

PART TWO

REPORT ON PERFORMANCE

INTRODUCTION

The report on performance covers the Treasury's departmental and administered items for 2011-12.

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

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

The Treasury's 2011-12 performance is reported at the program level for its policy outcome:

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

Performance outcomes for each program are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2011-12*, *Treasury Portfolio Additional Estimates Statements 2011-12* and *Treasury Portfolio Supplementary Additional Estimates Statements 2011-12*.

The key strategies for 2011-12 are to provide advice on:

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

An assessment of this advice is included under each program.

PROGRAM 1.1: DEPARTMENT OF THE TREASURY

The Treasury has four policy groups that contribute to the achievement of program 1.1:

- Macroeconomic Group;
- Fiscal Group;
- Revenue Group; and
- Markets Group.

These groups are supported by Corporate Strategy and Services Group, which provides key services, systems and facilities that provide essential organisational support to the policy groups.

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PROGRAM OBJECTIVE

The objectives of program 1.1 are to:

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

PROGRAM KEY PERFORMANCE INDICATORS

The key performance indicators are:

- advice that meets the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of high quality, and is based on an objective and thorough understanding of issues and a whole-of-government perspective. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through feedback mechanisms;

- timely, high quality, accurate and transparent Budget, Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome documents that meet the expectations of the Government, the Parliament and the public. The budget preparation and coordination process is subject to an annual evaluation;
- published reports and other information that stimulate and inform government and public debate through robust analysis, modelling and research. Publications are timely, of high quality and widely available to the public; and
- legislation progressed by the Treasury is in accordance with the principles of good law design and is delivered according to government priorities:
 - the majority of prospective tax and retirement income legislation is ready to be introduced into Parliament within 12 months, and the majority of retrospective tax and retirement income legislation within six months of the Government announcing it, and
 - at least one tax or retirement income legislative measure is the subject of a post-implementation review annually.

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

MACROECONOMIC GROUP

Overview

Macroeconomic Group contributed to a strong macroeconomic environment in Australia by providing quality policy advice and sound analysis of both domestic and international developments affecting the Australian economy. The group advised the Government on a wide range of matters relating to the performance of the Australian economy, including Australia's current economic conditions and outlook, monetary and fiscal policies, and current and prospective international economic issues.

Macroeconomic Group examined the implications of subdued growth in the advanced economies, and developments in key emerging economies, the evolving sovereign debt crisis in Europe, the impact of introducing a carbon price on the Australian economy, natural disasters at home and abroad, conservative household spending behaviour and the effect of the high terms of trade and exchange rate on Australia's economic growth and labour market performance.

Macroeconomic Group continued to contribute to improving the global economic environment and advancing Australia's domestic and international interests. The group supported active Australian engagement in global and regional forums, helped utilise Australia's strong bilateral relationships and worked directly with foreign governments, including through Treasury's overseas posts. The group expanded its strategic analysis and advice on developments within key regional economies, particularly China and India.

Macroeconomic Group, through active engagement with the G20, advanced important initiatives to work towards the achievement of a strong, sustainable and balanced global economy. Specific initiatives sought to strengthen the legitimacy, credibility and effectiveness of international financial institutions, strengthen international standards for the regulation of the financial system, and improve international development outcomes.

Through its activities, Macroeconomic Group assisted Treasury ministers in their work and contributed to improving the wellbeing of the Australian people.

Group deliverables

Macroeconomic Group's key deliverables are to advise on:

- domestic and international developments affecting the Australian economy and forecasts of the direction of the Australian and international economies;
- the setting of sound macroeconomic policy;
- Australia's involvement in the G20 to enhance cooperation on common international economic policy challenges, and preparation for Australia hosting the G20 in 2014;
- supporting and enhancing the effectiveness of international financial institutions, particularly the International Monetary Fund (IMF) and the World Bank;
- ongoing work with the Indonesian Government through the Australia-Indonesia Partnership for Reconstruction and Development;
- improving the linkages between the priorities of the G20, the Asia-Pacific Economic Cooperation (APEC) process, the Asia-Europe Meeting and the East Asia Summit processes;
- ongoing economic analysis and deeper engagement strategies with China and India, reflecting the importance of these countries in the international economy; and
- government initiatives to encourage broad-based, stable and inclusive economic growth and develop well-functioning economic ministries in the south Pacific.

Group outcomes

Macroeconomic Group's key outcomes were:

- providing analysis, preparing macroeconomic forecasts, and assisting in the formulation of policy solutions, taking into account domestic and international fiscal consolidation, the evolving sovereign debt crisis in Europe, Australia's high terms of trade and exchange rate, the impacts of the Clean Energy Future Plan, the uneven global economic recovery, and structural reform challenges;
- contributing to the development of the Asian Century White Paper and assisting the work of the Prime Minister's Manufacturing Taskforce;

- releasing an update to the *Strong growth, low pollution: modelling a carbon price* (SGLP) report in September 2011 and providing advice and analysis on the carbon pricing mechanism for the 2012-13 Budget;
- delivering presentations and published material, including economic forecasts and analysis, in budget papers and the Treasury's *Economic Roundup* to increase public awareness of economic issues and developments;
- assisting the Government to manage and influence changing global conditions and advance Australia's international economic interests through engagement with international and regional institutions and forums; and
- broadening and deepening engagement with key Asian and Pacific economies and contributing to improved policy outcomes through policy dialogue, cooperation, research and capacity building.

Analysis of performance

During 2011-12, the Treasury advised the Deputy Prime Minister and Treasurer, other members of the Government and relevant stakeholders on a range of macroeconomic issues:

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

Economic modelling

The Treasury's economic modelling contributed to the development of evidence-based policy analysis. Economic modelling, such as computable general equilibrium modelling, enables complex implications of policies and developments to be assessed and used to inform policy design.

The Treasury provided modelling advice and support on a wide range of government policy issues, including in relation to work around the Asian Century White Paper and certain tax and COAG reforms, while also continuing to use its modelling capabilities to support more general macroeconomic analysis and forecasting.

In 2011-12, the Treasury published the SGLP report, which provided comprehensive modelling of the international, domestic, sectoral and distributional effects of a carbon price. An update to the report was released in September 2011 to reflect the main features of the Clean Energy

Future package. Advice and analysis has also been provided on the carbon pricing mechanism for the 2012-13 Budget and on emissions analysis with the Department of Climate Change and Energy Efficiency.

Economic forecasting

Economic forecasts prepared by the Treasury informed policy settings and underpinned expenditure and revenue budget estimates. For policy formulation purposes, macroeconomic forecasts provided an assessment of prospective developments within the economy and the risks surrounding the economic outlook.

The Treasury's economic forecasts are subject to discussion and quality assurance through the Joint Economic Forecasting Group. This group, chaired by the Treasury, comprises the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation, and the Australian Bureau of Statistics (ABS). These discussions, together with information gained from liaison with the private sector and other specialist departments and organisations, such as the Bureau of Resources and Energy Economics, helped in the development of the final version of the forecasts.

Treasury officials liaised extensively with the ABS, both formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group, and informally through regular discussions, to review the quality and appropriateness of economic data.

The Treasury's forecasting activity focused on 2011-12, 2012-13 and 2013-14, with forecasts published in the 2011-12 MYEFO and the 2012-13 Budget.

2012-13 Budget papers

The Treasury contributed to public awareness and debate on economic policy issues through its economic analysis in the annual budget papers and the 2011-12 MYEFO.

Published forecasts were accompanied by a written assessment of the economic outlook to help inform the public of key developments in the domestic and international economies and their likely effects on short-term economic growth.

The 2011-12 MYEFO and 2012-13 Budget presented a favourable outlook for the Australian economy, but noted the divergence in conditions facing different sectors. Strong demand for Australia's mineral and energy exports continued to support historically high commodity prices and drive record levels of investment in the resources sector. However, conditions in some parts of the economy were expected to remain challenging, with unsettled global conditions, the high Australian dollar and changes in expenditure patterns towards services expected to weigh heavily on some sectors. The economy was expected to grow at around its trend rate over the forecast horizon, unemployment was forecast to remain low and inflation was expected to remain well contained.

Statement 4 of Budget Paper No. 1 *Building Resilience Through National Saving* discussed Australia's path to building its national saving and the role of government policy in continuing this transition. Consistent with the Government's medium-term fiscal strategy, the paper supported the view that improvements in government saving are desirable with the economy forecast to grow around trend and with close to full employment. The paper predicted that high levels of saving would likely be maintained over coming years and would improve economic resilience to external shocks.

As part of the 2012-13 Budget, the Government provided the Treasury with \$45.2 million over four years for the organisation and logistics of G20 Finance Ministers' and Central Bank Governors' meetings and related officials' meetings associated with Australia's host year, and for related policy development on economic and financial issues.

Economic publications and speeches

The Treasury's *Economic Roundup* included a regular summary of the key findings from the Treasury's Business Liaison Program as well as research articles and speeches that provided detailed analysis and policy recommendations on:

- food prices in the Pacific;
- India's long-term growth;
- the Government's balance sheet;
- China's demand for mineral and energy commodities; and
- reforms to consumer financial protection.

Senior Treasury officials assisted broader understanding of domestic and international macroeconomic issues by speaking with a range of organisations on topics including:

- the economic outlook;
- macroeconomic forecasting;
- national saving;
- long-term fiscal sustainability;
- the European sovereign debt crisis;
- the rise of China, India and other emerging economies;
- the resources boom and structural change;
- structural change and productivity;
- sovereign wealth funds;
- wellbeing and living standards; and
- the challenges facing Australia over the next decade.

Speeches were delivered to a wide range of organisations including:

- the Ai Group;
- the American Chamber of Commerce in Australia;
- the Australian Business Economists;
- the Australia-Israel Chamber of Commerce;
- the Australian National University;
- the Committee for Economic Development of Australia;
- the New Zealand Treasury;
- the Reserve Bank of Australia; and
- the University of Melbourne.

International policy advice

The Treasury worked towards enhancing international economic cooperation, particularly through the G20, helped advance Australia's international priorities, and provided high quality economic analysis and advice on the implications for the Australian economy of international developments, including the evolving European sovereign debt crisis, the weak US economic recovery and developments in China.

To achieve these outcomes, the Treasury supported active Australian participation in global and regional forums, assisted the Deputy Prime Minister and Treasurer at international meetings, and helped strengthen bilateral relations. Treasury officials posted to Washington DC, London, Beijing, New Delhi, Jakarta, Tokyo, the IMF and the Organisation for Economic Co-operation and Development (OECD) contributed to analysis on regional economic and policy developments, helped strengthen relations with key institutions in their countries of accreditation and facilitated high-level meetings.

G20

The Treasury worked with the Deputy Prime Minister and Treasurer to help shape the G20 agenda and to influence the outcomes of the G20 Cannes and Los Cabos Leaders' Summits, as well as the four G20 Finance Ministers' and Central Bank Governors' meetings held during 2011-12.

Australia, through the Treasury, co-chaired (with Turkey) the G20 Working Group on International Financial Architecture in 2012. In the lead up to the Los Cabos Summit, this working group advised G20 finance ministers on:

- an agreed G20 outcome to increase IMF resources by more than US\$450 billion;
- ways to enhance IMF surveillance;
- efforts to ensure full and timely implementation of the 2010 IMF Quota and Governance Reforms to improve IMF credibility, legitimacy and effectiveness; and

- measures to strengthen the international financial system, including new bank capital and liquidity standards.

The Treasury was also actively involved in the G20 working groups dealing with:

- strengthening the Framework for Strong, Sustainable and Balanced Growth;
- reforming the international monetary system;
- strengthening the international standards for the regulation of financial systems;
- improving the transparency and efficiency of commodity markets; and
- strengthening international development outcomes.

Financial Stability Board

The Treasury participates in the plenary meetings of the Financial Stability Board (FSB) and is a member of the FSB's Standing Committee on Standards Implementation, Standing Committee on Supervisory and Regulatory Cooperation, and the Regional Consultative Group for Asia. The Treasury advised the Government on the key issues considered by the FSB, including the FSB's peer review of the Australian financial system (released in September 2011) and efforts to expand and formalise FSB outreach through regional consultative groups.

International financial institutions

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

During 2011-12, the Treasury ensured that Australia fulfilled its commitment made at the G20 Summit in Cannes to increase the resources available to the IMF by pledging an additional US\$7 billion in a contingent bilateral loan to the IMF.

The Treasury supported the World Bank Group's role in improving the living standards of the world's poor by providing advice to the World Bank's Executive Board and supporting Australia's attendance at the World Bank Spring and Annual meetings. The Treasury facilitated the first payment to the International Bank for Reconstruction and Development's capital increases, agreed by Bank members in 2010.

The Treasury also hosted visits by former World Bank President Robert Zoellick and Managing Director Sri Mulyani Indrawati.

Regional development banks

The Treasury continued to support the Asian Development Bank's (ADB) efforts to promote development in the Asia-Pacific region. The Treasury encouraged strong contributions to the next replenishment of the Asian Development Fund and supported reforms underway at the ADB to ensure accountability and effectiveness.

The Treasury contributed to the work of the European Bank for Reconstruction and Development (EBRD) in assisting economies in Europe and Central Asia transition to open, market economies by providing support to Australia's representative on the Board of Directors. The Treasury undertook legislative and treaty processes to facilitate the EBRD's expansion to the Southern and Eastern Mediterranean region.

The Treasury further contributed to the Government's consideration of whether Australia should become a member of the African Development Bank (AfDB) Group.

Official development assistance

The Treasury provided advice on general development and aid issues including Australia's multilateral and bilateral aid programs, new expenditure initiatives, and the framework for Australia's aid budget. The Treasury contributed to the whole-of-government process for the Government's response to the Independent Review of Aid Effectiveness. This included the development of a Comprehensive Aid Policy Framework.

Asia

To strengthen Australia's understanding of regional economic developments and to improve effectiveness and linkages between the G20 and regional forums, the Treasury continued to broaden and deepen its engagement with key regional organisations and partners by:

- working to improve the effectiveness of the APEC Finance Ministers' Process and supporting Australia's engagement with the Asia-Pacific region by undertaking technical workshops to build support for the Asia Regional Fund Passport and facilitating contributions to the APEC Pilot Public Private Partnerships Mentoring Scheme;
- working to strengthen regional financial cooperation by supporting the sustained establishment of a finance ministers' process under the East Asia Summit;
- supporting the Deputy Prime Minister and Treasurer at bilateral and multilateral meetings with senior Chinese officials, including the Finance Minister, and with senior Hong Kong officials; and further Treasury's engagement with key Chinese policymaking agencies, including an annual bilateral Macroeconomic Dialogue with the National Development and Reform Commission in Beijing;
- hosting the fourth annual India-Australia economic policy dialogue with the Indian Ministry of Finance as well as providing support for various senior visits both in India and in Australia;
- supporting economic stability in Indonesia through the development of A\$1 billion contingent loan facility which Indonesia can access if global financial conditions deteriorate such that Indonesia's borrowing costs reach unsustainable levels. Treasury has also worked closely with the Fiscal Policy Office of the Indonesian Ministry of Finance through the Government Partnership Fund to strengthen Indonesian economic policy advising capabilities and develop lasting institutional relationships with the Ministry;
- hosting the eighth annual economic policy dialogue with the Japanese Ministry of Finance; and

- hosting counterparts from the Korean Ministry of Strategy and Finance for the annual Australia-Korea Strategic Economic Dialogue.

