

Part 2:

Report on performance

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REPORT ON PERFORMANCE

The report on performance covers the Treasury's administered items and departmental outputs for 2007-08.

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

The Treasury's 2007-08 performance is reported at the outcome and output levels for its four policy outcomes:

- Outcome 1: Sound macroeconomic environment;
- Outcome 2: Effective government spending arrangements;
- Outcome 3: Effective taxation and retirement income arrangements; and
- Outcome 4: Well functioning markets.

Performance outcomes are reported against the performance information published in the Treasury section of the *Portfolio Budget Statements 2007-08*.

OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

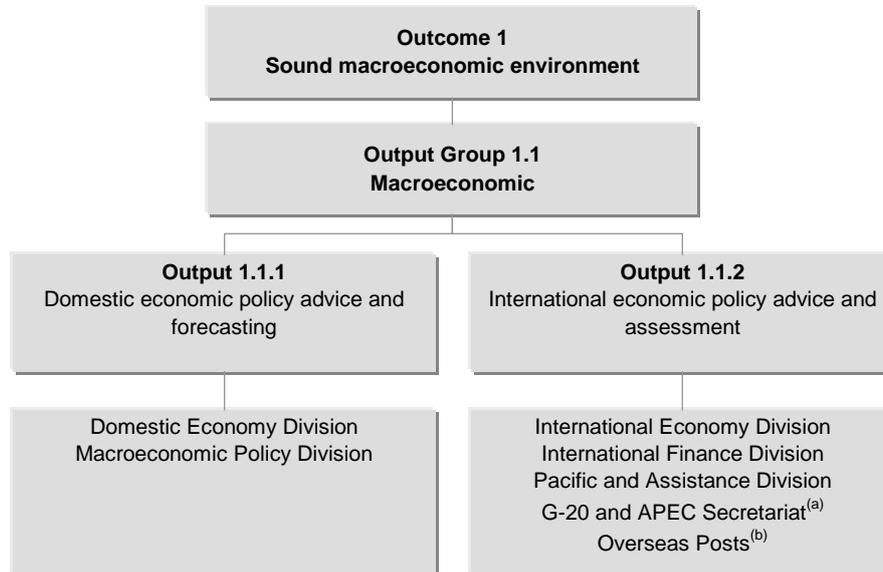
The Treasury, through Macroeconomic Group, aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including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

The Treasury also provides advice on advancing Australia's interests at international forums and institutions such as the Group of Twenty (G-20), the International Monetary Fund (IMF), the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the Organisation for Economic Co-operation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) forum. Australia is contributing significantly to international efforts to sustain international economic stability and growth through these forums.

During 2007-08, the Treasury provided strategic advice and assessments on macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Its forecasts helped shape budget estimates and policy formulation. The Treasury provided strategic advice on international economic policy issues, working towards sustained growth, openness and sound governance in the global economy. The Treasury also played a key role in advancing Australia's interests through participation in international financial institutions and forums, and bilateral engagement, particularly in the Asia-Pacific.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in influencing and formulating policy aimed at achieving a sound macroeconomic environment.

Figure 4: Outputs contributing to Outcome 1



(a) The G-20 and APEC Secretariat was wound up at the end of November 2007.

(b) The Treasury's overseas posts are a whole-of-department resource but are allocated to this output for reporting purposes.

KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- advise on domestic and international developments affecting the Australian economy and forecast the direction of the Australian and international economies;
- advise on the setting of sound macroeconomic policies;
- identify policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- work with others to reform, strengthen and modernise key international forums (including the World Bank, IMF, OECD and Asian Development Bank);
- maintain the Treasury's leading role in shaping the G-20, the APEC forum and the East Asia Summit process;
- build on already close links with policy makers in East Asia, including Japan, China and Indonesia;
- work closely with counterparts in the Indonesian Government in support of their reform efforts under the \$50 million Government Partnerships Fund, a

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key component of the \$1 billion Australia-Indonesia Partnership for Reconstruction and Development;

- play a role in government initiatives to improve economic governance in the Pacific, particularly in Papua New Guinea (PNG), Solomon Islands and Nauru, and the Pacific Islands Forum Economic Ministers' Meeting;
- provide high quality, strategic policy support to selected countries in the Asia-Pacific region;
- develop effective, relevant and achievable policy outcomes and work programs for APEC; and
- sustain efforts to promote the G-20 as the most effective global forum for dealing with major global economic and financial challenges, including through participation on the management troika in 2007 (comprising the current, past and future hosts of the G-20, currently South Africa, Australia and Brazil respectively).

KEY OUTCOMES IN 2007-08

Key outcomes were as follows:

- Economic forecasts assisted the Government with policy formulation. Analysis focused on the impact on the Australian economy of higher commodity prices, including oil prices, as well as the risks posed by slower global growth, tighter credit conditions and financial market turbulence.
- Briefings were prepared for the Treasurer on the Australian Bureau of Statistics (ABS) and private sector economic statistics, with an emphasis on their implications for the economic outlook. The Treasurer regularly received advice from the Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, *Economic Roundup*, working papers and speeches to better inform the public about economic developments and issues.
 - *Economic Roundup* included articles analysing the policy issues surrounding fiscal transparency, investment in capacity building, venture capital in Australia and sovereign wealth funds.
 - For the 2008-09 Budget, Statement 4 of Budget Paper No. 1, *Boosting Australia's Productive Capacity: The role of Infrastructure and Skills*, outlined key elements which could contribute to an improved policy and institutional framework to achieve better outcomes in infrastructure and skills, education and training.

- Treasury officials spoke to a range of organisations on issues including the short-term macroeconomic outlook, the challenges of achieving and maintaining a full employment economy, and fiscal and monetary policy challenges arising from the terms of trade boom.
- The Treasury continued to assist the Government take an active role in international forums and institutions to influence outcomes supporting sustained international economic stability, growth and development. In particular, Australia is a strong supporter of reforms that enhance the legitimacy and relevance of international forums and institutions.
 - In April 2008, IMF Governors agreed on a quota and voice reform package which delivers on Australia's objective of enhancing the IMF's legitimacy and relevance by ensuring that the voting shares of emerging market economies better reflect their growing weight in the world economy.
 - Australia was actively engaged in the work of the IMF and World Bank through the Executive Board and attendance at meetings of the International Monetary and Financial Committee and Development Committee, International Monetary and Financial Committee and Development Committee Deputies and other IMF and World Bank forums.
 - The Treasury also participated in the replenishment negotiations of the grant and concessional lending arms of the World Bank and Asian Development Bank.
- The G-20 is a key forum for Australia to advance its international economic interests, particularly as its representation brings together the major developed and emerging market economies of the world.
 - During 2007-08, the Treasury worked closely on the G-20 management troika with South Africa and Brazil.
 - The G-20 played a central role in the IMF governors' decision to implement the quota and voice reform package.
- Australia hosted a successful meeting of the APEC Finance Ministers in Coolom in August 2007.
 - Throughout Australia's host year and in 2008, the Treasury has endeavoured to improve the effectiveness of the APEC Finance Ministers' process. In particular, the Treasury has worked to encourage an effective policy-setting, outcomes-driven and reform-initiating process that strengthens the link between the Finance Ministers and Economic Leaders.

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- The Treasury has worked closely with Peru in the lead up to the 2008 APEC Finance Ministers' Meeting. The aim has been to strengthen the strategic discussion of regional and global economic issues and the policy focus of the meeting.
- In the Asia-Pacific region more broadly, the Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
 - The Treasurer attended the High Level Event on Climate Change for Finance Ministers in Bali in December 2007 and visited China in June 2008 to discuss strengthening institutional ties with the National Development and Reform Commission.
 - The Treasury established an economic dialogue with the Indian Ministry of Finance, to share information, discuss economic conditions and reform approaches and priorities, and collaborate on work in regional forums; annual senior officials talks were also held in Canberra with Korea and Japan in October 2007 and March 2008 respectively.
 - Significant progress was made in enhancing a strategic partnership with the Indonesian Ministry of Finance through the appointment of two Treasury deployees, under the auspices of the Government Partnership Fund.
 - Australia continued to strongly support the East Asia Summit and Treasury officials attended and participated in a range of conferences addressing economic and policy issues, received delegations for policy discussions and visited the region regularly in 2007-08.
- The Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges including PNG, Solomon Islands and Nauru.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	31,050	28,738	21,816
Other expenses	-	-	-
Total administered expenses	31,050	28,738	21,816
Revenue from Government			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	9,486	9,695	9,831
Output 1.1.2 International economic policy advice and assessment	19,193	18,644	17,489
Total revenue from Government contributing to the price of departmental outputs	28,679	28,339	27,320
Revenue from other sources			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	170	227	176
Output 1.1.2 International economic policy advice and assessment	5,684	4,322	5,767
Total revenue from other sources	5,854	4,549	5,943
Total revenue for departmental outputs (Total revenues from Government and other sources)	34,533	32,888	33,263
Price of departmental outputs			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	9,656	9,801	10,007
Output 1.1.2 International economic policy advice and assessment	24,877	23,469	23,256
Total price of departmental outputs	34,533	33,270	33,263
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	65,583	62,008	55,079
Average staffing levels (number)	206	247	192

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 1.1.1: DOMESTIC ECONOMIC POLICY ADVICE AND FORECASTING

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

The Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on formulating and implementing effective macroeconomic policy, including monetary and fiscal policy.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound macroeconomic environment; and
- effective presentation of budget documents and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Policy advice and inputs into policy processes

During 2007-08, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- The Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included analysis and advice to assist the Treasurer respond to the releases, with an emphasis on their implications for the economic outlook.
- As part of the Business Liaison Program, Treasury officers discussed business activity issues with organisations in major business centres and regional Australia. As well as the more formal Business Liaison Program, the Treasury held more frequent phone consultations with key sectors to gauge the current state of economic activity. Liaison findings were summarised in the *Economic Roundup*.
- The Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- The Treasurer was provided with advice on fiscal policy and strategies as part of developing the 2008-09 Budget.
- In preparing advice to the Secretary, as a Reserve Bank of Australia (RBA) Board member, the Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- The Treasury also provided advice on administrative arrangements for the RBA, including reforms to enhance the independence of the RBA.

- The Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.

The Treasury received positive feedback from the Government on the effectiveness of this advice.

Economic forecasts

Economic forecasts inform policy settings and underpin the calculation of budget estimates of expenditure and revenue. For policy formulation purposes, macroeconomic forecasts provide an understanding of the broad developments within the economy and the balance of risks surrounding the economic outlook.

Forecasting activity focused on 2007-08 and 2008-09, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2007-08*, *Pre-Election Economic and Fiscal Outlook 2007* and the 2008-09 Budget. These forecasts helped develop policy that contributed to sustainable economic growth. In 2007-08, attention focused on the impact of higher commodity prices, including oil prices, on the Australian economy as well as the risks posed by slower global growth, tighter credit conditions and financial market turbulence.

The Treasury's forecast for economic growth in 2007-08 was revised down slightly from 3¾ per cent in the 2007-08 Budget to 3½ per cent in the 2008-09 Budget. This largely reflected tighter monetary policy settings, an expected slowing in global growth and the impact of financial market strains. These forces were juxtaposed against the large rise in Australia's terms of trade which provided further stimulus to incomes.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group, which comprises the Treasury (chair), the RBA, the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation and the ABS. These contributions, together with information gained from liaison with the private sector and other departments, helped improve the quality of the forecasts. Forecasts from the Treasury's macroeconomic model of the Australian economy contributed to the forecasting process, and sensitivity analysis using the model helped improve policy advice.

Contributions to public awareness and debate

Important contributions to public awareness and debate were delivered to a wide audience including international forums, foreign government agencies, state government agencies, tertiary institutions and the Australian public. The Treasury's economic publications and selected presentations are at www.treasury.gov.au.

2008-09 Budget papers

Economic analysis in the annual budget papers is one of the main ways the Treasury contributes to public awareness and debate on economic policy issues.

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Statement 1 of Budget Paper No. 1, *Budget Overview* discusses the key economic challenges of intensifying inflation and slower growth, and outlines the Government's fiscal strategy and budget priorities.

Published economic forecasts in the *Mid-Year Economic and Fiscal Outlook 2007-08* and the 2008-09 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on short-term economic growth. A comprehensive report on the domestic and international outlook, focused on 2008-09, was in Statement 2 of Budget Paper No. 1, *Economic Outlook*.

Statement 4 of Budget Paper No. 1, *Boosting Australia's Productive Capacity: the Role of Infrastructure and Skills*, outlined some major influences on Australia's productive capacity. The statement outlined key elements that could contribute to an improved policy and institutional framework to achieve better outcomes in infrastructure and skills, education and training, and boost Australia's productive capacity. Efficient price signals play an important role in ensuring efficient investment in new capacity and optimal use of existing productive capacity. The statement discussed possible solutions to problems that can result in price signals not always operating effectively in infrastructure and skills markets.

In addition, the *Budget Overview's* non-technical discussion made major policy developments and forecasts widely accessible.

Media and market commentary on the economic analysis in the 2008-09 Budget enhanced public awareness of the economy's current performance, outlook and risks.

The Treasury's economic publications and speeches

Economic Roundup included articles from all groups within the Treasury.

It focused on issues of fiscal transparency, with articles on conceptual challenges in preparing the second intergenerational report, transparency and sustainability of the public balance sheet and trends in Australian Government spending.

Economic Roundup also had articles on policy issues including addressing extreme disadvantage through investment in capacity building, enhancing intergenerational income mobility through education, measuring entrepreneurship and using venture capital.

In addition, other articles were on net foreign liability dynamics in Australia and the United States, sovereign wealth funds, Australia's Treasurers and household net wealth in Australia.

Senior Treasury officials spoke publicly on the short-term macroeconomic outlook; policy challenges of achieving and maintaining a full employment economy; fiscal and monetary policy challenges posited by the terms of trade boom; and longer term challenges. The speeches were to a range of organisations, including the Australian Business Economists, the Flinders University International Expert Symposium, the NSW Economic Society,

the Conference of Economists and Sir Roland Wilson Foundation. These speeches are on the Treasury's website.

The Treasury also distributed quarterly updates of its macroeconomic model of the Australian economy and associated database. The model has evolved to reflect structural changes in the economy.

Reviews of economic data

The Treasury liaised extensively with the ABS, both informally through regular discussion at all levels and formally through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group, the Trade in Services User Group, the Labour Statistics Advisory Group and the Demography Statistics Advisory Group.

OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT

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

The Treasury contributes to Outcome 1 by providing strategic advice to government ministers on the global and regional economic outlook, Australia's economic engagement with East Asia, the global economic architecture including the international financial institutions, and development prospects and governance challenges facing Pacific economies. The Treasury participates directly in various international forums, and provides policy advice and support to ministers and senior Australian representatives at international financial institutions. It also administers Australia's subscriptions to the international financial institutions.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to international economic and financial issues;
- effective participation in international forums and bilateral dialogue facilitates achievement of government objectives;
- hosting of APEC meetings and associated workshops in 2007 is effective;

- advice on, and direct support for, improving economic governance and policies and building capacity in PNG, Solomon Islands and Nauru is effective;
- government objectives in international forums are facilitated, including strengthening the international financial system, multilateral debt relief and institutional reform in the multilateral development banks; and
- timely and accurate financial transactions with international financial institutions have due regard to minimising cost and risk for Australia.

ANALYSIS OF PERFORMANCES

Facilitation of government objectives in international forums

IMF

In 2007-08, the IMF promoted macroeconomic and financial stability at the global and national levels. It contributed to international efforts to draw lessons from the global financial market turmoil, strengthen the international financial system and reinforce supervisory and regulatory frameworks. The IMF is strengthening its own financial surveillance role and capability to identify risks in the future, including through closer collaboration with the Financial Stability Forum and other relevant bodies. It has welcomed the recommendations of the Financial Stability Forum on enhancing market and institutional resilience and is promoting their wide implementation.

Australia has been a strong advocate of enhanced early warning capabilities for the global economy and financial markets through the IMF working closely with the Financial Stability Forum and the G-20.

In April 2008, IMF governors agreed on a quota and voice reform package which delivers on Australia's objective of enhancing the IMF's legitimacy and relevance by ensuring that the voting shares of emerging market economies, including in our region, better reflect their growing weight in the world economy. The package also enhances the voice of low-income IMF members by tripling the number of basic votes each member receives irrespective of its quota. The package is forward looking, with further realignment of quota and voting shares to be considered in the context of future quota reviews. The current reform package will enter into force once members accept the amendment of the IMF's Articles of Agreement, needed to implement the increase in basic votes. In Australia, this will involve amending the *International Monetary Agreements Act 1947*.

In 2007-08, the IMF undertook significant restructuring and refocusing. The IMF's Executive Board agreed on key elements of a new income and business model to place the IMF's finances on a sustainable long-term footing — including expanding the IMF's investment authority and creating an investment endowment through the sale of 12.5 per cent (or 403 tonnes) of the IMF's gold stock. Gold sales would be undertaken under stringent safeguards to minimise any market disruption. At this stage, the required

majority of members have indicated that they either are ready to vote in favour of the proposal to sell gold or will seek domestic legislative approval to enable them to vote in favour. The United States (US) Administration is seeking congressional approval for gold sales. The IMF will reduce administrative expenditure by US\$100 million over the next three financial years through refocusing its work streams on areas of comparative advantage and downsizing its workforce by 380 personnel.

The IMF also is working closely with the World Bank and other partners in addressing — through policy advice and financial support — the impacts of the sharp rise in food and energy prices being faced by a number of developing countries, especially low-income countries.

During 2007-08, Australia was actively engaged in the work of the IMF through the Executive Board and attendance at meetings of the International Monetary and Financial Committee, International Monetary and Financial Committee Deputies and other forums.

On 1 August 2007, the IMF's First Deputy Managing Director, Dr John Lipsky, participated in a roundtable discussion with senior Treasury officials on the IMF in an evolving global economy and IMF reform. As well as representing the IMF at the APEC Finance Ministers' Meeting in Coolom on 2 August 2007, Dr Lipsky gave a seminar at the Treasury on global imbalances and the outcome of the IMF's first multilateral consultation.

In June 2008, a team of IMF officials visited Australia as part of the annual Article IV consultations, meeting with various government agencies and other organisations, including the RBA in Sydney, Melbourne and Canberra.

Overseas development assistance

The Treasury provided advice on general development and aid issues, including on Australia's multilateral and bilateral aid programs, new expenditure initiatives and the framework for Australia's aid budget.

The Treasury provided advice on contributions to multilateral institutions such as the International Development Association and Asian Development Fund, and 2008-09 Budget initiatives such as Pacific Infrastructure and the effectiveness of Australia's overseas development assistance.

During 2007-08, the Treasury contributed to inter-departmental committees and forums on climate change, infrastructure and food prices. The Treasury also participated in the Development Effectiveness Steering Committee, an inter-departmental committee convened to ensure effectiveness in Australia's overseas development assistance.

