their net fair value. It is intended that all loans will be held until maturity.

Financial liabilities

The net fair values of unrecognised guarantees and indemnities are subsequently below the Government's maximum exposure, because the likelihood that they will be called upon has been assessed as remote.

The net fair values for trade creditors and grant liabilities are short-term in nature and are approximated by their carrying amounts.

Note 29: Administered consolidation

	Treasury		HCS Scheme		Total	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Interest revenue						
Interest on Papua New Guinea loan	11,872	13,136	-	-	11,872	13,136
Other	-	79	650	464	650	543
Total interest revenue	11,872	13,215	650	464	12,522	13,679
Dividend revenue						
Reserve Bank of Australia	1,889,226	2,833,702	-	-	1,889,226	2,833,702
Goods and services						
GST administration fees	562,955	516,133	-	-	562,955	516,133
Other revenue						
Write back of HCS Scheme	-	43,000	-	-	-	43,000
IMF remuneration	51,830	52,879	-	-	51,830	52,879
Other revenue	95,756	149,049	-	1	95,756	149,050
Total other revenue	147,586	244,928	-	1	147,586	244,929
Total revenues administered on behalf of government	2,611,639	3,607,978	650	465	2,612,289	3,608,443
Grants						
Grants to State and Territory governments	32,379,454	31,620,953	-	-	32,379,454	31,620,953
Other	78,984	347,450	-	-	78,984	347,450
Total grants	32,458,438	31,968,403	-	-	32,458,438	31,968,403
Exchange loss						
IMF SDR allocation	(111,843)	(54,253)	-	-	(111,843)	(54,253)
IMF maintenance of value	(228,288)	(307,611)	-	-	(228,288)	(307,611)
IMF quota revaluation	769,255	373,151	-	-	769,255	373,151
Other	(15,952)	(1,870)	-	-	(15,952)	(1,870)
Total net foreign exchange loss	413,172	9,417	-	-	413,172	9,417
Other Expenses						
IMF charges	21,263	28,401	-	-	21,263	28,401
HLIC claims ¹	86	11,867	-	-	86	11,867
HCS Scheme claims ²	255,789	-	-	-	255,789	-
UMP/AMIL claims	-	500,800	-	-	-	500,800
Other	-	1	-	-	-	1
Total other expenses	277,138	541,069	-	-	277,138	541,069
Total expenses administered on behalf of government	33,148,748	32,518,889	-	-	33,148,748	32,518,889

1 HLIC claims expenses include payments and management fees.

2 HCS Scheme claims expenses include payments and management fees.

Note 29: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2002-03	2001-02	2002-03	2001-02	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash						
Cash at bank and on hand	2,453	3,087	3,212	4,954	5,665	8,041
Receivables						
Repayment of subsidies	-	-	-	-	-	-
Net GST receivable	312	1,193	-	115	312	1,308
PNG loan interest receivable	-	13,136	-	-	-	13,136
HLIC premiums receivable	4,803	4,852	-	-	4,803	4,852
IMF related moneys owing	235,289	315,879	-	-	235,289	315,879
Gold Corporation royalty receivable	-	980	-	-	-	980
Other	-	-	26	15	26	15
Total receivables	240,404	336,040	26	130	240,430	336,170
Loans						
Loan to PNG	142,906	192,152	-	-	142,906	192,152
Investments						
International financial institutions						
Asian Development Bank	287,069	281,431	-	-	287,069	281,431
European Bank for Reconstruction and Development	85,267	87,262	-	-	85,267	87,262
International Finance Corporation	69,144	69,144	-	-	69,144	69,144
International Bank for Reconstruction and Development	259,049	258,958	-	-	259,049	258,958
Multilateral Investment Guarantee Agency	10,694	10,818	-	-	10,694	10,818
Total international financial institutions	711,223	707,613	-	-	711,223	707,613
Quota						
International Monetary Fund	6,797,732	7,566,986	-	-	6,797,732	7,566,986
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
Australian Prudential Regulation Authority	5,255	-	-	-	5,255	-
Total commonwealth entities	8,044,895	8,039,640	-	-	8,044,895	8,039,640
Total investments	15,553,850	16,314,239	-	-	15,553,850	16,314,239

Note 29: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Non-financial assets						
Deferred acquisition costs	817	1,781	-	-	817	1,781
Prepayment of BBA grants to States and Territories	544,879	-	-	-	544,879	-
Property, plant and equipment	-	-	80	106	80	106
Other prepayments	276	16,000	107	(15,758)	383	242
Total non-financial assets	545,972	17,781	187	(15,652)	546,159	2,129
Total assets administered on behalf of government	16,485,585	16,863,299	3,425	(10,568)	16,489,010	16,852,731
Loans						
IMF promissory notes	4,028,948	4,843,440	-	-	4,028,948	4,843,440
Other promissory notes	81,628	98,497	-	-	81,628	98,497
Total loans	4,110,576	4,941,937	-	-	4,110,576	4,941,937
Grants						
IMF - poverty reduction and growth facility	15,000	17,500	-	-	15,000	17,500
Subsidies						
Provision for direct assistance payments	183	189	-	-	183	189
Total grants and subsidies	15,183	17,689	-	-	15,183	17,689
Suppliers						
Trade creditors	-	-	-	4,237	-	4,237
Other payables						
GST appropriation payable	347	1,540	-	-	347	1,540
IMF SDR allocation	988,332	1,100,175	-	-	988,332	1,100,175
IMF related moneys owing	2,754	4,186	-	-	2,754	4,186
Other	13,415	14,764	3,425	-	16,840	14,764
Total other payables	1,004,848	1,120,665	3,425	-	1,008,273	1,120,665
Other provisions						
Provision for insurance claims	12,809	18,320	-	-	12,809	18,320
Provision for unearned premiums	5,582	11,557	-	-	5,582	11,557
Provision for HCS Scheme	458,948	511,620	(1,116)	(15,270)	457,832	496,350
Provision for UMP/AMIL claims	-	500,800	-	-	-	500,800
Total other provisions	477,339	1,042,297	(1,116)	(15,270)	476,223	1,027,027
Total other provisions and payables	1,482,187	2,162,962	2,309	(15,270)	1,484,496	2,147,692
Total provisions and payables	1,497,370	2,180,651	2,309	(11,033)	1,499,679	2,169,618
Total liabilities administered on behalf of government	5,607,946	7,122,588	2,309	(11,033)	5,610,255	7,111,555

