

Subprogram 1.1 — Domestic Economy

Objective

To assess current and prospective economic conditions and develop advice on macroeconomic policy settings.

Description

Economic Division is responsible for monitoring, assessing and forecasting developments in the Australian economy; analysing the implications of those developments for macroeconomic policy; and advising on monetary policy and labour market policies and programs.

**Table 2: Financial and Staffing Resources Summary
Subprogram 1.1 — Domestic Economy**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 4,247 | 4,541 | 4,353 |
| Other program costs (excluding RC) | 0 | 0 | 0 |
| Total | 4,247 | 4,541 | 4,353 |
| Adjustments | (7) | (18) | (18) |
| Total Outlays | 4,241 | 4,523 | 4,335 |
| STAFFING | | | |
| Staff Years | 55 | 55 | 54 |

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Division's Operational Plan, include:

- monitoring economic conditions, trends and prospects and financial market and economic developments;

- coordinating and overseeing the preparation of economic forecasts;
- maintaining liaison with external contacts within international fora, other governments, the Reserve Bank of Australia (RBA), the Australian Bureau of Statistics (ABS), financial markets, companies, employer groups, unions, research institutes and other government departments;
- preparing advice on monetary policy, labour market and general macroeconomic issues;
- undertaking policy-relevant research and analysis to improve the quality of policy advice and to contribute to the public debate and understanding of macroeconomic issues; and
- undertaking internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include the perceived quality, timeliness and relevance of economic forecasts, assessments of economic conditions and macroeconomic and labour market policy advice provided to the Government.

Relevant benchmarks include the actual performance of the economy, feedback from Treasury Portfolio Ministers, their offices and the Government in general, and comparative assessments by international organisations. These are supplemented by internal reviews and feedback from external organisations, such as private sector economists, think-tanks, the media and other government departments and agencies.

Further indicators for this subprogram are the range and effectiveness of external contacts, and the quality and impact of the contribution made to public debate and understanding of economic developments and macroeconomic and labour market issues.

Performance Outcome for 1997-98

Economic Forecasts

Economic forecasts were produced over the course of 1997-98 to provide a guide to likely developments in the economy as a basis for consideration of policy settings, and in more detailed form to enable the calculation of budget estimates. These forecasts were prepared taking into account key assumptions, historical relationships between economic variables and judgements about likely outcomes. The emerging developments in Asia formed an important backdrop to the development of economic forecasts over the course of 1997-98.

For policy formulation purposes, the importance of forecasts lies more in terms of understanding the broad developments within the economy and the balance of risks and uncertainties surrounding the outlook than in the specific point estimates that are required for the calculation of budget estimates.

The 1997-98 Budget contained forecasts for 1997-98 and these were reassessed in the *Mid-Year Economic and Fiscal Outlook* (MYEFO) released in December 1997.

In the MYEFO, the forecast Gross Domestic Product (GDP) growth rate in 1997-98 was unchanged from that made at Budget time. However, the forecast composition of growth changed, reflecting evidence that growth in domestic demand was stronger than previously forecast and the negative impact on exports of the emerging economic crisis in a number of Asian economies.

- The forecast for Consumer Price Index (CPI) growth was revised down in the MYEFO, largely due to the mortgage interest rate reductions that had occurred after the 1997-98 Budget, while underlying inflation was revised down slightly.
- Average employment growth for 1997-98 as a whole was revised down in the MYEFO, due to lower than expected growth in employment in late 1996-97. Forecast growth in employment through 1997-98 was, however, unchanged from the 1997-98 Budget forecast, as was the forecast for the unemployment rate for the June quarter 1998.

- The MYEFO also contained preliminary forecasts of key economic parameters for 1998-99, along with projections for the following two years.

The 1998-99 Budget, handed down in May 1998, contained latest estimates of the outcome for 1997-98, a fully elaborated set of forecasts for 1998-99 and projections for key parameters in the following three years, out to 2001-02.

- At the time of the 1998-99 Budget, the final outcome for GDP growth in 1997-98 was not known. Based on the information available, economic growth in 1997-98 was expected to meet the forecasts as outlined in the 1997-98 budget and MYEFO with the composition broadly in line with that outlined in the MYEFO.
- The forecast GDP growth rate for 1998-99 was revised down slightly from the preliminary forecast presented in the MYEFO. This was due to the deterioration in the economic conditions and outlook in Asia since the MYEFO. However, the broad picture presented in the Budget was essentially the same as that presented in the MYEFO, with growth expected to be supported by a strong domestic economy.

The MYEFO and Budget forecasts released during 1997-98 were generally regarded at the time as being credible by external commentators and were consistent with the assessment of international forecasters such as the Organisation for Economic Co-operation and Development (OECD) and IMF. Presentation of the forecasts was supported by extensive analysis of the impact of the Asian economic slowdown, and the uncertainties surrounding the outlook. As events in Asia, especially Japan, deteriorated during the final months of 1997-98, there was concern among some commentators that the forecasts could be too optimistic. However, recent National Accounts data confirmed the underlying strength of the economy implicit in the forecasts. A full assessment of the 1997-98 outcome will be given in the Spring 1998 Treasury *Economic Roundup*.

The forecasts were prepared with the benefit of input from members of the Joint Economic Forecasting Group (comprising Treasury (chair), the RBA, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the ABS). Information on business conditions was obtained through liaison with industry, particularly through the operation of Treasury's Sydney and Melbourne

offices. This information proved particularly valuable in assessing the impact of the Asian economic crisis on exporters and on business sentiment. The Treasury Macroeconomic (TRYM) model of the Australian economy was also used as an input into the forecasting process, as well as for macroeconomic policy and sensitivity analyses. A range of modelling approaches was used to assess the impact of the Asian economic crisis on the domestic economy.

Contributions to Public Awareness and Debate

The 1997-98 MYEFO contained an extended discussion of the impact of the slowdown in Asian economic growth on the Australian economy, including the timing of these impacts.

In the 1998-99 Budget papers, Statement 2 of *Budget Paper No. 1* also contained a detailed analysis of the impact of the Asian economic slowdown on the domestic economy. This outlined in some detail the shifts in Australia's export markets, factors affecting individual categories of exports, and other linkages between Asian economic performance and the domestic economy. The discussion of the economic forecasts for 1998-99 in that Statement outlined the risks surrounding the forecasts in some detail. Statement 3 of *Budget Paper No. 1* compared expected developments in the current account deficit with previous experiences in the 1980s and 1990s. It concluded that structural improvements in the Australian economy support the view that the cyclical rise in the current account deficit in prospect will not place a constraint on growth. The *Budget Overview and Economic Outlook* also ensured that Budget forecasts were widely accessible.

The discussions in the MYEFO and Budget papers were extensively drawn on in media reporting and commentary.

Four issues of the Treasury *Economic Roundup* were published in 1997-98. These continued to provide an overview of economic developments and articles on a wide range of issues examined in the Department. The Overview has been increasingly oriented towards providing additional commentary on some key issues affecting economic conditions and the economic outlook. For example, the Overview in the Winter 1997 edition focussed on the labour market, and outlined the reasons why employment growth would pick up in the latter half of 1997. This Overview was drawn on extensively in media comment, and the basic

message was confirmed with the subsequent release of labour market data. The Overview in the Summer 1998 edition focussed on economic conditions from an industry perspective, including detailed discussion of the sectoral impact of the economic slowdown in Asia. Roundup articles relevant to this subprogram included The OECD Job Study (Winter 1997), Trends in Foreign Direct Investment Inflows (Spring 1997), Interpreting Wage Measures, Australian Private Sector Net Wealth, and The Business Cycle — Developments in the Economy's Response to Disturbances (all in the Summer 1998 edition).

Updates of the TRYM Model of the Australian economy and associated ABS database have been distributed to subscribers each quarter following its public release in 1995-96. The model has continued to evolve in light of ongoing research and development, including the re-estimation of the model in the first half of 1998 to incorporate ABS chain-linked National Accounts data.

Discussions were conducted with visiting delegations from international organisations including the OECD, the IMF and international credit rating agencies. The OECD annual survey of the Australian economy, released in December 1997, commented favourably on the prospects for the economy and the macroeconomic policy framework. Analysis in IMF and OECD publications on the impact of the Asian economic slowdown on the Australian economy was consistent with that presented in the Budget Papers and MYEFO.

The Treasury Seminar Series was conducted, with seminars being delivered by external and internal presenters on a wide spectrum of relevant policy and related analytical issues. Both Treasury staff and individuals from outside the Department attended the seminars.

Policy Advice and Inputs into Policy Processes

During 1997-98, advice was provided to the Treasurer on a range of macroeconomic issues.

- Briefing and analysis were provided to the Treasurer and other members of the Government on a wide range of economic statistics released by the ABS and by the private sector. This included advice on the implications for the economic outlook and information to assist the Treasurer in responding publicly to the releases. The

Department has received favourable feedback on the relevance and quality of this briefing.

- Treasury officers located in Sydney and Melbourne, accompanied from time to time by Canberra-based officers, conducted discussions with companies and organisations in order to monitor, analyse and report on economic conditions and prospects. Regular briefing and analysis of liaison findings were provided to the Treasurer, including on specific issues such as business views on the impact of the economic slowdown in Asia.
- Advice on monetary policy was prepared on a regular basis for the Secretary (ahead of his attendance at meetings of the Board of the RBA). In preparing this advice Treasury monitors financial and economic developments, and assesses the implications of these developments for the setting of policy.
 - An internal review of the monetary policy briefing process was undertaken with a view to improving the effectiveness of current arrangements. While the review found that current processes were effective, a number of recommendations for improvements were made and have been implemented.
- Advice was provided to the Treasurer on labour market issues. Treasury also contributed to the Joint Governments' Submission to the Australian Industrial Relations Commission on Stage 2 of the Australian Council of Trade Unions (ACTU) 'living wage' claim. Treasury's contribution focussed on economic aspects of the claim and included analysis based on the TRYM model.

Reviews of Economic Data

The Australian Statistician announced the outcome of the 13th Series Australian Consumer Price Index Review in November 1997. Treasury made a submission to the Review and, in the event, the views put forward were consistent with the Statistician's decision that the CPI should be specifically designed to provide a general measure of price inflation for the household sector as a whole. This decision involves major changes to the way housing costs are calculated, most notably the exclusion of mortgage interest expenses. Other changes to the CPI were announced, including expansion of the population coverage of the CPI and the

incorporation into the index of a ninth major commodity group, financial services.

Treasury has liaised extensively with the ABS, both on an informal and formal basis, about statistical matters, including over the introduction in 1998-99 of new international standards in National Accounts data.

Subprogram 1.2 — International Economy

Objective

To promote Australia’s international economic interests, including its economic links with the Asian region, and to assess the implications of international economic developments for the Australian economy.

Description

The program involves participation in policy discussions on economic and financial issues in various international institutions and forums, managing Australia’s relations with international institutions and monitoring and analysing the implications for Australia of international economic developments and policy trends. Following a reorganisation during the year, the program is now undertaken by staff in the International and Investment Division, together with Treasury representatives in Beijing, Jakarta, London, Paris, Tokyo and Washington.

**Table 3: Financial and Staffing Resources Summary
Subprogram 1.2 — International Economy**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 5,490 | 6,953 | 6,791 |
| Other program costs (excluding RC) | 27,884 | 55,345 | 742,723 |
| Total | 33,373 | 62,298 | 749,514 |
| Adjustments | (16,550) | (55,472) | (742,850) |
| Total Outlays | 16,824 | 6,826 | 6,664 |
| STAFFING | | | |
| Staff Years | 41 | 39 | 38 |

Note: The other program costs and adjustments result from our transactions with the international financial institutions of which Australia is a member. Treasury publishes annual reports on Australia’s relations with the International Monetary Fund, the World Bank and the Asian Development Bank which provide details of our transactions with those organisations.

Strategies

Strategies to achieve the objectives of the subprogram include:

- contributing to open and stable international trading and financial systems, and sustainable economic development, through quality and timely policy advice and interaction with other governments and players;
- monitoring and analysing the implications for Australia of overseas economic developments and policy thinking, and drawing on the experiences of other countries, to help shape both macro- and microeconomic policy in Australia;
- contributing to international discussion of economic policies, especially on matters of particular concern to Australia as a small, open, developed economy in the Asian region;
- promoting contacts and discussion with counterpart organisations overseas, especially in Asia, and increasing Australian understanding of Asian economies and economic institutions;
- advancing Australia's interests in the IMF, the World Bank, the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), as well as the OECD, and ensuring that Australia's responsibilities as a member of these organisations are met;
- promoting understanding in Australia of the activities of these organisations and the knowledge they generate of economic developments and policy experience in member countries;
- participating in the Asia-Pacific Economic Cooperation (APEC) forum, with particular emphasis on finance and investment; and
- participating in the economic work of the South Pacific Forum.