World Bank

Australia supported the World Bank's leadership role in improving the living standards of the world's poor, including through the Executive Board and at the World Bank spring and annual meetings. Dr Jim Hagan was appointed World Bank Executive Director from

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1 August 2007 for four years. The Treasury, in conjunction with the Australian Agency for International Development (AusAID) and other relevant departments, briefed him on matters coming before the Executive Board.

Key features of the World Bank's work program included announcing six strategic themes to guide the World Bank towards inclusive and sustainable development. Australia broadly supported the themes, particularly its focus on fragile and post-conflict states. The World Bank also undertook work to advance voice and participation reform, and Australia will participate in discussions to progress reforms over 2008-09.

The Treasury participated in negotiations for the fifteenth replenishment of the International Development Association, the grant and concessional lending arm of the World Bank Group. This culminated in a record donor pledge of US\$25.1 billion. Australia announced a core contribution of A\$583 million and a further A\$107.9 million for debt relief. During negotiations, Australia focused on ensuring additional donor financing would improve responsiveness to the development needs of the world's poorest and most fragile countries and the association's enhanced effectiveness.

The World Bank continued to respond to major development challenges including climate change and global food security. Australia was active in meetings on the design of the World Bank managed Climate Investment Funds — aimed at funding large-scale transformative investments to reduce emissions and incorporate climate resilience into development strategies. Australia also supported the World Bank's leadership on global food prices, including its Global Food Crisis Response Program.

In August 2007, the Treasury hosted a visit by World Bank President, Mr Robert Zoellick and arranged meetings between Mr Zoellick and Australian Government ministers and senior officials. During 2007-08, the Treasury also hosted visits by Dr Graeme Wheeler, World Bank Managing Director; and Mr Jim Adams, Vice President, East Asia and Pacific.

Asian Development Bank

Australia contributed to Asian Development Bank decision making through representation on the Board of Directors and attendance at the 2008 annual meeting in Madrid, Spain.

Australia supported the approval of the long term strategic framework, *Strategy 2020*. Australia's Executive Director, Mr Phil Bowen, is chairing the review into the Asian Development Bank's Operations Evaluations Department.

Australia participated in the negotiations of the tenth replenishment of the Asian Development Fund, pledging A\$333 million. During the negotiations, Australia emphasised the importance of ensuring the effective implementation of *Strategy 2020* and pressed for reforms in human resources and an increased focus on results.

EBRD

The Government has indicated its intention to withdraw Australia's membership from the EBRD by the beginning of 2010. This reflects the bank's considerable success in assisting political and economic transition in Central and Eastern Europe. Treasury officials commenced the domestic legal and parliamentary processes to advance Australia's withdrawal.

The 2008 annual meeting was held in May 2008 in Kiev, Ukraine. The Alternate Director for Australia, the Hon Peter Reith, delivered a statement on behalf of Australia and New Zealand at the annual meeting. The statement focused on the need for the bank to ensure its operations remain consistent with its mandate of promoting transition to market-based economies; the bank's approach to net income allocation; and the importance of transparency in the selection of the next bank president and senior executive appointments. Mr Thomas Mirow was appointed President from 3 July 2008.

OECD

Treasury officials continued to participate in the OECD's work on macroeconomic and microeconomic issues, contributing to committee discussions on food prices, climate change, energy, taxation, statistics, corporate governance, forecasting, and recent global financial market conditions.

In May 2008, the Treasurer attended the OECD Ministerial Council Meeting in Paris, delivering a key presentation on Australia's approach to implementing an emissions trading scheme. The meeting also provided an opportunity to discuss food prices, sovereign wealth funds and internal OECD management issues such as financing reform.

Working closely with the Department of Foreign Affairs and Trade and Australia's OECD delegation, the Treasury played an important role in encouraging the OECD to raise its profile in our region. As Chair of the OECD Reflection Group on Indonesia, Australia continued to support enhanced engagement between the OECD and Indonesia. Furthermore, as Vice Chair of the Economic and Development Review Committee, Australia progressed the OECD's Economic Assessment of Indonesia (successfully launched on 24 July 2008). The Treasurer used the Ministerial Council Meeting discussions to reiterate the importance Australia attaches to the south east Asian region as a priority for the OECD's enhanced engagement agenda.

G-20

The G-20 remains the most legitimate global economic forum for influencing the direction of major global economic and financial governance issues. It is a key vehicle for advancing Australia's international economic interests, particularly given its representative nature, bringing together the world's major developed and emerging market economies.

Staff from the Treasury and RBA have worked closely with South Africa and Brazil, 2007 and 2008 G-20 hosts respectively, including while on the G-20 management troika. Australia effectively engaged the G-20 in advancing proposals for the second stage of IMF

voice and quota reform. The G-20 played a key role in the achievement of the outcome secured at the April 2008 meeting of IMF governors. Australia, led by the RBA and assisted by Treasury officials, also chaired the G-20 Study Group on Global Credit Market Disruptions in 2008.

Treasury officials attended G-20 meetings in September 2007 and March 2008. The previous Treasurer was represented by Treasury Executive Director, Mr David Parker at the 2007 G-20 Meeting of Finance Ministers and Central Bank Governors in November 2007. Three workshops in the first half of 2008 focused on technical discussions on the key themes of Brazil's 2008 G-20 host year: Competition in Financial Services; Clean Energy and Global Markets; and Fiscal Space for Stability, Growth and Social Inclusion.

Pacific Islands Forum Economic Ministers Meeting

The Pacific Islands Forum Economic Ministers Meeting (FEMM) provides an opportunity to discuss with Pacific Island economic ministers the importance of improving their economic performance in order to deliver stability and improved living standards throughout the region.

Treasury officials supported the Assistant Treasurer's attendance at FEMM in July 2007, keeping ministers focused on policies that will improve economic progress in the Pacific. Australia was influential in securing important structural changes to FEMM in 2007 that will improve its effectiveness.

APEC

APEC¹ is an important regional forum, bringing together key economies from around the Pacific rim, which together comprise around 56 per cent of world gross domestic product.

During Australia's APEC host year, the Treasury sought to improve the effectiveness of the Finance Ministers' Process as a policy-setting, outcomes-driven and reform-initiating forum.

The Treasury hosted the fourteenth APEC Finance Ministers' Meeting in Coolom. This meeting involved representatives from the 21 APEC economies, the IMF, the World Bank, the Asian Development Bank and representatives of the APEC Business Advisory Council. Ministerial discussions led to agreement and support for developing cooperative and practical steps to address energy security, domestic structural reform issues, fiscal sustainability and barriers to investment and growth of private capital markets.

To build on the APEC achievements in 2007 and maintain policy continuity, the Treasury has worked closely with its Peruvian counterparts in the lead up to the 2008 APEC Finance Ministers' Meeting. The Treasury has sought to strengthen the strategic

1 APEC members are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, PNG, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States and Vietnam.

discussion of regional and global economic issues, and make the meeting more policy focused whilst aligning the Finance Ministers' Process more within the broader APEC agenda.

Treasury officials actively participated in the meetings of APEC Senior Finance Officials in Peru in late 2007 and July 2008 to help shape the agenda and policy discussions that the ministers will engage in during the Finance Ministers' Process. Managing rising food and fuel prices, responding to the turbulence in the global financial markets, improving the quality of public expenditure and meeting the infrastructure financing gap through better public-private partnership arrangements are key policy themes for late 2008.

The Treasury has continued to cooperate with other APEC processes, including the Senior Officials' Meeting, Economic Committee and the APEC Business Advisory Council to more effectively feed economic and financial perspectives into the wider APEC agenda. This has, in part, involved contributing to policy initiatives that have synergies between Finance Ministers' Process work streams and the broader activities of APEC, including those that support regional economic integration.

Policy initiatives

A key role of APEC is capacity building and sharing of relevant experiences. The Treasury delivered and participated in a number of Finance Ministers' Process policy-based capacity building initiatives.

- A key outcome of the Reform of Financial Sector initiative was to develop a web-based information resource on financial sector reform — the Catalogue of Policy Experience and Choices — which allows policymakers and regulators to draw on the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances. The pilot website (www.financialreform.apec.org) was launched on 30 April 2008.
- The Fiscal Management initiative focused on fostering fiscal sustainability among the targeted APEC member economies by improving the management of risk in public-private partnerships. Australia, Indonesia and Vietnam co-sponsored workshops to strengthen risk management capacity held in Jakarta in November 2007 and Ho Chi Minh City in May 2008. The initiative provided the basis for senior finance officials to recommend adopting principles to guide the establishment of well functioning markets in the APEC region.
- Australia, Indonesia, the Russian Federation and Brunei Darussalam co-sponsored the Fiscal Space: Reviewing, Assessing and Prioritising Government Expenditure initiative. A seminar in Bandar Seri Begawan in December 2007 was followed by a workshop in Jakarta in May 2008. The seminar discussed ways to strengthen the technical knowledge and skills of government officers responsible for reviewing, assessing and prioritising public expenditure to develop fiscal space and sustainability. The follow-up

workshop encouraged participants to apply the concept of fiscal space in ways that would suit their local conditions, institutional circumstances and fiscal management priorities.

Timely and accurate financial transactions

Management of international financial commitments

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 (International Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Finance Corporation), the Asian Development Bank and the EBRD.

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient and are summarised in Table 3.

Table 3: Financial transactions with international financial institutions in 2007-08

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration	Revenue	4	3,713
IMF maintenance of value	Financing transaction	1	312,875
Payments			
IMF special drawing rights allocation charges	Expense	4	30,730
IMF Poverty Reduction and Growth Facility	Financing transaction	1	2,500
EBRD promissory note draw down	Financing transaction	1	1,105

Policy advice

Relations with East Asia

The Treasury continued to broaden and deepen its engagement with key Asian economies.

The Treasury continued to engage with Indonesia under the Australia Indonesia Partnership for Reconstruction and Development, which has committed \$1 billion of assistance to Indonesia since the Boxing Day tsunami. The Treasurer sits on the Joint Commission and the Secretary to the Treasury is one of the five agency heads on the Secretaries' Committee.

During 2007-08, the Treasury's strategic partnership with Indonesia's Fiscal Policy Office in the Ministry of Finance moved into a new phase with two Treasury deployees being based in the Fiscal Policy Office. The Treasury's engagement strategy is funded under the

Government Partnerships Fund initiative. It has a strong partnership focus, supporting Indonesian economic policy formulation capabilities and developing lasting institutional relationships.

In December 2007, the Treasurer attended the High Level Event on Climate Change for Finance Ministers in Bali. The event was part of the thirteenth Conference of Parties of the United Nations Framework Convention on Climate Change and provided an opportunity for Finance Ministers to discuss climate change issues from both a domestic and international perspective. The Treasurer outlined the need for all countries to contribute to a long-term and effective response to climate change, while noting that developed countries can assist developing countries to respond to the climate change challenge.

The Treasurer visited China in June 2008 and met officials from the Ministry of Finance, the Ministry of Commerce, the National Development and Reform Commission and the State Council. The Treasurer discussed strengthening institutional ties with the National Development and Reform Commission and promoted Australia's openness to foreign investment. The Treasurer also discussed the importance of regional and global forums, and how Australia and China can promote comprehensive and effective responses to global challenges. The Treasurer announced that Australia is to become an approved investment destination under the Qualified Domestic Institutional Investor scheme, enabling investment in Australia by entities regulated by the China Banking Regulatory Commission.

During 2008, the Treasury established an economic dialogue with the Indian Ministry of Finance. The dialogue allows for the shared discussion of economic conditions, collaborative work in regional forums (such as the East Asia Summit) and information sharing on issues of interest to both nations, beginning with Australia's experience of financial sector reform. The inaugural meeting was in New Delhi in April 2008. A second senior officials' meeting will likely be held early in 2009.

The Treasurer also attended the G8 Finance Ministers' Meeting Outreach in June 2008, in Japan. This was only the second time an Australian Treasurer has been invited to this meeting. The Treasurer presented Australia's perspective on a range of issues, including the macroeconomic outlook, rising food and commodity prices, and climate change. The meeting provided a timely opportunity for the Treasurer to meet bilaterally with G8 Outreach counterparts.

Australia strongly supported the East Asia Summit, with the Treasury being particularly engaged on the finance agenda, which will be a key topic at the 2008 Leaders' Meeting. The Treasury also supported Indonesia and Vietnam hosting two Senior Finance Officials' Meetings to progress the finance agenda.

Senior Treasury officials also presented at a range of forums on global and regional economic issues, including on East Asia's economic outlook and medium-term challenges, financial globalisation and open global markets.

Part 2: Report on performance

The Treasury received delegations from the region to discuss various policy issues including annual consultations with the Japanese and Korean Ministries of Finance on the global economic outlook, financial market stability and regional architecture. The Treasury also contributed to an AusAID funded Joint Fiscal Policy Course for Chinese and Indonesian Government officials, held from November to December 2007. As part of these courses, senior Treasury officials presented lectures on issues such as fiscal and monetary policy.

Treasury officials posted to Beijing, Jakarta and Tokyo reported on economic developments in their host countries and the wider region. They played a key role in strengthening relations with the Treasury's counterparts in their countries of accreditation, including through facilitating high-level meetings.

Relations with Pacific economies

The Treasury provides policy advice to ministers and agencies on economic and fiscal issues relating to the Pacific, particularly the Solomon Islands, PNG and Nauru where deployed Treasury officers work to build sustainable and effective economic ministries.

Australia-Papua New Guinea Ministerial Forum

The eighteenth Australia-Papua New Guinea Ministerial Forum took place in Madang in PNG on 23 April 2008. The Treasury contributed to ministerial economic briefing.

Economic reconstruction issues

Solomon Islands

Treasury officers were first deployed to the Solomon Islands as part of the Regional Assistance Mission to Solomon Islands in 2003-04. In 2007-08, six officers were deployed as advisors to the Ministry of Finance and Treasury. These officers have assisted Solomon Islanders to improve fiscal management, including developing a medium term fiscal strategy as part of the 2008 Solomon Islands Budget and building the capacity of local budget officials.

Treasury officers are also deployed within the Ministry of Finance and Treasury to engage with government, donors and other stakeholders to identify opportunities for economic reform and implement a micro-economic reform program. Treasury officers helped to: develop legislation to modernise the legal business environment and significantly reduce administrative and regulatory barriers and cost; introduce competition into the aviation sector; and facilitate the extension of financial services to rural areas via support for mobile banking and the introduction of a credit guarantee scheme.

PNG

Treasury officers were first deployed to the PNG Treasury in 2003-04 as part of the Enhanced Cooperation Program, a whole-of-government approach to improving governance on a sustainable basis. In 2008, a review found the program required a greater emphasis on capacity building, leading to its renaming as the Strongim Gavman Program (Tok Pisin for 'strengthening' or 'empowering government').

Deployees contribute to the improvement of budget processes in PNG by assisting in increasing budget transparency and more efficiently allocating resources. Implementation of a medium term fiscal strategy has allowed budget planning to take a more strategic approach to managing increased mining and petroleum tax revenue. Treasury officers also supported the PNG Treasury on a range of structural policy, taxation and investment issues.

Nauru

Since 2004, the Treasury has assisted the Nauru Ministry of Finance as part of a package of aid offered by Australia under a Memorandum of Understanding. Under these arrangements, two Treasury officers are deployed to Nauru, as Secretary of Finance and economic adviser. During 2007-08, these officers assisted in developing the 2008-09 Nauru Budget, worked to develop domestic economic and financial management capacity, liaised with donors to administer Nauru's debt position, and provided advice on further economic reforms to assist Nauru's continued economic recovery.

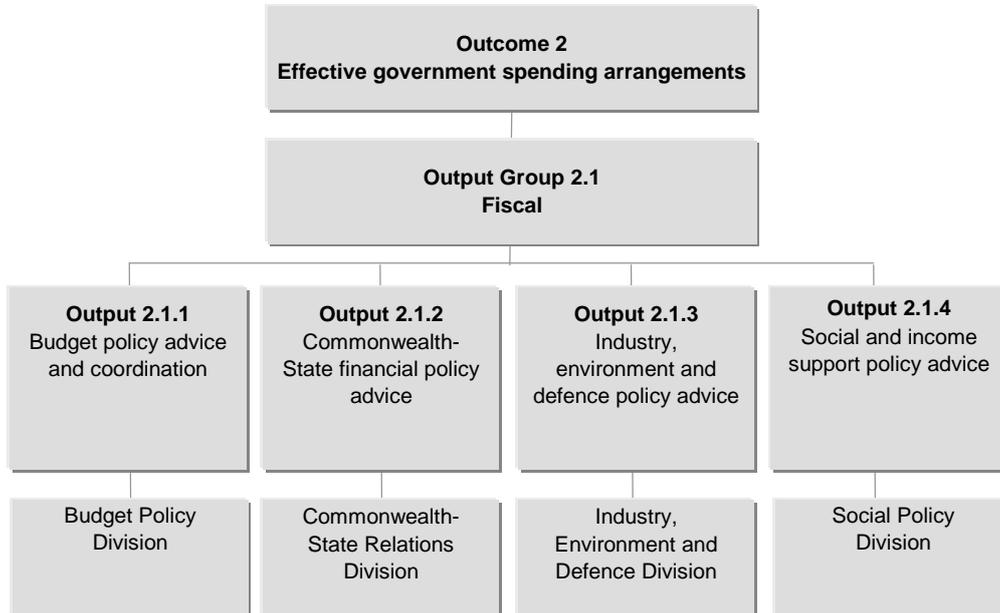
OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

The Treasury, through Fiscal Group, aims to ensure government spending arrangements are effective, as they are crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Within the context of the wellbeing framework, ongoing 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*;
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and taxation issues, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*;
- policy development in industry, environment, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Fiscal Group has been involved intensively in the COAG reform processes established by the Government in December 2007, particularly in the working groups on health and ageing, productivity, climate change and water, Indigenous reform, housing, and business regulation and competition.

Figure 5: Outputs contributing to Outcome 2



KEY PRIORITIES IN 2007-08

Key priorities for Outcome 2 were to:

- develop budget policies and the budget and related financial papers;
- manage policies relating to the Australian Government's debt portfolio and its management;
- develop Commonwealth-State financial policy, and arrangements related to state and territory fiscal and taxation issues;
- oversee government expenditure programs, with a focus on those programs with significant economic, social or budgetary implications; and
- develop policies to promote the efficient and sustainable use of resources, to improve workforce participation and the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth.