Note 30: Appropriations

Note 30A: Cash basis acquittal of appropriations from Acts 1 and 3

	Administered Expenses			Departmental Outputs	Total
	Outcome 1	Outcome 2	Outcome 3		
Year ended 30 June 2003					
Balance carried from previous year	-	10,063,000	8,327,000	16,682,000	35,072,000
<i>Adjustments to opening balance</i>					
Less: Recognise AGA as a special account (refer note 30D)	-	-	-	(888,444)	(888,444)
Add: Reclassify MCCA as not being a special account (refer note 30D)	-	-	-	436,101	436,101
Add: Reclassify CCAAC as not being a special account (refer note 30D)	-	-	-	2,331	2,331
Add: Reclassify APMAIF as not being a special account (refer note 30D)	-	-	-	-	-
Less: Lapsed administered appropriation from previous years	-	(10,063,000)	(8,327,000)	-	(18,390,000)
Less: Other adjustments	-	-	-	(145,042)	(145,042)
Adjusted balance carried from previous year	-	-	-	16,086,946	16,086,946
Appropriation for reporting period (Act 1)	-	-	11,000,000	98,784,000	109,784,000
Appropriation for reporting period (Act 3)	-	-	-	5,677,000	5,677,000
Adjustments by the Finance Minister	-	-	-	-	-
Amounts from Advance to the Finance Minister	-	-	-	-	-
Refunds credited (FMA s30)	-	-	-	-	-
GST credits (FMA s30A)	-	-	-	4,168,889	4,168,889
Annotations to 'net appropriations' (FMA s31)	-	-	-	4,036,011	4,036,011
Transfer to/from other agencies (FMA s32)	-	-	-	-	-
Administered appropriations lapsed	-	-	(7,112,457)	-	(7,112,457)
Available for payments	-	-	3,887,543	128,752,846	132,640,389
Payments made	-	-	1,649,135	114,166,408	115,815,543
Appropriations credited to Special Accounts	-	-	-	-	-
Balance carried to next year	-	-	2,238,408	14,586,438	16,824,846
Represented by: Cash	-	-	2,238,408	2,370,791	4,609,199
Add: Appropriations receivable	-	-	-	12,000,000	12,000,000
Add: Receivables - goods and services - GST receivable from customers	-	-	-	14,070	14,070
Add: Return of contributed equity	-	-	-	-	-
Add: Receivables - Net GST receivable from the ATO	-	-	-	330,149	330,149
Less: Payable - suppliers - GST portion	-	-	-	(128,572)	(128,572)
Add: Savings in Portfolio Additional Estimates Statement	-	-	-	-	-
Total	-	-	2,238,408	14,586,438	16,824,846

Any amounts of administered appropriations for 2002-03 shown above as lapsed are estimates only as determinations are not made by the Finance Minister until after the completion of these statements.

Note 30: Appropriations (continued)

Note 30A: Cash basis acquittal of appropriations from Acts 1 and 3 (continued)

	Administered Expenses			Departmental Outputs		Total
	Outcome 1	Outcome 2	Outcome 3			
Year ended 30 June 2002						
Balance carried from previous year	-	10,063,000	5,391,000	16,481,000		31,935,000
Total annual appropriation	-	-	12,000,000	87,409,000		99,409,000
Adjustments and annotations to appropriations	-	-	-	6,148,000		6,148,000
Transfers to/ from other agencies (FMA s32)	-	-	-	-		-
Administered appropriation lapsed	-	-	-	-		-
Available for payments	-	10,063,000	17,391,000	110,038,000		137,492,000
Payments made during the year	-	-	9,064,000	93,356,000		102,420,000
Appropriations credited to special accounts	-	-	-	-		-
Balance carried to the next year	-	10,063,000	8,327,000	16,682,000		35,072,000
Represented by: Cash	-	-	2,903,062	7,929,256		10,832,318
Add: Appropriations receivable	-	10,063,000	5,423,938	-		15,486,938
Add: Receivables - Goods and Services - GST receivable from customers	-	-	-	30,267		30,267
Add: Investment in term deposits	-	-	-	8,000,000		8,000,000
Add: Receivables - Net GST receivable from the ATO	-	-	-	586,244		586,244
Less: Payable - Suppliers - GST portion	-	-	-	(8,809)		(8,809)
Less: Other	-	-	-	145,042		145,042
Total	-	10,063,000	8,327,000	16,682,000		35,072,000

Note 30: Appropriations (continued)

Note 30B: Cash basis acquittal of appropriations from Acts 2 and 4

Particulars	Administered			Non-operating			Total
	Outcome 1 SPPs Other	Outcome 2 SPPs Other	Outcome 3 SPPs Other	Equity Loans	Previous years' outputs	Admin assets and liabilities	
Year ended 30 June 2003							
Balance carried from previous year	-	-	279,000	-	3,763,000	356,000	16,628,000
Less: Payments made in previous years	-	-	-	-	(3,763,000)	-	(3,763,000)
Less: Lapsed administered appropriation from previous years	-	(12,230,000)	(279,000)	-	-	-	(12,509,000)
Adjusted balance carried from previous year	-	-	-	-	-	356,000	356,000
Appropriation for reporting period (Act 2)	-	44,702,000	153,084,000	-	-	7,330,000	205,116,000
Appropriation for reporting period (Act 4)	-	29,998,000	-	-	-	-	29,998,000
Adjustments determined by the Finance Minister	-	-	-	-	-	-	-
Amounts from Advance to the Finance Minister	-	-	-	-	-	-	-
Refunds credited (FMA s30)	-	-	-	-	-	-	-
GST credits (FMA s30A)	-	-	-	-	-	-	-
Transfer to/from other agencies (FMA s32)	-	-	-	-	-	-	-
Administered appropriations lapsed	-	(3,470,266)	(1,329,289)	-	-	-	(4,799,555)
Available for payments	-	71,229,734	151,754,711	-	-	7,686,000	230,670,445
Payments made	-	71,229,734	151,754,711	-	-	7,503,937	230,488,382
Appropriations credited to Special Accounts	-	-	-	-	-	-	-
Balance carried to next year	-	-	-	-	-	182,063	182,063
Represented by: Cash	-	-	-	-	-	-	-
Appropriations receivable	-	-	-	-	-	182,063	182,063
Total	-	-	-	-	-	182,063	182,063

Any amounts of administered appropriations for 2002-03 shown above as lapsed are estimates only as determinations are not made by the Finance Minister until after the completion of these statements.