Performance Indicators

Performance indicators for this subprogram include:

- the quality and impact of the contribution made to economic policy formulation and forecasting of the Australian economy;
- the quality and impact of the contribution made to international discussion of economic policy issues, including the policies of the international financial institutions and APEC;
- the range and effectiveness of external contacts, and
- the quality and impact of the contribution made to public debate and understanding of overseas economies and international economic issues, including in the Asian region.

Performance Outcome for 1997-98

Regional Financial Crisis

Much of the program's work during the year was focussed on the Asian financial crisis, the responses made to it by the international financial institutions and the support provided by Australia. Three countries in the region undertook IMF-supported economic adjustment programs (Thailand, Indonesia and Korea); Australia influenced the negotiation and renegotiation of these programs through our participation in the executive boards of the IMF, ADB and World Bank and through Ministerial representations. Australia participated in financial support arrangements for all three programs and undertook to provide support of up to \$US1 billion in each case. Australia's support for Thailand is through a central bank currency swap, while the support for Indonesia and Korea will be provided, as necessary, through government-to-government loans. Treasury provided advice to the Treasurer and the Government on these matters and on other aspects of the Government's response to the crisis, including the extension of export credit insurance for exports to Indonesia and Korea through the National Interest Account.

Treasury supervised and advised on the preparation of the *International Monetary Agreements Amendments Act 1998*, which received royal assent in April 1998. The Act established a permanent framework for the provision of financial assistance by Australia to countries that are undertaking economic adjustment programs with the support of the IMF.

Manila Framework

Treasury attended, and played an active role in the outcome of, a meeting of Finance and Central Bank Deputies held in Manila on 18-19 November 1997 to develop a concerted approach to restoring financial stability in the Asia region. The agreed approach included the establishment of regional surveillance arrangements and understandings on the form of future support for IMF programs in the region.

The conclusions of the Manila meeting — the ‘Manila Framework’ — were endorsed by the APEC Economic Leaders’ Meeting held in Vancouver on 25 November 1997, at which Australia was represented by the Prime Minister. Subsequently, a meeting of Finance Ministers of ASEAN countries and Australia; China; Hong Kong, China; Japan; Korea; and the United States, held in Kuala Lumpur on 2 December 1997, at which Australia was represented by the Treasurer, endorsed the Framework and agreed upon its rapid implementation. Treasury provided briefing for these meetings.

Further meetings of the Manila Framework Group were held in Tokyo on 26-27 March 1998 and 20 June 1998. The March meeting initiated a process of regional surveillance, which was continued at the June meeting with particular emphasis on the crisis affecting the Japanese economy. Representatives from European G7 countries also participated in the latter meeting.

Four Markets and Six Markets Groups

In October 1997, Treasury chaired and hosted, in collaboration with the Reserve Bank, a scheduled meeting of the Four Markets Group in Sydney. The Group, comprising representatives from central banks and Treasuries/Ministries of Finance from Australia; Hong Kong, China; Singapore; and Japan, discussed economic and financial issues in the region. In particular, it discussed the underlying causes of the financial instability that had recently impacted on the South East Asian region and

assessed the extent to which the instability would impact on their own and, more generally, the world's financial markets.

The Six Markets Group, which is constituted similarly to the Four Markets Group but also includes representatives from China and the United States, met in Tokyo in June 1998. It discussed financial coordination arrangements in the light of the financial crisis in the region.

International Financial Institutions

Treasury participated in, and provided briefing for, Australian delegations to the IMF/World Bank Annual Meetings in Hong Kong, China on 21-25 September 1997, the IMF/World Bank Spring Meetings in Washington on 16-17 April 1998, the ADB Annual Meeting in Geneva on 29 April-1 May 1998 and the EBRD Annual Meeting in Kiev on 11-12 May 1998. It also prepared briefing for Australia's representatives at the IMF, World Bank, ADB and EBRD on a wide range of policy issues.

Responses to the Asian financial crisis and its lessons for the future dominated much of the business of these bodies during the year. In addition, significant progress was made in implementing multilateral debt relief for Highly Indebted Poor Countries and progressing institutional reforms in the multilateral development banks.

In June 1998 Treasury held discussions with a visiting IMF mission as part of the IMF's regular review of the Australian economy.

Treasury prepared annual reports to Parliament on Australia's relations with the IMF, the World Bank and the ADB. These reports contribute to the public debate on Australia's relations with the organisations and improve understanding of their operations.

New Arrangements to Borrow

During the year Australia completed the processes required for its adherence to the New Arrangements to Borrow (NAB), which are designed to increase the resources available to the IMF for use in emergency situations. Australia will be the first chair of the NAB when they come into operation. In conjunction with the Annual Meeting of the IMF in Hong Kong, China, the Treasurer hosted an informal meeting

of potential NAB members which discussed international monetary issues and the potential operation of the NAB.

Willard Group (G22) Meeting

In conjunction with the 1998 Spring meetings, the United States convened a meeting of Treasurers/Finance Ministers and central bank governors from 22 economies to examine issues related to the stability of the international financial system and effective functioning of global capital markets. The Treasurer and the Governor of the RBA comprised the Australian delegation to this meeting. The meeting established three working groups to report later in the year. Treasury represents Australia on one of the groups which is examining transparency and accountability issues. The other groups are examining the strengthening of financial systems and market structures, and appropriate burden-sharing between the official and private sectors in times of crisis; the RBA represents Australia on the latter group.

Overseas Policy Lessons

Reporting by overseas posts and analysis conducted during the year maintained a close focus on international economic developments and on overseas experience of relevance to domestic economic policy formulation. In particular, contacts made by overseas posts aided understanding and analysis of events that have unfolded in Asian financial markets and economies over the past year. Reporting and analysis of developments in major economies contributed to our understanding of macroeconomic conditions and likely policy developments. For example, the impact of global developments on the Australian economy requires a balanced assessment of the continuing strong growth in the United States against the weak condition of the Japanese economy, and the appropriate policy prescriptions for each country. European reporting has also contained useful macroeconomic policy insights from developments such as the advent of the European Economic and Monetary Union (EMU), and microeconomic reporting on issues such as labour market reform, corporate law and competition policy issues.

Asia-Pacific Economic Cooperation

Finance Ministers

Treasury provided policy advice and briefing for the Treasurer's participation in the fifth APEC Finance Ministers' Meeting held in Kananaskis, Canada, in May 1998. Outcomes from the meeting included improved training arrangements for financial regulators in regional countries, in which Australian regulators will play an active role, and a collaborative initiative to improve corporate governance in the region. In the latter regard, Australia undertook to conduct an initial symposium to launch the initiative.

Investment Experts Group

Treasury was active in APEC's investment liberalisation, facilitation and cooperation activities through chairing the APEC Investment Experts Group until February 1998. The Group continued its work on developing measures to improve the investment environment in the region, examined the investment regimes of several individual member economies and held a third APEC Investment Symposium in Hong Kong, China in October 1997 which was attended by business representatives from Australia and other regional economies. Treasury was responsible for organising the fourth APEC Investment Symposium, which was to be held in Malaysia in September 1998.

Economic Committee

Treasury led Australia's representation on APEC's Economic Committee. The major outputs for the year included the annual APEC *Economic Outlook*, a symposium on Food, Environment, Economic Growth and Population held in Saskatoon, Canada, and a report on *The Impact of Investment Liberalisation in APEC* to which Treasury contributed a case study on Australia's experience with foreign investment liberalisation in the financial sector. Treasury contributed to discussion and provided written comments and data.

Relations With Asia

Treasury, together with its overseas representatives, organised programs for visits by several official delegations from East Asia during 1997-98, including three Vice Ministerial visits from China.

Visits to Australia by official delegations and visits by Treasury officers to the East Asian region have contributed to an improved understanding by Treasury of Asian economies and have encouraged greater cooperation between Treasury and its counterparts in East Asia.

Relations with Pacific Economies

South Pacific Forum Economic Ministers Meeting (FEMM)

The Treasurer chaired the inaugural FEMM in Cairns in July 1997, attended by Ministers from all sixteen members of the South Pacific Forum. Ministers agreed on an Action Plan covering economic, public sector, investment and trade reform. The Action Plan aims to promote private sector development essential to achieving sustainable economic development in the region.

Papua New Guinea

Treasury provided advice to the Treasurer on Australia's financial relations with Papua New Guinea (PNG) during the year. Treasury also participated in two joint reviews, with PNG, of Australia's government-to-government loan to PNG. The loan was provided in support of Papua New Guinea's stabilisation and structural adjustment programs in conjunction with the World Bank and the IMF and was fully repaid in 1997-98.

Organisation for Economic Co-operation and Development

Treasury staff participated in the work of OECD committees relevant to their responsibilities in the fields of macroeconomic and microeconomic policy, forecasting, taxation, competition policy, investment and capital markets. In June 1998, Treasury participated in consultations with a visiting OECD team in preparation for the OECD's regular review of the Australian economy.

Trade Policy

Treasury participated in the 1998 World Trade Organisation's (WTO) Trade Policy Review of Australia. Officers also participated in round table meetings with WTO officials and contributed to the analysis of and commentary on the WTO's draft Review.

Aid Policy

Treasury provided input to the Government's response to *One Clear Objective: poverty reduction through sustainable development* ('The Simons Report').

Subprogram 1.3 — Structural

Objective

To promote more efficient and sustainable use of resources and improved structural competitiveness and productivity of the Australian economy.

Description

Structural Policy Division (SPD) is responsible for advising on matters relating to the structure and growth of the Australian economy, including the efficient use of infrastructure and resources, environmental policy, competition law and policy, and the development of industries.

**Table 4: Financial and Staffing Resources Summary
Subprogram 1.3 — Structural**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 3,117 | 2,850 | 2,823 |
| Other program costs (excluding RC) | 0 | 0 | 0 |
| Total | 3,117 | 2,850 | 2,823 |
| Adjustments | (3) | (2) | (2) |
| Total Outlays | 3,115 | 2,848 | 2,820 |
| STAFFING | | | |
| Staff Years | 41 | 41 | 35 |

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Division's Operational Plan, include:

- provision of advice in relevant areas to the Government, other departments and agencies, identifying emerging issues, and undertaking forward-looking analysis of options;
- contributions to policy development, both directly and through interdepartmental processes;
- coordinating and liaising with Commonwealth and State Departments, other relevant agencies and industry;
- implementing policy decisions taken by the Government;
- effective contribution to public debate, including through policy-relevant research and analysis, publications, submissions to inquiries, speeches and wide contact with industry members; and
- internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include:

- external assessment of the quality and impact of the Division's briefings, policy work and responses to requests;
- internal assessment of the quality, timeliness and strategic focus of advice provided to the Government;
- feedback stemming from interdepartmental and other policy development processes; and
- influence on policy outcomes through Cabinet and other processes, including legislative changes.

The range, quality and influence of publications, submissions to inquiries, as well as other contributions to public debate and understanding of structural issues, are further performance indicators for this subprogram.

Performance Outcome for 1997-98

Implementation of National Competition Policy

Treasury coordinates implementation of the NCP which provides a framework to progress a broad range of microeconomic reforms.

An important element of the NCP is the Commonwealth's competitive neutrality arrangements as outlined in the *Competitive Neutrality Policy Statement* (CNPS) of June 1996. Competitive neutrality arrangements are designed to improve resource allocation by ensuring that Government business activities have no competitive advantage simply as a result of their Government ownership. The *Commonwealth Competitive Neutrality Guidelines for Managers* was published and distributed to assist managers to put into practice the principles of the CNPS. Advice was also given to individual Government agencies on the application to them of competitive neutrality.

Progress in implementing competitive neutrality was reported in the *Commonwealth Competitive Neutrality Annual Report 1996-97*, and a conference presentation was made to inform businesses, and others, of the commitments that the Commonwealth has made. Officers from Treasury and the Productivity Commission worked together to refine plans for the Commonwealth Competitive Neutrality Complaints Office. The Office, which helps to ensure that Commonwealth businesses comply with competitive neutrality principles, was established within the Productivity Commission following the commencement of the *Productivity Commission Act 1998*.

