

# PART TWO

## REPORT ON PERFORMANCE

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## INTRODUCTION

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The report on performance covers the Treasury's departmental and administered items for 2009-10.

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

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

The Treasury's 2009-10 performance is reported at the program level for its policy outcome:

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

Performance outcomes for each program are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2009-10* and the *Treasury Portfolio Additional Estimates Statements 2009-10*.

The key strategies for 2009-10 are to provide advice on:

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

An assessment of this advice is included under each program.

## PROGRAM 1.1: DEPARTMENT OF THE TREASURY

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

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

These groups are supported by Treasury support services that provide key services to assist with systems and facilities which provide essential support and organisational backup to the policy groups.

### PROGRAM OBJECTIVE

The objectives of Program 1.1 are to:

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

### PROGRAM KEY PERFORMANCE INDICATORS

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of high quality, and is based on an objective and thorough understanding of issues and a whole-of-government perspective.

The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;

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

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

## MACROECONOMIC GROUP

### Overview

Macroeconomic Group 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 formulating and implementing effective macroeconomic policy, including monetary and fiscal policy. Macroeconomic Group uses global and regional forums, and bilateral relationships to advance Australia's interests and improve the international economic environment.

The Australian economy has performed better than expected during the global financial crisis through a combination of domestic monetary and fiscal stimulatory responses, Australia's robust institutional and regulatory systems, and the economic strength of the Asian region. Nevertheless, the lingering effects of the global recession are likely to be felt for some time and policy advice has been directed to continuing to manage the recovery. As the economy strengthens, the policy priorities will shift towards improving the productive capacity of the economy to overcome a re-emergence of capacity constraints, particularly through investment in infrastructure and skills development.

The G-20 is now the premier forum for international economic cooperation, with the objective of establishing stronger and more secure foundations for the global economy. The Treasury

has been engaged in the G-20 Framework for Strong, Sustainable and Balanced Growth, which involves a collective consideration by G-20 members of the global policy challenges and a shared evaluation of whether national policy responses are collectively consistent with achieving stronger, more sustainable and balanced global growth. Through the G-20, the Treasury has been involved in a number of important reform initiatives including strengthening global standards for financial regulation and supervision, strengthening the legitimacy, credibility and effectiveness of the international financial institutions, particularly the International Monetary Fund (IMF) and World Bank, and improving access to financial services amongst the poor.

Reflecting the increasing importance of China and India to Australia's economic performance, the Treasury has increased the resources devoted to monitoring these economies and deepening and extending contacts with relevant officials.

The Treasury's work on both the Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit (EAS) continues to support the objectives of the G-20 to address the key global economic policy challenges.

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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.

## Group deliverables

Macroeconomic Group's key deliverables are to advise on:

- domestic and international developments affecting the Australian economy and forecasts of the direction of the Australian and international economies;
- the setting of sound macroeconomic policies in the current environment;
- Australia's involvement in the G-20 processes, reflecting the contribution the systemically important countries can make to coordinating international responses to global economic policy challenges;
- deeper economic engagement strategies with China, India and Indonesia, reflecting the importance of these countries for Australia's economic and strategic interests;
- Australia's participation in the APEC Finance Ministers' process and the EAS process; and
- the role the Treasury plays in government initiatives to develop well functioning economic ministries in the southwest Pacific.

## Group outcomes

Macroeconomic Group's key outcomes were:

- providing analysis of economic conditions including business and household developments, external trade and financial flows, and on inflation and labour market developments. A particular focus was on assessing the impact of the discretionary fiscal stimulus packages on economic activity and employment, and the impact of their phased withdrawal;
- underpinning the analysis and advice by extensive macroeconomic modelling and information from the Treasury Business Liaison Program;
- preparing macroeconomic forecasts, taking into account the effect of the large global economic and financial shocks, the effect of policy measures, and the heightened risks and uncertainties around the global outlook;
- medium and longer-term projections were prepared to inform the medium-term fiscal projections and the 2010 Intergenerational Report: *Australia to 2050 Future Challenges* (IGR2010);
- providing an ongoing assessment of the risks to the domestic and international outlook;
- publishing material, including economic forecasts and analysis in budget papers, *Economic Roundup*, working papers and speeches to inform the public better about economic developments and issues;
- working actively to shape the G-20 agenda and outcomes to advance Australia's international economic interests;
- advancing Australia's interests through engagement with international organisations such as the IMF and Organisation for Economic Co-operation and Development (OECD) and foreign governments, on macroeconomic policy discussions and structural reform challenges;
- continuing to assist the Government take an active role in international forums and institutions to manage the transition from crisis to recovery;
- broadening and deepening engagement with key Asian economies through policy dialogue, cooperation and capacity building; and
- continuing to provide deployees to assist countries experiencing economic challenges including Papua New Guinea (PNG), Solomon Islands and Nauru.

## Analysis of performance

During 2009-10, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues including:

- the Treasury Business Liaison Program where officers discuss business and economic conditions with organisations in major centres then disseminate the findings in the

*Economic Roundup.* The Treasury also held regular phone consultations with key sectoral contacts to gauge the current state of economic activity;

- macro prudential issues emanating from the global financial crisis. The Treasury provided specialist advice on linkages between the financial sector and the macro economy, particularly on the effect of financial factors on macroeconomic risk;
- advice on monetary policy to the Secretary as a member of the Reserve Bank of Australia (RBA) Board. The Treasury monitored economic, financial and policy developments to assess their implications for policy settings;
- information and analysis of the Australian economic and fiscal outlook to credit rating agencies;
- advice to the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance;
- advice to the Treasurer on policies to improve Australia's economic growth potential, living standards and wellbeing; and
- informing the public better about economic developments and issues. The Treasury contributed to public awareness and debate through international forums, foreign government agencies, state government agencies, tertiary institutions and public meetings. The Treasury's economic publications and selected presentations are at [www.treasury.gov.au](http://www.treasury.gov.au).

## Economic forecasts

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

Forecasting activity focused on 2009-10, 2010-11 and 2011-12 with forecasts published in MYEFO and the 2010-11 Budget. Attention focused on the impact of the fiscal stimulus packages on the economy and the likely transition from public to private demand as government stimulus was withdrawn and the global economy recovered from the financial crisis.

The 2009-10 Budget forecasts were prepared against a backdrop of an uneven and patchy global recovery and still elevated levels of uncertainty and financial market volatility, with risks still predominately on the downside. As the year unfolded, however, it became clear that the Australia economy had performed remarkably well in the face of the most challenging global economic conditions since the Great Depression. Forecasts were revised upwards at MYEFO (released in November 2009) and again at the 2010-11 Budget (released in May 2010).



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

## Economic modelling

In 2009-10, the Treasury provided advice in response to and in support of economic modelling of climate change mitigation and energy efficiency policies by government, industry and other groups.

The Treasury worked closely with the Department of Climate Change and Energy Efficiency in producing Australia's greenhouse gas emission projections, which are a key information input to Australia's greenhouse policy agenda. The projections play a vital role in assessing the effectiveness of existing climate change mitigation measures, and the development of least cost options for further abatement.

## 2010-11 Budget papers

The Treasury contributes to public awareness and debate on economic policy issues through its economic analysis in the annual budget papers.

Published forecasts in MYEFO and the 2010-11 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on short-term economic growth.

Statement 2 of Budget Paper No. 1, *Economic Outlook* provided a comprehensive report on the domestic and international outlook. The report noted the solid prospects for the Australian economy, with strong growth in the Asian region expected to support a rising terms of trade and a rebound in business investment. Policy continued to be directed toward supporting an expansion in the economy's productive capacity to ensure sustainable growth.

Statement 4 of Budget Paper No. 1, *Benefiting from our mineral resources: opportunities, challenges and policy settings*, outlined some of the economic and policy implications of continuing global demand for Australia's mineral resources. It discussed some of the policy and institutional settings necessary to ensure that the mining boom is of enduring benefit to the Australian community.

## The Treasury's economic publications and speeches

*Economic Roundup* included research articles and speeches on productivity growth, participation and educational attainment, fiscal policy, lessons from the Great Depression, measuring progress, taxation, Australia's current account deficit in a global imbalances context, the Australian financial system, China, as well as a regular summary of the key findings from Treasury's Business Liaison Program.

Economic growth is underpinned by policies that support productivity, participation and population — the '3Ps'. The IGR2010 underlined the importance of productivity as a driver of long-term economic growth. The IGR2010 outlined the need to support strong, sustainable economic growth as the best means of responding to the economic and fiscal pressures of an ageing and growing population.

Past issues of the *Economic Roundup*, the IGR2010 and selected speeches are available on the Treasury website at [www.treasury.gov.au](http://www.treasury.gov.au).

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The Treasury's submission to the House of Representatives Standing Committee on Economics, *Inquiry into raising the productivity growth rate in the Australian economy*, sought to outline the public policy settings necessary for achieving productivity growth and included policies that support well functioning markets, remove distortions and enhance flexibilities, promote appropriate incentives and remove market failures in areas of infrastructure, innovation and human capital.

The Treasury appeared at the Senate Economics References Committee, *Inquiry into the Government's economic stimulus initiatives*, and provided a briefing paper for the committee on the economic effects of the fiscal stimulus packages and a quantification of the various factors which supported economic activity in Australia during the global financial crisis.

The Treasury spoke to a range of organisations on issues including the economic outlook, the global financial crisis, global imbalances, long-run forces affecting the Australian economy in decades to come, housing supply and affordability, measures of social progress and wellbeing and contemporary challenges in fiscal policy. The speeches were to a range of organisations, including the Australian Economic Forum, the Australian Industry Group, the Australia-New Zealand Leadership Forum, the Australia-China Investment Forum, the American Chamber of Commerce, the Committee for Economic Development of Australia, Australian Business Economists, the Constitutional Law Forum and the Environment Business Forum.

The Treasury also distributed quarterly updates of its macroeconomic model of the Australian economy and associated database. The model has evolved to reflect structural changes in the economy. The Treasury is in the process of transferring this model to a new platform to improve the accessibility of the model.

## Reviews of economic data

The Treasury liaised extensively with the ABS, both informally with regular discussions at all levels, and formally through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group, the International Trade in Services User Group, the Labour Statistics Advisory Group and the Demography Statistics Advisory Group. The Treasury also provided a formal submission to the 16th Series Australian Consumer Price Index Review conducted by the ABS.

## Coordinating international responses to global economic policy challenges

### G-20

The Treasury played an active role in helping the G-20 develop and deliver on its ambitious agenda, through ministerial engagement and through the officials-level working and experts groups. The Treasury was co-chair of the working group on IMF quota and governance reform (with the South African Treasury), and the South African Treasury now co-chairs the IMF reform working group. The Treasury also co-chairs a sub-group of the working group on financial inclusion (with the Brazilian Finance Ministry). The Treasury actively participated in the working group on the Framework for Strong, Sustainable and Balanced Growth, the working group on global financial safety nets (with the RBA) and the G-20 Energy Experts Group (with the Department of Resources, Energy and Tourism).

The Treasury worked closely with other government departments, in particular the Department of the Prime Minister and Cabinet and the Department of Foreign Affairs and Trade, to develop a whole-of-government response to the issues being considered within the G-20 agenda.

The Treasury worked with the Government to shape the G-20 agenda and outcomes for the two G-20 Leaders' Summits held in 2009-10. The first was held in Pittsburgh on 24-25 September 2009. The second was held in Toronto on 26-27 June 2010. The Treasurer accompanied the Prime Minister to the Pittsburgh Summit. At the Toronto Summit, the Treasurer represented Australia in his capacity as Deputy Prime Minister. The Treasury supported the Treasurer by preparing briefings and working papers.

The Treasury also worked to shape the G-20 agenda and outcomes of the four G-20 Finance Ministers and Central Bank Governors meetings held in 2009-10. The first two meetings were held in London and St Andrews (4-5 September 2009 and 8-9 November 2009 respectively). Following the St Andrews meeting, chairmanship of the G-20 passed from the United Kingdom to the Republic of Korea. The third meeting was held back-to-back with the spring meetings of the IMF and World Bank in Washington DC (23 April 2010). The fourth was held in Busan, Korea (4-5 June 2010). The Treasurer represented Australia at each of these meetings. The Treasury supported the Treasurer with the preparation of briefings and working papers.

The focus of the Pittsburgh Summit was on managing the transition from crisis to recovery. The most important outcome was agreement by G-20 members to undertake a process of mutual assessment with the support of the IMF and World Bank as part of the Framework for Strong, Sustainable and Balanced Growth. The aim of the mutual assessment process is to align national policy frameworks with the objectives of increasing long-run growth potential, reducing global imbalances and narrowing the global development gap.

The Pittsburgh Summit also delivered important outcomes on IMF and World Bank reform and strengthened international financial regulation.

- Leaders agreed to a shift of at least 5 per cent in IMF quotas to dynamic emerging market and developing countries from over-represented to under-represented countries by January 2011. They also agreed to a shift in World Bank shareholding of at least 3 per cent to developed and transition economies. Finally they agreed to governance reform at both institutions.
- Leaders agreed to establish strict deadlines for agreement on reforms to strengthen bank capital standards, reform financial sector compensation practices, improve over-the-counter derivative markets, and address the problem of systemically important financial institutions that are 'too big to fail'.

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In recognition of its success in stabilising financial markets and averting the threat of a global depression, leaders designated the G-20 as the premier forum for international economic cooperation. Australia's membership of the G-20 has increased its capacity to influence global economic decision making.

The focus of the Toronto Summit was on strengthening economic recovery through the continued implementation of the Framework for Strong, Sustainable and Balanced Growth. The Treasury actively contributed to this working group. The summit took place against the backdrop of concerns about fiscal sustainability, particularly in southern Europe, and its implications for global financial markets.

Prior to the Toronto Summit, economic policy frameworks of G-20 members had been analysed by the IMF and World Bank. The IMF produced a baseline scenario for the world economy as well as upside and downside scenarios based on different policy choices. The World Bank contributed analysis of the development implications. On the basis of this analysis, G-20 Finance Ministers and Central Bank Governors developed a basket of policy measures that different groups of G-20 members could adopt to create stronger, more sustainable and balanced growth.

Leaders endorsed three groups of measures at the Toronto Summit.

- The first related to 'growth friendly' fiscal consolidation. Advanced economies committed to halve their budget deficits by 2013 and stabilise public debt by 2016. Japan agreed to a different timeline in recognition of its circumstances.

- The second related to rebalancing global growth. This will involve advanced deficit economies taking action to boost domestic savings while emerging surplus economies boost consumption through measures such as improved social safety nets, increased infrastructure spending and more flexible exchange rate regimes.
- The third related to boosting growth potential. There was agreement to pursue structural reforms across the entire G-20 membership to increase and sustain growth prospects.

In addition to these measures, leaders welcomed delivery of the Pittsburgh commitment on World Bank shareholding reform; reaffirmed their commitment to IMF quota and governance reform; agreed to finalise new capital, leverage and liquidity standards; and agreed on measures to address systemically important financial institutions that are 'too big to fail'. These last two commitments are scheduled to be agreed at the next Leaders' Summit in Seoul. In relation to new capital standards, leaders agreed that banks should be required to hold capital that would enable them to withstand the type of stress experienced during the financial crisis.

During 2009-10, an official from the Treasury was seconded to the Korean G-20 Secretariat to assist with preparations for the Seoul Summit.

The Treasury have offices in Washington DC, London, Beijing, Jakarta and Tokyo that have played valuable roles promoting Australia's G-20 priorities with their counterparts. They have assisted the Treasurer at G-20 meetings and helped strengthen G-20 bilateral relations including by facilitating high-level meetings.

### Financial Stability Board (FSB)

The Treasury and RBA represent Australia on the FSB's Plenary. The FSB had its first full year of operation in 2009-10. Some of its main achievements included:

- monitoring the delivery of the G-20 agenda to strengthen financial regulation;
- working on development of new international standards in areas such as financial sector compensation (supplementing the principles released in April 2009), systemically important financial institutions that are 'too big to fail', and strengthening over-the-counter derivatives markets; and
- launching of three initiatives to strengthen adherence to international standards: thematic reviews; country reviews; and a process to promote adherence to information exchange and cooperation standards in non-cooperative jurisdictions.

The FSB Plenary met on three occasions: 15 September 2009, 9 January 2010 and 14 June 2010. The Treasury also represents Australia on the FSB's Standing Committee on Standards Implementation (SCSI). This committee is responsible for promoting and improving adherence to international prudential, supervisory and regulatory standards (including thematic and country reviews). The SCSI held three meetings: 29-30 October 2009, 26 February 2010 and 15 June 2010. The Treasury represents Australia

on the SCSI's Experts Group on Non-Cooperative Jurisdictions. This body held its only face-to-face meeting on 8 December 2009. In addition to these three bodies, the Treasury participates in the FSB Monitoring Implementation Network, which is responsible for monitoring progress on G-20 commitments relating to the reform of financial regulation.

In 2009-10, the Treasury contributed significantly to the FSB's work on boosting adherence to international standards.

