PART 2
REPORT ON PERFORMANCE

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The report on performance covers Treasury’s administered items and departmental outputs for 2003-04.

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

Treasury’s 2003-04 performance is reported at the outcome and output levels for its three policy outcomes:

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

Performance outcomes are reported against the performance information published in the Treasury section of the 2003-04 Portfolio Budget Statements.

The Mint’s performance report against outcomes and performance against the Mint service charter is included in Outcome 3, Output 3.1.5.
Outcome 1
Sound macroeconomic environment

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

Treasury also provides advice on advancing Australia’s interests at international forums and institutions such as the Group of 20, the International Monetary Fund (IMF), the World Bank and the Asian Development Bank, and in the Asia-Pacific Economic Cooperation (APEC) process. Australia is making a significant contribution to international efforts to sustain international economic stability and growth through these forums.

Treasury also contributes directly to efforts to enhance economic stability and development in other countries. This became an important focus in 2003-04 with the Government’s initiative to use Australian expertise to assist in improving economic stability, governance and security in the Pacific region. As part of this initiative, the 2004-05 Budget provided funding for the creation of Pacific and Assistance Division in Macroeconomic Group. The division provides analytical, policy and administrative support to Treasury officers deployed in Pacific countries. These officers assist Pacific countries develop and implement policy and help build capacity in counterpart agencies.

During the year, Treasury assessed and advised on a range of macroeconomic issues. These economic assessments and policy advice were supported by in-depth analysis of domestic and international economic developments. Treasury provided forecasts contributing to the calculation of budget estimates and policy formulation, and provided advice on fiscal and monetary policy as well as strategic international economic policy issues. Treasury also played a key role in efforts to improve governance and foster economic reconstruction and development in the Pacific and Iraq, and advanced Australia’s interests through international financial institutions and forums and bilaterally with relevant countries.

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 5: Outputs contributing to Outcome 1

Key priorities in 2003-04

Treasury’s 2003-04 Portfolio Budget Statements and internal planning processes identified the following key priorities for Outcome 1:

→ examining domestic and international developments affecting the Australian economy and forecasting the direction of the Australian and international economies

→ assisting in identifying policies likely to improve economic performance and wellbeing, including strategies to deal effectively with demographic challenges over the next few decades

→ influencing international policy outcomes in favour of growth enhancement and poverty reduction, open trade and investment regimes and market-oriented public policy based on the rule of law and strong institutions through
  - effective use of international forums
  - engaging directly with key counterparts in the Asia-Pacific region.

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Treasury’s overseas posts are a whole-of-department resource but allocated to this output for reporting purposes.
Key outcomes in 2003-04

→ Treasury produced economic forecasts to assist the Government with policy formulation.

→ Treasury prepared briefings for the Treasurer on economic statistics released by the Australian Bureau of Statistics, including advice on their implications for the economic outlook.

→ Treasury provided regular advice to the Treasurer on global economic developments and emerging international risks.

→ Treasury helped the Government form its response to the Productivity Commission Inquiry into First Home Ownership.

→ In developing the 2004-05 Budget, Treasury provided advice on fiscal policy and strategies.

→ Treasury provided regular advice on monetary policy to the Secretary in his role as a member of the Board of the Reserve Bank of Australia.

→ Treasury published a range of material, including in the 2004-05 Budget, *Economic Roundup*, working papers and speeches, to better inform the public about economic developments and issues.

→ Treasury continued to assist the Government to take an active role in international forums and institutions to influence outcomes supportive of sustained international economic stability and growth.

  – Australia’s representatives at the IMF and World Bank were active in debates on measures to help prevent and resolve financial crises, the Heavily Indebted Poor Countries (HIPC) Initiative, and performance-based allocation of aid.

  – Australia strengthened relations with the Asian Development Bank, particularly on collaboration in the Pacific region.

→ Treasury engaged in policy dialogue, cooperation and institution building in the Asia-Pacific region.
Treasury participated in intensive bilateral dialogue with counterparts in China, Japan, the Republic of Korea and Indonesia.

Treasury led three initiatives as part of the APEC process: the Future Economic Leaders’ Think Tank; strengthening corporate governance in the region; and managing regulatory change in life insurance and pensions.

Through the new Pacific and Assistance Division, Treasury provided policy advice and skilled staff to assist countries experiencing economic difficulties, including the Solomon Islands, Papua New Guinea and Iraq.

Five Treasury officers were deployed as part of the Regional Assistance Mission to the Solomon Islands.

Treasury officers were also deployed to Papua New Guinea under the Papua New Guinea-Australia Treasury Twinning Scheme and as part of the Enhanced Cooperation Program.
Table 2: Financial and staffing resources summary for Outcome 1

<table>
<thead>
<tr>
<th></th>
<th>Budget 2003-04</th>
<th>Actual 2003-04</th>
<th>Budget 2004-05</th>
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<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
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<tr>
<td>Administered expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriation Acts No.1 and 3</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Appropriation Acts No 2 and 4</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Appropriation Acts No 5 and 6</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Special Appropriations</td>
<td>20,055</td>
<td>15,310</td>
<td>14,867</td>
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<tr>
<td>Other expenses</td>
<td>(217,143)</td>
<td>(440,061)</td>
<td>-</td>
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<tr>
<td><strong>Total administered expenses</strong></td>
<td><strong>(197,088)</strong></td>
<td><strong>(424,751)</strong></td>
<td><strong>14,867</strong></td>
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<tr>
<td>Revenue from Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output Group 1.1 Macroeconomic</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Output 1.1.1 Domestic economic policy advice and forecasting</td>
<td>5,106</td>
<td>4,441</td>
<td>4,641</td>
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<td>Output 1.1.2 International economic policy advice and assessment</td>
<td>4,277</td>
<td>4,950</td>
<td>6,123</td>
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<tr>
<td>Corporate costs</td>
<td>9,460</td>
<td>11,245</td>
<td>12,618</td>
</tr>
<tr>
<td><strong>Total revenue from Government contributing to the price of departmental outputs</strong></td>
<td><strong>18,843</strong></td>
<td><strong>20,636</strong></td>
<td><strong>23,382</strong></td>
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<tr>
<td>Revenue from other sources</td>
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<td>Output Group 1.1 Macroeconomic</td>
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<tr>
<td>Output 1.1.1 Domestic economic policy advice and forecasting</td>
<td>-</td>
<td>36</td>
<td>12</td>
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<tr>
<td>Output 1.1.2 International economic policy advice and assessment</td>
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<td>1,523</td>
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<td>Corporate costs</td>
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<td>686</td>
<td>219</td>
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<td><strong>Total revenue from other sources</strong></td>
<td><strong>28</strong></td>
<td><strong>2,245</strong></td>
<td><strong>719</strong></td>
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<td><strong>Total revenue for departmental outputs</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>18,871</td>
<td>22,881</td>
<td>24,101</td>
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<tr>
<td>Price of departmental outputs</td>
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<td>Output Group 1.1 Macroeconomic</td>
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<td></td>
<td></td>
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<tr>
<td>Output 1.1.1 Domestic economic policy advice and forecasting</td>
<td>5,106</td>
<td>4,545</td>
<td>4,653</td>
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<tr>
<td>Output 1.1.2 International economic policy advice and assessment</td>
<td>4,281</td>
<td>6,268</td>
<td>6,611</td>
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<tr>
<td>Corporate costs</td>
<td>9,484</td>
<td>13,109</td>
<td>12,837</td>
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<tr>
<td><strong>Total price of departmental outputs</strong></td>
<td><strong>18,871</strong></td>
<td><strong>23,922</strong></td>
<td><strong>24,101</strong></td>
</tr>
<tr>
<td><strong>Total estimated resourcing for Outcome 1</strong></td>
<td><strong>(17,8217)</strong></td>
<td><strong>(400,829)</strong></td>
<td><strong>38,968</strong></td>
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<tr>
<td>(Total price of outputs and administered expenses)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average staffing levels (number)</strong></td>
<td>123</td>
<td>152</td>
<td>134</td>
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</table>

Note:
The Budget for 2003-04 is as per the 2003-04 Portfolio Additional Estimates Statements and 2003-04 Portfolio Supplementary Additional Estimates Statements.
The Actual for 2003-04 is as per the Audited 2003-04 Financial Statements.
The Budget for 2004-05 is as per the 2004-05 Portfolio Budget Statements.
Average staffing levels exclude locally engaged staff.
Output 1.1.1
Domestic economic policy advice and forecasting

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

Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on 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 domestic economy
- effective presentation of budget documents and other publications to adequately inform public debate.

Analysis of performance
Policy advice and inputs into policy processes
During 2003-04, Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- Treasury analysed and provided briefings on a wide range of economic statistics released by the Australian Bureau of Statistics and the private sector. This included advice on implications for the economic outlook and information to assist the Treasurer in responding publicly to the releases.
- As part of the Business Liaison Program, Treasury officers discussed issues relating to business activity with organisations in major business centres and regional Australia. The Treasurer received regular briefings and analysis of liaison findings, and summaries of liaison were published in Treasury’s Economic Roundup.
Treasury held discussions with visiting delegations from organisations including the Organisation for Economic Co-operation and Development (OECD) and the IMF, and briefed the Treasurer on the outcomes of these processes.

Treasury advised the Treasurer on fiscal policy and strategies as part of the process of developing the 2004-05 Budget.

The Secretary sits on the Board of the Reserve Bank of Australia. In preparing advice for the Secretary, Treasury monitored economic, financial and policy developments and forecasts to assess their implications for policy settings. The Treasurer was kept abreast of developments through regular briefings and analysis. This advice contributed to the formation of sound macroeconomic policy.

Treasury provided advice on administrative arrangements for the Board of the Reserve Bank of Australia.

Treasury assisted the Government to form its response to the Productivity Commission Inquiry into First Home Ownership. The inquiry found only limited scope for governments to improve the affordability of housing in the short term, though measures to improve land release and planning approval processes, ensuring developer charges for infrastructure are appropriate and reducing stamp duties would assist in moderating price pressure over time.

**Economic forecasts**

Economic forecasts inform policy settings and enable the calculation of budget estimates. For policy formulation purposes, macroeconomic forecasts provided an understanding of the broad developments within the economy and the balance of risks surrounding the outlook.

These forecasts take into account key assumptions about economic variables and judgments about likely outcomes. The strengthening world economy, developments in the housing sector, continuing dry conditions in parts of rural Australia and movements in the Australian dollar were among factors taken into account when preparing the forecasts.

The 2003-04 Budget contained forecasts for 2003-04 that were reassessed in the *Mid-Year Economic and Fiscal Outlook 2003-04* in December 2003 and the 2004-05 Budget in May 2004. These forecasts helped develop policy that contributed to the strong performance of the Australian economy.
Economic growth in 2003-04 was forecast to be 3¾ per cent in the Mid-Year Economic and Fiscal Outlook, up from 3¼ per cent forecast in the Budget. The upward revision largely reflected improved domestic growth prospects. The near-term outlook for the Australian economy improved with ongoing strength in domestic spending, growing signs of a global recovery, particularly in the United States, and an easing in drought conditions over much of Australia. The 2004-05 Budget left the forecast for economic growth unchanged at 3¾ per cent. These forecasts were consistent with the assessment of international forecasters such as the OECD and IMF.

Treasury prepared forecasts with the benefit of contributions from members of the Joint Economic Forecasting Group comprising Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Administration and the Australian Bureau of Statistics. Liaison with the private sector and other departments helped make these forecasts more robust and comprehensive. Treasury’s macroeconomic model of the Australian economy also contributed to the forecasting process and provided sensitivity analyses, which improved policy advice.

**Contributions to public awareness and debate**

Treasury made important contributions to public awareness and debate. The wide audience included international forums, foreign government agencies, tertiary institutions and the Australian public. All economic publications and selected presentations are available free from www.treasury.gov.au.

The *Mid-Year Economic and Fiscal Outlook 2003-04* provided an update on the economic outlook. This publication helped inform the public of the likely effects of key developments in the domestic and international economies.

In the 2004-05 Budget papers, Statement 1 of Budget Paper No. 1, *Budget Strategy and Outlook 2004-05* discussed fiscal policy over the medium term, the *Charter of Budget Honesty Act 1998* and the level of public debt.

Statement 3 of Budget Paper No. 1 discussed in detail international and domestic economic forecasts for 2004-05. This comprehensive report included forecasts of major variables including world growth, domestic growth, inflation and employment.

Statement 4 of Budget Paper No. 1, *Maintaining Low Unemployment in Australia* argued that the lower rate of unemployment attained in recent years is more sustainable than during previous cycles. The unemployment rate fell below 6 per cent in 2003-04 to the lowest level in 23 years. Policy reforms have increased the flexibility of labour and product
markets, and made the economy less prone to boom-bust cycles. Ongoing low unemployment will support Australia’s medium-term growth and help address the economic effects of population ageing.

The *Budget Overview* provided a non-technical discussion of the Budget, making major policy developments and forecasts widely accessible.

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

The four issues of Treasury’s *Economic Roundup* contained overviews of economic developments and commentary on key issues underpinning Australia’s recent economic performance. In particular, the Spring 2003 ‘Year in Review’ article reflected on the strong growth in 2002-03, despite the impact of a severe drought, a weak world economy and a number of economic shocks. Other *Economic Roundup* articles covered issues including developments in the housing market, the international financial architecture, labour market issues and developments in overseas economies.

Treasury’s working paper series in 2003-04 included papers on the output and fiscal implications of raising labour force participation or productivity.

Treasury distributed quarterly updates of its macroeconomic model of the Australian economy and associated database through the Australian Bureau of Statistics. The Treasury macroeconomic model has evolved since its public release in 1995-96 to reflect structural changes in the economy.

Treasury held bilateral meetings with a range of external delegations and provided advice on forecasting methodology and economic policy development.

The Secretary and other senior Treasury officials presented speeches covering issues including the short-term macroeconomic picture, fiscal and monetary policy, the medium-term fiscal strategy and long-term challenges. The Secretary also drew attention to Treasury’s mission statement to improve the wellbeing of the Australian people and the role of this statement in providing public policy advice. Treasury’s paper, ‘Policy Advice and Treasury’s Wellbeing Framework’ presented to the Australian Statistics Advisory Council further explored the five key aspects of wellbeing: opportunity and freedom, consumption, distribution, risk and complexity.
Reviews of economic data
Treasury liaised extensively with the Australian Bureau of Statistics on statistical matters, both informally through regular discussion at all levels and formally through ongoing representation on the Australian Statistics Advisory Council and the Economic Statistics User Group.

Output 1.1.2
International economic policy advice and assessment

International Economy Division, 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.

Macroeconomic Group contributes to Outcome 1 by providing advice to government ministers on strategic international economic policy issues, advancing Australia’s interests through the international financial institutions and forums, fostering enhanced governance and sustainable economic development in our immediate region, and monitoring and analysing developments in the global economy. The group participates directly in various international forums, and provides policy advice and support to ministers and senior Australian representatives at international financial institutions.

A key development in 2003-04 was the creation of Pacific and Assistance Division as part of the whole-of-government approach to use Australian expertise to assist in improving economic stability, governance and security in the Pacific region.

Performance information
The key performance dimensions are:

- facilitation of achievement of government objectives in international forums, including strengthening the international financial system, providing multilateral debt relief and increasing the effectiveness and efficiency of the multilateral development banks and the IMF

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

By law, the Treasurer is required to report to the Parliament on Australia’s dealings with the IMF and the World Bank. That report, which is expected to also address Australia’s relations with the Asian Development Bank, will contain further information to that contained in this report.
Analysis of performance
Facilitation of government objectives in international forums
International developments
After two years of below average growth, the world economy strengthened substantially in 2003-04. All major regions, except Europe, were experiencing strong growth by the end of the year. Expansion was most rapid in East Asia, particularly China, and the United States. Japan’s economy was surprisingly strong towards the end of 2003-04 after a sustained period of weakness. In contrast, the European recovery was modest, particularly in Germany. With world growth firmly established and expected to be above average in 2004-05, fiscal and monetary policies in major economies were becoming less stimulatory at the end of the year.

International Monetary Fund
During 2003-04, the IMF progressed measures to help prevent and resolve financial crises and more generally promote strong and sustainable world economic growth. Australia actively contributed to this debate through its representation on the IMF Board, and ministerial participation in the Spring and Annual Meetings of the IMF and World Bank, regular meetings of International Monetary and Financial Committee Deputies and other forums.

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

Treasury also assisted the Government to successfully fulfil Australia’s IMF obligations through organising the annual IMF Article IV consultations in June 2004.

Heavily Indebted Poor Countries Initiative and bilateral debt relief
Australia continued to strongly support the provision of international debt relief through the enhanced HIPC Initiative. Under the initiative, eligible countries can qualify for exceptional debt relief once they have adopted sound policies, good governance practices and effective poverty reduction programmes.
At the September 2003 Annual Meetings of the IMF and the World Bank, ministers encouraged World Bank staff to continue their efforts to assist countries to qualify for HIPC debt relief. Australia expressed concern that some countries may face debt sustainability problems even after they complete the HIPC process.

In April 2004, the Australian Government announced that it had forgiven Nicaragua’s bilateral debt to Australia of $5.4 million. The announcement followed a determination by the IMF and World Bank that Nicaragua had undertaken all steps necessary under the enhanced HIPC initiative to be afforded debt forgiveness. This announcement accords with Australia’s commitment to provide 100 per cent bilateral debt relief to those heavily indebted poor countries with outstanding debts to Australia.