KEY OUTCOMES IN 2007-08

Key outcomes were:

- providing advice on the fiscal outlook and budget priorities that was consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, the 2008-09 Budget (May 2008) and related financial papers — *Final Budget Outcome 2006-07* (September 2007), *Mid-Year Economic and Fiscal Outlook 2007-08* (MYEFO) (October 2007), and *Pre-Election Economic and Fiscal Outlook 2007* (PEFO)(October 2007);
- consulting with the Australian Office of Financial Management on the Commonwealth Securities and Investment Legislation Amendment Bill 2008 which supports the effective and efficient operation of the Treasury Bond and Treasury Bond futures markets;
- providing advice on operational issues relating to the Future Fund, and contributing to the development of the Higher Education Endowment Fund and the size of government contributions to the funds (the 2008-09 Budget announced that a new Education Investment Fund will subsume the Higher Education Endowment Fund);
- developing, as part of the COAG reforms, the new framework for federal financial relations which generally will commence on 1 January 2009. The new arrangements focus on the reform of specific purpose payments and establish National Partnership payments to facilitate or reward priority national reforms or fund specific projects;
- providing secretariat support for the Ministerial Council for Commonwealth-State Financial Relations Meeting on policy issues relevant to both the Australian Government and States;
- processing timely and accurate monthly payments of goods and services tax (GST) revenue to the States and calculating the need for budget balancing assistance to the States under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*;
- advising on industry, regional assistance, agriculture, environment, energy, climate change, defence and national security policy. In its central policy agency role the Treasury engages on these issues with a view to improving productivity and competitiveness, ensuring sustainable economic growth, meeting fiscal policy objectives and broader issues relating to wellbeing. The Treasury was engaged in a diverse range of issues and processes (specified under Output 2.1.3), including the work of the COAG Climate Change and Water Working Group and the modelling of climate change scenarios for the Garnaut Review of Climate Change;

- advising on social, education, Indigenous, labour market and health policy applying a broad central policy agency perspective. The Treasury was engaged in a diverse range of issues and processes (specified under Output 2.1.4), including the Government's workplace relations reforms, election commitments on education policy, the development of the Social Inclusion Agenda and the commitment to closing the gap in Indigenous disadvantage. The Treasury is engaged in five COAG Working Groups dealing with social policy issues which include providing advice on the new National Healthcare Agreement, the National Disabilities Services Agreement, the National Education Agreement and on potential National Partnership payments.

Table 4: Financial and staffing resources summary for Outcome 2

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000	
Administered expenses				
Appropriation Acts No. 1 and 3	-	-	-	
Appropriation Acts No. 2, 4 and 6	80,000	80,000	74,713	
Special Appropriations	42,673,196	42,373,196	45,280,000	
Other expenses	-	-	-	
Total administered expenses	42,753,196	42,453,196	45,354,713	
Revenue from Government				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	3,999	4,095	4,058
Output 2.1.2	Commonwealth-State financial policy advice	2,942	2,987	3,017
Output 2.1.3	Industry, environment and defence policy advice	8,313	8,725	8,719
Output 2.1.4	Social and income support policy advice	4,827	5,099	5,562
Total revenue from Government contributing to the price of departmental outputs		20,081	20,906	21,356
Revenue from other sources				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	52	56	55
Output 2.1.2	Commonwealth-State financial policy advice	43	46	43
Output 2.1.3	Industry, environment and defence policy advice	88	111	96
Output 2.1.4	Social and income support policy advice	68	80	81
Total revenue from other sources		251	293	275
Total revenue for departmental outputs (Total revenues from Government and other sources)		20,332	21,199	21,631
Price of departmental outputs				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	4,051	4,025	4,113
Output 2.1.2	Commonwealth-State financial policy advice	2,985	3,044	3,060
Output 2.1.3	Industry, environment and defence policy advice	8,401	8,021	8,815
Output 2.1.4	Social and income support policy advice	4,895	5,732	5,643
Total price of departmental outputs		20,332	20,822	21,631
Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)		42,773,528	42,474,018	45,376,344
Average staffing levels (number)	137	132	154	

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 2.1.1: BUDGET POLICY ADVICE AND COORDINATION

Budget Policy Division in Fiscal Group and Tax Analysis Division in Revenue Group are responsible for the delivery of Output 2.1.1: Budget policy advice and coordination. Fiscal Group and Revenue Group contribute to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues, current and prospective trends in Australian Government revenue and major fiscal aggregates, the fiscal framework and debt policy. In addition, Fiscal Group, with the Department of Finance and Deregulation, coordinates preparation of the budget and related documents.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to assessments of the budget position and outlook, and budget strategy and debt policy; and
- budget documents for which the Treasury has responsibility are presented effectively and other publications adequately inform public debate.

ANALYSIS OF PERFORMANCE

Advice on the budget outlook

During 2007-08, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the PEFO, MYEFO and the 2008-09 Budget.

As budget estimates are a joint responsibility, preparation of this advice required extensive liaison 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 budget was prepared.

Final budget outcome for 2006-07

The *Final Budget Outcome 2006-07* was published in September 2007. In 2006-07, the Australian Government general government sector recorded an underlying cash surplus of \$17.2 billion. This outcome was around \$3.6 billion higher than estimated at the 2007-08 Budget, reflecting higher than expected cash receipts and lower than expected cash payments.

Part 2: Report on performance

An accrual fiscal surplus of \$15.4 billion was recorded in the *Final Budget Outcome 2006-07*. This was \$3.5 billion higher than estimated at the time of the 2007-08 Budget, reflecting higher than expected revenue and lower than expected expenses in accrual terms.

PEFO

On 23 October 2007, the Secretary to the Treasury and the Secretary to the Department of Finance and Administration publicly released the PEFO. This provided updated information on the economic and fiscal outlook and is a requirement of the *Charter of Budget Honesty Act 1998*. In line with the Act, the PEFO was released within 10 days of the issue of the writ for the general election.

The PEFO estimated underlying cash and fiscal surpluses of \$14.4 billion for 2007-08. This was consistent with the outlook published in the MYEFO, but also reflected the impact of decisions taken before Parliament was dissolved.

Budget forecasts

The 2007-08 Budget, published in May 2007, contained forecasts of the fiscal outlook for 2007-08 and the following three years. The MYEFO, released on 15 October 2007, forecast an underlying cash surplus of \$14.8 billion for 2007-08, \$4.2 billion higher than the forecast at the time of the 2007-08 Budget. This reflected upward revisions to tax receipts, partially offset by upward revisions to cash payments reflecting new policy decisions. In accrual terms, the 2007-08 fiscal balance at MYEFO was \$14.9 billion, an upward revision of \$4.9 billion since the 2007-08 Budget.

The 2008-09 Budget, published in May 2008, estimated an underlying cash surplus for 2007-08 of \$16.8 billion, an upward revision of \$2.4 billion since the PEFO. This largely reflects upward revisions to estimated tax receipts from individuals, companies and superannuation funds, partially offset by higher estimated cash payments as a result of new policy measures taken since the PEFO. In accrual terms, the estimated fiscal surplus for 2007-08 was \$20.4 billion, an upward revision of \$6.0 billion since the PEFO.

Strategic budgetary advice

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising Treasury portfolio ministers on the overall budget strategy and priorities. Good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Debt management policy

In consultation with the Australian Office of Financial Management, the Treasury provides advice to the Treasurer on strategic debt policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or the effective functioning of the economy. The Treasury also provides advice to the Treasurer on issues affecting the Government's

debt management operations, including issues of performance and governance, and issues relating to the well functioning of the Commonwealth Treasury Bond and Treasury Bond futures markets.

Following consultations with market participants about the adequacy of the volume of Treasury bonds on issue, the Government agreed in May 2008 to a range of initiatives designed to support the effective and efficient operation of the Treasury Bond and Treasury Bond futures markets. These initiatives included:

- increasing Treasury Bond issuance by up to a further \$25 billion (to a total of \$75 billion on issue), of which, \$5 billion will be issued during 2008-09;
- improving access to the securities lending facility (which is operated by the Australian Office of Financial Management) by financial market participants (by increasing the range of assets acceptable as collateral by the Australian Office of Financial Management in a securities lending arrangement); and
- extending the range of assets in which the Australian Office of Financial Management can invest.

To give effect to these initiatives, the Treasury, in consultation with the Australian Office of Financial Management, introduced the Commonwealth Securities and Investment Legislation Amendment Bill 2008 into Parliament in June 2008. This legislation received Royal Assent in July 2008.

Treasury Bond issuance program

In 2008-09, the volume and timing of fixed coupon issuance takes account of the need to have an appropriate range of Treasury Bonds available for inclusion in Treasury Bond futures baskets. In total, around \$10.3 billion of new issuance will occur in 2008-09, comprising \$5.3 billion of issuance to replace maturing bond lines during the year and \$5 billion of additional issuance in line with the Government's announcement in May 2008.

Specific details of the Government's forward debt issuance program in 2008-09 are outlined in the *Australian Office of Financial Management Annual Report 2007-08*.

Future Fund

During 2007-08, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund, including advice on further government contributions.

In line with the commitment in the 2007-08 Budget, a total of \$10.9 billion was transferred to the Future Fund. This comprised \$7 billion in August 2007 from the 2006-07 Budget surplus, plus \$3.9 billion in June 2008 from the final proceeds of the sale of Telstra 3. The balance of the Future Fund at 30 June 2008 was \$64.2 billion and the

Part 2: Report on performance

Future Fund is on track to fully fund the Government's public sector superannuation liabilities by the target date of 2020.

Further information regarding the performance of the Future Fund can be found in the *Future Fund Annual Report 2007-08*, at www.futurefund.gov.au.

Higher Education Endowment Fund

The Treasury contributed to the establishment of the Higher Education Endowment Fund, its longer-term investment arrangements and maximum grants rules through providing advice to the Department of Finance and Deregulation and the Department of Education, Employment and Workplace Relations. The fund's establishment was announced as part of the 2007-08 Budget and during 2007-08, total seed capital of \$6 billion from the 2006-07 Budget surplus was transferred to it.

Its balance at 30 June 2008 was \$6.2 billion.

The Higher Education Endowment Fund is expected to be subsumed into the Government's new Education Investment Fund in January 2009.

Three new nation building funds

In the 2008-09 Budget, the Government announced its commitment to establish three new nation building funds, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.

The Building Australia Fund will help finance economic infrastructure in transport (roads, rail, ports) and communications (broadband). Around \$20 billion initially will be allocated to it, including a portion of the 2007-08 and 2008-09 Budget surpluses, once realised, and around \$2.7 billion from the sale of Telstra 3. The Government also will close the Communications Fund and transfer the balance of this fund, currently valued at around \$2.4 billion, to the Building Australia Fund.

The Education Investment Fund will provide financing for capital investment in higher education and vocational training. Initial government contributions are around \$11 billion, comprising a portion of the 2007-08 and 2008-09 Budget surpluses, once realised, and \$6.2 billion currently invested in the Higher Education Endowment Fund.

The Health and Hospitals Fund will fund investment in health facilities, including renewal and refurbishment of hospitals, medical technology equipment and major medical research facilities and projects. The Health and Hospitals Fund will be established with an initial allocation of \$10 billion from the 2007-08 and 2008-09 Budget surpluses, once they are realised.

During 2008-09, the Treasury will contribute to the establishment of these three new nation building funds by providing advice to the Department of Finance and Deregulation and other relevant agencies regarding the governance and management arrangements for these funds.

Contribution to public debate and awareness

Budget publications

The Government's budget publications are available free at www.budget.gov.au. 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 general budget overview, budget at a glance, budget highlights and an overview of the Working Families Support Package.

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

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

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

Under the charter, budget reporting follows an annual cycle comprising the budget in May, a mid-year update before 31 January and a final budget outcome in the following September. The charter also stipulates that an intergenerational report be produced on a five-yearly cycle.

The budget website at www.budget.gov.au continues to be improved to present information in a format that is easy for readers to access and understand.

Part 2: Report on performance

In 2007-08, the Treasury met with international delegations from the OECD, China, Vietnam, Jordan and PNG, interested in learning about Australia's budgeting and reporting framework.

Tax Expenditures Statement

The Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *Tax Expenditures Statement 2007*, published in January 2008, reported on the cost of tax expenditures with estimates and projections to 2010-11. Production of this statement assists transparency and encourages public scrutiny of government programs delivered through the tax system.

OUTPUT 2.1.2: COMMONWEALTH-STATE FINANCIAL POLICY ADVICE

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

Commonwealth-State Relations Division contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy and arrangements related to state and territory fiscal and taxation issues.

Commonwealth-State Relations Division also manages the administration of the GST revenue payments to the states and territories.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate; and
- payments to State and Territory Governments are calculated accurately according to agreed formulas and paid according to agreed schedules.

ANALYSIS OF PERFORMANCE

Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers on-going reform of Commonwealth-State financial relations and oversees the implementation and operation of the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*. The Treasury provides secretariat support to the Ministerial Council. At Ministerial Council meetings, treasurers discussed reform of specific purpose payments, national reporting frameworks for spending on indigenous services, Commonwealth payments to the States (including the distribution of GST revenue among the States), GST administration issues and state tax reform. The Treasury advised the Treasurer on the key issues.

The Australian Loan Council consists of the Prime Minister and the Premier, or Chief Minister, of each State and Territory. However, in practice, each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Commonwealth Treasurer as Chairman. The Australian Loan Council meets annually to consider each jurisdiction's expected borrowing for the next financial year. The Treasury advised the Treasurer on key issues and coordinated arrangements for this meeting.

Heads of Treasuries

At the 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 five times in 2007-08 to discuss issues such as the operation of the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues, reform of arrangements for specific purpose payments and the Australian Government's review into Australia's taxation and transfer systems.

GST Administration Sub-committee

The Treasury chairs the sub-committee, which comprises officials from the Treasury, the ATO and state treasuries. The sub-committee met twice in 2007-08 and considered proposals to modify the GST base and the administration of the GST by the ATO. The sub-committee monitored the operation of the GST Administration Performance Agreement between the States and the ATO, and discussed GST revenue and payments, GST policy and administrative issues.

GST revenue

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST revenue is provided to the States. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST

revenue in monthly payments, distributed in accordance with relativities determined by the Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2007-08, the Treasury administered payments of GST revenue to the States of \$42.3 billion. All payments were calculated correctly and paid on the scheduled dates.

The ATO collects GST revenue on behalf of the States, and the States compensate the Australian Government for the costs that the ATO and the Australian Customs Service incur in administering and collecting GST revenue. Estimated costs incurred in 2007-08 were \$631 million. The Treasury monitored the payments made by the States to ensure all were administered accurately.

Budget balancing assistance

The Australian Government guaranteed that, in the transitional years of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, each State's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. The Treasury provided advice to the Treasurer on how much funding each State would have received under the previous financial arrangements to enable the Treasurer to determine the guaranteed minimum amount.

To meet its guarantee, the Australian Government undertakes to pay budget balancing assistance to cover any shortfall between GST revenue and each State and Territory's guaranteed minimum amount. In 2007-08, each State's GST revenue entitlement exceeded its determined guaranteed minimum amount, so no State required this assistance.

Specific purpose payments

The Australian Government makes specific purpose payments as a contribution to particular activities, such as health or education that are the constitutional or traditional responsibility of the States. The Australian Government provided the States with specific purpose payments totalling \$32 billion in 2007-08. The Treasury provided advice on a range of specific purpose payments to relevant portfolio ministers.

The Treasury also supported the Treasurer in developing a new framework for federal financial relations. The new framework focuses on reforming specific purpose payments to reduce Commonwealth prescriptions on service delivery by the States, in conjunction with clearer roles and responsibilities and enhanced outcomes based public accountability. In addition, the Commonwealth will provide a new form of payment — National Partnership payments — to facilitate or reward priority national reforms or to fund specific projects.

The new framework for federal financial relations will commence from 1 January 2009, with COAG monitoring all aspects. The Treasury is assisting in developing a new intergovernmental agreement to underpin the new framework and entrench the concept and practice of cooperative working relationships between governments.

International relations

In 2007-08, the Treasury continued to participate in the OECD Network on Fiscal Relations across levels of government and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States.

Budget publications

Information on the Government's financial relations with State and local governments is in Budget Paper No. 3, *Australia's Federal Relations 2008-09*. This is the main public source of information on Australian Government payments to the States and local governments. It also informs the States of their expected payments in the upcoming financial year, including GST revenue and specific purpose payments.

This budget paper also includes information on fiscal developments in the States, as well as any policy changes affecting the relationship between the Australian and State governments.

The division also contributed to the 2007-08 MYEFO and the *Final Budget Outcome 2006-07*.

OUTPUT 2.1.3: INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE

Industry, Environment and Defence Division in Fiscal Group is responsible for the delivery of Output 2.1.3: Industry, environment and defence policy advice.

Industry, Environment and Defence Division contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, regional assistance, agriculture, environment, energy, climate change, defence and national security. While other departments have primary responsibility for policy and programs in these areas, Industry, Environment and Defence Division focuses on improving productivity and competitiveness, and ensuring sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2007-08, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and COAG.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to industry, environment and defence policy; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Environment and agriculture policy

The Treasury provided advice to the Treasurer on environmental and agricultural issues including water reform, fisheries, quarantine, drought policy, rural structural adjustment and natural resource management issues.

Treasury's advice covered the Natural Heritage Trust Phase III, the Environmental Stewardship Program and the renewal of the Agriculture — Advancing Australia package, announced in the 2007-08 Budget. Additionally, advice was provided on specific agricultural commodity issues, including wheat, dairy, sugar and wool.

During 2007-08, the Treasury also contributed to inter-departmental committees dealing with a range of policy issues, including water policy, wheat marketing arrangements and drought.

Energy and climate change policy

The Treasury provided advice to the Treasurer on energy and climate change issues including climate change adaptation, greenhouse gas emissions abatement, emissions trading, low emissions technologies and energy efficiency, uranium mining and nuclear energy, renewable energy and alternative fuels, energy security and international engagement on climate change issues.

The Treasury provided advice in response to the work of the Task Group on Emissions Trading and on the development of the Carbon Pollution Reduction Scheme Green Paper. The Treasury also supported the Treasurer's participation in the High Level Event on Climate Change for Finance Ministers, part of the United Nations (UN) Framework Convention on Climate Change meeting in Bali.

The Treasury also provided economic modelling and advice on climate change policy to the Government. This included modelling of several scenarios relating to climate change policy that were provided to the Garnaut Review of Climate Change. The Treasury is also working closely with the Department of Climate Change to provide economic modelling in support of the development of the Government's Carbon Pollution Reduction Scheme.

The Treasury participated in the work of the COAG Climate Change and Water Working Group, including on adaptation, energy efficiency, renewable energy targets and measures to complement the Carbon Pollution Reduction Scheme. The Treasury contributed to a number of inter-departmental committees on energy and greenhouse policy during the year.

Industry policy

The Treasury provided advice on industry assistance, export assistance, science and innovation, arts, sports and regional policy issues, including regional development and natural disaster relief.

The Treasury also provided advice on the Government-initiated reviews into the automotive industry, textile, clothing and footwear industries, the national innovation system and export policies and programs. The Treasury participated in workshops on the modelling undertaken by the Productivity Commission for the automotive and textile, clothing and footwear reviews.

The Treasury also participated in inter-departmental committee meetings and forums during 2007-08, including ones to consider the national tourism strategy, chemicals and plastics regulation, the Senate Inquiry into Australia's Indigenous visual arts and crafts sector and the *Australian Manufacturing* and *Servicing our Future* reports produced by the House of Representatives Standing Committee on Economics, Finance and Public Administration.