Pacific region

The Treasury continued to promote economic management and development in the Pacific by undertaking research and analysis and by providing policy advice on a range of Australian Government Pacific-related policy issues. The Treasury also supported the attendance of the Parliamentary Secretary to the Treasurer at the 2011 Pacific Islands Forum Economic Ministers' Meeting.

Treasury officials were deployed to Solomon Islands and Papua New Guinea (PNG) to assist in building sustainable and effective economic ministries, where their role involved providing advice and support to local officials on economic and fiscal issues. The Treasury also provided support to the Seychelles through a seconded official to AusAID.

The Treasury provided assistance to PNG, under the *Joint Understanding between PNG and Australia on further cooperation on the PNG Liquefied Natural Gas Project*, to assist PNG in the establishment of a transparent and well governed sovereign wealth fund.

The Treasury hosted two officials from Solomon Islands and also supported an official from the Australian Treasury to the PNG Treasury for a short-term program.

FISCAL GROUP

Overview

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

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

Fiscal Group works with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, climate change and the

environment, and defence and national security. Fiscal Group also works with other departments in areas such as early childhood and families, education and skills, social housing, family payments, Indigenous policy, disability policy, labour markets, immigration, health policy and aged care. While other departments have primary responsibility for policy and programs in these areas, Fiscal Group focuses on improving wellbeing, including through lifting participation and productivity to help ensure sustainable economic growth, taking account of fiscal policy objectives.

During 2011-12, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy approaches (including implementation of the Clean Energy Finance Corporation and support for the Prime Minister's Manufacturing Taskforce), and provided advice for Cabinet, the Deputy Prime Minister and Treasurer (for his participation in Cabinet and the budget processes) and for the other Treasury portfolio ministers.

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Fiscal Group provided advice on Commonwealth-State financial policy, arrangements related to state and territory fiscal and tax issues, and managed the administration of payments to the States and Territories (the States). Since 1 January 2009, under the Intergovernmental Agreement, the Treasury has been responsible for administering National Specific Purpose Payments (National SPPs), National Partnership payments, goods and services tax (GST) payments and other general revenue assistance to the States. Details of these payments can be found in programs 1.4 to 1.10.

Group deliverables

Fiscal Group's key deliverables are advice on:

- fiscal strategy that aims to ensure fiscal sustainability over the economic cycle;
- effective government spending arrangements that contribute to improving the wellbeing of Australians;
- strategies that address intergenerational challenges, including social, fiscal and environmental sustainability, and the development and use of skills; and
- Commonwealth-State financial relations, including the progress of the COAG reform agenda.

Fiscal Group also coordinates the preparation of the Commonwealth Budget and other documents required under the Charter and supports Commonwealth-State relations through the coordination and delivery of various Commonwealth-State forums.

In addition, Fiscal Group provides secretariat support to the GST Distribution Review.

Group outcomes

In 2011-12, Fiscal Group's key outcomes were:

- advising on the implementation of the Clean Energy Future package and the Clean Energy Finance Corporation;
- advising on the fiscal outlook and delivering the Government's commitments on fiscal policy;
- advising on budget priorities consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, *the Final Budget Outcome 2010-11* (September 2011), *the Mid-Year Economic and Fiscal Outlook (MYEFO) 2011-12* (November 2011) and the 2012-13 Budget (May 2012).
- advising the Deputy Prime Minister and Treasurer, in consultation with the Australian Office of Financial Management (AOFM), on debt issuance and debt policy issues;
- advising on operational issues related to the Future Fund and the three Nation-building Funds;
- advising on issues associated with the establishment of a Parliamentary Budget Office (PBO);
- continuing to implement the framework for federal financial relations, which commenced on 1 January 2009, including advising on the development of new National Partnerships and other agreements;
- payments to the States totalling over \$85.8 billion including five National SPPs (in healthcare, schools, skills and workforce development, disability services and affordable housing), GST payments and other general revenue assistance and National Partnership payments;
- providing secretariat support to the GST Distribution Review;
- advising on and monitoring, the First Home Owners Boost;
- contributing to progressing the first stage of the National Disability Insurance Scheme and the National Injury Insurance Scheme;
- providing secretariat support for the Advisory Panel on the Economic Potential of Senior Australians, and working with other departments to develop the Government's response to the Panel's final report;
- advising on industry, regional, climate change and environment policy, and on defence and national security matters;
- advising on social, education, disability, Indigenous, labour market, immigration and health policy and aged care; and
- establishing a Centre for Market Design in collaboration with the Victorian Department of Treasury and Finance and the University of Melbourne.

Analysis of performance

Advice on the fiscal and budget strategies

During 2011-12, the Treasury provided advice to the Deputy Prime Minister and Treasurer and to other portfolio ministers on the Australian Government's budget position over the forward estimates and the medium term, to inform overall policy settings and to provide context for the Government's decision-making. The fiscal outlook was updated in the 2011-12 MYEFO and the 2012-13 Budget.

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

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The 2011-12 MYEFO was released by the Deputy Prime Minister and Treasurer and Minister for Finance and Deregulation on 9 November 2011, and updated the fiscal estimates published in the 2011-12 Budget.

The 2012-13 Budget, published in May 2012, indicated that the budget would return to surplus in 2012-13, despite the weaker than expected recovery in tax receipts.

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising the Deputy Prime Minister and Treasurer on the overall budget strategy and priorities. In particular, the Treasury provided advice to the Government on the medium-term fiscal strategy in the context of returning the budget to surplus once economic growth is around trend. In this respect, good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Contribution to public debate and awareness

The Government's Budget publications are available free at www.budget.gov.au. Since the 2012-13 Budget, there have been over 311,210 unique visitors to the budget website and over 2.7 million pages have been viewed. Widespread access to these documents helps the public keep informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the *Budget Overview*, *Budget at a Glance*, *Delivering a Stronger, Fairer Future* and the *Tax Reform Road Map*.

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

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- economic assumptions underpinning the budget estimates;

- tax revenue estimates;
- tax expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

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

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

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

The *Final Budget Outcome 2010-11* was published in September 2011. In 2010-11, the Australian Government general government sector recorded an underlying cash deficit of \$47.7 billion. This outcome was around \$1.6 billion better than estimated at the 2011-12 Budget, reflecting lower than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local governments is detailed in the 2012-13 Budget, Budget Paper No. 3, *Australia's Federal Relations*. This paper, produced by the Treasury, is the main public source of information on Australian Government payments to the States. It also informs the States of their expected payments in the upcoming financial year.

In addition, this Budget Paper also includes information on fiscal developments in the States, as well as advice on policies relating to Commonwealth-State financial relations.

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

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

Debt management policy

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

Budget 2012-13 reported that Treasury Bond issuance in 2012-13 is expected to be around \$35 billion. The face value of securities offered at each tender will be between \$500 million and \$1 billion. In addition, Treasury Notes will be offered at regular tenders to support the within-year financing task. It is planned that at least \$10 billion of Treasury Notes will be kept on issue at all times so as to maintain a liquid market. In 2012-13, Treasury Indexed Bond issuance is expected to be around \$2 billion.

Specific details of the Government's forward debt issuance program in 2012-13 are on the AOFM website at www.aofm.gov.au.

Future Fund and Nation-building Funds

During 2011-12, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds. Further information regarding the performance of the Future Fund is at www.futurefund.gov.au.

Australia's Federal Financial Relations

The Commonwealth is working in partnership with the States in a number of key reform areas benefitting all Australians. Significant progress has been made in implementing the reform agenda through the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement). The framework has proved to be flexible and able to facilitate reform activity, including health reform.

Following the 2010 Heads of Treasuries review of agreements under the framework (HoTs Review), COAG initiated reviews of the performance reporting frameworks for the six National Agreements. This work was progressed during 2011-12 in conjunction with wider work by Senior Officials to implement the recommendations of the HoTs Review and address challenges identified by the COAG Reform Council in their annual performance reports under National Agreements. The final reports and recommendations of the reviews of the National Agreements were considered by COAG on 25 July 2012. The reports can be found online, at www.coag.gov.au.

General revenue assistance

Under the Intergovernmental Agreement, the Commonwealth makes payments to the States equivalent to the revenue received from the GST. GST revenue is paid on a monthly basis, distributed in accordance with relativities determined by the Deputy Prime Minister and Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Standing Council meeting.

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

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

Details on general revenue assistance are provided under program 1.4.

Payments for specific purposes (National SPPs and National Partnerships)

The five National SPPs are in healthcare, schools, skills and workforce development, disability services and affordable housing. These are associated with six national agreements, including the National Indigenous Reform Agreement, which contain mutually-agreed objectives, outcomes and performance indicators, and which clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services in these sectors. During 2011-12, the National Agreement for Skills and Workforce Development was reviewed and updated in consultation with States and Territories.

National Health Reform funding will be provided from 1 July 2012, replacing the National Healthcare Specific Purpose Payment (National Healthcare SPP). This funding will comprise two elements: National Health Reform base funding to be provided from 1 July based on the National Healthcare SPP; and efficient growth funding to be provided from 2014-15. National Health Reform funding will be paid into a National Health Funding Pool to support public hospital services.

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

Details on National SPPs and National Partnerships are provided under programs 1.5 to 1.10.

Standing Council for Federal Financial Relations

The Standing Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers on-going reform of federal financial relations and oversees the Intergovernmental Agreement. The Treasury advised the Deputy Prime Minister and Treasurer in relation to these matters and provided secretariat support to the Standing Council. The website for the Standing Council is www.federalfinancialrelations.gov.au.

At Standing Council meetings held in 2011-12, Treasurers focused on key issues including monitoring the national and state and territory economies; monitoring progress under the COAG reform agenda; and considering the financing aspects of the health reforms.

GST Distribution Review

On 30 March 2011, the Commonwealth Government announced a review of the distribution of the GST (the Review).

The Review will consider whether the distribution of the GST and the current form of horizontal fiscal equalisation will ensure that Australia is well placed to respond to long-term trends and structural change in the economy while maintaining confidence in the financial relations within the Australian Federation. Supplementary Terms of Reference were issued on

17 November 2011, asking the Review panel to examine the interaction between the GST distribution and State tax reform, and the relationship between State mineral royalties and the Commonwealth's resource tax reforms.

The Review is being conducted by the Hon John Brumby, Mr Bruce Carter, and the Hon Nick Greiner AC. The Treasury has established a secretariat to support the Review. The secretariat includes officials seconded from the Commonwealth Grants Commission and State Treasuries.

In 2011-12, the panel produced two interim reports, focusing on the initial Terms of Reference (March 2012) and the supplementary Terms of Reference (June 2012). Following further public submissions and consultations with the States and Territories, the panel will present its final report to the Treasurer by October 2012.

Further information on the Review is available online, at www.gstdistributionreview.gov.au.

Australian Loan Council

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

In 2009-10, the Loan Council expanded to include reporting on the macroeconomic implications of infrastructure investments, and to take on an oversight function of the Commonwealth Guarantee of State and Territory borrowing. The guarantee closed to the new issuance of bonds on 31 December 2010. The Loan Council found that the guarantee had been used appropriately, and in 2011-12, agreed to a cessation of reporting on the guarantee.

Heads of Treasuries

At Heads of Treasuries meetings, the treasuries of the Australian and State governments share information on common issues. The Secretary to the Treasury and his state counterparts met twice in 2011-12 to discuss the general operation of the federal financial relations framework, current economic conditions and the fiscal outlook, and tax and financial issues.

GST Administration Sub-committee

The Treasury chairs this sub-committee, which comprises officials from the Treasury, the ATO and State Treasuries. The sub-committee met once in 2011-12. The sub-committee assisted the Standing Council in the development of draft regulations specifying the GST treatment of certain Australian government fees and charges, as well as providing advice on other GST policy and administrative issues, and discussing GST revenue and payments.

Industry, Regional, Climate Change and Environment, and Defence and National Security

Industry and regional policy

The Treasury advised on industry assistance, science and innovation, arts, sports and regional policy issues. This included advice on the work of the Prime Minister's Manufacturing Taskforce, structural and regional adjustment, Australian space policy and the Australian venture capital market.

Climate change and environment policy

The Treasury advised the Deputy Prime Minister and Treasurer on climate change issues, including implementation of carbon pricing and the Clean Energy Future package, low emissions technologies and energy efficiency, renewable energy and alternative fuels, and international engagement on climate change issues.

The Treasury advised the Deputy Prime Minister and Treasurer on the establishment and design of the Clean Energy Finance Corporation (CEFC) and provided secretariat support to the CEFC expert review panel. Treasury also prepared the legislation and associated explanatory memorandum for the establishment of the CEFC.

The Treasury also advised the Deputy Prime Minister and Treasurer and participated in associated inter-departmental committees on environmental and agricultural issues including biodiversity, marine reserves, biosecurity, drought policy, water policy and the Murray-Darling Basin Plan.

The Treasury's advice covered the Government's response to the Tasmanian Forests Statement of Principles, the review of the *Environment Protection and Biodiversity Conservation Act 1999*, the development of the National Food Plan green paper and Australia's Antarctic Territory. Additional advice was provided on specific agricultural commodity issues including live animal exports, fisheries and other primary industries.

During 2011-12, the Treasury also contributed to inter-departmental committees dealing with water policy, progressing the Murray-Darling Basin Plan, marine protected areas, forestry, biosecurity and drought.

Defence and national security policy

The Treasury advised on a range of defence and national security issues, including the Coordinated National Security Budget process and advice to support the Secretary in his role as a member of the Defence Strategic Reform Advisory Board.

The Treasury has continued to participate in the Secretaries' Committee on National Security, which examines and advises on proposals considered by the National Security Committee of Cabinet. It also participated in inter-departmental processes concerning Defence Capability Plan projects, cyber policy, border protection policy and various aspects of domestic security arrangements.

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

Social policy

During 2011-12, the Treasury:

- assisted other agencies to implement a package of assistance for households to accompany the introduction of a carbon price;
- worked with other agencies to progress the Government's problem gambling reforms;
- worked with other agencies to progress the Social Inclusion agenda;
- worked with the States and Territories and other agencies to progress the first stage of the National Disability Insurance Scheme and the National Injury Insurance Scheme, including providing secretariat support to the National Injury Insurance Scheme Advisory Group;
- worked with other agencies to develop the Stronger Futures in the Northern Territory package to support Indigenous people living in regional and remote areas of the Northern Territory;
- worked with other agencies, particularly the Department of Health and Ageing, to develop the Government's response to the final report of the Advisory Panel on the Economic Potential of Senior Australians;
- provided policy advice on the Commonwealth response to natural disasters and on natural disaster recovery policy more broadly; and
- provided policy advice on the final design of the Review of Military Compensation Arrangements and the activities to commemorate the 100th anniversary of the First World War and the Anzac Centenary.

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Disability policy

In the 2012-13 Budget, the Government announced funding for the first stage of a National Disability Insurance Scheme (NDIS) to provide care and support for all Australians with a significant and permanent disability. Treasury is working closely with the NDIS Joint Taskforce to progress consideration of costing, funding and design issues.

Treasury is also tasked with progressing the National Injury Insurance Scheme (NIIS), along with the States and Territories. The NIIS will be a federated model of separate, state-based no fault schemes to provide lifetime care and support to people who incur a catastrophic injury as a result of an accident. The initial focus is on developing minimum standards across the States and Territories for motor vehicle accidents. Treasury is also providing secretariat support to the Minister for Financial Services and Superannuation's NIIS Advisory Group, which assists the Government in considering the Productivity Commission's NIIS recommendations.