**World Bank**

In 2003-04, Australia contributed to World Bank decision making through representation on the Bank Board, ministerial participation in the Spring and Annual Meetings and representation at meetings of International Development Association (IDA) Deputies. Australia emphasised the importance of trade in reducing poverty, supported the movement towards performance-based allocation of aid and welcomed the World Bank’s work on debt sustainability in low-income countries. Australia also sought to strengthen the links between the World Bank and Australia’s aid programme in the Asia-Pacific region.

During 2003-04 Australia, along with other donor countries and representatives from borrowing countries, reviewed progress in implementing the recommendations arising from the thirteenth replenishment of the IDA (IDA13). The review concluded that good progress was being made. In addition, Australia and other donor countries commenced negotiations for the fourteenth replenishment of the IDA (IDA14). Initial negotiations focused on debt sustainability, the performance-based allocation system and evaluations of IDA’s past performance.

In February 2004, World Bank President James Wolfensohn visited Australia and met with the Governor-General, the Prime Minister, the Treasurer, the Minister for Foreign Affairs, the Leader of the Opposition and the Reserve Bank of Australia Governor. Issues discussed during the visit included engagement by Australia and the World Bank in East Asia and the Pacific.
Asian Development Bank

Australia continued to strengthen relations with the Asian Development Bank during 2003-04, particularly on collaboration in the Pacific region. At annual high level consultations between Australia and the Asian Development Bank, Australia indicated the importance it places on adopting a coordinated approach to assisting Pacific countries and the significance of Asian Development Bank engagement in the Pacific.

Australia, along with other donors, finalised the eighth replenishment of the concessional lending arm, the Asian Development Fund (known as ADF IX). Donors agreed to a total of US$7.0 billion (around A$9.5 billion), 25 per cent more than the previous replenishment. During the negotiations, Australia encouraged the Asian Development Bank and other donors to fund grants for technical assistance, which will be particularly valuable for Pacific countries. Donors agreed to provide around A$285 million for grants from the Technical Assistance Special Fund.

More generally, Australia continued to encourage the Asian Development Bank to focus on its internal governance to enhance its accountability, effectiveness and transparency.

European Bank for Reconstruction and Development

As a shareholder in the European Bank for Reconstruction and Development (EBRD), Australia has continued to support assistance with reconstruction and development in Russia, Eastern Europe and Central Asia. Australia has encouraged the European Bank for Reconstruction and Development to shift its country focus towards countries in the early stages of transition to a market-based economy, particularly in light of the accession of eight of the bank’s countries of operations to the European Union in May 2004.

Organisation for Economic Cooperation and Development

Treasury officers participated in the work of OECD committees on macroeconomic and microeconomic policies, forecasting, taxation, budget policy, consumer policy, competition policy, corporate governance, insurance, financial markets, sustainable development and investment, and capital markets. A Treasury official chaired the OECD Steering Group on Corporate Governance, which reported on the revised principles of corporate governance at the Ministerial Council Meeting in May.

Treasury organised the OECD’s mission to Australia to review the Australian economy. Treasury also participates actively in the review of member and non-member economies, contributing to best practice policy development and exerting peer pressure on matters of significance to Australia.
The Group of Twenty
The Group of Twenty seeks to promote an open and constructive dialogue between industrial nations and emerging-market countries on key issues related to the international monetary and financial system and, in the process, to help strengthen the international financial architecture.

Treasury officers attended the Group of Twenty Deputies meeting in the United Kingdom in September 2003, in preparation for the Treasurer’s participation in the October ministerial meeting. The Treasurer, the Reserve Bank of Australia Governor and a senior Treasury official attended the ministerial meeting in Mexico which considered challenges arising from the sources of global economic growth, financial crisis prevention and resolution, measures to prevent international financial system abuse, institution building in the financial sector and financing for development.

The secretariat requested members prepare a case study on institution building in the financial sector. Australia submitted its case study in August 2003 and the Group of Twenty has publicly released it.

Treasury officers also represented Australia at the Group of Twenty Deputies meeting in March 2004, and later in April at the seminar on developing strong domestic financial markets.

Financial Stability Forum
Treasury participates in some Financial Stability Forum activities. The forum promotes international financial stability through information exchange and international cooperation in financial supervision and surveillance.

In May 2004, Treasury attended the third Asia-Pacific regional meeting in Beijing to discuss strengths and vulnerabilities in international and regional financial systems. Participants discussed issues including the importance of China for regional and global economies, policy challenges regional authorities face in managing a sustainable upturn and maintaining financial system soundness, coordination among financial authorities, and recent progress in strengthening regional financial systems.

Four Markets Group
Through the Four Markets Group, Australia, Hong Kong SAR, Japan and Singapore share their perspectives on macroeconomic and financial market developments in the region.
Treasury attended the Four Markets Group meeting in Singapore in December 2003. Discussions included the impact of regional currency movements on intra-regional trade and regional economic growth, the health of the insurance sectors in member economies, and bilateral trade and economic arrangements. A Treasury paper examined Australia’s experience and policy responses to HIH as part of the discussion on the insurance sector.

**Asia–Pacific Economic Cooperation**

Treasury provided policy advice and briefings for the Treasurer at the tenth APEC Finance Ministers’ Meeting in Thailand in September 2003. Finance Ministers stressed the importance of high-quality governance in the private and public sectors, stable and efficient financial markets, greater economic integration and openness among the APEC economies, and the need for heightened vigilance against money laundering and terrorist financing.

The APEC Finance Ministers’ process focused on encouraging structural reform in financial markets. Treasury led three initiatives supporting the Finance Ministers’ aim to establish a framework for building sound domestic institutions in the region, emphasising development of effective and stable capital markets. These were: the APEC Future Economic Leaders’ Think Tank; strengthening corporate governance in the APEC region; and managing regulatory change in life insurance and pensions (which concluded in November 2003).


In the APEC Investment Experts’ Group, Treasury worked to ensure the focus was on investment liberalisation and facilitation rather than investment promotion. Treasury participated in meetings in Thailand in August 2003, then in Chile in May 2004. At other APEC workshops, Treasury officers presented papers on Australia’s experiences with structural reform and regulatory design. Australia also drafted a chapter on statistical indicators on knowledge-based economies for the 2003-04 APEC Economic Outlook.

**Relations with East Asia**

Treasury has been continuing the momentum created during 2002-03 for greater engagement with East Asia, through more intensive bilateral engagement with counterparts in China, Japan, the Republic of Korea and Indonesia, and through enhanced policy dialogue with key regional partners.
Senior Treasury officials gave addresses on issues of importance to Australia and East Asia, including economic growth stresses and opportunities in the Asia-Pacific region, threats and policies for regional and global sustainability, and strengths of the Australia-Korea economic relationship and the shared interests of the two economies.

To assist capacity building and policy dialogue in the region, Treasury continued to receive delegations from China and Indonesia for discussions of policy issues. Treasury facilitated placement of Chinese Ministry of Finance officials in state Treasuries for short-term training on budgeting and public management issues. Mr Richard Murray, Executive Director Fiscal Group, followed up the success of an earlier visit to Indonesia to present to senior officials on Australia’s fiscal framework and budget processes.

Treasury continues to participate in the joint project by Japan’s Ministry of Finance and the Australian National University to study the scope for enhancing regional financial cooperation. Treasury participated in a conference on Institutional Development in Finance in East Asia in October 2003 in Thailand, hosted by the Australian National University and the Fiscal Policy Research Institute Foundation of Thailand and in a conference on Practical Steps Towards East Asian Integration in March 2003 in Tokyo, hosted by the Australian National University and the Japanese Ministry of Finance.

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

**Manila Framework Group**

Officials from Treasury and the Reserve Bank of Australia attended the eleventh meeting of the Manila Framework Group in the Republic of Korea in November 2003.

The meeting successfully trialled a new discussion format to focus the policy discussion on the key surveillance issues affecting regional economies. These included the economic outlook for East Asia, the impact of Group of Three currency volatility on East Asia and capital flows in Asia. Members also discussed medium-term issues important to the region — frameworks for achieving fiscal sustainability (led by Thailand) and the macroeconomics of failed corporate governance (led by Australia).
Relations with Pacific Economies

Pacific Islands Forum Economic Ministers’ Meeting
The Treasurer attended the eighth annual Pacific Islands Forum Economic Ministers’ Meeting in New Zealand in June 2004. The meeting discussed key development challenges including institutional reform, corruption, public enterprise governance, transport reform and economic aspects of regional integration.

Treasury was active in the preparations for the meeting in reinforcing its focus on core economic governance issues. Australia’s involvement in the Forum Economic Ministers’ Meeting supports Forum Island Countries in developing appropriate economic policies for achieving their sustainable development goals.

Australia-New Zealand Closer Economic Relations
The Treasurer and Treasury continue to work towards an Australian-New Zealand single economic market based on common regulatory frameworks. The Treasurer and his New Zealand counterpart conducted their annual bilateral meeting in Australia in January 2004, successfully progressing the single economic market agenda. The Treasurer and Treasury work closely with their New Zealand counterparts to advance issues such as trade, banking regulation, taxation, competition and consumer protection, accounting standards, venture capital and fundraising.

Policy advice
Economic reconstruction issues
In response to growing demands for policy advice and skilled staff to assist countries in economic difficulty, Treasury established the Pacific and Assistance Division in late 2003. This division provides policy advice on economic issues relating to the developing nations of the South Pacific, particularly the Solomon Islands and Papua New Guinea, as well as Iraq and Timor Leste. Treasury also provided logistical deployment support and back-office policy advice for officers deployed in the Solomon Islands, Papua New Guinea and Iraq. In addition, preparations to deploy a Treasury secondee as Nauru’s Finance Department Secretary were finalised.

Solomon Islands
As part of the Regional Assistance Mission to the Solomon Islands, five Australian Treasury officers were deployed to the Solomon Islands Ministry of Finance in August 2003 as part of the Budget Stabilisation Program. These officers occupied in-line positions, including the role of Under Secretary in the Ministry of Finance, and advisory positions. During the year, officers helped the Solomon Islands Government to prepare a budget for
the fourth quarter of 2003 and develop the 2004 budget. They also facilitated ongoing improvements in fiscal management and control. An external, independent review of the Budget Stabilisation Program, including of how to refocus the program in its next phase, was received in June 2004 and is under consideration.

In May 2004 the Solomon Islands Government agreed to establish an Economic Reform Unit to provide a catalyst for economic reform in the Solomon Islands. Australian Treasury is contributing a senior official and two other officers to its staff.

**Papua New Guinea**

Treasury provided high level policy advice on Australia’s engagement with Papua New Guinea throughout the year. Under the Papua New Guinea-Australia Treasury twinning scheme, three officers were deployed to work with the Papua New Guinea Treasury through the latter half of 2003. They advised on taxation policy, the Review of the Tariff Reform Program and the 2004 budget.

To prepare for the Enhanced Cooperation Program, Treasury deployed four officers in February 2004 to work within the Papua New Guinea Treasury. These advisers are working on general economic policy issues, fiscal and taxation policy, and governance of statutory authorities and government business enterprises. A Treasury officer heads the Economic and Public Sector Reform Team in the Enhanced Cooperation Program.

**Iraq**

In 2003-04 Treasury had up to three officers working with the Coalition Provisional Authority in Baghdad, Iraq. Treasury staff were involved in a broad range of tasks. They provided advice to the Coalition Provisional Authority Administrator Paul Bremer on budget formulation and implementation, taxation policy and general economic policy issues. Treasury staff also enjoyed close working relationships with Iraqi counterparts, particularly the interim Iraqi Minister of Finance Mr Kamal al-Gailani and officials from the Iraqi Ministry of Finance. Treasury’s field presence in Iraq concluded in late January 2004, but Treasury continued to provide high level advice on economic policy issues relating to Iraq.

**The International Economic Policy Group**

Treasury continued to play an active role in the International Economic Policy Group, which remained instrumental in maintaining a coordinated whole-of-government approach to international economic developments and consideration of relevant policy issues. The group meets approximately every six weeks, or as needed. It comprises high level officers from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury, AusAID, the Office of National Assessments and the Reserve Bank of Australia, with other departments attending as required.
Outcome 2
Effective government spending and taxation arrangements

Effective government spending and taxation arrangements are crucial to achieving the Government’s economic objectives and improving the wellbeing of Australians. Ongoing advice provided by Treasury to the portfolio ministers assists in formulating, implementing and explaining government spending and taxation decisions.

Responsibility for Outcome 2 is shared between Fiscal and Revenue Groups.

Fiscal Group is focused on the core government activities of advising on, developing and producing the Australian Government Budget; debt management; funding of other levels of government; and providing advice on areas of core government services, such as social policy, health policy, labour market participation, industry and environment policy, and defence and national security policy.

Fiscal Group was restructured in July 2003 to further improve our capacity for strategic coordinated policy advice on core government services. The new Social Policy Division brings together health policy advising (from Budget Policy Division) and social policy and labour market advising (from the old Fiscal and Social Policy Division). The new Industry, Environment and Defence Division brings together the policy advising area of national security (from Budget Policy Division) and Environment and Agriculture Unit and Industry Policy Unit (from the old Fiscal and Social Policy Division). The function of advising on balance sheet and debt management was brought within Budget Policy Division.

The benefits are greater synergies between related policy areas and clearer relationships with the core areas (budget policy and Commonwealth-State relations). Capability was further enhanced with additional senior officers in Social Policy and Budget Policy Divisions.

Revenue Group has the primary responsibility within the Australian Public Service for providing quality advice to Treasury ministers on taxation and retirement income policies and for the design and delivery of taxation and retirement income legislation. Policy advice and legislation are developed through an integrated process which involves close cooperation with the Australian Taxation Office and relevant Commonwealth departments and wide consultation with business and community interests. The contribution to better tax policy and better tax law are key elements of Treasury’s role as a central policy agency.
During 2003-04, Treasury devoted significant resources to first, delivering services related to core budget activities and payments to the states and territories, second, providing advice on key government strategic priorities, including demographics and third completing the remaining work on tax reform.

The first of these included preparing the 2004-05 Budget, production of the Mid-Year Economic and Fiscal Outlook, administering payments to the states and providing advice on harmonising accounting standards.

Treasury also contributed significantly to policy development and providing advice on those issues identified by the Government as its key strategic priorities (such as work and family policies, health, education, demographic change, environment, energy, innovation, defence and national security). Policy advice has included careful attention to the need to address the pressures of an ageing population by increasing per capita growth potential over time through boosting participation and productivity. Policy work focused on developing the strategic directions outlined in the discussion paper *Australia’s Demographic Challenge* to provide a framework for longer term economic growth. The discussion paper highlighted the importance of the 3 P’s — population, participation and productivity for future growth in GDP. Revenue Group has worked on a number of measures in the taxation and income support areas aimed at providing incentives for increased participation in the workforce. These are outlined in a discussion paper released at the same time, *A more flexible and adaptable retirement income system*.

Treasury also focused on completing the remaining work on tax reform. This included the consolidation regime, reforms to the imputation system, taxation of financial arrangements, tax exempt leasing and the review of international taxation arrangements.

In all, 24 taxation and superannuation bills, containing 92 measures, were introduced into Parliament. Eleven of these bills, containing 31 measures, were introduced after the 2004-05 Budget, to give effect to Budget announcements. All of the 15 bills for which Treasury sought passage during the Winter sittings received Royal Assent by 30 June 2004.

Other key activities have included further development of the consultation process, improved information management through the tax base project and ongoing quality improvement projects.
Treasury consulted extensively with industry and stakeholders on taxation and superannuation measures. The emphasis on improving community consultation on tax design continued. Treasury produced and distributed a brochure, *Engaging in Consultation on Tax Design*, to inform and assist potential participants in community consultation. Treasury also reported to the Board of Taxation on its consultation processes on announced tax measures each quarter. This reporting assists the board in its role in monitoring the consultation process.

The quality of minutes and associated products for the ministers’ signature is integral to determining how effectively policy advice is communicated to ministers. The Treasury, as part of quality assuring our work for Treasury ministers, undertook a project to report on the quality of minutes and provide practical options for further improvements.

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

**Figure 6: Outputs contributing to Outcome 2**

```
Outcome 2
Effective government spending and taxation arrangements

Output Group 2.1
Fiscal

Output 2.1.1
Budget policy advice and coordination
Budget Policy Division

Output 2.1.2
Commonwealth-state financial policy advice
Commonwealth-State Relations Division

Output 2.1.3
Industry, environment and social policy advice
Social Policy Division
Industry, Environment and Defence Division

Output Group 2.2
Revenue

Output 2.2.1
Taxation and income support policy advice
Business Income Division
Indirect Tax Division
Individuals and Entities Tax Division
International Tax and Treaties Division
Superannuation, Retirement and Savings Division
Tax Analysis Division
Tax Design Division
Board of Taxation
Review of Self Assessment
```
Key priorities in 2003-04

Policy advice from Fiscal and Revenue Groups covered a broad agenda, including many of the strategic priorities the Prime Minister identified in November 2002. Strategies for delivery of outputs included developing specialist expertise in policy and taxation design areas, further developing key partnerships with other participants in the policy process, and focusing more on the strategic assessment of emerging core issues. Key priorities included:

- further refining budget policy processes, producing the annual budget and mid-year review, and meeting the requirements of the *Charter of Budget Honesty Act 1998*
- taking a leadership role in the Demographics Taskforce including developing policy proposals to address population ageing through increasing labour market participation. This also includes managing expected increased government spending in areas affected by demographic change, particularly health and aged care and work incentives associated with welfare reform
- providing advice on key Government strategic priorities including work and family, health, environment, energy, innovation, and defence and national security
- integrating economic policy, tax policy and tax legislative functions to deliver the Government’s taxation agenda more effectively
- providing advice on taxation, superannuation and retirement income policy
- improving the effectiveness of policy advice by building stronger relationships with other departments and agencies
- delivering the Government’s tax and superannuation legislation programme
- developing and leading best practice in tax law design
- enhancing group-wide systems to improve service delivery to Treasury ministers.
Key outcomes in 2003-04

→ Treasury, together with the Department of Finance and Administration, produced the 2004-05 Budget on 11 May 2004.