National security policy

The Treasury provided advice on a range of defence and national security issues, including initial advice in relation to the Defence White Paper. The Treasury also provided advice on non-defence security arrangements, including initiatives to enable the Australian Federal Police to stabilise and build capacity in other countries and expand the Australian Federal Police.

The Treasury has continued to participate in the Secretaries' Committee on National Security that examines and advises on proposals going to the National Security Committee of Cabinet. It is also a member of the Defence Procurement Advisory Board, as well as a participant in inter-departmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE

Social Policy Division in Fiscal Group is responsible for the delivery of Output 2.1.4: Social and income support policy advice.

Social Policy Division contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government in the areas of social, education, indigenous, labour market and health policy. While other departments have major responsibility for policy and program implementation in these areas, Social Policy Division focuses on improving participation, productivity and economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2007-08, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget process. Social Policy Division also assisted in the preparation of briefings for the other Treasury portfolio ministers.

After the 2007 election, the division was restructured to reflect the priorities of the current Government and responsibilities under COAG Working Groups arrangements. In the restructure, the social policy unit was split into three new units: education policy, indigenous policy and social inclusion policy.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to social, education, indigenous, labour market and health policy issues; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Labour market policy

During 2007-08, the Treasury provided advice to the Treasurer on income support, immigration, employment services and workplace relations matters.

Workplace relations

The Treasury provided advice to the Treasurer to help put into effect the first phase of the Government's workplace relations reforms. The Treasury continues to provide policy advice to the Government on workplace relations reforms.

The Treasury worked with the Department of Education, Employment and Workplace Relations to develop submissions to the Australian Fair Pay Commission's 2008 Minimum Wage Review and to develop and present a whole-of-government approach to this policy.

Immigration

During 2007-08 the Treasury provided advice to the Treasurer on a range of immigration matters, including expanding the Migration Program and the Humanitarian Program, improving the responsiveness of the temporary business long-stay visa (457 visa subclass) and the abolition of temporary protection visas.

Employment services

Treasury contributed to the development of the new employment services arrangements announced in the 2008-09 Budget.

Health policy

Policy development processes spanned a range of health and aged care issues. The Treasury advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, private health insurance, aged and community care, and veterans' affairs.

In 2008, the Treasury also began work on exploring the impact of chronic disease on the economy and the potential economic benefits of a greater focus on preventative health.

Education policy

During 2007-08, the Treasury made a significant contribution to education policy issues. The Treasury played an important role in implementing the Government's election commitments around the *Education Revolution* including trade training centres, computers in schools and universal access to early childhood education.

Social policy

During 2007-08, the Treasury provided policy advice in supporting the development of the Government's Social Inclusion Agenda, including work on early priorities such as jobless families, children at greatest risk of long term disadvantage, locational disadvantage and homelessness. The Treasury also assisted in progressing work to develop a national compact with the not-for-profit sector and measures to alleviate problem gambling.

The Treasury also provided policy advice on income support payments. This included providing advice on measures relating to families and child care in the 2008-09 Budget, including establishing means tests for Family Tax Benefit (Part B) and the Baby Bonus, and increases to the Child Care Tax Rebate.

The Treasury also played a key role in developing and publishing the Government's *Working Families Support Package* as part of the 2008-09 Budget.

Indigenous policy

During 2007-08, the Treasury played a significant role in providing advice on Indigenous policy. The Treasury is involved in cross-departmental work on the Government's commitment to closing the gap in Indigenous disadvantage. The Treasury has focused on the Cape York welfare pilots, the Single Indigenous Budget Submission process and the Northern Territory Emergency Response.

COAG

All areas of Social Policy Division have been heavily involved with the COAG working groups.

The Treasury has actively engaged in the Health and Ageing Working Group, the Productivity Agenda Working Group, the Indigenous Reform Working Group, the Housing Working Group and the Business Regulation and Competition Working Group. This included providing policy advice on a range of issues including: the new National Healthcare Agreement, the National Disabilities Services Agreement and the National Education Agreement.

The Treasury also contributed advice on potential national partnership payments aimed at driving reforms of national significance.

The reform areas identified as a priority by COAG include preventative health, complex chronic disease management, hospitals (including the primary care interface and activity-based funding reform), harmonisation of occupation health and safety regulation, reforms to address the educational needs of disadvantaged school communities and reforms to help close the gap in indigenous disadvantage.

OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

Effective taxation and retirement income arrangements are crucial to the Government's objectives for the economy and hence 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.

The Treasury, through Revenue Group, has primary responsibility within the Australian Public Service for providing high-quality advice to Treasury portfolio ministers on taxation and retirement income policies and legislation. Advice is formulated through an integrated process which includes consultation with business and community interests and close cooperation with the ATO and relevant Commonwealth departments.

During 2007-08, the Treasury provided advice to the Government on a range of business and personal and indirect tax policy issues, including key Government election commitments to introduce personal tax cuts worth almost \$47 billion over the forward estimates period with effect from July 2008; reduce withholding tax on certain distributions by Australian managed investment trusts to foreign residents; introduce a 50 per cent Education Tax Refund for eligible educational expenses from 1 July 2008; and introduce First Home Saver Accounts to provide a simple, tax effective way for Australians to save a deposit for their first home. The Treasury's advice to the Government on business tax policy issues included advice on the Australian Carbon Pollution Reduction Scheme, Australian property trusts and stapled securities, family trust elections, the demutualisation of health insurers, the taxation of financial arrangements, and the tax agents regulatory reform proposals.

On 13 May 2008, the Government announced a review of Australia's tax system. The review will be undertaken by Australia's Future Tax System Review Panel, which will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The review will encompass Australian Government and State taxes, except the GST, and interactions with the transfer system. The Treasury is providing secretariat support to the review panel. A Treasury paper, *Architecture of Australia's Tax and Transfer System*, was released on 6 August 2008.

Significant progress was made in tax treaty negotiations with key investment partners during 2007-08, including the signing of new tax treaties with Japan and South Africa. Following the Government's January 2008 announcement, the Treasury also analysed and consulted extensively on Australia's future tax treaty negotiation program and policy.

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The Treasury also provided advice on the revenue aspects of superannuation, retirement incomes and savings policy, including the proposal to make superannuation lump sum payments tax free to terminally ill people.

During the 2007 federal election, the Treasury estimated revenue costs, undertook modelling and analysed taxation policy proposals as part of the election costings process.

The Treasury also designs and brings to Parliament the Government's taxation and retirement income legislation. In 2007-08, a total of 23 taxation and superannuation bills containing 82 measures were introduced into Parliament. Of these, three bills containing 38 measures were introduced by the previous government.

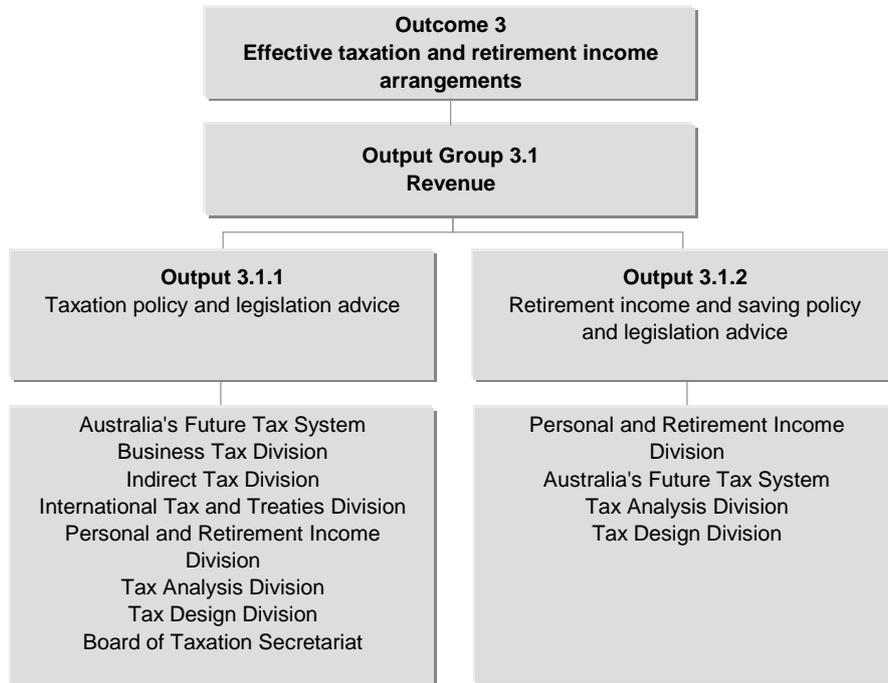
During 2007-08 the Treasury continued to consult extensively with stakeholders on taxation and superannuation measures. It also provided secretariat support to the Tax Design Review Panel, appointed on 8 February 2008 to examine ways to streamline the introduction of tax legislation and improve the quality of tax law changes, particularly through enhanced community consultation.

ORGANISATIONAL CHANGES

In response to changing work priorities and the cessation of new policy funding, the Tax System Review Division was merged with Business Tax Division, Personal and Retirement Income Division and Tax Design Division in January 2008.

Following the announcement of the review of Australia's tax system and formation of the Australia's Future Tax System Review Panel on 13 May 2008, a secretariat to support the panel was established in Revenue Group, with staff drawn from across the Treasury, as well as other departments and agencies.

Figure 6: Outputs contributing to Outcome 3



KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- design taxation policies and legislative design proposals which contribute to the reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs;
- examine retirement income and saving issues, including superannuation and other income support arrangements, intended to improve the wellbeing of Australians;
- provide advice on those issues identified by the Government as its key strategic priorities;
- continue to develop quantitative modelling to identify labour force participation effects of Government policy proposals, including tax and income support changes;
- meet obligations under the *Charter of Budget Honesty Act 1998*;
- continue to implement decisions arising from the previous government's Review of Aspects of Income Tax Self Assessment;

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- progress the review and renegotiation of tax treaties with key investment partners, pursue tax information exchange agreements with offshore financial centres, contribute to the tax policy work of the OECD and continue the program of reform of Australia's international tax arrangements;
- implement the final stages of the previous government's Simpler Superannuation measures; and
- continue to improve processes and outputs in developing advice on taxation and retirement income policies (including consultation processes and design of legislation).

Other key priorities identified through the year were to:

- establish a secretariat to support the Australia's Future Tax System Review Panel;
- contribute to the review panel's work;
- establish a secretariat to support the Tax Design Review Panel's examination of ways to streamline the introduction of tax legislation and improve the quality of tax laws;
- reduce compliance costs through improved procedures for assessing the compliance costs of new measures and seek opportunities in child care, personal tax, capital gains tax, fringe benefits tax, not-for-profit sector and international tax;
- estimate revenue costs, undertake modelling and analyse taxation policy proposals, particularly indirect taxes, business and personal income taxes, superannuation, social security and retirement policies, in the context of the 2007 election costings process required under the *Charter of Budget Honesty Act 1998*;
- implement the Government's election commitments, including personal income tax cuts, an Education Tax Refund and First Home Saver Accounts;
- implement other government commitments, including making superannuation lump sum payments tax free to terminally ill people;
- model and analyse the distributional impact of price changes (arising from indirect tax changes) on households; and
- finalise legislation relating to the tax exempt asset financing reforms and the tax agent services regulatory reform proposals, and develop a substantial program of other tax legislation.

KEY OUTCOMES IN 2007-08

Advice provided to the Government on taxation policies and legislative design proposals contributed to reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs, including:

- advice on implementing the election commitments on personal income tax cuts, an Education Tax Refund and First Home Saver Accounts;
- advice on business tax policy issues, including the carbon pollution reduction scheme, tax exempt asset financing reforms, taxation of rights issues, Australian property trusts and stapled securities, family trust elections, demutualisation of health insurers, scrip for scrip rollover provisions and corporate restructures, taxation of financial arrangements, and the tax agent services regulatory reform proposals;
- advice on indirect tax policy initiatives, including luxury car tax changes, goods and services tax law improvements, excise measures and other budget announcements;
- advice on personal tax policy initiatives, including removing tax deductibility for political donations, tightening the current fringe benefits provisions as they apply to certain benefits, improving the integrity of the employee share schemes and removing the potential for double taxation of certain employee share scheme arrangements;
- advice on superannuation and retirement incomes policies, including temporary residents superannuation and making superannuation lump sum payments tax free to terminally ill people; and
- advice on Australia's international tax arrangements reflecting efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including the Government's key election commitment to reduce the withholding tax rate on certain distributions from Australian managed investment trusts to foreign residents.

Secretariat support was provided to the Australia's Future Tax System Review Panel, and the Treasury developed the paper entitled *Architecture of Australia's Tax and Transfer System*, released on 6 August 2008.

Secretariat support was provided to the Tax Design Review Panel, appointed in February 2008 to examine ways to streamline the introduction of tax legislation and improve the quality of tax laws.

Support was provided to the Board of Taxation, including to its reviews of off-market share buybacks, the tax arrangements applying to managed investment

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trusts, Australia's foreign source income anti-tax deferral regimes, and the review of the legal framework for the administration of the GST.

Consultation materials included a discussion paper on the National Rental Affordability Scheme, a discussion paper for the Review of Unlimited Amendment Periods and the second exposure draft Tax Agent Services Regulatory Reform Bill.

Progress in tax treaty negotiations with key investment partners included the signing of new tax treaties with Japan and South Africa. Following the Government's January 2008 announcement, extensive consultation and analysis was undertaken regarding Australia's future tax treaty negotiation program and policy.

Australia's tax information exchange agreements with Bermuda and the Netherlands Antilles entered into force, and progress was made on concluding tax information exchange agreements with several other jurisdictions.

Procedures were enhanced to assess and quantify revenue and compliance costing collaboration with the ATO.

Quantitative modelling provided better capacity to identify the labour force participation and distributional effects of government policy proposals.

The Household Modelling and Analysis Unit was established to expand and consolidate modeling capabilities in personal tax, government transfers and household expenditure.

The final stages of the Simpler Superannuation reforms were implemented.

Table 5: Financial and staffing resources summary for Outcome 3

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	-	-	-
Other expenses	-	-	-
Total administered expenses	-	-	-
Revenue from Government			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	30,652	33,730	34,776
Output 3.1.2 Retirement income and saving policy and legislation advice	11,556	9,021	12,204
Total revenue from Government contributing to the price of departmental outputs	42,208	42,751	46,980
Revenue from other sources			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	395	508	410
Output 3.1.2 Retirement income and saving policy and legislation advice	168	147	180
Total revenue from other sources	563	655	590
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,771	43,406	47,570
Price of departmental outputs			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	31,047	31,671	35,186
Output 3.1.2 Retirement income and saving policy and legislation advice	11,724	9,228	12,384
Total price of departmental outputs	42,771	40,899	47,570
Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)	42,771	40,899	47,570
Average staffing levels (number)	287	275	307

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE

Revenue Group provides a wide range of services to Treasury portfolio ministers to support their role in delivering effective taxation arrangements. Specific group outputs include overall strategic advice, policy and legislation advice, revenue forecasting, policy costing and provision of information services.

Six divisions contribute to Output 3.1.1: Taxation policy and legislation advice. Business Tax Division, Indirect Tax Division, International Tax and Treaties Division and Personal and Retirement Income Division are responsible for delivery of taxation and income

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support policy advice. Tax Analysis Division prepares revenue forecasts, costings and quantitative analysis of taxation policy proposals, provides strategic analysis of key developments in the tax system and current policy issues, and develops and maintains models for labour force participation and tax-related analysis. Tax Design Division assists Revenue Group by formulating a strategic direction on organisational issues for the group, improving the tax design process, managing the legislation program, providing budgeting and administration services to the group, assisting in governance issues, and developing and leading key relationships.

Revenue Group also hosts the Australia's Future Tax System Review Secretariat which supports the panel the Government established to conduct a comprehensive review of Australia's tax system.

During 2007-08, Revenue Group also provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website at www.taxboard.gov.au.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to taxation policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- tax law is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programs.

ANALYSIS OF PERFORMANCE

Business taxation

Policy advice on business taxation issues covered the consolidation regime, treatment of losses, taxation of financial arrangements, family trust elections and a range of other tax issues. The Treasury also provided advice on systemic issues in tax policy and administration that affect the tax system's operation, especially its efficient administration.

Company loss recoupment rules

The Treasury developed legislation to implement the removal of the \$100 million cap on the same business test. The measure was included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

The Office of Parliamentary Counsel and the Treasury partly developed draft legislation to implement the modification of the continuity of ownership test for companies that have multiple classes of shares. The Government announced in the 2008-09 Budget that it will proceed with these changes.

Taxation of financial arrangements

The Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. A bill introduced into Parliament in September 2007 lapsed when Parliament was prorogued. The Government has decided to proceed with these measures and a consultation paper on the interaction with consolidation measures was released on 23 June 2008. The Treasury is continuing to consult with key industry and professional bodies.

Family trust elections

The 2008-09 Budget announced changes to reduce the scope for family trusts to use tax losses. The definition of 'family' in the family trust election rules was to be changed to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. The measure was to preclude family trusts from making a once-off variation to the test individual specified in a family trust election (other than specifically in relation to the 2007-08 income year or a marriage breakdown). The measure was included in Tax Laws Amendment (2008 Measures No. 4) Bill 2008, introduced into Parliament on 26 June 2008. The Senate rejected this measure on 3 September 2008.

Australian property trusts and stapled securities

The 2007-08 Budget announced changes to Division 6C of the *Income Tax Assessment Act 1936* to allow certain stapled entities, such as Australian listed property trusts, to restructure with an interposed head trust without Division 6C taxation consequences. Capital gains tax rollover relief is available for investors in a restructured stapled group. In addition, public unit trusts can acquire controlling interests in, or control, a foreign real estate investment entity whose business consists primarily of investing in land outside Australia to derive rent, without Division 6C tax consequences. The Treasury undertook confidential targeted stakeholder consultations on draft legislation. The measure was included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Board of Taxation review of off-market share buybacks

The Treasury assisted the Board of Taxation in its review of the taxation treatment of off-market share buybacks and provided advice to the Government about the review.

Demutualisation of private health insurers

The Treasury provided policy advice to the Government and, following consultation with industry, developed legislation to provide relief from capital gains tax for policyholders of not-for-profit private health insurers that convert to for-profit insurers by demutualising.

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Legislation implementing these changes was included in Tax Laws Amendment (2008 Measures No. 4) Bill 2008, which has passed both Houses of Parliament. These amendments will apply from 1 July 2007.

National Rental Affordability Scheme

The Treasury provided policy advice on the National Rental Affordability Scheme. This measure provides assistance to construct new affordable housing to rent to low to moderate income families and individuals at 20 per cent below market rates in the particular area. The Treasury also assisted the Department for Families, Housing, Community Services and Indigenous Affairs in implementing the National Rental Affordability Scheme, including preparing a technical discussion paper detailing the scheme.