Note 30: Appropriations (continued)

Note 30B: Cash basis acquittal of appropriations from Acts 2 and 4 (continued)

Particulars	Administered				Non-operating				Total
	Outcome 1 SPPs Other	Outcome 2 SPPs Other	Outcome 3 SPPs Other	Equity Loans	Previous years' outputs	Admin assets and liabilities			
Year ended 30 June 2002									
Balance carried from previous year	-	12,230,000	-	-	3,763,000	-	-	15,993,000	
Total annual appropriation	-	299,198,000	147,900,000	-	-	9,862,000	-	456,960,000	
Adjustments and annotations to appropriations	-	52,460,000	-	-	-	-	-	52,460,000	
Transfer to/from other agencies (FMA s32)	-	-	-	-	-	-	-	-	
Administered appropriations lapse	-	-	-	-	-	-	-	-	
Available for payments	-	351,658,000	147,900,000	-	3,763,000	9,862,000	-	525,413,000	
Payments made during the year	-	351,658,000	147,621,000	-	-	9,506,000	-	508,785,000	
Appropriations credited to Special Accounts	-	-	-	-	-	-	-	-	
Balance carried to next year	-	12,230,000	279,000	-	3,763,000	356,000	-	16,628,000	
<i>Represented by:</i>									
Cash	-	183,978	-	-	-	-	-	183,978	
Appropriations receivable	-	12,046,022	279,000	-	3,763,000	356,000	-	16,444,022	
Total	-	12,230,000	279,000	-	3,763,000	356,000	-	16,628,000	

Note 30: Appropriations (continued)

Note 30C: Cash basis acquittal of special appropriations (unlimited amount)

Particulars of legislation providing appropriation (including purpose)	2003 \$	2002 \$
		Outcome 2

Legislation: A New Tax System (Commonwealth) - State Financial Arrangements Act 1999

Purpose: An Act under which 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.

Budget estimate	31,860,998,000	31,122,976,000
Payments made	32,757,878,592	31,457,979,000
Appropriations credited to Special Accounts	-	-
Refunds credited (s30)	-	-

Particulars of legislation providing appropriation (including purpose)	2003 \$	2002 \$
		Outcome 3

Legislation: Superannuation Industry (Supervision) Act 1993 (SIS Act)

Purpose: An Act to provide the framework for providing financial assistance to superannuation funds that had suffered an eligible loss, that is a loss as a result of fraudulent conduct or theft.

Budget estimate	-	-
Payments made	19,121,734	12,179,000
Appropriations credited to Special Accounts	-	-
Refunds credited (s30)	-	-

Note 30: Appropriations (continued)

Note 30C: Cash basis acquittal of special appropriations (unlimited amount) (continued)

Particulars of legislation providing appropriation (including purpose)	2003 \$	2002 \$
		Outcome 3

Legislation: Appropriation HIH Act 2001

Purpose: An Act to provide Commonwealth funded assistance to policy holders suffering financial hardship as a result of the failure of the HIH Group Companies and the appointment of the provisional liquidators of the HIH Group Companies.

Budget estimate	150,569,000	-
Payments made	172,000,000	102,710,000
Appropriations credited to Special Accounts	-	-
Refunds credited (\$30)	-	-

An amount of \$3,212,152 was drawn down from the OPA to meet liabilities incurred under this Act and has not been distributed at 30 June 2003. This is held in Treasury's administered bank account.

Particulars of legislation providing appropriation (including purpose)

	2003 \$	2002 \$
		Outcome 1

Legislation: Asian Development Bank (Additional Subscription) Act 1995

Purpose: An Act to represent an instrument of subscription whereby Australia agrees to purchase 102370 additional shares, The ADB assists with the economic and social development of countries in the Asian Pacific region by providing financial and technical assistance for projects and programs.

Budget estimate	4,656,000	6,606,000
Payments made	4,655,822	6,606,459
Appropriations credited to Special Accounts	-	-
Refunds credited (\$30)	-	-

Note 30: Appropriations (continued)

Note 30C: Cash basis acquittal of special appropriations (unlimited amount) (continued)

Particulars of legislation providing appropriation (including purpose)	2003 \$	2002 \$
		Outcome 1

Legislation: International Monetary Agreements Act 1947

Purpose: An Act to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payments adjustment.

Budget estimate	149,604,000	37,465,000
Payments made	837,186,710	364,903,892
Appropriations credited to Special Accounts	-	-
Refunds credited (\$30)	-	-

Totals for unlimited special appropriations

	2003 \$	2002 \$
Budget estimate	32,165,827,000	31,167,047,000
Payments made	33,790,842,858	31,944,378,351
Appropriations credited to Special Accounts	-	-
Refunds credited (\$30)	-	-

An amount of \$32,126 drawn from the OPA on 30 June 2003 to meet liabilities incurred under these Acts had not been disbursed at that date and was held in Treasury's Administered Bank Account

Note 30: Appropriations (continued)

Note 30D: Special accounts

Account Name	2003 \$	2002 \$
Other Trust Moneys (Departmental)		
<i>Legislation: Financial Management and Accountability Act 1997; s20</i>		
<i>Purpose: For the receipt of moneys temporarily held in trust for other people.</i>		
Balance carried from previous year	-	13,000
Appropriations for reporting period	-	-
Costs recovered from non-government sector	-	-
Other receipts - industry contributions	-	-
GST credit (FMA s30A)	-	-
Available for payments	-	13,000
Payments made	-	13,000
Balance carried to next year	-	-

Note 30: Appropriations (continued)

Note 30D: Special accounts (continued)

Account Name	2003 \$	2002 \$
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Royal Australian Mint and Coinage Trust (Departmental)

Legislation: Financial Management and Accountability Act 1997; s20

Purpose: a) Payment of goods and services, salaries and expenses incurred for activities entered into by the Royal Australian Mint
approved by the Treasurer.

b) Repayment of capital funds and payment of moneys in excess of requirements to Consolidated Revenue Fund.