→ Treasury had a major role in the release by the Treasurer of the discussion paper, Australia’s Demographic Challenges, and subsequent public consultations. As well, the 2004-05 Budget delivered a package of major initiatives around labour force participation which represents a major step in meeting the challenges of an ageing population. The specific measures which assist with participation, particularly by families balancing work and family commitments are outlined in the Government’s budget publication, More help for families.

→ Treasury was involved in a wide range of policy processes, such as the review of defence capability, the post-2005 textile, clothing and footwear arrangements, the successor programme to the Backing Australia’s Ability package support for continued innovation, family assistance and related work and family issues, Australian Health Care Agreements, reforms to Medicare, higher education, and schools funding.

→ During 2003-04, Treasury worked closely with the Australian Office of Financial Management on implementing the debt issuance strategy resulting from the review of the Commonwealth Government Securities market, eliminating the foreign currency exposure in the Australian Government debt portfolio and continuing to strengthen the governance framework around the debt portfolio. These issues are discussed further in the Australian Office of Financial Management’s Annual Report.

→ At the 2004 Ministerial Council for Commonwealth-State Financial Relations all states and territories agreed to abolish Bank Account Debits tax by 1 July 2005. They also agreed on a review of business stamp duties, and will consider the outcomes of the review at the 2005 meeting.

→ Treasury delivered key elements of the Government’s taxation and superannuation legislation programme.

→ Treasury implemented key elements of the Government’s package of reforms to increase the security, attractiveness and accessibility of superannuation.
Treasury implemented the 2003-04 Budget announcements concerning the clean-fuels and biofuels initiative, designed to improve the current fuel excise system.

Treasury provided advice to the Government on a range of business tax policy issues, including demergers of entities, tax exempt leasing, the consolidation regime, taxation of financial arrangements and reforms to the imputation system, the Timor Sea Treaty, double tax agreements and triangular taxation arrangements with New Zealand.

Treasury drafted further legislation to implement the Government’s decisions arising from the Report of the Inquiry into the Definition of Charities and Related Organisations.

Treasury implemented major reforms to the international tax arrangements announced by the Government in the 2003-04 Budget. The reforms reflect the outcomes of the Review of International Tax Arrangements and are designed to modernise the international tax system.

Treasury developed and began implementing a range of retirement income reforms announced in the policy paper A More Flexible and Adaptable Retirement Income System. Parliament also passed legislation to give employees choice of their superannuation fund.

Treasury began a comprehensive review of income tax self assessment, focusing on whether the income tax laws achieve a fair balance between protecting the rights of individual taxpayers and protecting the revenue for the benefit of the Australian community.

Treasury provided support in establishing the office of Inspector-General of Taxation.

Treasury developed consultation processes which gave effect to the Treasurer’s May 2002 announcement.

Treasury provided information to a Senate Economics Reference Committee into the tax system.
## Table 3: Financial and staffing resources summary for Outcome 2

<table>
<thead>
<tr>
<th></th>
<th>Budget 2003-04</th>
<th>Actual 2003-04</th>
<th>Budget 2004-05</th>
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<tr>
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<td><strong>Administered expenses</strong></td>
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<tr>
<td>Output 2.1.1 Budget policy advice and coordination</td>
<td>2,320</td>
<td>2,045</td>
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<td>Output 2.1.2 Commonwealth-state financial policy advice</td>
<td>1,296</td>
<td>2,132</td>
<td>2,552</td>
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<td>Output 2.1.3 Industry, environment and social policy advice</td>
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<td><strong>Total revenue from Government contributing to the price of departmental outputs</strong></td>
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<td>50,344</td>
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<td><strong>Revenue from other sources</strong></td>
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<td>Output 2.1.2 Commonwealth-state financial policy advice</td>
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<td><strong>Total revenue from other sources</strong></td>
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<td><strong>Total revenue for departmental outputs</strong></td>
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<tr>
<td>(Total revenues from Government and other sources)</td>
<td>46,668</td>
<td>51,676</td>
<td>54,927</td>
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<td><strong>Price of departmental outputs</strong></td>
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<tr>
<td>Output Group 2.1 Fiscal</td>
<td></td>
<td></td>
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<tr>
<td>Output 2.1.1 Budget policy advice and coordination</td>
<td>2,320</td>
<td>2,235</td>
<td>1,887</td>
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<tr>
<td>Output 2.1.2 Commonwealth-state financial policy advice</td>
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<td>2,342</td>
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<td>Output 2.1.3 Industry, environment and social policy advice</td>
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<td>4,322</td>
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<td>20,115</td>
<td>20,783</td>
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<tr>
<td>Corporate costs</td>
<td>9,938</td>
<td>17,909</td>
<td>19,613</td>
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<tr>
<td><strong>Total price of departmental outputs</strong></td>
<td>46,668</td>
<td>53,328</td>
<td>54,927</td>
</tr>
<tr>
<td><strong>Total estimated resourcing for Outcome 2</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(Total price of outputs and administered expenses)</td>
<td>33,628,072</td>
<td>33,936,440</td>
<td>35,709,053</td>
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<tr>
<td>Average staffing levels (number)</td>
<td>368</td>
<td>402</td>
<td>402</td>
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Note:
The Budget for 2003-04 is as per the 2003-04 Portfolio Additional Estimates Statements and 2003-04 Portfolio Supplementary Additional Estimates Statements.
The Actual for 2003-04 is as per the Audited 2003-04 Financial Statements.
The Budget for 2004-05 is as per the 2004-05 Portfolio Budget Statements.
Output 2.1.1
Budget policy advice and coordination

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

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

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, outlook and budget strategy

→ effective presentation of budget documents to adequately inform public debate.

Analysis of performance

Advice on the budget outlook

During 2003-04, Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government’s budget position to inform overall policy settings and provide context for the Government’s decision making. The fiscal outlook was updated in the Mid-Year Economic and Fiscal Outlook 2003-04 and the 2004-05 Budget.

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

Treasury also has prime responsibility for taxation revenue estimates and Revenue Group worked with the Australian Taxation Office, the Department of Finance and Administration and the Australian Customs Service to produce these. These estimates took into account trends in taxation revenue collections and the outlook for the economy.
Final budget outcome for 2002-03

The Final Budget Outcome 2002-03 was published in September 2003. In 2002-03, the Australian general government sector recorded an underlying cash surplus of $7.5 billion. This was $3.6 billion greater than estimated at the 2003-04 Budget, due to higher than expected tax receipts from companies and lower than expected cash payments in a range of family and community services and education programmes, along with delays in contracted health expenditure. Taxation receipts for 2002-03 were around $2.2 billion higher than forecast at the 2003-04 Budget, reflecting stronger than expected taxation receipts from companies and other individuals.

The accrual fiscal surplus of $6.0 billion was $4.5 billion higher than estimated at the 2003-04 Budget. This larger fiscal surplus partly reflected higher than expected revenue from companies and other individuals and lower than expected accrual expenses and net capital investments. Taxation revenue for 2002-03 was around $3.2 billion higher than forecast at the 2003-04 Budget, reflecting stronger than expected revenue from companies and other individuals.

Budget forecasts

The 2003-04 Budget, published in May 2003, contained forecasts for 2003-04 and the following three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in December 2003, forecast an underlying cash surplus of $4.6 billion for 2003-04, $2.5 billion higher than estimated at the 2003-04 Budget.

The 2004-05 Budget further updated these forecasts for 2003-04 and the forward years, with an estimated underlying cash surplus of $4.6 billion, unchanged from the estimate at the Mid-Year Economic and Fiscal Outlook.

The Mid-Year Economic and Fiscal Outlook in December revised up estimated taxation receipts for 2003-04 by around $3.4 billion relative to the 2003-04 Budget, largely reflecting the flow-on effect of stronger than expected taxation receipts, especially company tax, for 2002-03.

The 2004-05 Budget revised up estimated taxation receipts for 2003-04 by around $2.3 billion relative to the Mid-Year Economic and Fiscal Outlook, largely due to stronger than expected taxation receipts from wage and salary earners and companies.
Budget and financial frameworks policy advice
During 2003-04, Treasury assisted the Government to implement its fiscal strategy by managing budget processes and advising Treasury ministers on the overall budget strategy and priorities. Good budget processes ensure that governments take decisions on the basis of accurate information, so as to allow for the effective prioritisation of proposals in accordance with the overall budget objectives.

Debt management policy
While the Australian Office of Financial Management is responsible for operational aspects of the management of the Australian Government debt portfolio, Treasury has primary responsibility for the development of advice to the Treasurer on strategic debt policy issues and relevant wider public policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or for the effective functioning of markets and/or the real economy, and where broader macroeconomic developments or public policy considerations may have implications for debt management. Treasury also plays an important role in the governance structures around the management of the Australian Government debt portfolio.

During 2003-04, Treasury worked closely with the Australian Office of Financial Management on implementing the debt issuance strategy resulting from the review of the Australian Government Securities market, the elimination of the foreign currency exposure in the Australian Government debt portfolio and continuing to strengthen the governance framework around the debt portfolio. These issues are discussed further in the Australian Office of Financial Management’s Annual Report.

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

Treasury and the Department of Finance and Administration jointly prepare the Government’s budget documentation. Treasury also prepares the Budget Overview — including More help for families in the 2004-05 Budget, and Budget at a Glance, providing more accessible summaries for non-specialist readers.
In general terms, Treasury is primarily responsible for preparing budget documentation on:

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

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

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

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

During the year, the Government released the *Final Budget Outcome 2002-03* in September 2003, the *Mid-Year Economic and Fiscal Outlook 2003-04* in December 2003 and the 2004-05 Budget in May 2004.

The 2004-05 Budget was the sixth Australian Government budget presented on an accrual basis. In 2003-04, Treasury met with representatives of countries interested in learning about the budgeting and reporting framework applied in Australia, including delegations from Korea, China and Indonesia. In addition, Treasury signed a Memorandum of Understanding with the Ministry of Planning and Budget of the Republic of Korea to facilitate cooperation in the field of public finance.
Tax Expenditures Statement
Treasury publishes an annual Tax Expenditures Statement to estimate the revenue cost associated with the concessional taxation treatment of specific groups and activities. The *Tax Expenditures Statement 2003*, published in January 2004, reported on the cost of tax expenditures with estimates and projections to 2006-07. The production of this statement assists transparency and encourages public scrutiny of government programmes 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.

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

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

**Performance information**
The key performance indicators are:

→ advice should meet Treasury portfolio ministers’ needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-state financial relations

→ effective presentation of relevant information, including in the budget documentation and other publications, should adequately inform public debate.
Analysis of performance
Advice on reform of Commonwealth-state financial relations
2003-04 was the fourth year of full operation of the Intergovernmental Agreement. Treasury provided advice to the Treasurer on various aspects of the Intergovernmental Agreement, particularly transitional arrangements such as calculating the Guaranteed Minimum Amount and paying Budget Balancing Assistance.

The Ministerial Council for Commonwealth-State Financial Relations
The Ministerial Council, comprising the Australian Government Treasurer and all state treasurers, oversees the implementation and operation of the Intergovernmental Agreement. Treasury coordinates the agenda for the Ministerial Council. At the fifth annual meeting of the Ministerial Council, in March 2004, treasurers agreed to a work programme to examine aspects of the Commonwealth Grants Commissions’ methodology for the allocation of GST revenue to the states. It was also agreed that all states will abolish Bank Account Debits tax by 1 July 2005. Other matters discussed at the meeting included expected payments to the states, GST administration issues and other policy and administrative matters, including Specific Purpose Payments. Treasury advised the Treasurer on the key issues and coordinated arrangements for the meeting.

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

Heads of Treasuries
The Heads of Treasuries, comprising the Secretary to the Australian Government Treasury and his state counterparts, met three times during 2003-04. These meetings are a forum for Heads of Treasuries to share information on issues common to the Australian and state governments. In 2003-04, discussions focused on issues arising under the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues, Specific Purpose Payments and preparations for meetings of the Ministerial Council and the Loan Council.
GST Administration Subcommittee
The GST Administration Subcommittee assists the Ministerial Council in monitoring the operation and administration of the GST. The subcommittee, which met twice during the course of 2003-04, advises the Ministerial Council on modifications to the GST base and Australian Taxation Office administration of the GST. Treasury chairs the subcommittee, which comprises officials from the Australian Government Treasury, the Australian Taxation Office and the state treasuries. The subcommittee monitored the operation of the GST Administration Performance Agreement between the states and the Australian Taxation Office. The subcommittee also discussed GST revenue receipts and payments to the states, GST implementation issues and administrative issues.

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

In 2003-04, around 115,000 First Home Owners Scheme and Additional First Home Owners Scheme grants were paid, totalling approximately $800 million. Treasury administered Additional First Home Owners Scheme payments totaling $2.3 million in 2003-04. Treasury assists with First Home Owners Scheme policy issues and the Additional First Home Owners Scheme.

The Additional First Home Owners Scheme initiative doubled the grant to $14,000 for eligible first home owners purchasing new or previously unoccupied homes who entered into contracts between 9 March 2001 and 31 December 2001. The Additional First Home Owners Scheme was extended with a phased-down grant of $3,000 available for contracts entered into between 1 January 2002 and 30 June 2002. Although the Additional First Home Owners Scheme ended on 30 June 2002, some payments continue to be paid to eligible applicants due to the time needed to complete construction, and the one-year period allowed to lodge an application once construction is complete.
Payments to the states
Treasury administers cash payments made to the states under Commonwealth-state financial relations. In 2003-04, a total of $33.7 billion was paid to the states comprising GST revenue, Budget Balancing Assistance and National Competition Policy Payments.

Goods and Services Tax Revenue
A key element of *A New Tax System*, introduced on 1 July 2000, is for states to receive all GST revenue. GST revenue is the largest payment made by the Australian Government to the states. The Australian Government provides all GST revenue in monthly payments, consistent with relativities determined by the Treasurer following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2003-04, the states received around $33.2 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

The Australian Taxation Office collects GST revenue on behalf of the states. The states compensate the Australian Government for this. Payments by the states to the Australian Government in 2003-04, reflecting costs incurred, amounted to around $571 million. Treasury monitored payments to ensure states made full and timely payments.

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

To meet its guarantee, the Australian Government pays Budget Balancing Assistance (BBA) to cover any shortfall of GST revenue compared with each state’s Guaranteed Minimum Amount. In 2003-04, the states received $443 million in BBA payments.

Consistent with the terms of the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations*, the Australian Government advanced BBA to a number of states in four quarterly installments in 2003-04. These advances were based on the estimated BBA entitlements of the states at the time of each advance. However, the upward revision to GST estimates in the Budget resulted in a lower than previously estimated BBA entitlement for New South Wales, and no BBA entitlement for any of the
other states. On the basis of the determined BBA entitlements, the advances to the states in 2003-04 exceeded the states’ final entitlement to BBA in 2003-04 by $374.2 million.

Consistent with the provisions of the *A New Tax System (Commonwealth-State Financial Relations) Act 1999*, the Treasury will deduct the amount of excess BBA of $374.2 million paid in 2003-04 from payments made in 2004-05.

**National Competition Policy Payments**
In 2003-04, National Competition Policy Payments to the states totaled $578.5 million. Each state’s full entitlement to National Competition Policy Payments is subject to it satisfactorily meeting conditions specified in the *Agreement to Implement the National Competition Policy and Related Reforms*. The National Competition Council makes recommendations on the level of payments to be made and associated penalties, and the states have the opportunity to comment. The Government, after accepting the National Competition Council’s recommendations, decided that, out of an estimated maximum level of payments in 2003-04 of $759 million, permanent deductions of $53.9 million and suspensions of $126.9 million were to be applied to the states.

**Special Revenue Assistance for the Australian Capital Territory**
The Australian Capital Territory received $15 million in 2003-04 in Special Revenue Assistance, paid as a Specific Purpose Payment.

**Amendments to legislation**
Treasury provided advice on technical amendments to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* in order to facilitate its operation. These amendments related to enabling the Commissioner of Taxation to account for all GST refunds (including any refunds made under the Tourist Refund Scheme), improving the timing of final determinations required under the Act, and enabling residual adjustment payments to be made to the states. The amendments commenced when Royal Assent was received on 23 March 2004.

**Budget publications**
Information on the Government’s financial relations with state and local governments is documented in *Budget Paper No. 3, Federal Financial Relations 2004-05*. This document is the main public source of information on Australian Government payments to the states. It also informs states of their expected payments in the upcoming financial year, including GST revenue, Budget Balancing Assistance, Specific Purpose Payments and National Competition Policy Payments.
Budget Paper No. 3, *Federal Financial Relations* also includes a calculation of each state’s Guaranteed Minimum Amount, as well as any policy changes affecting the relationship between the Australian and state governments.