In liaison with the Office of Regulation Review in the Productivity Commission, Treasury coordinated the implementation of further stages of the Commonwealth's legislation review arrangements as outlined in the *Commonwealth Legislation Review Schedule* of June 1996. The Schedule essentially lists all legislation that contains restrictions on competition or imposes costs on businesses. Each activity listed on the Schedule is required to be reviewed to assess whether restrictions are in the public interest and whether the regulations still accord with, and meet effectively, Government priorities. Proposals for new legislation are assessed against similar criteria through the Regulation Impact Statement process.

Treasury officers represented the Commonwealth at the Council of Australian Governments Committee on Regulatory Reform, which considers the treatment of cross-jurisdictional matters. Progress against the Schedule for 1996-97 was reported in the *Commonwealth Legislation Review Annual Report 1996-97*. The Annual Report also advised of changes to the 1997-98 review schedule, reported on progress in ‘national reviews’ of cross-jurisdictional matters, and reported on compliance with Regulation Impact Statement requirements for legislation introduced over 1996-97.

Treasury was also involved in other aspects of the NCP, including advice on:

- NCP payments to the States/Territories;
- sector-specific NCP reforms;
- structural reform of public monopolies;
- reciprocal taxation arrangements with the States and Territories; and
- interjurisdictional issues.

During 1997-98 Treasury worked with other departments and agencies, other levels of government and industry in progressing competition reform in areas such as the communications, electricity and gas sectors of the economy. This involvement reflected Treasury’s particular responsibilities for the application of competition policy and its wider responsibility for advising on microeconomic issues more generally. Reform in each of these areas has the potential to lead to significant benefits in terms of enhanced productivity and the provision of higher quality services. These benefits are particularly important in the fields of communications and energy services, which are important inputs for industry and the economy more generally.

Under the Commonwealth’s legislation review arrangements, the NCC released its review report on the *Australian Postal Corporation Act 1989* on 11 March 1998. Treasury provided a submission (published in the Spring edition of the Treasury *Economic Roundup*) to the NCC’s review, and following the release of the NCC’s report, participated in industry consultation and in discussions with other agencies in the context of preparing a response to the review. The Government’s response to the

review was announced by the Minister for Communications, Information Economy and the Arts in July 1998.

Treasury officers participated in the development of the *National Third Party Access Code for Natural Gas Pipeline Systems*, which establishes a framework for third parties to obtain access to significant natural gas pipelines. Treasury was also involved in the development of the *Gas Pipelines Access (Commonwealth) Act 1997*, which gives legislative effect to the Code and contains a number of amendments to the *Trade Practices Act 1974* aimed at removing procedural inflexibilities in the regulation of network industries such as gas and electricity.

Treasury assisted the Government in carrying out its privatisation agenda by contributing, as necessary, to the development of several asset sales. It performed, on behalf of the Treasury Portfolio, a coordination role in the Telstra sale process, enabling due diligence and other administrative processes to be completed.

Productivity Commission

The Productivity Commission (the Commission) is the Government's principal advisory body on microeconomic reform. For most of the year, the Commission operated on an administrative basis, pending passage of the relevant legislation. The Commission formally came into being on 16 April 1998 following Royal Assent to the *Productivity Commission Act 1998*. The Government subsequently announced the Chair and Commissioner appointments to the Commission together with its work program for 1998. Treasury was responsible for overseeing preparation, briefing and passage of the legislation, as well as advising on appointments and the work program.

The broad charter of the Commission includes holding inquiries on industry, industry development and productivity matters referred to it by the Treasurer; providing advice to the Treasurer on industry, industry development and productivity matters referred to it; undertaking research on such matters on its own initiative; promoting public understanding of such matters; and receiving, investigating and reporting on competitive neutrality complaints about Commonwealth Government businesses and business activities.

Treasury has a central role in the work of the Commission. With the legislation now in place, SPD's three major responsibilities are to:

coordinate a substantial forward work program for the Commission; liaise with departments, agencies, the States and Territories and the Commission to ensure that each of the terms of reference is properly focussed; and ensure that full consideration is given to all recommendations in the Commission's reports and that proper processes are followed by departments and agencies in formulating the Government's responses to them.

During the year Treasury coordinated and finalised three wide-ranging inquiry references to the Commission. The references were: the Australian black coal industry; Australia's International Air Services Agreements and the International Air Services Commission; and the telecommunications equipment, systems and services industries. SPD also coordinated terms of reference for the Commission's studies into local government performance indicators; export of government services; the impact of Commonwealth indirect taxes on exporters; and imports of Atlantic salmon from New Zealand.

In conjunction with the appropriate 'portfolio' departments, Treasury coordinated the Government's responses to nine Commission reports during the year. The reports were on the automotive industry; the textile, clothing and footwear industries; the medical and scientific equipment industries; the packaging and labelling industries; the machine tools and robotics industries; book printing; private health insurance; ecologically sustainable land management; and state, territory and local government assistance to industry.

General Policy Advice and Other Activities

Treasury provided advice to the Government and engaged in the policy development processes on a wide range of issues relating to industry policy and the environment. Treasury provides oversight, including advising on appointments, of the Commonwealth Competitive Neutrality Complaints Office, the Office of Regulation Review, the National Competition Council, the Australian Competition and Consumer Commission, and the Australian Competition Tribunal. Treasury provided input into interjurisdictional issues relating to competitive tendering and contracting, research and development, higher education and local government.

Specific instances of Treasury's input include:

- preparation of the Government's *Investing for Growth* industry statement and other aspects of industry policy (eg tariffs, anti-dumping and tourism);
- identifying and resolving issues arising from projects facilitated by the Government's Major Projects Facilitator, Mr Bob Mansfield;
- advising the Government on implementing initiatives contained in *Investing for Growth*, which includes targeted support for innovation;
- the interdepartmental process relating to implementing the Infrastructure Borrowings Tax Offset Scheme;
- advice, and preparation of formal instruments, for the Treasurer to implement prices oversight arrangements at the privatised Commonwealth airports and corporatised Sydney airport;
- development of the Integrated Rural Package which focusses on economic adjustment and employment opportunities in rural areas; and
- the formulation of the Government's final position on greenhouse issues which was presented at the Kyoto conference.

SPD prepared briefing notes for the Treasurer and Assistant Treasurer for the purpose of their involvement in the Cabinet and subcommittee processes.

Subprogram 1.4 — Taxation

Objective

To develop taxation policies which contribute to the efficient and equitable raising of taxation revenue.

Description

Taxation Policy Group is responsible for assessing and advising on both the general structure of the taxation system and its components, in relation to economic efficiency, equity, income distribution, budgetary requirements and economic feasibility.

**Table 5: Financial and Staffing Resources Summary
Subprogram 1.4 — Taxation**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 4,115 | 7,264 | 6,779 |
| Other program costs (excluding RC) | 555,618 ^(a) | 96,900 | 94,457 ^(b) |
| Total | 559,733 | 104,164 | 101,236 |
| Adjustments | (5) | (96,203) | (94,508) |
| Total Outlays | 559,728 | 7,961 | 6,728 |
| STAFFING | | | |
| Staff Years | 51 | 60 | 74 |

(a) The program costs figure recorded against the 1996-97 financial year includes the one-off payment of windfall revenue gains (\$555.6 million) to Victoria arising from the settlement of a dispute between the Victorian gas utilities and their gas suppliers.

(b) As a result of a High Court decision preventing States from levying stamp duty on phase 1 airport sales, in 1997-98 the Commonwealth made stamp duty equivalent payments totalling \$94.4m to affected States, funded by airport sale proceeds.

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Group's Operational Plan, include:

- evaluating the effectiveness of the current taxation system, including measures recently introduced;
- initiating and developing new policy and tax reform proposals to, amongst other things, address demonstrated deficiencies in the tax system and to support Government objectives and initiatives;
- enhancing revenue costing and forecasting capabilities;
- developing and using computer models to enhance understanding of the impact of taxation measures on individuals and the economy;
- identifying emerging issues and undertaking forward-looking analysis of policy options, including through Group conferences and seminars;
- consulting and coordinating effectively with Portfolio Ministers and their Offices and with the Australian Taxation Office (ATO), including through regular meetings of:
 - the Tax Policy Panel (a forum comprising senior Treasury and ATO officers and representatives of the Offices of Portfolio Ministers at which major tax policy issues are discussed); and
 - the Revenue Analysis Group (a forum comprising officers of the Treasury and the Revenue Analysis Branch of the ATO at which issues relating to revenue forecasting and costing of tax policy measures are discussed);
- maintaining an effective relationship with the private sector, other Departments and other relevant parties, including through participation in the ATO's National Tax Liaison Group and Inter-Departmental Committees;
- publishing discussion/issues papers on key strategic issues and seeking comment and submissions from interested parties;
- participating in discussions of, and presentations on, tax policy issues at domestic and international fora, including the OECD, and through relevant publications and external conference presentations;
- enhancing transparency of concessions provided in the tax system through the publication of the *Tax Expenditures Statement*; and

- using the Group Operational Plan to allocate resources and priorities and to provide a strategic focus, including: a policy-advising and tax reform program; a program for undertaking policy-relevant research; a program for effectively managing the Group's resources, including management and training subprograms; a communication program; and a program for the review and evaluation of Group processes and outcomes.

Performance Indicators

Performance indicators for the subprogram include:

- satisfaction of Portfolio Ministers, their staff, and Government more generally that policy based on Group advice would enhance economic efficiency while having regard to equity concerns and so improve the effectiveness of the taxation system;
- satisfaction of Portfolio Ministers, their staff and Government more generally that their priorities are being met;
- meeting Departmental standards for policy advice of comprehensiveness and consistency with broader economic and social objectives, analytical rigour, timeliness, presentation and effectiveness;
- group briefings influencing tax policy outcomes and debate;
- feedback from conferences, seminars and the Tax Policy Panel;
- feedback — including via industry submissions and consultations — from the private sector and other external agencies;
- conclusions of internal evaluation sessions of particular projects/processes;
- quality and scope of the reporting of tax expenditures;
- contribution to tax policy debate;
- improved quantitative techniques; and
- satisfaction of external bodies that their views are understood and considered in the development of policy advice.

Performance Outcome for 1997-98

Policy Focus

In August 1997, the Prime Minister announced the Government's intention to reform and modernise the Australian tax system. The Taxation Task Force, comprising officials from the Departments of Treasury and the Prime Minister and Cabinet, the Australian Taxation Office, the Treasurer's Office and the Cabinet Policy Unit, was formed to progress the Government's initiative. The TRG was established in Taxation Policy Division in August 1997 to support the Task Force. The TRG, through the Task Force, provided the Government with policy advice, including options for tax reform, drawing extensively on the resources of the Division in developing these options.

The Division continued its ongoing work on the personal, business and indirect tax system. A Commonwealth-State Taxation Branch was established in response to the increased workload on Commonwealth-State relations, brought about in part by requests from the States and Territories for the Commonwealth to protect their budgets from the effects of two High Court decisions which found a number of State and Territory tax bases constitutionally invalid. Also, Budget Revenue Section was transferred to the Division from Fiscal Policy Division to consolidate the Department's revenue estimation and analysis function.

In May 1998, the Division was restructured to integrate the TRG and the Division into a single structure — Taxation Policy Group. The catalysts to the restructure were senior staff movements and the need to develop a structure that could combine the growing work on tax reform with ongoing tax policy work. The new organisational structure increases the flexibility of the subprogram to deliver on taxation policy. The Group, through the Taxation Task Force, continued to provide advice to the Government on tax reform options.

Feedback from Government and Taxpayers

TPG obtains feedback on its performance through industry submissions and consultations and by monitoring factors such as the Group's influence on the tax policy debate and tax policy outcomes. This influence can be measured, to some extent, by the process of issuing

discussion papers and receiving submissions; the extent to which recommended positions are adopted by the Government; and the conformity of the adopted measures with principles of efficiency and equity.

The emphasis on tax reform options for the longer term did not detract from development of measures for more immediate implementation. In 1997-98, TPG prepared 11 Cabinet Submissions for the Treasurer to take to Cabinet, in addition to contributing to a number of other submissions which were taken to Cabinet jointly by the Treasurer and other portfolio ministers. The recommendations of a number of these submissions were reflected in announcements made during the latter half of 1997 and in the 1998-99 Budget.

1998-99 Budget

Treasury provided substantial policy advice to the Government on taxation measures for the 1998-99 Budget brought down in May 1998.