Balance carried from previous year	2,064,000	1,629,000
Appropriations for reporting period	-	-
Costs recovered from non-government sector	-	-
Sales of goods and services	23,649,000	69,531,000
Other receipts		
Payments received from the Commonwealth for circulating coins	96,773,000	-
Interest revenue	607,000	-
Other receipts	530,000	4,649,000
GST credit (FMA s30A)	723,000	-
Available for payments	124,346,000	75,809,000
Payments made		
Payment of Seigniorage to the Commonwealth	(80,242,000)	-
Suppliers	(31,668,000)	(65,581,000)
Employees	(5,540,000)	(7,332,000)
GST payment	(1,197,000)	-
Other payments	(242,000)	(832,000)
Balance carried to next year	5,457,000	2,064,000
<i>Represented by:</i>		
Cash	5,457,000	2,064,000
Add: Receivables - goods and services - GST receivable from customers	131,000	-
Add: Receivables - net GST receivable from the ATO	240,000	-
Less: Other payables - net GST payable to the ATO	(220,000)	-
Less: Payable - suppliers - GST portion	(151,000)	-
Total	5,457,000	2,064,000

Note 30: Appropriations (continued)

Note 30D: Special accounts (continued)

Account Name	2003 \$	2002 \$
Australian Government Actuary		
<i>Legislation: Financial Management and Accountability Act 1997; s20</i>		
<i>Purpose: for receipt of all moneys and payment of all expenditure related to the operation of the Australian Government Actuary.</i>		
Balance carried from previous year	888,444	
Appropriations for reporting period	-	
Rendering of services	1,543,454	
Other receipts	209,249	
GST credit (FMA s30A)	162,302	
Available for payments	2,803,449	
Payments made		
Employees	(837,604)	
Suppliers	(379,610)	
GST payment	(143,659)	
Other payments	(56,233)	
Balance carried to next year	1,386,343	
<i>Represented by:</i>		
Cash	1,383,385	
<i>Add:</i> Receivables - goods and services - GST receivable from customers	17,298	
<i>Less:</i> Other payables - net GST payable to the ATO	(8,196)	
<i>Less:</i> Payable - suppliers - GST portion	(6,144)	
Total	1,386,343	

Note: The AGA was not disclosed as a special account in 2001-02. This has resulted in an adjustment to the AGA special account opening balance for 2002-03.

Note 30: Appropriations (continued)

Note 30D: Special accounts (continued)

Account Name	2003 \$	2002 \$
Trustee Companies (ACT) Deposits Trust Fund		
<i>Legislation: Financial Management and Accountability Act 1997; s20</i>		
<i>Purpose: for administering the Trustee companies Act 1947 in relation to trustee companies.</i>		
Balance carried from previous year	120,000	127,263
Appropriations for reporting period	-	-
Costs recovered from external entities	-	-
Services - rendering of services to external entities	-	-
Other receipts	10,500	10,900
GST credit (FMA s30A)	-	-
Available for payments	130,500	138,163
Payments made to suppliers	10,500	18,163
Balance carried to next year	120,000	120,000

Represented by:

Cash	120,000	120,000
Total	120,000	120,000

Note: The Trustee Companies (ACT) Deposits Trust Fund was disclosed under special public monies in 2001-02. Given that the Trust is also a special account, it has been disclosed in the special accounts note.

Note 30: Appropriations (continued)

Note 30D: Special accounts (continued)

Account Name	2003 \$	2002 \$
Lloyd's Deposit Fund		
<i>Legislation: Financial Management and Accountability Act 1997; s20</i>		
<i>Purpose: to meet the costs of the judicial management and wind-up in the event the company ceases to trade.</i>		
Balance carried from previous year	2,000,000	2,148,405
Appropriations for reporting period	-	-
Costs recovered from external entities	-	-
Services - rendering of services to external entities	-	-
Other receipts	190,000	311,875
GST credit (FMA s30A)	-	-
Available for payments	2,190,000	2,460,280
Payments made to suppliers	190,000	460,280
Balance carried to next year	2,000,000	2,000,000
<i>Represented by:</i>		
Cash	2,000,000	2,000,000
Total	2,000,000	2,000,000

Note: The Lloyd's Deposits Fund was disclosed under special public monies in 2001-02. The fund has been reclassified as a special account in 2002-03.

Services for Other Governments and Non Agency Bodies Account

Treasury has a 'Services for Other Governments and Non Agency Bodies Account'. For the years ended 30 June 2002 and 30 June 2003 this special account had nil balances and no transaction were credited or debited to the account.

Note 30: Appropriations (continued)

Note 30D: Special accounts (continued)

During 2002-03, three special accounts were identified as not having the appropriate Determination as required by section 20 of the *Financial Management and Accountability Act 1997* (FMA Act). These accounts are the Ministerial Council on Consumer Affairs (MCCA), the Commonwealth Consumer Affairs Advisory Council (CCAAC) and the Advisory Panel for Marketing in Australia of Infant Formula (APMAIF). As there is no available evidence that these accounts were determined to be special accounts under s20 of the FMA Act and to remove any doubt as to their legal existence, these accounts were abolished by the Minister for Finance and Administration on 25 June 2003. The department has disclosed these accounts as "special accounts" from 1999-00 to 2001-02. While the payments have now been correctly disclosed, the department is in breach of section 48 of the FMA Act as prior year financial statements disclosed receipts and payments incorrectly as special accounts. The total value of payments made from these accounts from 1 July 1999 to 30 June 2002 was \$815,421. Payments made in 2002-03 were \$102,168.

Note 31: Reporting of outcomes

Treasury uses a process of cost allocation to estimate the costs of each output identified in Note 31. The cost of each output is comprised of direct and indirect costs. Direct costs are assigned to outputs according to detailed cost profiles. Indirect costs that comprise corporate and overhead items such as information technology, accommodation and human resource management are allocated to outputs based on a (cost driver) consumption basis.