**Output 2.1.3**  
**Industry, environment and social policy advice**

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

Fiscal Group contributes to Outcome 2 by working in conjunction with other departments and agencies to develop and provide policy advice to Treasury Ministers and the Government in the areas of: industry, regional assistance, agriculture, environment, defence and national security, social, labour market participation, and health policy. While other departments have major responsibility for policy and programmes in these areas, Fiscal Group focuses on improving participation, productivity and economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2003-04 Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet Ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

**Performance information**

The key performance indicators are:

- advice meets Treasury portfolio ministers’ needs in administering their responsibilities and implementing government decisions relating to industry, environment and social policy
- effective presentation of relevant information should adequately inform public debate.
Analysis of performance

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

Advice on industry policy

Treasury worked with agencies and provided advice to the Treasurer on the Backing Australia’s Ability — Building Our Future through Science and Innovation package. The package, announced in May 2004 by the Prime Minister, is the successor package to the Backing Australia’s Ability programme. The $5.3 billion package will provide funding for science and innovation in three areas: the generation of new ideas (research and development); the commercial application of ideas; and the development and retention of skills.

Treasury was involved in developing the Government’s post-2005 textile, clothing and footwear assistance (TCF) arrangements which provide funding aimed at assisting the industry to adjust to a lower tariff environment. The $747 million Government package, announced in November 2003, includes $600 million to extend the TCF Strategic Investment Programme which provides grants to firms for capital investment and innovation.

Treasury provided advice on energy policy, was a member of the Prime Minister’s Energy Task Force, and was involved in developing the Energy White Paper: Securing Australia’s Energy Future which was released in June 2004. The White Paper includes measures to encourage the development of low emission and renewable energy technologies such as a $500 million Low Emissions Technology Fund, the Renewable Energy Development Initiative, a Solar Cities trial, and Advanced Electricity Storage Technologies.

Treasury worked with agencies, and provided advice to the Treasurer, on the Tourism White Paper A Medium to Long-term Strategy for Tourism which was released in November 2003. Treasury was also active in providing input into the development of the paper’s implementation plan.

Treasury was involved in developing an assistance package totalling $273 million to contribute to the successful staging of the 18th Commonwealth Games to be held in Melbourne in 2006.
Treasury also provided advice to the Treasurer on a number of proposals for strategic investment submitted to the Strategic Investment Coordinator. The Strategic Investment Coordination process aims to attract projects with significant economic and employment benefits to Australia.

**Advice on agriculture policy**

During 2003-04 Treasury contributed to the development of agriculture policy by providing advice to ministers and participating in interdepartmental meetings and committees. For example, Treasury participated in the development of the *Agriculture Advancing Australia* extension, which aims to support primary producers to respond positively to change, to adopt and benefit from innovation and to meet the challenges of farming in Australia.

Treasury provided advice on the Australian Government’s Drought Policy. Drought assistance comprises interest rate subsidies and income support to assist viable farm business and farm families who have been adversely affected by the drought.

Treasury provided advice on the *Sugar Industry Reform Programme 2004*, which will provide the sugar industry with assistance of more than $444 million to help secure its long term future.

Treasury worked with other agencies in establishing the *Australian Agricultural Emergency Plan* which outlines government roles and responsibilities in the event of an agricultural emergency.

**Advice on environment policy**

Treasury participates in the High Level Group advising the Sustainable Environment Committee of Cabinet. Treasury briefed the Treasurer on a number of natural resource management issues including climate change, water policy, protection of the Great Barrier Reef, integrated oceans management and biodiversity conservation.

Treasury participated in the development of, and provided advice on, options for consideration as part of the Government’s climate change policy. These policies include the *Climate Change Strategy*, which was announced in the 2004-05 Budget, and the *Climate Change Forward Strategy* announced as part of *Securing Australia’s Energy Future*. Treasury contributed to a number of specific climate change and energy policy processes. These include the Secretary’s Group on Greenhouse, the Interdepartmental Greenhouse Projections Group, and interdepartmental committees for International Climate Change and Climate Change Impacts and Adaptation.
Treasury also provided advice and analysis with regard to biofuels, and participated on a steering committee for the Government-commissioned report *Appropriateness of a 350 Million Litre Biofuels Target*.

Treasury participated in the development of the National Water Initiative. The National Water Initiative aims to increase the productivity and efficiency of water use, sustain rural and urban communities, and ensure the health of rivers and groundwater systems. Treasury was represented on the Senior Officials Group on Water, and provided briefing, policy advice and analysis on various aspects of the National Water Initiative.

Treasury contributed to the development of the *Great Barrier Reef Marine Park Structural Adjustment Programme 2004* and monitors the development and implementation of regional marine plans.

Treasury coordinated briefing for Australia’s delegate to the OECD Ad Hoc Group on Sustainable Development.

**Advice on defence and national security policy**

During 2003-04, Treasury provided advice and participated in a range of policy development processes on defence and other national security issues. In particular, Treasury participated in the Secretaries’ Committee on National Security to enhance the rigour of policy proposals to the National Security Committee of Cabinet. Treasury also provided advice to the Treasurer on major defence acquisition projects, deployments of Australian Defence Force personnel (including the current operations in Iraq and the Solomon Islands) and a range of defence operational and capability issues. Treasury also participated in the Defence Capability Review, which examined the balance, effectiveness and relevance of our present and planned defence capabilities.

Treasury also participated in a number of interdepartmental committees, including on: Defence’s management of its property estate and disposal programme; various projects within the Defence Capability Plan; a review of critical infrastructure protection; and maritime and aviation security.

Treasury provided advice and participated in a range of policy development processes on domestic security, national law enforcement and other issues relating to the Attorney-General’s portfolio. Treasury also participated in an interdepartmental committee that developed a package of domestic security measures which were announced in the 2004-05 Budget.
Advice on social policy
Treasury is actively involved in interdepartmental committees and other working groups concerned with developing new policy and reviewing government programmes in the portfolios of Family and Community Services; the Attorney-General; Veterans’ Affairs; Immigration, Multicultural and Indigenous Affairs; and Education, Science and Training.

Education remained a high priority for the department in 2003-04 with Treasury actively participating in the policy formulation process for changes to the Government’s higher education package (which passed through Parliament in December 2003) as well as the Schools Specific Purpose Payment Agreement.

Treasury participated in interdepartmental policy development on work and family issues including formulation of the Government’s $19.2 billion More help for families package, announced in the 2004-05 Budget.

Treasury also actively participated in policy formulation and provided advice to inform the Government’s response to the Clarke Review of veterans’ entitlements, which was announced in March 2004.

Treasury provided advice on immigration issues including settlement services, contract renegotiation and repatriation, and chaired an interdepartmental committee on modelling the effects of immigration on the Budget.

Advice on labour market participation policy
During 2003-04, Treasury led the Demographics Taskforce, which reports to the Treasurer on possible whole-of-government responses to the ageing of the Australian population. This work includes developing policy proposals to address ageing of the population through increasing labour force participation, sustainability of retirement incomes, and managing expected increased government spending in areas affected by demographic change, particularly health and aged care. Treasury also provided labour market advice on work incentives associated with welfare reform.

Public consultation on demographic change commenced in February 2004 with the release of the discussion paper Australia’s Demographic Challenges. Written submissions were sought and public meetings were held in each capital city during May and June 2004.
The 2004-05 Budget included a package of major initiatives providing more help for families, reducing income taxes and increasing incentives for retirement savings. These measures improve rewards from working and represent an important step in meeting the challenges of an ageing population.

The Productivity Commission commenced a research study into the economic and fiscal implications of the future ageing of Australia’s population on 24 June 2004.

Treasury also contributed to a number of conferences on labour force participation and demographic change. In addition Treasury discussed issues around demographic challenges with both the OECD and IMF missions.

Treasury also provided a discussion on the impact of workplace relations reform, welfare reform and labour market reform on employment outcomes in Statement 4, Budget Paper No. 1, of the 2004-05 Budget. This discussion complemented Treasury’s ongoing research into labour demand and supply.

Treasury provided advice to the Government on implementation of the recommendations of the Royal Commission into the Building and Construction Industry. The Commission’s recommendations were aimed at achieving structural and cultural reforms in the building and construction industry which promote safety and productivity. Treasury also provided advice on the Productivity Commission inquiry into national workers’ compensation and occupational health and safety frameworks. The Government’s response was announced in June 2004.

Treasury assisted with the Government’s submission and other related work associated with the Australian Council of Trade Unions’ application to the Australian Industrial Relations Commission to increase minimum award rates of pay.

Treasury also contributed to ongoing development of labour market data through membership of the steering committee on the Household, Income and Labour Dynamics in Australia survey and the Labour Statistics Advisory Group of the Australian Bureau of Statistics.

**Advice on health policy**

During 2003-04, Treasury contributed to policy development processes across a range of health and aged care issues. In particular, Treasury participated in interdepartmental committees and advised the Treasurer on the Pharmaceutical Benefits Scheme, public
health programmes, Medicare, residential aged and community care, private health insurance and indigenous health.

Treasury’s engagement in these areas assisted the Treasurer’s involvement in several significant Government initiatives during the year.

Treasury provided advice in the development of the $2.85 billion Strengthening Medicare package, measures to improve the electronic collection of health data, and a number of measures aimed at minimizing the potential impact of avian influenza (bird flu).

Treasury was involved in the interdepartmental committee providing advice to the Government on its response to the Review of Pricing Arrangements in Residential Aged Care by Professor Warren Hogan. The Government’s response, the $2.2 billion Investing in Australia’s Aged Care package was announced in the 2004-05 Budget.

During the year Treasury was also involved in interdepartmental committees in relation to private health insurance and a number of Specific Purpose Payments to the states and territories for key health programmes. These were the Australian Health Care Agreements, the Home and Community Care programme, and the Public Health Outcomes Funding Agreements.

Treasury also contributed to policy formulation and provided advice on other health and aged care measures announced in the 2004-05 Budget. Details of these measures are provided in Budget Paper No. 2, Budget Measures 2004-05.

Output 2.2.1
Taxation and income support policy advice

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

Work continued on integrating and extending tax law design functions transferred from the Australian Taxation Office to Treasury in 2002. This work has allowed Revenue Group to consolidate and build its organisational capability to provide strategic advice to Government on taxation system and income support policies.
The benefits of the new arrangements have been demonstrated in the delivery of the Government’s tax and superannuation legislation programme in 2003-04 and in increased investment in strategic projects that are fundamental to the delivery of the Government’s taxation agenda.

These include:

- the tax base and tax tools projects aimed at enhancing quantitative analysis and understanding of the tax system
- the better tax law project aimed at defining the principles and approaches required for best practice in law design and drafting to provide more accessible law, with greater integrity, clarity and durability
- work to improve the quality of policy advice and community consultation processes.

Revenue Group has also contributed to the work done by Treasury on whole-of-government projects such as the Demographics Taskforce, the Energy Taskforce and the Australia-United States Free Trade Agreement.

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

During 2003-04 Revenue Group helped to establish the office of Inspector-General of Taxation and provided the secretariat to the Board of Taxation.

**Performance information**

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

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

Legislation delivered according to government programmes.
Analysis of performance

Business Taxation

Treasury provided policy advice on a range of business taxation issues including: the consolidation regime; reforms to the imputation system; taxation of financial arrangements; and company loss recoupment rules.

Consolidation

The changes to the consolidation regime, which involves taxing wholly-owned corporate groups as a single entity, have essentially been completed. However, Treasury continued to finalise some remaining aspects, primarily concerned with the interaction of the consolidations regime with other areas of the income tax law.

The following legislation was enacted to provide further clarity in relation to the consolidation regime: Taxation Laws Amendment Act (No. 8) 2003, which received Royal Assent on 21 October 2003; Taxation Laws Amendment Act (No. 1) 2004, which received Royal Assent on 30 June 2004; Taxation Laws Amendment Act (No. 2) 2004, which received Royal Assent on 23 March 2004; and Tax Laws Amendment (2004 Measures No. 2) Act 2004, which received Royal Assent on 25 June 2004. An additional bill (Tax Laws Amendment (2004 Measures No. 4) Bill 2004) which contained consolidation amendments was introduced into the House of Representatives on 24 June 2004. This legislation was developed following extensive consultation with industry.

Imputation system

Treasury continued to develop the remaining aspects of the simplified imputation system, such as the franking deficit tax offset provisions and rules for franked distribution flows through a trust or partnership. In addition, various consequential and technical amendments were made to ensure that the simplified imputation system and other imputation-related provisions operate as intended.

The simplified imputation system and other imputation amendments were included in the following legislation: Taxation Laws Amendment Act (No. 8) 2003 which received Royal Assent on 21 October 2003; Tax Laws Amendment Act (2004 Measures No. 1) 2004 which received Royal Assent on 29 June 2004; and Tax Laws Amendment Act (2004 Measures No. 2) 2004 which received Royal Assent on 25 June 2004. Additional imputation and the simplified imputation system rules were contained in the Tax Laws Amendment (2004 Measures No. 4) Bill 2004 which was introduced into Parliament on 24 June 2004.
Taxing of financial arrangements
Following an exposure draft released in December 2002 and subsequent consultation, the New Business Tax System (Taxation of Financial Arrangements) Act (No. 1) 2003 received Royal Assent on 17 December 2003. Feedback from the consultation was included in the drafting of the legislation and Explanatory Memorandum. Treasury provided advice on proposed rules for the taxation of financial arrangements, commodity hedging, amendments to taxation of foreign currency gains and losses, and regulations related to the taxation of debt and equity interests in companies. Treasury worked with the Office of Parliamentary Counsel to draft rules for the taxation of capital-protected borrowing arrangements.

Treasury consulted with taxpayers and provided advice on the application of Division 974 of the Income Tax Assessment Act 1997 (concerning the taxation of debt and equity interests) to small business. The former Minister for Revenue and Assistant Treasurer, Senator the Hon Helen Coonan, subsequently announced a small business carve-out in Press Release C045/04 of 24 May 2004.

Tax exempt leasing
Treasury continued to consult on the New Business Tax System (Tax Preferred Entities — Asset Financing) Bill 2003 which was publicly released in June 2003 for technical comment. The proposed measures have important implications for financial arrangements between tax exempt entities, such as state and territory governments, and taxable entities. Following feedback from the consultation, Treasury worked with the Office of Parliamentary Counsel to revise the exposure draft of the legislation. Introduction of the legislation has been deferred to allow more time for further consultation with stakeholders.

Mineral and petroleum exploration
Treasury provided advice on taxation measures to stimulate expenditure on mining and petroleum exploration. The Government announced a taxation measure in the 2004-05 Budget to provide incentive for petroleum exploration companies to explore in designated offshore areas. Treasury also provided input into the Government’s strategy to promote mineral exploration, *The Road to Discovery: Minerals Exploration Action Agenda*, which was announced by the Minister for Industry, Tourism and Resources on 2 July 2004.

Gas transfer price regulations
Treasury continued to be involved in developing gas transfer price regulations. These regulations provide a framework to determine a gas transfer price between the upstream component of an integrated gas-to-liquids project and the downstream component.
This gas transfer price is used to determine the amount of Petroleum Resource Rent Tax payable in an integrated gas-to-liquids project.

**Timor Sea**
Treasury contributed to the development of the *Greater Sunrise Unitisation Agreement Implementation Act 2004* on petroleum resource rent tax issues. This Act received Royal Assent in April 2004. It gives effect to the Greater Sunrise Unitisation Agreement with East Timor, signed on 6 March 2003, which allows for the orderly development of the Greater Sunrise gas field that straddles the border of the Joint Petroleum Development Area and the adjacent area of sole Australian jurisdiction.

**Company loss recoupment rules**
The Government announced a package of measures on 7 April 2004 designed to substantially simplify the company tax loss recoupment rules. These rules allow a company to deduct a tax loss where it passes the continuity of ownership test or same business test. Treasury provided advice to the Government on this issue following extensive consultations with the business sector, and worked with the Office of Parliamentary Counsel to prepare draft legislation.

**Taxation of trusts**
In response to the Board of Taxation’s report on the Taxation of Discretionary Trusts, the Treasurer previously announced that the Government would improve the effectiveness and fairness of the deemed dividend rules contained in Division 7A of the *Income Tax Assessment Act 1936*. The legislation to give effect to this announcement was developed following extensive consultation with industry and was included in the *Tax Laws Amendments (2004 Measures No. 1) Act 2004* which received Royal Assent on 29 June 2004.

**Other business taxation measures**
Treasury provided advice and helped develop legislation and accompanying explanatory material in relation to other important amendments to the tax law introduced in 2003-04 including measures to:

- modify the tax treatment of copyright collecting societies. Legislation was included in the *Tax Laws Amendment (2004 Measures No. 4) Bill 2004* introduced into Parliament on 24 June 2004.
ensure that no taxation consequences arise from a restructuring payment from the National Guarantee Fund to a prescribed body that will undertake clearing and settlement facility support

amend the venture capital regime to ensure it operates as intended and to extend eligibility to investments in holding companies

ensure the small business capital gains tax concessions apply appropriately where a taxpayer is a beneficiary of a discretionary trust. Legislation was included in the *Tax Laws Amendment (2004 Measures No 1) Act 2004*, which received Royal Assent on 29 June 2004

refine the provisions in the income tax law relating to the taxation of life insurance companies. Legislation was included in the *Tax Laws Amendment (2004 Measures No 2) Act 2004*, which received Royal Assent on 25 June 2004.

Treasury also provided policy advice to Treasury ministers on:

- the operation of tax expenditures, such as the research and development concession and concessions for film investment
- the taxation treatment of employee share options
- issues associated with the taxation of irrigation water providers. The Government announced in the 2004-05 Budget a measure providing irrigation water providers access to the water facilities and landcare taxation concessions
- a number of other tax issues, including the operation of the Uniform Capital Allowance system (specifically in relation to certain telecommunication rights), the wine taxation reforms announced in the 2004-05 Budget) and additional capital gains tax issues.