- The Treasury was represented on the six member team that carried out the FSB's first thematic review. This examined implementation by FSB members of principles and standards on financial sector compensation.
- The Treasury chaired the FSB's first peer review of a member's national regulatory framework (Mexico).
- The Treasury is leading one of three small teams established by the FSB SCSI to assist jurisdictions in improving adherence to information exchange and cooperation standards.

### International Monetary Fund

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The Treasury prepared briefings and working papers to support the IMF in its role of ensuring the stability of the international monetary system, including through the Executive Board, the G-20 Working Group on IMF Quota and Governance Reform, the G-20 Experts Group on Financial Safety Nets and attendance at the IMF spring and annual meetings.

At the IMF, Australia was represented by Mr Chris Legg as Alternate Executive Director and Mr Hi-Su Lee, of South Korea, as Executive Director. They were briefed by the Treasury and the RBA on matters coming before the Executive Board.

The recent global financial crisis saw an expansion in the lending activities of the IMF, with Special Drawing Rights (SDR) 51.8 billion in total fund credit outstanding at 30 June 2010, including active Stand-By Arrangements with 21 countries worth SDR38.9 billion. This also included an expansion of concessional lending to assist low income countries to deal with the crisis, reaching SDR3.1 billion as at 30 June 2010, compared to a pre-crisis level of SDR1.1 billion as at 1 July 2008.

The Treasury contributed to the significant progress made in delivering the G-20 leaders' commitments to strengthen the IMF's capacity to assist its members.

- The IMF is exceeding the G-20 leaders' commitment to provide \$US6 billion additional concessional and flexible finance for the poorest countries over the two to three years following the London G-20 Leaders' Summit. As part of this international effort, Australia contributed an A\$30 million grant to the interest subsidy account of the Poverty Reduction and Growth Trust in January 2010. The IMF also created a new architecture of concessional facilities that is better tailored to the needs of low income countries.

- To boost global liquidity, the IMF undertook, on 28 August 2009, a general allocation of SDR161.2 billion, equivalent to US\$250 billion, and a special one-off allocation on 9 September 2009 of SDR21.4 billion. Australia's share of these allocations was approximately SDR2.612 billion.
- The IMF, together with the FSB, conducted the first Early Warning Exercise at the Annual Meetings in October 2009. The Early Warning Exercise findings will continue to be discussed with ministers and governors during the spring and annual meetings of the International Monetary and Financial Committee in order to identify and respond to tail risks in the global economic outlook.
- In June 2010, the IMF established a Post-Catastrophe Debt Relief Trust Fund designed to assist very poor countries hit by catastrophic natural disasters. This fund will be used to relieve Haiti's debts to the IMF.
- To improve the adequacy of the IMF's financial resources in the face of any similar future crisis, the Executive Board revised the structure of the New Arrangements to Borrow in April 2010 to expand its size from SDR34 billion to SDR367 billion and make it more flexible. Australia adhered to the expanded and more flexible arrangements in June 2010 and, as part of the expansion, Australia's existing line of credit will increase from SDR801 million to SDR4,370 million.

In response to the crisis, G-20 leaders committed to reform the mandates, scope and governance of the international financial institutions to reflect changes in the world economy.

The IMF commenced a fundamental re-examination of its mandate, with a report to the International Monetary and Financial Committee expected in October 2010. The Executive Board has discussed reforms to its lending instruments and its surveillance. Proposals to reform lending instruments include enhancing precautionary lending to reduce risks of financial contagion. The IMF has also considered a range of proposals aimed at strengthening its surveillance, focused on improving its monitoring of the spillover of risks across economies, and its financial sector surveillance capability.

IMF quota and governance reform negotiations proceeded, guided by the parameters agreed by G-20 leaders in Pittsburgh. Agreement on reforms is expected by November 2010. The IMF Executive Board held a number of discussions on realigning quota shares and broader governance reforms. In September 2009, Australia formally accepted the package of IMF quota and governance reforms adopted by the IMF Board of Governors in April 2008, on which current negotiations will build.

The Deputy Managing Director of the IMF, Mr Murilo Portugal, visited Australia from 13 March 2010. The visit centred on an address at the Australian Bureau of Agricultural and Resource Economics Outlook Conference, as well as meetings with the Treasury, the RBA and other departments and agencies.

## World Bank

The Treasury prepared briefings and working papers to support the World Bank's leadership role in improving the living standards of the world's poor including through the Executive Board and attendance at the World Bank spring and annual meetings. Australia also engaged with World Bank management including hosting a visit by Mr Jim Adams, Vice President, East Asia and Pacific.

At the World Bank, Australia is represented by Dr Jim Hagan. Dr Hagan was appointed World Bank Executive Director on 1 August 2007 for a term of four years. The Treasury, in conjunction with the Australian Agency for International Development (AusAID) and other relevant departments, briefed him on matters coming before the Executive Board.

Key developments at the World Bank during 2009-10 included significant lending in response to the global financial crisis, agreement to voice reforms and a general capital increase, and the establishment of a new trust fund to scale up agricultural assistance to low income countries. Australia supported these activities, particularly the focus on voice and participation reform.

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Since the start of the global financial crisis, the multilateral development banks have provided US\$235 billion in lending, more than half of which has come from the World Bank Group.

Following a first phase of reform to enhance the voice and participation of developing countries in 2008, the World Bank's Development Committee agreed at the 2010 Spring Meetings to a second phase of reforms, including providing for a greater voice for developing and transition countries within the World Bank, a selective and a general capital increase, and selected internal reforms.

The package endorsed by governors will increase the voting power of developing and transition countries in the International Bank for Reconstruction and Development (IBRD) by 3.13 percentage points, bringing their voting power to 47.19 per cent, representing a total shift of 4.59 percentage points to developing and transition countries since 2008. Associated with this shift will be a selective capital increase of US\$27.8 billion, with paid-in capital of US\$1.6 billion. Australia actively worked towards the achievement of these voice reforms.

Governors also endorsed a general capital increase for the IBRD of US\$58.4 billion, of which 6 per cent or US\$3.5 billion will be paid-in. An increase in basic votes at the International Finance Corporation (IFC) and a selective capital increase of US\$200 million, representing a shift of 6.07 per cent to developing and transition countries, was also endorsed. To leave room for developing countries to increase their shareholding at the IFC, Australia will not participate in the selective capital increase.



Australia will contribute a total of US\$51.6 million in paid-in capital over five years towards the general and selective capital increases at the IBRD, and increase its uncalled capital subscription by US\$808.3 million, which will only be drawn down if the IBRD is unable to meet its financial obligations. Founded in 1944, the IBRD has never drawn on its uncalled capital subscriptions.

In response to G-20 calls to develop a multilateral trust fund to scale-up agricultural assistance to low-income countries, the World Bank became the trustee of the US\$800 million Global Agriculture and Food Security Program in April 2010. The program will provide predictable financing for low income countries to improve agricultural productivity, raise rural incomes and build sustainable agricultural systems.

### Asian Development Bank (ADB)

The Treasury continued to support the ADB's efforts to assist developing countries in the Asia-Pacific region as they recover from the effects of the global financial and economic crisis. The Treasury contributed to decision making through representation on the Board of Directors and attendance at the 2010 annual meeting in Tashkent, Uzbekistan. Australia is represented on the ADB Board of Directors by Mr Phil Bowen. Mr Bowen's term has been extended until 2013.

In its country statement at the 2010 annual meeting, Australia supported the ADB's US\$9 billion in additional lending from 2008-2010, including US\$3 billion through its counter-cyclical support facility. The Treasury encouraged the ADB to continue to work closely with the G-20 and with regional member governments to consider how longer term policy adjustments can be made to lift global growth.

On 8 January 2010, Australia became the first non-borrowing member to subscribe to the ADB's 200 per cent general capital increase. As part of its subscription, Australia will contribute an additional US\$197.6 million worth of paid-in capital over 10 years, with the first payment on 1 July 2010. Australia also increased its uncalled capital subscription so that it totalled SDR5.8 billion, which will only be drawn down if the ADB cannot meet its financial obligations. The ADB has never drawn on its uncalled capital subscriptions.

### European Bank for Reconstruction and Development (EBRD)

The Treasury continued to support the EBRD's work in helping the transition to open, market economies in Europe and central Asia. The Treasury contributed to the decision making process at the EBRD through representation on the Board of Directors. Australia is represented on this board by Dr John Eyers, who was appointed on 16 November 2009.

Australia supported the EBRD's general capital increase announced on 14 May 2010. As part of this Australia received €10.1 million in paid-in shares free of charge and will increase its uncalled capital subscription by €90.0 million. The EBRD has never drawn down on its uncalled capital subscription.

## Organisation for Economic Cooperation and Development

The Treasury contributed to the OECD's work on macroeconomic issues focusing particularly on the transition from recession to recovery.

In November 2009 and July 2010, the Treasury hosted an OECD delegation related to the 2010 Economic Survey of Australia — due to be formally released in late 2010. Other notable contributions from Australian officials were on taxation, corporate governance, foreign investment and intergovernmental relations.

In May 2010, the Treasury attended the OECD Ministerial Council Meeting in Paris — in support of the then Trade Minister, the Hon Simon Crean MP, who was a vice-chair at the meeting. Ministers discussed the importance of fiscal consolidation, structural reforms, innovation and employment, sources of growth and trade and investment.

Working closely with the Department of Foreign Affairs and Trade and Australia's OECD delegation, the Treasury continued to facilitate the OECD's program of enhanced engagement with emerging economies, particularly with Indonesia.

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## Pacific Islands Forum Economic Ministers' Meeting

The Pacific Islands Forum Economic Ministers' Meeting provides an opportunity to discuss with Pacific island economic ministers the importance of improving economic performance to deliver stable and improved living standards. The Treasury supported the Assistant Treasurer's attendance at the October 2009 meeting. Pacific ministers focused on the socio-economic impacts of the global economic crisis and the importance of appropriate economic policy responses.

## Asia-Pacific Economic Cooperation

APEC<sup>1</sup> is an important forum in Australia's engagement with the Asia-Pacific region. The Treasury strives to improve the effectiveness of the APEC Finance Ministers' Process as a policy setting, outcomes driven and reform initiating forum.

The Treasury supported the Treasurer's attendance at the 2009 APEC Finance Ministers' Meeting in Singapore from 11-13 November 2009.

The APEC Finance Ministers' Process is currently focused on supporting the G-20 agenda on strong, sustainable and balanced growth, with a particular emphasis on macroeconomic policy adjustments and structural reforms.

As a major contribution to supporting the objectives of the APEC Finance Ministers' Process, the Treasury delivered a capacity building workshop in Jakarta on 27-28 May 2010, representing the first phase in the delivery of the APEC Infrastructure Pathfinder Initiative.

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

This initiative is designed to support key partner economies within the region including Thailand, Indonesia, Vietnam, the Philippines and PNG to move toward best practice in the delivery of public-private infrastructure partnerships. The ultimate aim of this structural reform initiative is to foster greater commonality in public-private infrastructure markets within the APEC region. In moving towards best practice and greater commonality, this initiative seeks to help address in a practical and focused way the region's significant infrastructure investment needs. With infrastructure provision a key driver of stronger global growth the initiative is also closely aligned with the wider G-20 growth agenda.

Within the APEC Economic Committee, the Treasury have led the Friends of the Chair Group on Regulatory Reform which included conducting a survey on regulatory progress across economies to better inform the future work agenda, and contributed to the formation of the new structural reform agenda to replace the Leaders' Agenda to Implement Structural Reform.

The Treasury also provided support to a green growth initiative led by Korea. The Treasury hosted a workshop and commissioned the production of new research into market based green growth policies. This initiative is responsive to the aims of both the APEC Finance Ministers' Process and the G-20 in supporting sustainable growth.

The Treasury has also continued to work closely with Japan, the 2010 host of APEC.

### East Asia Summit

The EAS is the most recent addition to the regional architecture and the first regional forum to bring together all the major economies in East Asia, including Australia, New Zealand, India, Japan, China, and Korea. The Treasury have been working to strengthen regional financial cooperation through the EAS process for a number of years.

In May 2010, Vietnam, as the Association of South-east Asian Nations and EAS Chair, convened an inaugural informal EAS Finance Ministers' Meeting. The Treasury supported the Assistant Treasurer at this meeting. Key topics of discussion included the G-20 and regional cooperation and capacity building.

One of the Treasury's major contributions to the EAS finance agenda is designing, developing and delivering targeted capacity building programs. In late 2009 and early 2010, the Treasury launched the inaugural pilot of the financial sector capacity building program, in partnership with Malaysia, that focused on strengthening the institutional development and function of securities market supervisory agencies in the less developed economies of Cambodia, Lao People's Democratic Republic (PDR) and Vietnam. This initiative involved six EAS economies including India.

Following strong interest from participants in the pilot program, the Treasury, in partnership with Malaysia, launched a second capacity building program in June 2010, that focused on structuring and restructuring financial markets. This program attracted involvement from

10 out of the 16 EAS economies, Australia, Malaysia, Cambodia, Lao PDR, Vietnam, India, Philippines, Indonesia, Thailand and China.

### Overseas development assistance

The Treasury provided advice on general development and aid issues including Australia's multilateral and bilateral aid programs, new expenditure initiatives and the framework for Australia's aid budget. The Treasury provided advice on 2010-11 Budget initiatives (such as enhancing education, the development partnership with Indonesia and increased assistance to Africa) and the effectiveness of Australia's overseas development assistance. The Treasury also participated in the Development Effectiveness Steering Committee, an interdepartmental committee convened to ensure effectiveness in Australia's overseas development assistance.

## International policy advice

### Relations with Asia

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The Treasury continued to broaden and deepen its engagement with key Asian economies. In September 2009, the Treasurer visited India, the first bilateral visit to India by an Australian Treasurer since 2002. He met with the Indian Finance Minister and the Deputy Head of the Planning Commission, and discussed issues concerning the G-20, global financial markets and regional cooperation. The Treasury supported the Treasurer on these visits.

In November 2009, the Treasurer supported the Treasurer on his visit to Indonesia, where he met with the Indonesian Finance Minister and the then newly appointed Vice-President. The visit helped to entrench cooperation with Indonesia across a number of fronts including the G-20, climate change and regional financial arrangements. The Treasurer also issued a joint ministerial statement with the Indonesian Finance Minister.

In June 2010, the Treasurer went to the Shanghai World Expo 2010, where he delivered a speech on Australia's role as a regional financial centre. The Treasurer met with financial sector representatives and investors to promote Australia as a place for business and investment. He also travelled to Beijing, where he held bilateral meetings with the Chairman of the National Development and Reform Commission, the Governor of the People's Bank of China, and the Vice Premier, Mr Li Keqiang, to discuss G-20 related issues, financial services, foreign investment and the global economic outlook.

In January 2010, as part of the Memorandum of Understanding between the Treasury and China's National Development and Reform Commission, two bilateral seminars were held at the Treasury. The memorandum, signed in October 2008, seeks to establish a bilateral seminar program between the two institutions. The seminar program provides an opportunity to strengthen the Treasury's institutional links with its counterpart agency in China and foster a better understanding of the Chinese economy. The seminars were presented by the Director-General of the Fiscal and Financial Affairs Department, on

the topics of 'China's macroeconomic policy response to the global financial crises' and 'Emerging trends in China's labour market'.

The strong relationship between the Treasury and Indonesia's Fiscal Policy Office within the Indonesian Ministry of Finance continued in 2009-10. The Treasury has two deployees there as part of the Government Partnerships Fund who work to strengthen Indonesian economic policy advising capabilities and to develop lasting institutional relationships. The partnership continued to strengthen over 2009-10, with a number of key activities and visits combined with continued ongoing close working relationships. These relationships have facilitated the enhanced cooperation between the Treasury and the Indonesia's Fiscal Policy Office across a number of fronts including on G-20, APEC and EAS issues.

Over the past financial year, the Treasury hosted two Indonesian delegations. In November 2009, an Indonesian delegation led by the then head of Indonesia's Fiscal Policy Office, met with the Treasury and a number of other government agencies to exchange views on the prospects for the Australian and Indonesian economies and discuss economic cooperation between Australian and Indonesia on a number of fronts. In March 2010, a visit by a combined Fiscal Policy Office/Indonesian Ministry of Finance Corporate Services delegation aimed to gain insight into the Treasury's approach to a range of corporate management issues.

The Treasury also hosted a delegation from Vietnam led by Vietnam's Vice Minister of Finance to discuss economic cooperation between Australia and Vietnam and key issues surrounding the budget, policy formulation and debt management processes.

The Treasury held its annual economic policy dialogue with the Japanese Ministry of Finance in Canberra during March 2010. The dialogue allowed for the shared discussion of economic conditions and collaborative work in international forums.

In May 2010, the Minister for Financial Services, Superannuation and Corporate Law attended meetings in Malaysia to promote Australia as a regional financial centre.

The Treasury reported on regional economic and policy developments in Beijing, Jakarta and Tokyo. This helped strengthen relations with the Treasury's counterparts in their countries of accreditation and facilitated high-level meetings.