Note 31: Reporting of outcomes (continued)

Note 31A: Net cost of outcome delivery

	Outcome 1		Outcome 2		Outcome 3		Total	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Expenses								
Administered expenses	434,436	37,818	32,284,123	31,809,709	430,190	671,362	33,148,748	32,518,889
Departmental expenses	20,025	18,832	47,854	28,679	79,112	98,347	146,991	145,858
Total expenses	454,461	56,650	32,331,977	31,838,388	509,302	769,709	33,295,739	32,664,747
Costs recovered from provision of goods and services to the non-government sector								
Administered	-	-	-	-	-	-	-	-
Departmental	-	-	-	-	41,344	65,583	41,344	65,583
Total costs recovered	-	-	-	-	41,344	65,583	41,344	65,583
Other external revenues								
Administered								
Interest	11,872	13,136	-	-	651	-	12,523	13,136
Dividends	1,889,226	2,833,702	-	-	-	-	1,889,226	2,833,702
Fees / levies collected	-	-	562,955	516,133	-	-	562,955	516,133
Premiums received	-	-	-	-	5,975	-	5,975	-
Remuneration payments	51,830	52,879	-	-	-	-	51,830	52,879
Other revenue	-	-	-	-	89,781	192,593	89,781	192,593
Total administered	1,952,928	2,899,717	562,955	516,133	96,407	192,593	2,612,290	3,608,443
Departmental								
Interest on all cash deposits	74	137	145	451	839	907	1,058	1,495
Revenue from disposal of assets	24	10	-	32	105	10	129	52
Reversals of previous asset write-downs	-	-	-	-	-	-	-	-
Other	176	51	344	169	1,151	179	1,671	399
Goods and services revenue	783	416	1,249	1,369	41,589	65,911	43,621	67,696
Total departmental	1,057	614	1,738	2,021	43,684	67,007	46,479	69,642
Total other external revenues	1,953,985	2,900,331	564,693	518,154	140,091	259,600	2,658,769	3,678,085
Net cost/(contribution) of outcome	(1,499,524)	(2,843,681)	31,767,283	31,320,234	369,211	510,108	30,636,970	28,986,662

Outcomes 1, 2 and 3 are described in Note 1.1. Net costs shown include intra-government in calculating the actual Budget outcome. The Capital Usage Charge is not included in any of the outcomes as it is not an operating expense in end-of-year financial reports.

Note 31: Reporting of outcomes (continued)

Note 31B: Major classes of departmental revenues and expenses by output group and outputs

	Output Group 1.1		Output Group 1.1	
	Output 1.1.1	Output 1.1.2	Outcome 1 Total	
	2002-03	2002-03	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000
Departmental expenses				
Employees	5,265	7,491	12,756	11,411
Suppliers	2,621	3,730	6,351	6,552
Depreciation and amortisation	353	502	855	807
Write down of assets	-	-	-	-
Value of assets sold	18	26	44	6
Borrowing costs expense	8	11	19	56
Total departmental expenses	8,265	11,760	20,025	18,832
Funded by:				
Revenues from government	10,677	9,192	19,869	20,314
Revenue from disposal of assets	6	18	24	10
Interest revenue	17	57	74	137
Goods and services revenue	180	603	783	416
Other	40	136	176	51
Total departmental revenues	10,920	10,006	20,926	20,920

Note 31: Reporting of outcomes (continued)

Note 31B: Major classes of departmental revenues and expenses by output group and outputs (continued)

	Output Group 2.1		Output Group 2.1		Output Group 2.1		Output Group 2.2		Output Group 2.2	
	Output 2.1.1	Output 2.1.2	Output 2.1.3	Output 2.1.3	Output 2.2.1	Output 2.2.1	Output 2.2.1	Output 2.2.1	Output 2.2.1	Output 2.2.1
	2002-03	2002-03	2002-03	2002-03	2002-03	2002-03	2002-03	2002-03	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses										
Employees	3,221	1,387	3,168	3,168	22,710	22,710	30,486	30,486	17,479	
Suppliers	1,604	690	1,577	1,577	11,306	11,306	15,177	15,177	9,816	
Depreciation and amortisation	216	93	212	212	1,520	1,520	2,041	2,041	1,300	
Write down of assets	-	-	-	-	-	-	-	-	-	
Value of assets sold	11	5	11	11	78	78	105	105	-	
Borrowing costs expense	5	2	5	5	33	33	45	45	84	
Total departmental expenses	5,057	2,177	4,973	4,973	35,647	35,647	47,854	47,854	28,679	
Funded by:										
Revenues from government	4,618	2,011	4,765	4,765	37,525	37,525	48,919	48,919	32,884	
Revenue from disposal of assets	-	-	-	-	-	-	-	-	32	
Interest revenue	4	4	47	47	89	89	145	145	451	
Goods and services revenue	37	37	408	408	768	768	1,249	1,249	1,369	
Other	10	10	112	112	211	211	344	344	169	
Total departmental revenues	4,669	2,062	5,332	5,332	38,593	38,593	50,657	50,657	34,878	

Note 31: Reporting of outcomes (continued)

Note 31B: Major classes of departmental revenues and expenses by output group and outputs (continued)

	Output Group 3.1		Output Group 3.1		Output Group 3.1		Output Group 3.1		Output Group 3.1		Outcome 3 Total	
	Output 3.1.1	Output 3.1.2	Output 3.1.3	Output 3.1.4	Output 3.1.5	Output 3.1.6	Output 3.1.7	Output 3.1.8	Output 3.1.9	Output 3.1.10	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses												
Employees	2,670	15,694	6,421	1,279	5,899						31,963	22,836
Suppliers	1,329	7,813	3,197	637	31,571						44,547	70,812
Depreciation and amortisation	179	1,051	430	86	530						2,276	1,861
Write down of assets	-	-	-	-	55						55	2,191
Value of assets sold	9	54	22	4	50						139	38
Borrowing costs expense	4	23	9	2	94						132	609
Total departmental expenses	4,191	24,635	10,079	2,008	38,199						79,112	98,347
Funded by:												
Revenues from government	3,441	23,171	9,313	-	100						36,025	34,489
Revenue from disposal of assets	-	18	-	23	63						105	10
Interest revenue	-	42	-	52	744						839	907
Goods and services revenue	6	1,124	3	1,381	39,075						41,589	65,911
Other	2	508	1	623	17						1,151	179
Total departmental revenues	3,449	24,864	9,318	2,079	39,999						79,709	98,896