**International Taxation**

Treasury implemented major reforms to the international tax rules announced by the Government in the 2003-04 Budget that were designed to modernise the international tax system. The major reforms were implemented through the *New International Tax Arrangements Act 2004*; the *New International Tax Arrangements (Participation Exemption and Other Measures) Act 2004*; the *New International Tax Arrangements (Managed Funds and Other Measures) Bill 2004*, a new set of regulations and the new tax treaty concluded by Treasury with the United Kingdom. These changes implement the outcomes of the
Government’s Review of International Tax Arrangements. A feature of the review was broad business community participation in the consultation process.

The two Acts and the regulations reduce the compliance costs for Australian managed funds, the superannuation industry and Australian companies with offshore business operations including those with controlled foreign companies.

The Acts also:

→ improve the competitiveness of the Australian managed funds and superannuation industry by better targeting the Foreign Investment Fund rules

→ improve the international competitiveness of Australian companies with offshore business operations (including those with controlled foreign companies) by providing greater flexibility in corporate restructuring decisions and more exemptions for the repatriation of foreign profits and by reducing the tainted services income subject to Australian tax.

The third bill focuses on removing distortions in international tax laws and will reduce taxation impediments to further growth of managed funds. These changes will allow Australian managed funds to become more internationally competitive, increasing their attractiveness to non-residents.

Treasury continues its lead role in protecting Australia’s taxation system through enhanced global governance arrangements directed at greater financial transparency and effective exchange of tax information. This work complements other initiatives directed at global financial stability, money-laundering activities, terrorist financing and drug trafficking.

**Tax treaties**

Treasury progressed Australia’s tax treaty programme through:

→ the revised treaty with the UK which entered into force on 17 December 2003

→ new tax treaties with Mexico and Russia which entered into force on 31 December 2003 and 17 December 2003 respectively

→ an amending protocol to the tax treaty with Malaysia which entered into force on 23 July 2003.
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.

Treasury provided advice on the negotiation of the free trade agreements with the United States and Thailand.

**Personal taxation**

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

**Reductions in personal income tax**

In conjunction with its *More Help for Families* package, the Government announced in the 2004-05 Budget increased income thresholds at which the 42 per cent and 47 per cent tax rates start to apply.

Treasury provided policy advice on these changes and drafted the legislation that gives effect to these changes. The *Tax Law Amendment (Personal Income Tax Reduction) Act 2004* received Royal Assent on 22 June 2004.

For the 2004-05 income year, the income threshold for the 42 per cent rate will increase to $58,001 and the income threshold for the 47 per cent rate will increase to $70,001. From the 2005-06 income year, the 42 per cent threshold will rise to $63,001 and the 47 per cent threshold will rise to $80,001.

These changes improve incentives to work and save, by increasing the rewards for those who wish to work overtime, seek promotion or acquire skills. The tax cuts also ensure that Australia’s personal income tax system remains internationally competitive.

**Increase in Medicare levy thresholds**

To ensure that low-income families and individuals are exempt from paying the Medicare levy, the low-income thresholds were increased to $15,529 for individuals and $26,205 for families, with effect from 1 July 2003. The additional threshold for each dependent child or student also increased to $2,406. This change takes into account movements in the CPI.

To ensure that pensioners below pension age do not pay the Medicare levy until they have an income tax liability, this threshold was increased to $18,141.
These measures were included in the *Tax Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Act 2004* which received Royal Assent on 25 June 2004.

**Incentives to encourage philanthropy**

Treasury assisted in the development of changes to tax concessions that will enable certain charitable funds to be income tax-exempt. These changes, which were announced as part of the 2004-05 Budget, will increase flexibility for charitable funds and prescribed private funds in respect of how they distribute monies.

To further encourage philanthropy by ameliorating some existing impediments to fundraising identified by the Myer Report and the Prime Minister’s Community Business Partnership, from 1 July 2004 a deduction would be allowed in certain conditions, where the donor receives a benefit in return for a contribution. Legislation for this measure was included in the *Tax Laws Amendment Act (2004 Measures No.1) 2004*, which received Royal Assent on 29 June 2004.

**Public ambulance services**

The Government announced on 20 January 2004 that public ambulance services would be eligible for a $17,000 capped fringe benefits tax exemption and deductible gift recipient status. Treasury provided advice on this issue, and worked with the Office of Parliamentary Counsel to prepare legislation to give effect to the Government’s announcement. Legislation for this measure was included in the *Tax Laws Amendment (2004 Measures No. 2) Act 2004* which received Royal Assent on 25 June 2004.

**Endorsement of charities and other organisations**

Legislation was prepared to require charities, public benevolent institutions and health promotion charities to be endorsed by the Commissioner of Taxation in order to access all relevant taxation concessions and to display the status of endorsed charities on the Australian Business Register. These changes are part of the Government’s response to the *Report of the Inquiry into the Definition of Charities and Related Organisations*. The changes will allow greater scrutiny of the use of taxation concessions by charities and improve public confidence in the provision of taxation support to the charitable sector. The measures were included in the *Tax Laws Amendment (2004 Measures No. 4) Bill 2004* which was introduced into Parliament on 24 June 2004. Treasury also provided advice to the Senate Economics Legislation Committee on the impact of this measure.
Standardising the dependent child age criteria

From 1 July 2005, the Government will standardise the age criteria used to determine whether children are dependants for the purposes of determining whether a taxpayer qualifies for a number of tax entitlements. The measure will introduce a standard definition of a dependant, which will be a child aged less than 21 years or a full-time student aged less than 25 years.

Fringe benefits tax exemptions

As part of the Small Business Tax Simplification measures, three fringe benefits tax exemptions were extended to ensure they remain relevant and accessible to small business: small businesses providing remote area housing will no longer be required to establish that such employer-provided housing is ‘customary’ in their industry in order to receive a fringe benefits tax exemption; the existing fringe benefits tax exemption for work related items such as laptops will be extended to include portable printers and personal digital assistants; and the existing fringe benefits tax exemptions for relocation costs will also be extended to cover the engagement of relocation consultants. The measures were included in the *Tax Laws Amendment (2004 Measures No. 2) Act 2004* which received Royal Assent on 25 June 2004.

Baby Bonus

The Baby Bonus was amended so that it is available for children born (or for whom legal responsibility is otherwise gained) between 1 July 2001 and 30 June 2004. Parents who are eligible for the Baby Bonus will continue to be able to claim it for five years.

The application of the Baby Bonus is to be amended in relation to adoptive parents. Once legally responsible for the child, adoptive parents will be able to claim the Baby Bonus for the period between commencing care for the child and being granted legal responsibility via an adoption order. Previously, adoptive parents’ eligibility for the Baby Bonus commenced on the date that they were granted legal responsibility, through an adoption order, which may have been some time after they commenced care of the child. The measure will be given effect from 1 July 2001, which was the date on which the Baby Bonus came into effect.

Definition of Charities

Treasury developed legislation to provide a statutory extension to the common law meaning of a charity for the purposes of all Commonwealth legislation. This legislation, which formed part of the Government’s response to the *Report of the Inquiry into the*
Definition of Charities and Related Organisations, was included in the Extension of Charitable Purpose Act 2004 which received Royal Assent on 30 June 2004.

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

Foreign resident withholding arrangements
The Government introduced this measure, which applies Pay As You Go withholding arrangements to certain payments to foreign residents, to improve the compliance of foreign residents with their Australian income tax obligations. The first groups of payments covered by this measure have been prescribed in regulations.

The new rules set out that withholding will be required from payers to foreign residents who are: involved with junket tour operations; entertainers or sportspersons; and foreign residents involved in the building and construction industry. There is also a rule that requires withholding by an intermediary who receives an amount on behalf of a foreign resident. Amounts withheld will be available as a credit against the income tax assessment.

These regulations were contained in the Taxation Administration Amendment Regulations 2004 (No. 1) (Statutory Rules No. 112), which commenced on 1 July 2004.

Regulations were developed in consultation with the relevant industry groups.

Review of aspects of income tax self assessment
Treasury conducted a Review of Aspects of Income Tax Self Assessment as commissioned by the Government. Treasury focused on identifying whether the income tax laws achieve a fair balance between protecting the rights of individual taxpayers and protecting the revenue for the benefit of the whole Australian community. Treasury examined a range of issues, including the statutory timeframes for amending assessments, the duration of the audit process, the reliance that taxpayers should be able to place on Australian Taxation Office advice and aspects of the general interest charge.
Treasury consulted with taxpayer representatives, interested parties and government agencies with a role in the governance structure on tax issues, including the Inspector-General of Taxation.


**Superannuation, Retirement and Savings**

Treasury provided advice to the Government on the revenue aspects of superannuation, retirement and savings policy in particular, and the development of effective retirement and savings policy in general.

**A more flexible and adaptable retirement income system**

Treasury provided advice to Government during the preparation of the Government’s statement, *A more flexible and adaptable retirement income system*, which was released in February 2004 in conjunction with the Government’s discussion paper on *Australia’s Demographic Challenges*. Treasury subsequently developed legislation to give effect to the majority of these measures. The remaining measures will be implemented in 2004-05. The measures will broaden the availability of superannuation, provide more choice in financing retirement income, and make superannuation more adaptable to changing work arrangements.

The measures included:

- allowing market linked complying pensions
- removing the work test for those below age 65
- simplifying the work test for those aged 65 to 74
- preserving rolled over eligible termination payments
- simplifying the superannuation guarantee notional earnings bases
- allowing people to access superannuation before retirement in some circumstances to enable a smoother transition to retirement.
Choice of superannuation fund and portability
Treasury provided advice to Government on issues of choice of superannuation fund and portability and developed legislation to give effect to these measures. These measures are designed to improve the ability of individuals to choose who manages their superannuation. Legislation to give employees choice of superannuation fund, the *Superannuation Laws Amendment (2004 Measures No. 2) Act 2004*, received Royal Assent on 30 June 2004 and will commence from 1 July 2005. Portability of inactive accounts commenced on 1 July 2004.

Government co-contribution
Treasury provided advice and developed legislation to give effect to the Government’s superannuation co-contribution policy. The legislation provides a significant incentive via a matching Government co-contribution (of up to $1,500) for low to middle income earners to contribute to superannuation. The initial legislation to give effect to this measure, the *Superannuation (Government Co-contributions for Low Income Earners) Act 2003* was passed by Parliament on October 2003. Subsequent enhancements to the scheme announced in March and in the 2004-05 Budget were included in the *Superannuation Budgets Measures Act 2004* which received Royal Assent on 30 June 2004. Regulations supporting the administration of the scheme were also developed and gazetted.

Reduction in superannuation surcharge
Treasury also advised Government and developed legislation to give effect to Government policy to reduce the rate of the superannuation surcharge. The rate reduction is intended to boost the incentives for those affected by the surcharge to contribute to superannuation. Initial legislation relating to surcharge rate reductions announced in the 2002-03 Budget, the *Superannuation Laws Amendment (2004 Measures No. 1) Act 2004*, was passed by Parliament in October 2003. Subsequent legislation, the *Superannuation Budgets Measures Act 2004*, which will ultimately phase the rate down to 10 per cent, was passed in June 2004.

Cross border superannuation arrangements
Treasury assisted the Government in negotiating and implementing superannuation double coverage provisions in social security treaties. Double superannuation coverage arises where an employee is sent from one country to work temporarily in the other country and the employer is required to pay superannuation contributions for the employee in both countries. If a Social Security Agreement that includes double coverage provisions is in place the employer will only be required to pay contributions in the employee’s home country. Three agreements commenced by 30 June 2004 and two commenced on
1 July 2004. Negotiations also took place with a number of other countries during the year.

Treasury also developed legislation to give effect to the Government’s decision to improve the arrangements for transferring overseas superannuation into Australia. This legislation commenced from 1 July 2004 and provides for a reduced rate of taxation to apply to such transfers and fairer payment arrangements.

**Other measures**

Treasury also assisted the Government in:

- amending regulations to address technical issues regarding the splitting of superannuation for married couples when they separate
- developing legislation to expand the potential beneficiaries of tax-free superannuation benefits to include ‘interdependent’ relationships
- providing advice on superannuation aspects of the Government’s statement *Committed to Small Business*
- providing advice on arrangements for new superannuation schemes for Commonwealth employees and parliamentarians
- implementing measures to improve the integrity of the retirement income system
- developing legislation to give effect to the Government’s commitment to allow spouses to split their superannuation contributions — legislation was introduced into Parliament and draft regulations were issued for public comment.

**GST and Indirect Taxation**

Treasury provided ongoing policy advice on GST, excise and fuel grants issues, including: GST treatment of financial supplies, entity structures and cross-border issues; excise collections and grants systems; and the wine equalisation tax.

Treasury implemented the 2003-04 Budget measures concerning the clean fuels and biofuels initiative. Treasury also implemented excise compliance and wine taxation reform.

Treasury worked with the Energy Task Force on fuel taxation and grant issues, to present to the Government a package of measures for improving the current fuel excise system. Treasury provided policy advice for the application of excise rates on alternative fuels (including biodiesel, LPG, LNG, CNG and ethanol) which the Government announced on

With the Government having announced its plan for fuel excise reform, Treasury has begun working with the Australian Taxation Office and relevant industry and community groups to implement these policies.

Treasury developed the legislation for the Excise Tariff Amendment (Fuels) Act 2004 and the Energy Grants (Cleaner Fuels) Scheme Act 2004, which were passed by parliament in the first half of 2004. These acts together provide for the taxation of biodiesel, for the payment of grants for the production and importation of biodiesel, and for grant measures aimed at encouraging the production of cleaner fuels.

Treasury also developed the Excise Tariff Amendment Act (No.1) 2004, which ratified an earlier tariff proposal to apply an excise to ethanol. Treasury developed the Excise and Other Legislation Amendment (Compliance Measures) Act 2004, which deals with illegally diverted exports and illegally purchased tobacco seed and product. Work on the treatment of excise equivalent imports is on going.

Treasury assisted the Government in developing the policy on assistance to winemakers, and developed the Tax Laws Amendment (Wine Producer Rebate and Other Measures) Bill 2004.

Treasury advised on a GST transitional measure to deal with long term non-reviewable contracts and undertook targeted consultation to assist in developing legislation.

Treasury also provided advice on GST changes announced in the 2004-05 Budget in which a range of small businesses will be entitled to pay and report GST annually and apply private use apportionment on an annual basis. Treasury developed the Indirect Tax Legislation Amendment (Small Business Measurers) Bill 2004 which was introduced to parliament to facilitate the announced changes.

Inspector-General of Taxation
Treasury provided support to ministers in establishing the office of Inspector-General of Taxation. The first Inspector-General of Taxation, Mr David Vos, AM, was appointed in August 2003.
The Inspector-General of Taxation Act 2003 outlines the powers of the Inspector-General of Taxation to review administration systems established both by the Australian Taxation Office and under tax legislation, and report on how the systems reviewed could be improved. Reports of the Inspector-General must be released to the public.

Community consultation
Work has continued on implementing the Government’s reforms to improve community consultation processes on tax design that were originally announced on 2 May 2002. A brochure, Engaging in Consultation on Tax Design, was produced and distributed to assist potential stakeholders to participate in the consultation process.

The Board of Taxation monitors the consultation process. Reports to the Board indicate that there has been consultation on nearly all measures since the reforms were announced. There were only two measures where consultation did not happen. One was a minor technical amendment and the other was politically sensitive. In the general, feedback from those consulted has been positive.

Senate Tax Inquiry
Treasury made a submission to the Senate Economics References Committee’s inquiry into the structure and distributive effects of the Australian taxation system. Treasury representatives also appeared at one of the inquiry’s public hearings.

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

Informing the public on personal taxation and superannuation policies
An ongoing role for Treasury is to communicate Government taxation and superannuation policy to relevant industries, key stakeholders and the public. Treasury undertook extensive consultation in 2003-04 to gather information, including the practical impacts of possible policy and legislative changes.

Treasury also prepares and issues consultation papers for public comment as part of its communication processes. These papers are provided directly to key industry associations and representatives but are also available on Treasury’s website for public comment.
Treasury officials have also presented papers at relevant industry and academic conferences, responded to inquiries from the general public and informed the public on how to pursue any taxation and superannuation-related queries.

A number of representatives from overseas governments have visited Australia to discuss Australia’s taxation and retirement income systems and to compare these with international experience.
Outcome 3
Well-functioning markets

A well-functioning market economy and financial system is integral to the continued economic development of Australia and the wellbeing of the Australian people. Improving the operation of markets is intended to deliver greater economic freedom to more Australians and, at an aggregate level, helps to contribute the resources necessary to formulate and pursue the community’s preferred social and environmental outcomes.

The efficient operation of Australia’s product and services markets is supported by a combination of laws, institutions, policies and administrative practices. Treasury provides advice to the Government on forming and implementing policies in support of well-functioning markets. Treasury’s advice and other outputs help maintain and improve markets so investors and consumers can have confidence and certainty in making decisions that are well informed and free from market distortions and impediments. Treasury also provides the executive for the Takeovers Panel, assists the Royal Australian Mint through representation on its advisory board and is represented on the advisory board of the Australian Government Actuary.

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.

The operations of Axiss Australia, the national agency responsible for promoting Australia as a global financial centre, were transferred from Treasury to the Department of Industry, Tourism and Resources from 1 July 2003. Axiss now operates as a division of Invest Australia, the national inward investment agency.

In 2003-04, Markets Group, under Outcome 3, contributed to Government decisions and objectives through providing advice on a range of issues affecting the operation of markets. In relation to financial markets, that included issues such as prudential regulation, market access and pricing, and financial services regulation. For markets more generally, Markets Group provided advice on structural reforms, including those arising through the operation of the Government’s competition policy; corporate regulation; and consumer information and product safety, which facilitate consumer participation in markets. Markets Group also provided professional actuarial services analysing and quantifying
uncertain future financial flows for public sector clients, and provided advice on foreign investment policy and the processing of foreign investment proposals.