The Government announced the introduction of a generic framework for determining the taxation consequences of transactions associated with the demutualisation of non-insurance organisations. The new arrangements will apply to all demutualisations completed on or after 12 May 1998. The framework, the development of which was announced in the 1997-98 Budget, has benefited from extensive public input and will address anomalies that can arise from the application of existing tax law. It will provide greater certainty for mutual non-insurance organisations about the taxation consequences of demutualisation.

The Government also announced measures to extend the class of Y2K compliance expenditures which are immediately deductible to include expenditure on acquiring new software or substantially rebuilding current software which has the predominant nature of ensuring Y2K compliance, provided that such expenditure is incurred up to 31 December 1999. The taxation treatment of software in general was also amended to give software expenditures a 2½ year write-off. This amendment was in response to the Commissioner of Taxation's withdrawal of taxation ruling IT26 which would, at best, have resulted in amortisation of software expenditures over 25 years. A 2½ year write-off rate for software brings Australia broadly into line with comparable overseas taxation jurisdictions.

The Government also announced details of a new tax rebate for expenditure on landcare works.

The Government announced that from 1 July 1998, participants in the CDEP scheme would be able to claim the beneficiary tax rebate. The CDEP scheme is designed to provide meaningful employment opportunities for Aboriginal and Torres Strait Islander people. CDEP participants forgo their entitlements to unemployment benefits and work in community based activities for wages. Access to the beneficiary tax rebate will mean that CDEP participants will no longer incur a tax liability on the income support component of their CDEP wages. Treasury officers worked closely with officers from the Aboriginal and Torres Strait Islanders Commission and the ATO in progressing this initiative which brings the tax treatment of CDEP participants into line with that of Newstart allowees and beneficiaries of other labour market programmes who are also eligible for the beneficiary rebate.

In addition, Treasury assisted in the compilation of the revenue estimates for the 1997-98 and 1998-99 Budgets. The deviation of the 1997-98 Budget forecast from the actual outcome was within the 2 per cent average of past experience.

Consultation with State and Territory Governments

The newly created Commonwealth-State Taxation Branch undertook extensive consultation with officials from all State and Territory Treasuries to develop policy options for Commonwealth, State and Territory governments in response to two High Court decisions which found certain State and Territory tax bases to be unconstitutional (at a cost to the States and Territories of over \$5 billion per year).

Commonwealth, State and Territory officials developed a draft Inter-jurisdictional Taxation Agreement (IJTA), considered and endorsed by governments in the second half of 1997. The key elements of the IJTA are that: the Commonwealth would protect State and Territory budgets from the impact of certain High Court cases; and Commonwealth, State and Territory officials would examine the merits of reciprocal taxation as a possible alternative to existing Commonwealth-State taxation arrangements.

All requirements of the IJTA have been fulfilled. The Government has introduced legislation that facilitates the replacement of State tax revenue

lost as a result of the High Court's decisions. Consultation between jurisdictions is continuing over administrative arrangements. Commonwealth, State and Territory Treasury officials have completed the Reciprocal Taxation Review, but it is yet to be considered by governments.

Consultation with Taxpayers

Treasury and the ATO released an *Issues Paper on a Generic Taxation Framework for Demutualisations of Non-Insurance Organisations* on 28 May 1997. Subsequently, Treasury and the ATO undertook extensive consultation with interested groups, receiving a number of submissions from a variety of sources. Consequent to these consultations the Government announced the introduction of a generic framework for determining the taxation consequences of transactions associated with the demutualisation of non-insurance organisations in the 1998-99 Budget.

Treasury officers joined ATO officials to undertake extensive consultations with taxpayers concerning implementation of the measures to address franking credit trading, after the announcement of the measures in the 1997-98 Budget. Similar consultations occurred with respect to the implementation of the Government's 1998-99 Budget measure relating to Y2K compliance expenditure and taxation of software.

Treasury also entered into consultations with members of the telecommunications industry in relation to taxation treatment of spectrum licenses and representatives of the Australian Petroleum Production and Exploration Association in relation to application of the Petroleum Resource Rent Tax.

Further, Treasury received submissions in response to the December 1996 release of the joint ATO/Treasury Issues Paper on the Taxation of Financial Arrangements. Consultations are continuing with interested parties on the policy issues raised.

More generally, Treasury regularly engages in consultations with other Departments, the private sector and interest groups, giving these bodies (where appropriate) the opportunity to provide input to the development and implementation of the Government's taxation policies. Such

processes play an important role in informing Treasury's advice to Government.

Community Education and Information Program

Treasury was allocated \$10 million in 1997-98 for an information and education program to inform the public of the nature of the Australian taxation system and changes required to reform it. TPG was responsible for this program.

Reporting of Tax Expenditures

Treasury produces the annual *Taxation Expenditures Statement* (TES) which provides details on the revenue impacts associated with concessional taxation treatment of specific groups and/or activities.

The 1996-97 TES, published in December 1997, reports on the costs of particular tax expenditures with estimates and projections to 2000-01. This complements information provided in the Budget Papers on the aggregate cost of tax expenditures as a proportion of GDP.

The net cost of aggregate tax expenditures increased by around \$1 billion in 1996-97. As a result, the ratio of tax expenditures to underlying budget outlays increased to 14.5 per cent in 1996-97 and is projected to rise to almost 17 per cent by 2001-02.

Following a review of existing tax expenditures, first announced in the 1996-97 Budget, the Government has decided to undertake periodic monitoring and evaluation of all tax expenditures through normal budget processes. TPG will oversee this process. Information on the costs of tax expenditures will assist the Government in delivering assistance in an effective manner, and will be consistent with the requirements of the Government's Charter of Budget Honesty.

Other Policy Advice

The Group contributed to the taxation response to the Government's Corporations Law changes relating to capital reductions, par value for shares and share buy-backs. The Government announced its decision on these tax changes on 13 November 1997.

Treasury has provided ongoing advice with respect to the Government's Capital Gains Tax small business rollover relief measure, including the extension of this measure to rollover accomplished through the sale of shares or units in a trust. Treasury also provided advice on the taxation treatment of spectrum licenses, which are rights to use bands of the radio frequency spectrum under the *Radiocommunications Act 1992*. On 11 March 1998 the Government announced that amortisation would be available for the acquisition cost of domestic spectrum licenses.

Treasury contributed to the development of the Prime Minister's statement of 12 December 1997, *Investing for Growth*. The measures include a widening of the interest withholding tax exemption, extending the range of eligible Offshore Banking Unit activities, and relaxing the FIF rules to exempt certain FIF investments located in the United States. These measures are designed to promote Australia as a regional financial centre and to increase competition within the financial sector in Australia.

The OECD Committee on Fiscal Affairs has broad responsibilities related to taxation policy and administration. Treasury has contributed to the work of the Committee, particularly in respect of its project on harmful tax competition.

Treasury also advised the Treasurer on:

- the *Agriculture ¾ Advancing Australia* package in which the Government announced a new risk management option for farmers with the Farm Management Deposit (FMD) scheme;
- taxation amendments designed to clarify the taxation implications of native title for both native title holders and other taxpayers, which were announced by the Government on 13 February 1998;
- several rounds of negotiations on Double Tax Agreements (with Argentina, Canada, Malaysia, Mexico, Romania, Russia, Slovakia, South Africa and Turkey); and
- taxation arrangements to apply to the Government's new infrastructure borrowings tax offset scheme.

Modelling

TPG is responsible for three models: the Price, Revenue Incidence Simulation Model (PRISMOD), the Treasury Wholesale Sales Tax and Excise Revenue Price Model (TWERP) and a model used to analyse the cost and distributional effects of certain taxation and social security changes. All three models were developed within the Treasury. The update of PRISMOD provides a tool for revenue estimation and general taxation policy research relating to the indirect tax system.

During 1997-98, PRISMOD was updated to reflect the current tax system, and re-based using the latest forecasts and Australian National Accounts input-output data. There have also been further developments in the methodology of PRISMOD at both a theoretical and practical level.

The TWERP model calculates sales tax and excise revenues, price effects and CPI impacts. This model has been subject to considerable extension over the last 12 months, including to assist in the modelling of changes to taxation arrangements to address the constitutional invalidation of State business franchise fees.

TPG also developed a model in 1997-98 that provides for real time analysis of the cost and distributional effects of selected taxation and social security changes.

The Group uses all three models in costing proposals as part of the Government's tax reform process.

Ministerial Correspondence

During 1997-98, TPG processed some 30 per cent of the Treasury's Ministerial correspondence. Almost 3000 substantive replies were prepared, an increase of 35 per cent over those processed the previous year, while still maintaining a continued reduction in correspondence turnaround times. This was achieved through the allocation of an additional officer to the Ministerial Unit and more effective use of the Department's computerised System for Ministerial Answering, Routing and Tracking (SMART).

Legislation and Government Inquiries

Treasury has made a submission to, and provided follow-up briefing for, the Inquiry into Legal Aid being conducted by the Senate Legal and Constitutional References Committee.

Treasury has also contributed to a joint interdepartmental response to each recommendation of the Mortimer Report, *Going for Growth*, the Goldsworthy Report, *Information Industries Task Force Report*, and the Information Policy Advisory Council Report, *A national policy framework for structural adjustment within the new 'Commonwealth of Information'*.

The implications of the spread of electronic commerce, particularly for taxation policy and administration, have generated much interest both in Australia and internationally. With a view to assisting in defining the issue, Treasury, in association with the ATO, has participated in the debate, for example through the *Joint Committee of Public Accounts (JCPA) Inquiry into Internet Commerce* and the preparation of the OECD document *Framework Conditions for the Taxation of Electronic Commerce*.

Further, Treasury has participated in a number of interdepartmental reviews, including the application of the Petroleum Resource Rent Tax to Liquefied Natural Gas projects (which involved consultation with industry representatives); Pooled Development Funds; and the definition of research and development activities. The reviews of these matters are ongoing.

Subprogram 1.5 — Fiscal

Objectives

To develop fiscal policies, including arrangements for the distribution of resources between the Commonwealth and other levels of government, which are consistent with sustainable public finances and macroeconomic objectives; and to administer efficiently the provision of general revenue assistance to other levels of government.

Description

Fiscal Policy Division is responsible for advising on fiscal policy, Commonwealth-State financial relations, payments to the States, intergovernmental coordination of public sector borrowing, and measures to improve public sector efficiency.

**Table 6: Financial and Staffing Resources Summary
Subprogram 1.5 — Fiscal**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|---------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 2,939 | 2,686 | 2,267 |
| Other program costs ^(a) (excluding RC) | 16,216,339 | 16,203,375 | 21,818,083 |
| Total | 16,219,278 | 16,206,061 | 21,820,350 |
| Adjustments ^(b) | (395,232) | (2) | (5,624,362) |
| Total Outlays^(c) | 15,824,046 | 16,206,059 | 16,195,988 |
| STAFFING | | | |
| Staff Years | 39 | 38 | 30 |

- (a) Other program costs relate to general purpose grants made to the States. The very large increase in other program costs is due to the introduction of safety net arrangements to protect State revenues following a High Court ruling of 5 August 1997. All revenue collected by the Commonwealth under these arrangements is returned to the States (less administrative costs).
- (b) The adjustments comprise the direct payment of State fiscal contributions to the Commonwealth by New South Wales, Victoria and South Australia, and payments to the States under the safety net arrangements (consistent with the ABS classifications, these payments are treated as revenue items).
- (c) Variations in total outlays are mainly due to the impact of CPI and population growth on indexation arrangements for general revenue assistance. In addition, Queensland, South Australia, the ACT and the Northern Territory opted to pay all or part of their 1997-98 fiscal contributions to the Commonwealth through deductions from their funding allocations under the Commonwealth State Housing Agreement.

Strategies

Strategies to achieve this objective include:

- the provision of information on, and assessment of, the fiscal outlook;
- the preparation of advice on fiscal policy, including medium term strategies, the efficiency of the public sector and Commonwealth/State relations, budgetary developments in the State/Territory sector and borrowings by all levels of government;
- the provision of advice which seeks to balance various considerations in the setting of fiscal policy, including impacts on aggregate demand, public saving, inter-generational equity and future flexibility;
- participation in program policy reviews;
- the enhancement of transparency, accountability and public scrutiny of public sector finances through implementation of the Charter of Budget Honesty, Loan Council and uniform fiscal reporting arrangements and the publication of Commonwealth budget documentation and the *National Fiscal Outlook*;
- the provision of financial resources to other levels of government at agreed levels, ensuring that appropriate administrative arrangements are in place and that all accountability requirements are met;
- contributing to public debate and understanding of the Government's fiscal strategy and its implications, and of public sector finances more generally, including by undertaking policy relevant research and analysis; and
- undertaking internal review and evaluation of processes and outcomes.