Education policy

The Treasury continued to provide advice on education and skills policy during 2011-12, working collaboratively across government to consider the proposals of the Gonski review of

school funding and ensure effective implementation of the Building Australia's Future Workforce package of measures announced in the 2011-12 Budget, including the new National Partnership Agreement on Skills Reform.

Indigenous policy

A key area of work in Indigenous policy in 2011-12 was the Treasury's input into the development of and advice on the Stronger Futures in the Northern Territory package. The Treasury also had a continued role in advising on the Government's commitment to closing the gap in Indigenous disadvantage, including through the COAG reform agenda and the Single Indigenous Budget Statement.

Labour market programs and participation

The Treasury advised on a range of employment and participation issues, with a particular focus on remote jobseekers, redundant workers and the long-term unemployed. In particular, the Treasury provided input into the development of the new \$1.5 billion Remote Jobs and Communities Program, which will provide a more integrated and flexible approach to employment and participation services for people living in remote areas of Australia, and worked with the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Industry, Innovation, Science, Research and Tertiary Education on a new range of initiatives to ensure that mature age workers maintain their attachment to the workforce.

Workplace relations

The Treasury worked closely with DEEWR to develop a whole-of-government approach to the 2012 Minimum Wage Review and prepare government submissions to the Minimum Wage Panel's minimum wage decision.

Immigration

The Treasury continued to provide advice that links Australia's immigration policy to labour market needs and prevailing economic conditions.

In particular, advice was provided on several reforms to immigration policy and associated settings, including the introduction of a new Significant Investor Visa and new visa fee system, reforms to the Employer Sponsored and Student Visa programs, and changes to the composition of the 2011-12 Migration Program.

Health policy

A National Health Reform Agreement was finalised with all States and Territories in August 2011. The Treasury assisted the Department of Health and Ageing to implement the changes, including changes to the financial framework and modelling of the fiscal implications.

The Treasury worked closely with other agencies to help develop the *Living Longer. Living Better* aged care reform package, which was announced on 20 April 2012.

Household Assistance Package

Treasury worked as a joint lead agency with the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the Department of Climate Change and Energy Efficiency (DCCEE) to design the Clean Energy Future Household Assistance Package. The Treasury has since maintained a role in supporting other agencies to implement the package. The Treasury will also have a role in reviewing the adequacy of the package over the fixed price period.

Centre for Market Design

In 2011-12, the Treasury, in collaboration with the Victorian Department of Treasury and Finance and the University of Melbourne, established a Centre for Market Design (the Centre). The Centre provides a mechanism for participants to build capacity and capability in the area of market design and experimental economics and apply economic design techniques to public policy, procurement and resource allocation problems. The concept is being tested as an initial two-year pilot.

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

REVENUE GROUP

Overview

Revenue Group aims to contribute to effective taxation and retirement income arrangements that are crucial to the Government's objectives for the economy and the wellbeing of Australians. Contributing to better tax policy and better tax law are key elements of the Treasury's role as a central policy agency.

Revenue Group has primary responsibility for providing high-quality advice to Treasury portfolio ministers on tax and retirement income policies and legislation. The Treasury designs policy options and legislative proposals to make the Australian tax system more efficient, fair and transparent, and minimise compliance and administration costs. Advice is formulated through an integrated process, which includes consultation with business and community bodies, and close cooperation with the ATO and relevant Commonwealth departments.

During 2011-12, Revenue Group provided policy advice to assist the Government reform the tax and retirement income systems. It developed legislation giving effect to measures announced in the 2011-12 and 2012-13 Budgets and 2011-12 Mid-Year Economic and Fiscal Outlook to ensure the Budget's sustainability. Revenue Group also developed revenue projections as an input to the medium-term analysis undertaken in the 2012-13 Budget.

The Treasury represents Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters. It also provides secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report at www.taxboard.gov.au.

Group deliverables

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

- implementation of the Government's taxation and retirement income reform agenda;
- the impacts of tax system and retirement income proposals, measures and expenditures, including on government finances, economic growth, and their distributional impact and overall efficiency and effectiveness;
- a modernised tax treaty network and revised international tax rules, which enhance Australia's international attractiveness for investment but address risks from harmful tax jurisdictions while furthering Australia's interests in the Pacific and Asia; and
- Australia's participation in international forums, including the OECD, G20 and the Global Forum in relation to international standards of tax information and transparency.

Group outcomes

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Revenue Group's key outcomes were:

- advising the Government on further tax reform initiatives to follow on from the Stronger, Fairer, Simpler package of May 2010, including the Tax Forum that was held on 4-5 October 2011;
- regularly revising tax revenue estimates and analysis and incorporating these into the overall fiscal outlook and strategy in the MYEFO and the 2012-13 Budget;
- providing quantitative advice underpinning taxation proposals included in the 2011-12 MYEFO and 2012-13 Budget, including:
 - changes to the fringe benefits tax on living-away-from-home allowances and benefits,
 - consolidation of the dependency offsets,
 - phasing out of the mature age worker tax offset,
 - changes to the net medical expenses tax offset,
 - better targeting of the employment termination payment tax offset,
 - superannuation reforms,
 - changes to company taxation including introducing a system of loss carry-back,
 - changes to the duty-free allowances for tobacco, and
 - increasing the withholding tax on managed investment trusts;

- providing demographic and labour force projections for the forward estimates and the medium-term estimates;
- providing quantitative advice, including analysis of the distributional considerations and revenue impacts of the Government's Budget and MYEFO measures;
- coordinating the 2011 Tax Expenditures Statement publication and providing quantitative advice on estimates of tax expenditures;
- advising on and developing legislation for business tax reforms including:
 - allowing companies to carry-back losses,
 - improving the efficiency of the research and development tax concessions,
 - revitalising the Australian shipping industry,
 - reforming taxation relief for small business, and
 - consulting on a revised policy framework of taxation of trust income;
- advising and developing legislation on measures to ensure the integrity of the business tax system, including extending the director penalty regime to superannuation guarantee amounts, and establishing a contractor reporting regime for the building and construction industry;
- providing advice and developing legislation on a number of improvements to the capital gains tax and taxation of financial arrangements regimes;
- providing secretariat support to the Business Tax Working Group;
- advising on and implementing legislation for personal tax policy reform, including:
 - increasing the tax free threshold as part of the Clean Energy Future package,
 - phasing out the dependent spouse tax offset,
 - consolidating the other dependency offsets into a single offset,
 - phasing out the mature age worker tax offset,
 - means testing the net medical expenses tax offset,
 - further exemptions from the temporary flood and cyclone reconstruction levy,
 - better targeting the employment termination payment tax offset, and
 - abolishing the education tax refund and replacing it with the Schoolkids bonus;
- advising on and implementing legislation for superannuation and retirement income policies, including:

- the Stronger Super reforms to improve the operation and integrity of the self-managed super funds (SMSF) sector,
- the SuperStream proposals to enhance the efficiency of the superannuation system,
- allowing fund members to electronically request the consolidation of their superannuation accounts through the Australian Taxation Office,
- reducing the tax concessions received by very high income earners on their superannuation contributions, and
- better ways to target and deliver certain superannuation concessions;
- providing secretariat support to the Superannuation Roundtable;
- advising on, and implementing legislation for, philanthropy tax policy, including:
 - progressing the Government’s not-for-profit reform agenda,
 - establishing an Australian Charities and Not-for-profits Commission,
 - better targeting of not-for-profit tax concessions,
 - introduction of a statutory definition of charity,
 - continuing negotiations with the states and territories on national not-for-profit reform,
 - restating the ‘in Australia’ special conditions applying to tax concession entities,
 - improving the integrity of public ancillary funds, and
 - specifically listing organisations in the tax law as deductible gift recipients;
- advising on and implementing legislation for fringe benefits tax and non-cash benefits reform;
- advising on and implementing legislation establishing the Minerals Resource Rent Tax (MRRT) and extending the Petroleum Resource Rent Tax (PRRT), as well as advising the Government on a range of other resource taxation policy issues;
- advising on and implementing legislation on a range of indirect tax measures, including imposing an effective carbon price on business use of transport fuels and aviation fuel use, and bringing gaseous fuels under the carbon pricing mechanism;
- providing support to the Low Value Parcel Processing Taskforce, including the provision of a member of staff on secondment to the taskforce’s secretariat;
- monitoring the operation and administration of the GST through the activities of the GST Policy and Administration Sub-group, which includes representation from each State and Territory Treasury;

- contributing to international forums, including the OECD Working Party No. 9 on Consumption Taxes, and to international agreements, including the World Health Organisation's Framework Convention on Tobacco Control;
- advising on, developing and implementing legislation for Australia's international tax arrangements. This reflects efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including recommendations from the Board of Taxation's Review of the Foreign Source Income Anti-Tax-Deferral Regimes, and the Johnson Report;
- progressing tax treaty negotiations with key investment partners and concluding tax information exchange agreements with several other jurisdictions;
- contributing to global efforts to address tax transparency, including through representing Australia as the Chair of the Global Forum on Transparency and Exchange of Information on Tax Matters;
- advising on reports on tax administration matters by external scrutineers such as the Inspector-General of Taxation, Board of Taxation and Joint Committee of Public Accounts and Audit;
- advising other agencies on legislation in relation to confidentiality of taxpayer information;
- providing secretariat support to the Board of Taxation, including to:
 - its reviews of the tax arrangements applying to collective investment vehicles,
 - the review of an investment manager regime as it relates to foreign managed funds,
 - the review of tax arrangements applying to permanent establishments, and
 - post-implementation reviews into certain aspects of the consolidation regime, the Tax Design Review Panel recommendations and into Division 7A of Part III of the Income Tax Assessment Act 1936;
- providing secretariat support to the Tax Issues Entry System Working Group.

Analysis of performance

Further tax reform

The Treasury has been working to foster a more system-wide approach to policy development that recognises the close links between different parts of the tax system. A series of policy workshops, seminars and cross-group collaborations have been used to deepen the understanding of these issues.

The Tax Forum

The Treasury coordinated the Tax Forum that was held at Parliament House on 4 and 5 October 2011. The forum brought together around 180 representatives from business, community, academia, unions and governments to discuss ways to progress tax reform.

Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues as revenues continued to recover from the effects of the global financial crisis. Revisions to expected tax revenue in 2011-12 and over the forward estimates were made at each of the economic and fiscal outlook releases through 2011-12 (MYEFO and the 2012-13 Budget). The Treasury provided revenue estimates into the medium term as an input into the medium-term analysis undertaken in the 2012-13 Budget.

A review of the quality of Treasury's forecasts of the macroeconomy and revenue was announced by the Secretary on 31 May 2012. This review is being undertaken by a team from within Treasury, overseen by an external reference group, with a summary of the review's findings to be published.

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Business tax reform

Business Tax Working Group

The Treasury provided secretariat support to the Business Tax Working Group (BTWG) from its establishment in October 2011. The BTWG provided its interim report on the tax treatment of losses in December 2011 and a final report on the tax treatment of losses in March 2012 to the Treasurer. The Working Group also began its consideration of longer-term business tax reform options.

Improving access to corporate losses

The Treasury provided policy advice to allow companies to carry-back losses following the recommendations of the BTWG. From 2012-13, companies will be able to carry-back tax losses of up to \$1 million to obtain a refund of tax previously paid. From 2013-14 companies will be able to carry-back losses for the previous two years. This reform provides a tax benefit of up to \$300,000 per year, and will assist companies to finance investments, training and restructuring to improve competitiveness.

Improving the efficiency of Research and Development (R&D)

The Treasury provided policy advice and developed legislation to replace the longstanding R&D Tax Concession with the R&D Tax Incentive. The new R&D Tax Incentive better targets research and development activity with a higher base rate of support. Unlike the Tax Concession, there is no cap on the amount that can be claimed. The R&D Tax Incentive commenced on 1 July 2011, allowing eligible companies with an aggregated annual turnover of less than \$20 million to receive a 45 per cent refundable tax offset for expenditure on

eligible R&D activities. All other eligible companies are entitled to a 40 per cent non-refundable tax offset for such expenditure.

Shipping reforms

The Treasury provided policy advice and developed legislation to implement the Government's 2010 election commitment to revitalise the Australian shipping industry. The taxation measures, which were developed in close consultation with the Department of Infrastructure and Transport and industry stakeholders, comprise an income tax exemption for ship operators, provision for accelerated depreciation of certain vessels, roll-over relief from income tax on the sale of a vessel, a refundable tax offset for employers, and an exemption from royalty withholding tax for payments made for the lease of shipping vessels. These measures came into effect on 1 July 2012, and form part of the Government's Stronger Shipping for a Stronger Economy reform package.

Small business tax package

The Treasury continued to provide policy advice, develop legislation and undertake public consultation on draft legislation, for reforms for small business that were included in the *Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Act 2011*. These reforms operate from the 2012-13 income year and include increasing the small business instant asset write-off threshold to \$6,500 and simplifying the depreciation rules for small business. In addition, Treasury developed legislation on the 2010-11 Budget announcements, which provided small businesses with an accelerated initial deduction for motor vehicles.

Reform of taxation of trust income

The Treasury provided policy advice and consulted with the community on reforms to modernise the taxation of trust income. These reforms are scheduled to take effect on 1 July 2014 and will include a new tax system for managed investment trusts (MITs), where the objective is to increase certainty, reduce complexity and lower compliance costs for MITs and their investors.

Ensuring the integrity of the business tax system

Director penalty regime

The Treasury provided policy advice and developed legislation to extend the current director penalty regime to superannuation guarantee amounts, and to strengthen its application to Pay As You Go Withholding obligations. This measure was enacted as part of the *Tax Laws Amendment (2012 Measures No. 2) Act 2012* and the *Pay As You Go Withholding Non-compliance Tax Act 2012*. The measure gave effect to the Government's election commitment to counter phoenix activity and to protect workers' entitlements.

Reporting taxable payments in the building and construction industry

The Treasury continued to provide policy advice, consult with the community and develop regulations on a regime that requires businesses in the building and construction industry to

report annually to the Australian Taxation Office the details of payments they make to contractors providing building and construction services. The regime commenced on 1 July 2012.

Improving the operation of capital gains tax

The Treasury provided advice, consulted on and developed legislation on a number of measures to improve the operation of the capital gains tax (CGT) regime, including:

- removing income tax impediments to superannuation funds seeking to merge in response to the Stronger Super reforms;
- ensuring that default members of superannuation funds are not adversely affected if their superannuation benefits and relevant assets are transferred under the MySuper reforms;
- extending the CGT main residence exemption to special disability trusts (SDTs) and providing a CGT exemption for assets transferred into an SDT for no consideration; and
- removing CGT impediments to taxpayers participating in an Australian government agency program that provides replacement assets to taxpayers affected by a natural disaster.

Improvements to the taxation of financial arrangements

The Treasury provided advice, consulted and developed legislation to refine the taxation of financial arrangements provisions and to provide certainty and clarity on the operation of the law.

Treasury also provided advice on:

- the treatment of certain Tier 2 capital instruments under the Basel III capital reforms to ensure that these instruments will not be precluded from being treated as debt for income tax purposes;
- the consistent treatment of bad debts between related parties irrespective of whether they are members of a tax consolidated group; and
- the definition of limited recourse debt, to include arrangements where the creditor's right to recover the debt is effectively limited to the financed asset or security provided.