### Relations with Pacific economies

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

The Treasury also provided assistance to PNG under the *Joint Understanding between PNG and Australia on further cooperation on the PNG Liquefied Natural Gas (LNG) Project*, to assist PNG consider the establishment of a transparent, well governed sovereign

wealth fund. The Treasury also hosted four officials from the Pacific region (two from PNG, two from Solomon Islands) on officer exchange to the department.

### Economic reconstruction issues

#### Solomon Islands

The Treasury worked in the Solomon Islands Ministry of Finance and Treasury as part of the Regional Assistance Mission to Solomon Islands. Through the establishment of the Core Economic Working Group, this engaged the Government, donors and other stakeholders to assist in economic reform and support the Solomon Islands economy. The Treasury also worked to increase the capacity and capability of the Ministry of Finance and Treasury, and provided quality advice to the Solomon Islands Government on economic and public financial management.

#### Papua New Guinea

The Treasury contributed to PNG's continued macroeconomic stability through high-quality advice and provided support to the PNG Treasury in considering the impact of a large liquefied natural gas project on the PNG economy, including how project revenue might be managed in the future. This also supported the PNG Treasury on a range of structural policy, forecasting, taxation, budget and investment issues.

#### Nauru

The Treasury worked to strengthen financial management capacity, liaised with donors to administer Nauru's debt position and provided advice on further economic reforms to assist Nauru's economy. In consultation with the Government of Nauru, the Treasury's assistance to Nauru during 2009-10 reduced from three to one official, as two positions became AusAID managed positions. The remaining position (Secretary of Finance) will be an AusAID managed position from mid-July 2010.

## FISCAL GROUP

### Overview

Fiscal Group aims to ensure government spending arrangements are effective, as they are crucial to influencing strong, sustainable economic growth and the improved wellbeing of Australians. Ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998* (the Charter);
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including implementing the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement) which commenced on

1 January 2009, and the progress of ongoing reforms across a broad spectrum of policy responsibilities through the Council of Australian Governments (COAG) process;

- policy development in industry, environment, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Fiscal Group works with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, climate change and environment, and defence and national security. Fiscal Group also works with other departments in areas such as early childhood and families, education and skills, social housing, Indigenous policy, labour markets, immigration and health policy. While other departments have primary responsibility for policy and programs in these areas, Fiscal Group focuses on improving productivity and competitiveness, and ensuring sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2009-10, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy approaches, provided advice for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes. Fiscal Group also assisted in preparing briefings for the other Treasury portfolio ministers, and coordinated the preparation of the IGR2010.

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Fiscal Group provides high quality advice on Commonwealth-State financial policy, arrangements related to state and territory fiscal and tax issues, and also manages the administration of payments to the States and Territories (the States). Since 1 January 2009, under the Intergovernmental Agreement, the Treasury has been responsible for administering National Specific Purpose Payments (National SPPs), National Partnership payments, goods and services tax (GST) payments and other general revenue assistance to the States. Details of these payments can be found in Programs 1.4 to 1.10 on pages 102 to 111.

## Group deliverables

Fiscal Group's key deliverables are to advise on:

- fiscal strategy which aims to ensure fiscal sustainability over the economic cycle;
- effective government spending arrangements which contribute to improving the wellbeing of Australians;
- preparation of the Commonwealth Budget and other financial related papers required under the Charter; and
- supporting Commonwealth-State relationships through the coordination and delivery of various Commonwealth-State forums, including the progress of COAG reform agendas.

## Group outcomes

Fiscal Group's key outcomes were:

- advising on the fiscal outlook and fiscal strategy;
- advising on budget priorities consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, the 2010-11 Budget (May 2010) and related financial papers — *Final Budget Outcome 2008-09* (September 2009) and MYEFO (November 2009);
- advising the Treasurer, in consultation with the Australian Office of Financial Management (AOFM) on debt issuance and debt policy issues;
- preparing the IGR2010, including advising on the challenges that Australia will face over the next 40 years, the fiscal and economic consequences of an ageing population, environmental challenges and social sustainability;
- advising on operational issues relating to the Future Fund and the three Nation-building Funds;
- implementing the framework for federal financial relations which commenced on 1 January 2009, including advising on the development of new National Partnerships;
- managing the administration of payments to the States including five National SPPs in healthcare, schools, skills and workforce development, disability services and affordable housing, plus general revenue assistance and National Partnership payments;
- providing secretariat support for the Ministerial Council for Federal Financial Relations on policy issues relevant to both the Australian Government and the States;
- advising on, and monitoring the First Home Owners Boost and the Guarantee of State and Territory Borrowing;
- establishing a Sustainable Population Strategy Taskforce in May 2010 to provide policy advice on issues relevant to population, as a follow on to the IGR2010;
- advising on industry, climate change and environment, and defence and national security. The Treasury was engaged in a diverse range of issues and processes, including: climate change mitigation and adaptation policy; the commencement of work on a National Plan for Environmental Information; the inaugural Coordinated National Security Budget process; Australia's bids for the soccer World Cup and Asian Cup; and the Government's response to the review into the Future of Sport in Australia; and
- advising on social, education, Indigenous, labour market, immigration and health policy, including: contributing to the development of the *National Health and Hospitals Network Agreement*; providing advice on the development of the Skills for Sustainable Growth strategy; several reforms to immigration policy; and Indigenous policy. Fiscal Group also worked with other agencies to progress the service delivery reform in the Human Services Portfolio and implement the Government's Paid Parental Leave scheme.



## Analysis of performance

### Advice on the fiscal and budget strategies

During 2009-10, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position over the forward estimates and the medium-term, to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the 2009-10 MYEFO and the 2010-11 Budget.

With an improved economic outlook in the lead up to the 2009-10 MYEFO and the 2010-11 Budget, the Treasury advised the Government on the fiscal strategy.

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

The 2009-10 MYEFO was released by the Treasurer and Minister for Finance and Deregulation on 2 November 2009, updating the fiscal estimates published in the 2009-10 Budget. The forecast underlying cash deficit of \$57.7 billion for 2009-10 was largely unchanged from the 2009-10 Budget, although beyond 2009-10, underlying cash balances improved in each year across the forward estimates.

The 2010-11 Budget, published in May 2010, showed further improvements to the projected budget position in each year of the forward estimates. The underlying cash deficit for 2010-11 was estimated to be \$40.8 billion, with the budget expected to return to surplus in 2012-13, three years earlier than previously projected.

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

### Contribution to public debate and awareness

The Government's budget publications are available free at [www.budget.gov.au](http://www.budget.gov.au). Widespread access to these documents helps the public keep informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for

non-specialist readers. This year, these were the *Budget Overview*, *Budget at a Glance*, and an overview of health reform *A National Health and Hospitals Network for Australia's Future*.

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

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- economic assumptions underpinning the budget estimates;
- tax revenue estimates;
- tax expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

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

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

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

The *Final Budget Outcome 2008-09* was published in September 2009. In 2008-09, the Australian Government general government sector recorded an underlying cash deficit of \$27.1 billion. This outcome was around \$5.0 billion better than estimated at the 2009-10 Budget, reflecting higher than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local Governments is in the 2010-11 Budget, Budget Paper No. 3, *Australia's Federal Relations*. The paper, prepared by the Treasury, is the main public source of information on Australian Government payments to the States and Local Governments. It also informs the States of their expected payments in the upcoming financial year.

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

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

Information on the federal financial framework is available on the Ministerial Council website at [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

### **Debt management policy**

In consultation with the AOFM, the Treasury provides advice to the Treasurer on debt issuance and debt policy issues. This includes supporting an efficient and effective issuance program, and managing and structuring the debt portfolio. The Treasury also provides advice to the Treasurer on issues affecting the Government's debt management operations including the performance, governance and functioning of the Commonwealth debt market.

Treasury Bond issuance in 2010-11 is expected to be around \$56 billion. The face value of securities offered at each tender will be between \$500 million and \$1.2 billion. In addition, Treasury Notes will be offered at regular tenders to support the within-year financing task.

In 2009-10 the Government recommenced issuance of Treasury Indexed Bonds. In 2010-11, Treasury Indexed Bond issuance is expected to be around \$4 billion.

On 7 April 2009, the Government announced that it would partially fund its investment in the National Broadband Network by issuing Aussie Infrastructure Bonds. During 2009-10, the Treasury provided advice on the design and issuance of Aussie Infrastructure Bonds. The Government announced in the 2010-11 Budget that \$300 million of Aussie Infrastructure Bonds will be issued in 2010-11.

Specific details of the Government's forward debt issuance program in 2010-11 is on the AOFM website at [www.aofm.gov.au](http://www.aofm.gov.au).

### **Intergenerational Report**

The Charter stipulates that an intergenerational report be produced on a five-yearly cycle.

The IGR2010 was tabled by the Treasurer in February 2010. In assessing the challenges that Australia will face over the next 40 years, the report sets out the fiscal and economic consequences of an ageing population coupled with a discussion on environmental challenges and social sustainability.

### **Future Fund and Nation-building Funds**

During 2009-10, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds. Further information regarding the performance of the Future Fund is at [www.futurefund.gov.au](http://www.futurefund.gov.au).

## Australia's Federal Financial Relations

The current framework for federal financial relations, introduced on 1 January 2009, provides a strong foundation for COAG to pursue economic and social reforms to underpin growth, prosperity and wellbeing into the future.

Significant progress has been made in implementing the framework, with the institutional arrangements well established, payment arrangements bedded down and performance reporting well underway.

Over 2009-10, fiscal stimulus payments to the States made under the framework, including for the Nation Building and Jobs Plan and the First Home Owners Boost, have supported the recovery of the economy from the global financial crisis.

The framework has demonstrated that it can respond flexibly to events, such as the global financial crisis, as well as lay the foundation for improved community wellbeing and a high standard of living for Australians in the future. The framework has supported and is being adapted to incorporate new reforms, including the *National Health and Hospitals Network* agreed at COAG by all States other than Western Australia on 20 April 2010.

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To ensure that the framework continues to be effective in driving COAG's ambitious reform agenda, a review of agreements under the framework is being conducted by Heads of Treasuries over the course of 2010, with a report to COAG by the end of the year. The review currently being undertaken by the Australian and State Treasuries is considering options to improve the efficiency and effectiveness of the federal financial relations framework, with a focus on improvements that will enhance the delivery of national outcomes as agreed by COAG.

In 2009-10, the Treasury has made payments for general revenue assistance, including GST, National SPPs and National Partnership payments.

### General revenue assistance

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

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

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

Details on general revenue assistance are provided under Program 1.4 on pages 102 and 103.

### Payments for Specific Purposes (National SPPs and National Partnerships)

The five National SPPs are in healthcare, schools, skills and workforce development, disability services and affordable housing. These are associated with six national agreements, including the *National Indigenous Reform Agreement*, which contain mutually-agreed objectives, outcomes and performance indicators, and which clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services in these sectors.

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

Details on National SPPs and National Partnerships are provided under Programs 1.5 to 1.10 on pages 104 to 111.

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### Ministerial Council for Federal Financial Relations

The Ministerial Council, comprising the Australian Treasurer and all State and Territory Treasurers, considers ongoing reform of federal financial relations and oversees the Intergovernmental Agreement. The Treasury advised the Treasurer in relation to these matters and provided secretariat support to the Ministerial Council. The website for the Ministerial Council is [www.federalfinancialrelations.gov.au](http://www.federalfinancialrelations.gov.au).

At Ministerial Council meetings held in 2009-10, treasurers focused on: bedding down the new framework for Federal Financial Relations; monitoring economic conditions and prospects; and considering the financing aspects of the health and hospital network reforms.

### Australian Loan Council

The Australian Loan Council, chaired by the Treasurer, meets annually to consider each jurisdiction's expected borrowing for the next financial year. The Treasury advised the Treasurer on key issues and coordinated arrangements for this meeting. The Australian Loan Council took on two new roles in 2009-10: to look at macroeconomic impacts on infrastructure; and an oversight function for the Commonwealth guarantee of State and Territory borrowing.

### Heads of Treasuries

At the Heads of Treasuries meetings, the treasuries of the Australian and State Governments share information on common issues. The Secretary to the Treasury and his

state counterparts met twice in 2009-10 to discuss the general operation of the Federal Financial Relations framework, current economic conditions and the fiscal outlook, tax and financial issues.

### **GST Administration Sub-committee**

The Treasury chairs this sub-committee, which comprises officials from the Treasury, the ATO and State Treasuries. The sub-committee met three times in 2009-10. The sub-committee monitored the performance agreement agreed in 2008-09 and discussed GST revenue and payments, GST policy and administrative issues.

## **Industry, Climate Change and Environment, and Defence and National Security policy**

### **Industry policy**

The Treasury advised on industry assistance, export assistance, science and innovation, arts, sports and regional policy issues. This included advice on the development of Commercialisation Australia and the Government's response to the review of Australia's sports system, entitled the Future of Sport in Australia.

The Treasury also participated in interdepartmental committee meetings and forums during 2009-10, including the implementation of the national tourism strategy, the Government's response to the Productivity Commission's review of Australia's Anti-Dumping and Countervailing System, Australia's bid for the FIFA World Cup and Asian Football Confederation Cup, and Export Finance and Insurance Corporation proposals.

### **Climate change and environment policy**

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

The Treasury worked closely with the Department of Climate Change and Energy Efficiency and the Department of Resources, Energy and Tourism on the enhancements to the Clean Energy Initiative, including the Renewable Energy Future Fund, changes to the Renewable Energy Target and through participation in the Prime Minister's Energy Efficiency Task Force.

The Treasury supported Australia's engagement in international climate change issues and processes through work in forums such as the United Nations Framework Convention on Climate Change. The Treasury's advice focused on international climate change financing issues, including the United Nations Secretary General's High-level Advisory Group on Climate Change Financing.

The Treasury also advised the Treasurer on environmental and agricultural issues including water reform, environmental stewardship and protection, wheat marketing, waste policy, quarantine, drought policy and natural resource management issues.

The Treasury's advice covered the development of a National Plan for Environmental Information, the design of the Western Australian drought pilot as part of the Government's drought policy reform announced in the 2010-11 Budget, and the terms of reference for Productivity Commission inquiries into micro-economic reform in the urban water sector and rural research and development corporations. Additional advice was on specific agricultural commodity issues including wheat, fisheries, logging and sugar.

During 2009-10, the Treasury also contributed to interdepartmental committees dealing with water policy, quarantine and drought.

### **Defence and National Security policy**

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

The Treasury has continued to participate in the Secretaries' Committee on National Security that examines and advises on proposals considered by the National Security Committee of Cabinet. It also participated in interdepartmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

## **Social, Education, Indigenous, Labour Market, Immigration and Health policy**

### **Social policy**

During 2009-10, the Treasury:

- worked with other agencies to progress the Social Inclusion agenda, including the Government's approach to reducing homelessness;
- continued to contribute to the National Disaster Resilience Strategy, currently under development for COAG;
- provided policy advice supporting the development of the child care reforms announced in the 2010-11 Budget, and was involved in the implementation of the Government's Paid Parental Leave scheme; and
- participated in the Steering Committee for the Review of Military Compensation Arrangements.

### **Education policy**

The Treasury undertook significant work on skills policy during 2009-10, working collaboratively with the Department of Education, Employment and Workplace Relations and

other departments on skills policy advice both during the recovery and in the longer term, such as the Skills for Sustainable Growth strategy announced in the 2010-11 Budget.

### Indigenous policy

The Treasury played a significant role in providing advice on Indigenous policy. The Treasury was involved in cross-departmental work on the Government's commitment to closing the gap in Indigenous disadvantage. The Treasury has focused on the COAG Reform Agenda, the Single Indigenous Budget Submission process and development of an Indigenous Expenditure Report for COAG.

### Labour market programs and participation

The Treasury advised on a range of employment and participation issues, including the Keep Australia Working initiative announced by the Government as part of its response to the economy's downturn. Work was also undertaken on longer term policy issues, including the impact of demographic change on participation, and ways to improve the labour market engagement of mature-age Australians, including through the Productive Ageing Package, announced alongside the release of the IGR2010.

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### Workplace relations

The Treasury worked closely with the Department of Education, Employment and Workplace Relations to develop a whole-of-government approach to the 2010 Minimum Wage Review and prepare submissions to the Minimum Wage Panel's final minimum wage decision.

### Immigration

Advice was provided on several reforms to immigration policy that the Government progressed, including those arising from the review of the Migration Occupations in Demand List, the review of the General Skilled Migration points test and the changes to the composition of the 2010-11 Migration Program. The reforms were designed to enhance the contribution of immigration to the productive capacity of the economy and help to address emerging demands for skilled labour during the economic recovery.

### Health policy

In April 2010, COAG, with the exception of Western Australia, agreed to the *National Health and Hospitals Network Agreement*. The Treasury played a significant role in developing the *National Health and Hospitals Network*, including the reforms to the financial framework, the health system governance arrangements and the modelling of healthcare costs. Work also commenced on the implementation of these health reforms, particularly the financial framework aspects for which the Treasury has responsibility.

The Treasury also advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, the Medicare Benefits Schedule, private health insurance, and aged and community care.