Performance Indicators

The quality, timeliness and relevance of fiscal policy advice are key indicators for this subprogram. Assessments of performance against these criteria take into account:

- the contribution to policy outcomes;

- feedback from the Treasury portfolio Ministers and the Department's Executive; and
- feedback from external sources including the State and Territory Governments.

The efficiency and effectiveness of arrangements to meet operational requirements, including payments to other levels of government, are measured by feedback from the governments concerned and by internal and external audit.

Performance Outcome for 1997-98

Charter of Budget Honesty

A significant development in 1997-98 was the passage of the Charter of Budget Honesty through Parliament. Treasury played a key role in developing the *Charter of Budget Honesty Act 1998*, which aims to produce better fiscal outcomes through introducing institutional arrangements to increase public scrutiny of fiscal objectives and performance.

The Act provides for the clear enunciation of government fiscal objectives, consistent with principles of sound fiscal management contained in the Act, and for regular public reporting of performance against those stated objectives. The Act pays particular attention to improving the information publicly available at election times by requiring the publication of a Pre-Election Economic and Fiscal Outlook (PEFO) report within 10 days of the issue of writs for a general election. (The first such report was released on 8 September 1998.) The Act also includes formal arrangements for the Government and the Opposition to have election commitments costed by the Departments of the Treasury and Finance and Administration.

Budget Processes

The *Final Budget Outcome 1996-97* was published in August 1997, and a comprehensive mid-year review of the 1997-98 Budget estimates was published in December 1997. These publications were consistent with the requirements of the *Charter of Budget Honesty Act 1998*, and provided

detailed information on the Government's fiscal objectives and expected performance against those objectives.

The 1998-99 Budget was brought down on 12 May 1998. A review of 1998-99 Budget processes, including the coordination and production of the budget papers and associated material, was undertaken to identify areas for improvement. The results of this review will assist in the planning process for the 1999-2000 Budget.

Policy Advice on the Fiscal Outlook

During 1997-98, advice was provided to the Treasurer and other members of the Government on the 1996-97 outcome, the fiscal outlook and the 1998-99 Budget strategy and processes. In formulating this advice, Treasury took into account the impact of policy decisions and changes in the economic outlook. Incorporation of the influence of economic and fiscal conditions in the States and Territories was facilitated by liaison with State and Territory officials.

Treasury also provided advice to the Treasurer and Assistant Treasurer concerning taxation and expenditure proposals as part of the budget formulation process.

Major Program Reviews

During 1997-98, officers of the Division participated in a number of interdepartmental committees reviewing a range of major programs. This included work on the Australian Health Care Agreements, the development of reforms to improve the private health insurance industry, and the renegotiation of the Commonwealth State Housing Agreement. Treasury's contribution to such review processes seeks to ensure that the Government's social objectives are considered in the context of its broader economic aims and that the outcome improves the effectiveness and efficiency of Commonwealth Government outlays. Treasury also provided advice to the Government on these and other program policy issues.

1998 Premiers' Conference

Treasury has primary responsibility for the provision of advice on financial arrangements with the States. In the lead-up to the

1998 Premiers' Conference held on 20 March 1998, advice was provided to the Treasurer on the provision of general revenue assistance to the States and Territories, State fiscal contribution payments and the coordination of public sector borrowings through the Loan Council. Loan Council did not meet in 1997-98, with Loan Council business being conducted by correspondence.

The Commonwealth undertook to maintain the real per capita indexation arrangements for financial assistance grants in 1998-99 and to extend the real per capita guarantee to 2000-01. In addition, the Commonwealth will make National Competition Payments to the States in 1998-99. This will result in the provision of general revenue assistance of some \$17.1 billion to the States and Territories in 1998-99. The payment of National Competition Payments, together with the per capita component of the indexation arrangements for financial assistance grants, is conditional on the States and Territories meeting their obligations under the Agreement to Implement the National Competition Policy and Related Reforms.

The payment of financial assistance grants to the States and Territories in 1998-99 is also conditional upon the States making fiscal contribution payments to the Commonwealth. This will be the last year of the payments that were agreed at the 1996 Premiers' Conference.

The Loan Council Allocations nominated by the Commonwealth, States and Territories for 1998-99 were agreed by Loan Council by correspondence in May 1998. In March 1998, Loan Council agreed by correspondence that the publication of monthly and year to date budget sector data ('Niemeyer' statements), required under a 1930 Commonwealth-State agreement, no longer be mandatory.

Fiscal Reporting Issues

The 1998 *National Fiscal Outlook*, which provides medium term projections of general government sector finances of the Commonwealth, States and Territories, was published in March 1998. It was prepared by a working group of Commonwealth and State Treasury officials as an input to the deliberations of the 1998 Premiers' Conference and to assist public understanding of trends in public sector finances.

Loan Council agreed in March 1997 to a revised framework for the uniform presentation of government financial information.

During 1997-98, the Commonwealth published information in the format specified in the revised framework and in advance of its full implementation in 1998-99. This information, including Loan Council reporting, was presented in the *Final Budget Outcome 1996-97*, the *Mid-Year Economic and Fiscal Outlook 1997-98* and the 1998-99 Budget Papers.

Heads of Treasuries

Heads of Commonwealth, State and Territory Treasuries meet regularly to discuss matters of mutual interest, such as economic conditions, fiscal reporting, taxation and financial issues, and preparations for the annual Premiers' Conference and Loan Council meeting. Three Heads of Treasuries meetings were held in 1997-98.

Payments to the States and Territories

During 1997-98, general revenue assistance to the States and Territories was paid in accordance with the level and distribution determined at the 1997 Premiers' Conference and as set down in the *States Grants (General Purposes) Act 1994*. Arrangements were put in place for the States and Territories to pay State fiscal contributions directly to the Commonwealth or by deduction either from their general revenue assistance or from Commonwealth funding under the Commonwealth-State Housing Agreement.

On 6 August 1997, at the unanimous request of the States and Territories, the Commonwealth announced 'safety net' arrangements to maintain State revenues following the High Court ruling which cast into doubt the constitutional validity of all State and Territory business franchise fees. All revenue collected by the Commonwealth under the 'safety net' arrangements was returned to the States (less administrative costs) as revenue replacement payments. The distribution of revenue replacement payments was agreed among the States.

Payments of general revenue assistance were made in weekly instalments in accordance with the *States Grants (General Purposes) Act 1994*. Weekly revenue replacement payments were provided to the States on the basis of advice from the Australian Taxation Office and the Australian Customs Service on weekly collections under the 'safety net' arrangements. Treasury received no adverse feedback from State or Territory governments on the Department's administration of these arrangements during the year. All relevant accountability requirements were met.

Subprogram 1.6 — Debt Management

Objective

To raise, manage and retire Commonwealth debt at the lowest possible long-term cost, consistent with an acceptable degree of risk exposure.

Description

Debt Management Branch of International and Investment Division is responsible for advising on, designing and implementing programs in relation to borrowings by the Commonwealth and the management of the Commonwealth’s debt, including legislative aspects of debt issue.

**Table 7: Financial and Staffing Resources Summary
Sub-Program 1.6 — Debt Management**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|---------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 1,761 | 1,482 | 1,477 |
| Other program costs ^(a) (excluding RC) | 14,923,411 | 15,374,124 | 19,400,236 |
| Total | 14,925,173 | 15,375,606 | 19,401,713 |
| Adjustments | (6,151,314) | (6,383,771) | (10,776,158) |
| Total Outlays | 8,773,859 | 8,991,835 | 8,625,556 |
| STAFFING | | | |
| Staff Years | 22 | 22 | 20 |

(a) Program costs include transactions relating to the servicing of Commonwealth debt. Adjustments include Trust Fund and Loan Fund transactions relating to Commonwealth debt, receipts offset within outlays (primarily repayment of advances from the States and the Northern Territory and interest amounts received from Swap counterparties) and financing transactions (primarily principal payments to Swap counterparties). Revenue includes interest payments from the States and the Northern Territory and principal amounts received from Swap counterparties.

Strategies

Strategies to achieve the objective of the subprogram, which are reflected in the Branch’s Operational Plan, include:

- utilisation and further development of a broad range of debt instruments and liability management techniques;
- regular contact with financial market participants, other sovereign borrowers and the RBA, to pursue best practice in the Government's debt funding and management decisions and to foster market familiarity with the Commonwealth's strategies in these areas;
- liaison with spending Departments, the Department of Finance, the RBA and the Australian Taxation Office to facilitate efficient cash management;
- utilisation of specialist external advice as input into longer term strategic portfolio management decisions;
- ensuring all legislative, administrative and accountability requirements for debt issue and redemption and the payment of debt assistance are met;
- ensuring efficient, secure and accountable procedures are in place for the processing of transactions; and
- internal and external review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include:

- achievement of the Commonwealth's financing task;
- efficient execution of the Commonwealth's borrowing activities;
 - partial indicators include the range of accepted bids and the basis point spread between tender and secondary market yields.
- efficient management of the Commonwealth's cash balances;
 - indicators include achievement of the Ministerially-endorsed cumulative average cash balance target as at end year.
- timely calculation of public debt interest (PDI) obligations as an input into budgetary processes; meeting all legislative, administrative and

accountability requirements for debt issue, repurchase and redemption and the payment of debt assistance related to redemption of Commonwealth Government debt on issue for the States and Territories; and

- efficient administration of debt redemption for the States and the Northern Territory through the Debt Retirement Reserve Trust Account.

Performance Outcome for 1997-98

Debt Management Framework

In common with most entities with significant financial exposures in their balance sheet, the Commonwealth has been moving increasingly in recent years to conduct its debt management activities within an explicit risk management framework. In conducting its portfolio management and debt issuance activities, key risks managed by the Commonwealth include funding risk, market risk and credit risk.

Treasury's broad objective with respect to *funding risk* management is to ensure continued market access on favourable terms such that funding requirements are realised in a cost-effective manner. Cost-effective debt issuance requires appropriate stock selection; efficient execution of transactions; the maintenance of a diverse investor base; deep, liquid markets; and an efficient yield curve for Commonwealth Government securities. To this end, the practice of concentrating debt issuance into liquid benchmark stocks was continued in 1997-98. Extensive liaison with financial market participants has been maintained in order to assess market conditions and guide issue decisions.

Market risk, sometimes referred to as portfolio risk, is the risk to the value of the debt portfolio from changes in financial prices. Treasury's approach has focussed for a number of years on the establishment of a carefully-defined hypothetical portfolio benchmark to serve as a target for the actual debt portfolio.

The benchmark, which is the outcome of considerable research and modelling undertaken with input from specialist external advisors, reflects a portfolio composition that, *ex ante*, can be expected to minimise the

cost of Commonwealth debt over the longer term, subject to an acceptable degree of volatility in annual debt service costs. It is within this benchmark framework that decisions relating to the 1997-98 borrowing program were taken, ensuring consistency with the long-term strategy.

Credit risk is the risk that a counterparty of the Commonwealth may default on its obligations. Credit risk is managed by reference to a comprehensive Swap Counterparty Credit Policy, endorsed by the Treasurer, that establishes minimum credit rating criteria for acceptable counterparties and differential market and potential exposure limits for various institutional counterparty types at different ratings points.

The Commonwealth's Borrowing Program

The Commonwealth's 1997-98 borrowing program of \$2.2 billion was completed using a mix of debt instruments, in conformity with the established strategy. The size of the borrowing program was primarily a function of the Commonwealth's headline budget position, and the financing of public trading enterprise superannuation and maturing Commonwealth Government securities, including the early retirement of \$8.0 billion (face value) of Treasury Fixed Coupon Bonds that were due to mature beyond 1997-98.

The 'grossing up' of borrowing programs implied by the early retirement of debt scheduled for maturity in the forward years is guided primarily by funding risk management objectives, in particular objectives in regard to maintaining the length, pricing efficiency and liquidity of the Commonwealth yield curve. Such transactions have no effect on the Commonwealth's net call on the markets, nor on the stock of Commonwealth debt outstanding.