Personal tax and fringe benefits tax policy reform

Clean energy future tax reforms

The Treasury advised on the personal taxation elements of a package to assist Australian households with the move to a Clean Energy Future and introduced legislation to implement this package. This package involved tax cuts delivered through simplification reforms to the personal income tax system, which include more than tripling the statutory tax free threshold and reducing the system's reliance on complicated tax offsets to deliver tax relief. These reforms commenced on 1 July 2012.

Phasing out the dependent spouse tax offset

The Treasury advised on and implemented legislation on the 2011-12 Budget and 2011-12 MYEFO measures to phase out the dependent spouse tax offset. The offset is no longer available for spouses born after 1 July 1952 unless the spouse is invalid or has caring responsibilities. These changes were implemented by the *Tax Laws Amendment (2011 Measures No. 5) Act 2011* and *Tax Laws Amendment (2012 Measures No. 3) Act 2012*.

Rebalancing support for private health insurance

The Treasury continued to advise the Government on its measure, announced in the 2009-10 Budget and implemented in 2011-12, to means test the private health insurance rebate. These changes were introduced in *Fairer Private Health Insurance Incentives Act 2012*.

Phasing out the mature age worker tax offset

The Treasury advised on the 2012-13 Budget measure to phase out the mature age worker tax offset. From 1 July 2012, the mature age worker tax offset will only be available to taxpayers born before 1 July 1957. Legislation is being developed to give effect to this measure.

Consolidating the dependency tax offsets into one

The Treasury advised on the 2012-13 Budget measure to consolidate eight dependency offsets into one, which is only available to taxpayers who maintain a dependant who is genuinely unable to work due to carer obligation or disability. The offsets to be consolidated are the invalid spouse, carer spouse, housekeeper, housekeeper (with child), child-housekeeper, child-housekeeper (with child), invalid relative and parent/parent-in-law tax offsets. Legislation is being developed to give effect to this measure.

Better targeting the employment termination payment tax offset

The Treasury advised on the 2012-13 Budget measure to better target the employment termination payment tax offset. From 1 July 2012, only that part of an affected employment termination payment (ETP) that takes a person's total annual taxable income (including the ETP) to no more than \$180,000 will receive the ETP tax offset. This reform was implemented by the *Tax Laws Amendment (2012 Measures No. 3) Act 2012*.

Means testing the net medical expenses tax offset

The Treasury advised on the 2012-13 Budget measure to means test access to the net medical expenses tax offset. For people with adjusted taxable income above the Medicare levy surcharge thresholds (\$84,000 for singles and \$168,000 for couples or families in 2012-13), the threshold above which a taxpayer may claim the offset will be increased to \$5,000 (indexed annually thereafter) and the rate of reimbursement will be reduced to 10 per cent for eligible out-of-pocket expenses incurred. People with income below the surcharge thresholds will be unaffected. Legislation implementing this measure is being developed.

Reform of the income tax treatment of non-cash benefits and the extension of the fringe benefits tax exemption for fly-in-fly-out arrangements to Australians working overseas

The Treasury provided advice and developed legislation to amend the *Fringe Benefits Tax Assessment Act 1986* to provide an exemption from fringe benefits tax for transport, from an

employee's usual place of residence to their usual place of employment, where the employee is an Australian resident employed in a remote area overseas, under what is commonly known as a fly-in fly-out arrangement, for fringe benefits provided after 1 July 2009.

This measure was announced in the Assistant Treasurer and Minister for Financial Services and Superannuation's Media Release No. 011 of 18 November 2010.

Not-for-profit reforms

The Treasury advised the Government on implementing its not-for-profit reform agenda announced in the 2011-12 Budget. The reforms include:

- establishment of the Australian Charities and Not-for-profits Commission from 1 October 2012 — the Commission will initially be responsible for determining the legal status of groups seeking charitable and public benevolent institution status. The Commission will also implement a 'report-once use-often' reporting framework for charities, provide education and support for the sector on technical matters, and establish a public information portal;
- introducing a statutory definition of 'charity' — the definition will apply across all Commonwealth agencies from 1 July 2013 and is based on the 2001 Report of the Inquiry into the Definition of Charities and Related Organisations, taking account of the findings of recent judicial decisions;
- better targeting the not-for-profit tax concession — to reform the use of tax concessions by unrelated businesses run by not-for-profit entities;
- continuing negotiations with the States and Territories on national regulation and a new national regulator for the sector, as the greatest reduction in red tape can only be achieved with national coordination; and
- restating and standardising the special conditions for tax concession entities.

Superannuation and retirement income policy reform

2011-12 MYEFO measures

The Treasury provided advice for the Government's 2011-12 MYEFO measures, and developed legislation for and implemented some of the measures. These measures included:

- abolishing the maximum superannuation guarantee age limit;
- a one-year pause in the indexation of the concessional contributions cap;
- clarifying the operation of certain trust deed clauses so that these clauses cannot be used to avoid excess contributions tax;
- changes to the superannuation co-contribution to reduce the matching rate, the maximum co-contribution amount and upper income threshold; and
- extension of the drawdown relief for account-based pensions provided in 2011-12 to 2012-13, through a 25 per cent reduction in the minimum payment amounts.

2012-13 Budget superannuation measures

The Treasury provided policy advice for the Government's 2012-13 Budget measures, and developed legislation for and implemented some of the measures. These measures included:

- developing a facility for the online registration of SMSF auditors and to cover the costs, increasing the SMSF levy from \$180 to \$200 for 2011-12 and then decreasing to \$191 from 2012-13;
- ensuring the process of everyday superannuation transactions are easier, cheaper and faster through the SuperStream package of measures, including by implementing new data and e-commerce standards for superannuation transactions, allowing the use of tax file numbers as the primary locator of member accounts and facilitating account consolidation and electronic portability; and
- deferring the higher concessional contributions cap for individuals aged 50 and over with superannuation balances below \$500,000.

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Treasury consulted the superannuation industry and other relevant stakeholders on further design and implementation issues on the 2012-13 Budget measures to reduce the tax concession on superannuation contributions of very high income earners.

Stronger, Fairer, Simpler superannuation reforms

The Treasury consulted the Superannuation Roundtable on implementation issues for the Government's announcement to provide higher concessional contributions caps for those aged 50 or over with superannuation balances of less than \$500,000.

The Treasury developed legislation to give effect to the superannuation reforms to increase the superannuation guarantee rate, abolish the maximum age limit on superannuation guarantee and introduce a new superannuation contribution for low income earners. This legislation was part of the Mineral Resource Rent Tax package and was enacted on 29 March 2012.

Trans-Tasman retirement savings portability

The Treasury continues to work with New Zealand officials to finalise legislation to allow Australians and New Zealanders to take their retirement savings with them when they move across the Tasman.

Once enacted, the scheme will permit transfers between certain Australian superannuation funds and New Zealand KiwiSaver schemes. Participation in the scheme will be voluntary for eligible funds, as well as for individuals wishing to transfer their retirement savings.

The approach will maintain the integrity of the Australian and New Zealand retirement savings systems.

Super System Review

The Treasury assisted the Government in undertaking consultations with stakeholders on the implementation of the Super System review reforms and provided advice to the Government on implementation details.

The Treasury developed legislation for reporting of superannuation contributions on payslips, quarterly notification by superannuation funds about whether contributions have been received and the facilitation of the consolidation of unnecessary superannuation accounts.

Other superannuation measures

The Treasury provided policy advice and developed legislation on other superannuation issues, including:

- streamlining the process for superannuation funds claiming deductions for the cost of total and permanent disability insurance;
- allowing the proceeds of crime to be recovered from superannuation; and
- refunding certain excess concessional contributions.

International tax arrangements

Review of transfer pricing laws

On 1 November 2011, the Government announced that it would introduce amendments to the income tax law to better align Australia's transfer pricing rules with international best practice in order to improve the integrity and efficiency of the tax system.

The first phase of these reforms involved clarification of the application of the treaty transfer pricing rules. The Treasury developed legislation to give effect to this reform with amendments to clarify the operation of the law included in the Tax Laws Amendment (Cross-border Transfer Pricing) Bill (No. 1) 2012, which was passed by the Parliament on 20 August 2012. In developing the rules, the Treasury consulted extensively both on a public basis, and with tax practitioners, peak body representatives and industry representatives.

Investment Manager Reforms

Following a review and report of the Australian Financial Centre Forum (*Australia as a Financial Centre; Building on Our Strengths 2009*), the Australian Government announced support for the development of an investment manager regime (IMR). The IMR is intended to provide clear and comprehensive statutory rules for taxing non-resident investment into Australian and foreign assets.

Treasury has consulted extensively with industry on the implementation of this measure and has developed legislation to clarify the tax treatment of income of foreign managed funds for previous income years, and the foreign conduit income of such funds.

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Treasury will continue to consult with industry and provide further advice to government on the development of the final stage of the IMR.

Tax treaty negotiations

Australia has a tax treaty network of 44 bilateral tax treaties (42 in force). Tax treaties promote closer economic cooperation by eliminating barriers to trade and investment caused by overlapping tax jurisdictions. Tax treaties offer protection for Australian businesses investing offshore by reducing or eliminating double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During 2011-12, the Treasury continued to progress the Government's tax treaty negotiation program through negotiations and discussions with a number of countries. In particular, Treasury hosted a round of negotiations with Switzerland in November 2011. A protocol amending the Australia-India treaty was signed in December 2011.

The Treasury provided advice on various international agreements the Government is negotiating, including free trade agreements, film co-production agreements, and proposed agreements with potential tax privileges and immunities. The Treasury also contributed to international tax treaty policy development and capacity-building through its work with the OECD's Committee on Fiscal Affairs. The Treasury also analysed, and provided advice on, mitigating the impacts of the United States' Foreign Account Tax Compliance Act (FATCA) on the Australian economy.

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Tax information exchange agreements and international transparency

Tax information exchange agreements

Australia continued to make significant progress in securing tax information exchange agreements with low tax jurisdictions, including signing tax information exchange agreements with Andorra, Bahrain, Costa Rica, Liberia and Macao. Tax information exchange agreements provide a legal basis for bilateral exchange of tax information, for both civil and criminal tax purposes, and are an important measure to combat offshore tax evasion.

The Treasury has led Australia's contribution to international efforts to address tax transparency and the use of secrecy for tax evasion purposes, and is involved in G20 and OECD efforts to improve global exchange of information for tax purposes. In August 2009, the Global Forum on Transparency and Exchange of Information was reinvigorated with a renewed mandate to conduct peer reviews of its members' commitment to international standards on tax transparency commitments. A Treasury official, Mr Mike Rawstron, is Chair of the Global Forum, which has overseen substantial progress in the removal of secrecy and provisions preventing the exchange of information on tax matters between jurisdictions.

Other international tax agreements

Australia signed the Multilateral Convention on Mutual Administrative Assistance in November 2011. The convention has been signed by nearly 40 jurisdictions and provides for assistance between national revenue authorities in three areas: the exchange of taxpayer

information, the recovery of outstanding tax debts and the service of documents. The convention will complement Australia's tax treaty and tax information exchange agreement networks and further enhance Australia's ability to protect its revenue base. Action to enable Australia to ratify the convention is now underway.

International representation

The Treasury represented Australia on the OECD's Committee on Fiscal Affairs and its associated working parties dealing with international tax matters, particularly on developing comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meetings of the United Nations Committee of Experts on International Cooperation in Tax Matters and the Global Forum for Transparency and Exchange of Information for Tax purposes. The Treasury also provided an instructor to an OECD course on tax treaty issues. Treasury staff presented at an Asian Development Bank seminar in Indonesia, and represented Australia at the First Annual International Meeting on Transfer Pricing as part of the OECD's Global Forum on Tax Treaties and Transfer Pricing.

Indirect tax policy reform

Clean Energy Plan

The Treasury developed legislation imposing an effective carbon price on aviation fuels through excise and customs tariffs from 1 July 2012. The legislation also reduced the business fuel tax credit entitlement of non-exempted industries for their use of liquid and gaseous transport fuels, imposing an effective carbon price on business through the fuel tax system from 1 July 2012. The *Clean Energy (Fuel Tax Legislation Amendment) Act 2011*, *Clean Energy (Excise Tariff Legislation Amendment) Act 2011* and *Clean Energy (Customs Tariff Amendment) Act 2011* received Royal Assent on 4 December 2011.

Applying the carbon price to gaseous fuels

The Treasury provided policy advice and developed legislation to bring gaseous fuels under the carbon pricing mechanism. The *Clean Energy Legislation Amendment Act 2012*, *Clean Energy (Customs Tariff Amendment) Act 2012* and *Clean Energy (Excise Tariff Legislation Amendment) Act 2012* received Royal Assent on 28 June 2012.

The Treasury also developed regulations to impose an effective carbon price on non-transport use of certain gaseous fuels for the period 1 July 2012 to 30 June 2013, before the fuels are brought directly into the carbon pricing mechanism.

Australia's response to the illicit tobacco protocol

The Treasury contributed to Australia's position on protocols and guidelines attached to the World Health Organisation's Framework Convention on Tobacco Control.

Review of the Legal Framework for the Administration of the Goods and Services Tax

The *Indirect Tax Laws Amendment (Assessment) Act 2012* implemented a number of recommendations of the Board of Taxation's *Review of the Legal Framework for the Administration of the Goods and Services Tax*.

Review of the GST financial supplies provisions

Legislative amendments were made, with effect from 1 July 2012, implementing the recommendations of the Treasury review of the GST Financial Supplies provisions.

Productivity Commission Inquiry into the Retail Industry

Revenue Group provided advice to the Government on the Productivity Commission's recommendations relating to the appropriateness of current indirect tax arrangements in its report on the *Economic Structure and Performance of the Australian Retail Industry*.

GST treatment of government taxes, fees and charges

Regulations were made under Division 81 of the *A New Tax System (Goods and Services Tax) Act 1999*, with effect from 1 July 2012, exempting certain government taxes, fees and charges from GST in accordance with the principles contained in the *Intergovernmental Agreement on Federal Financial Relations*.

Responding to court cases

Amendments to the GST law were made in response to a number of court cases including: *Commissioner of Taxation v Multiflex* [2011] FCAFC 142, *Commissioner of Taxation v Gloxinia Investments (Trustee)* [2010] FCAFC 46, *TT-Line Company Pty Ltd v Commissioner of Taxation* [2009] FCAFC 178 and *Commissioner of Taxation v Secretary to the Department of Transport (Victoria)* [2010] FCAFC 84. The GST issues considered in these cases included refunds, new residential premises, appropriations and GST-free health supplies.

Other reforms

Minerals Resource Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT) extension

The Treasury developed legislation to implement the revised resource taxation arrangements announced by the Government on 2 July 2010. These included establishing the MRRT, which will apply to profits from coal and iron ore, and extending the PRRT to apply to all petroleum projects across Australia, including the North West Shelf and those located onshore. The *Minerals Resource Rent Tax Act 2012*, the *Petroleum Resource Rent Tax Assessment Amendment Act 2012*, and related legislation received Royal Assent on 29 March 2012.

Tax agent services regulatory reform

Treasury, in consultation with relevant industry and government stakeholders, continued to work through the co-regulatory model and implementation issues associated with bringing financial advisers providing tax advice under the scope of the tax agent services regime. On

30 April 2012, the Assistant Treasurer announced a deferral until 30 June 2013 from application of the tax agent services regime for financial advisers providing tax advice.