## Australian Government Service Delivery Reform

The Treasury worked closely with other policy agencies in progressing the Government's commitments to service delivery reform in the Human Services Portfolio, and contributed to developing a more strategic approach to managing fraud and compliance efforts across health and social welfare payments.

## REVENUE GROUP

### Overview

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

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

During 2009-10, tax and retirement income policy considerations were integral to the Treasury's advice to assist the Government to improve the tax and transfer system. Revenue Group developed legislation giving effect to measures announced in the 2009-10 Budget to ensure the budget's sustainability, including superannuation and private health insurance rebate changes that supported the pension reform package and better targeting the tax exemption for Australians' foreign employment income. Revenue Group also developed medium-term revenue projections as an input to the medium-term analysis undertaken in Statement 3 of the 2009-10 Budget.

The Treasury continued to host the Australia's Future Tax System (AFTS) Review secretariat which supported the panel conducting the comprehensive review of Australia's tax and transfer system. The secretariat operated in the Treasury until the review's final report was delivered to the Treasurer in December 2009. Revenue Group then advised the Government on its response to the review's recommendations, *Stronger, Fairer, Simpler: a tax plan for our future*. The Government released the review panel's final report, together with its initial response on 2 May 2010. Key measures included changes to resource and business taxation arrangements, infrastructure funding, and changes to superannuation arrangements.

In the 2010-11 Budget, the Government also announced the introduction of a standard deduction for work related expenses and a tax discount for interest earned on savings. The

Treasury also advised on a range of other business, personal and indirect tax policy issues, including: 'ready-to-drink' alcoholic beverages and tobacco excise; the signing of new tax treaties with Chile and Turkey; and entry into force of the new treaty with New Zealand. Revenue Group contributed to the preparation of the IGR2010, providing revenue projections for the Government's tax revenue out to 2049-50.

The Treasury continued to develop enhanced consultation processes for tax and superannuation measures, including establishing a Tax Design Advisory Panel to facilitate consultation at the initial policy design stage of a measure's development. It also provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report at [www.taxboard.gov.au](http://www.taxboard.gov.au).

## Group deliverables

Revenue Group's key deliverables are to advise on:

- the comprehensive review of Australia's tax and transfer system by the AFTS Review Panel, which provided a final report to the Treasurer by the end of 2009;
- tax and retirement income initiatives which assist taxpayers deal with the impacts of the global financial crisis and advance the Government's other policy goals, including a simpler and fairer tax system, improved international competitiveness and investment decisions leading to higher productivity;
- the costs and impacts of tax proposals, measures and expenditures, including their distributional impact and overall efficiency; and
- a modernised tax treaty network and revised international tax rules which address risks from harmful tax jurisdictions, promote growth and investment, and further Australia's interests, particularly in the Pacific and Asia.

## Group outcomes

Revenue Group's key outcomes were:

- providing secretariat and other support to the AFTS Review Panel, including examining a broad range of tax and transfer issues, analysing public submissions, organising consultations with a wide range of stakeholders, commissioning research and delivering the final report to the Treasurer in December 2009;
- advising the Government on the recommendations of the AFTS Review, the Government's response to those recommendations and the Johnson Review;
- regularly revising tax revenue estimates and analysis, taking into account the improving domestic economy despite continuing global uncertainty, and incorporating these into the overall fiscal outlook and strategy in MYEFO and the 2010-11 Budget, as well as providing input into the IGR2010;

- advising on and implementing legislation for business tax proposals, including providing advice and policy support on the taxation of non-renewable resources, amending the consolidation regime, amending the taxation of financial arrangements rules, making a regulation on term subordinated debt, amending the capital gains tax rules to remove the trust cloning exception, providing limited rollover for assets transferred between certain trusts and removing certain income tax impediments to mergers of superannuation funds, developing the framework for the tax agent services regulatory reform, reforming the taxation of managed investment trusts, implementing legislation to protect investors in forestry managed investment schemes, and implementing the Board of Taxation recommendations on off-market share buy-backs;
- advising on proposals for personal tax policy reform, including a standard deduction for work-related expenses and the cost of managing tax affairs, a 50 per cent discount for individuals with up to \$1,000 interest income, a higher threshold above which taxpayers may claim the Net Medical Expenses Tax Offset, and greater flexibility for holders of first home saver accounts;
- advising on and implementing legislation for philanthropy tax policy, including improving the integrity of public ancillary funds, extending deductible gift recipient status to all volunteer fire brigades and related emergency services, as well as specifically listing organisations in the tax law as deductible gift recipients and income tax exempt;
- advising on and implementing legislation for superannuation and retirement income policies, including the lost members framework, the small business superannuation clearing house provided through Medicare Australia, and legislation to give effect to the Memorandum of Understanding between Australia and New Zealand to establish a retirement savings portability scheme;
- advising on and implementing legislation for Australia's international tax arrangements, reflecting efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including recommendations from the Board of Taxation's *Review of the foreign source income anti-tax-deferral regimes*, and the Johnson Report;
- progressing tax treaty negotiations with key investment partners, including enacting a new tax treaty with New Zealand, signing new treaties with Chile and Turkey, and concluding tax information exchange agreements with several other jurisdictions;
- contributing to global efforts to address tax transparency and harmful tax regimes, including the election of Australia as the Chair of the Global Forum on Transparency and Exchange of Information;
- advising on and implementing legislation on a range of indirect tax measures, including recommendations from the Board of Taxation's *Review of the Legal Framework for the Administration of the Goods and Services Tax*, tobacco excise and 'ready-to-drink' alcoholic beverages and advising on GST policy issues, including the Board of Taxation's *Review of the Application of the Goods and Services Tax to Cross-Border Transactions*,

the Treasury's *Review of the Margin Scheme* and the Treasury's *Review of the Goods and Services Tax Financial Supply Provisions*;

- providing quantitative advice, including analysis of the distributional considerations, into the AFTS Review process and the government's response, the Carbon Pollution Reduction Scheme, the fiscal stimulus and various tax proposals, such as the tobacco excise and increased thresholds for the Net Medical Expenses Tax Offset;
- coordinating the *2009 Tax Expenditures Statement* publication and providing quantitative advice on estimates of tax expenditures;
- concluding the Participation Modelling Project and having achieved a step up in the capacity of the Treasury — and more broadly across government — to model the impact on labour market behaviour of tax and transfer policy, including retirement incomes policy and child care policy;
- continuing to develop enhanced consultation processes for tax and superannuation measures, including establishing a Tax Design Advisory Panel to allow the Government, in appropriate circumstances, to develop tax legislation by teams involving the Treasury, the ATO and the private sector (as represented by panel members);
- advising the Government on ways to improve the operation of the running balance account and interest on overpayments provisions in the tax laws and developing legislation to transfer provisions from the *Income Tax Assessment Act 1936* to the *Income Tax Assessment Act 1997*;
- providing secretariat support to the Board of Taxation, including to its reviews of tax arrangements applying to managed investment trusts, elements of the taxation of employee share scheme arrangements, application of GST to cross-border transactions, tax treatment of collective investment vehicles, tax treatment of Islamic finance products, review of the Tax Issues Entry System and its post-implementation review into certain aspects of the consolidation regime; and
- providing secretariat support to the Superannuation Advisory Committee, which met three times during 2009-10.

## Analysis of performance

### Australia's Future Tax System Review and the Government response

The AFTS Review was announced by the Treasurer in May 2008 to review Australia's current tax and transfer system and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

The Review Panel was chaired by Dr Ken Henry AC (Secretary to the Treasury) and comprised Dr Jeff Harmer AO (Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs), Professor John Piggott (Associate Dean,

University of New South Wales), Ms Heather Ridout (Chief Executive Officer, Australian Industry Group) and Mr Greg Smith (Adjunct Professor, Australian Catholic University).

A secretariat was established within the Treasury to support the panel. The secretariat operated in the Treasury until the review panel's final report, *Australia's future tax system: Report to the Treasurer* was delivered to the Treasurer in December 2009.

The Treasury advised the Government on the recommendations and in developing and implementing the Government's response to the review. The Government released the final report, together with its initial response *Stronger, Fairer, Simpler: a tax plan for our future* on 2 May 2010.

### Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues as the Australian economy recovered from the global financial crisis. Revisions to expected tax revenue in 2009-10 and over the forward estimates, reflected the recovery in the domestic economy despite continued global uncertainty and the lags inherent in the tax system, and were made at both the economic and fiscal outlook releases through 2009-10 (MYEFO and the 2010-11 Budget). The Treasury provided revenue estimates into the medium term as an input into the medium term analysis undertaken in Budget Statement 3 of the Budget. The Treasury provided revenue projections for Government tax revenue out to 2049-50 for the IGR2010.

### Other analysis

The Treasury also undertook other quantitative analysis in preparing advice for government policies, such as the change to the threshold for the Net Medical Expenses Tax Offset and increase to tobacco excise in the 2010-11 Budget. The Treasury's analysis of interactions in the Australian tax and transfer system was also provided to the OECD for international comparisons in the *2009 Taxing Wages* and the *2007 Net Social Expenditures*.

### Business tax reform

#### Taxation of non-renewable resources

Following the completion of the AFTS Review, the Treasury advised on the taxation of non-renewable resources and development of the Resource Super Profits Tax. The Treasury undertook extensive consultation with the mining sector following the announcement of the Resource Super Profits Tax and provided secretariat support to the Resource Tax Consultation Panel. Following consultations with the sector, the Government announced changes to the resource tax arrangements, including the Minerals Resource Rent Tax and extension of the Petroleum Resource Rent Tax.

### Tax agent services regulatory reform

The Treasury continued to provide policy advice and develop legislation to implement the new tax agent services regime which started in March 2010. The *Tax Agent Services Act 2009*, which received Royal Assent on 26 March 2009, established a national statutory body, the Tax Practitioners Board, with an enhanced regulatory function to replace the existing state-based boards and introduced a legislative Code of Professional Conduct for registered agents, along with wider and more flexible disciplinary sanctions.

The Treasury developed legislation on transitional arrangements through the *Tax Agent Services (Transitional Provisions and Consequential Amendments) Act 2009*, which received Royal Assent on 16 November 2009 and helped appoint 12 members to the new board.

### Confidentiality of taxpayer information

The Treasury continued to provide advice and develop legislation to protect the confidentiality of taxpayer information held by the ATO. The Tax Laws Amendment (Confidentiality of Taxpayer Information) Bill 2009 was introduced into the House of Representatives on 19 November 2009. The legislation, when enacted, will rationalise a multitude of secrecy provisions in various tax laws and generally prohibit the disclosure of taxpayer information, except in specified circumstances.

### Small business tax measures

The Treasury has advised on numerous potential small business tax measures, including the immediate asset write-off for depreciating assets valued at under \$5,000 and the early start to the reduced company tax rate of 29 per cent for small business companies from 2012-13.

### Managed investment trusts

The Treasury advised on reforms to the tax arrangements for managed investment trusts, including introducing a new tax system for managed investment trusts, in response to the Board of Taxation's review. The Government announced the reforms on 7 May 2010. They include allowing qualifying managed investment trusts (those with clearly defined rights) to elect an attribution method of taxation to determine when an investor is liable to taxation.

The Treasury also provided policy advice and developed legislation to allow managed investment trusts to irrevocably elect to apply the capital gains tax provisions as the primary code for taxing gains and losses on disposing of certain assets (primarily shares, units and real property). The measure announced in the 2009-10 Budget implements interim advice that the Board of Taxation provided to the Government during the Managed Investment Trusts Review. The Treasury undertook public consultation on a discussion paper and draft legislation. The measure included in *Tax Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 3 June 2010.

### Restricting eligibility to the Entrepreneurs' Tax Offset through an income test

The 2008-09 Budget announced the introduction of an income test into the eligibility criteria for the Entrepreneurs' Tax Offset to reduce the offset that taxpayers with other significant sources of income (income not referable to the relevant small business) could claim. The income test restricts the eligibility of single individuals whose income is over \$70,000 and members of families whose incomes are over \$120,000. The Treasury undertook public consultation on draft legislation. The measure included in *Tax Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 3 June 2010.

### Extending tax file number withholding arrangements to closely held trusts

The Treasury provided policy advice, consulted and developed legislation and regulations on the 2009-10 Budget announcement to extend the tax file number withholding arrangements to closely held trusts, including family trusts. This measure included in the *Taxation Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 28 June 2010.

### Review of elections in the income tax law

The Treasury developed and released a consultation paper on the *Review of Elections in the Income Tax Law*. The paper examines the advantages and disadvantages of elections and seeks submissions on a proposed set of guidelines for the future drafting of election provisions.

### Unlimited amendment periods

The Treasury provided advice and developed legislation to repeal over 100 provisions that allowed the Commissioner of Taxation an unlimited period to amend a taxpayer's income tax assessment. This measure, implemented through the *Tax Laws Amendment (2010 Measures No. 2) Act 2010*, received Royal Assent on 28 June 2010.

### Capital gains tax treatment of water entitlements and termination fees

The Treasury provided policy advice and developed legislation to provide a capital gains tax rollover for taxpayers who replace an entitlement to water with different water entitlements and include these costs in the asset's cost base so termination fees are recognised when calculating a capital gain or capital loss on an asset. This changed treatment of termination fees applies to all assets, not just those relating to water. These changes, included in the *Tax Laws Amendment (2010 Measures No. 4) Bill 2010*, were introduced into Parliament on 23 June 2010. The water entitlement rollover is available on an optional basis from 2005-06.

### Abolishing trust cloning and providing a capital gains tax rollover for certain trusts

The Treasury provided policy advice and developed legislation to remove the trust cloning exception that allowed assets to be transferred between two trusts with the same terms and beneficiaries without triggering a capital gains tax taxing point, and provide limited capital

gains tax rollover for assets transferred between trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (typically referred to as fixed trusts). The measure, included in the *Tax Laws Amendment (2009 Measures No. 6) Act 2010*, received Royal Assent on 24 March 2010.

### Loss relief for merging superannuation funds

The Treasury provided policy advice and developed legislation to provide temporary loss relief for mergers on or after 24 December 2008 and before 1 July 2011 between complying superannuation funds by permitting the rollover of capital losses and transfer of revenue losses. The measure included in the *Tax Laws Amendment (2009 Measures No. 6) Act 2010*, received Royal Assent on 24 March 2010.

### Reform of research and development tax concession

The Treasury advised on introducing a new research and development tax incentive to replace the existing one from 2010-11. The Government announced this policy in the 2009-10 Budget. The new incentive will provide a 45 per cent refundable tax offset for companies with turnover less than \$20 million and a 40 per cent non-refundable tax offset for other companies. These changes were included in the Tax Laws Amendment (Research and Development) Bill 2010 which was introduced into Parliament on 13 May 2010.

### Forestry managed investment schemes

The Treasury provided policy advice and developed legislation to protect investors in forestry managed investment schemes from an adverse and unintended tax outcome following the collapse of some scheme managers. The amendment ensures investors do not have their previously claimed tax deductions denied, if they do not hold their forestry investments for four years for reasons genuinely outside their control. Such events could include the insolvency of the managed investment scheme manager, the death of the investor, or cancellation of a managed investment scheme interest because the trees are destroyed by fire, flood or drought. Minor amendments were also made to ensure the promoter penalties provisions continue to operate as a robust integrity measure. The measure, included in *Tax Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 3 June 2010.

### Consolidation

The Treasury provided policy advice and developed legislation to modify the circumstances when a consolidated group can use tax losses transferred it by an insolvent joining entity. The measure, included in *Tax Laws Amendment (2009 Measures No. 4) Act 2009*, received Royal Assent on 18 September 2009.

The Treasury provided policy advice and developed legislation to refine the consolidation regime and to clarify its interactions with other parts of the income tax law. The measure, included in *Tax Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 3 June 2010.



On 3 June 2009, the Government announced that the Board of Taxation would undertake a post-implementation review of aspects of the consolidation regime. The Treasury provided ongoing assistance to the board and the board issued its discussion paper on 9 December 2009.

The 2010-11 Budget announced changes to improve the operation of the joint and several liability rules that apply to consolidated groups. The Treasury issued a discussion paper on the issues on 25 June 2010.

### Taxation of financial arrangements

The Treasury provided policy advice and developed legislation to refine, as part of an implementation process, the taxation of financial arrangements stages 3 and 4 legislation. The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009*, which received Royal Assent on 26 March 2009, modernises the taxation of financial arrangements, reduces compliance costs and better reflects economic and commercial reality.

### Immediate annuity business of life insurance companies

The Treasury provided policy advice and developed legislation to clarify the circumstances in which the immediate annuity business of life insurance companies qualifies as non-assessable non-exempt income. The measure, included in *Tax Laws Amendment (2009 Measures No. 6) Act 2010*, received Royal Assent on 24 March 2010.

### General insurance business

The Treasury provided policy advice and developed legislation to transfer the provisions on the taxation of general insurance business from the *Income Tax Assessment Act 1936* to the *Income tax Assessment Act 1997*. The measure, included in *Tax Laws Amendment (Transfer of Provisions) Act 2010*, received Royal Assent on 29 June 2010.