Note 31: Reporting of outcomes (continued)

Note 31C: Major classes of administered revenues and expenses by outcomes

	Outcome 1		Outcome 2		Outcome 3		Total	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Administered revenues								
Dividends	1,889,226	2,833,702	-	-	-	-	1,889,226	2,833,702
Other non-taxation revenues	63,702	66,015	562,955	516,133	96,407	192,593	723,064	774,741
Total administered revenues	1,952,928	2,899,717	562,955	516,133	96,407	192,593	2,612,290	3,608,443
Administered expenses								
Grants	-	-	32,284,123	31,809,709	174,315	158,694	32,458,438	31,968,403
Net foreign exchange losses	413,172	9,417	-	-	-	-	413,172	9,417
Other	21,263	28,401	-	-	255,874	512,668	277,138	541,069
Total administered expenses	434,435	37,818	32,284,123	31,809,709	430,190	671,362	33,148,748	32,518,889

Note 32: Assets held in trust

Comcare Trust Account

Legal Authority

Financial Management and Accountability Act 1997, section 20

Purpose

Monies held in a trust and advanced to the Treasury by Comcare for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*.

	2002-03	2001-02
	Actual	Actual
	\$	\$
Balance carried forward from previous period	8,588	7,656
Plus receipts during the year	143,879	1,458
Available for payments	152,467	9,114
Less payments made during the year	121,725	526
Balance carried forward to next year	30,742	8,588

Note 33: Related party transactions

	2002-03	2001-02
	Actual	Actual
	\$'000	\$'000
Other Income		
Profit Share	17	125

05

Part 5

05



Other statistical information

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05

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 OH&S 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)*.

Treasury's OH&S Committee meets quarterly and comprises representatives from the policy groups, Corporate Services Division, the Workplace Relations Committee and the Community and Public Sector Union.

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 provider, Davidson Trahaire.

Davidson Trahaire provides confidential counselling on work-related and personal matters to all Treasury staff and their families. Quarterly reports allow Treasury to monitor use of the Employee Assistance Program and identify workplace issues that need addressing.

A Lifestyle Payment was negotiated as part of the conditions in the Treasury Certified Agreement 2002-2004. An annual payment of \$400 was offered to encourage and assist employees undertake activities that contribute to a healthy lifestyle. The payment reinforces Treasury's commitment to promoting the health and wellbeing of staff.

Health Month was successfully introduced to staff during 2002-03. This popular initiative was designed to raise awareness of health issues and assist staff in developing strategies to enhance personal wellbeing and work/life balance.

Approximately 395 staff attended information sessions covering a broad range of topics relating to diet, fitness and health management. Individual health assessments were also offered with 320 staff participating in the program.

Treasury facilitates a number of ongoing health activities throughout the year which include posture and flexibility, yoga, Tai Chi, pilates and aerobics classes. Corporate gym memberships also are offered to staff at reduced rates.

Workplace assessments are conducted regularly to prevent injuries in the workplace and enhance safety. Approximately 169 workplace assessments were provided in 2002-03.

Free eyesight tests for screen based equipment are also offered, with 44 staff seeking appointments in 2002-03. Staff are entitled to a fixed reimbursement for a portion of the cost for prescribed spectacles.

Flu vaccinations were offered again to staff in 2002-03. 257 staff had the injection this year, an increase of nearly 25 per cent on 2001-02 levels.

During 2002-03, Treasury received 26 accident and incident reports. This is significantly less than the 42 accident and incident reports received last year. Of the 26 accident and incident reports received, 10 resulted in compensation claims, two of which are yet to be determined. No notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The major types of accidents and incidents that occurred throughout the year were falls, car accidents and sporting injuries. All reported accidents and incidents are thoroughly investigated and action is taken to ensure staff health and safety is not compromised.

Occupational Health and Safety — The Mint

In July 2002 the Royal Australian Mint was awarded for the eighth consecutive year, the National Safety Council of Australia (NSCA) 5 Star Award for its occupational health and safety management system. The management system demonstrated a continued commitment to OH&S. The Mint continues as the only organisation within the Australian Capital Territory to achieve this status, and is among only a few organisations in Australia to retain that status for eight consecutive years.

In October 2002, the Mint received an award for Best OH&S Strategies at the Australian Human Resources Awards 2002. At the Telstra/NSCA National Safety Awards, the Mint was further recognised for its efforts, receiving an award for Best OH&S Engineering Solution to an Identified Hazard. In November 2002, the Mint was presented with an Outstanding Achievement Award by the National Safety Council of Australia for excellence.

The Mint continues to have its efforts in OH&S recognised, being granted a further two-year self-audit period by the Safety, Rehabilitation and Compensation Commission. The Mint remains one of only four Australian Government organisations to be granted such status for three consecutive self-audit periods.

The Mint's OH&S Committee and OH&S representatives continue to convene two-monthly meetings to fulfil their respective legislative responsibilities.

The Mint continued its Health Surveillance Program and provided free flu vaccinations. A back care and work-conditioning program introduced in May 2002 was maintained and continues to reduce the incidence of musculo-skeletal dysfunction. This program emphasises how the body is used and, provides a practical means of assessing that use to reduce workplace injuries. Staff could access also a voluntary health screening program.

The Mint's Employee Assistance Program was contracted to Davidson Trahaire for support service to the Mint staff and their immediate family members.

All employees whose normal occupations exposed them to hazardous materials had blood and biochemistry (kidney and liver function) tests. All employees subjected to screening returned results well within acceptable limits, indicating a further decrease in the incidence of occupational over exposure. This is a result of continual improvements in work practices, machinery and equipment upgrading and staff training for the safe storage, use and handling of hazardous materials.

The Mint fulfilled all Comcare legislative requirements and guidelines for rehabilitation cases, with the Mint outsourcing rehabilitation case management to Access Occupational Therapy Services in accordance with Section 41A of the *Safety, Rehabilitation and Compensation Act (1988)*.

The Mint has continued throughout the year to comply with the provisions of the *Occupational Health and Safety (Commonwealth Employment) Act (1991)* and has not received directives or provisional improvement notices under any section of the Act.