Tax Expenditures Statement

The Treasury coordinated the 2011 Tax Expenditures Statement publication and provided quantitative advice in respect of the estimates of tax expenditures (that is, the value of concessional taxation treatment) associated with taxation policy.

Tax policy consultation

The Treasury implemented a program of high-level stakeholder consultation meetings to engage the taxpayer community in a wider conversation about strategic tax policy issues. Two consultation meetings were held in 2011-12 with representatives from the tax industry, and business and community groups.

The Treasury updated the Government's Forward Work Program on a monthly basis and made it available publicly. The document is published to inform taxpayers and their advisers about the Government's current and forthcoming consultation process on tax measures. It outlines discussion papers, and exposure drafts of legislation and regulation that are currently open for consultation as well as those currently in preparation.

In addition, the Treasury engaged with members of the Tax Design Advisory Panel, which comprises lawyers, accountants, academics and economists. This panel provides advice on:

- consideration of tax and superannuation issues; and
- the design and implementation of relevant changes to the tax system.

The operation of the panel has been extended until 30 June 2014.

Miscellaneous amendments and technical corrections

Measures making miscellaneous amendments and technical corrections to the taxation laws were included in the *Tax Laws Amendment (2011 Measures No. 9) Act 2012* and the *Tax Laws Amendment (2012 Measures No. 1) Act 2012*, which received Royal Assent on 21 March 2012 and 27 June 2012 respectively.

Issues raised through the Tax Issues Entry System are addressed in miscellaneous amendment packages. The Tax Issues Entry System website (www.ties.gov.au) is jointly operated by the ATO and the Treasury and allows tax professionals and the general public to raise issues on the care and maintenance of the tax system.

Secretariat support to the Tax Issues Entry System Working Group

The Treasury provided support to the Tax Issues Entry System Working Group which met four times during 2011-12.

Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to its reviews of the tax arrangements applying to collective investment vehicles, the review of an investment manager regime as it relates to foreign managed funds, the review of tax arrangements applying to permanent establishments and post-implementation reviews into certain aspects of the consolidation regime, into the Tax Design Review Panel recommendations and into Division 7A of Part III of the *Income Tax Assessment Act 1936*.

Secretariat support to the Superannuation Roundtable

The Treasury provided secretariat support to the Superannuation Roundtable, which met twice during 2011-12.

Management of legislation program

Advice to the Government on tax policy and legislation was timely, influential and of high quality, enabling the Government to make informed decisions and to develop a range of business, indirect, international, resource and personal income tax measures.

A total of 45 tax bills containing 73 measures were introduced into Parliament in 2011-12.

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MARKETS GROUP

Overview

Markets Group contributes to Australia's continuing economic development and the wellbeing of its people by fostering a well-functioning market economy, a secure financial system, and foreign investment consistent with Australia's national interest. Improving the operation of markets works to enhance consumer and investor confidence, and foster a secure financial system and sound corporate practices.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on developing and implementing policies to maintain and improve markets, so that investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also provides advice to remove impediments to competition in product and services markets, and safeguard the public interest in matters such as consumer protection.

The Treasury also supports the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Council.

A key focus for the Treasury in 2011-12 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the face of continued global financial turbulence. These policies focused on

promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and ensuring that regulatory frameworks promoted macroeconomic stability and market confidence.

The Treasury also continued to monitor and provide advice on the general prudential framework applying to the banking sector, insurers and superannuation funds. The Treasury coordinated Australia's participation in the IMF's Financial Sector Assessment Program (FSAP). The Treasury participated actively in international forums, such as the G20 and Financial Stability Board, to enhance the regional and global financial architecture. In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in free trade agreement negotiations.

During 2011-12, the Treasury continued to pursue sound regulatory and structural reforms to foster well-functioning markets in key financial, infrastructure, energy, housing and labour markets. This included work to further the COAG reform agenda to reduce the regulatory burden on business, including for the ongoing maintenance of a national law for consumer protection; housing supply and affordability; and as the lead agency in the multi-agency Standard Business Reporting (SBR) initiative.

The SBR program, intended to reduce the business-to-government reporting burden, was delivered on time and within budget on 1 July 2010. During 2011-12 the program focused on management of take-up targets, and the ongoing operation, maintenance and governance of the SBR solution. Participating SBR agencies include the Australian Bureau of Statistics (ABS), the Australian Prudential Regulatory Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Taxation Office (ATO), and all State and Territory government revenue offices.

Group deliverables

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

- measures to promote competition, macroeconomic stability and market confidence, including providing advice on the prudential frameworks applying to the banking, insurance and superannuation sectors;
- financial sector reform options, including fostering the efficient flow of funds into, and within, the Australian economy;
- how to best influence and implement G20 decisions to strengthen the financial regulatory system;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency;
- financial services reform addressing emerging issues in investor protection;
- reform of corporate regulation, including addressing issues in corporate governance, financial reporting, auditing, corporate insolvency and market integrity;

- further reforms to executive remuneration arrangements, including simplifying remuneration reports;
- initiatives to position Australia as a leading financial services centre in the Asia-Pacific region, arising from the Government's response to the Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*;
- key planks in the COAG reform agenda designed to reduce the regulatory burden facing business including the ongoing maintenance of a national law for consumer protection, national consumer credit law, cross-jurisdictional reform of personal criminal liability for corporate fault and the multi-agency SBR initiative;
- assisting the implementation of the National Broadband Network, including on structural reforms to maximise competition in the national telecommunications market;
- implementation of the Government's Clean Energy Future policies impacting on the Energy sector;
- managing incoming foreign investment to ensure that the national interest is protected and encourage free flows of investment;
- representation of Australia's interests on investment, financial services, competition and consumer issues in negotiating free trade agreements and, in relation to investment and competition, in multilateral forums such as the OECD and APEC;
- issues relating to the availability and affordability of insurance and reinsurance;
- improving housing affordability within Australia; and
- actuarial matters through the Australian Government Actuary which provides actuarial services to the Government, the Treasury and other agencies.

Group outcomes

Markets Group's key outcomes for 2011-12 were:

- developing amendments to the *Banking Act 1959* to allow Australian banks, credit unions and building societies to issue covered bonds, which came into effect in October 2011;
- implementing the Government's new 'tick and flick' deposit account switching service. The new arrangements came into effect on 1 July 2012 and make it easier for consumers to move their deposit accounts between financial institutions;
- making the Financial Claims Scheme (FCS) a permanent feature of Australia's financial landscape with a new cap of \$250,000 per person per Authorised Deposit-Taking Institution (ADI), which came into effect on 1 February 2012;
- implementing the 'Government Guaranteed Deposits' seal for ADIs to help consumers easily identify deposit products covered by the FCS;
- continuing to work on refining Australia's arrangements for crisis management and resolution of financial institutions, including in conjunction with New Zealand's financial regulators;

- implementing the Government's Stronger Super reforms to optimise retirement benefits, improve competition and governance, lower costs and fees and foster confidence in superannuation;
- advancing a Housing Supply and Affordability Reform agenda, involving the examination of a range of factors that influence housing supply and demand in Australia;
- leading key reforms of the COAG Business Regulation and Competition Working Group to progress reforms in some of the 27 areas where duplicate and/or inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing the *Competition and Consumer Legislation Amendment Act 2011*, which received the Royal Assent on 6 December 2011. The legislation introduced amendments to implement the Government's commitments to clarify the unconscionable conduct and mergers and acquisitions provisions of the *Competition and Consumer Act 2010* — taking effect on 1 January 2012 and 6 February 2012, respectively;
- developing the *Competition and Consumer Amendment Act (No. 1) 2011*, which received Royal Assent on 6 December 2011. The legislation introduced prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2010*, which apply to the banking sector — taking effect on 6 June 2012;
- supporting and monitoring the post-implementation phase of the Australian Consumer Law, as well as further consideration of ongoing minor amendments including the *Competition and Consumer Amendment Regulations 2011 (No. 2)*;
- developing legislation to amend the *National Consumer Credit Protection Act 2009* to give effect to the Government's credit card reforms announced in December 2010;
- monitoring the effectiveness of the reforms introduced in the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, which commenced on 1 July 2011, and developing legislative amendments to further strengthen Australia's remuneration framework following the release of the Corporations and Markets Advisory Committee Report on Executive Remuneration in April 2011;
- developing legislative amendments designed to improve audit quality in Australia. The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* commenced on 27 June 2012;
- implementing the *Corporations Amendment (Phoenixing and Other Measures) Act 2012*, which commenced on 1 July 2012. The legislation provides ASIC with an administrative power to wind up abandoned companies so that workers can access the General Employee Entitlements Redundancy Scheme;
- progressing reforms to remove unnecessary regulatory burdens on directors and corporate officers, and minimise inconsistency between Australian jurisdictions in the application of personal criminal liability for corporate fault. An exposure draft of the Personal Liability for Corporate Fault Reform Bill 2012 was released for public comment;
- progressing reforms to the framework for corporate and personal insolvency regulation to promote practitioner professionalism and competency and increased efficiency in insolvency administration. A proposals paper, *A Modernisation and Harmonisation of the*

Regulatory Framework Applying to Insolvency Practitioners in Australia was released for public comment on 14 December 2011;

- implementing the Government's decision to support financial market competition in Australia, by completing the transfer of market supervision from the ASX to ASIC and facilitating the launch of Chi-X, the first market operator to compete directly with the ASX, in October 2011;
- implementing G20 commitments in relation to over-the-counter (OTC) derivatives by developing a legislative framework to allow for the flexible implementation of obligations in coordination with other jurisdictions;
- progressing reforms to introduce retail trading in Commonwealth Government Securities. The Commonwealth Government Securities Legislation Amendment (Retail Trading) Bill 2012 was introduced in June 2012;
- implementing the Future of Financial Advice reforms to improve the quality of financial advice provided to Australians through the removal of conflicts of interest and ensuring financial advisers act in the best interests of clients;
- progressing the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region, including work to develop an Asia Region Funds Passport;
- implementing the *Insurance Contracts Amendment Act 2012*, including establishing a standard definition of 'flood' and developing a fact sheet for home building and home and contents insurance policies;
- providing advice, in consultation with the Foreign Investment Review Board, on significant and high profile foreign investment cases of national interest and trade policy matters, and dealing with global investment, trade flows and trends, foreign government investment and trade policy responses and the implications for Australia;
- contributing to free trade agreement negotiations with Japan, China, Korea, Malaysia, India, Indonesia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam, with Canada and Mexico also joining, and consideration being given to Japan joining);
- achieving closer economic integration through initiatives that further progress the development of a single economic market between Australia and New Zealand. In August 2009, the Australian and New Zealand Prime Ministers agreed on principles for developing cross-border economic initiatives and a range of shared practical outcomes in business law;
- continuing to provide secretarial support to the Financial Reporting Council (FRC), and engaging with the FRC to develop broad strategic directions relating to the accounting and auditing standards setting processes for the public and private sectors in Australia;
- leading the ongoing governance of SBR which aims to provide a quicker and easier way for businesses to fulfil their government reporting requirements including the strategic direction, stakeholder take-up, architectural leadership and international collaboration; and

- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary.

Analysis of performance

Superannuation

Following extensive consultation with stakeholders, on 21 September 2011 the Government announced its decisions on the key design aspects of the Stronger Super reforms. Stronger Super is the Government's response to the review into the governance, efficiency, structure and operation of Australia's superannuation system (Super System Review). The Stronger Super reforms include:

- creating a new simple, low cost default superannuation product called MySuper;
- raising the bar for those managing the superannuation system, particularly for those managing default superannuation funds in which the majority of Australians invest;
- providing APRA, ASIC and the ATO with the tools they need to improve their oversight of superannuation; and
- making the process of everyday transactions easier, cheaper and faster through the Government's SuperStream reforms.

The Treasury provided advice to the Government in developing legislation to implement the reforms. During 2011-12, two tranches of legislation were introduced into Parliament and a third tranche released as an exposure draft for consultation.

- The Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011 was introduced on 3 November 2011.
- The Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Bill 2012 was introduced on 16 February 2012.
- The Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 was released as an exposure draft on 27 April 2012.

In August 2011, the Treasury provided a submission to the Parliamentary Joint Committee (PJC) on Corporations and Financial Services inquiry into the collapse of Trio Capital. The Treasury, in conjunction with the regulators (APRA, ASIC and the ATO), provided advice on the Government's response to the PJC report. The Treasury continues to work with the regulators to further strengthen the regulatory framework.

Infrastructure policy

The Treasury provided advice on the Government's investment in infrastructure projects announced in the 2011-12 Budget. The Secretary to the Treasury is a member of the Infrastructure Australia Council, the Government's key advisory body on nationally significant infrastructure. The Treasury is engaged in the activities of the COAG Infrastructure Working Group, including the Private Public Partnership Subgroup. The Executive Director of Markets

Group chaired the Infrastructure Finance Working Group, which was established as part of the 2011-12 Budget. The Group, which consisted of representatives from both the public and private sectors, delivered a report to the Infrastructure Australia Council identifying potential ways to encourage greater private sector investment in infrastructure.

The Treasury provided advice on the interaction of the Government's climate change policies and the Australian energy market, including the implementation of the Energy Security Council and secretariat support to the Council. The Treasury was actively engaged in the work of the Senior Committee of Officials of the Standing Council on Energy and Resources which provides advice on ongoing energy market reforms.

The Treasury worked with the Department of Infrastructure and Transport to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition.

The Treasury provided advice to ministers on a number of matters arising under the National Access Regime in Part IIIA of the *Competition and Consumer Act 2010*. Ministers received recommendations on two declaration matters during 2011-12.

The Treasury continued to work with the Department of Broadband, Communications and the Digital Economy, the Australian Competition and Consumer Commission and other central agencies on implementing the Government's National Broadband Network policy, and providing advice on reform in the national telecommunications market.

The Treasury also continued to work with the Department of Broadband, Communications and the Digital Economy on ensuring the efficient allocation of radiofrequency spectrum, including through spectrum licence renewals and the switchover to digital television.

The Treasury led key activities of the COAG Housing Supply and Affordability Reform (HSAR) Working Party, which is responsible for reporting to COAG through the Ministerial Council for Federal Financial Relations on issues such as planning and zoning, infrastructure charges and an audit of underutilised land. The HSAR Working Party finalised the report to COAG in November 2011, and it will be released on the COAG website following the agreement of all jurisdictions.

The Treasury advised the Government on housing supply policy, funding for housing measures in, and announced after, the 2011-12 Budget and strategic analysis of all other housing matters.

Competition policy

The Treasury contributed to key outputs in the Government's competition policy legislative reform program.

The Treasury developed legislation to introduce prohibitions on anti-competitive price signalling and information disclosures to the *Competition and Consumer Act 2010*, which initially apply to the banking sector. These reforms took effect on 6 June 2012.

The *Competition and Consumer Amendment Act (No. 1) 2011* introduced the prohibitions, which were applied to the banking sector by the *Competition and Consumer Amendment Regulation 2012 (No. 1)*.

The Treasury developed legislation to clarify the mergers and acquisitions provisions of the *Competition and Consumer Act 2010* to address creeping acquisitions. The amendments were introduced as part of the *Competition and Consumer Legislation Amendment Act 2011* and took effect on 6 February 2012.