### Changes to the non-commercial loan rules

The Treasury consulted with the community and provided policy advice on implementing the 2009-10 Budget changes to the non-commercial loan rules in Division 7A of the *Income Tax Assessment Act 1936*. The changes broaden the definition of 'payments' to include the 'use' of an asset, improve the operation of the interposed entity rules and remedy other technical deficiencies. The measures, introduced in the *Taxation Laws Amendment (2010 Measures No. 2) Act 2010*, received Royal Assent on 28 June 2010.

### Changes to the taxation of the unexpended income of special disability trusts

The Treasury consulted with the community and provided policy advice on tax changes to the unexpended income of special disability trusts. The amendments tax the unexpended income of a special disability trust at the beneficiary's personal marginal rate of tax, rather than at the highest marginal rate of tax. The measure, included in the *Taxation Laws Amendment (2010 Measures No. 3) Act 2010*, received Royal Assent on 29 June 2010. This measure, announced in the 2008-09 Budget, applies from 2008-09.

### Action against fraudulent phoenix activity

The Treasury developed the *Action Against Fraudulent Phoenix Activity* proposals paper, which was released for public consultation on 14 November 2009.

## Personal tax policy reform

### Increasing the flexibility of First Home Saver Accounts

The Government announced changes in the 2010-11 Budget to increase the flexibility of First Home Saver Accounts. These accounts provide a simple, tax effective way for Australians to save for their first home through a combination of government contributions and low taxes.

The Treasury advised on the change to allow savings in a First Home Saver Account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than into a superannuation account, as is currently the case, and is preparing consultation materials on this.

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### Rebalancing support for private health insurance

The Treasury advised the Government and developed legislation giving effect to the Government's 2009-10 Budget measure to introduce, from 1 July 2010, three new private health insurance incentive tiers. These tiers would have meant high income earners received less in government payments for their private health insurance, and higher costs if they opted out of their health cover.

The original legislation to put the reforms into effect was defeated in the Senate on 9 September 2009. The Bills were reintroduced into Parliament on 19 November 2009 but were again defeated in the Senate. The Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2009 and the Fairer Private Health Insurance Incentives (Medicare Levy Surcharge — Fringe Benefits) Bill 2009 were defeated on 24 February 2010 and the Fairer Private Health Insurance Incentives Bill 2009 was defeated 9 March 2010.

### Improving employee share scheme arrangements

The Government enacted changes to the tax concessions for employee share scheme arrangements announced in the 2009-10 Budget. The changes target eligibility for the tax concessions and reduce opportunities for tax avoidance. The Treasury undertook public consultation, provided advice and prepared the legislation.

### Reductions in personal income tax

The 2010-11 Budget honoured the tax cuts announced in the 2008-09 Budget. The tax cuts, which included changes to the low income tax offset, were included in the *Tax Laws Amendment (Personal Income Tax Reduction) Act 2008*, which received Royal Assent on 23 June 2008.

From 1 July 2010:

- the 30 per cent marginal tax rate threshold increased from \$35,001 to \$37,001;
- the 38 per cent marginal tax rate fell to 37 per cent; and
- the low income tax offset increased from \$1,350 to \$1,500 and will continue to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$16,000.

Senior Australians will benefit from these changes. The low income tax offset adds to the tax offset available to seniors, so those eligible for the senior Australians tax offset will have an effective tax free threshold of \$30,685 for singles and \$26,680 for each member of a couple from 1 July 2010.

### **Increase in the Net Medical Expenses Tax Offset claim threshold**

In the 2010-11 Budget, the Government announced that it will increase the threshold above which a taxpayer may claim the Net Medical Expenses Tax Offset from \$1,500 to \$2,000 (indexed) with effect from 1 July 2010. The legislation giving effect to this measure was introduced into Parliament in the Tax Laws Amendment (2010 Measures No. 4) Bill 2010 on 23 June 2010 but lapsed with the calling of the election.

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### **Fifty per cent tax discount on up to \$1,000 of interest**

In the 2010-11 Budget, the Government announced that from 1 July 2011, individuals would receive a 50 per cent tax discount on up to \$1,000 of interest, including interest earned on deposits held in authorised deposit-taking institutions (banks, building societies and credit unions), as well as bonds, debentures and annuity products. The Treasury provided advice to the Government in developing the policy and is expecting to undertake public consultation later in the year.

On 7 September 2010, the Government announced a 12 month deferral in commencement of the interest discount to 1 July 2012 and a phase-in of the interest income threshold, with a \$500 threshold from 1 July 2012, rising to \$1,000 from 1 July 2013.

### **Taxpayer standard deduction for the cost of work-related expenses and managing tax affairs**

In the 2010-11 Budget, the Government announced that it would provide individual taxpayers with a standard deduction of \$500 for work-related expenses and the cost of managing tax affairs from 1 July 2012. From 1 July 2013, the Government will increase the standard deduction to \$1,000. The Treasury provided advice to the Government in developing the policy and is expecting to undertake public consultation.

## Philanthropy tax policy

### Improving the integrity of public ancillary funds

In the 2010-11 Budget, the Government announced it would improve the integrity of public ancillary funds. A public ancillary fund is a philanthropic public fund providing money, property or benefits to deductible gift recipients.

This measure will provide trustees of public ancillary funds with greater certainty as to their philanthropic obligations by legislating guidelines, ensuring regular valuation of assets at market rates, increasing the size of compulsory distributions and giving the ATO greater regulatory powers.

The legislation and guidelines are expected to come into effect on 1 July 2011. The Treasury provided policy advice and is preparing materials for consultation.

### Deductible gift recipient status for volunteer fire brigades and related services

The Treasury advised the Government, undertook public consultation and developed legislation to extend deductible gift recipient status to all volunteer fire brigades and related emergency services. Volunteer fire brigades aim to prevent, respond to and assist with recovery from fire-related emergencies. Some brigades also provide broader emergency services.

Legislation implementing these changes was included in the Tax Laws Amendment (2010 Measures No. 4) Bill 2010.

## Superannuation and retirement income policy reform

### 2010-11 Budget superannuation measures

The Treasury provided policy advice for the Government's 2010-11 Budget measures, including:

- increasing the superannuation guarantee rate from 9 to 12 per cent by 2019-20;
- raising the superannuation guarantee age limit from 70 to 75 from 1 July 2013;
- providing a superannuation contributions tax rebate of up to \$500 annually for individuals with an adjusted taxable income up to \$37,000;
- increasing the concessional contributions cap to \$50,000 for those aged 50 or over whose superannuation balances total less than \$500,000;
- changes to the superannuation co-contribution scheme;
- facilitating the transfer of state and territory unclaimed superannuation to the Commonwealth;

- extending the range of benefits for superannuation funds to claim tax deductions for insurance premiums to include benefits released to terminally ill members; and
- making minor amendments to improve superannuation legislation.

### Trans-Tasman retirement savings portability

The Treasury continues to work with New Zealand officials to finalise legislation to provide a new regime so Australians and New Zealanders can take their retirement savings with them when they move across the Tasman.

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

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

### Lost members

The Treasury developed amending legislation to the *Superannuation (Unclaimed Money and Lost Members) Act 1999* to require superannuation providers to transfer the balance of a lost member's account to the Commissioner of Taxation where:

- the balance of the account is less than \$200; or
- the account has been inactive for five years and the provider is satisfied it will never be possible to pay an amount to the member.

Individuals who have their accounts transferred to unclaimed monies will be able to reclaim these amounts directly from the commissioner.

The amendments commenced from Royal Assent on 14 December 2009.

### Clearing house

In the 2008-09 Budget, the Government announced that it would introduce an optional, free superannuation clearing house service for small business. Small businesses could discharge their superannuation guarantee obligations by making a single payment to the clearing house. The clearing house then would distribute the contributions to the relevant superannuation funds, as selected by employees.

The Treasury developed and implemented legislation to enable employers to fulfil their obligations by making payments to Medicare Australia, the approved clearing house, from 1 July 2010.

The *Tax Laws Amendment (2010 Measures No. 1) Act 2010* received Royal Assent on 2 June 2010, amending the *Superannuation Guarantee (Administration) Act 1992*, the

*Retirement Savings Accounts Act 1997* and the *Superannuation Industry (Supervision) Act 1993* to give effect to this measure. The *Superannuation Guarantee (Administration) Amendment Regulations 2010 (No. 1)* specify Medicare Australia as an approved clearing house.

### Superannuation System Review

The Treasury provided secretariat, quantitative analysis and other support to the Governance, Efficiency, Structure and Operation of Australia's Superannuation System Review Panel in developing its final report.

### Other superannuation measures

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

- amending the *Retirement Savings Account Regulations 1997* and the *Superannuation Industry (Supervision) Regulations 1994* to allow payments under the pilot Farm Family Support Scheme to be a Commonwealth income support payment for early release of superannuation on severe financial hardship grounds;
- adding self-managed superannuation fund Specialist Auditors, of the self-managed superannuation fund Professionals' Association of Australia, to the list of approved auditors for superannuation funds;
- reducing the minimum payment amounts for account-based pensions by 50 per cent for 2010-11 to assist self-funded retirees affected by the global financial crisis. This extended the drawdown relief provided in 2008-09 and 2009-10;
- developing draft legislation and explanatory material to allow the trustee of a regulated superannuation fund to acquire an asset in specie from a related party of the fund, following the relationship breakdown of a member of the fund; and
- developing draft legislation, explanatory material, and a discussion paper to provide transitional relief for income tax deductibility of total and permanent disability insurance premiums paid by superannuation funds.

### Model development

The Treasury undertook enhancements to its superannuation costing models so that it could more accurately cost the Government's decisions to increase the concessional contributions threshold for contributors 50 and over, extend the superannuation guarantee rate to 12 per cent and introduce a low income contribution rebate.

The Treasury redeveloped its models for the IGR2010, providing the demographic, labour force, GDP, tax, age pension, income support, aged care and education projections. The models were also used in the updated projections of the medium-term budget projections.

## International tax arrangements

### Thin capitalisation rules

The *Tax Laws Amendment (2010 Measures No. 3) Act 2010* amended the thin capitalisation rules for authorised deposit-taking institutions to take account of the 2005 adoption of Australian equivalents to International Financial Reporting Standards. This amendment clarifies the treatment of Treasury shares, the business insurance asset known as EMVONA (excess market value over net assets) and capitalised software costs.

### Managed investment trusts

The *Tax Laws Amendment (2010 Measures No. 3) Act 2010* amended the withholding tax definition of a managed investment trust to include wholesale and government owned trusts, a requirement for certain investment management activities to be carried out in Australia, a trading trust exclusion, a closely held exclusion and recognition of the widely held nature of certain types of investors.

### Strengthening Australia's finance markets

The *Tax Laws Amendment (2009 Measures No. 5) Act 2009* amended interest withholding tax provisions of the *Income Tax Assessment Act 1936* to extend the exemption from interest withholding tax to Commonwealth Government Securities.

The Government has asked the Treasury to examine and provide advice on the tax treatment of income derived from foreign funds when they use Australian fund managers and on industry's proposal to introduce an investment manager exemption.

### Review into Australia's foreign source income anti-tax deferral regime

The former Government announced it would reform the foreign source income attribution rules. The reforms will better balance the integrity objective of the rules with other objectives such as efficiency, equity, simplicity and low compliance costs. The reforms maintain the controlled foreign company rules as the primary set of rules to counter tax deferral arrangements, and repeal the Foreign Investment Fund and deemed present entitlement rules. Legislation repealing the Foreign Investment Fund rules and the deemed present entitlement rules received Royal Assent on 14 July 2010.

Recognising that a small opportunity for deferral may still be present, a more targeted anti-avoidance rule (the anti-roll-up rule) is being developed. The proposed anti-roll-up rule will target the most abusive cases of deferral that may occur outside the controlled foreign company rules. Exposure draft legislation and explanatory material dealing with the anti-roll-up rule was released on 28 April 2010. The design of taxation laws that will modernise the controlled foreign company rules was also released by the Treasury as a consultation paper on 16 July 2010. This paper followed on from an earlier paper released on 5 January 2010 which outlined the proposed high level design of the controlled foreign

company rules. Public consultation has occurred on the design of these reforms and further consultation will occur on the draft legislation.

### Codification of the tax treatment of certain sovereign investments

The Government announced on 20 August 2009 that it would codify the current administrative practice that exempts from Australian taxation certain income arising from investments made by foreign governments. The application of this principle in Australia is limited to income arising from non-commercial investments. The objectives of this project are to encourage investment in Australia through greater certainty surrounding the tax consequences of these investments and to reduce the compliance and administrative costs associated with current arrangements. The Treasury developed a discussion paper detailing the framework rules for the proposed regime and released it on 28 June 2010. This paper expanded on an earlier discussion paper released in November 2009.

### Tax treaty negotiations

Australia has a tax treaty network of over 40 treaties. Bilateral tax treaties promote closer economic cooperation by eliminating possible barriers to trade and investment by overlapping tax 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. During 2009-10, the Treasury continued to progress the Government's tax treaty negotiation program and negotiations were held with Austria, Canada and the Taipei Economic and Cultural Office.

New tax treaties were signed with Chile and Turkey; amending protocols on tax information exchange were signed with Singapore and Malaysia; and the new tax treaty with New Zealand was enacted and entered into force. Work to progress negotiations with several other countries occurred.

Tax policy advice was provided on various international agreements the Government is negotiating, including free trade agreements, film co-production agreements, and proposed agreements with potential tax privileges and immunities. The Treasury also contributed to international tax treaty policy development and capacity-building through its work with the OECD's Committee on Fiscal Affairs.

### Tax information exchange agreements and international transparency

#### Tax information exchange agreements

Australia continued to make significant progress in securing tax information exchange agreements with low tax jurisdictions, including signing tax information exchange agreements with Anguilla, Aruba, the Bahamas, Belize, the Cayman Islands, Cook Islands, Dominica, Gibraltar, Guernsey, the Marshall Islands, Monaco, Samoa, San Marino, St Kitts



and Nevis, St Lucia, St Vincent and the Grenadines, Turks and Caicos Islands, and Vanuatu. Tax information exchange agreements provide a legal basis for bilateral exchange of tax information, for both civil and criminal tax purposes, and are important to combat offshore tax evasion.

Australia has been active in international efforts to address tax transparency and the use of secrecy for tax evasion purposes. Australia participated in the ministerial conference on the fight against international tax fraud and evasion hosted by the French and German Governments in Berlin in mid-2009 and is involved in G-20 and OECD efforts to improve global exchange of information for tax purposes. In August 2009, the Global Forum on Transparency and Exchange of Information was reinvigorated with a renewed mandate to conduct peer reviews of its members' commitment to international standards on tax transparency commitments. These standards have been endorsed by the United Nations and provide for the removal of secrecy and other interests that may prevent the exchange of information on tax matters between jurisdictions.

The peer reviews commenced in early 2009 and will continue until 2012 when it is anticipated that most of the Global Forum's 94 member countries and jurisdictions, would have undergone some level of review. It is expected that the outcome of these reviews will be made public. As an active contributor of the work of the Global Forum, Australia is one of the first countries to undergo a comprehensive review of its implementation of the international standards on tax transparency and exchange of information. The review commenced in March 2010 and is scheduled to conclude in early 2011.

### International representation

The Treasury represented Australia on the OECD's Committee on Fiscal Affairs and its associated working parties and forums dealing with international tax matters, particularly on developing comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meeting of the United Nations Committee of Experts on International Cooperation in Tax Matters. The Treasury provides the current Chairman of the Global Forum for Transparency and Exchange of information for tax purposes. The Treasury also provided an instructor to an OECD course on tax treaty issues.

### Indirect tax policy reform

#### Review of the legal framework for the administration of the GST

The Treasury conducted consultations and developed amendments to implement the recommendations agreed to by the Government arising from the Board of Taxation's review of the legal framework for the administration of the GST. These amendments were included in *Tax Laws Amendment (2009 GST Administration Measures) Act 2009*, *Tax Laws Amendment (2010 GST Administration Measures No. 1) Act 2010*, *Tax Laws Amendment (2010 GST Administration Measures No. 2) Act 2010* and *Tax Laws Amendment (2010 GST Administration Measures No. 3) Act 2010*. The Treasury is developing further legislation to implement the remaining agreed recommendations.

## Excise and customs duty

The Treasury developed legislation to increase tax on 'ready-to-drink' beverages and to change the definition of beer and wine products for tax purposes. On 27 April 2008, the excise and excise-equivalent customs duty rates applying to 'other excisable beverages not exceeding 10 per cent by volume of alcohol', that is 'ready-to-drink' beverages, were increased from \$39.36 per litre of alcohol content to the full strength spirits rate of \$66.67 per litre of alcohol content, by tariff proposal. The subsequent legislative amendment to the *Excise Tariff Amendment (2009 Measures No. 1) Act 2009* and the *Customs Tariff Amendment (2009 Measures No. 1) Act 2009* received Royal Assent on 27 August 2009.