Tax exempt asset financing reforms

The Treasury undertook confidential targeted consultations with the business sector and provided policy advice on the tax exempt asset financing reforms. Amendments to implement those reforms were included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Taxation of rights issues

The Treasury provided policy advice and undertook confidential targeted consultations with the business sector on draft legislation to restore the taxation treatment of rights issues that existed before the decision of the High Court of Australia (HCA) in *Commissioner of Taxation v McNeil* [2007] HCA 5. The measure was included in Tax Laws Amendment (2008 Measures No. 3) Bill 2008, which received Royal Assent on 20 September 2008.

Assistance to industry

As a result of reviews on the effectiveness of the screen media tax concessions and the research and development tax concession, a number of legislative changes were recommended. The Treasury developed legislation that implemented these changes. These measures were included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Carbon sinks

The Treasury provided advice and developed legislation regarding the tax consequences of establishing carbon sink forests. This measure was included in *Tax Laws Amendment (2008 Measures No. 2) Act 2008*, which received Royal Assent on 24 June 2008.

Australian Carbon Pollution Reduction Scheme

The Treasury provided advice on the taxation of permits in the Australian Carbon Pollution Reduction Scheme. A Green Paper setting out a number of the Government's

preferred positions on the scheme was published in July 2008. Interested parties were consulted on taxation aspects of the schemes both before and after the release of the Green Paper.

Scrip for scrip rollover provisions and corporate restructures

The Treasury provided policy advice and undertook confidential targeted consultations with the business sector on modifications to the scrip for scrip capital gains tax rollover provisions for corporate restructures. The Government announced these changes in the 2008-09 Budget.

Changes to the market value substitution rule for widely held entities

The Treasury developed legislation to amend the tax law to provide that the capital gains tax market value substitution rule does not apply where a share in a widely held company, or a unit in a widely held unit trust, is cancelled, surrendered or brought to an end in other similar ways when an arms-length transaction has occurred. This change was introduced into Parliament on 20 March 2008 in *Tax Laws Amendment (2008 Measures No. 2) Act 2008*, which received Royal Assent on 24 June 2008.

Partial capital gains tax rollover for statutory licences

The Treasury developed legislation that extends the existing statutory licence when one or more new licences are issued in consequence of a licensee's licence(s) ending and provides for a partial capital gains tax rollover when the licensee is offered non licence capital proceeds such as cash. These changes were introduced into Parliament on 16 August 2007 in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Small business capital gains tax concessions

The Treasury provided policy advice to the Government on changes to increase access to the small business capital gains tax concessions for taxpayers owning a capital gains tax asset used in a business by a related entity and for partners owning a capital gains tax asset used in the partnership business, with effect from the 2007-08 income year. The Government announced these changes in the 2008-09 Budget.

Board of Taxation review of the tax arrangements applying to managed investment trusts

On 22 February 2008, the Government announced the Board of Taxation would review the taxation arrangements applying to managed investment trusts. The review will provide advice on options for introducing a specific tax regime for managed investment trusts to reduce complexity, increase certainty and minimise compliance costs. The board is to make recommendations and provide a final report around the middle of 2009. The Treasury is providing support for this review.

Tax agent services regulatory reform

The Treasury continues to advance the legislation, regulations and explanatory materials for the tax agent services regulatory reform proposals. The Government approved the proposals and public consultation on a second exposure draft Bill, with regulations and explanatory materials.

Open-ended reviews

The Treasury released a discussion paper on open-ended review periods in the income tax law. Replacing open-ended review periods with a set period, after which a taxpayer's liability is final, would offer taxpayers greater certainty.

Other budget measures

The Treasury provided policy advice to the Government on cancelling interests in widely held trusts, applying excise to condensate and extending the effective life of software for depreciation purposes. The Government announced the changes in the 2008-09 Budget.

Indirect taxation

The Treasury provided advice on GST, luxury car tax and excise and customs duty issues.

GST

The Treasury provided advice to the Government and prepared for implementation a number of amendments to the GST law following agreement from the States and Territories. These included measures announced in the 2008-09 Budget to ensure the interactions between provisions in the GST law do not allow real property transactions to be structured to reduce GST liability, and to make supplies of mobile telephone global roaming services not subject to GST consistent with Australia's treaty obligations under the International Telecommunications Regulations (the Melbourne Agreement).

The Treasury also provided advice, sought the agreement of the States and Territories and developed legislation regarding the refund provisions and limitation period following the Federal Court of Australia (FCA) decision in the case of *KAP Motors Pty Ltd v Commissioner of Taxation* [2008] FCA 159. This measure was included in Tax Laws Amendment (2008 Measures No. 3) Bill 2008, which received Royal Assent on 20 September 2008.

Carbon pollution reduction scheme

The Treasury provided advice to the Government on the GST treatment of permits in the carbon pollution reduction scheme. This was included in the Green Paper setting out a number of the Government's preferred positions on the scheme that was published in July 2008.

The Board of Taxation review of the legal framework for GST administration

On 11 June 2008, the Assistant Treasurer announced the Board of Taxation would review the legal framework for administering the GST. The focus of the review will be streamlining and improving the operation of the GST, reducing compliance costs and removing anomalies. The board is to report to the Government by December 2008. The Treasury is providing support for the review.

Luxury car tax

The Government decided to increase the luxury car tax rate from 25 per cent to 33 per cent, from 1 July 2008. The Treasury provided advice on this measure and provided input to the preparation of the necessary legislative amendments to implement the measure.

Excise and customs duty – other excisable beverages

The Government increased the excise and excise-equivalent customs duty on ‘other excisable beverages not exceeding 10 per cent alcohol by volume’ to the same rate as full strength spirits with effect on and from 27 April 2008. The Treasury provided advice on this measure and provided input to the preparation of the Excise Tariff Proposal to increase the excise rates that were tabled by the Minister for Health and Ageing in the House of Representatives on 13 May 2008 following the proposal’s gazettal on 26 April 2008.

Personal taxation

Advice to the Government on the design and implementation of personal tax measures sought to promote economic growth and workforce participation, and improve the international competitiveness of Australia compared with other OECD countries.

Reductions in personal income tax

The 2007-08 MYEFO provided tax cuts worth \$34 billion over the forward estimates period (to 2010-11) from 1 July 2008. The 2008-09 Budget deferred the previously announced reductions in the top marginal tax rate for taxpayers on incomes of more than \$180,000 per year until beyond 2010-11, saving \$5.3 billion over the forward estimates period. Together, these changes deliver almost \$47 billion in tax cuts over the forward estimates period. The tax cuts, which included changes to the low income tax offset, were included in the *Tax Laws Amendment (Personal Income Tax Reduction) Act 2008*, which received Royal Assent on 23 June 2008.

From 1 July 2008:

- the 30 per cent marginal tax rate threshold increased from \$30,001 to \$34,001;
- the low income tax offset increased from \$750 to \$1,200 and continues to phase out from \$30,000. Taxpayers eligible for the full low income tax offset

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do not pay tax until their annual income exceeds \$14,000 (up from \$11,000); and

- taxpayers eligible for the low income tax offset can receive half of the benefit through their regular pay rather than receiving it all as a lump sum when their income tax returns are assessed.

From 1 July 2009:

- the 30 per cent marginal tax rate threshold will increase to \$35,001;
- the 40 per cent marginal tax rate will fall to 38 per cent; and
- the low income tax offset will increase to \$1,350 and continue to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$15,000.

From 1 July 2010:

- the 30 per cent marginal tax rate threshold will increase to \$37,001;
- the 38 per cent marginal tax rate will fall to 37 per cent; and
- the low income tax offset will increase to \$1,500 and continue to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$16,000.

Senior Australians will benefit from these changes. The low income tax offset adds to the tax offset available to seniors so that seniors eligible for the senior Australians tax offset will have an effective tax free threshold of \$28,867 for singles and \$24,680 for each member of a couple from 1 July 2008. These thresholds will rise to \$29,867 for singles and \$25,680 for each member of a couple from 1 July 2009 and to \$30,685 for singles and \$26,680 for each member of a couple from 1 July 2010.

Education tax refund

The Treasury advised the Government on the introduction of a 50 per cent education tax refund for eligible educational expenses from 1 July 2008. Eligible families can claim up to \$750 for each child undertaking primary school studies (that is, a refund of up to \$375 per child, per year) and \$1,500 for each child undertaking secondary school (that is, a refund of up to \$750 per child, per year). These amounts will be indexed annually from 1 July 2009.

The education tax refund will apply to expenses incurred from 1 July 2008 and may be claimed when lodging a 2008-09 income tax return. Those eligible will receive the full value of the education tax refund, regardless of their income tax liability.

Medicare levy surcharge thresholds

The Treasury advised the Government and developed legislation to increase the Medicare levy surcharge thresholds for singles and members of a couple with effect from 1 July 2008. For singles, the threshold will increase from \$50,000 to \$100,000 and for couples, the threshold will increase from \$100,000 to \$150,000.

The thresholds, above which taxpayers pay the Medicare levy surcharge if they do not have adequate private patient health insurance, have not been changed since the surcharge was introduced on 1 July 1997.

Tightening eligibility for the dependency tax offsets

The Treasury advised the Government and developed legislation on introducing an income threshold of \$150,000 to determine eligibility for the Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets, with effect from 1 July 2008. This measure will better target the benefit these offsets provide.

From 1 July 2009, the definition of income for these offsets will be aligned with that applying to family assistance payments, and the \$150,000 threshold will be indexed.

These changes were included in the *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Act 2008*, which received Royal Assent on 30 June 2008.

Means testing of Government support — expanded definitions of income

The Treasury advised the Government on expanding the definition of income used to determine eligibility for government support programs, to include certain 'salary sacrificed' contributions to superannuation, net financial investment losses and reportable fringe benefits, from 1 July 2009.

Affected tax programs include the senior Australians tax offset, pensioner tax offset, Medicare levy surcharge and dependency tax offsets.

Political donations

The Treasury advised the Government and developed legislation to remove the tax deduction for donations of contributions and gifts individuals and business make to political parties, with effect from 1 July 2008.

Employee share schemes

The Treasury advised the Government of a problem with the election requirements which are designed to ensure that the value of any discount flowing from an employee's participation in an employee share scheme is correctly included in assessable income. The integrity of the employee share scheme provisions will be improved from 1 July 2008.

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The Treasury also advised of the potential for double taxation to arise in certain employee share schemes that use employee share trusts.

These changes were included in the *Tax Laws Amendment (Budget Measures) Act 2008* which received Royal Assent on 30 June 2008.

Fringe benefits tax

The Treasury advised the Government of inconsistencies in the treatment of certain fringe benefits. The exemption provided to certain work related items will be limited to where the item is used primarily for work purposes. Meals consumed on an employer's premises under a salary sacrifice arrangement will no longer be exempt.

These changes were included in the *Tax Laws Amendment (Budget Measures) Act 2008* which received Royal Assent on 30 June 2008.

The Treasury also provided advice on the valuation of benefits provided to both an employee and an associate in relation to a jointly held asset, announced in the 2008-09 Budget.

First Home Saver Accounts

The Treasury advised the Government and developed legislation to implement its election commitment to introduce First Home Saver Accounts.

First Home Saver Accounts will provide a simple, tax effective way for Australians to save a deposit for their first home through a combination of Government contributions and low taxes on earnings. Special simplified disclosure rules will apply, as well as prudential arrangements for account providers. First Home Saver Accounts may be offered from 1 October 2008.

The legislation to implement the measure, the *First Home Saver Accounts Act 2008*, the *First Home Saver Accounts (Consequential Amendments) Act 2008* and the *Income Tax (First Home Saver Accounts Misuse Tax) Act 2008* received Royal Assent on 25 June 2008.

International taxation and tax treaties

The Treasury implemented or initiated a range of changes to international tax arrangements during 2007-08. The Treasury also undertook to identify the international consequences arising from domestic tax reforms such as the taxation of financial arrangements.

Withholding tax rate to foreign residents

Tax Laws Amendment (Election Commitments No. 1) Act 2008, which received Royal Assent on 23 June 2008, (and related imposition Acts and Regulations), which took effect from 1 July 2008, implemented the Government's election commitment to reduce the withholding tax rate on certain distributions from Australian managed investment trusts to

foreign residents. This involves replacing the 30 per cent non-final withholding tax regime applying to distributions of Australian source net income (other than dividends, interest and royalties) by Australian managed investment trusts with a final withholding tax regime. The new regime has effect for income years starting on or after 1 July 2008.

Residents of jurisdictions with which Australia has effective exchange of information arrangements, as specified in the *Taxation Administration Regulations 1976*, will be subject to a withholding tax at 22.5 per cent for the first income year (starting on or after 1 July 2008), 15 per cent for the second and 7.5 per cent for third and later income years. As an interim measure, in 2008-09, foreign residents may claim deductions for expenses relating to their fund payments. These foreign residents will be taxed at 22.5 per cent on any amount net of deductions. Residents of other jurisdictions are subject to a 30 per cent final withholding tax.

The restriction of the lower withholding tax rates to residents of information-sharing jurisdictions safeguards the integrity of the new regime and signals Australia's commitment to effective exchange of information with other jurisdictions to reduce opportunities for international tax avoidance and evasion.

Thin capitalisation rules

Tax Laws Amendment (2007 Measures No. 5) Act 2007, which received Royal Assent on 25 September 2007, contained two amendments to the thin capitalisation rules. The first removes certain long term equity interests from the definition of 'excluded equity interest', and applies to income years starting on or after 1 July 2002 — when the definition first took effect. The second introduces a choice mechanism under which a particular type of authorised deposit-taking institution (ADI) — known as a specialist credit card institution — may, in certain circumstances, be treated for thin capitalisation purposes as if it was not an ADI but rather a financial entity. It applies to income years starting on or after 1 July 2004 — when the relevant ADIs were first introduced.

The Government announced in the 2008-09 Budget its intention to amend the thin capitalisation regime to accommodate certain impacts arising from the 2005 adoption of Australian equivalents to International Financial Reporting Standards. These amendments will allow entities to depart from the current accounting treatment in relation to certain intangible assets and to exclude deferred tax assets and liabilities and surpluses and deficits in defined benefit superannuation funds when doing their thin capitalisation calculations. The Treasury has progressed this initiative, with draft legislation released on 11 July 2008 for consultation.

Strengthening Australia's finance markets

On 20 May 2008, the Government announced a package of initiatives to strengthen Australia's financial markets, including a new interest withholding tax exemption for bonds issued in Australia by state government central borrowing authorities. These amendments are expected to improve the depth, liquidity and price discovery in state government bond markets, and are being drafted in consultation with industry.

Board of Taxation review into Australia's foreign source income anti-tax deferral regimes

The previous Government announced on 10 October 2006 that the Board of Taxation would review Australia's foreign source income anti-tax deferral regimes (that is, the controlled foreign company, the foreign investment fund, the transferor trust and the deemed present entitlement rules). The review aims to identify ways to reduce the complexity and compliance costs associated with the anti-tax deferral regimes and examine whether the regimes strike an appropriate balance between effectively countering tax deferral and unnecessarily inhibiting Australian companies from competing in the global economy. The Treasury assisted the board in the review which, following extensive consultations, released a position paper on 12 March 2008 setting out a framework and high level principles. Several issues papers on specific topics for further consultation were released on 19 May 2008.

Comprehensive tax treaties

Australia has a tax treaty network of over 40 treaties. Bilateral tax treaties promote closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment caused by overlapping taxing jurisdictions. Tax treaties offer protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. The Government announced a review of Australia's tax treaty negotiation program and policy on 25 January 2008. As part of the review, the Treasury received over 20 submissions and conducted consultation with industry through the Tax Treaties Advisory Panel.

During 2007-08, negotiations were held with three countries and tax treaties were signed with Japan and South Africa. Tax policy advice was provided on various international agreements the Government is negotiating including free trade agreements and film co-production agreements. Tax policy advice was also provided on privileges and immunities requests.

Tax information exchange agreements

Australia continued to make progress in concluding tax information exchange agreements with low-tax jurisdictions. Two agreements, with Bermuda and the Netherlands Antilles, entered into force during 2007-08 and several others are approaching finalisation. They provide a legal basis for full exchange of taxpayer information, for both criminal and civil tax purposes, between Australia and the partner. These agreements are important elements in Australia's broader efforts to combat offshore tax evasion and avoidance, and complement other international initiatives aimed at addressing money laundering and the financing of terrorism.

International representation

The Treasury represented Australia on the OECD Committee on Fiscal Affairs and associated working parties and forums dealing with international tax matters, particularly

those related to the development of comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meeting of the United Nations Committee of Experts on International Cooperation in Tax Matters. The Treasury also provided instructors to three international courses on tax and treaty issues.

Australia's Future Tax System

In the 2008-09 Budget, the Government announced a comprehensive review of Australia's tax system to look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

During 2007-08, the review panel was formed to lead the review. The panel is chaired by the Secretary to the Treasury, Dr Ken Henry AC, and comprises Dr Jeff Harmer (Secretary to the Department of Families, Housing, Community Services and Indigenous Affairs), Professor John Piggott (University of New South Wales), Ms Heather Ridout (Australian Industry Group), and Mr Greg Smith (Australian Catholic University).

The Treasury established a secretariat to support the panel and commenced work on the discussion paper outlining the architecture of Australia's tax and transfer system, released on 6 August 2008.

Policy evaluation frameworks

The Treasury, in collaboration with the ATO, has enhanced its procedures for assessing and quantifying the compliance cost impacts of new taxation measures. The procedures are designed to improve the quality of advice provided to ministers and respond to the increasing community and government concern to achieve an appropriate balance between the benefits of tax regulation and the efficiency, compliance and administration costs associated with its implementation.

The Treasury has continued to increase capacity through quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes. This has included working with the Melbourne Institute tax and transfer simulator behavioural micro-simulation model developed by the Melbourne Institute.

The Treasury also has improved micro-simulation models for personal income tax and household income and expenditure.

Technical corrections and minor improvements

Measures to make technical corrections and amendments to the law and other minor improvements involving no significant policy change were included in the *Tax Laws*

Amendment (2007 Measures No. 4) Act 2007, which received Royal Assent on 24 September 2007, and in the Tax Laws Amendment (2008 Measures No. 4) Bill 2008, which was introduced on 24 June 2008.

Tax Design Review Panel

The Tax Design Review Panel appointed by the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs on 8 February 2008 examined options to reduce the delay between announcing a change to the tax law and introducing it; on how to improve the quality of the law through enhanced community consultation; and on methods to increase community input into prioritising changes to the tax laws. The panel was supported by a Treasury secretariat and reported to the Government on 30 April 2008.

Publications

Review of the Income Tax Exemption for Structured Settlements

The Treasury provided secretariat services to the Review of the Income Tax Exemption for Structured Settlements conducted by Mr Alan Cameron AM. The review was presented to the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs on 17 December 2007.

OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

The Treasury provided advice to the Government on the revenue aspects of superannuation, retirement income and saving policy, and advised on developing effective retirement income and saving policy in the context of demographic change.