The Treasury provided advice on key competition and regulatory reforms of the COAG Business Regulation and Competition Working Group (BRCWG). This included progressing reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business. It also included supporting the Assistant Treasurer in his role as chair of the BRCWG Competition Sub-committee, which oversees the eight competition reform areas, including national transport, road pricing, national energy markets and access to infrastructure.

The Treasury coordinates the Productivity Commission's work program and advises departments and the Government on preparing terms of reference for reviews. In 2011-12, the Productivity Commission commenced five public inquiries and five commissioned studies.

The Treasury represents Australia at international forums on competition policy, and is a member of the OECD Competition Committee. The Treasury is also a member of the APEC Economic Committee and coordinates the competition policy work stream.

Consumer policy

In 2011-12, the Treasury provided advice to the Government on Australia's consumer policy framework including supporting the implementation and maintenance of the Australian Consumer Law (ACL).

The ACL includes provisions about unfair practices and fair trading, national unfair contract terms, consumer guarantees, provisions dealing with unsolicited consumer agreements, simple national laws for lay-by agreements, a national product safety regime and provisions on information standards that apply to services as well as goods.

To support the post-implementation phase of the ACL, the Treasury worked with both national and State and Territory consumer agencies during 2011-12 to maintain the policy and enforcement framework for the ACL. The Treasury played an active role in providing responsive policy advice on emerging issues through its role as Chair of the Policy and Research Advisory Committee which includes representatives from the States and Territories. This included considering proposed amendments to the ACL, the preparation of guidance material, and the development of responses to the *Australian Consumer Survey* released in June 2011.

The Treasury provided secretariat support to the COAG Legislative and Governance Forum on Consumer Affairs as well as Consumer Affairs Australia and New Zealand (including its advisory

committees). The Treasury also provided secretariat support to the Commonwealth Consumer Affairs Advisory Council which in 2011-12 gave independent advice to the Assistant Treasurer on a range of consumer-related issues including through its final report *Gift Cards in the Australian Market* released in July 2012.

The Treasury represents Australia in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy. The department contributed to ongoing OECD processes to develop policy guidance to support consumers engaged in e-commerce.

National regulation of credit

The Consumer Credit Legislation Amendment (Enhancements) Bill 2011 was introduced into Parliament in 2011, and has passed the House of Representatives. The Bill includes proposals to introduce specific protections for seniors in respect of reverse mortgages, a national cap on costs (to replace inconsistent State and Territory caps), changes to make it more straightforward for consumers to obtain a variation of their repayments when they are in financial hardship, and reforms to address the current regulatory arbitrage between consumer leases and credit contracts.

These reforms supplement previous legislation introduced as part of the National Credit Reforms, following the 2008 COAG decision to transfer responsibility for consumer credit regulation to the Australian Government. The first phase of these reforms was implemented by the *National Consumer Credit Protection Act 2009*. This statute:

- replaced the State and Territory administered Uniform Consumer Credit Code with a nationally consistent consumer credit framework;
- introduced a national credit licensing system with both entry standards and ongoing conduct requirements for all persons engaging in credit activities; and
- required lenders, and those intermediaries who provide credit assistance, to meet responsible lending obligations, including assessing the capacity of borrowers to make the proposed repayments.

In 2011 the Treasury developed reforms to make the terms of home loan and credit card products more transparent to consumers, so that this market would become more competitive. The legislation to support these reforms, the *National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Act 2011*, was passed in 2011.

Financial system reform

A key focus of activities during 2011-12 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the wake of the global financial crisis and the global recession. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

Treasury officials continued to participate in the work of the G20, contributing to the development of key global reforms to financial regulation, including strengthened standards for capital and liquidity. Treasury has been implementing the Australian Government's G20 over-the-counter derivatives market commitments, which require improved risk management practices and transparency in derivatives markets.

The Treasury also contributed to the work of other international bodies to foster international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency.

Regulation of particular market sectors addressed in those forums included hedge funds, credit rating agencies and over-the-counter derivatives.

Domestically, the Treasury progressed further initiatives to address regulatory concerns emerging from the crisis.

Financial sector crisis management

The Treasury continued to work with Australia's financial regulators to implement the reforms announced as part of the Competitive and Sustainable Banking System reform package to foster competition and stability in the banking sector. Implementation of the reforms is on track and a number of measures were completed in 2011-12, including:

- legislation to amend the *Banking Act 1959* to allow Australian banks, credit unions and building societies to issue covered bonds, which came into effect in October 2011;
- the ban on mortgage exit fees, which commenced on 1 July 2011;
- the announcement of a commitment by the banking industry and two major independent ATM companies to voluntarily provide free transactions at ATMs in selected very remote Indigenous communities;
- home loan key fact sheets, that allow consumers to compare different mortgages side by side, which became available from 1 January 2012; and
- the 'Australian Government Guaranteed Deposits' seal, to help consumers easily identify deposit products covered by the Financial Claims Scheme (FCS), now available for use.

Treasury chaired a Working Party to implement the Government's new 'tick and flick' deposit account switching service. The new arrangements, which came into effect on 1 July 2012, will make it easier for consumers to move their deposit accounts between financial institutions.

The Treasury also provided advice on Australia's financial sector crisis management arrangements, including the FCS. The FCS provides depositors and insurance policyholders with timely access to funds if a financial institution fails.

Treasury advised the Government on the implementation of its decision to make the FCS a permanent feature of Australia's financial landscape. This decision followed a joint review of the FCS undertaken by members of the Council of Financial Regulators (CFR). A new FCS cap of \$250,000 per depositor per ADI came into effect on 1 February 2012 (with transitional

arrangements for existing term deposits). The Treasurer also announced a number of refinements to improve the operation of the FCS. These will be progressed in 2012-13.

Treasury has worked with Australia's financial regulators to ensure the adequacy of our arrangements for crisis management and resolution, including assessing their consistency with new international standards being developed in this area. It has also worked with other CFR members to refine Australia's contingency plans for dealing with financial distress. As part of this work, Australian authorities have engaged with their New Zealand counterparts under the framework of the Trans-Tasman Council on Banking Supervision.

The Treasury continued to participate in the work of the CFR and liaised with other government agencies to monitor developments in the global and domestic financial markets and provide policy advice. The department continued to monitor developments in key overseas financial markets to inform policy considerations.

G20 commitments on over-the-counter derivatives

Treasury has been implementing the Australian Government's G20 over-the-counter derivatives market commitments made at Pittsburgh in 2009, following the global financial crisis. These commitments require improved risk management practices and transparency in derivatives markets.

During 2011-12, Treasury developed policy advice in conjunction with APRA, ASIC and the RBA, and consulted on a legislative framework to implement the G20 commitments. This framework will allow for the future creation of rules requiring the reporting of derivatives transactions, the central clearing of derivatives transactions and the use of trading venues for derivatives transactions.

The framework will be flexible enough to ensure that Australia can implement the reforms in coordination with other jurisdictions and can accommodate unexpected market changes.

Financial market infrastructure

In April 2011, the Deputy Prime Minister and Treasurer made an order under the *Foreign Acquisitions and Takeovers Act 1975* prohibiting the acquisition of ASX by Singapore Exchange Limited (SGX). In the context of this decision the Deputy Prime Minister and Treasurer sought advice from the CFR on how to ensure that appropriate resolution and recovery arrangements were in place for financial market infrastructure and that regulatory influence and control were preserved in an increasingly internationalised environment.

The Treasury chairs this working group, which also comprises representatives of APRA, ASIC and the RBA.

The CFR has advised the Government on the potential measures for ensuring Australia's regulatory system for financial market infrastructure continues to protect the interests of Australian issuers, investors and markets participants, including under a scenario where the

ASX is part of a foreign-domiciled group. Further consultations have been conducted by the Treasury and regulatory reform proposals are being developed.

Market supervision and competition

In 2011-12, the Treasury implemented the Government's decision, announced in March 2010, to support financial market competition in Australia. This involved completing the transfer of supervision of financial markets from the ASX to ASIC, and putting in place necessary regulation and other changes to allow for the launch in October 2011 of Chi-X, the first direct competitor to the ASX.

The introduction of competition has already resulted in significant savings to industry through decreased market fees and is expected to promote improvements in service quality and increased innovation.

The Treasury continues to work with ASIC in the development and ongoing review of a cost-recovery framework for market supervision in a multi-market operator environment.

Commonwealth Government Securities

The facilitation of trading of Commonwealth Government Securities (CGS) on retail financial markets forms part of the banking package announced by the Deputy Prime Minister and Treasurer in December 2010. One of the objectives of the measures in that package is to secure the long-term safety and sustainability of the Australian financial system by reducing reliance on offshore wholesale funding markets. As part of this objective the Government has committed to fostering a deep and liquid corporate bond market. Trading of CGS on retail financial markets is a crucial element of this proposal as it will provide retail investors with a visible pricing benchmark for investments they may wish to make in corporate bonds.

Treasury has been coordinating the implementation of the arrangements required to facilitate the trading of CGS on retail financial markets. This has involved the development of legislative amendments to the *Commonwealth Inscribed Stock Act 1911* and the *Corporations Act 2001*. The Commonwealth Government Securities Legislation Amendment (Retail Trading) Bill 2012 containing these amendments was introduced into Parliament on 27 June 2012.

Financial services reforms

Financial advice reform

On 26 April 2010, the Government announced the Future of Financial Advice (FoFA) reforms, which focused on improving the quality of advice and enhancing retail investor protection. Following a series of public information sessions and targeted stakeholder meetings, the Treasury developed legislation to tackle conflicts of interest that led to high profile corporate collapses such as Storm Financial, Opes Prime and WestPoint.

The *Corporations Amendment (Future of Financial Advice) Act 2012* and the *Corporations Amendment (Further Future of Financial Advice Measures) Act 2012* include a ban on

conflicted remuneration structures, the introduction of a best interests duty for people providing personal advice, and compulsory renewal and fee disclosure obligations for ongoing advice relationships. The legislation received Royal Assent on 27 June 2012 and commenced on 1 July 2012. The requirements in the legislation are voluntary from 1 July 2012 and mandatory from 1 July 2013. Regulations to support the legislation are being progressed; the first package was made in July 2012. Further regulations are expected to be made throughout 2012-13.

As part of the FoFA reforms, the Government announced on 26 April 2010 that it would remove the exemption for accountants from holding an Australian financial services (AFS) licence when providing advice on the establishment and closing of self-managed superannuation funds. On 23 June 2012, the Government announced that it would introduce a new restricted AFS licence that will allow accountants to provide a broader range of financial advice services than was previously allowed. Regulations to implement this measure are expected to be made in 2012-13 ready for the commencement of a three-year transition period from 1 July 2013.

Statutory Compensation Scheme Review

As part of the FoFA reforms, Mr Richard St. John was commissioned to undertake a review of the costs and benefits of a statutory compensation scheme for financial services. On 8 May 2012, the Government released for public consultation Mr St. John's report, *Compensation arrangements for consumers of financial services*. The report concluded that it would be inappropriate to implement a statutory compensation scheme at this time. It makes recommendations to strengthen existing compensation arrangements and to review the level of responsibility assumed by responsible entities of managed investment schemes in particular. The Treasury will provide advice to the Government in response to the report and submissions.

Improving insurance disclosure

On 23 November 2011, in response to a series of natural disasters in Queensland and parts of New South Wales, the Government introduced into Parliament the Insurance Contracts Amendment Bill 2011. The Bill contained the legislative framework for the introduction of a standard definition of 'flood' to be used in home building, home contents, small business and strata title insurance policies and the provision of a one-page fact sheet for home building and home contents insurance policies. On 15 April 2012, the *Insurance Contracts Amendment Act 2012* received Royal Assent.

On 14 June 2012, the Insurance Contracts Amendment Regulation 2012 was made, which contained the wording of the standard definition of flood that is to be used in home building, home contents, strata title and small business insurance policies.

Consultation is continuing on a proposed Regulation for the introduction of the requirement to provide consumers with a one-page fact sheet for home building and home contents insurance policies.

The standard definition of flood, and the one-page fact sheet, will help consumers to better understand what their insurance policy covers.

Shorter Product Disclosure Statements

The requirement to provide Shorter Product Disclosure Statements (SPDS) for regulated superannuation and simple managed investment scheme products (except for superannuation platforms and multifunds) came into operation from 22 June 2012. SPDS provide retail clients with short, easy-to-read disclosure documents which contain the key information consumers need to be aware of before choosing to acquire an investment product.

In late December 2011, in order to address the need to transition to the new regulation, the Government specified that superannuation platforms and multifunds would be excluded from the SPDS regime until further consultation with industry and consumer groups could be undertaken.

Australia as a Financial Centre

In September 2008, the Government commissioned a panel of experts — the Australian Financial Centre Forum — to identify the key priority areas necessary to position Australia as a leading financial centre in the Asia - Pacific region.

The Australian Financial Centre Forum's report, *Australia as a Financial Centre: Building on Our Strengths*, was released in January 2010. The Government has supported all 19 recommendations. This included recommendations on the taxation of financial services, such as commissioning a Board of Taxation review of Islamic financial products and collective investment vehicles, and regulation of financial services such as the development of an Asia Region Funds Passport and a financial services regulatory online gateway for potential overseas investors.

The Asia Region Funds Passport is being led by the Treasury and progressed under the auspices of APEC. Policy and technical workshops were held in Singapore in August 2011, Kuala Lumpur in December 2011 and Bangkok in June 2012. The Asia Region Funds Passport has been endorsed by APEC Finance Ministers in 2010 and 2011.

Financial sector trends and structures

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

Corporations regulation reforms

Executive remuneration

Treasury has continued to review the operation of Australia's executive remuneration framework, and to develop reforms to ensure that it remains robust and effective. The last round of reforms to strengthen the remuneration framework took effect on 1 July 2011 through the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* and associated Regulations. The reforms addressed many of the recommendations made by the Productivity Commission in its 2009 inquiry into Australia's executive remuneration framework, including the introduction of the 'two-strikes' test.

Treasury is developing legislative reforms to implement the Government's decision to further strengthen Australia's executive remuneration framework. Several of the proposed reforms address recommendations made by the Corporations and Markets Advisory Committee in its 2011 report on executive remuneration, and include proposals to improve and simplify disclosures in the remuneration report, and a proposal to clawback remuneration in the event that it is later found to be materially misstated.

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Director liability

Reforms have been developed to remove unjustified or excessive regulatory burdens on directors and corporate officers, and to enhance consistency between Australian jurisdictions in the application of personal criminal liability for corporate fault. These reforms will reduce the risk that directors will be prosecuted for misconduct in situations where they could not reasonably be expected to prevent the misconduct. The reforms form part of the Commonwealth's obligations under the COAG Seamless National Economy National Partnership to implement a coordinated national approach to directors' liability. A draft Bill to progress this reform, the Personal Liability for Corporate Fault Reform Bill 2012, was exposed for public comment.

Phoenixing reform

The *Corporations Amendment (Phoenixing and Other Measures) Act 2012* (the Phoenixing Act), which provides ASIC with an administrative power to wind up abandoned companies so that workers can access the General Employee Entitlements Redundancy Scheme, took effect from 1 July 2012. Treasury also consulted on reforms to impose personal liability on directors engaged in phoenix activity using similar company and business names.