The Treasury also developed legislation to increase tobacco excise and excise-equivalent customs duty (concurrently with the Australian Customs and Border Protection Service). The *Excise Tariff Amendment (Tobacco) Act 2010* and the *Customs Tariff Amendment (Tobacco) Act 2010*, which received Royal Assent on 28 June 2010, increased the excise and excise-equivalent customs duty rates applying to tobacco, cigars, cigarettes and snuff by 25 per cent, on and from, 30 April 2010.

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## Board of Taxation review of the application of GST to cross-border transactions

On 11 May 2010, the Government also announced its intention to reform how GST applies to cross-border transactions. This followed a review by the Board of Taxation which was provided to the Assistant Treasurer in February 2010. The Treasury provided support to the board and assisted in preparing the initial discussion paper released in July 2009.

## GST and cross-border transport and telecommunications supplies for global roaming

The Treasury conducted consultations and developed amendments to implement the Government's decisions on the tax treatment of cross-border transport supplies and telecommunications supplies for global roaming in Australia. These amendments were included in *Tax Laws Amendment (2010 GST Administration Measures No. 3) Act 2010*.

## Review of the GST margin scheme and financial supply provisions

The Treasury conducted reviews of the GST margin scheme and the GST financial supply provisions during 2009, issuing a discussion paper on each review and consulting broadly. It subsequently provided advice to the Government on amendments to the GST law. In response, the Government announced a series of reforms in these areas on 11 May 2010.

## Quantitative advice

### Carbon Pollution Reduction Scheme

The Treasury provided ongoing advice on the Carbon Pollution Reduction Scheme household assistance measures to be delivered through the tax and transfer systems, including changes due to revisions in the estimated carbon price. Special consideration was given to the distributional impact of the scheme on the cost of living and assistance

measures which would most effectively help those disproportionately affected during the transition to the scheme.

### Fiscal stimulus

Monitoring outcomes of the household payment components of the Government's fiscal stimulus package and evaluating observed impacts in comparison to forecasted impacts.

### Tax Expenditures Statement

The Treasury coordinated the *2009 Tax Expenditures Statement* publication and provided quantitative advice in respect of the estimates of tax expenditures (that is, the value of concessional taxation treatment) associated with areas of taxation policy where concessional treatment is applied. The *2009 Tax Expenditures Statement* also incorporated changes as a result of recommendations from a performance audit undertaken by the Australian National Audit Office in 2007-08. Such changes included preparation of estimates under the *revenue gain* approach, rather than the traditional *revenue forgone* approach to measuring tax expenditures.

### Participation Modelling Project

The Participation Modelling Project concluded in 2009, having achieved a step up in the capacity of the Treasury, and more broadly across government, to model the impact on labour market behaviour of tax and transfer policy, including retirement incomes and child care policy.

Published material was included in *Economic Roundup* and Treasury Working Papers on the relationship between female labour force participation and child care, and on added worker and discouraged worker effects for married women.

The Treasury continues to increase capacity through further development of quantitative modelling and analysis to identify the revenue, distributional and labour force participation effects of government policy proposals.

### Consultation for tax and superannuation measures

During 2009-10, the Treasury continued to develop enhanced consultation processes for tax and superannuation measures, including establishing a Tax Design Advisory Panel. This allows the Government, in appropriate circumstances, to develop tax legislation by teams involving the Treasury, the ATO and the private sector, as represented by members of the panel.

Consultation on tax and retirement incomes policy continued to be extensive, with public consultation on new measures occurring at both the policy design and legislative design stages. The Treasury published discussion papers, draft legislation and draft explanatory

materials on its website for comment. The default minimum period for consultation is four weeks, although on occasions this is reduced, for example, where the priority is to introduce legislation.

The Treasury also published submissions made to consultation processes on its website, except when confidentiality was requested.

In addition, the Treasury also posted consultation summaries on its website for a number of new legislative measures introduced into Parliament. These outline the issues raised in consultation, changes resulting from consultation and, where possible, reasons why certain suggestions were not adopted. Consultation summaries also invite feedback on the consultation process to inform the Treasury, so it continuously improves its consultation practices and arrangements.

## Running account balance and progress towards a single Income Tax Assessment Act

### 72 Running balance accounts discussion paper released

On 20 May 2010, the Assistant Treasurer released a discussion paper on streamlining and improving the operation of the running balance account and interest on overpayments provisions in the tax laws, as a first step to rewriting those provisions to provide flexibility to manage tax debts and entitlements, and be more useful for taxpayers. Comments on the discussion paper were due by 8 August 2010.

### Progress towards a single Income Tax Assessment Act

The Treasury progressed towards achieving a single Income Tax Assessment Act following the passage into law of the *Tax Laws Amendment (Transfer of Provisions) Act 2010*. This Act rewrote provisions relating to income tax collection and recovery; forgiveness of commercial debts; luxury car leases; the farm management deposit scheme; and taxation of general insurance companies. The rewrite also expanded the use of security deposits and increased associated penalties.

## Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to its reviews of tax arrangements applying to managed investment trusts, elements of the taxation of employee share scheme arrangements, application of GST to cross-border transactions, tax treatment of collective investment vehicles, tax treatment of Islamic finance products, review of the Tax Issues Entry System and its post-implementation review into certain aspects of the consolidation regime.

### Technical corrections and minor improvements

Measures making technical corrections and amendments to the law and other minor improvements included in the *Tax Laws Amendment (2010 Measures No. 1) Act 2010*, received Royal Assent on 3 June 2010.

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

### Secretariat support to the Superannuation Advisory Committee

The Treasury provided secretariat support to the Superannuation Advisory Committee, which met three times during 2009-10.

### Policy evaluation frameworks

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

The Treasury has enhanced its long-term fiscal models, including further developing its long-term costing capacity to examine offsets to the Government's increase to pension payments. The models were used in medium-term projections of the Government's fiscal position.

### Management of legislation program

Advice to the Government on tax policy and legislation was timely, influential and high in quality, enabling the Government to make informed decisions in responding to the global financial crisis and developing a range of other business, personal, indirect, international and personal income tax measures.

The Treasury published the Government's updated forward work program on the Treasury website in February 2010. The program sets out the consultation planned for announced tax measures and also indicates the legislation planned for the next parliamentary sittings.

Forty-seven of the 57 tax and retirement income legislative prospective measures (82 per cent) introduced into Parliament during 2009-10 were introduced within 12 months of being announced. Nine of the 19 retrospective measures (47 per cent) introduced during 2009-10 were introduced within six months of announcement. Another four measures introduced during 2009-10 were not announced previously.

## MARKETS GROUP

### Overview

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

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on developing and implementing policies to maintain and improve markets, so that investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also provides advice to promote 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 Treasury also supports the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel.

A key focus for the Treasury in 2009-10 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy, in the wake of the global financial crisis. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and ensuring that regulatory frameworks promoted macroeconomic stability and market confidence.

The Treasury also continued to monitor and provide advice on the general prudential framework applying to the banking sector, insurers and superannuation funds. The Treasury participated actively in international forums, such as the G-20 and Financial Stability Board, to enhance the regional and global financial architecture.

During 2009-10, the Treasury continued to pursue sound regulatory and structural reforms to foster well functioning markets in key infrastructure, housing, financial and labour markets. This included work to further the COAG reform agenda to reduce the regulatory burden on business, including a national approach to consumer policy and consumer credit; housing supply and affordability; and Standard Business Reporting (SBR).

The multi-agency SBR program was delivered on time and within budget on 1 July 2010. Participating agencies include the ABS, the Australian Prudential Regulatory Authority (APRA), the Australian Securities and Investments Commission (ASIC), the ATO, and all State and Territory government revenue offices.

In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in negotiating free trade agreements.

## Group deliverables

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

- measures to promote competition and financial system stability;
- availability of finance to key financial institutions, including banks and credit unions, and to key sectors of the economy to support growth and jobs;
- implementation of the Government's principles for assisting borrowers facing financial hardship in servicing housing and personal debt;
- the efficient operations of the guarantees on deposits and wholesale funding of banks and other Australian deposit taking institutions;
- the impact of the Government's investment in residential mortgage-backed securities;
- how best to implement G-20 decisions to strengthen the financial regulatory system while ensuring settings are appropriate for Australia's domestic circumstances;
- further reforms to executive remuneration arrangements through the recommendations of the Productivity Commission's inquiry into director and executive remuneration and the work of APRA on its prudential standards for sound remuneration;
- initiatives arising from the Australian Financial Centre Forum to strengthen Australia as a regional centre;
- financial services and corporate reform addressing emerging issues in investor protection, corporate governance and reporting, and market integrity;
- the introduction and implementation of criminal sanctions for serious cartel conduct;
- key planks in the COAG reform agenda designed to reduce the regulatory burden facing business including a national law for consumer policy, national consumer credit law and as the lead agency in the multi-agency SBR initiative;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency;
- reform of the national access regime, and building the nation's infrastructure, including a national broadband network;
- managing incoming foreign investment to ensure that the national interest is protected and encourage free flows of investment;
- representation of Australia's interests on investment and financial service issues in negotiating free trade agreements and the Doha Round and, in relation to investment, in multilateral forums such as the OECD and APEC; and
- actuarial matters through the Australian Government Actuary which provides actuarial services to government, the Treasury and other agencies.

## Group outcomes

Markets Group's key outcomes were:

- supporting the review into the governance, efficiency, structure and operation of Australia's superannuation system. The review reported to the Government on 30 June 2010 and the Government released the report publically on 5 July 2010;
- developing legislation to introduce reforms to improve the efficiency, timeliness and effectiveness of regulatory decision-making under the National Access Regime. The legislation was passed by Parliament on 24 June 2010;
- developing a Housing Supply and Affordability Reform Agenda to examine a range of factors and government policies that influence housing supply and demand in Australia. COAG has agreed to the reform agenda;
- leading key reforms of the COAG Business Regulation and Competition Working Group to progress reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing legislative amendments to implement the Government's commitments to reform the unconscionable conduct and mergers and acquisitions provisions of the *Trade Practices Act 1974*, which were introduced as part of the Competition and Consumer Legislation Amendment Bill 2010 on 27 May 2010;
- developing legislation to implement the Australian Consumer Law, which will replace provisions in 17 Commonwealth, State and Territory laws with a single national consumer law commencing on 1 January 2011. The Australian Consumer Law was enacted in two Bills that were passed by both Houses of Parliament during 2009-10;
- developing the National Consumer Credit Protection Laws which came into force on 1 July 2010, and give effect to the October 2008 COAG agreement to transfer responsibility for consumer credit regulation to the Australian Government;
- developing the *Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) Act 2010* to improve the efficiency and operation of a range of financial legislation;
- developing the *Corporations Amendment (Corporate Reporting Reform) Act 2010* and associated Regulations to reduce the regulatory burden on companies and improve Australia's corporate reporting framework;
- developing the *Corporations Amendment (Improving Accountability on Termination Payments) Act 2009* and associated Regulations to strengthen the regulatory framework for the payment of termination benefits to company directors and executives;
- developing the *Corporations Amendment (Financial Market Supervision) Act 2010* and the *Corporations (Fees) Amendment Act 2010* to give effect to the Government's decision to transfer the responsibility for supervision of Australia's domestic licensed financial markets from market operators to ASIC;



- progressing the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region, including work to establish a Centre for International Finance and Regulation;
- providing advice, in consultation with the Foreign Investment Review Board, on significant and high profile foreign investment cases of national interest and trade policy matters; dealing with global investment, trade flows and trends, foreign government investment and trade policy responses; and the implications for Australia;
- amending the *Foreign Acquisitions and Takeovers Act 1975* to ensure it applies equally to foreign investment proposals irrespective of the ways they are financially structured;
- implementing the changes to the foreign investment policy on residential real estate, announced by the Government on 24 April 2010;
- leading the negotiations for an Investment Protocol to the Closer Economic Relations Trade Agreement with New Zealand. Contributing to free trade agreement negotiations with Japan, China, Korea, Malaysia and the Gulf Cooperation Council, and participating in the first two rounds of the Trans-Pacific Partnership Agreement negotiations held in March 2010 and June 2010;
- achieving substantive progress towards a single economic market between Australia and New Zealand. In August 2009, the Australian and New Zealand Prime Ministers agreed on a framework of principles for developing cross-border economic initiatives and a range of shared practical outcomes as the next step towards commitment to a single economic market;
- delivering SBR which provides a quicker and easier way for businesses to fulfil their government reporting requirements; and
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary and the Financial Reporting Panel.

## Analysis of performance

### Review into the governance, efficiency, structure and operation of Australia's superannuation system

On 29 May 2009, the Government announced the details of a review into the governance, efficiency, structure and operation of Australia's superannuation system.

The review aimed to ensure the superannuation system operates in the most cost-effective manner and best interests of all its members. It considered how to maximise retirement income for Australians, including through increasing efficiencies, reducing costs and fees, and lifting long-term rates of return.

The review reported to the Government on 30 June 2010 and the Government released the report publically on 5 July 2010. The review report is available at [www.supersystemreview.gov.au](http://www.supersystemreview.gov.au).

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The Treasury provided secretariat support to the review and will provide advice to the Government in its response to the report.

### Infrastructure policy

The Treasury provided advice on the Government's investment in infrastructure projects announced in the 2010-11 Budget. The Secretary to the Treasury is a member of Infrastructure Australia, the Government's key advisory body on nationally significant infrastructure. The Treasury is engaged in the activities of the COAG Infrastructure Working Group, including the Private Public Partnership Sub-group.

The Treasury provided advice on the interaction of the Government's climate change policies and the Australian energy market. The Treasury was actively engaged in the work of the Ministerial Council on Energy Standing Committee of Officials which provides advice on ongoing energy market reforms.

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

The Treasury worked with the Department of Infrastructure, Transport, Regional Development and Local Government to develop the National Aviation White Paper.

The Treasury provided advice on a package of reforms to help improve the efficiency, timeliness and effectiveness of regulatory decision-making under the National Access Regime in Part IIIA of the Trade Practices Act. The Treasury assisted in developing legislation to introduce these reforms, which was passed by Parliament on 24 June 2010. The Treasury

also developed regulations, which commenced on 8 June 2010, to support the competitive tendering provisions of Part IIIA.

The Treasury is working with the Department of Broadband, Communications and the Digital Economy, the Australian Competition and Consumer Commission and other central agencies on implementing the Government's National Broadband Network policy, and providing advice on telecommunications regulatory issues.

The Treasury also is working with the Department of Broadband, Communications and the Digital Economy and other relevant agencies on measures to facilitate the switch-over to digital television around Australia.

The Treasury was instrumental in COAG agreeing to a Housing Supply and Affordability Reform Agenda that is examining a range of factors and government policies that influence housing supply and demand in Australia. The Treasury leads key activities of the COAG Housing Supply and Affordability Working Party, which is responsible for reporting to COAG through the Ministerial Council for Federal Financial Relations on issues such as planning and zoning, infrastructure charges and an audit of under-utilised land. Consistent with the Housing Supply and Affordability Reform Agenda, the Treasury is also working on a review of Commonwealth policies that affect the housing market.

The Treasury was an ex-officio member of the National Housing Supply Council and contributed to its *2nd State of Supply Report*.

The Treasury advised the Government on funding for housing measures in, and announced after, the 2010-11 Budget.

## Competition policy

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

The Treasury provided advice to Government on possible reforms to the mergers and acquisitions provisions of the Trade Practices Act to address creeping acquisitions. The Treasury developed legislative amendments to implement the Government's reforms to the Trade Practices Act, introduced as part of the Competition and Consumer Legislation Amendment Bill 2010 on 27 May 2010.

The Treasury informed public debate on competition policy-related matters by making public submissions and appearing before Senate Inquiries held into the Grocerychoice website, the Trade Practices Amendment (Guaranteed Lowest Prices — Blacktown Amendment) Bill 2009, the Trade Practices Amendment (Material Lessening of Competition — Richmond Amendment) Bill 2010, and the Competition and Consumer Legislation Amendment Bill 2010.

The Treasury leads key reforms of the COAG Business Regulation and Competition Working Group. These include progressing reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business, eight competition reform areas and other reforms such as examining the effects of State and Territory planning and zoning laws on grocery retailing.

The Treasury coordinates and advises the Government on preparing terms of reference for Productivity Commission research and inquiries. In 2009-10, this involved four public inquiries and six commissioned research references.

The Treasury assisted in developing the Government's regulatory reform agenda, including the revision of the *Best Practice Regulation Handbook*.

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

## 80 Consumer policy

In 2009-10, the Treasury provided advice to the Government on the consumer policy framework.

The Treasury is leading a number of projects being progressed under COAG's consumer policy agenda, including the development of the Australian Consumer Law.

The Treasury developed legislation to implement the Australian Consumer Law. The Australian Consumer Law will replace provisions in 17 Commonwealth, State and Territory laws with a single national consumer law and will commence on 1 January 2011. The Australian Consumer Law was enacted in two Bills that were passed by both Houses of Parliament during 2009-10.

The *Trade Practices Amendment (Australian Consumer Law) Act (No. 1) 2010* (first Australian Consumer Law Act) established the Australian Consumer Law as a schedule to the Trade Practices Act. The first Australian Consumer Law Act includes the national unfair contract terms law and new civil penalties, enforcement powers and consumer redress options. This Act passed both houses of Parliament on 17 March 2010 and received Royal Assent on 14 April 2010. The enforcement-related provisions commenced on 15 April 2010 and the national unfair contract terms provisions commenced on 1 July 2010.