There are a number of partial indicators of performance in regard to the cost-effectiveness of the execution of the Commonwealth's borrowing activities. Performance indicators for Commonwealth tender operations include the range of accepted tender bids and the margin of the weighted average tender yield over prevailing secondary market yields. These indicators provide only a *partial* guide to how well debt issuance has been targeted to market demand as external factors can also influence these measures. Nonetheless, these partial indicators would tend to indicate if

there had been poor tender performance, particularly when examined over time.

Treasury Fixed Coupon Bonds

Treasury Fixed Coupon Bonds were the main funding instrument employed by the Commonwealth in 1997-98. Nine tenders were held in 1997-98, raising \$4.5 billion, which was down from the 1996-97 program of \$7.0 billion. Issuance was concentrated in the Commonwealth's longer-dated stocks, in the interests of building liquidity in that part of the curve. This action ensured that the Commonwealth yield curve remained liquid across its length of around twelve years.

The average margin between tender and prevailing secondary market yields (around half of one basis point) was unchanged from last year, while the average range of accepted tender bids continued to decline, from two basis points to around one and a half basis points. These indicators are consistent with the program's being implemented in a cost-effective manner.

Treasury Adjustable Rate Bonds (TABs)

TABs are a term floating rate bond introduced by the Commonwealth in 1994-95. This borrowing instrument was introduced into the Commonwealth debt portfolio to enhance the Commonwealth's flexibility with regard to means to raise debt and to manage its debt efficiently. No issuance of TABs took place in 1997-98 in light of reduced demand for this instrument flowing from changes to the Prime Asset Requirement of commercial banks and the cost-effectiveness of domestic interest rate swaps in generating floating interest rate liability exposure for the Commonwealth.

Treasury Indexed Bonds (TIBs)

Following consultation with market participants which suggested that greater certainty as to the timing of TIBs tenders would assist further market development of this instrument, Treasury began issuing TIBs on a regular six-to eight- week cycle in 1997-98. This represented a departure from previous practice where the scale and timing of issuance had deliberately been targeted to identified market demand, in the interests of

developing greater confidence in the sector, from intermediaries and investors alike.

In 1997-98, there were seven tenders held, with total issuance of around \$700 million all into the 2020 line (which was first issued in 1996-97). The spread to secondary market yields was flat, as in 1996-97, and the average range of accepted bids at tender continued to decline, to around four basis points, consistent with growing depth and maturity in the market for this security.

Treasury Notes

Treasury Note issuance in 1997-98, as in prior years, was designed principally to provide short-term financing to cover within-year timing mismatches between the payment of Commonwealth Government outlays and the receipt of Commonwealth Government revenues. The Treasury Note tender program was managed such that, over the course of the full year, cumulative average cash balances were around the Ministerially-prescribed target.

In 1997-98, around \$50.2 billion of Treasury Notes were issued to the public, through 43 tenders. The RBA took up a further \$3.6 billion over the year at the weighted average yield recorded at the applicable tenders. The average range of accepted bids at tender was 4 basis points, and the spread to secondary market yields was 2 basis points. Both of these measures showed slight increases over the results achieved in 1996-97.

Legislative and Administrative Requirements

The debt issue, repurchase and redemption programs were administered in accordance with the provisions of the *Commonwealth Inscribed Stock Act 1911*, the *Loans Redemption and Conversion Act 1921*, the *Financial Agreement Act 1994* and related legislation. Estimates of Commonwealth PDI obligations on the Commonwealth debt portfolio were prepared regularly as an input into Budget figuring.

All legislative and administrative requirements for debt redemption were met, including those related to the redemption, through the Debt Retirement Reserve Trust Account, of Commonwealth Government debt on issue for the States and Territories.

Debt assistance payments to the States and Territories, in the form of Commonwealth sinking fund payments to the Debt Retirement Reserve Trust Account (to assist them in their redemption of Commonwealth Government securities on issue on their behalf) and untied grants (to compensate them for the costs of cessation of Commonwealth borrowing on their behalf), were made in accordance with the provisions of the *Financial Agreement Act 1994*. All relevant accountability requirements were met and enquiries from State and Territory Treasuries concerning debt redemption matters were handled promptly.

Treasury publishes an annual report on *Commonwealth Debt Management*.

Subprogram 1.7 — Investment

Objective

To encourage foreign investment consistent with national interest considerations and by following procedures that minimise the impact on commercial decision-making.

Description

The Government's foreign investment policy is to encourage foreign direct investment consistent with the needs of the Australian community. Administration of the policy is based on guidelines rather than inflexible rules; it is intended to be practical and non-discriminatory. Restrictions are applied only in a few areas (for example, developed residential real estate) where the Government considers that the net benefits to the Australian community from foreign investment are smaller. In the majority of industry sectors, smaller proposals are exempt and larger proposals are normally approved unless considered to be contrary to the national interest.

The Foreign Investment Review Branch of the International and Investment Division provides executive assistance to the FIRB which is a non-statutory body established in 1976 to advise the Government on foreign investment proposals. The Branch provides secretariat services for the Board, prepares reports on foreign investment proposals and is usually the first point of contact for foreign investors. In addition, the Branch advises the Government on general foreign investment policy matters, including Australia's participation in multilateral and bilateral agreements on investment. The FIRB publishes its own annual report which outlines its activities, provides a summary of the year's foreign investment proposals, comments on the more significant cases and reviews trends in foreign investment in Australia and Australian investment abroad.

Until its transfer to the Australian Taxation Office on 27 November 1997, the secretariat of the Development Allowance Authority (DAA), which is a statutory office responsible to Parliament for administering the *Development Allowance Authority Act (1992)*, was staffed by Treasury officers under this subprogram. During its period in Treasury, the DAA had its own statutory objectives and published its own annual report. The DAA is therefore not covered further in this Report.

**Table 8: Financial and Staffing Resources Summary
Subprogram 1.7 — Investment**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 4,310 | 3,599 | 3,058 |
| Other program costs (excluding RC) | 11 | 467 | 102 |
| Total | 4,321 | 4,066 | 3,160 |
| Adjustments | (3) | (3) | (4) |
| Total Outlays | 4,317 | 4,064 | 3,155 |
| STAFFING | | | |
| Staff Years | 51 | 35 | 32 |

Strategies

Strategies to achieve the foreign investment objectives of the subprogram, which are reflected in the Division's Operational Plan, include:

- monitoring and assessing trends in foreign investment cases in relation to possible implications for the Government's foreign investment policy and its administration;
- monitoring and assessing investment trends, in consultation with other Government Departments and State Governments;
- consulting closely with members of the FIRB in relation to the administration of the Government's foreign investment policy;

- fostering an awareness and understanding of the Government's foreign investment policy in the community and in the business sector, both in Australia and abroad;
- initiating and developing policy proposals to ensure that the policy is responsive to changes in Australia's social and commercial environment;
- participating in international fora to promote investment liberalisation on both a bilateral and multilateral basis; and
- internally reviewing and evaluating processes and outcomes.

Performance Indicators

Performance indicators of the quality, timeliness and relevance of advice provided to the Government on foreign investment aspects of the subprogram include:

- early identification of sensitive cases requiring Ministerial consideration;
- compliance with all statutory requirements applying to cases;
- feedback from the FIRB on the timeliness and consistency of decisions made on foreign investment proposals under delegation and recommendations for Ministerial consideration;
- relations with and feedback from foreign investors, their agents and the public in relation to the administration and understanding of foreign investment policy; and
- effective participation in international fora on foreign investment policy issues.

Performance Outcome for 1997-98

Consistent with the need for Ministerial decisions on major national interest issues, the more significant foreign investment cases were submitted to the Treasurer, or Assistant Treasurer, for consideration.

However, the great bulk of cases, approximately 90 per cent, were handled by officers under delegation.

The number of cases received in 1997-98 was 4767 compared with 4201 in 1996-97, continuing an upward trend in recent years. Reflecting greater workloads, including increased OECD work, and the complexity of some cases, the average time from receipt of a proposal to decision, after evaluation and, where necessary, consultation with other government agencies, increased from 23 days in 1996-97 to 27 days in 1997-98. Under the *Foreign Acquisitions and Takeovers Act 1975* (the Act), the statutory time limit for reaching a decision is 30 days, with up to a further 10 days to notify the parties. There is, however, scope for an interim order extending the period of examination for up to a further 90 days. In 1997-98, there were 111 interim orders and 92 final orders issued. Interim Orders are frequently sought where applicants have failed to provide adequate information to assess their proposal against the national interest test within the 30 day statutory deadline. Final orders are issued where a proposal is inconsistent with Australia's foreign investment policy.

One foreign investment case involved litigation in the courts. In May 1997, the Treasurer ruled that an increase in the economic interest by Canadian company CanWest Global Communications Corporation (CanWest) in the Ten Group Ltd (TGL) was inconsistent with the Government's foreign investment policy. Orders were gazetted requiring the divestiture of shares in TGL held by several companies which were considered to be associates of CanWest, given that CanWest had financed their purchases of TGL shares. Following litigation, the Government and CanWest reached an agreement, announced by way of a press release of 6 March 1998, on a float proposal that effectively reduced CanWest's economic interest in TGL to the previously accepted level of 57.5 per cent.

Decisions under ministerial authorisation, including the application of national interest considerations, were overseen by the FIRB and senior management on a weekly basis for consistency with policy and processes.

Awareness of foreign investment policy and Government perceptions of community views were facilitated through a number of channels. This included the provision of information and advice to foreign investors and their agents, meetings with these parties, the consideration of

representations from the public concerning the policy or specific cases, and the handling of telephone enquiries (40,000 incoming calls).

Monitoring of compliance with foreign investment policy continues to be a significant activity, particularly in respect of the real estate sector. Attention has been focussed on fulfilment of development conditions attached to approval of proposals, schemes designed to avoid the application of the policy and policy evasion.

During 1997-98, Australia continued to participate in the OECD negotiations for a Multilateral Agreement on Investment (MAI).

In response to increasing public interest in the MAI, Treasury provided information to the Parliament and the public on the most recent developments. The draft text of the MAI and Australia's preliminary reservations to the proposed MAI obligations were tabled in both Houses of Parliament on 31 March 1998 and subsequently made available to the public on the Treasury internet site. In addition, Treasury provided a written submission and extensive documentation in order to assist the Joint Standing Committee on Treaties in its examination of the MAI. In participating in the negotiations at the OECD, the Government has set in place a process of consultation with interested parties, including the States and Territories, business groups and the conservation and union movements. Ministers present at the OECD Ministerial Council Meeting held in Paris in April 1998 agreed to continue the negotiations on the MAI, but at the same time agreed to a further period of assessment and consultation between the negotiating parties and interested parts of their societies. The Ministerial Meeting agreed that significant issues had to be resolved before an MAI could be finalised and that resolution of these issues would take time. The next meeting of the OECD Negotiating Group will take place in October 1998.

Treasury also advises the Department of Foreign Affairs and Trade on Australia's negotiation of bilateral investment treaties. These treaties are known as Investment Promotion and Protection Agreements (IPPA) and their aim is to promote the international flow of capital for economic activity and development. A model IPPA text has established the basis for negotiation of these agreements. In 1997-98, a treaty was signed with India. Australia also participated in continuing negotiations for bilateral investment treaties with several other countries.

Subprogram 1.8— Financial and Currency

Objective

To develop policies and a framework of legislation that assist in increasing the financial safety, efficiency, competitiveness and stability of Australia's financial system; to provide advice and implement policies on the taxation and non-taxation issues relating to the age pension and to private savings, including superannuation, and to life and general insurance; and to maintain policies for a currency system that represents an efficient medium of exchange.

Description

Financial Institutions Division, including the Retirement Income Modelling Unit, is responsible for advising on matters relating to the structure and functioning of the Australian financial system, including currency matters, and taxation and non-taxation issues relating to retirement incomes, and private savings, including superannuation, and age pensions, life and general insurance. The Division also has administrative responsibility for the Royal Australian Mint (the Mint) and participates on the Mint Advisory Board. However, the Mint has its own program and publishes its own Annual Report.

**Table 9: Financial and Staffing resources Summary
Subprogram 1.8 — Financial and Currency**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 5,090 | 3,879 | 3,304 |
| Other program costs (excluding RC) | 10,963 | 35,115 | 28,418 |
| Total | 16,053 | 38,994 | 31,722 |
| Adjustments | (3,828,292) ^(a) | (35,171) | (38,885) |
| Total Outlays | (3,812,239) | 3,822 | (7,163) |
| STAFFING | | | |
| Staff Years | 45 | 43 | 40 |

(a) The high adjustment figure recorded against the 1996-97 financial year is made up mainly of proceeds from the sale of the Commonwealth Bank of Australia and the deferral of the corporatisation of the Housing Loans Insurance Corporation.