Insolvency regulation

On 14 December 2011 the Parliamentary Secretary to the Treasurer and the Attorney-General jointly released a proposals paper, *A Modernisation and Harmonisation of the Regulatory Framework Applying to Insolvency Practitioners in Australia*. The paper sets out a framework for corporate and personal insolvency regulation that promotes a high level of practitioner professionalism and competency, enhances transparency and communication between insolvency practitioners and stakeholders, and promotes increased efficiency in insolvency administration. The Phoenixing Act also removed the burden of advertising corporate

insolvency notices in newspapers by providing for the establishment of a new corporate insolvency notices website administered by ASIC.

Audit quality

A number of important reforms to enhance audit quality were identified in stakeholder feedback to the Treasury consultation paper *Audit Quality in Australia: A Strategic Review* in 2010. The Government has addressed a number of these reforms in the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, which was passed with bipartisan support on 18 June 2012 and received Royal Assent on 27 June 2012.

These reforms include the extension of audit partner rotation periods by two years under certain circumstances; the publication of annual transparency reports by certain audit firms; replacing the Financial Reporting Council auditor independence function with a strategic, high-level ministerial audit quality advice role; allowing ASIC to issue audit deficiency reports in certain circumstances; and allowing ASIC to communicate directly with an audited body on certain audit matters.

Dividends test

The Parliamentary Secretary to the Treasurer released a discussion paper in November 2011 canvassing options for possible amendments to the test for payment of dividends (dividends test), titled *Proposed Amendments to the Corporations Act*. The discussion paper addresses stakeholder feedback following reforms to the *Corporations Act 2001* in 2010, which included the replacement of the former profits-based dividends test with a net assets-based dividends test.

Treasury is preparing advice on further amendments to the dividends test in response to submissions to the discussion paper.

Advice on, and processing of, individual foreign investment proposals

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

Foreign persons are required to notify the Treasurer when entering into an agreement to acquire an interest in certain types of Australian real estate or a substantial interest¹ in an Australian business or corporation valued above \$244 million.² All foreign governments and their related entities must notify and get prior approval before making a direct investment in

1 A substantial interest is defined as an interest of 15 per cent or more for an individual foreign person, or an interest of 40 per cent or more for two or more foreign persons, and their associates.

2 Under the Australia-US Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2012, the threshold is \$1,062 million except for acquisitions involving US government entities or in prescribed sensitive sectors.

Australia, regardless of the value of the investment. Foreign governments and their related entities also need to notify and get prior approval to start a new business or to acquire an interest in land (except when buying land for diplomatic or consular requirements).

During 2011-12, the Foreign Investment Review Board (a non-statutory body which advises the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals. The General Manager of the Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Proposals are initially examined by the Treasury, in its role as secretariat to the Foreign Investment Review Board. Under the Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that are not sensitive; this accounts for the majority of proposals. The Treasury also undertakes associated compliance work.

In examining large or otherwise significant proposals, the Treasury consults with Commonwealth and State government departments and authorities with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals. While the majority of proposals proceed without objection, the Treasurer has powers under the Act to prohibit proposals that are contrary to the national interest, or to approve them subject to conditions that are considered necessary to ameliorate any national interest concerns. Most proposals are decided within the 30 day statutory period.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is provided on the Foreign Investment Review Board's website at www.firb.gov.au.

Advice on investment and trade policy

The Treasury provides advice to the Government on general foreign investment and trade policy matters. This has included advice on global investment and trade flows and trends, foreign government investment and trade policy responses, and the implications for Australia. The Treasury also provides advice on Australia's participation in multilateral, regional and bilateral investment and trade agreements.

Representation in international forums

The Treasury provides policy input on international investment issues in multilateral forums such as the World Trade Organization and the OECD, in regional forums such as APEC, and bilaterally through free trade agreements, Investment Promotion and Protection Agreements and other bilateral partnerships. The Treasury is involved in negotiating investment, financial services and competition-related provisions in free trade agreements.

Trade agreements/closer economic cooperation

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, Korea, India, Indonesia, the Gulf Cooperation Council and the Trans-Pacific Partnership Agreement (which involves Brunei, Chile, Malaysia, New Zealand,

Peru, Singapore, the United States and Vietnam; Canada and Mexico have also joined and consideration is being given to Japan joining). The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

On 22 May 2012, the Malaysia-Australia Free Trade Agreement was signed and will enter into force once Australia and Malaysia have completed their domestic ratification procedures. Treasury participated in the negotiations.

OECD Investment Committee

Australia is represented at OECD Investment Committee meetings by a senior Treasury official. The committee enhances the contribution of international investment to growth and sustainable development worldwide, by advancing investment policy reform and international cooperation.

The committee also oversees the operation of the OECD Guidelines for Multinational Enterprises, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, tax and consumer welfare. As a member of the OECD, the Government promotes and implements the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, who is a senior executive of the Foreign Investment and Trade Policy Division.

In 2011-12, the Australian National Contact Point received one specific instance complaint under the guidelines. This complaint involved the operations of an Australian multinational operating in Chile. This matter was transferred to the Chilean National Contact Point as the corporation involved in the joint venture mining operation, which is the subject of the complaint, is in Chile; the key company representatives that have day-to-day decision-making responsibilities for these projects are based in Chile; and the Australian National Contact Point is not in the best position to assess whether the actions by the company in relation to the projects are valid or illegal under Chilean law; this will have some bearing on any consideration of the matter under the Guidelines.

APEC

The Treasury is a member of the APEC Economic Committee and coordinates the competition policy work stream.

International liaison

International Financial Reporting Standards regional policy forum

The sixth International Financial Reporting Standards regional policy forum, which was held in Malaysia in March 2012, was attended by many jurisdictions from the Asia-Oceania region. Australia actively participated in the forum through representatives from the Treasury, the accounting standard setters, the auditing standard setters and professional accounting bodies. The theme of the forum was 'Convergence and Beyond, Navigating Change'.

IMF Financial Sector Assessment Program

Australia is participating in the IMF's Financial Sector Assessment Program, which is examining the stability of the Australian financial system and Australia's compliance with international standards relating to banking, insurance and securities. The Treasury is coordinating Australian authorities' engagement with the IMF as part of this process.

Coordination of business law with New Zealand

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

- persons in Australia or New Zealand should not have to engage in the same process or provide the same information twice;
- measures should deliver substantively the same regulatory outcomes in both countries in the most efficient manner;
- regulated occupations should be able to operate seamlessly between each country;
- both governments should seek to achieve economies of scale and scope in regulatory design and implementation;
- products and services supplied in one jurisdiction should be able to be supplied in the other;
- the two countries should seek to strengthen joint capability to influence international policy design; and
- outcomes should seek to optimise net Trans-Tasman benefits.

The range of shared outcomes include insolvency law, financial reporting policy, financial services policy, competition policy, business reporting, corporations law, personal property securities law, intellectual property law and consumer policy.

A Trans-Tasman Outcomes Implementation Group comprising senior officials from the Australian and New Zealand governments has been tasked with overseeing and, wherever possible, accelerating the progress of the reform agenda. The Treasury and the New Zealand Ministry of Economic Development co-chair the group.

Trans-Tasman Accounting and Auditing Standards Advisory Group

The Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG) comprises representatives from the accounting and auditing standard setters, the professional accounting bodies, and the policy makers of both Australia and New Zealand. TTAASAG's focus is to ensure that the financial reporting and auditing frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During 2011-12, the Group continued to work together to progress a range of reforms designed to ensure greater commonality and alignment between the two frameworks.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and the New Zealand Minister of Finance on promoting a joint approach to deliver a seamless regulatory environment for banking services. The Secretaries to the Treasuries of Australia and New Zealand jointly chair the Council; its membership also includes senior officials from the financial system regulators.

The Treasury has pursued the Council's work program, focusing on improved cooperation on crisis management.

OECD Insurance and Private Pensions Committee

The Treasury has provided the Australian representative to the OECD Insurance and Private Pensions Committee, which also includes the Working Party on Private Pensions and the Working Party on Government Experts on Insurance. In 2011-12, the committee focused on issues arising in the financial crisis that were relevant to insurance sectors and private pension funds across member countries. These included crisis resolution options, corporate structures, consumer protection and accounting standards. It also undertook further work on the OECD guidelines on insurer corporate governance in cooperation with the International Association of Insurance Supervisors.

Financial Reporting Council

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

Treasury provides secretarial support to the FRC and in relation to its quarterly meetings, and is also responsible for advising the Minister on the appointment of members to the FRC to ensure that it is broadly representative of stakeholders (including Treasury) with an interest in financial reporting. Treasury continues to maintain a close relationship with the FRC, and engages in high-level discussions with the FRC which benefits both the Treasury in the development of policy advice, and the FRC in guiding their strategic direction and activities.

During 2011-12, the FRC established five Task Forces — Integrated Reporting, Managing Complexity in Financial Reporting, Board Education, Audit Quality, and Public Sector Financial Reporting. Treasury has been actively engaged with the activities of the various Task Forces, by providing secretarial support to the Task Forces, fostering dialogue with stakeholders on the issues explored by the Task Forces, liaising with the Task Forces to form their strategic direction and providing assistance to key outputs.

Takeovers Panel

The Takeovers Panel contributed to well-functioning securities markets in Australia by dealing with 16 applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001* and other control transactions. The Panel, a peer review body with regulatory functions, has 52 members who are specialists in mergers and acquisitions either as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely-held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The Panel also publishes guidance notes to help foster market confidence and efficiency.

In 2011-12, the panel:

- considered a number of applications alleging association considered a number of high profile applications;
- considered some significant and complex applications including truth in takeovers policy, applications of Chapter 6, bidder statement disclosure and rights issues; and
- updated the guidance note on bidder's statements (renamed takeover documents), which is the last guidance note to be rewritten under the program commenced in 2008 to review and simplify the Panel's guidance.

Financial Reporting Panel

The Government confirmed the closure of the panel in 2012 due to lower than expected referral rates. The Corporations Legislation Amendment (Financial Reporting Panel) Bill 2012 to effect the closure was introduced into Parliament on 21 June 2012.

Standard Business Reporting

SBR is a multi-agency initiative, led by Treasury and co-designed by Commonwealth, State and Territory government agencies and the private sector, to reduce the business-to-government reporting burden by providing standardised electronic reporting. SBR simplifies financial reporting to government and makes it a by-product of natural business systems. Under SBR, Australian businesses are able to use SBR-enabled software to prepare and lodge over 400 government forms directly from their software to the agencies in the program — APRA, ASIC, the ATO and the State and Territory revenue offices.

SBR was launched on 1 July 2010 and the SBR program continued to focus in 2011-12 on extending business usage of SBR's three core capabilities: the SBR online gateway, which enables reports to pass between business and government (in both directions); the SBR taxonomy (harmonised dictionary of common reporting terms); and the AUSkey credential (single secure log on for business).

While AUSKey is widely used by business (about three million times per month by the end of 2011-12), the use of SBR for report lodgment was constrained until this year by the limited availability of SBR-enabled software in the market. However, the steady increases in SBR lodgments in the December and March quarters of 2011-12 accelerated sharply in the June quarter, as new SBR-enabled software became available. By the end of the year, there were more than 80 commercial software providers licensed to develop SBR-enabled software; 15 had product in the market and this number is expected to increase significantly over the next 12 months.

Governments across Australia have endorsed SBR, which formed part of COAG's broader agenda to develop a seamless national economy (SNE). The Productivity Commission's May 2012 review of the SNE, *Impacts of COAG Reforms*, concluded by confirming that the potential benefits of SBR for business are likely to be large, of the order of \$500 million per annum. The program is continuing to work at the realisation of these benefits, including through engagement with key software developers to encourage and support the development of SBR-enabled financial/accounting and payroll software products for use by businesses and reporting professionals.

Two developments during the year have strengthened the business case for SBR and have contributed positively to the development of SBR-enabled software: the Government's announcement, in September 2011, that SBR is to be the standard platform for superannuation transactions under SuperStream; and the ATO's announcement that it is adopting SBR technology to rationalise its online reporting channels by 1 July 2015.

While continuing to work at embedding the use of the existing SBR capabilities more widely across the business community, the program is increasingly focusing on the next stage of SBR's development. It is contributing to the work of the COAG Taskforce, which was asked by COAG in April 2012 to report on specific ways to remove overlaps in Commonwealth and State and Territory reporting obligations, including through the expanded use of online business reporting. COAG's commitment to addressing the 'Red Tape Challenge' by reducing reporting burdens on business is part of its new set of reform priorities.

Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency-related matters. It chaired the Royal Australian Mint Advisory Board to assist the Mint to develop its policy and administer its initiatives. The Treasury also assisted the Perth Mint in relation to its currency determinations (legislative instruments) which are tabled in Parliament before the release of numismatic (collector) coins.

Statutory and other procedural requirements

Financial sector levies

During 2011-12, the Treasury, in conjunction with APRA, consulted with industry and provided advice to the Government on the determination of financial sector levies which support APRA's operations.

Review of need for Terrorism Insurance Act 2003

On 1 July 2003, the Australian Government established a terrorism insurance scheme to minimise the wider economic impacts that flowed from the withdrawal of terrorism insurance following the terrorist attacks of September 2001. The *Terrorism Insurance Act 2003* requires that the Act be reviewed at least once every three years. A key recommendation of the 2012 Review was the payment of a dividend from the Australian Reinsurance Pool Corporation, the statutory body established to manage the scheme. Following the Government's agreement, the Treasury is working with the Australian Reinsurance Pool Corporation to implement the review's other recommendations. The Act will be reviewed again in 2015.

Sunsetting legislation

In October 2011, a paper was circulated to the Secretaries Board requesting the departmental coordination of sunseting legislation. The majority of Treasury instruments are managed by Markets Group and Revenue Group.

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The sunseting regime of the *Legislative Instruments Act 2003* provides that most legislative instruments (including Regulations) cease automatically 10 years after they commence, to encourage a regular review process. Upon review, agencies can remake or seek exemptions for the instruments that they administer, or allow them to sunset if they are no longer required. Instruments start sunseting from 2015.

The Office of Legislative Drafting and Publishing provided Treasury with a list of legislative instruments for review in October 2011, and is currently preparing a paper regarding the next stage of the process for the Secretaries Board.

Secretariat services

In 2011-12, The Treasury provided secretariat services for the Working Party implementing the Government's new 'tick and flick' deposit account switching arrangements. The Working Party was chaired by Treasury and consisted of representatives from the financial services industry, financial sector regulators and consumer groups. The new account switching arrangements were implemented on 1 July 2012.

The Treasury provided secretariat services to the Ministerial Council for Corporations (MINCO). The Treasury also assisted ministers to fulfil the Government's obligations under the Corporations Agreement 2002. A streamlining project initiated by COAG in 2011 resulted in changes to the ministerial council system. MINCO now operates as the Legislative and Governance Forum for Corporations (meeting as the Ministerial Council for Corporations). Most work priorities and operational arrangements are continuing as with the former MINCO. However, work performed by MINCO that did not fall within the new terms of reference ceased or was transferred to other agencies.

The Treasury provided secretariat support for the Financial Reporting Council, which met four times during 2011-12. This statutory body provides strategic oversight of the accounting and

audit standard-setting processes, including the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). The AASB deals with the setting of accounting standards for the public and private sectors of the Australian economy, while the AUASB focuses on the development and formulation of Australian Auditing Standards.

The Treasury provided secretariat support to the Financial Sector Advisory Council, which brings together a range of senior financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector.

The Treasury provided secretariat support to the Insurance Reform Advisory Group, which provides a forum in which consumers, insurers and other stakeholders can be heard by government and can contribute to the fair, efficient and effective regulation of the general and life insurance industries.