Personal and Retirement Income Division contributes to Output 3.1.2: Retirement income and saving policy and legislation. The division consults widely across the private and public sectors. It has close relationships with Tax Analysis Division which prepares revenue forecasts, costings of policy proposals and other quantitative studies, and provides strategic analysis of tax-related issues, and with Tax Design Division which formulates a strategic direction on organisational issues and provides key services, such as managing the legislation program, budgeting and administration.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to retirement income and saving policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- law relating to retirement income and saving policy is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programs.

ANALYSIS OF PERFORMANCE

Benefit payments to the terminally ill

Legislation was enacted to give effect to a government decision to make lump sum superannuation benefits paid to individuals with a terminal medical condition tax free, with effect from 1 July 2007. A new condition of release for superannuation also was created to allow individuals with a terminal medical condition full access to their benefits, irrespective of their age or employment status.

The necessary taxation amendments in the *Tax Laws Amendment (2008 Measures No. 2) Act 2008* received Royal Assent on 24 June 2008.

Trans-Tasman retirement savings portability

The Treasury participated, with New Zealand officials, on the joint Trans-Tasman Retirement Savings Portability Working Group. The working group was set up to examine options to improve the portability of savings between the Australian and New Zealand retirement savings schemes.

Other superannuation measures

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

- as part of the process of implementing the superannuation reforms legislated during 2006-07, minor amendments were made to the treatment of superannuation benefit payments; and
- the Treasury assisted the Attorney-General's Department in developing legislation to remove discrimination against members of same-sex couples and their children from Commonwealth (defined benefit) superannuation schemes and related tax provisions.

OUTCOME 4: WELL FUNCTIONING MARKETS

The Treasury, through Markets Group, contributes to Australia's continuing economic development and the wellbeing of its people through a well functioning market economy and financial system. Improving the operation of markets is intended to underpin stronger, sustainable economic growth and enhanced living standards.

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 forming and implementing policies to support well functioning markets. The Treasury's advice and other outputs help maintain and improve markets, so investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also maintains the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel.

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

Markets Group is involved in consultations, particularly where reforms or new government measures are proposed, with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders.

A key focus for Markets Group in 2007-08 was promoting the economic benefits of the national regulation of markets. The group is strengthening the impact of microeconomic reform through the delivery of a national approach to market design. This work included providing advice on structural reforms in key sectors, particularly in energy, transport and infrastructure regulation.

In 2007-08, Markets Group provided advice on a range of issues affecting the operation of markets. For financial markets, that included advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency and corporate financial reporting. For markets more generally, that included advice on structural reforms in key sectors, particularly in energy, transport, and infrastructure, and the operation of competition and consumer policy, including issues of financial literacy. Markets Group also provided professional actuarial services, and advice on foreign investment and trade policy.

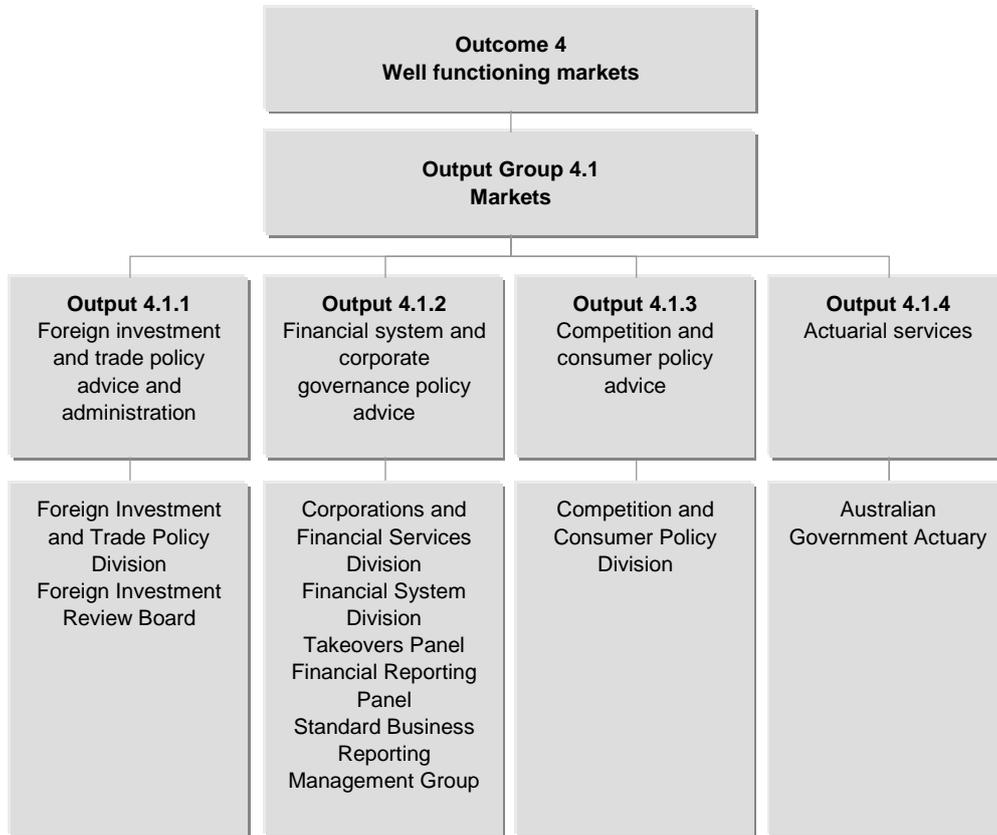
Markets Group also continued to progress the single economic market concept under the Closer Economic Relations Agreement with New Zealand. An important step forward was the signing of the *Agreement between the Government of Australia and the Government of New*

Zealand in Relation to Mutual Recognition of Securities Offerings, which establishes a mutual recognition regime for the issue of securities and interests in managed investment schemes, and provides a framework for the mutual recognition of companies.

In addition, Markets Group continued to participate in negotiating free trade agreements. Negotiations for the Australia-Chile Free Trade Agreement concluded in 2007-08, while negotiations progressed with China, Japan, Malaysia, the Association of Southeast Asian Nations (ASEAN) and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating and implementing policies in support of well functioning markets.

Figure 7: Outputs contributing to Outcome 4



KEY PRIORITIES IN 2007-08

Key priorities for Markets Group in 2007-08 were to:

- develop policies relating to general foreign investment and trade, including foreign investment proposals;

Part 2: Report on performance

- develop and implement policies relating to the financial system, corporations and the financial services sector;
- develop and implement policies relating to a sound and efficient prudential framework;
- develop and implement policies relating to issues emerging in the general insurance sector;
- develop and implement policies relating to a range of initiatives to improve the frameworks for corporate insolvency and corporate groups;
- develop and implement policies relating to structural reform in key sectors of the economy, including energy and transport and communications, in conjunction with other government departments and agencies;
- develop and implement policies relating to competition and consumer policy matters, including legislative amendments to the *Trade Practices Act 1974*;
- implement trade and investment policy priorities in relation to the Government's commitment to negotiate six free trade agreements — China, Japan, ASEAN, Malaysia, Chile and the Gulf Cooperation Council — to continue working towards the single economic market concept with New Zealand as well as provide input into trade and investment issues in APEC, G-20 and the World Trade Organization (WTO);
- monitor international and local compliance with foreign investment and trade policies, including by processing foreign investment applications, and further examining reform options with a focus on reducing compliance and administrative costs;
- progress a range of international cooperation issues, particularly with the United States and New Zealand, as well as enhance international engagement with Indonesia;
- represent Australia's interest in forums such as the OECD and APEC;
- progress a dialogue with other APEC economies on financial sector reform to strengthen policy makers' understanding of issues, challenges and policy options for advancing the development of financial sectors and, in particular, private capital markets in the region;
- work with international agencies to progress cooperation in financial system regulation, corporate governance, financial reporting, auditing, and corporate insolvency, including developing ways to further integrate the Australian and US financial services sectors, with a focus on regulatory recognition, including through the Financial Services Committee established under the Australia-United States Free Trade Agreement, and developing a single

economic market with New Zealand for corporate regulatory frameworks and financial services;

- improve the regulatory framework for corporations and financial services, including by implementing wide-ranging reforms to simplify and reduce the regulatory burden on business, progressing reforms relating to corporate insolvency and corporate groups, financial reporting, financial services and financial markets, and implementing reforms to the *Insurance Contracts Act 1984*;
- advise on the implications of turbulence in credit markets;
- enhance the arrangements and tools available to government to deal with distressed financial institutions;
- improve regulation and competition in the financial sector by facilitating well functioning and competitive financial markets, particularly by addressing banking competition and insurance market issues and improving the effectiveness of regulation, developing a single economic market with New Zealand in banking services, and monitoring market supervision issues;
- develop and implement the reform agenda for competition policy, including the competition and regulation streams of the COAG National Reform Agenda and advance microeconomic reforms in key infrastructure markets including energy, transport and communications;
- implement reforms relating to the competition and consumer provisions of the Trade Practices Act — including changes to legislation as a result of the Government response to the Senate small business report and the introduction of criminal sanctions for cartels — and contribute to the review of the Australian consumer policy framework;
- develop and deliver a range of financial literacy initiatives to build the capacity of Australians to better manage their money and take advantage of significant reforms to the finance sector;
- provide support for ministers in considering a range of appointments to statutory and non-statutory bodies such as the Productivity Commission, the Australian Competition and Consumer Commission (ACCC), and the Australian Securities and Investments Commission (ASIC);
- provide secretariat services to the Financial Reporting Council, Foreign Investment Review Board, Financial Sector Advisory Committee, the Ministerial Council for Consumer Affairs and the Commonwealth Consumer Affairs Advisory Council; and

- maintain successful operations of the Standard Business Reporting Management Group, Australian Government Actuary, Financial Reporting Panel and Takeovers Panel.

KEY OUTCOMES IN 2007-08

In 2007-08, Markets Group advice covered a broad agenda, including corporate governance, market integrity, financial system safety, financial product safety, financial literacy, competition and consumer policy, and protection of the national interest under Australia's foreign investment policy.

Key group outcomes included:

- working on a range of international investment cooperation issues, particularly the Trade and Investment Framework with Indonesia and a Trade and Economic Framework with India. Markets Group also contributed to free trade agreement negotiations with Japan, Chile, the Gulf Cooperation Council, China, Malaysia and — in partnership with New Zealand — ASEAN;
- contributing to the work of international forums such as the G-20, IMF and Financial Stability Forum in developing policy responses to financial market turbulence;
- providing advice to the Government on Australia's financial sector crisis management arrangements, including a proposal for a financial claims scheme which would bring forward payments to bank depositors and insurance policyholders in the event that a financial institution fails. The Government announced these measures on 2 June 2008, as part of a broader response to the financial market turbulence of 2007-08;
- developing a mutual recognition arrangement with the United States Securities and Exchange Commission (SEC) on the regulation of securities markets. If a mutual recognition arrangement is reached, it will be the first implemented under the SEC's new mutual recognition policy, and will improve cross-border capital flows, open new markets for Australian advisers and increase regulatory coordination between ASIC and the SEC;
- working with ASIC and the Department of Foreign Affairs and Trade to successfully secure Australia's status as an approved destination under China's qualified domestic institutional investor scheme. The Treasurer announced on 10 June 2008 that mainland Chinese entities regulated by the China Banking Regulatory Commission could invest in Australia. This will increase the opportunities for Australian funds managers to offer their services to Chinese entities wishing to invest in Australia;
- undertaking preparatory work to implement the Government's plan to develop Australia as a financial services centre. The Treasury assisted the

Government to co-host, together with the Government of New South Wales, a Financial Services Hub Summit in Sydney on 31 July 2008;

- developing the Account Switching Package the Treasurer announced on 9 February 2008 to promote competition in the financial sector by making it easier for consumers to switch financial products and providers;
- overseeing the implementation of the recommendations arising from the Review of Corporate Governance of Statutory Office Holders (Uhrig Review). This involved implementing new financial and governance frameworks for the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) with the enactment of the *Governance Review Implementation (AASB and AUASB) Act 2008*. The Act also implemented consequential changes to the functions of the Financial Reporting Council. The new arrangements commenced from 1 July 2008;
- providing advice to the Government on implementing the prudential standards under the Basel II Capital Framework developed by the Australian Prudential Regulation Authority (APRA) for authorised deposit-taking institutions. The new standards came into effect on 1 January 2008;
- assisting the Government to implement measures resulting from, and consistent with, the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006. The Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 received Royal Assent on 24 September 2007, and the Financial Sector Legislation Amendment (Review of Prudential Decisions) Bill 2008 received Royal Assent on 26 May 2008;
- developing the Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007. The Bill received Royal Assent on 24 September 2007 and includes measures to enhance Australia's general insurance prudential regime by requiring all direct offshore foreign insurers operating in Australia to be authorised;
- developing the Green Paper, *Financial Services and Credit Reform: improving, simplifying and standardising financial services and credit regulation*, which set out a plan to bring Australia's credit regulation under one system. At its 3 July 2008 meeting, COAG agreed that the Commonwealth will assume responsibility for the regulation of mortgages, mortgage brokers and margin loans. COAG further agreed in-principle that the Commonwealth will assume responsibility for the national regulation of other forms of consumer credit, including personal loans, credit cards, payday loans and micro lending;
- developing the Trade Practices Legislation Amendment Bill 2008 to strengthen the prohibition against the misuse of market power in section 46 of the Trade Practices Act, and to address difficulties in establishing a successful

predatory pricing case under that section. The Bill was introduced into the House of Representatives on 26 June 2008;

- drafting the Trade Practices Amendment (Cartel Conduct and Other Measures) Bill 2008 to criminalise serious cartel conduct. The Government intends to introduce the Bill into the Parliament in the Spring 2008 sittings;
- coordinating the Government response to the ACCC report, *Petrol Prices and Australian Consumers: report of the ACCC inquiry into the price of unleaded petrol*. The final Government response released on 15 April 2008 announced a National Fuelwatch Scheme. Legislation to enact the Fuelwatch Scheme, the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008, passed the House of Representatives on 5 June 2008;
- assisting in preparing a directive from the Minister for Competition and Consumer Policy to the ACCC to commence an inquiry into the competitiveness of retail prices for standard groceries;
- taking a leading role in the activities of the COAG Business Regulation and Competition Working Group to progress reforms in 27 areas where duplicative and inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing advice on a further package of amendments to the National Access Regime (Part IIIA of the Trade Practices Act), to promote the efficient operation and use of infrastructure and further enhance the efficiency of investment in key infrastructure markets;
- taking a leading role in the activities of the COAG Infrastructure Working Group, which is supporting the work of Infrastructure Australia, a statutory board established to advise governments on the planning, coordination and efficient use of transport, energy, communications and water infrastructure that could materially improve national productivity;
- working closely with the Department of Broadband, Communications and the Digital Economy, the ACCC and other central agencies on developing government policy on the regulation of the telecommunications industry;
- playing a leading role in progressing the APEC leaders' agenda to implement structural reform. The Treasury delivered the policy and logistics for the APEC Ministerial Meeting on Structural Reform, held in Melbourne on 3-5 August 2008. This was the first APEC ministerial meeting wholly dedicated to structural reform;
- undertaking a more active and strategic role in APEC's investment liberalisation and facilitation agenda by chairing APEC's Investment Experts

Group. This leading role continues to form a significant part of the Treasury's contribution to refining APEC's key policy themes and priorities;

- continuing the greater coordination of business law with New Zealand. During 2007-08, work continued on implementing the closer economic relations initiatives set out in the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007*. The reduced filing requirements amendments commenced on 1 September 2007, furthering the mutual recognition of company registrations. The mutual recognition of securities offerings regime commenced on 13 June 2008 with the exchange of diplomatic notes and allows for the same securities offerings document to be issued in both countries;
- establishing the Standard Business Reporting program to reduce the business-to-government reporting burden by making it faster, cheaper and easier for business to report their financial information to government. Standard Business Reporting will use business software to automatically pre-fill government forms; adopt a common reporting language, based on international standards and best practice; make financial reporting to government a by-product of natural business processes; provide an electronic interface to enable business to report to government agencies directly from their accounting software (which will provide validation and confirm receipt of reports); and provide business with a single secure online sign-on to the agencies involved;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel; and
- providing advice to the Government on the management of the HIIH Claims Scheme and its future operation. From July 2001, when it began operation, until the end of June 2008, the scheme paid \$595 million in assistance to settle 10,660 claims. By the end of June 2008, fewer than 260 claims remained to be finalised.

Table 6: Financial and staffing resources summary for Outcome 4

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	-	5,000
Appropriation Acts No. 2 and 4	177,108	173,957	7,120
Special Appropriations	-	-	-
Other expenses	-	(203)	-
Total administered expenses	182,108	173,754	12,120
Revenue from Government			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	5,506	5,686	5,592
Output 4.1.2 Financial system and corporate governance policy advice	35,383	23,584	38,198
Output 4.1.3 Competition and consumer policy advice	18,986	28,049	7,000
Output 4.1.4 Actuarial services	-	-	-
Total revenue from Government contributing to the price of departmental outputs	59,875	57,319	50,790
Revenue from other sources			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	84	188	90
Output 4.1.2 Financial system and corporate governance policy advice	2,011	1,350	1,471
Output 4.1.3 Competition and consumer policy advice	828	276	849
Output 4.1.4 Actuarial services	1,553	1,539	1,600
Total revenue from other sources	4,476	3,353	4,010
Total revenue for departmental outputs (Total revenues from Government and other sources)	64,351	60,672	54,800
Price of departmental outputs			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	5,590	5,923	5,682
Output 4.1.2 Financial system and corporate governance policy advice	37,394	24,241	39,669
Output 4.1.3 Competition and consumer policy advice	19,814	23,016	7,849
Output 4.1.4 Actuarial services	1,553	1,504	1,600
Total price of departmental outputs	64,351	54,684	54,800
Total estimated resourcing for Outcome 4 (Total price of outputs and administered expenses)	246,459	228,438	66,920
Average staffing levels (number)	290	249	267

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the Portfolio Budget Statements 2008-09

OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION

During 2007-08, the Foreign Investment and Trade Policy Division was responsible for delivering Output 4.1.1: Foreign investment and trade policy advice and administration.

Markets Group provided advice on foreign investment proposals, providing executive support to the Foreign Investment Review Board and making decisions under the *Foreign Acquisitions and Takeovers Act 1975* and Australia's foreign investment policy under authorisations provided by the Treasurer, consistent with the policy. It also advised the Government on foreign investment and trade policy as it relates to Australia's participation in multilateral and bilateral agreements on investment. Further, Markets Group provided the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities;
- government policy is represented appropriately and Australia's negotiating position is pursued effectively in international forums;
- Australia's commitments on investment in the US Free Trade Agreement are implemented;
- the OECD Guidelines for Multinational Enterprises are promoted, and the responsibilities of the national contact point for the guidelines are fulfilled;
- proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents;
- the Treasury effectively disseminates and explains the foreign investment policy to improve the standard of applications and compliance with policy requirements to reduce the proportion of foreign investment proposals requiring interim or final orders; and
- the Treasury undertakes a program of compliance checks on previous proposals subject to conditions, possibly leading to prosecutions, but aimed at an overall reduction in non-compliance with policy.