On the international front, Markets Group contributed to the successful negotiation of two bilateral free trade agreements, as well as providing policy input on issues, including international investment matters, arising in multilateral forums such as the World Trade Organisation (WTO) and the Organisation for Economic Co-operation and Development (OECD) and regional forums such as Asia-Pacific Economic Cooperation (APEC). Markets Group contributed to discussions with New Zealand to develop common regulatory frameworks and provided advice to the Government on adopting international accounting standards.

Another important part of Markets Group’s activities is its involvement in consultations, particularly in areas where reforms or new Government measures are proposed. Markets Group consults with other Australian Government agencies, state and territory governments, industry, the general public and other stakeholders on various issues related to the support of well-functioning markets.

Feedback from Treasury portfolio ministers indicated that these outputs effectively contributed to their needs in formulating and implementing policies in support of well-functioning markets.
Figure 7: Outputs contributing to Outcome 3

Key priorities in 2003-04

Markets Group advice covered a broad agenda including issues such as corporate governance, market integrity, financial system safety, financial and physical product safety and protecting the national interest under Australia’s foreign investment policy. Strategies for delivery of outputs included developing specialist expertise, proactively identifying emerging issues, reform options and priorities, and developing and maintaining effective working relationships both within Treasury and with key stakeholders. Treasury’s 2003-04 Portfolio Budget Statements and internal planning processes identified the following key priorities for 2003-04:
→ progressing reforms to the framework of prudential supervision for financial institutions, including considering policy issues arising out of the HIH Royal Commission, implementing the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003* and improving the safety of superannuation

→ advising the Government on the operation of the HIH Assistance Scheme and the Australian Reinsurance Pool Corporation

→ progressing reforms to improve the availability and affordability of public liability, professional indemnity, medical indemnity and terrorism insurance

→ participating in formulating policy to progress structural reform in key sectors of the economy

→ implementing Dawson Review recommendations on competition provisions in the *Trade Practices Act 1974*

→ contributing to the Doha round of negotiations in the WTO and coordinating Treasury involvement in negotiations for the Free Trade Agreement with the United States

→ implementing reforms covering independence of auditors, legislative backing for auditing standards, new oversight arrangements for the Financial Reporting Council and more broadly, issues surrounding strengthening the regulatory framework for corporate governance

→ monitoring the operational effectiveness of the new system of financial services regulation

→ progressing international cooperation in financial market regulation, corporate governance, financial reporting and corporate insolvency, with efforts to promote the recognition of national regulatory frameworks covering financial products and financial reporting a priority

→ implementing the Consumer and Financial Literacy Taskforce recommendations

→ developing new graphic and text health warnings on tobacco products.
Key outcomes in 2003–04

→ Treasury advised the Government on its response and implementation approach to the HIH Royal Commission’s 61 policy recommendations. Key outcomes included the completion of the Study of Financial System Guarantees and the Review of Discretionary Mutual Funds and Direct Offshore Foreign Insurers.

→ Treasury contributed to developing the Government’s package of further medical indemnity reforms, including through amending the Medical Indemnity (Prudential Supervision and Product Standards) Act 2003. The package includes a run-off cover indemnity scheme for claims made against medical practitioners who have ceased to practice, funded by a levy on medical indemnity insurers.

→ Treasury developed the Superannuation Safety Amendment Act 2004 and supporting regulations to give effect to the main Superannuation Working Group recommendations. A key element was to license trustees of superannuation funds regulated by the Australian Prudential Regulation Authority.

→ The restructure and closure of the HIH Claims Support Scheme was progressed.

→ Treasury advised Ministers and the Australian Reinsurance Pool Corporation on the operation of the temporary scheme for terrorism risk insurance cover which commenced on 1 July 2003.


Treasury provided policy advice on energy market reform, including proposed changes to establish a new national institutional and regulatory framework for the electricity and gas markets. Treasury developed the *Trade Practices Amendment (Australian Energy Market) Act 2004* and contributed to the Council of Australian Government’s Australian Energy Market Agreement.

Treasury played a key role in successful negotiations for separate Free Trade Agreements with the United States, which was signed in May 2004, and Thailand, which was signed in early July 2004. The Singapore Free Trade Agreement entered into force on 28 July 2004. Treasury has been involved in a joint study on a possible future Free Trade Agreement with China.

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill 2003 passed through all stages of the parliamentary process and received royal assent during 2003-04. Treasury continued to develop measures to facilitate transition to the new financial services regime by clarifying the operation of the *Financial Services Reform Act 2001* and addressing practical issues for industry transition.

Treasury released a model for recognising trans-Tasman security offerings for public comment on 18 May 2004 and it was confirmed that Australia will implement International Accounting Standards from 2005.

Treasury provided advice on product safety standards and managed the Consumer Information Programme.

Treasury provided the Secretariat to a Consumer and Financial Literacy Taskforce, which was formed to establish the first national strategy for consumer and financial literacy in Australia.
Other key outcomes in 2003—04 were:

→ the Australian Government Actuary contributed to policy development by providing specialist actuarial and related advice to the Government and its departments and agencies

→ the Takeovers Panel continued to provide the mechanism for resolving disputes and raising the standards of market behaviour in takeovers

→ the Royal Australian Mint continued to operate successfully in producing circulating and numismatic coins for Australia. Treasury reviewed the Mint’s operating structures. After the review, the Government made an appropriation to the Mint for new capital equipment.
### Table 4: Financial and staffing resources summary for Outcome 3

<table>
<thead>
<tr>
<th>Budget 2003-04 $'000</th>
<th>Actual 2003-04 $'000</th>
<th>Budget 2004-05 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriation Acts No. 1 and 3</td>
<td>10,000</td>
<td>3,408</td>
</tr>
<tr>
<td>Appropriation Acts No 2 and 4</td>
<td>157,519</td>
<td>155,852</td>
</tr>
<tr>
<td>Appropriation Acts No 5 and 6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>21,733</td>
<td>16,420</td>
</tr>
<tr>
<td>Other expenses</td>
<td>- 88,780</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total administered expenses</strong></td>
<td><strong>189,252</strong></td>
<td><strong>264,460</strong></td>
</tr>
<tr>
<td>Revenue from Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Output Group 3.1 Markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 3.1.1 Foreign investment policy advice and administration</td>
<td>2,415</td>
<td>2,300</td>
</tr>
<tr>
<td>Output 3.1.2 Financial system and corporate governance policy advice</td>
<td>13,444</td>
<td>13,047</td>
</tr>
<tr>
<td>Output 3.1.3 Competition and consumer policy advice</td>
<td>5,995</td>
<td>5,770</td>
</tr>
<tr>
<td>Output 3.1.4 Actuarial Services</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>Output 3.1.5 Circulating coin and like products</td>
<td>12,656</td>
<td>10,569</td>
</tr>
<tr>
<td>Corporate costs</td>
<td>12,656</td>
<td>10,569</td>
</tr>
<tr>
<td><strong>Total revenue from Government contributing to the price of departmental outputs</strong></td>
<td><strong>34,510</strong></td>
<td><strong>31,796</strong></td>
</tr>
<tr>
<td>Revenue from other sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Output Group 3.1 Markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 3.1.1 Foreign investment policy advice and administration</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Output 3.1.2 Financial system and corporate governance policy advice</td>
<td>50</td>
<td>1,081</td>
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<tr>
<td>Output 3.1.3 Competition and consumer policy advice</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>Output 3.1.4 Actuarial Services</td>
<td>1,541</td>
<td>1,384</td>
</tr>
<tr>
<td>Output 3.1.5 Circulating coin and like products</td>
<td>46,805</td>
<td>40,310</td>
</tr>
<tr>
<td>Corporate costs</td>
<td>45</td>
<td>640</td>
</tr>
<tr>
<td><strong>Total revenue from other sources</strong></td>
<td><strong>48,441</strong></td>
<td><strong>43,455</strong></td>
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<tr>
<td><strong>Total revenue for departmental outputs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Total revenues from Government and other sources)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>82,951</strong></td>
<td><strong>75,251</strong></td>
<td><strong>80,086</strong></td>
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<tr>
<td>Price of departmental outputs</td>
<td></td>
<td></td>
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<tr>
<td><strong>Output Group 3.1 Markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output 3.1.1 Foreign investment policy advice and administration</td>
<td>2,415</td>
<td>2,491</td>
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<tr>
<td>Output 3.1.2 Financial system and corporate governance policy advice</td>
<td>13,494</td>
<td>12,376</td>
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<tr>
<td>Output 3.1.3 Competition and consumer policy advice</td>
<td>5,995</td>
<td>5,261</td>
</tr>
<tr>
<td>Output 3.1.4 Actuarial Services</td>
<td>1,541</td>
<td>1,333</td>
</tr>
<tr>
<td>Output 3.1.5 Circulating coin and like products</td>
<td>46,805</td>
<td>38,459</td>
</tr>
<tr>
<td>Corporate costs</td>
<td>12,701</td>
<td>12,326</td>
</tr>
<tr>
<td><strong>Total price of departmental outputs</strong></td>
<td><strong>82,951</strong></td>
<td><strong>72,246</strong></td>
</tr>
<tr>
<td>Total estimated resourcing for Outcome 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Total price of outputs and administered expenses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>272,203</strong></td>
<td><strong>336,706</strong></td>
<td><strong>248,885</strong></td>
</tr>
<tr>
<td>Average staffing levels (number)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>327</strong></td>
<td><strong>322</strong></td>
<td><strong>298</strong></td>
</tr>
</tbody>
</table>

**Note:**

The Budget for 2003-04 is as per the 2003-04 Portfolio Additional Estimates Statements and 2003-04 Portfolio Supplementary Additional Estimates Statements.

The Actual for 2003-04 is as per the Audited 2003-04 Financial Statements.

The Budget for 2004-05 is as per the 2004-05 Portfolio Budget Statements.
Output 3.1.1
Foreign investment policy advice and administration

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

Markets Group contributes to Outcome 3 by providing advice on foreign investment proposals, servicing the Foreign Investment Review Board and making decisions under staff authorisations consistent with policy. It also advises the Government on foreign investment policy as it relates to Australia’s participation in multilateral and bilateral agreements on investment.

Performance information

The key performance indicators are:

→ Advice meets Treasury portfolio ministers’ needs in fulfilling their responsibilities.

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

  – around 90 per cent of the roughly 5,000 proposals received each year are processed within 30 days of receipt of a completed application

  – responses are provided, on average, within five days to around 40,000 general telephone and mail inquiries received each year.

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

→ An effective system of monitoring compliance with policy occurs — possibly leading to prosecutions, but aimed overall to reduce non-compliance.

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

→ The OECD Guidelines for Multinational Enterprises are promoted effectively in accordance with the responsibilities of the National Contact Point for the Guidelines.
Analysis of performance

Advice and input into policy processes
During 2003-04 Treasury and the Foreign Investment Review Board provided advice to portfolio Ministers on larger, more important or sensitive foreign investment cases requiring ministerial decisions against associated legislation and policy. Significant proposals such as News Corporation Limited’s relocation of its place of incorporation offshore, Coca-Cola Amatil’s proposed acquisition of Berri Limited, and Burns and Hess Group Australia Proprietary Limited’s takeover of Peter Lehmann Wines Limited were referred to the Treasurer, or a ministerial delegate for a decision. However, Treasury officers under delegation reviewed most cases, with senior management and the Foreign Investment Review Board overseeing those decisions on a weekly basis for consistency of process and policy.

Representation in international forums
Treasury provides policy input on international investment issues in multilateral forums, such as the WTO and OECD, in regional forums such as APEC, and bilaterally through free trade agreements, investment protection and promotion agreements and other bilateral partnerships.

Free Trade Agreements/Closer Economic Cooperation
During 2003-04, Treasury participated in negotiations on the Australia-United States Free Trade Agreement and the Australia-Thailand Free Trade Agreement in the areas of investment, financial services and competition policy. The Foreign Investment Policy Division coordinated Treasury’s interests in the Australia-United States Free Trade Agreement negotiations.

The Australia-United States Free Trade Agreement was signed by Australia’s Trade Minister, the Hon Mark Vaile MP, and the United States Trade Representative, Mr Robert Zoellick, in Washington on 18 May 2004. The proposed date for entry into force is 1 January 2005. The agreement liberalises trade in services, including professional and financial services, and Australia’s foreign investment policy as it applies to US investors.

The agreement preserves the main features of Australia’s foreign investment policy, including the Government’s ability to screen all investment of major significance. It also provides a strong framework of legal protections for investors. The Investment Chapter provides investors of both countries with national treatment and most-favoured nation treatment when investing in the other country. These commitments will ensure that Australian investors are treated no less favourably than domestic investors in the United
States or investors from third countries investing in the United States except in areas specifically exempted.

The Australia-Thailand Free Trade Agreement was signed by the Prime Minister, the Hon John Howard MP, and Thailand’s Prime Minister, Dr Thaksin Shinawatra, in Canberra on 5 July 2004. The agreement will benefit Australian investors by providing for majority Australian ownership in a number of sectors and sub-sectors, including mining, and by providing Australian investors with legal protection against expropriation.

The Australia-Singapore Free Trade Agreement entered into force on 28 July 2003. Australia will provide a help desk to assist Singaporean business investors with applications for direct investment in Australia. Treasury is responsible for operating the Singapore help desk.

Treasury is involved in the high-level consultations between Australia and Japan and between Australia and China to explore options for deeper economic links. On 17 July 2003, Prime Ministers Howard and Koizumi signed a new agreement, the Australia-Japan Trade and Economic Framework, to build on the two other formal agreements between Australia and Japan and further strengthen the bilateral economic relationship. Both countries will undertake a joint study to examine the costs and benefits of liberalising trade in goods and services and investment between Australia and Japan.

On 24 October 2003, Australia and the People’s Republic of China signed a Trade and Economic Framework Agreement. A key element is to complete a joint study into a possible free trade agreement by 31 October 2005.

Treasury provided policy input to both the Australia-Japan joint study and the Australia-China joint feasibility study on foreign investment issues and Australia’s foreign investment policy.

**Organisation for Economic Co-operation and Development**

Treasury is responsible for implementing and promoting the OECD Guidelines for Multinational Enterprises in Australia. This voluntary code for responsible business conduct is recommended by governments to multinational enterprises operating in or from the 30 OECD member countries and 8 non-member adhering countries. The principles and standards for responsible business behaviour cover employment, industrial standards, disclosure, the environment, human rights and bribery.
Each adhering country has a national contact point to ensure effective implementation and promotion. The General Manager, Foreign Investment Policy Division is the Australian national contact point. In 2003-04, the focus was on four outcomes:

→ continuing constructive dialogue established with the NGO community and engaging interested parties on key issues arising from implementing the guidelines

→ initiating outreach to the business community to promote the guidelines and increasing efforts to establish a network of business contacts to consult

→ continuing contact with officials from other Government agencies to discuss the guidelines and other corporate social responsibility initiatives

→ enhancing promotional efforts through the review and upgrade of the website www.ausncp.gov.au and continuing efforts to incorporate the guidelines into domestic corporate governance and social responsibility reporting frameworks.

At the OECD Annual Meeting of National Contact Points in June, the Australian national contact point tabled a detailed report (prepared in consultation with business, labour and other non-government organisations) on its activities during the year and attended an OECD Roundtable on the role of the guidelines in encouraging the positive contribution of business to the environment.

**Asia-Pacific Economic Cooperation**

During 2003-04, Treasury revised and updated the investment chapter of the annual APEC Individual Action Plan, and contributed to peer reviews of the investment chapters of China, the United States, Chile and Peru.

In May 2004, a senior Treasury official gave a presentation on public sector transparency and the international investor at an APEC-OECD cooperative initiative on international investment in Chile. The presentation focused on transparency standards, implementations issues, the evolving role of transparency provisions in international investment agreements, and the importance of transparency in good public and private sector governance.

**Liaison with Department of Foreign Affairs and Trade**

Treasury provided specialised advice to Foreign Affairs and Trade on Australia’s involvement in the WTO Working Group on Trade and Investment and the WTO Doha round of negotiations on the General Agreement on Trade and Services. Treasury also provides advice to Foreign Affairs and Trade on Australia’s negotiation of bilateral and regional free
trade agreements and bilateral investment treaties. A model Australian investment protection and promotion agreement text provides the basis for negotiating investment agreements. Australia has signed investment treaties with 22 countries and is completing two new investment treaties with Mexico and Turkey.

Processing of proposals
Treasury considered about 5,167 proposals for 2003-04, slightly fewer than in 2002-03. About 94 per cent of cases were decided within 30 days of receipt. Treasury also responded to thousands of telephone inquiries and written and email inquiries, generally within five days. During the year, 125 final, interim or divestment orders were issued, mainly for real estate. This is a smaller proportion of the number of cases than last year, a good outcome in compliance terms.

Compliance standards
Treasury’s efforts through 2003-04 to strengthen compliance focused on three broad elements:

→ developing a new case management system and integrated online application facility to improve application accuracy and reduce processing times

→ enhancing communication about foreign investment policy to foreign investors, their agents, industry associations and other Government agencies involving a continuing programme of targeted public speeches, ongoing improvements to the Foreign Investment website and the development of easy-to-follow written materials

→ monitoring compliance with foreign investment policy through a rolling programme. Treasury examined around 2,900 decided proposals in 2003-04 to ensure fulfilment of conditions and monitors all major conditional business sector approvals. Targeted follow-up is also carried out in the real estate sector ranging from routine checking of compliance with conditions to more complex investigations based on information received and interagency cooperation. In some instances, this resulted in punitive action against foreign parties, including prosecution.
Output 3.1.2
Financial system and corporate governance policy advice

The Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel, were responsible for the delivery of Output 3.1.2, 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.