The *Trade Practices Amendment (Australian Consumer Law) Act (No. 2) 2010* (second Australian Consumer Law Act) completed the text of the Australian Consumer Law. The second Australian Consumer Law Act includes a single set of provisions about unfair practices and fair trading, new consumer guarantees provisions, new provisions dealing with unsolicited consumer agreements, simple national laws for lay-by agreements, a new

national product safety regime and new provisions on information standards that will apply to services as well as goods. The second Australian Consumer Law Act also changes the name of the Trade Practices Act to the *Competition and Consumer Act 2010*. The reforms in the second Act will commence on 1 January 2011.

The Treasury, in collaboration with the Department of Innovation, Industry, Science and Research, supported the work of an Expert Panel in preparing a report entitled *Strengthening Unconscionable Conduct and the Franchising Code of Conduct*, which was published in March 2010. The recommendations of the report formed the basis of the unconscionable conduct provisions of the Competition and Consumer Legislation Amendment Bill 2010, which was introduced into Parliament in May 2010.

The Treasury commenced work during 2009-10 to review legislation that may be inconsistent with or alter the effect of the Australian Consumer Law. The Treasury also worked with national, State and Territory regulators during 2009-10 to implement a new policy and enforcement framework for the Australian Consumer Law.

The Treasury represents Australia in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy. The Treasury contributed to the development of the OECD's *Consumer Policy Toolkit*, which was published in July 2010, and the establishment of the OECD's Working Group on Consumer Product Safety.

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

### National regulation of credit

The Treasury continued work throughout 2009-10 on developing the National Consumer Credit Protection laws, which came into force on 1 July 2010. The legislation gives effect to the COAG agreement of October 2008 to transfer responsibility for consumer credit regulation to the Australian Government.

The National Consumer Credit Protection laws:

- replace the State and Territory administered Uniform Consumer Credit Code with a nationally consistent consumer credit framework;
- introduce a national credit licensing system with both entry standards and ongoing conduct requirements for all persons engaging in credit activities; and
- require lenders, and those intermediaries who provide credit assistance, to meet responsible lending obligations, so that borrowers are not provided with products that are unsuitable.

## Financial system reform

### Financial sector crisis management

A key focus of activities during 2009-10 was providing policy analysis and advice to improve Australia's productivity and international competitiveness, and deepen the supply potential of the economy in the wake of the global financial crisis. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

The Treasury continued to participate in the work of the G-20, contributing to the development of key global reforms to financial regulation, including strengthened standards for capital and liquidity and providing advice to government on implementing these reforms so that they are appropriate for Australian domestic circumstances. The Treasury also contributed to the work of other international bodies to foster international cooperation in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency.

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

In the case of financial reporting, the Treasury worked with the Financial Reporting Council on regional and international initiatives to promote convergence to International Financial Reporting Standards.

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

In March 2009, the Government announced reforms to strengthen the regulatory framework for the payment of termination benefits to company directors and executives. The Treasury developed and implemented these reforms through the *Corporations Amendment (Improving Accountability on Termination Payments) Act 2009* and the associated Regulations, which commenced in November 2009.

In November 2009, the Corporations Amendment Regulations 2009 (No. 8) were made regarding the disclosure of covered short sales. The new rules are intended to promote market transparency, reduce the scope for market manipulation and restore confidence in Australia's financial markets.

The Treasury also provided advice on Australia's financial sector crisis management arrangements, including the operation of the Guarantee of Large Deposits and Wholesale Funding (Guarantee Scheme), and the Financial Claims Scheme.

The Guarantee Scheme enabled Australian authorised deposit-taking institutions to continue to raise funds and to provide credit throughout the crisis. The Government closed the Guarantee Scheme on 31 March 2010 following advice from the Council of Financial Regulators that it was no longer required.

The Financial Claims Scheme provides depositors and insurance policyholders with timely access to funds if a financial institution fails. Depositor claims are currently capped at \$1 million, a level which reflected the need to reassure depositors and the market at the time it was set. The Government has committed to review these arrangements by October 2011.

The Treasury also provided advice on liquidity support arrangements for the car dealership financing sector.

The Treasury provided advice and developed legislation to improve the efficiency and operation of a range of financial legislation. The *Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) Act 2010*, which contained amendments to 17 Acts and repealed five redundant Acts, received Royal Assent on 29 June 2010. The legislation strengthens the ability of APRA to effectively fulfil its mandate and is consistent with international developments to review and strengthen regulatory frameworks.

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

## Corporations and financial services reform

### Corporate reporting reform

In December 2009, the Government announced it would implement a range of reforms to reduce the regulatory burden on companies and improve Australia's corporate reporting framework. The Treasury developed and implemented these reforms through the *Corporations Amendment (Corporate Reporting Reform) Act 2010* and the associated Regulations, which commenced in June 2010.

### Executive remuneration

Following the Government's announcement in April 2010 that it would introduce a package of reforms to strengthen Australia's remuneration framework, the Treasury developed draft legislation to progress the reforms. The proposals address many of the recommendations made by the Productivity Commission in its recent inquiry into Australia's executive remuneration framework.

### Unsolicited share offers

In June 2010, the Government introduced the Corporations Amendment Bill (No. 1) 2010. The Bill includes measures to address unsolicited share offers by changing rules regarding the access and use of information held on share registers.

### Market supervision

On 24 August 2009, the Government announced it had decided to transfer the responsibility for supervision of Australia's domestic licensed financial markets from market operators to ASIC. The Treasury developed the *Corporations Amendment (Financial Market Supervision) Act 2010* and the *Corporations (Fees) Amendment Act 2010*, which give effect to the Government's decision. The Bills received Royal Assent on 25 March 2010. The Regulations which provide the detail of the new regulatory framework were approved by the Executive Council on 8 July 2010.

### Trustee companies

In 2009-10, in consultation with industry and the States and Territories, the Treasury implemented the Government's decision to establish national regulation of trustee companies. Legislation and supporting Regulations were made during 2009-10 and largely came into effect on 6 May 2010, with detailed regulation of common funds coming into effect from 1 July 2010.

### Whistleblower reforms

In October 2009, the Government released an options paper setting out some possible options to improve access to, and the operation of, protections to corporate whistleblowers in the Corporations Act. The paper sought feedback and comments from the community and over 20 written submissions were received. In March 2010 the Treasury held roundtable discussions to gather further information.

### Financial sector trends and structures

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

## Financial services developments

### Australian Financial Centre Forum

On 15 January 2010, the Minister for Financial Services, Superannuation and Corporate Law released the report *Australia as a Financial Centre: Building on our Strengths* (the



Johnson Report) which made a series of recommendations to advance the international competitiveness of Australia's financial services sector. This followed the creation of the Australian Financial Centre Forum to progress the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region.

On 11 May 2010, the Government announced its response to the recommendations in the Johnson Report, providing in-principle or direct support for nearly all 19 recommendations. The recommendations fell into four areas:

- taxation of financial services, which included asking the Board of Taxation to undertake reviews into Islamic financial products and collective investment vehicles;
- regulation of financial services, including development of an Asia Region Funds Passport and an online regulatory gateway for potential investors into Australia;
- promotion of Australia and regional engagement on financial services issues; and
- an ongoing role for a dedicated industry taskforce.

Complementing the recommendations of the Johnson Report, in May 2010, the Government announced that it was establishing a Centre for International Finance and Regulation in Australia, with funding of up to \$25 million over four years, to address ways to foster financial sector innovation, while ensuring the risk inherent in the financial system is appropriately managed through best practice regulation.

The Government has appointed an ongoing Financial Centre Taskforce to continue the work of the Australian Financial Centre Forum. The taskforce will comprise Mr Mark Johnson as Chair, Mr Paul Binsted, Ms JoAnne Bloch, Mr Alf Capito, Mr Phil Chronican, Mr Jeremy Duffield, Mr Craig Dunn, Mr Shane Finemore and Mr Paul Schroder.

### Financial Services Working Group

In 2008, the Minister for Finance and Deregulation and the then Minister for Superannuation and Corporate Law created the Financial Services Working Group, comprising officials from the Treasury, the Department of Finance and Deregulation and ASIC.

Throughout 2009-10 the working group undertook projects to simplify disclosure for margin loans, superannuation funds and simple managed investment schemes. The working group finalised the Product Disclosure Statements for margin loans (four pages), superannuation, and simple managed investment products (both eight pages) by making these documents shorter and simpler to read, while still containing the key information consumers need to know for making an investment decision. The working group has now completed its tasks.

### Review of product rationalisation

Through product rationalisation investors in an outdated managed investment product are transferred to a new similar product with equivalent rights and benefits for the investor. The

process phases out economically inefficient older financial products, or 'legacy products', by transferring investors into newer, more efficient products.

In 2009-10, the Treasury released a proposals paper to consult with stakeholders about a proposed product rationalisation framework for superannuation products, managed investment schemes and life insurance products. The Treasury used the submissions from this paper to revise the proposed product rationalisation framework in consultation with ASIC and APRA.

### Advice on, and processing of, individual foreign investment proposals

Proposals for foreign investment that fall within the scope of the *Foreign Acquisitions and Takeovers Act 1975* or Australia's foreign investment policy need to be examined by Treasury ministers to determine whether they might be contrary to the national interest.

The Treasurer is notified when a foreign person enters into an agreement to acquire an interest in Australian urban land or a substantial interest<sup>2</sup> in an Australian corporation valued above \$231 million<sup>3</sup>. The Treasurer is also notified of proposals that involve direct investments by foreign governments and their agencies, regardless of size and including proposals to establish new businesses.

Under the Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that are not highly sensitive; this accounts for around 94 per cent of proposals.

During 2009-10, the Treasury began to implement changes to the screening regime for residential real estate purchases announced by the Assistant Treasurer on 24 April 2010. These changes removed the exemption from notification that had been applied to temporary residents since April 2009. They also included measures to strengthen compliance with the screening regime.

The Treasury considered around 4,474 proposals in 2009-10, around 23 per cent fewer proposals than in 2008-09. This decrease reflected fewer real estate proposals as a consequence of the full implementation of the policy changes affecting residential real estate screening announced in December 2008. The number of business cases increased to 617 from around 525 in 2008-09. About 97 per cent of proposals were decided within 30 days. In examining large or otherwise significant proposals, the Treasury consults with Commonwealth and State government departments and authorities, with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals.

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

3 Under the Australia-US Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2010, the threshold is \$1,004 million except for acquisitions involving a US government entity or in prescribed sensitive sectors.

During 2009-10, the Foreign Investment Review Board (an independent body which advises the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals and oversaw the Treasury's investment screening function. The General Manager of the Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is provided in the Foreign Investment Review Board's annual report. The report and other information are available at [www.firb.gov.au](http://www.firb.gov.au).

### **Advice on investment and trade policy**

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

### **Representation in international forums**

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

### **Free trade agreements/closer economic cooperation**

#### Concluded negotiations

The Association of Southeast Asian Nations-Australia-New Zealand free trade agreement entered into force on 1 January 2010 for eight of the countries that signed the agreement. In March 2010 the agreement entered into force for Thailand. Cambodia, Indonesia and Laos are working towards ratification in late 2010.

The Treasury was also the lead agency in investment protocol negotiations between Australia and New Zealand.

#### Continuing negotiations

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, Korea, and Malaysia. The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

In November 2008, Australia announced it would participate in Trans-Pacific Partnership Agreement negotiations with Brunei, Chile, New Zealand, Peru, Singapore and the

United States. The Treasury participated in the first two rounds of negotiations held in March 2010 and June 2010. Vietnam is an associate member.

### OECD Investment Committee

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

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

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In 2009-10, the Australian National Contact Point received a specific instance relating to the industrial relations practices of an Australian company operating in New Zealand. The matter has been handled primarily by the New Zealand National Contact Point in consultation with Australia.

The Australian National Contact Point also continued the promotional program for the guidelines, including participating in business and non-government organisation forums. Further information is available at [www.ausncp.gov.au](http://www.ausncp.gov.au). The OECD Ministerial Council launched a review of the guidelines in May 2010, which will involve consultation with stakeholders at the national level through national contact points.

### APEC

Australia hosted APEC in 2007, and continues to participate actively in its work. Australia encourages APEC members to enhance the environment for investment in their economies and improve transparency.

The Treasury held the chair of the Investment Experts Group until the end of 2009. The group focused on liberalising investment, improving the transparency of investment regimes and capacity-building in the APEC region. The 2009-10 work program included:

- continuing analysis of barriers to investment climate reform;
- providing project management for a number of APEC funded projects which are designed to enhance capacity-building and benchmark performance improvement in removing barriers to investment; and
- developing, then getting APEC ministers and leaders to endorse, a number of action plans within the overarching APEC Investment Facilitation Action Plan.

The Treasury also participated in investment climate reform capacity-building projects targeting APEC economies undertaken by the Australian APEC Study Centre and Melbourne APEC Finance Centre.

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

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

### **International liaison**

#### **International Financial Reporting Standards Regional Policy Forum**

The fourth International Financial Reporting Standards Regional Policy Forum, which was held in Singapore in May 2010, was attended by many jurisdictions from the Asia-Oceania region. Australia actively participated in the forum through representatives from the Treasury, the accounting standard setters, the auditing standard setters and professional accounting bodies. The forum discussed a number of pertinent issues, including the auditing challenges that have arisen from the global financial crisis, the global convergence of International Financial Reporting Standards, differential reporting for small and medium sized entities, reporting by the not-for-profit sector, and the experiences of Asia-Oceanic jurisdictions in adopting International Financial Reporting Standards.

#### **Coordination of business law with New Zealand**

The Australian and New Zealand Governments are taking a strategic approach to shaping and guiding a single economic market to realise the benefits to business, consumers and investors of harmonising the two economies.

In August 2009, the Australian and New Zealand Prime Ministers agreed on a framework of principles for developing cross-border economic initiatives and a range of shared practical outcomes as the next step towards commitment to a single economic market. In 2009-10 substantive progress was achieved towards:

- a single cross-border insolvency proceeding;
- alignment of accounting standards for profit entities;
- functional equivalence of financial reporting standards bodies;
- mutual recognition of auditors and financial advisors;
- a single entry point for the registration of companies which are intending to do business on both sides of the Tasman;
- cross-appointments at the Australian Competition and Consumer Commission and the New Zealand Commerce Commission at associate member level; and
- a harmonised or coordinated approach to the enforcement of consumer laws.

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

In June 2010, a revised Memorandum of Understanding on the Coordination of Business Law between Australia and New Zealand was signed by the two governments. The memorandum was amended to include the work program announced by the Prime Ministers in August 2009.

### **Trans-Tasman Accounting and Auditing Standards Advisory Group**

The Trans-Tasman Accounting and Auditing Standards Advisory Group comprises representatives from the accounting and auditing standard setters, the professional accounting bodies, and the policy makers of both Australia and New Zealand. The Treasury chaired the group and provided secretariat support for the two years ending December 2009.

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The Trans-Tasman Accounting and Auditing Standards Advisory Group's focus is to ensure that the financial reporting and auditing frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During 2009-10, the group progressed a range of reforms designed to ensure greater commonality and alignment between the two frameworks.

### **Trans-Tasman Council on Banking Supervision**

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

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

### **OECD Insurance and Private Pensions Committee**

The Treasury has provided the Australian representative to the OECD Insurance and Private Pensions Committee, which also includes the Working Party on Private Pensions and the Working Party on Government Experts on Insurance. In 2009-10, the committee focused on issues which arose in the financial crisis relevant to insurance sectors and private pension funds across member countries. These included crisis resolution options, corporate structures, consumer protection and accounting standards. It also undertook further work on the OECD guidelines on insurer corporate governance in cooperation with International Association of Insurance Supervisors.

### Standard Business Reporting International Forum

The SBR International Forum is jointly chaired by the SBR Program Director and a representative from the Netherlands Government. In October 2009 officials from Singapore, Taiwan, Australia, the Netherlands and New Zealand, along with representatives of the software development community and several major accounting firms, met at an SBR International Forum in Singapore. Australia subsequently hosted an SBR International Forum in Sydney in May 2010 with delegates attending from New Zealand, US and Taiwan. Australia has played a key role in the promotion of SBR internationally since the inception of SBR in 2007.

### Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by dealing with 25 applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001*. The panel, a peer review body with regulatory functions, has 54 members who are specialists in mergers and acquisitions either as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The panel also publishes guidance notes to help foster market confidence and efficiency.

In 2009-10 the panel:

- considered a number of high profile applications including Multiplex Prime Property Fund 03, Macarthur Coal Limited and Transurban Group; and
- updated four existing guidance notes and released a consultation paper containing proposals to issue a new guidance note on Recommendations and Undervalue Statements and an update of an existing guidance note.

### Financial Reporting Panel

The Financial Reporting Panel is an alternative dispute resolution body in relation to the treatment of accounting standards. This independent third party mechanism could alleviate ASIC from initiating court proceedings when a dispute on the application of accounting standards arises between it and companies. No cases were referred to the Panel during 2009-10.