ANALYSIS OF PERFORMANCE

Advice on, and processing of, individual foreign investment proposals

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

Where a foreign person enters into an agreement to acquire an interest in Australian urban land, they must notify the Treasurer under section 26A of the Foreign Acquisitions and Takeovers Act. In most real estate cases, applicants must comply with specified conditions. Where a foreign person proposes to acquire a substantial interest² in an Australian corporation valued above \$100 million,³ they must notify the Treasurer. During 2007-08, separate thresholds were introduced for offshore takeovers where the Australian subsidiary/asset represented less than 50 per cent of the global assets. The Treasurer must be notified of proposals to establish a new business valued at over \$10 million, and proposals involving direct investments by foreign governments and their agencies, regardless of size.

Under the Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that do not involve issues of high sensitivity. Around 94 per cent of proposals are decided under such authorisation.

The Treasury considered around 8,500 proposals in 2007-08, around 20 per cent more than in 2006-07. Over 94 per cent of proposals were decided within 30 days. Treasury also received around 37,000 telephone calls and 5,000 items of written and email correspondence during the year. 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.

During 2007-08, the Foreign Investment Review Board (an independent body established in 1976 to advise the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals and oversaw the division's investment screening function. The General Manager of Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is in the Foreign Investment Review Board's annual report. The report and other information is available at www.firb.gov.au.

2 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.

3 Under the Australia-United States Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2007, the threshold is \$913 million except for acquisitions involving a US government entity or in prescribed sensitive sectors.

Representation in international forums

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

Free trade agreements/closer economic cooperation

Concluded negotiations

In 2007-08, the Australian Government concluded free trade agreement negotiations with Chile. The agreement is expected to enter into force on 1 January 2009 following ratification in each country.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, ASEAN and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

The Treasury contributed to feasibility studies relating to possible free trade agreements with India, Korea and Indonesia. It was also the lead agency in investment protocol negotiations between Australia and New Zealand.

Other processes

The Treasury was involved in the Joint Experts Group, led by the Department of Foreign Affairs and Trade, which is investigating ways to strengthen economic links between Australia and Mexico, including the possible negotiation of a bilateral free trade agreement.

OECD

Australia is represented at OECD Investment Committee meetings by the General Manager of the Foreign Investment and Trade Policy Division. The Investment Committee enhances the contribution of international investment to growth and sustainable development worldwide, by advancing investment policy reform and international cooperation.

The Investment Committee also oversees the operation of the OECD Guidelines, 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 Australian Government has committed to promote and implement the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, the General Manager of the Foreign Investment and Trade Policy Division.

Part 2: Report on performance

In 2007-08, the Australian National Contact Point received a submission regarding an Australian company's involvement in a mining operation in South America. The Australian National Contact Point has accepted this submission and is examining it as a specific instance in line with the procedural guidelines established by the OECD. A mediation process is underway.

The Australian National Contact Point also continued its promotional program for the guidelines, including participating in a number of business and non-government organisation forums. Further information is available at www.ausncp.gov.au.

APEC

Since becoming convenor of the Investment Experts Group in early 2005, the Treasury has undertaken a more active and strategic role in APEC's investment liberalisation and facilitation agenda. This leading role continues to form a significant part of Treasury's contribution to developing key policy themes and priorities for APEC, which Australia hosted in 2007. In June 2008, APEC adopted an Investment Facilitation Action Plan that Treasury developed in consultation with all of APEC's members. This is expected to contribute substantially to regional economic integration, a key APEC priority, by driving a more coherent, comprehensive approach to investment policy reform.

Liaison with Department of Foreign Affairs and Trade

In addition to participating in negotiations, the Treasury provides specialised advice to the Department of Foreign Affairs and Trade on Australia's involvement in the WTO Doha round of negotiations on the General Agreement on Trade in Services.

OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE

During 2007-08, the Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel and Financial Reporting Panel, were responsible for the delivery of Output 4.1.2: Financial system and corporate governance policy advice.

Markets Group provided advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting, the responsible portfolio agencies, and currency.

Markets Group also administered the companies regulation payments to the States and the Northern Territory, and progressed implementation of the Standard Business Reporting program.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues;
- relevant information is presented effectively to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is effective; and
- ministerial correspondence is handled satisfactorily.

The key performance indicators for administered items are:

- amounts payable, according to agreed formulas, are accurately calculated; and
- payments are made according to agreed schedules.

ANALYSIS OF PERFORMANCE

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

Financial system reform

International financial market turbulence

In 2007-08, the Treasury monitored developments in international capital markets arising from the deterioration in the US sub-prime lending market and actively participated in global and domestic efforts to address these developments.

The Treasury contributed to the work of international forums such as the G-20, IMF and Financial Stability Forum in developing policy responses to the market turbulence. It also provided advice to the Government to support its participation in these forums.

Domestically, the Treasury progressed initiatives to address regulatory concerns emerging from the turbulence. These include examining the role and regulation of credit rating agencies; improving the transparency of credit instruments; and improving coordination between regulatory agencies, both domestically and internationally.

Financial sector crisis management

The Treasury provided advice to the Government on Australia's financial sector crisis management arrangements, including a proposal for a Financial Claims Scheme which would bring forward payments to bank depositors and insurance policyholders in the event that a financial institution fails. The Government announced these measures on 2 June 2008, as part of a broader response to the financial market turbulence.

The Treasury participated in the continuing work of the Council of Financial Regulators and liaised with other government agencies on the proposed crisis management arrangements. It also monitored international developments, including the financial institution failures in the United States and United Kingdom, to ensure the proposal reflected lessons learned from financial sector crises in overseas jurisdictions.

Implementation of Basel II Capital Framework in Australia

The Treasury provided advice to the Government on implementing the prudential standards under the Basel II Capital Framework developed by APRA for authorised deposit-taking institutions.

The new standards, which came into effect on 1 January 2008, contribute to enhanced depositor protection and systemic stability by requiring more accurate identification and pricing of risk, expanded board level involvement in risk management, and improved data collection.

Promoting competition: Account Switching Package

The Treasurer announced an Account Switching Package on 9 February 2008 to promote competition in the financial sector by making it easier for consumers to switch financial products and providers. The package includes:

- comprehensive consumer education resources on switching, including a detailed and informative website (at www.understandingmoney.gov.au);
- a requirement that financial institutions assist customers seeking to switch providers of transaction accounts, to be fully implemented by 1 November 2008;
- a consumer complaints hotline (1300 300 630) provided by ASIC as the first contact point for all consumer complaints about basic banking products; and
- a review by ASIC of entry and exit fees that apply to mortgage accounts.

The Treasury developed the package and continues to work with industry, the RBA and ASIC to monitor and facilitate its implementation.

Trustee corporations

COAG agreed, at its meeting of 26 March 2008, that the Commonwealth would assume responsibility for regulating trustee corporations. Commonwealth licensing and supervision of trustee corporations will reduce the regulatory burden on business and enhance the effectiveness of supervision by involving an experienced Commonwealth financial sector regulator. Commonwealth regulation will also create a more competitive national market by removing the need for multiple State and Territory licences. The Treasury is working to develop and implement an appropriate regulatory framework and has consulted with stakeholders, including industry and consumer groups.

Reducing regulatory burdens on business

The Treasury assisted the former government implement measures resulting from, and consistent with, the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006.

The Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 received Royal Assent on 24 September 2007. The Bill included measures to streamline breach reporting to ASIC and APRA, and provide greater regulatory flexibility for APRA through the provision of exemption powers, and the ability to accept enforceable undertakings and greater discretion under prudential standards.

The Financial Sector Legislation Amendment (Review of Prudential Decisions) Bill 2008 received Royal Assent on 26 May 2008. The Bill introduced a court-based disqualification process for individuals under legislation administered by APRA, streamlined APRA's powers to issue directions to regulated entities, removed the need for ministerial consent for certain decisions and expanded the availability of merits review.

Discretionary mutual funds and direct offshore foreign insurers

The Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 received Royal Assent on 24 September 2007 and its core provisions commenced on 1 July 2008. This Bill included measures to enhance Australia's general insurance prudential regime by requiring all direct offshore foreign insurers operating in Australia to be authorised.

The Bill also provided for limited exemption arrangements, which balance protection for Australian businesses and consumers with the acknowledged need that some insurance business cannot be placed in Australia. The Treasury released a discussion paper on the exemption arrangements and consulted broadly on their design. Regulations implementing the exemption arrangements commenced on 1 July 2008. The Treasury continues to consult on the design of data collection measures to complement the regulation of discretionary mutual funds and direct offshore foreign insurers.

Professional indemnity insurance

In 2007-08, the Government prescribed professional standards schemes for a further seven occupational associations. These schemes limit occupational liability for eligible members, in return for improved risk management practices and compulsory insurance cover. Commonwealth prescription helps prevent plaintiffs from undermining State and Territory professional standards schemes by using Commonwealth legislation as an alternative avenue for legal action.

The further seven occupational associations are the Law Society of NSW; Investigative and Remedial Engineers; the Australian Valuers' Institute (NSW); the Professional Surveyors Occupational Association; the Victorian Bar; the Institute of Chartered Accountants in Australia; and CPA Australia.

HIH Claims Support Scheme

The Treasury provided advice to the Government on the management of the HIH Claims Support Scheme and its future operation. The Treasury also continued to work closely with the HIH administrators, McGrathNicol+Partners, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims as quickly as possible. From July 2001, when it began operation, until the end of June 2008, the scheme paid \$595 million in assistance to settle 10,660 claims. At the end of June 2008, fewer than 260 claims remained to be finalised.

Financial sector trends and structures

The Treasury has continued to advise 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 on banking fees and charges, as well as the operation, structure and cost of the superannuation system.

Commonwealth regulation of credit

Following the 3 July 2008 COAG announcement that the Commonwealth will adopt regulatory responsibility for credit, work has been underway to develop the approach and plan for transfer of the regulatory responsibility.

The Treasury continues to lead development of the reform, closely consulting with State and Territory representatives under the auspices of the Financial Services and Credit Reform Implementation Taskforce. The proposed plan is scheduled to be tabled at COAG's 2 October 2008 meeting.

Financial services developments

Financial services centre

The Treasury undertook preparatory work to implement the Government's plan to develop Australia as a financial services centre. Complementary changes to withholding tax rates will boost Australia's ability to compete globally. The Treasury assisted the Government to co-host a Financial Services Hub Summit in Sydney on 31 July 2008 to provide participants with an opportunity to identify issues to strengthen the competitiveness of the financial services sector and develop priority activities, for both government and industry, to better position Australia as a leading financial services centre.

Trade in financial services

The Treasury provided financial services-related support to Australia's negotiations in the WTO Doha Round and in free trade agreements with China, Chile, the Gulf Cooperation Council, Japan and, in partnership with New Zealand, ASEAN. The key services interests Australia is pursuing include improved access to international financial markets and financial market integration.

Financial services regulatory refinements

The *Corporations Regulations 2001* were amended in September 2007 to simplify the corporate and financial services regulatory system by improving the effectiveness of the disclosure regime, reducing the costs associated with meeting the disclosure requirements and clarifying the operation of provisions relating to the regulation of financial services.

Review of product rationalisation

The Treasury is working with a range of industry representative groups, ASIC and APRA to develop an approach to merging or consolidating managed investment products of a similar nature into more modern investment products in a manner that ensures no disadvantage to any consumer. The process aims to remove economically inefficient products by providing customers with the opportunity to roll over their investments into other, more efficient products.

International liaison

APEC Finance Ministers' Process

The Treasury led policy initiatives in the APEC Finance Ministers' Process, including the establishment of the Regional Network on Asian Insolvency Reform and the Financial Sector Reform Catalogue of Policy Experience and Choices.

International Financial Reporting Standards Regional Policy Forum

Following the success of the International Financial Reporting Standards Regional Policy Forum held in Japan in 2007, the Treasury has worked with regional partners to identify a host for the next forum. This forum is expected to be held in China in early 2009.

Coordination of business law with New Zealand

Work continued towards delivering the work program agreed under the Memorandum of Understanding on coordination of business law between Australia and New Zealand. The business law coordination program covered areas where the two jurisdictions seek to achieve comparable outcomes and lower the regulatory barriers to bilateral integration. The work program delivered key achievements in the areas set out below.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007*, which received Royal Assent on 21 June 2007, supports the greater coordination of business law. The Act provides a framework for the mutual recognition of securities offerings and reducing the filing requirements for New Zealand companies operating in Australia. During 2007-08, work continued on implementing these closer economic relations initiatives. The reduced filing requirements amendments commenced on 1 September 2007, furthering the mutual recognition of company registrations. The mutual recognition of securities offerings regime commenced on 13 June 2008 with the exchange of diplomatic notes, and allows for the same securities offerings document to be issued in both countries. The regime removes barriers to trans-Tasman securities offerings, facilitates investment between Australia and New Zealand, reduces costs for business and increases choice for investors.

The Treasury participated in the Trans-Tasman Accounting and Auditing Standards Advisory Group with representatives from the accounting and auditing standard setters in Australia and New Zealand, professional accounting bodies and officials from the New Zealand Ministry of Economic Development. The group is progressing a number of projects to ensure both countries' financial reporting frameworks do not impede trans-Tasman business activity, including close cooperation on common policy issues and the mutual recognition of company auditors in each jurisdiction. The group is also playing a leadership role in promoting International Financial Reporting Standards in the region, including progressing arrangements for future regional policy forums. The Treasury currently chairs the group.

On 26 February 2008, the Minister for Superannuation and Corporate Law announced that the Australian Government intends to amend the *Corporations Act 2001* to ensure people disqualified from managing companies in New Zealand will be also disqualified in Australia. Draft legislation is being developed.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and 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 and its membership comprises senior officials from APRA, and the Reserve Banks of New Zealand and Australia.

The Treasury has pursued the council's work program, looking at improved cooperation on crisis management, promoting the provision of seamless banking services for customers and sharing experiences on improving the quality of insurance regulation.

OECD steering group on corporate governance

The Treasury provided the Australian representative to the OECD steering group on corporate governance. The work of the steering group included examining the role of activist hedge funds in corporate governance; takeover arrangements; cooperation between shareholders acting in concert; and the governance of sovereign wealth funds. The Treasury also provided the Australian representative to the Asian corporate governance roundtable.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by receiving 40 applications, based on the Takeovers Chapter of the *Corporations Act 2001*. The panel, a peer review body with regulatory functions, helps 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. Panel members are 52 specialists in mergers and acquisitions, either as investment bankers, lawyers, company directors or other professionals.

The panel also publishes guidance notes to help foster market confidence and efficiency. In 2007-08, the panel released two new guidance notes and updated seven existing guidance notes.

The High Court considered the legislation under which the panel operates and on 31 January 2008, in *Attorney-General of the Commonwealth of Australia v Alinta Limited & Ors* [2008] HCA 2, the court decided unanimously that section 657A(2)(b), as it then was, was not invalid in conferring the Commonwealth's judicial power on the panel. Since the 13 March 2007 amendments, s657A(2)(b) has been amended and become s657A(2)(c) of the Corporations Act. The Federal Court review of the panel's decision in *Rinker in Cemex Australia Pty Ltd v McKeon and others* is pending.

Financial Reporting Panel

During the year, the Financial Reporting Panel considered its first case after ASIC formally referred a matter to it. The matter was successfully resolved before the panel was required to issue a determination, consistent with the panel's policy of assisting in the timely resolution of financial reporting disputes.

Part 2: Report on performance

The panel also continued to liaise with key stakeholders. It met with ASIC to discuss the implications for financial reporting surveillance of the financial market volatility experienced during the year and met with industry stakeholders to assist in further promoting market awareness of its work.

Standard Business Reporting

Standard Business Reporting is a multi-agency initiative to reduce the business-to-government reporting burden. Led by the Treasury, participating agencies include the ABS, APRA, ASIC, ATO and all State and Territory government revenue offices.

Standard Business Reporting is being co-designed by Australian, State and Territory Government agencies in partnership with business, software developers, accountants, bookkeepers and other business intermediaries across Australia. It aims to simplify financial reporting to government, and make it a natural by-product of accounting and financial software. Australian business are expected to save around \$800 million a year when the initiative is fully operational.

Standard Business Reporting has established ongoing communication and collaboration with the Netherlands, the US, the United Kingdom, the European Union and New Zealand, recognising the need to ensure its business-to-government reporting definitions are consistent with other countries.

Governments across Australia have endorsed Standard Business Reporting. It forms part of COAG's broader agenda for deregulation, under the oversight of the Business Regulation and Competition Working Group chaired by the Minister for Finance and Deregulation and the Minister for Small Business.

Contracts have been signed with IBM Australia Limited to deliver a design for the core infrastructure, and Verizon Business to develop a design for the single secure online sign-on for business to participating agencies.

The program released two versions of its reporting definitions (taxonomy) over the year. These successfully engaged stakeholders and elicited feedback.

Standard Business Reporting will deliver a pilot allowing businesses to create tax file number declarations in their accounting system and send them to the ATO. This is on target for delivery in January 2009. Standard Business Reporting's main delivery for the bulk of financial reporting to government is scheduled for mid 2010.

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 Royal Australian Mint develop its policy and administer its initiatives. The Treasury also assisted

the Perth Mint finalise its currency determinations (legislative instruments) which are tabled in Parliament before the release of any new set of numismatic coins.

Financial reporting framework

Improving the financial reporting framework

In early 2008, the Government announced a review of Australia's financial reporting framework. This announcement was made in the context that Australia's financial reporting framework is robust and generally consistent with international best practice.

The review will examine reforms to further improve the relevance of financial reports to investors and the broader community, reduce complexity and target opportunities to remove unnecessary compliance burdens on Australian companies.

Implementation of accounting and auditing standards

For financial periods commencing on or after 1 January 2005, financial reports prepared for the purposes of the corporations legislation have been prepared in accordance with International Financial Reporting Standards. Audits of financial reports for reporting periods commencing on or after 1 July 2006 have also been conducted using auditing standards made by the AUASB which have the force of law.

During the year, the Treasury and the Financial Reporting Council continued to monitor International Financial Reporting Standards in Australia and the implementation of the auditing standards. More than 100 countries now require, or permit, the use of International Financial Reporting Standards for financial reporting purposes. In addition, the US Securities and Exchange Commission recently announced that non-US companies reporting under International Financial Reporting Standards will not need to reconcile their financial statements to US generally accepted accounting principles; this will benefit Australian companies providing financial information to US regulators.

The Treasury also monitored the standards setting work of the International Accounting Standards Board and the International Auditing and Assurance Standards Board to assess the likely impact of that work on Australia's corporate regulatory framework. The Treasury has engaged with the International Accounting Standards Board on emerging issues, including on emissions trading schemes.

Auditor independence

During the year, the Treasury continued to monitor the operation of the Australian auditor independence framework. This work built on an earlier comprehensive analysis of Australia's auditor independence framework in comparison with requirements internationally which had found substantial underlying equivalence between the Australian auditor independence requirements and best practice standards adopted internationally. Particular areas of the framework reviewed included auditor rotation requirements and non-audit services. During the year, the Treasury also liaised closely with key stakeholders

including the Accounting Professional and Ethical Standards Board and the Financial Reporting Council.