Strategies

Strategies to achieve the objectives of the subprogram, which are reflected in the Division's Operational Plan, include:

- monitoring and analysing developments in relation to the regulatory frameworks in the financial systems of Australia and overseas, including their impact on consumers;
- maintaining close liaison with the Portfolio Ministers and their office staff, industry regulators and other Government departments and agencies, particularly the ATO;
- liaising, as appropriate, with State and Territory Governments, the banking, finance and superannuation industries, academia and consumer organisations;
- preparing policy advice on a range of financial, retirement income, taxation of savings, banking and currency issues;
- providing secretariat support to the FSAC and its Regional Financial Centre Task Force;
- implementing policy decisions taken by the Government, including negotiating new arrangements with relevant parties and preparing necessary legislative and regulatory provisions;

- advising the Government on issues of relevance to the non-budget dependent bodies under this program;
- developing and using computer models and databases for the review and development of superannuation and retirement income policy and taxation and social security policy;
- overseeing management of the Mint and working closely with Mint officers to further improve the organisation's efficiency, while maintaining the recognised high quality of its output; and
- undertaking internal review and evaluation of processes and outcomes.

Performance Indicators

Performance indicators for this subprogram include:

- the quality, timeliness and relevance of advice on policy and administrative matters provided to the Government and the quality of contributions made to related policy development processes;
- meeting statutory and other procedural requirements for the preparation of legislation, instruments, regulations and banking authorities;
- feedback from the offices of the portfolio Ministers, the financial sector and other interested parties; and
- feedback on the quality of retirement income and other modelling and costings from Treasury policy areas.

Performance Outcome for 1997-98

The main output of this subprogram involves the provision of advice to the Treasury Portfolio Ministers on policy and administrative matters relating to retirement incomes policy and the financial sector.

Retirement Income Policy

The Department continued to assist in the development and implementation of superannuation, savings and retirement income policy initiatives during the year.

- Treasury advised the Government on superannuation measures announced during 1997-98 and in the 1998-99 Budget.
- A position paper, *Superannuation and Family Law*, was issued to facilitate consultation with interested parties.
- Treasury and the ATO, the (former) Insurance and Superannuation Commission and the Department of Social Security progressed the implementation of measures outlined in *Savings: Choice and Incentive* in relation to superannuation, savings, age pension and retirement income matters.
- Analysis by the Retirement Income Modelling Unit was used extensively to research and cost a broad range of policy proposals.

Financial Sector Policy Advice

The Department continued to be heavily involved in the follow-up to the Final Report of the Financial System Inquiry (FSI) which was released in April 1997.

- The Division prepared advice to the Government for a comprehensive response to the FSI report. The Government's response was announced on 2 September 1997.
- The Division has been heavily involved, in conjunction with the Business Law Division, in implementation of the FSI report. To this end, a package of legislation was prepared to give effect to the new regulatory structure and associated changes proposed by the Government. This was passed by the Parliament in June 1998 and came into effect on 1 July 1998. Against the background of technological innovation and globalisation, these changes are designed to provide a more appropriate regulatory environment that will encourage greater competition, contestability and efficiency in the financial system, while ensuring its essential stability. The Australian Prudential Regulation Authority and the Australian Securities and Investments Commission were established as from 1 July 1998 to

perform certain functions formerly undertaken by the Reserve Bank of Australia (RBA), the Insurance and Superannuation Commission and the Australian Securities Commission.

- Progress was achieved in the negotiations with the States and Territories to give effect to the second part of the implementation process, namely the transfer of responsibility for financial institutions currently subject to regulation under the Financial Institutions Code, to Commonwealth jurisdiction. In principle approval has been given by the States and Territories to this transfer.
- New arrangements for high-level consultations with the financial sector have been put in place with the inaugural meetings of the FSAC and its Task Force. The Council brings together a broad range of business views from the financial sector to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial system. The Task Force is a specialist body that will advise the Government, through FSAC, on policies to build on Australia's existing advantages to ensure our full participation in the increasing global trade in financial services.

The Division also dealt with major operational and administrative matters relating to banking and finance.

- The Treasurer was provided with policy advice and instruments were prepared under the *Banking Act 1959* and the *Banks (Shareholdings) Act 1972* to grant banking authorities and facilitate approved bank mergers. Major developments included the acquisition by the Westpac Corporation of the Bank of Melbourne and the granting of a banking licence to AMP.
- The Division played a role in the sale of the physical assets of the Housing Loans Insurance Corporation (HLIC) to GE Capital Ltd (GE) and the transfer of HLIC's insurance liabilities and net capital and financial reserves to the Commonwealth. For example, the Division negotiated with GE the Management Agreement, which provides for GE to manage the mortgage insurance liabilities that transferred to the Commonwealth.

Currency

Senior Officers of the Division chaired and served on the Royal Australian Mint Advisory Board during the year. The Financial Institutions Division:

- assisted the Mint to implement the Government's Competitive Neutrality Guidelines, particularly in relation to performance monitoring and taxation; and
- responded to numerous inquiries from the public for information on a wide range of issues relating to currency.

Subprogram 1.9 — Business Law

Objective

To formulate policy initiatives and advice to portfolio Ministers to facilitate the efficient operation of corporations and the securities and futures markets.

Description

The Business Law Division is responsible for advising on policy initiatives to facilitate the efficient operation of corporations, and of the securities and futures markets, including the operation of the Corporations Law and other business laws.

**Table 10: Financial and Staffing Resources Summary
Subprogram 1.9 — Business Law**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 4,322 | 4,243 | 3,767 |
| Other program costs (excluding RC) | 0 | 0 | 0 |
| Total | 4,322 | 4,243 | 3,767 |
| Adjustments | (14) | (16) | (48) |
| Total Outlays | 4,308 | 4,227 | 3,719 |
| STAFFING | | | |
| Staff Years | 43 | 41 | 36 |

Strategies

Strategies to achieve the objectives of the subprogram, reflected in the Divisional operational plan, include:

- the development and review of national business laws and policies relating to corporations, securities and futures industries, cheques and bills of exchange;
- ensuring that there is a sound regulatory framework for protection of consumers in the financial system;
- the development of policies for the regulation of insurance and superannuation industries in relation to market conduct and disclosure practices;
- initiating and developing new policy proposals and preparing policy advice on a wide range of issues affecting business and financial markets;
- identifying emerging issues and analysing policy proposals from market participants;
- maintaining liaison with the (now) Australian Securities and Investments Commission, financial market participants, companies and investors' representatives; and
- maintaining an effective working relationship with other Treasury Divisions to enhance policy advice on business and financial markets regulation.

Performance Indicators

Performance indicators for this subprogram include:

- the quality, timeliness and relevance of policy advice to the Government;
- feedback from market participants, business representatives, company directors, shareholders and investors; and
- the range and effectiveness of external contacts.

Performance Outcome for 1997-98

Corporate Law Economic Reform Program

The Corporate Law Economic Reform Program, which commenced in March 1997, made further progress in 1997-98, reaching the stage of draft legislation by the end of the year. The Program aims to deliver a corporate regulatory regime which takes full account of the Government's economic objectives, fostering investment, employment and wealth creation by facilitating investment and capital formation, protecting investors and maintaining confidence in the business environment.

The Government has been assisted by the Business Regulation Advisory Group, which comprises nine senior members of the business community. The Division provided secretarial support to the Group.

The Program was a major focus of the Division's work in 1997-98. Major goals achieved for the Program included:

- the finalisation and release of position papers on key areas of corporate law policy covering arrangements for the setting of Australian accounting standards, fundraising, directors' duties and corporate governance, takeovers, electronic commerce and financial markets and investment products;
- the development and release for public comment of draft legislation to implement the proposals on accounting standards, fundraising, directors' duties and corporate governance, and takeovers in April and May 1998;
- the review and consideration of comments received from the public on both the position papers and the draft legislation; and
- the introduction of the draft legislation into the Parliament on 2 July 1998.

A number of the proposals advanced in the Program paper on electronic commerce have been addressed in the *Company Law Review Act 1998* and the *Payment Systems and Netting Act 1998*. Legislation to implement the proposals contained in the Program paper on financial markets and investment products is being developed for public comment.

Financial System Reform

The Division worked with FID to implement the Government's package of financial sector reforms, arising out of the Financial System Inquiry. The Division's role focussed on establishing the Australian Securities and Investments Commission and vesting it with consumer protection and market integrity functions in the financial system. Significant aspects of the financial sector reform package relating to corporate regulation and securities and futures markets were progressed in the context of the Corporate Law Economic Reform Program.

Managed Investment Schemes

The Division provided advice and assistance to the Treasurer and the Parliamentary Secretary to the Treasurer to obtain passage of the *Managed Investments Act 1998* through Parliament, and prepared regulations to facilitate the implementation of the Act. The legislation was introduced into Parliament on 3 December 1997. Following a public inquiry conducted by the Parliamentary Joint Committee on Corporations and Securities in March 1998, the legislation was passed by the Parliament in June 1998 with minor amendment. The Act, together with associated regulations, commenced operation on 1 July 1998.

Company Law Review Act 1998

The *Company Law Review Act 1998* simplifies the procedures for setting up a company and improves the law concerning meetings, share capital, financial reporting, annual returns and deregistering defunct companies.

The Division assisted the Treasurer and the Parliamentary Secretary to obtain passage of the Act through the Parliament. In November 1997 the Government tabled in the Senate its response to the November 1996 report on the Company Law Review Bill by the Parliamentary Joint Committee on Corporations and Securities. The Bill was introduced in the House of Representatives on 3 December 1997 and was passed by the House of Representatives on 4 March 1998. On 3 March 1998 the Senate referred the Bill to the Parliamentary Joint Committee, which reported on the Bill on 1 April 1998. The legislation was passed by the Parliament in June 1998 with amendments by the Senate. The Senate amendments raised transitional issues requiring further amendments. The Government introduced the Corporations Legislation Amendment

Bill 1998, with the assistance of the Division, to address these transitional issues. The *Company Law Review Act 1998* and associated regulations, and The *Corporations Legislation Amendment Act 1998* commenced operation in July 1998.

Signing the Corporations Agreement

The Corporations Agreement came into effect on 23 September 1997 after the Prime Minister, the Premiers and the Chief Minister of the Northern Territory had signed it. The Agreement, which supplements the Heads of Agreement on Corporate Regulation in Australia, provides the political basis of the national scheme for the regulation of companies and securities in Australia.

MINCO

The Division continued to provide advice on business law matters to the Ministerial Council for Corporations (MINCO). The Division provides secretarial support for MINCO.

Australian Stock Exchange — Change of Corporate Form

The Division finalised the Corporations Law Amendment (ASX) Bill 1997, which received Royal Assent on 16 December 1997, following its passage by the Parliament.

The *Corporations Law Amendment (ASX) Act 1997* facilitates the decision of members of the Australian Stock Exchange (ASX) to convert from a company limited by guarantee to a company limited by shares, while at the same time fulfilling the Government's objective of clarifying the responsibilities of the ASX as a self-regulatory organisation within the regulatory framework for Australia's financial markets.

Cheques and Payment Orders Act 1986

In consultation with interested parties, the Division prepared the *Cheques and Payment Orders Amendment Act 1998*, to amend the *Cheques and Payment Orders Act 1986* to:

- extend cheque issuing rights to building societies, credit unions and their industry Special Services Providers; and

- make a number of miscellaneous amendments to the Act to improve its effectiveness and to clarify its operation for both consumers and financial institutions.

The Cheques and Payment Orders Amendment Bill was introduced into the Parliament in April 1998. It has been passed by the Parliament, has received Royal Assent, and will commence operation on 1 December 1998.

The Division also prepared the *Cheques and Payment Orders Amendment (Turnback of Cheques) Act 1998*, to amend the Cheques and Payment Orders Act to deem unsettled cheques drawn on a failed financial institution to be dishonoured. The legislation has been passed by the Parliament and received Royal Assent. It commenced operation in July 1998.

Review of the Bills of Exchange Act 1909

Following the commencement of the review of the *Bills of Exchange Act 1909* as part of the Commonwealth Legislative Review Program, submissions have been obtained from interested parties. The review continues to focus on the finalisation and release of a discussion paper proposing reforms to facilitate the operation of the Act and the development of draft legislation to implement those reforms.