The Treasury also provided secretariat support for the COAG Business Regulation and Competition Working Group Competition Sub-committee, which is chaired by the Assistant Treasurer. The sub-committee oversees the eight competition reform areas under the National Partnership to Deliver a Seamless National Economy and met twice in 2011-12.

The Treasury provided secretariat services for the Natural Disaster Insurance Review. The secretariat also included staff from the Australian Reinsurance Pool Corporation, and APRA. The Government commissioned the review on 4 March 2011 to examine the arrangements for the insurance of the assets of Australian individuals, small businesses and governments for damage and loss associated with flood and other natural disasters. The Review presented its report to the Government on 30 September 2011, at which time the Secretariat was disbanded.

The Treasury provided secretariat support to the Energy Security Council, which was established as part of the Government's Clean Energy Future package. The Council's purpose is to provide assurance and advice to the Treasurer in the event that systemic risks to energy security emerge from financial impairment arising from any source, including from the introduction of carbon pricing. The Council is responsible for assessing two categories of applications for assistance, including: loans for generator owners who need to refinance their debt if finance on reasonable commercial terms is not otherwise available; and loans or other assistance to seek to address systemic risk to energy security in the light of the financial distress of an energy market participant.

In addition, the Treasury provided secretariat support to the National Housing Supply Council (NHSC), which met four times during 2011-12. The NHSC provides forecasts, analysis and advice on the adequacy of land supply, and construction activity to meet housing demand and improve affordability.

Australian Government Actuary

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a

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primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2012, the account was in a sound financial position.

Demand for service was again high during 2011-12.

Consultancy services

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

Departments which sought advice included Defence; Attorney-General's; Industry, Innovation, Science, Research and Tertiary Education; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Finance and Deregulation, and Veterans' Affairs. Centrelink and the Australian Taxation Office also sought advice.

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

Services to the Treasury

The Australian Government Actuary contributed its technical expertise on policy issues, including the superannuation system and insurance matters. The Australian Government Actuary has provided assistance with the Natural Disaster Insurance Review and the National Disability Insurance Scheme.

Operational outcomes

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

CORPORATE STRATEGY AND SERVICES GROUP

Corporate Strategy and Services Group's mission is to provide efficient and effective corporate services, products and advice to the Treasury, Treasury portfolio ministers and other clients to enable them to meet their objectives. Corporate Strategy and Services Group also seeks to link policy strategy with organisational strategy to maintain the capacity of the department to deliver on its mission.

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

Key priorities

The key priorities in 2011-12 were to:

- provide production and logistics services for the 2012-13 Budget and related processes;
- finalise development and implementation of effective advertising campaigns, including on banking reform;
- deliver a successful Tax Forum;
- develop professional event management capability across the department;
- build awareness and understanding of Freedom of Information throughout the department;
- deliver streamlined and professional media monitoring services;
- provide support for new and emerging issues and announcements;
- implement new VOIP phone system and continue to improve the availability of IT infrastructure;
- attract, retain and develop a skilled and diverse workforce through further development of our workforce planning, career talent development systems;
- progress medium-term initiatives for organisational and workforce strategies based on the Staff Survey, Strategic Review, Graduate Review and Progressing Women initiative;
- coordinate the management of identified risks associated with the Work Health and Safety legislation and regulations;
- review and map the Treasury's Chief Executive Instructions (CEIs) to align with the Department of Finance and Deregulation Model CEIs;
- implement recommendations from the Treasury Protective Security Risk Review;
- rationalise off-site lease office accommodation;
- redevelop the internet and intranet, strengthen record-keeping, and commence deployment of team sites to support collaboration and knowledge-sharing;
- deliver data management and reporting tools to support forecasting activities;
- provide high level services to the Secretary and the Executive Board to support and enable key forums within the Treasury's governance framework;
- establish, coordinate and support processes within the department to develop and progress an ongoing strategic policy dialogue;
- undertake and support departmental reviews relating to organisational issues;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of the Treasury's activities, systems and processes; and
- continue to provide a policy implementation monitoring and advising capability.

Key outcomes

The key outcomes were:

- successful event, (print and online) publication and media relations support for several major government announcements and initiatives, including the 2012-13 Budget;
- delivery of the Banking Reform advertising campaign, and the final phases of the Education Tax Refund advertising campaign;
- successful delivery of the Tax Forum, held on 4 and 5 October 2011;
- event management capability strengthened;
- understanding and skills continue to be reinforced within the department through close work with the policy areas and effective tool and compliance development;
- efficiencies in media monitoring services developed and implemented;
- communication support provided to the Strategic Review and Progressing Women initiatives;
- new VOIP phone system delivered successfully and IT infrastructure deployed to improve availability and business continuity;
- work continuing on the implementation of recommendations from the Strategic Review and Progressing Women initiative. Workforce planning framework agreed by the Executive Board in late 2011. Enhanced and tailored workforce reporting implemented, and planning timetable for consultations established;
- graduate review, which found high levels of satisfaction with the program, with some areas identified for improvement, including a shift to three rotations of six months each to increase graduates' breadth of experience and enhance networking;
- risk registers were developed and a system implemented to continuously review and update the registers that are confirmed by the Work Health and Safety Committee;
- review and alignment of the Treasury's CEIs to the issued Model CEIs completed;
- implemented the majority of the recommendations from the Treasury Protective Security Risk Review, with the remainder to be implemented by the end of 2012;
- relinquished off-site office accommodation (Canberra) in March 2012, relocating operations back into the Treasury building;
- a redeveloped Treasury internet site was launched in April 2012;
- successfully trialled the use of team sites to facilitate information discovery, use and sharing within teams;
- the delivery of the Odysseus business intelligence platform, which enables centralised time series data management;
- providing secretariat support to the Executive Board and the Audit Committee;

- organising ongoing policy dialogue across the department, including arranging policy strategy meetings and senior executive service (SES) forums;
- implementing initial recommendations of the Strategic Review of the Treasury and commencing the work program of the Progressing Women initiative;
- developing a new risk management framework and associated products to further improve risk management and corporate planning in the Treasury; and
- policy implementation monitored through regular internal and ministerial reporting.

PROGRAM 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

PROGRAM OBJECTIVE

The objectives of program 1.2 are to:

- make payments to the IMF, under the *International Monetary Agreements Act 1947*, to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustments; and
- make payments to other international financial institutions, as required, to facilitate the achievement of government objectives in international forums. This includes strengthening the international financial system, support for development objectives through the multilateral development banks, and multilateral debt relief.

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PROGRAM DELIVERABLES

The program deliverables are:

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

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

Australia makes significant financial commitments to international financial institutions to support their operations.

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

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient (see Table 1 below).

Table 1: Financial transactions with international financial institutions in 2011-12

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration*	Revenue	4	3,066
Payments			
IMF special drawing rights allocation charges*	Expense	4	11,289
IMF financial transactions plan	Financing transaction	5	296,135
IMF new arrangements to borrow	Financing transaction	4	436,586
Asian Development Bank general capital increase	Investing transaction	1	14,812
International Bank for Reconstruction and Development general and selective capital increases	Investing transaction	1	12,172

*The proportion of the IMF net remuneration and charges referring to May and June is based on estimated figures as of 30 June 2012.

PROGRAM 1.3: SUPPORT FOR MARKETS AND BUSINESS

PROGRAM OBJECTIVE

The objectives of program 1.3 are to:

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

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PROGRAM DELIVERABLES

The program deliverables are:

- the establishment of the Centre for International Finance and Regulation with the consortium led by the University of New South Wales selected through a competitive tender process;
- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are made according to agreed schedules; and
- payments to New South Wales under the loan arrangements are made according to agreed schedules.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- payments for the Centre for International Finance and Regulation will be made according to the agreed funding schedule;
- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are accurately determined and are made according to agreed schedules; and
- the loan facility to New South Wales is a temporary contingency measure for the provision of financing to the Asbestos Injuries Compensation Fund, where the Fund is not able to obtain financing in the short term from James Hardie under the Amended and Restated Final Funding Agreement. The facility will assist the Fund in the short-term to avoid entering into the rationing of payment to claimants.

ANALYSIS OF PERFORMANCE

- Payments to the University of New South Wales for the Centre for International Finance and Regulation were accurately determined and made in a timely manner.
- Payments made from the Housing Loans Insurance Corporation Limited met the cost of administering and meeting the Commonwealth's obligations arising from ongoing management of the residual portfolio of lenders' mortgage insurance contracts.
- Payments made to the HIH Claims Support Scheme met the costs of operating the scheme and providing assistance to eligible policyholders. The Treasury continues to work closely with the HIH administrators, McGrathNicol, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims.
- All payments were accurately determined, in accordance with industry best practice and government regulations, and made in a timely manner.
- Loan payments made to New South Wales were accurately determined and made in a timely manner.

PROGRAM 1.4: GENERAL REVENUE ASSISTANCE

PROGRAM OBJECTIVE

The objectives of program 1.4 are to make general revenue assistance payments to the States and Territories. General revenue assistance payments consist of:

- payments of revenue received from the GST, which, in accordance with the Intergovernmental Agreement, the Commonwealth administers on behalf of the States, and which are provided without conditions for each State and Territory to spend according to their own budget priorities;
- payments to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital and to compensate for the additional costs resulting from the national capital planning influences on the provision of water and sewerage services;
- payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal in the 2008-09 Budget of the exemption of condensate from crude oil excise;
- payments to Western Australia as a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia;
- payments to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory; and
- payments to New South Wales and Victoria to compensate for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

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Elements of this program are linked to the Resources, Energy and Tourism portfolio.

PROGRAM DELIVERABLES

The program deliverables are:

- General revenue assistance payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will make general revenue assistance payments to the States and Territories that reflect the requirements, the amounts and timeframes specified in the Intergovernmental Agreement; and
- the Commonwealth Treasury will provide GST revenue data on a monthly, quarterly and annual basis, and will maintain a schedule of estimates of annual net GST receipts, in accordance with the requirements of the Intergovernmental Agreement.

ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of \$47.1 billion were made to the States and Territories in 2011-12. Payments included:

- GST payments to the States and Territories totalling \$46.0 billion;
- payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* totalling \$0.9 billion; and
- other general revenue assistance payments totalling \$185 million.

The Treasury also recouped \$0.7 billion in GST administration costs in 2011-12.

Monthly, quarterly and annual GST revenue data were provided by the twentieth of each month in accordance with the requirements of the Intergovernmental Agreement.

All payments were accurately determined and made in a timely manner.

PROGRAM 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

PROGRAM OBJECTIVE

The objective of program 1.5 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of healthcare services. This program also has links to the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Healthcare Specific Purpose Payment (SPP) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Healthcare SPP in the healthcare sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Healthcare SPP within the healthcare sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of healthcare services.

- Payments under the National Healthcare SPP were \$12.5 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Healthcare SPP has been spent in the relevant sector, each State and Territory will provide a report to the Standing Council on Federal Financial Relations (the Standing Council) within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

In August 2011, agreement was reached between the Commonwealth and the States on the National Health Reform Agreement which will deliver major reforms to the organisation, funding and delivery of health and aged care.

National health reform funding commenced from 1 July 2012 under the National Health Reform arrangements, replacing the National Healthcare SPP. The Intergovernmental Agreement has been amended to reflect the changed payment arrangements for healthcare.

National health reform funding will be paid into a national funding pool to support public hospital and public health services. National health reform funding will have two elements: National Health Reform base funding—to be provided from 1 July 2012 at an amount equivalent to the National Healthcare SPP—and efficient growth funding (to be provided from 2014-15).

PROGRAM 1.6: ASSISTANCE TO THE STATES FOR SCHOOLS

PROGRAM OBJECTIVE

The objective of program 1.6 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of government and non-government school services.

This program also has links to the Education, Employment and Workplace Relations portfolio. Although the Treasury makes payments for non-government schools, where funding agreements exist, the funding and expense for the non-government schools component is in the Education, Employment and Workplace Relations portfolio.

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PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Commonwealth Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Schools SPP (government and non-government schools component) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Commonwealth Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the States and Territories are required to spend the National Schools SPP in the schools sector. Each State and Territory Treasurer will provide a report to demonstrate expenditure of the National Schools SPP within the schools sector in accordance with the Intergovernmental Agreement. The Commonwealth Treasury will review these reports provided by the States and Territories.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of government schools services.

- Payments under the National Schools SPP (government schools component) payments were \$3.8 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Schools SPP (government schools component) has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

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

PROGRAM OBJECTIVE

The objective of program 1.7 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of skills and workforce development services.

This program also has links with the Education, Employment and Workplace Relations portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of skills and workforce development services.

- Payments under the National Skills and Workforce Development SPP were \$1.4 billion.

- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

PROGRAM OBJECTIVE

The objective of program 1.8 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of disability services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio.

PROGRAM DELIVERABLES

The program objective is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of disability services.

- Payments under the National Disability SPP were \$1.2 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Disability SPP has been spent in the relevant sector, each State and Territory will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that, from 2011-12, an adjustment is made to the National Disability SPP to ensure that the changes to Commonwealth and State roles and responsibilities for aged care and disability services, as part of the National Health Reform arrangements, are budget neutral for all jurisdictions (excluding Victoria and Western Australia, who are not participating in these changed arrangements) through until the end of 2013-14.

PROGRAM 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

PROGRAM OBJECTIVE

The objective of program 1.9 is:

- the Government provides financial support for the States and Territories to be spent in the delivery of affordable housing services.

This program also has links to the Families, Housing, Community Services and Indigenous Affairs portfolio and the Health and Ageing portfolio.

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in the delivery of affordable housing services.

- Payments under the National Affordable Housing SPP were \$1.2 billion.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Affordable Housing SPP has been spent within the relevant sector, each State and Territory will provide a report to the Standing Council within six months of 30 June 2012, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

PROGRAM OBJECTIVE

The objective of program 1.10 is:

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

This program is linked to the portfolios of Agriculture, Fisheries and Forestry; Attorney-General's; Australian Securities and Investments Commission; Broadband, Communications and the Digital Economy; Climate Change and Energy Efficiency; Defence; Education, Employment and Workplace Relations; Innovation, Industry, Science, Research and Tertiary Education; Families, Housing, Community Services and Indigenous Affairs; Finance and Deregulation; Health and Ageing; Infrastructure and Transport; Prime Minister and Cabinet; Regional Australia, Regional Development, Local Government, Arts and Sport; Resources, Energy and Tourism; and Sustainability, Environment, Water, Population and Communities; and Veteran's Affairs.

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PROGRAM DELIVERABLES

The key program deliverable is:

- payments to the States and Territories will be made on the basis set out in each of the National Partnership agreements and any related agreements.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2011-12 financial support for the States and Territories in improving outcomes in areas specified in National Partnership agreements.

National Partnership payments for 2011-12 were \$18.6 billion, comprising:

- payments to support state health services of \$2.2 billion;
- payments to support state education services of \$6.5 billion;
- payments to support state skills and workforce development-related services of \$0.37 billion;
- payments to support state community services of \$1.7 billion;
- payments to support affordable housing services of \$2.3 billion;
- payments to support state infrastructure services of \$3.7 billion;
- payments to support state environmental services of \$0.43 billion;
- payments to support other state services of \$0.24 billion; and
- contingent payments to the States of \$1.2 billion.

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

All payments were determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.

Advice was provided to the States and Territories prior to each payment being made.