Implementation of the Uhrig Review recommendations

The Treasury oversaw the implementation of new financial and governance frameworks for the AASB and the AUASB with the enactment of the *Governance Review Implementation (AASB and AUASB) Act 2008*. The Act also implemented consequential changes to the functions of the Financial Reporting Council. The new arrangements commenced from 1 July 2008.

Particular areas of the framework reviewed included auditor rotation requirements and non-audit services.

Company law and corporate governance

Corporate governance

The Treasury provided advice on corporate governance issues, particularly measures to enhance corporate governance. Areas included the regime for imposing personal liability upon directors for corporate fault; the system for imposing sanctions under the *Corporations Act 2001* and the *Australian Securities and Investments Act 2001*; and the scope of directors' duties and the defences available to directors in actions based on their breach. In late 2007, Treasury held roundtables with industry representatives for further stakeholder input, following submissions on its March 2007 paper.

In May 2008, the Treasury and the Australian Institute of Company Directors surveyed 600 directors of ASX 200 companies on the impact of the risk of personal liability on decision making and board service. The Treasury continues to hold consultative meetings with directors on the issues raised by the survey.

Corporate insolvency

On 13 February 2008, the Minister for Superannuation and Corporate Law introduced the *Cross-Border Insolvency Act 2008* into the Senate. The Act was passed and received Royal Assent on 26 May 2008. The Act implemented the Model Law on Cross-Border Insolvency adopted by the United Nations Commission on International Trade Law. It established access to local courts by people administering foreign insolvency proceedings; established conditions for the recognition of foreign insolvency proceedings and the granting of relief to participants; facilitates the participation by foreign creditors in such proceedings; enables cooperation between courts and practitioners from different countries; and enables the coordination of proceedings taking place concurrently in different countries.

The *Corporations Amendment (Insolvency) Act 2007*, introduced in the previous financial year, was passed on 9 August 2007 and received Royal Assent on 20 August 2007. The Act amended the *Australian Securities and Investments Commission Act 2001*, *Corporations Act 2001*

and *Superannuation Guarantee (Administration) Act 1992* in relation to protections for employee entitlements; improved information to creditors; statutory pooling processes to facilitate windings-up of related companies; enhanced powers to investigate registered liquidators; the removal of the penalty privilege in suspension and disqualification proceedings; the regulation of insolvency practitioners; and voluntary administration procedures.

Governance for small companies

On 19 September 2007, the previous Treasurer announced funding of \$100,000 for the Treasury to partner the National Institute for Governance at the University of Canberra to research best practice corporate governance arrangements for small corporations. The joint research project has a three-year time line.

Cross-border capital flows

The Treasury and ASIC released the joint consultation paper, *Cross-border Capital Flows: facilitating access to overseas markets and financial services*, on 16 June 2008. The paper seeks to lead to improvements in the existing framework for recognising and regulating foreign markets, advisers and foreign collective investment schemes permitted to operate in Australia. Importantly, the paper will shape the development of a comprehensive mutual recognition of securities regulation framework for Australia. Public submissions on the paper closed on 25 July 2008. The paper will contribute to enhanced investor protection and market integrity for cross-border capital flows involving Australians.

Mutual recognition of securities regulation with the United States of America

On 29 March 2008, the Prime Minister and the Chairman of the US Securities and Exchange Commission announced they had agreed to explore a mutual recognition arrangement covering markets and advisers. Since then, Australian and US officials have been negotiating a mutual recognition arrangement. If it is reached, it will be the first implemented under the US Securities and Exchange Commission's new mutual recognition policy, and will improve cross-border capital flows, open new markets for Australian advisers and increase regulatory coordination between ASIC and the US Securities and Exchange Commission.

China's qualified domestic institutional investor scheme

The Treasury worked with ASIC and the Department of Foreign Affairs and Trade to successfully secure Australia's status as an approved destination under China's qualified domestic institutional investor scheme. The Treasurer announced on 10 June 2008 that mainland Chinese entities regulated by the China Banking Regulatory Commission could invest in Australia. This will increase the opportunities for Australian funds managers to offer their services to Chinese entities wishing to invest in Australia.

Statutory and other procedural requirements

Financial sector levies

During 2008, the Treasury consulted with industry and provided advice to the Government on the determination of financial sector levies which primarily support APRA's operations.

Appointments

The Treasury processed appointments to a range of bodies, including the AUASB, APRA, the Australian Reinsurance Pool Corporation Board, ASIC, the Companies Auditors and Liquidators Disciplinary Board, the Financial Reporting Council, the Financial Sector Advisory Council, the Payments System Board, the Superannuation Complaints Tribunal and the Takeovers Panel.

Secretariat services

The Treasury provided secretariat services to the Ministerial Council for Corporations, which met once during 2007-08. The Treasury also assisted ministers to fulfill the Government's obligations under the Corporations Agreement 2002.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2007-08. This statutory body provides strategic oversight of the accounting and audit standard setting processes, including the AASB and AUASB, and monitors the effectiveness of Australia's auditor independence requirements.

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.

OUTPUT 4.1.3: COMPETITION AND CONSUMER POLICY ADVICE

During 2007-08, the Competition and Consumer Policy Division and the Financial Literacy Foundation were responsible for the delivery of Output 4.1.3: Competition and consumer policy advice.

Markets Group provided advice on policy issues and the legislative framework for the development and operation of competition and consumer policy, and markets more broadly, including the competition and consumer provisions of the *Trade Practices Act 1974*, and structural reform of key sectors, including those providing essential infrastructure.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy and national financial literacy issues;
- statutory and other procedural, administrative and reporting requirements are met;
- effective representation and/or liaison with other agencies, private sector organisations and international bodies promotes competitive, efficient and well informed markets;
- relevant information is presented effectively to inform consumers and businesses;
- secretariat services provided to advisory bodies are effective;
- ministerial correspondence is handled satisfactorily;
- effective clearinghouse and website services are established and maintained with information on financial and education services, superannuation and superannuation choice;
- a national financial literacy information program is undertaken and a website developed; and
- teachers are supported in delivering financial literacy education in schools through professional development, and financial literacy is included in teaching and training programs.

ANALYSIS OF PERFORMANCE

Competition policy

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

The Treasury appeared before the Senate Standing Committee on Economics considering legislation to amend sections of the Trade Practices Act on the misuse of market power, unconscionable conduct, predatory pricing and secondary boycott provisions.

The Treasury provided advice to the current Government on its election commitment to legislate to criminalise serious cartel conduct within 12 months of coming to office. On 11 January 2008, the Assistant Treasurer and Minister for Competition Policy and

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Consumer Affairs released the draft legislation and related documents for public comment.

The Treasury developed legislation to strengthen the prohibition against the misuse of market power in section 46 of the Trade Practices Act and address difficulties in establishing a successful predatory pricing case.

The Treasury coordinated the Government response to the ACCC report *Petrol Prices and Australian Consumers: report of the ACCC inquiry into the price of unleaded petrol*.

As part of the preliminary Government response, the Treasury assisted in preparing a directive from the Assistant Treasurer and Minister for Competition and Consumer Policy to the ACCC to monitor the prices, costs and profits on the supply of unleaded petroleum products in the petroleum industry.

The final Government response publicly released on 15 April 2008 announced a National Fuelwatch Scheme.

The Treasury prepared legislation to implement Fuelwatch and on 29 May 2008, the Government introduced into the House of Representatives, the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008. The legislation passed the House of Representatives on 5 June 2008.

The Treasury led the activities of the COAG Business Regulation and Competition Working Group. The group is to progress reforms in 27 areas where duplicative and inconsistent regulation across jurisdictions imposes an unnecessary burden on business. The Treasury was closely involved in developing a new competition agenda, which includes reviews of Australia's anti-dumping arrangements and parallel restrictions on the importation of books, rationalisation of occupational licences, and further reforms to national transport policy and infrastructure access.

The Treasury coordinates and advises the Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2007-08, this involved three public inquiries and seven commissioned research references.

The Government has established Infrastructure Australia, a statutory board to advise governments on the planning, coordination and efficient use of transport, energy, communications and water infrastructure that could materially improve national productivity. Infrastructure Australia will identify investment priorities and examine regulatory impediments to the use of infrastructure. The Treasury leads the activities of the COAG Infrastructure Working Group which supports Infrastructure Australia. The Secretary to the Treasury is a member of Infrastructure Australia.

The Treasury was actively engaged in the work of the Ministerial Council on Energy Standing Committee of Officials which provides advice on ongoing energy market reforms and the interaction between energy markets and the Government's carbon pollution reduction scheme.

The Treasury worked closely with the Department of Broadband, Communications and the Digital Economy, the ACCC and other central agencies to develop the Government's policy to regulate the telecommunications industry and provide advice on major telecommunications initiatives. The Treasury is also involved in developing measures for the transition to digital television and radio platforms.

The Treasury participated in the public hearings of the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government Inquiry into Coastal Shipping Policy and Regulation. The Committee will report in October 2008.

The Treasury has worked with relevant agencies to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition. Changes to heavy vehicle road charges announced in February 2008 will improve pricing and efficiency in the sector. The Treasury has monitored the progress of AusLink land transport projects and sought to improve project planning, cost sharing and risk management arrangements with the States and Territories.

The Treasury has contributed to ongoing work on international air services agreements and proposals for liberalising international air routes including the treatment of competition law in air services agreements and access to Australian routes. The Treasury provides advice on the regulation of airports and the findings from ACCC monitoring of airport services. The Treasury is represented on an interdepartmental steering committee for the Government's review of national aviation policy.

The Treasury has been involved in competition policy-related aspects of free trade agreements, including with ASEAN, Chile, China, Japan and Malaysia.

A key outcome of the 2007 APEC Leaders' meeting in Sydney was agreement for an APEC structural reform ministers meeting in 2008 to address the region's structural reform. Structural reform can stimulate economic growth where it is needed and improve living standards in Australia and the Asia-Pacific.

In June 2008, the Treasury hosted a deputies' meeting on structural reform in preparation for the ministerial meeting. In consultation with member economies, two key policy themes developed were the political challenges of structural reform and regulatory reform frameworks to facilitate structural reform. The first APEC ministerial meeting wholly dedicated to structural reform took place in August 2008.

In addition, the Treasury participated in various APEC forums on structural reform issues, including:

- the APEC Senior Officials' Dialogue on Structural Reform;
- chair of an APEC Economic Committee Roundtable on Regulatory Reform;
- and

- chair of the Economic Committee Friends-of-the-Chair Group on Regulatory Reform.

Consumer policy

In 2007-08, the Treasury provided advice to the Government on the consumer policy framework to facilitate consumers' effective and positive engagement in the economy.

The Productivity Commission, at the Treasurer's request, undertook an inquiry into Australia's Consumer Policy Framework. The Treasury provided input into the Commission's final report, *Review of Australia's Consumer Policy Framework*, which was completed in April 2008.

The Treasury is leading a number of projects being progressed under COAG's consumer policy agenda. In March COAG agreed to progress:

- a model for the reform of product safety regulatory arrangements; and
- an enhanced national framework for consumer policy, drawing on the recommendations of the Commission's Review.

In May 2008, the Ministerial Council on Consumer Affairs recommended a model for product safety reform and in July 2008 COAG endorsed this model. The Treasury leads implementation of the product safety reforms.

The Treasury is also leading, through the Ministerial Council on Consumer Affairs and the Business Regulation and Competition Working Group, development of an enhanced national framework for consumer policy, in response to the Commission's recommendations.

The Treasury is also responsible for implementing the Australian Government's legislative program for consumer law. During 2008, the Government undertook public consultation to regulate use of component pricing by business advertising to consumers.

The Treasury represents Australia's interests in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy and during 2007-08, contributed to OECD projects which included agreeing to host a roundtable on product safety reform, assisting in the preparation of a toolkit for policy makers on consumer policy and contributing to a project led by New Zealand on industry-led regulation.

Financial Literacy Foundation

The Financial Literacy Foundation was established in June 2005 to give all Australians the opportunity to better manage their money. The foundation operated as a division of the Treasury between 2005 and 2008.

Financial literacy initiatives aim to build the capacity of Australians to better understand and manage financial risk and take advantage of increased competition and choice in Australia's finance sector. In 2007-08, the foundation:

- delivered the *Understanding Money* media campaign (August-September 2007), and provided consumers with reliable, trusted and independent information on financial literacy issues through the *Understanding Money* website and handbook;
- published *Financial Literacy — Australians understanding money*, surveying 7,500 Australians aged 12-75, to better understand how Australians think about and manage money;
- published *Financial Literacy — Women understanding money*, about women's attitudes and behaviour relating to a range of money topics from budgeting and saving to getting ready for retirement;
- developed the *Women Understanding Money* resource with the Office for Women and Security4Women, which consists of 14 information sheets for women on topics from budgeting to investing and making the most of superannuation;
- developed *Financial Literacy Resources Australia*, a database of financial literacy programs and resources available in Australia, which is available on the *Understanding Money* website;
- worked with all government, Catholic and independent school sectors to develop and implement a national professional learning strategy to ensure that primary and secondary teachers have access to professional learning to support them in teaching consumer and financial literacy across the curriculum; and
- convened a national Workplace Working Party that included stakeholders from peak bodies representing small business. The working party is developing additional resources to support small business implement financial literacy.

The functions of the Financial Literacy Foundation transferred to ASIC from 1 July 2008. This will strengthen ASIC's role in safeguarding Australia's economic reputation and wellbeing, and help to ensure that Australia's financial markets are fair, transparent and supported by more informed investors and consumers.

Secretariat services

The Treasury continued to provide secretariat support to the Ministerial Council on Consumer Affairs, and to the Commonwealth Consumer Affairs Advisory Council.

OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2007-08, the Australian Government Actuary was responsible for delivery of Output 4.1.4: Actuarial services.

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

PERFORMANCE INFORMATION

The key performance indicator is the efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

ANALYSIS OF PERFORMANCE

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2008, the account was in a sound financial position.

Feedback from clients has generally been positive, consistent with an ongoing demand for services.

Consultancy services

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

Departments which sought advice included Defence; Attorney-General's; Education, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; and Veterans' Affairs. Centrelink, Medicare Australia and the ATO also sought advice.

Feedback from these agencies indicates that 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 a range of policy issues, including the superannuation system and insurance matters.

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

Operational outcomes

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

EXECUTIVE AND PARLIAMENTARY DIVISION

Executive and Parliamentary Division's mission is to promote high quality and timely services to ministers and the efficient and effective functioning of the Treasury by providing strategic support, systems and advice to the Secretary, Executive Board, Treasury groups and Treasury ministers.

Executive and Parliamentary Division is responsible for providing advice and general secretariat services to the Secretary, Executive Board and Audit Committee; developing assurance and risk management frameworks; monitoring and managing issues; proofreading; coordinating freedom of information requests; undertaking corporate planning and performance monitoring; coordinating implementation advice and monitoring; and providing policy evaluation guidance and services. The division also provides systems and services that support cabinet and parliamentary liaison, ministerial correspondence and briefing.

KEY PRIORITIES IN 2007-08

The key priorities in 2007-08 were to:

- ensure delivery of appropriate services to Treasury portfolio ministers;
- monitor and manage issues, in partnership with relevant policy areas in groups;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of Treasury activities, systems and processes; and
- establish a policy implementation monitoring and advising capability.

KEY OUTCOMES IN 2007-08

The key outcomes achieved were:

- coordination of liaison, briefing and correspondence for the Treasury and its stakeholders;
- provision of issues management services and support across the Treasury;
- enhanced support for the audit committee;
- improved risk management and quality assurance capabilities;
- further improvement of reporting, support services and systems for advice sent to ministers; and
- establishment of a policy implementation monitoring and advising function.

CORPORATE SERVICES GROUP

Corporate Services Group's mission is to provide efficient and effective corporate services, products and advice to the Treasury, Treasury ministers and other clients to enable them to meet their objectives.

Corporate Services Group is responsible for the provision of corporate services, products and advice, including accommodation and facilities management; financial management; human resource management, training and development; information management and technology services; procurement; publishing; security and travel.

The three divisions in the group are Financial and Facilities Management, Human Resources and Information Management and Technology Services.

The work of the group in 2007-08 was directed towards three focus areas:

- improving consultation and managing change;
- reducing red tape;
- promoting environmentally friendly initiatives.

KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- ensure the ongoing financial sustainability of the Treasury;
- deliver efficient and effective information technology operations;
- ensure workforce and staff wellbeing strategies meet organisational needs;
- ensure timely and accurate financial, budgeting and compliance reporting;
- develop and implement strategies to address key issues identified in the staff survey;
- improve document management practices in the Treasury;
- deliver priority elements of the Information and Knowledge Management Strategic Plan 2007-09;
- improve human resource business systems and organisational reporting;
- improve the Treasury's procurement activities and processes;
- implement outcomes of the review of the performance management system; and

- obtain agreement on medium to long-term accommodation plans for the Treasury.

KEY OUTCOMES IN 2007-08

The following were key outcomes in 2007-08.

- The 2006-07 Financial Statements were completed and audited with no major issues raised.
- A review of Information Technology (IT) operations capability identified opportunities for process improvement; this led to the commencement of a project to improve IT service management.
- Action taken to address key issues identified in the 2007 staff survey included staff seminars with members of the Executive Board, improved information for staff on available support programs and exploration of strategies to improve workflow processes, internal communication and work-life balance of staff.
- Key professional development activities included the Executive Leadership Program to develop leadership and strategic thinking skills, a comprehensive training program to develop skills identified in performance appraisal discussions, an extensive series of Treasury seminars and tender selection processes to progress a suite of post graduate economics training.
- A review of the Performance Management System was conducted in 2007 in collaboration with staff, managers and the Workplace Relations Committee and confirmed support for the system. The key change from the review is the adoption of a new naming convention using descriptors for ratings against individual criteria and overall ratings. The changes took effect from August 2008 and followed comprehensive staff training.
- Environmental Chief Executive Instructions were approved during the year to provide guidance to Treasury staff to improve the sustainability of the Treasury's operations.
- A new data centre for the Treasury was substantially completed. The centre will use environmentally sustainable cooling technologies to reduce power costs.
- Improvements to document management centred around release of a revised email policy, scenario based training to improve Outlook productivity and the annual Treasury Record Keeping Forum.
- The Information and Knowledge Management Advisory Board implemented a governance plan and framework for the program, including establishment of

project boards and appointment of business change agents for each group. A communication strategy for the program was implemented.

- Priority elements of the Information and Knowledge Management Strategic Plan completed in 2007-08 include a workflow solution to enable automation of the production of the Tax Expenditures Statement, establishment of a collaboration pilot to support the Climate Change Modeling Unit, and a review of the Treasury intranet.
- Significant improvements to the Treasury's procurement processes were made during the year through the procurement improvement project. An IT Business Services Panel was established to improve the efficiency of sourcing and procuring specialist skills.