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
- effective presentation of relevant information to inform public debate
- statutory and other procedural requirements are met
- secretariat services provided to advisory bodies are effective
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, are assessed by participants as effective
- the Takeovers Panel achieves intended results
- ministerial correspondence is handled satisfactorily.

Analysis of performance

Treasury provided advice and programme 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. 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**

**Response to the collapse of the HIH Group**

Treasury provided advice leading to the Treasurer’s September 2003 announcement of the Government’s policy response to the HIH Royal Commission. Treasury addressed these recommendations through a number of legislative measures, Budget initiatives and review processes, and referred other recommendations, as appropriate, to States and Territories and relevant independent bodies. Treasury consulted with these parties and prepared advice leading to the Treasurer’s May 2004 announcement on progress in implementation.

Treasury engaged Professor Kevin Davis, Professor of Finance at the University of Melbourne, to conduct the Study of Financial System Guarantees (the Davis Report), and coordinated the Study Team. The Study Team, which included staff from the Australian Prudential Regulation Authority and the Reserve Bank of Australia, assisted Professor Davis with research and consultation. In addition, Treasury prepared a Government discussion paper to accompany the release of the Davis Report. Both documents were released in May 2004.

Treasury engaged Mr Gary Potts to conduct the Review of Discretionary Mutual Funds and Direct Offshore Foreign Insurers (the Potts Review) and provided secretariat support. Treasury assisted with research and consultation. Treasury also summarised key findings of the Potts Review to explain the Government’s decision on these matters.

**Medical indemnity reform**

Treasury provided substantial input to the Government’s Medical Indemnity Policy Review Panel. The Panel comprised the Health Minister the Hon Tony Abbott MP, the then Minister for Revenue and Assistant Treasurer Senator the Hon Helen Coonan, former Reserve Bank Deputy Governor Mr John Phillips, Clayton Utz insurance partner Ms Nancy Milne, Australian Medical Association President Dr Bill Glasson, Australian Medical Association indemnity representative Dr Andrew Pesce, Chairman of the Council of Procedural Specialists Professor Don Sheldon, and Rural Doctors Association President Dr Sue Page. The Government accepted the panel’s recommendations in December 2003.

Treasury provided advice to the Government on implementing the package of further medical indemnity reforms, including through amending the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*. Parliament passed the amendments in
June 2004. The package provides a run-off cover indemnity scheme for claims made against medical practitioners who have ceased to practise, funded by a levy on medical indemnity insurers.

**Superannuation**

Treasury advised the Government on the implementation of its response to the recommendations of the Superannuation Working Group, announced on 28 October 2002. Treasury developed the *Superannuation Safety Amendment Act 2004*, which Parliament passed on 31 March 2004, and supporting regulations to give effect to the main Superannuation Safety Amendment Act recommendations, including licensing trustees of superannuation funds regulated by the Australian Prudential Regulation Authority. Between December 2003 and February 2004, Treasury consulted on the proposed regulations, invited written submissions and held roundtable meetings with industry representatives. In February 2004, Treasury officers appeared before a Senate Economics Committee inquiry into the provisions included in the Superannuation Safety Amendment Act.

Treasury advised the Government on the review of Part 23 of the *Superannuation Industry (Supervision) Act 1993* which provides for financial assistance to superannuation funds that suffer loss due to fraudulent conduct or theft. The Government released a discussion paper then Treasury conducted public consultations by inviting written submissions and holding a roundtable meeting with industry representatives.

**HIH Claims Support Scheme**

Treasury provided policy advice and closed the HIH Claims Support Scheme to new applications and established a late applications facility for special circumstances claims. Treasury progressed the Government’s decision to restructure the HIH Claims Support Scheme, which includes the wind out of HIH Claims Support Limited, and consolidate administrative and claims management functions with one service provider acting as agent for the Government.

**Australian Reinsurance Pool Corporation**

Following the start of the Government’s terrorism insurance scheme on 1 July 2003, Treasury provided advice to ministers and the Australian Reinsurance Pool Corporation, the statutory body managing the scheme.
Public liability and professional indemnity insurance
Treasury provided policy advice and support for three ministerial meetings, responded to issues surrounding the availability and affordability of public liability and professional indemnity insurance, and worked with the states and territories through the Insurance Issues Working Group.

Treasury also provided policy advice and support for Australian Government ministers attending two meetings of the Ministerial Council for Corporations/Standing Committee of Attorneys-General which considered this issue, and worked with the States and Territories through a joint officers’ working group of this Ministerial Council and Committee.


Treasury developed the Treasury Legislation Amendment (Professional Standards) Act 2004, also passed on 25 June 2004, to amend the Trade Practices Act 1974, the Corporations Act 2001 and the Australian Securities and Investments Commission Act 2001 to support state and territory professional standards legislation. Prescribed schemes will provide professionals with capped liability if they implement comprehensive risk management processes and practices, have prescribed levels of professional indemnity insurance cover, and provide effective means of consumer complaint handling.

Review of financial sector levies
Treasury chaired a review of financial sector levies to evaluate the arrangements that determine levies imposed on the financial services sector to support the Australian Prudential Regulation Authority’s operations and certain Australian Securities and Investments Commission and Australian Taxation Office operations. In response to the Review’s recommendations, the Government plans to change levy arrangements.

Amendments to financial sector legislation
Treasury developed amendments contained in the Financial Sector Legislation Amendment Act (No. 1) 2003 in November 2003. The Act made amendments to the Banking Act 1959 to introduce a ‘fit and proper’ test for directors and senior managers of authorised
deposit-taking institutions and authorised non-operating holding companies, so Australia complies with the Basel Core Principles of Effective Banking Supervision.

Insurance Contracts Act review
Treasury provided the Secretariat for the two-phase Review of the Insurance Contracts Act 1984, commissioned in September 2003. The first phase report was delivered to the Government in October 2003 and draft amendments to give effect to the recommendations were released for consultation in March 2004. The second phase report contained nearly 40 recommendations and was delivered to the Government in June 2004.

Financial services reform
Treasury responded to issues arising out of the implementation of the Financial Services Reform Act 2001. The Act is a harmonised licensing, conduct and disclosure regime for financial products, markets and service providers. In cooperation with the Australian Securities and Investments Commission, and in consultation with industry and consumer stakeholders, Treasury worked to ensure that transition to the new regime by 11 March 2004 was as smooth as possible. In particular, Treasury developed the Financial Services Reform Amendment Act 2003, which received Royal Assent on 17 December 2003. The Act clarified the operation of the Financial Services Reform Act and removed practical difficulties encountered during transition. In addition, Treasury developed several sets of Corporations Regulations. In keeping with the Government’s Corporate Law Economic Reform Program processes, consultation on proposals for legislative and regulatory changes was extensive.

International liaison
Treasury participated in negotiations on financial services for the Free Trade Agreements with Thailand and the United States, and at the WTO Doha Round. See Output 3.1.1.

As noted under Output 1.1.2, Treasury worked on a number of initiatives designed to move towards an Australian-New Zealand single economic market based on common regulatory frameworks. In particular, Treasury officials were part of a working party, comprising officials of the Australian and New Zealand Treasuries, the Australian Prudential Regulation Authority, the Reserve Bank of Australia and the Reserve Bank of New Zealand, which reported to the Australian Treasurer and the New Zealand Minister of Finance on a framework for closer integration in prudential regulation and supervision. Treasury officers liaised with their New Zealand and Singaporean counterparts on mutual recognition of cross-border offerings of securities and participated in a Trans Tasman Accounting Standards Advisory Group. The group also includes representatives from the Financial
Reporting Council, Australian Accounting Standards Board, Financial Reporting Standards Board (New Zealand), Accounting Standards Review Board (New Zealand), and officials from the New Zealand Ministry of Economic Development and is working towards common accounting standards in Australia and New Zealand. Treasury continued work with other portfolio agencies and key stakeholders to expand Australia’s links to regional and global financial markets.

A Treasury officer chaired the OECD Steering Group on Corporate Governance, which released a revised version of the OECD Principles of Corporate Governance in May 2004. The principles are widely recognised as the key international benchmark on corporate governance. Treasury also was represented at OECD Insurance Committee meetings and provided advice to the OECD on flood mitigation, claims management, corporate governance for insurers and terrorism cover.

As noted under Output 1.1.2, Treasury led the establishment of the APEC Pathfinder Initiative on corporate governance and disclosure regimes. The initiative is designed to raise awareness of and promote improvements in corporate governance frameworks in the region, and is expected to report in 2004.

In June 2004, the United Nations Commission on International Trade Law adopted a Legislative Guide on Insolvency Law for all nations, particularly developing nations, on legislative frameworks for insolvency systems. The guide was prepared in accordance with a proposal put forward by Treasury.

**Money laundering**

The Treasury contributed resources and liaised closely with the Attorney-General’s Department on the consultation and preparation of anti-money laundering law reforms to implement the revised international standards put out by the Financial Action Task Force on Anti-money Laundering. The reforms will affect financial sector and international assessment processes that take into account prudential regulation.

**Takeovers Panel**

The Takeovers Panel is the primary forum for resolving disputes that arise during a takeover. Treasury advises portfolio ministers on panel operations and appointments. During 2003-04 the panel dealt with 30 applications under Part 6.10 of the Corporations Act. Of those 30 applications, two were reviews of decisions by the Australian Securities and Investments Commission and two were internal reviews. No panel decision was subject to external review.
Currency
Treasury chaired and served on the Royal Australian Mint Advisory Board. In the 2004 Budget, the Mint received funding of $2.5 million for 2007-08 to fund the final year of its five-year capital equipment replacement programme.

Treasury also prepared currency determinations for the Perth Mint’s numismatic coin programmes.

Company law and corporate governance
Corporate Law Economic Reform Program 9
This project seeks to ensure Australia has an effective regulatory and disclosure framework for corporations, improving the structures and incentives for a fully informed market. From October 2003 Treasury assisted in public consultation on the draft Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill. The Bill included provisions addressing some HIH Royal Commission recommendations. Treasury advised the minister in connection with the Bill’s passage through the parliament. The Bill was introduced in December 2003 and finally passed in June 2004. Most of the Act’s provisions commenced on Royal Assent (30 June 2004) or the next day (1 July 2004).

Corporate Law Economic Reform Program 7
Treasury assisted the Government to introduce and pass legislation to streamline the relationship between the Australian Securities and Investments Commission and its business clients by simplifying document lodgment and compliance. The Corporations Legislation Amendment Act 2003, the Corporations (Fees) Amendment Act 2003 and the Corporations (Review Fees) Act 2003 generally took effect from 1 July 2003, with complementary transitional, fees and other related regulations coming into force during the year.

Corporate Law Economic Reform Program 8
Treasury published the proposals on adopting the United Nations Commission on International Trade Law Model Law on cross-border insolvency for public comment in September 2002. Most submissions favoured adopting the model law, which is likely to be enacted in a Bill to be introduced in 2004.

International accounting standards
Treasury provided advice to the Government regarding Australia’s adoption of International Financial Reporting Standards (IFRS) and issues surrounding implementation. Treasury also consulted with the Australian Accounting Standards Board (AASB), the Australian
Securities and Investment Commission, industry groups and individual companies on this issue.

The Financial Reporting Council (FRC) Secretariat, which is housed within Treasury, briefed the FRC and facilitated discussions between the FRC and stakeholder groups on Australia’s adoption of IFRS.

At its 31 March 2004 meeting, the FRC reviewed the timetable for IFRS adoption. At its meeting on 23 April 2004, the FRC reaffirmed the strategic direction to the AASB for the adoption of IFRS in Australia for reporting periods beginning on or after 1 January 2005.

The Parliamentary Secretary to the Treasurer convened an informal discussion group to provide a forum where key stakeholders affected by Australia’s transition to IFRS could discuss their concerns and provide feedback directly to the Government on the content as well as process issues surrounding the adoption of IFRS.

**Statutory and other procedural requirements**

**Australian Prudential Regulation Authority funding and levies**

Treasury provided advice to the Government on funding for the Australian Prudential Regulation Authority. Additional funding will strengthen its supervisory capacity, principally in supervising large, complex and systemically important financial institutions.

Treasury provided advice in relation to the determination of financial sector levies (which primarily support the Australian Prudential Regulation Authority’s operations) for 2004-05.

**Ministerial decisions under statutes**

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

Treasury advised on and prepared associated instruments on 12 applications under the *Financial Sector (Shareholdings) Act 1998* and two applications under section 63 of the *Banking Act 1959* in 2003-04.

Treasury advised on applications for financial assistance under Part 23 of the *Superannuation Industry (Supervision) Act 1993*. In 2003-04, the Government made 79 determinations, granting approximately $7 million in financial assistance.
Appointments
Treasury processed appointments to the Australian Accounting Standards Board; the Australian Reinsurance Pool Corporation Board; the Australian Securities and Investments Commission; the Companies Auditors and Liquidators Disciplinary Board; the Corporations and Markets Advisory Committee and its legal subcommittee; the Financial Reporting Council; the Financial Sector Advisory Council; the Life Insurance Actuarial Standards Board; the Payments System Board; the Superannuation Complaints Tribunal; and the Takeovers Panel.

Secretariat services
Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2003-04. The Treasury also assisted the Parliamentary Secretary to fulfil the Commonwealth’s obligations under the Corporations Agreement 2002.

Treasury provided secretariat support for the Financial Reporting Council, a stakeholder body that provides broad oversight of the accounting standard setting process, including the Australian Accounting Standards Board. The role of the Financial Reporting Council subsequently was expanded following implementation of the Corporate Law Economic Reform Program 9.

Treasury provided secretariat services to the Financial Sector Advisory Council (FSAC). FSAC 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.

Treasury provided secretariat services to the HIH Assistance Review Panel.

Output 3.1.3
Competition and consumer policy advice

Competition and Consumer Policy Division and the Strategy, Consumer and Group Services Division were responsible for the delivery of Output 3.1.3, 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 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
- 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
- effective presentation of relevant information to inform consumers and businesses
- secretariat services provided to advisory bodies are effective
- progress in providing effective and relevant consumer information and mechanisms promotes consumer protection in product safety and supports effective self-regulation in the marketplace
- ministerial correspondence is handled satisfactorily.

Analysis of performance

Competition policy
During 2003-04, Treasury provided advice on a range of issues affecting Australia’s competition framework.

Treasury developed the Trade Practices Legislation Amendment Bill 2004 which implements the Australian Government’s response to the independent review of the competition provisions (Part IV) of the Trade Practices Act 1974 and their administration (the Dawson Review). The Bill was introduced into parliament on 24 June 2004. The reforms aim to improve the competition and authorisation provisions and administration of the Trade Practices Act by including a voluntary formal clearance process for mergers, direct application to the Australian Competition Tribunal for merger authorisation with time limits imposed on both Australian Competition and Consumer Commission and Australian Competition Tribunal processes, and a notification process to facilitate collective bargaining by small businesses with large businesses. The Bill also implements the Australian Government’s response to the Productivity Commission’s review of section 2D
of the Trade Practices Act relating to local government exemptions, and addresses Constitutional uncertainties arising from the Hughes case.

Treasury also advised on the Australian Government response to the report of March 2004 by the Senate Economics References Committee on *The effectiveness of the Trade Practices Act 1974 in protecting small business*.

Treasury has an advisory, reporting and coordination role in the Australian Government’s implementation of National Competition Policy. During 2003-04, Treasury provided advice to ministers on National Competition Policy payments to the state and territory governments, sector specific reforms and inter-jurisdictional issues. Treasury also oversees the preparation and publication of the Australian Government’s National Competition Policy annual report, which details the Australian Government’s performance and operation in relation to its national competition policy obligations. During 2003-04, Treasury led the development of terms of reference for a Productivity Commission inquiry on National Competition Policy arrangements.

Treasury advice on structural policy covered a wide range of issues. Treasury prepared policy advice on issues affecting energy markets, including proposed changes to establish a new national institutional and regulatory framework for the electricity and gas markets. Treasury developed, in conjunction with the Department of Industry Tourism and Resources and state and territory governments, the *Trade Practices Amendment (Australian Energy Market) Act 2004* which received Royal Assent on 30 June 2004 and contributed to the development of the Council of Australian Governments’ Australian Energy Market Agreement signed on 25 June 2004.

Treasury’s policy advice on transport markets focused on land transport including the Australian Government’s *AusLink* proposals and arrangements for interstate rail transport. Treasury also advised on developments in the aviation sector, including access to the airside services at Sydney Airport and the Australian Competition Tribunal’s review of this decision.

Treasury coordinates and advises the Australian Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2003-04, this involved three public inquiries and four commissioned research references.

Treasury had extensive dealings with other agencies, private sector organisations and international bodies, and contributed to the development of competition and regulatory frameworks in OECD member and non-member countries, through involvement in OECD
competition committees and APEC work. Treasury has also been involved in negotiating competition chapters in free trade agreements with several countries.

**Consumer policy**

In 2003-04, Treasury provided advice to the Government on regulatory frameworks that support consumer confidence and help consumers participate actively in the market. Advice included the review of Australia’s product safety framework.

Treasury continued to provide secretariat support to the Ministerial Council on Consumer Affairs. Treasury also provided secretariat support to the Commonwealth Consumer Affairs Advisory Council and the Electronic Commerce Expert Group.