Corporate Governance

The Division contributed briefing to the Treasurer and Assistant Treasurer in relation to the issue of corporate governance, which is being examined in two international forums, the OECD and APEC. The Division assisted the OECD in its 1998 Economic Survey of Australia, which had a special feature on Australian corporate governance.

Corporatisation and Privatisation Initiatives and Bank Merger Legislation — Interface with the Ministerial Council for Corporations

The Division liaised with MINCO on proposed corporatisation and privatisation legislation and bank merger legislation, which would alter the effect, scope or operation of the Corporations Law. This included the consideration of legislation concerning the sale of ANL Limited, the

corporatisation of the Snowy Mountains Hydro-Electric Authority, the merger of Advance Bank Limited with St George Bank Limited and the merger between Westpac Banking Corporation and the Bank of Melbourne.

Audit Review Working Party

The report of the Working Party established by MINCO to review the requirements for the registration and regulation of company auditors was published in September 1997. An officer of the Division chairs the Working Party. The Division also provides the secretariat to the Working Party.

The Working Party recommended a number of changes, and MINCO has accepted the broad thrust of those suggestions. MINCO has authorised the preparation of draft legislation by Treasury to give effect to the proposals.

Payment Systems and Netting Act 1998

In consultation with the RBA and other financial institutions the Division prepared the *Payment Systems and Netting Act 1998* to facilitate implementation by the Reserve Bank of its Real Time Gross Settlement (RTGS) for high value payments in the financial system. RTGS will ensure that high value payments are settled immediately and irrevocably as they are cleared across exchange settlement accounts held with the RBA. The legislation was introduced into the House of Representatives on 1 April 1998. It was passed by the Parliament and received Royal Assent, and commenced operation in July 1998.

Corporate Counsel Services

The Division has provided advice to the Department in the resolution of legal issues arising in the course of Treasury's policy work and the administration of legislation administered by the Treasurer.

Subprogram 1.10 — Corporate Direction and Support

Objective

To coordinate the provision of policy advice and support and to coordinate management of Departmental resources.

Description

The Department's Executive (Secretary and Deputy Secretaries) and their administrative support; the Assistant Secretary (Corporate Strategy); and the corporate support Directorates.

**Table 11: Financial and Staffing Resources Summary
Subprogram 1.10 — Corporate Direction and Support**

| | 1996-97 Actual (\$'000) | 1997-98 Budget (\$'000) | 1997-98 Actual (\$'000) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| BUDGETARY (CASH) BASIS | | | |
| Components of Appropriations | | | |
| Running Costs (RC) | 14,180 | 16,902 | 15,937 |
| Other program costs (excluding RC) | 6 | 118 | 8 |
| Total | 14,186 | 17,020 | 15,944 |
| Adjustments | (945) | (580) | (560) |
| Total Outlays | 13,241 | 16,441 | 15,384 |
| STAFFING | | | |
| Staff Years | 135 | 135 | 122 |

Strategies

Strategies to achieve the objectives of the subprogram include:

- liaising with Treasury Ministers and their offices and other Government departments;

- gathering feedback through high level contact, both domestically and internationally, with governments and interest groups for input into the policy advising process;
- organising Departmental resources efficiently to provide Portfolio Ministers with high quality, relevant and timely advice;
- fostering a consultative management culture within the Department;
- undertaking regular meetings of the Executive, functioning as Executive Board for the Department, to discuss high level issues;
- undertaking regular meetings of the Executive and Division Heads, as the Policy and Management Group, to discuss policy and management issues; and
- using the structure of Corporate Support Committees, each chaired by a Deputy Secretary, to manage the Department's provision of corporate services.

Performance Indicators

As members of the Executive are the peak decision-makers within the Treasury, the overall perception of Treasury Portfolio Ministers of the quality of Treasury advice and administration is a relevant performance indicator. More specifically, indicators include:

- effective communication both domestically and internationally with major economic participants, such as governments and interest groups;
- the level of staff morale and effectiveness of staff management and development;
- the degree of efficiency and effectiveness in using the human, financial and other resources available to Treasury;
- the quality of corporate support services; and
- the efficiency and effectiveness with which Treasury meets its statutory obligations and the Government's policy requirements.

Performance Outcome for 1997-98

Executive

The Executive were involved in the full range of major economic policy issues during 1997-98, entailing considerable liaison with Ministers, other Government agencies, representatives of foreign and State Governments, international organisations and a wide range of people from the Australian community, including representatives of industry and academia.

The members of the Executive also attended several international meetings to present policy developments in Australia and to obtain information from high level officials on strategies and priorities of other countries. The meetings attended have included those arranged by bodies such as the IMF and the OECD, and those arranged under the auspices of APEC. A particular focus of a number of international meetings has been the significant instability experienced in the Asian region during 1997-98.

The Executive has continued to place a stronger focus on management issues in 1997-98. The Assistant Secretary, Corporate Strategy assists with that task.

The Executive meets fortnightly, as the Executive Board, to take key decisions on management issues. Most high level management issues are also considered by the Department's Policy and Management Group, comprising the members of the Executive and Division Heads. The other major function of the Policy and Management Group is to examine issues associated with the direction of economic policy and to coordinate the activities of Divisions in the Department. It was decided during 1997-98 that the Policy and Management Group should meet fortnightly, rather than monthly, so as to enhance its role in this regard.

Key management issues considered during the year included: the establishment of reviews of Treasury's policy-advising areas and corporate support services; the Department's approach to negotiating enterprise agreements, performance appraisal systems and staff selection processes; the allocation of resources across the Department, in light of shifting policy and administrative priorities; and the refurbishment and fitout of the Treasury Building.

The Executive have also sought to build a culture of consultation and to maintain strong communication flows with other Treasury staff. As discussed below, strong efforts have been made to involve staff in the reviews of Treasury activities and to consult in developing Treasury's enterprise agreements. A number of Executive or Executive Board circulars were issued during the year, covering a range of management issues. A Department-wide seminar was also held by the Executive Board in late 1997 to discuss improving Treasury's operations: such seminars are held every six months.

More detailed decisions on services provided by Directorates are taken by the Corporate Support Committees, each chaired by a Deputy Secretary. In addition to representatives from the Directorates, the Corporate Support Committees include representatives from Treasury Divisions, so as to help maintain a focus on service delivery to the Directorates' internal clients.

The Executive, along with other senior officers, participated in the required accountability processes, including reviews of Departmental activities during the year by the Senate Economics Legislation Committee.

Review of Treasury Policy Areas

In May 1998, Treasury commenced a review of its policy areas or 'core business'. The aim of this review was to examine and improve Treasury's overall organisational effectiveness and raise the job satisfaction of all staff. It sought to more clearly focus Treasury's role and goals; to assess how to better meet the needs of its clients, in particular, Treasury Ministers; to foster more effective use of resources; and to further improve the focus on good management and communication within the organisation.

Consultants were engaged to facilitate the review. A Review Management Group, comprising members of the Executive and other senior managers, was established to oversight the review's progress. The approach adopted entailed heavy staff involvement. Four Treasury staff worked full time with the consultants on the review project team. The review also involved extensive interviewing of staff throughout the Department and a detailed examination of the Department's methods of

work. During its operation, all staff had the opportunity to express their views to the review project team.

The first stage of the review was not completed until after the end of the 1997-98 financial year. The review focussed on a number of important issues where changes could be made and identified areas for further work. As a result of the review, it has been decided: to develop new structures for the organisation; to develop more effective ways of operation; to improve systems for managing people in the Department; to develop enhanced internal planning and resource allocation systems; and to achieve more cost-effective and enhanced corporate services for the Department. Staff are being consulted fully in the implementation of changes arising from the review.

Review of Treasury's Corporate Services

In April 1998, Treasury commenced a review of the Corporate Services areas of the Department. The review sought to clarify the outcomes that should be supplied by the Corporate Service areas; establish a basis for comparing and costing alternative service delivery systems; assess existing procedures; and identify options for improved and more cost-effective service delivery, whether internal or external.

Although a consultant was engaged to facilitate the review, it was conducted by Treasury staff and was overseen by a steering committee consisting of members of the Executive and other senior managers. The process involved broad and extensive consultation with internal service providers and clients within Treasury. All corporate service staff were given the opportunity to provide input to the review throughout the process.

The review was completed in July 1998, and the Executive Board, following full staff consultation, has initiated action to market-test certain activities, as recommended by the review.

Review of Information Technology Services

An independent review of information technology services was conducted in 1998. The review identified the most appropriate and cost-effective methods for delivering information technology services and

examined opportunities for outsourcing any or all of Treasury's information technology services.

The review found that Treasury's services are of high quality and are cost-effective largely because of the skill and commitment of staff. However, it concluded that the system had insufficient failsafe and backup mechanisms in place and that overall, an inadequate level of investment in information technology infrastructure, particularly in desktop workstations, servers and communications equipment, had resulted in a significant risk of disruption to core business.

As a consequence, the Department has committed additional resources to its information technology infrastructure and upgraded the Treasury network to current technology standards.

The review drew attention to issues to be considered in outsourcing, arising from the time-critical nature of many Treasury tasks, and identified elements of operations of the information technology delivery areas particularly suited to market-testing. Treasury is to complete the competitive tendering process of its information technology services by the end of 1998-99.

Year 2000 Compliance

The Y2K computer date problem affects computers and software embedded in electronic equipment. All Commonwealth agencies are required to report quarterly on their progress towards ensuring that their business critical systems are Y2K compliant.

This year Treasury has upgraded and redeveloped its internally developed software systems and replaced all non-Year 2000 compliant hardware. Y2K compliance certification has been received from third party software suppliers for Treasury's standard software applications and for Human Resource, Financial Management and Records Management systems. Treasury's PABX is Y2K compliant.

Currently all Treasury information technology and non-information technology systems used in both Treasury's core activities and corporate support are Y2K compliant. The only systems not yet checked for compliance relate to building management systems which are the responsibility of the building owners and their representatives. Treasury is pursuing the issue.

Accrual Budgeting Framework

The Commonwealth is moving towards the introduction of an accruals-based resource management framework. This involves a change from cash-based budgeting to accrual budgeting, reporting and accounting. Accrual reporting will provide the basis for identifying the full costs of an organisation's activities in a time consistent manner.

Treasury is progressively implementing these changes. The first step was the introduction on 1 July 1998 of SAP R/3, a financial software application which replaces FINEST. SAP R/3 is a full accrual system which will support the additional requirements of accrual reporting.

Chief Executive's Instructions, which replaced the Secretary's Instructions, were issued under the *Financial Management and Accountability Act 1997*. The new Instructions seek to strike an appropriate balance between prescription and risk management, and to take account of accrual reforms.

Staff involved in accounting and resource management attended a series of short courses on the accruals framework. Additional training was provided for relevant staff in Divisions.

Treasury Building Refurbishment and Fitout

The Government has approved the refurbishment of the Treasury building as part of the capital works program for the Commonwealth-owned estate. This is the first major refurbishment since construction of the building commenced in 1963. The refurbishment, which will be managed by the Domestic Property Group, is due to commence in early 1999, following the transfer of the Department of Finance and Administration to the Administrative building.

Treasury anticipates being in the refurbished accommodation by June 2000. The fitout will be to a standard commercial office level, and will cost \$16.5 million.

INDEX OF COMPLIANCE WITH REQUIREMENTS

| Requirement | Page |
|------------------------------------------------------------|-------------------|
| Letter of Transmission | iii |
| Aids to access | |
| Table of Contents | v |
| Alphabetical Index | 217 |
| Compliance Index | 90 |
| Acronyms and Abbreviations | 213 |
| Introduction and Guide to Report | ix |
| Contact officer for information available on request | x |
| Overview | 1 |
| Corporate Statement | 11 |
| Program Performance Reporting | 15 |
| Portfolio Program Staffing Resources Summary | 15 |
| Financial Statements | 137 |
| Appendices | |
| Staffing Overview | Appendix A 91 |
| Social Justice and Equity and Equal Employment Opportunity | Appendix B 97 |
| Industrial Democracy | Appendix C 101 |
| Occupational Health and Safety | Appendix D 103 |
| Internal and External Scrutiny | Appendix E 106 |
| Freedom of Information | Appendix F 112 |
| Advertising and Market Research | Appendix I 125 |
| Reconciliation of Program and Appropriation Elements | Appendix K 136 |