Section 68 of the Act requires employers to notify and report certain incidents to Comcare. One incident was reported to Comcare. Confined Space Work areas were assessed and the register upgraded. Senior Level 2 first-aid officers working in confined spaces received formal training in advanced resuscitation. Employees in high-risk areas could attend training courses for hazard identification and risk management.

Workplace safety inspections were conducted on a monthly program to ensure compliance with the 2002-03 Continuous Improvement Action Plan. Pressure vessels within the Mint are regularly inspected and comply with the conditions necessary to maintain certification.

In accordance with Environment Act and National Pollution Inventory guidelines an environmental policy has been established to control the management and transfer of hazardous materials.

Freedom of information

Treasury handles Freedom of Information matters for Treasury, the Mint, the Foreign Investment Review Board, the Takeovers Panel and the Australian Office of Financial Management.

Under section 8 of the *Freedom of Information Act 1982*, Treasury must report on its activities. The Australian Competition Tribunal's statement then follows. 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 Treasury to publish detailed information about:

- how it is organised and what decision making powers it has;
- what arrangements it makes for public involvement in its work;
- what types of documents it holds; and
- how the public can obtain access to these documents.

The following information addresses these requirements.

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 Foreign Investment Review Board and the Takeovers Panel are published separately in the annual reports of each of those bodies.

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, Intergovernmental Relations Unit and Manager, State Finances and Reporting 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, Fiscal and Corporate; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under section 64 of the *Special Broadcasting Service Act 1991*, the Treasurer has delegated the powers under section 60 and 61 of that Act to the General Manager, Commonwealth-State Relations 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 System Division; 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 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 System 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 System 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, Corporations and Financial Services 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* to arrange to exempt records from the 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* to approve access to records not in the open access period.

Arrangements for outside participation

People or organisations outside the Australian Government administration may participate in forming policy or administering enactments and schemes for which Treasury is responsible by writing to Treasury portfolio ministers, the Secretary to the Treasury, or agencies in the Treasury portfolio.

Additionally, the following arrangements allow bodies outside the Australian Government administration to participate 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 designing and implementing 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 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 tax system;
- research and other studies it commissions on topics approved or referred by the Treasurer;
- other tax matters referred to it by the Treasurer.

The Treasury provides the board with 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.

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.

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 and reappointed by the Parliamentary Secretary to the Treasurer in February 2002 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 was established under Part 9 of the *Australian Securities and Investments Commission Act 1989* (the ASIC Act). It was formed in September 1989. Before 11 March 2002, the Advisory Committee was known as the Companies and Securities Advisory Committee. It continues under section 261 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act).

The Corporations and Markets Advisory Committee 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 is an ex-officio member of the Advisory Committee by the operation of section 147 of the ASIC Act.

The committee on its own initiative or when requested by the Minister, advises and recommends to the Minister on such matters connected with:

- a proposal to make or amend corporations legislation, (other than the excluded provisions);
- the operation or administration of the corporations legislation (other than the excluded provisions);
- law reform on corporations legislation (other than the excluded provisions);
- companies or a segment of the financial products and financial services industry;
- a proposal to improve the efficiency of financial markets.

In fulfilling these functions, the committee seeks to stimulate and lead public debate to enhance the standards for corporations and participants in financial markets, and propose suitable regulatory reform when necessary.

The committee is assisted by its legal subcommittee.

Electronic Commerce Expert Group

The Electronic Commerce Expert Group is a non-statutory body, re-appointed by the Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell in December 2002.

The group advises the Parliamentary Secretary on consumer issues in e-commerce. It comprises twelve members which represent both industry and

consumer interests. The group leads the development and promotion of the Building Consumer Sovereignty in Electronic Commerce: A Best Practice Model for Business and dispute resolution in e-commerce.

Treasury provides secretariat support to the Expert Group.

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 as 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 of 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 the 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: 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 at 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 Australian Government
- 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 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 at www.treasury.gov.au.

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 2002-03, Treasury received 23 requests for access to documents under the *Freedom of Information Act 1982*, compared with 16 requests last year. Further details are set out in Table 21.

Table 21: Freedom of Information statistics 2002-03

Description	Number
Requests received^(a)	
On hand at 1 July 2002	5
Received	23
Break down across Treasury	
Treasurer	1
Executive	0
Fiscal Group	2
Revenue Group	6
Economic Group	0
Markets Group	13
Corporate Services Division	1
Action on requests	
Access in full	4
Access in part	8
Access refused or no documents located	10
Transferred in whole ^(b)	0
Withdrawn/Lapsed	3
Current as at 30 June 2003	3
Internal review	
Applications	4
Review by Administrative Appeals Tribunal^(c)	
Outstanding at 1 July 2002	0
New applications	2
Withdrawn	1
Fees and charges	
Total application fees collected	\$670
Total charges collected	\$10,038
Total application fees and charges collected	\$10,708

(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;
- 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;
- 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

Telephone: (02) 9230 8567
Facsimile: (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 2002-03.

Advertising and market research

The following table sets out amounts paid by Treasury and the Mint on advertising and market research in 2002-03.

Table 22: 2002-03 expenditure for advertising and market research

Vendor	Purpose	Cost (\$)
Treasury		
First Charlton Communications Pty Ltd	Produce and place television commercial on CNBC USA for Axiss Australia	200,420
HMA Blaze Pty Ltd	Advertise Treasury recruitment	115,983
Starcom Worldwide (Australia) Pty Ltd	Advertise Treasury recruitment	177,467
Starcom Worldwide (Australia) Pty Ltd	Comment on the consultation paper for the Review of International Taxation Arrangements	8,982
Total Treasury		502,852
Royal Australian Mint		
AAP Australia Association Press	Advertise numismatic products	2,873
Australia Post Philat.Melbourne	Advertise numismatic products	20,738
Canberra FM Radio Pty Ltd	Advertise numismatic products and tourist gallery	6,505
Canberra Times	Advertise numismatic products and tourist gallery	16,906
Federal Capital Press of Australia	Advertise numismatic products and tourist gallery	4,242
FPC Magazines	Advertise numismatic products and tourist gallery	3,894
HMA Blaze Pty Ltd	Advertise recruitment, tender notices and non-campaign material	17,105
Krause Publications	Advertise numismatic products	1,868
Radio Canberra Pty Ltd	Advertise numismatic products and tourist gallery	8,467
Starcom Worldwide (Australia) Pty Ltd	Advertise recruitment, tender notices and non-campaign material	21,537
The Canberra Informer	Advertise numismatic products and tourist gallery	1,892
TW Media Pty Ltd	Advertise numismatic products and tourist gallery	4,072
Total Royal Australian Mint		110,099
Total		612,951

Ecologically sustainable development

Treasury participates in various government forums on environmental matters and actively pursues measures to minimise waste and conserve energy.