During 2003-04, Treasury participated in international consumer policy meetings and was elected to a position on the bureau of the OECD Committee on Consumer Policy.

Treasury also worked with relevant Commonwealth agencies to implement the OECD Guidelines for Protecting Consumers across Borders from Fraudulent and Deceptive Commercial Practices.

**Consumer safety**

Treasury provided advice on product safety standards including sunglasses, toys for children under 36 months and vehicle jacks, on product bans including liquid filled yo-yo balls and mini-cup jellies containing the additive konjac, and on possible hazards from blind and curtain cords.

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

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

Standards Australia, industry organisations and governments worked to promote safer markets, and New Zealand and Australian governments worked to harmonise consumer safety regulation under the Trans-Tasman Mutual Recognition Arrangement.

**Consumer information**

Treasury manages the Consumer Information Programme to promote greater national consistency in providing information to consumers and address consumer needs. Key elements include:
→ offline centralised referral through The Australian Consumer Handbook
→ online centralised referral through www.consumersonline.gov.au
→ information targeting consumer scams through The Little Black Book of Scams and www.scamwatch.gov.au
→ product safety information initiatives (for example child product safety publications).

Consumer and Financial Literacy Taskforce
In February 2004, the Government established a high-level Consumer and Financial Literacy Taskforce, headed by prominent finance commentator Paul Clitheroe to improve consumer and financial literacy in the community. Treasury provided secretariat support to the taskforce and assisted with the development of two discussion papers and a series of public consultation meetings in capital cities and regional centres.

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

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

The office has an ongoing support role.

Performance information
The key performance indicator is:

→ 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 2004 the account was in a sound financial position.
Actuarial advice should be of the highest quality. The absence of any complaints about the quality of professional services indicates strong performance.

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

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

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

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

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

The Australian Government Actuary published the *Australian Life Tables 2000-02*. This publication is the sixteenth in the series of official Australian Life Tables (which date back to 1881-90). The Australian Life Tables are used for statutory, tax and social security purposes, as well as providing a reference for other purposes.

**Operational outcomes**
The office operates under the direction of an internal management board comprising three senior Treasury officers, including the Australian Government Actuary. This board reviews financial performance and oversees the strategic direction of the office.
Output 3.1.5
Circulating coin and like products

The Royal Australian Mint is a semi-autonomous operating division of the Treasury, responsible for producing circulating and numismatic coin for Australia. The Mint also produces a range of high quality collector coins together with minted non-coin products including medallions. The Mint’s collector coin and minted non-coin business is commercial, within government-set parameters.

In the 2003-04 Budget the Government provided additional funding of $13.5 million over four years for the Royal Australian Mint. Of this amount, $9.5 million over four years will allow the Mint to undertake a staged capital replacement programme of its antiquated coin producing equipment. The remaining $4 million in 2003-04 was a one-off equity injection to meet periodic fluctuations in the Mint’s working capital requirements.

Performance information

Key performance indicators are:

- advice meets Treasury portfolio ministers’ needs in administering their responsibilities and implementing government decisions as they relate to coinage and Royal Australian Mint operations.
- produces circulating coin to Reserve Bank of Australia forecasts.
- meets financial performance targets.
- maintains the National Coin Collection and the Royal Australian Mint’s visitors’ gallery, and promotes public understanding about the cultural and historical significance of coins.

Analysis of performance

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

The 2003-2004 financial year was another challenging year for the Mint in a climate of strong competition for collectables. But despite swings in exchange rates and changes in precious metal prices, the Mint operated at a healthy profit.
The Mint’s operating profit before company tax and net of seigniorage was $2.952 million compared to a forecast of $1.187 million. This profit was due to a number of factors including sound business performance of the numismatic programme, a refinement of the transfer price model, re-valuation of assets at fair value, and accounting changes in the treatment of master tooling. The profit before tax represents a return on gross assets, excluding the Community Service Obligations (that is, the Coin Museum) and approved excess circulating coining inventory, of 10.64 per cent.

The Mint returned $59.889 million to consolidated revenue in seigniorage, royalties and other payments.

Sales of corporate and other product were $1.580 million for the year. This includes the sales of foreign coin production orders of $0.939 million. Sales of medals, medallions and tokens to government and the corporate sector remain a highly competitive market.

Demand for circulating coin was higher than in the previous year. The Reserve Bank of Australia purchased 293 million coins in 2003-04 compared to 238 million coins in the previous year. This growth is thought to represent stabilisation of demand patterns following the large purchases in previous years and the change of ownership of the coin pools. The Reserve Bank forecasts show ongoing growth over the next three years.

Although there was an overall increase in demand for circulating coin compared to last year, seigniorage earnings were $58.098 million this year compared to $79.656 million last year. This is attributable to a shift in the denomination mix from higher to lower denominations.

To ensure ongoing reliability and cost efficiency of production of circulating coins, four high speed coining presses were ordered during the year. Two horizontal presses arrived in the Mint in June 2004. The presses should be more efficient and have lower maintenance costs than existing presses.

The Mint’s numismatic programme yielded $20.506 million. Moving back to traditional themes, particularly on our proof sets, saw a year of extremely strong sales. The innovative 2004 proof set featuring traditional designs but with soft lithography on the $1 coin performed exceptionally well. This coin was the result of collaborative research with the CSIRO.
The Athens Olympic three coin set proved very popular with our collectors, again outperforming budget. The Mint, together with the CSIRO, won a 2003 Engineering Excellence Award from the Engineers Australia, Canberra Division, for the OVD Hologram that was used on these coins.

The Mint uses collector coins to highlight Australia’s numismatic and general history and culture. The 2003-04 numismatic coin programme included a release celebrating the opening of the historic Adelaide to Darwin Railway line which was particularly popular and sold out in record time, and the coin commemorating the 150th anniversary of the Eureka Stockade was very well received when it was launched in Ballarat. The last Australian Penny was honoured by the annual subscription minting, highlighting the 40th anniversary of the Penny’s passing into history with the changeover from Imperial coinage to Decimal currency. A coin highlighting a unique part of Australia’s sporting culture was the Australian Football League coin celebrating Australia’s own game. The uncirculated Rugby World Cup coin also performed well.

This year also saw the close of a nine-year series of Gold Coins with a running theme based on Australia’s floral emblems. The final coins depict the Australian Capital Territory’s Royal Bluebell.

The Mint ran a primary school design competition won by John Serrano, a Year 5 student at St Peter’s Primary School, East Keilor in Victoria who will have his design minted on an Australian 50c collector coin and possibly also a circulating coin, to be released in the second half of 2004. The winning design of a wombat, koala and lorikeet was selected by Australians who participated in the voting on the Mint’s website choosing from amongst the final top five designs submitted.

The Mint received a prestigious award from the Heraldry Society of the United Kingdom for the exemplary use of and quality of presentation of the Australian and state and territory coats of arms which appeared on the Centenary of Federation 50c coins in 2001 as well as for the information provided to collectors about the meaning of the coats of arms. The award was accepted by the Australian High Commissioner in London on behalf of the Mint.

In December 2003, Australia celebrated the centenary of women’s first opportunity to exercise their right to vote and stand in federal elections with the release of a $1 coin commemorating women’s suffrage. Approximately 10 million of the $1 suffrage coins were minted for general circulation.
Visitor numbers increased over 2002-03. A special exhibition of a set of a 1853 Sydney Sovereign and a Half Sovereign, one of only four existing sets in the world and the only one owned by an Australian, was on loan as a special display at the Mint. The two coins are valued at over three-quarters of a million dollars and generated a lot of excitement with visitors.

### Table 5: Australian decimal coin issued by Treasury

<table>
<thead>
<tr>
<th>Year</th>
<th>$2</th>
<th>$1</th>
<th>50c</th>
<th>20c</th>
<th>10c</th>
<th>5c</th>
<th>2c</th>
<th>1c</th>
<th>Total</th>
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<tr>
<td>1965-92</td>
<td>395,960</td>
<td>319,780</td>
<td>217,625</td>
<td>161,303</td>
<td>93,532</td>
<td>84,652</td>
<td>48,793</td>
<td>31,162</td>
<td>1,352,807</td>
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<td>1992-93</td>
<td>16,460</td>
<td>7,150</td>
<td>50</td>
<td>56</td>
<td>4,000</td>
<td>3,874</td>
<td>—</td>
<td>—</td>
<td>31,590</td>
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<td>1993-94</td>
<td>26,100</td>
<td>24,075</td>
<td>2,349</td>
<td>280</td>
<td>2,440</td>
<td>5,716</td>
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<td>—</td>
<td>60,960</td>
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<td>37,600</td>
<td>9,920</td>
<td>3,080</td>
<td>3,240</td>
<td>5,540</td>
<td>—</td>
<td>—</td>
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<td>27,000</td>
<td>32,200</td>
<td>8,000</td>
<td>1,040</td>
<td>—</td>
<td>4,140</td>
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<td>6,960</td>
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<td>20,500</td>
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<td>4,340</td>
<td>820</td>
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<td>15,930</td>
<td>10,700</td>
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<td>—</td>
<td>—</td>
<td>127,120</td>
</tr>
<tr>
<td>2000-01</td>
<td>31,600</td>
<td>16,000</td>
<td>8,760</td>
<td>9,660</td>
<td>7,320</td>
<td>7,300</td>
<td>—</td>
<td>—</td>
<td>80,640</td>
</tr>
<tr>
<td>2001-02</td>
<td>67,200</td>
<td>37,400</td>
<td>27,080</td>
<td>18,020</td>
<td>11,520</td>
<td>10,680</td>
<td>—</td>
<td>—</td>
<td>171,900</td>
</tr>
<tr>
<td>2002-03</td>
<td>48,000</td>
<td>23,300</td>
<td>9,640</td>
<td>4,780</td>
<td>4,680</td>
<td>5,020</td>
<td>—</td>
<td>—</td>
<td>95,420</td>
</tr>
<tr>
<td>2003-04</td>
<td>33,800</td>
<td>12,300</td>
<td>8,920</td>
<td>7,700</td>
<td>7,360</td>
<td>6,660</td>
<td>—</td>
<td>—</td>
<td>76,740</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>830,520</strong></td>
<td><strong>596,705</strong></td>
<td><strong>327,034</strong></td>
<td><strong>231,299</strong></td>
<td><strong>147,732</strong></td>
<td><strong>154,732</strong></td>
<td><strong>48,793</strong></td>
<td><strong>31,162</strong></td>
<td><strong>2,367,977</strong></td>
</tr>
</tbody>
</table>
Table 6: Circulating coin production 2003-04

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Design</th>
<th>Date of Coin</th>
<th>Alloy</th>
<th>Pieces (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 cents</td>
<td>Standard</td>
<td>2003</td>
<td>Cupro-Nickel</td>
<td>61.292</td>
</tr>
<tr>
<td>5 cents</td>
<td>Standard</td>
<td>2004</td>
<td>Cupro-Nickel</td>
<td>49.908</td>
</tr>
<tr>
<td>10 cents</td>
<td>Standard</td>
<td>2003</td>
<td>Cupro-Nickel</td>
<td>44.499</td>
</tr>
<tr>
<td>10 cents</td>
<td>Standard</td>
<td>2004</td>
<td>Cupro-Nickel</td>
<td>27.101</td>
</tr>
<tr>
<td>20 cents</td>
<td>Volunteers</td>
<td>2003</td>
<td>Cupro-Nickel</td>
<td>7.574</td>
</tr>
<tr>
<td>20 cents</td>
<td>Standard</td>
<td>2004</td>
<td>Cupro-Nickel</td>
<td>26.638</td>
</tr>
<tr>
<td>50 cents</td>
<td>Volunteers</td>
<td>2003</td>
<td>Cupro-Nickel</td>
<td>8.202</td>
</tr>
<tr>
<td>50 cents</td>
<td>Standard</td>
<td>2004</td>
<td>Cupro-Nickel</td>
<td>7.318</td>
</tr>
<tr>
<td>1 Dollar</td>
<td>Volunteers</td>
<td>2003</td>
<td>Aluminium Bronze</td>
<td>4.149</td>
</tr>
<tr>
<td>1 Dollar</td>
<td>Centenary of Suffrage</td>
<td>2003</td>
<td>Aluminium Bronze</td>
<td>10.007</td>
</tr>
<tr>
<td>1 Dollar</td>
<td>Standard</td>
<td>2004</td>
<td>Aluminium Bronze</td>
<td>0.848</td>
</tr>
<tr>
<td>2 Dollars</td>
<td>Standard</td>
<td>2002</td>
<td>Aluminium Bronze</td>
<td>4.492</td>
</tr>
<tr>
<td>2 Dollars</td>
<td>Standard</td>
<td>2003</td>
<td>Aluminium Bronze</td>
<td>13.656</td>
</tr>
<tr>
<td>2 Dollars</td>
<td>Standard</td>
<td>2004</td>
<td>Aluminium Bronze</td>
<td>3.277</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>268.961</strong></td>
</tr>
</tbody>
</table>

Table 7: Visitor numbers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total visitor numbers</td>
<td>173,198</td>
<td>186,597</td>
<td>208,429</td>
<td>182,104</td>
<td>188,262</td>
</tr>
</tbody>
</table>

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

The Mint’s customer service charter is available in hard copy and on its website. The customer service charter is due to be reviewed in December 2004.

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

The Mint carries out market research to establish customer satisfaction levels as well as views about the coins it is planning to issue, through either surveys or focus groups. Mint staff also regularly meet collectors and dealers. In addition the public can raise matters directly with the Mint through letters, phone calls, and two dedicated email response addresses on the Mint’s website.
Strategic Communications Division

Strategic Communications Division assists in the achievement of Treasury’s outcomes by providing services in relation to: cabinet liaison, parliamentary liaison, ministerial correspondence, ministerial briefing coordination, issues management, and freedom of information requests. It also undertakes Treasury-wide projects on knowledge and information management.

Key priorities in 2003-04
The key priorities were to:

→ monitor and manage issues, in partnership with relevant policy areas in groups
→ provide advice and assist the Executive Board on improvements to Treasury-wide systems and processes on knowledge and information management
→ continue to provide ministerial support services.

Key outcomes in 2003-04
The key outcomes achieved were:

→ new work processes and systems to strengthen issues management capabilities
→ an upgrade of the electronic tracking system for advice sent to ministers
→ a fully-searchable electronic system to access ministers’ press releases and interview transcripts
→ various improvements to record keeping practices
→ enhanced reporting of ministerial correspondence.
Corporate services

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

Corporate services include information technology, information and records management, information technology training, publishing, web page and other communications support, human resource management, financial and accounting services, and contracting, security and facilities management. The ministerial liaison function formerly undertaken by Corporate Services Division was transferred to the newly created Strategic Communications Division in October 2003.

Key priorities in 2003-04

Corporate Services Division priorities identified in the 2003-04 Corporate Plan were:

→ progressing knowledge management initiatives, including electronic records management, Treasury intranet upgrades and continued development of Treasury’s internet sites

→ enhancing management of Treasury contracts and consultancies

→ facilitating the negotiation of Treasury’s fourth Certified Agreement

→ developing business process improvements following the SAP Financial Management System upgrade

→ expanding the use of information technology based human resource functions, including introducing an e-recruitment system and moving to on-line performance appraisals

→ expanding and enhancing information technology applications to support Treasury operations.
Key outcomes in 2003-04

Outcomes relating to the above priorities are as follows:

- TRIM electronic records management was implemented progressively, involving extensive staff training. To enhance overall record keeping practices across the department, the training was supplemented by additional training on general record keeping principles and practices.

- Version 3 of the Treasury intranet was released in February 2004. This project involved redeveloping the previous intranet to include a new interface, improving and speeding up data retrieval, restructuring information and developing a content management system. The new intranet serves as a major channel of communication and information sharing across Treasury.

- Treasury hosts 43 websites and uses the internet as a primary mechanism to disseminate information to the public. In 2003-04, Treasury and ministerial websites received 9,244 emails, compared with 6,339 in 2002-03. In 2003-04, three new websites were released to disseminate information and assist with the consultation process for public reviews which Treasury undertakes.

- Treasury facilitated an upgrade of its information technology operating system and related software to Microsoft XP/Office XP, with associated training for all staff.

- Treasury introduced a range of new information technology applications and refined existing applications to enhance overall operational efficiency. New systems will establish a comprehensive database of contracts and consultancies Treasury enters into, facilitate the preparation of budget papers and related briefings and permit on-line processing of performance appraisals and staff recruitment. Existing systems for tracking ministerial correspondence and departmental communications with government ministers were upgraded and the financial information management and human resource information management systems were further developed.

- Negotiations for a new certified agreement to replace the Treasury Certified Agreement 2002-04, and related arrangements for staff employed under Australian Workplace Awards, were conducted throughout the latter half of 2003-04. These negotiations seek to ensure Treasury can meet the performance expectations of government while providing a satisfying and rewarding place of employment for staff.
Other key outcomes in 2003-04 for Corporate Services Division included:

- Developing and launching the new Workplace Diversity Plan 2003-06. The plan contains strategies and performance indicators for six key objectives which underpin Treasury’s commitment to embracing diversity within the workplace.

- Comprehensively surveying Treasury staff and providing an analysis of the survey results to the Executive Board to assist in their management.

- Revising and enhancing a wide range of policies relating to staff professional development opportunities. These changes included introducing postgraduate studies assistance awards and expanding professional and work skills training.

- Continuing to strengthen the audit function with an increased focus on evaluating key business activities and risks, including starting work on embedding a more formal risk management framework.

- Further enhancing the quality assurance control framework for financial statements and reporting processes.

- Evaluating performance with the assistance of a performance monitoring framework based on the balanced scorecard approach.