Treasury exchanges ideas and information on property, building and environmental management through its membership of property and building industry groups including the Australian Property Institute and the Facilities Management Association of Australia. Treasury adopts a range of best practice initiatives to meet or improve on targets relating to government policy on environmental issues.

Energy management

Treasury has reduced its overall energy consumption, in line with Australian Government energy consumption targets.

The building is controlled by a building management system that provides energy management and reporting facilities. Treasury's tenancy is metered separately, allowing monitoring, profiling and diagnosis of energy consumption.

Incoming electricity supplies have power analysers to provide an instant reading of kilowatt consumption, load, power factor correction, kVA and line voltage.

Timer switches control all general lighting in the building. Lights operate during normal working hours although manually operated pass switches turn on lights in specific areas for up to two hours, after normal business hours. High performance light fittings are 35 per cent more efficient than standard fittings with low ballasts.

Environmental management system

Treasury's Environmental Management System was implemented in December 2002 and complies with International Standard ISO 14001. The system meets the Government's overall objective to reduce the impact of government operations on the environment and Treasury's Occupational Health and Safety requirements. Development of the system was a requirement of the 2002-03 Treasury Certified Agreement.

Paper and cardboard recycling

Treasury recycles paper and cardboard products. A local recycling firm collects desktop and workplace containers of paper and cardboard products. Classified waste paper is pulped and paper hand towels are recycled. Staff kitchen facilities use a recycle bin system that simplifies the separation of recyclable items that

previously went to landfill. This reduces the amount of waste sent to landfill by over 30 per cent.

Treasury's target is to reduce its waste to landfill by 90 per cent.

Compost recycling

All of Treasury's staff kitchens have sealed compost waste containers. This service enables compost waste to be recycled organically. In 2002-03 Treasury recycled over 1600 kilograms of compost, 20 per cent more than in the previous year.

Procurement practices

Treasury purchases goods and services in accordance with 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;
- designed and made for reliability and long life;
- environmental best practice in energy efficiency and or energy consumption.

Paper made from 80 per cent recycled fibre is used in the reproduction areas. Treasury actively encourages all areas to purchase and use recycled paper and stationery products.

Treasury participates in the Cartridges 4 Planet Ark program. Treasury purchases toner cartridges that can be recycled; old cartridges are delivered to a recycling outlet. Cartridges that cannot be reused are broken down and recycled so they can be made into new products. This guarantees that cartridges do not end up at landfill.

Water usage

Treasury has installed tempered water supply thermostats on showers to reduce water usage.

Environment report — The Mint

Energy management

The Mint continued with its good energy management practice, significantly reducing energy consumption. Natural gas consumption was down by 4.8 per cent while electricity consumption was down by 16.3 per cent compared

to last year. The energy consumption during the year was the lowest since the Mint started its energy management program in 1992.

Environmental management system

An environmental management system was developed by the Mint and implemented to comply with the requirements of the International Standard ISO 14001. The incorporation of the Environment Management System within the control of the Quality Management System avoided duplication of work and ensured better use of resources.

Water usage

In March 2003, Mint signed a Voluntary Agreement with ACTEW to reduce its water consumption by 15 per cent. It actually more than halved consumption, achieving another record since the water management program started in 1992.

Discretionary grants

During 2002-03, Treasury administered the following discretionary grants:

- PhD Conference in Economics and Business: Contribution of \$1,100 (made jointly with the University of Western Australia). The grant aims to increase Treasury's profile and assist in developing networks between postgraduate students and academics. The grant was provided to the Australian National University;
- The Australian National University's Bachelor of Economics Prize in Macroeconomics III, is sponsored by Treasury. The contribution towards the prize in 2002-03 was \$282.

Acronyms

ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ACTU	The Australian Council of Trade Unions (ACTU)
ADB	Asian Development Bank
ADB	Asian Development Bank
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APMAIF	Advisory Panel for Marketing in Australia of Infant Formula
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWAs	Australian Workplace Agreements
BBA	Budget Balancing Assistance
CAMAC	Companies and Markets Advisory Committee
CCAAC	Commonwealth Consumer Affairs Advisory Council
CLERP	Corporate Law Economic Reform Program
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EL1	Executive Level 1
EL2	Executive Level 2
FBT	Fringe Benefits Tax
FEMM	Pacific Islands Forum Economic Ministers' Meeting
FMA	<i>Financial Management and Accountability Act 1997</i>
FMD	Farm Management Deposits
FMIS	Financial Management Information System
FOI	Freedom of Information
FSAC	Financial Sector Advisory Council
FSR	Financial Services Reform
G-20	Group of Twenty

GST	Goods and Services Tax
HIPC	Heavily Indebted Poor Countries
HLIC	Housing Loans Insurance Corporation
IBRD	International Bank for Reconstruction and Development
IDA13	International Development Association
IMF	International Monetary Fund
IT	Information Technology
MCCA	Ministerial Council on Consumer Affairs
MIGA	Multilateral Investment Guarantee Agency
NCC	National Competition Council
NCP	National Competition Policy
NSCA	National Safety Council of Australia
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
PRRT	Petroleum Resource Rent Tax
RBA	Reserve Bank of Australia
SARS	Sudden Acute Respiratory Syndrome
SATO	Senior Australians Tax Offset
SDR	Special Drawing Rights
SEB	Senior Executive Band
SES	Senior Executive Service
SPPs	Special Purpose Payments
UMP/AMIL	United Medical Protection and Australasian Medical Indemnity Insurance Limited
UNCITRAL	United Nations Commission on International Trade Law
US	United States

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