### Standard Business Reporting

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

and Territory government revenue offices. The government side of SBR was implemented on 1 July 2010, with take-up expected to grow over the next three years.

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

SBR has established ongoing communication and collaboration with the Netherlands, New Zealand, Singapore, Taiwan, the United States, the United Kingdom and the European Union, recognising the need to ensure, where possible, that its business-to-government reporting definitions are consistent with other countries.

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

During 2009-10 the program built, tested and deployed the main components of the SBR solution: taxonomies (the single language used to enable business software to send reports to government agencies); core services (the system which ensures that a report from business software is delivered to the relevant agency, and receipts and messages are returned); and the single secure sign on, AUSkey. AUSkey is positioned to be the single key to access government online services. By 1 July 2010, over 51,000 AUSkeys had been issued to around 36,000 Australian businesses.

SBR was in place and functionally ready to commence on 1 July 2010 with participating agencies able to accept lodgments of reports. Software developers are progressively SBR-enabling their financial/accounting and payroll software products for use by businesses and reporting professionals. Maximum take-up, projected to be 60 per cent of targeted Australian businesses, is expected to be achieved by the end of 2013-14.

A number of recommendations have been made regarding the potential expansion of SBR to other business areas. These recommendations appear in the review into AFTS, the report into reform of Australian Government administration, the review into Australia's superannuation system and Productivity Commission reports on the review of the regulatory burdens of business and the contribution of the not-for-profit sector.

## Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency-related matters. It chaired the Royal Australian Mint Advisory Board to assist the Mint to develop its



policy and administer its initiatives. The Treasury also assisted the Perth Mint in relation to its currency determinations (legislative instruments) which are tabled in Parliament before the release of numismatic (collector) coins.

## Statutory and other procedural requirements

### Financial sector levies

During 2009-10, the Treasury, in conjunction with APRA, consulted with industry and provided advice to the Government on the determination of financial sector levies which primarily support APRA's operations.

### Review of need for *Terrorism Insurance Act 2003*

On 1 July 2003, the Australian Government established a terrorism insurance scheme to minimise the wider economic impacts that flowed from the withdrawal of terrorism insurance following the terrorist attacks of September 2001. The *Terrorism Insurance Act 2003* requires the Act be reviewed at least once every three years, if it is to continue in operation. The 2009 Review recommended some minor refinements to the scheme. Following the Government's agreement, the Treasury is working with the Australian Reinsurance Pool Corporation to implement the review's recommendations.

### Appointments

The Treasury advised ministers on appointments to a range of statutory portfolio bodies.

## Secretariat services

The Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2009-10. The Treasury also assisted ministers to fulfil the Government's obligations under the Corporations Agreement 2002. The Ministerial Council's role was expanded during 2009-10 under new intergovernmental agreements on business names and consumer credit, and in relation to a new national framework for regulation of trustee corporations.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2009-10. This statutory body provides strategic oversight of the accounting and audit standard-setting processes, including the Australian Accounting Standards Board and the Auditing and Assurance Standards Board, and monitors the effectiveness of Australia's auditor independence requirements. The Australian Accounting Standards Board deals with the setting of accounting standards for the public and private sectors of the Australian economy, while the Auditing and Assurance Standards Board focuses on the development and making of Australian Auditing Standards. Since 1 July 2008, both boards have been agencies for the purposes of the *Financial Management and Accountability Act 1997* and are preparing separate annual reports.

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

### Australian Government Actuary

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a 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 2010, the account was in a sound financial position.

Demand for service was again high during 2009-10.

### 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, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Finance and Deregulation and Veterans' Affairs. Centrelink and the ATO also sought advice.

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

### Services to the Treasury

The Australian Government Actuary contributed its technical expertise on policy issues, including the superannuation system and insurance matters.

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

### Operational outcomes

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

## TREASURY SUPPORT SERVICES

To support the Treasury's policy outcome, Corporate Services Group and the Policy Coordination and Governance Unit provide key services to assist with systems and facilities which provide essential support and organisational back-up to the groups.

Corporate Services Group is responsible for providing corporate services, products and advice including accommodation and facilities management; administrative support management; communications advice and support; financial management; human resource management, training and development; information management and technology services; media management and monitoring; ministerial and parliamentary support; procurement; publishing; security and travel.

The Policy Coordination and Governance Unit was established in 2010 as an outcome of the organisational review. The organisational review considered how the Treasury can sustain its capacity to contribute to policy outcomes while preserving and reinforcing people management values and principles. The review examined the department's governance arrangements and key organisational systems and behaviours.

As a result, the Policy Coordination and Governance Unit is responsible for facilitating high level policy coordination and whole-of-department organisational corporate strategy. The unit provides support to the Secretary, the Executive Board and the Audit Committee. It designs and facilitates whole-of-department policy discussions; coordinates organisational strategy initiatives; oversees the risk management, quality assurance and policy evaluation frameworks; seeks to facilitate constructive and effective relationships with the Treasurer and Ministerial offices; and manages Freedom of Information (FOI) requests.

### Corporate Services Group

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

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

The work of the group in 2009-10 was directed towards:

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

## Group deliverables

Corporate Services Group's key deliverables for 2009-10 were:

- implementing new payment and financial reporting arrangements under the Federal Financial Relations reforms;
- negotiating and implementing a competitive and flexible workplace agreement;
- refreshing the desktop hardware and software;
- delivering improved document search tools and review record-keeping policies;
- progressing priority ICT-enabled business projects;
- reviewing and implementing new time-off in lieu arrangements;
- progressing initiatives flowing out of the staff survey and the organisational review;
- implementing the Manager's Portal;
- ensuring delivery of appropriate services to Treasury portfolio ministers; and
- enhancing advice and assistance on communication activities and media management.

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## Group outcomes

Corporate Services Group's key outcomes were:

- successful implementation of payment and financial reporting arrangements under the Federal Financial Relations reforms;
- completion and audit of the 2008-09 financial statements with no major issues raised;
- review and update of the Treasury Environmental Management Plan;
- coordination of liaison and correspondence for the Treasury and its stakeholders;
- management of the budget lock-up and media lock-ups;
- media management, including advice to the Secretary and Executive Board, ministers' offices and the AFTS review;
- implementation of the Treasury Workplace Agreement 2009-2011;
- implementation of new development programs and tools to assist managers;
- major upgrades and enhancements to the Department's data network, email system, electronic data storage facilities and active directory environment;
- preparation for a technology refresh of the Department's desktop computers, and an upgrade to the standard operating environment, deployed in August 2010;
- deployment of the Unified Revenue System to automate management of revenue information;

- deployment of Treasury Search to allow searching across multiple information repositories;
- improved IT security capability, including spam filtering software and IT security monitoring software and implementation of encrypted USB devices; and
- design of a collaboration environment for team sites, with embedded record-keeping capability, to be deployed in 2011.

The Treasury is also participating in a study with the Departments of Finance and Deregulation and the Prime Minister and Cabinet as to the feasibility of jointly operating a shared services arrangement to deliver transactional human resource and finance services. The outcomes of the study will be reported to government in December 2010.

## Policy coordination and governance unit

The Policy Coordination and Governance Unit seeks to link policy strategy with organisational strategy to maintain the capacity of the department to deliver on its mission.

The unit is responsible for providing support to the Executive Director — Policy Coordination and Governance; and to the Secretary, the Executive Board and the Audit Committee; managing the relationships with Ministerial offices and Departmental Liaison Officers; coordinating policy issues that traverse the Treasury's groups; overseeing the risk management framework; managing FOI requests and issues in relation to the Privacy Act; undertaking corporate planning and performance monitoring; and providing policy evaluation guidance and services to the Treasury's staff.

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## Key priorities

The key priorities in 2009-10 were to:

- provide high-level services to the Secretary and the Executive Board to support and enable key forums within the Treasury's governance framework;
- establish, coordinate and support processes within the department to develop and progress an ongoing strategic policy dialogue;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of the Treasury's activities, systems and processes;
- facilitate better relationships with Ministerial offices, providing managerial support to Departmental Liaison Officers; and
- continue to provide a policy implementation monitoring and advising capability.

## Key outcomes

The key outcomes were:

- coordinating significant briefing products, including for the Secretaries' Board and the Secretaries' Committee on service delivery;
- managing the Treasury's compliance with FOI and Privacy Act requirements on reporting and other matters;
- planning the implementation of changes required under the FOI Reform Act and publication regime;
- organising the ongoing policy dialogue across the department, including arranging policy strategy meetings, senior executive service (SES) meetings and executive level forums;
- continuing to provide secretariat support for the work of the Executive Board and the Audit Committee;
- developing products to further improve risk management and corporate planning in the Treasury; and
- commissioning the Treasury's internal auditors to review the risk management framework for consistency with the Australian/New Zealand Standard.

## PROGRAM 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

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### PROGRAM OBJECTIVE

The objectives of Program 1.2 are to:

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

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

### ANALYSIS OF PERFORMANCE

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

The Treasury manages most of Australia's financial relations with the IMF and capital contributions to the World Bank Group (IBRD, the Multilateral Investment Guarantee Agency and the IFC), the ADB and the EBRD.

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

**Table 1: Financial transactions with international financial institutions 2009-10**

	Nature of transaction	Number of transactions	Total \$'000
<b>Receipts</b>			
IMF net remuneration	Revenue	4	2,388
IMF special drawing rights allocation	Financing transaction	2	4,845,258
<b>Payments</b>			
IMF special drawing rights allocation charges	Expense	4	9,850
IMF Poverty Reduction and Growth Trust	Expense	1	30,000



## PROGRAM 1.3: SUPPORT FOR MARKETS AND BUSINESS

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### PROGRAM OBJECTIVE

The objectives of Program 1.3 are to:

- make payments in respect of insurance claims arising from the residual Housing Loans Insurance Company Limited portfolio. The Housing Loans Insurance Company Limited pre-transfer contract portfolio will be managed to ensure all liabilities arising from claims under this portfolio are met and any related debts are recovered; and
- make payments of assistance to eligible HIH insurance policy holders under the HIH Claims Support Scheme. Work is now focused on finalising remaining claims as quickly as possible so assistance can be paid and the claims portfolio wound-up.

### PROGRAM DELIVERABLES

The program deliverables are:

- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are made according to agreed schedules.

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are accurately determined and are made according to agreed schedules.

### ANALYSIS OF PERFORMANCE

Payments made from the Housing Loans Insurance Corporation Limited met the cost of administering and meeting the Commonwealth's obligations from ongoing management of the residual portfolio of lenders' mortgage insurance contracts.

Payments made to the HIH Claims Support Scheme met the costs of operating the scheme and providing assistance to eligible policyholders. The Treasury continues to work closely with the HIH administrators, McGrathNicol+Partners, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims. Since the scheme started in July 2001, to 30 June 2010, it has paid \$656 million in assistance to 10,865 eligible policyholders.

All payments were accurately determined, in accordance with industry best practice and government regulations, and made in a timely manner.

## PROGRAM 1.4: GENERAL REVENUE ASSISTANCE

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### PROGRAM OBJECTIVE

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

- payments of revenue received from the GST, which in accordance with the Intergovernmental Agreement, the Commonwealth administers on behalf of the States;
- payment for budget balancing assistance if the share of GST payments in a financial year was less than the guaranteed minimum amount for that year (2008-09 was the last year of these payments although a final residual adjustment was made in 2009-10);
- payments to the Australian Capital Territory to assist in meeting the additional municipal costs which arise from Canberra's role as the national capital and to compensate for the additional costs resulting from the national capital planning influences on the provision of water and sewerage services;
- payments to compensate for the deferral of GST revenue collected from small businesses and non-profit organisations which registered to pay and report on an annual rather than monthly or quarterly basis;
- payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal in the 2008-09 Budget of the exemption of condensate from crude oil excise;
- payments to Western Australia as a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* in respect of the North West Shelf oil and gas project off the coast of Western Australia;
- payments to the Northern Territory in lieu of royalties on uranium mining in the Ranger Project Area due to the Commonwealth's ownership of uranium in the Northern Territory; and
- payments to New South Wales and Victoria to compensate for Commonwealth taxes paid by Snowy Hydro Ltd in proportion to the States' shareholdings.

This program also has links to the Attorney-General's and Resources, Energy and Tourism portfolios.

### PROGRAM DELIVERABLES

The program deliverables are:

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

## KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

## ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of \$45.5 billion were made to the States and Territories in 2009-10. Payments included:

- GST payments to the States and Territories totalling \$44.5 billion; and
- other general revenue assistance payments totalling \$1.0 billion.

The Treasury also recouped \$0.9 billion in general revenue assistance in 2009-10 which included GST administration costs, state cellar door subsidy savings, and overpayments of compensation for the deferral of GST revenue collected from small business and non-profit organisations.

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

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

## PROGRAM 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

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### PROGRAM OBJECTIVE

The objectives of Program 1.5 are:

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

This program also has links to the Health and Ageing portfolio.

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Healthcare SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure in the healthcare sector.

### ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in the delivery of healthcare services.

- Payments under the National Healthcare SPP were \$11.2 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate the National Healthcare SPP has been spent in the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2010, disclosing relevant information in accordance with the Intergovernmental Agreement.

## PROGRAM 1.6: ASSISTANCE TO THE STATES FOR GOVERNMENT SCHOOLS

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### PROGRAM OBJECTIVE

The objectives of Program 1.6 are:

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

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

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Schools SPP (government schools component) and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure in the schools sector.

### ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in the delivery of government schools services.

- Payments under the National Schools SPP (government schools component) payments were \$3.3 billion.
- All payments were accurately determined and made in a timely manner, in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate the National Schools SPP (government schools component) was spent in the relevant sector, each State and Territory Treasurer will provide a report to the Ministerial Council within six months of 30 June 2010, disclosing relevant information in accordance with the Intergovernmental Agreement.

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

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### PROGRAM OBJECTIVE

The objectives of Program 1.7 are:

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

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

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Skills and Workforce Development SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure in the delivery of skills and workforce development services.

### ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in the delivery of skills and workforce development services.

- Payments under the National Skills and Workforce Development SPP were \$1.3 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP was spent in the relevant sector, each State and Territory Treasurer will provide a report to the Ministerial Council within six months of 30 June 2010, disclosing relevant information in accordance with the Intergovernmental Agreement.

## PROGRAM 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

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### PROGRAM OBJECTIVE

The objectives of Program 1.8 are:

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

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

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Disability Services SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure in the delivery of disability services.

### ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in the delivery of disability services.

- Payments under the National Disability SPP were \$903.7 million.
- All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the National Disability SPP was spent in the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2010, disclosing relevant information in accordance with the Intergovernmental Agreement.



## PROGRAM 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

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### PROGRAM OBJECTIVE

The objectives of Program 1.9 are:

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

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

### PROGRAM DELIVERABLES

The program deliverables are:

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

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### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will transfer to each State and Territory the amounts of their monthly and annual entitlements under the National Affordable Housing SPP and will make the payments on the dates specified in the Intergovernmental Agreement;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure in the delivery of affordable housing.

### ANALYSIS OF PERFORMANCE IN 2009-10

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in the delivery of affordable housing services.

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

To demonstrate that the National Affordable Housing SPP was spent within the relevant sector, each State and Territory will provide a report to the Ministerial Council within six months of 30 June 2010, disclosing relevant information in accordance with the Intergovernmental Agreement.

## PROGRAM 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

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### PROGRAM OBJECTIVE

The objectives of Program 1.10 are:

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

This program also has links to the portfolios of Agriculture, Fisheries and Forestry; Attorney-General's; Broadband, Communications and the Digital Economy; Climate Change and Energy Efficiency; Defence, and Veteran's Affairs; Education, Employment and Workplace Relations; Environment, Water, Heritage and the Arts; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Infrastructure, Transport, Regional Development and Local Government; Prime Minister and Cabinet; and Resources, Energy and Tourism.

### PROGRAM DELIVERABLES

The program deliverables are:

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

### KEY PERFORMANCE INDICATORS

The key performance indicators are:

- the Australian Treasury will make payments to the States and Territories that reflect the requirements, the amounts and time-frames set out in each of the National Partnership agreements and any related agreements. These payments will only be made upon the Australian Treasury's receipt of any authorisations in respect of performance benchmarks or payment schedules set out in each of the National Partnership agreements;
- the Australian Treasury will provide advice to the States and Territories on the components of each payment prior to each payment being made; and
- the Australian Treasury will review the reports provided by each State and Territory on their expenditure under each of the National Partnership agreements.

## ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2009-10 financial support for the States and Territories in improving outcomes in areas specified in National Partnership agreements.

National Partnership payments for 2009-10 were \$21.5 billion comprising:

- payments to support state health services of \$739.4 million;
- payments to support state education and skills services of \$7.9 billion;
- payments to support state community services of \$1.6 billion;
- payments to support affordable housing services of \$6.0 billion;
- payments to support state infrastructure services of \$4.2 billion;
- payments to support state environmental services of \$445.1 million;
- payments to support other state services of \$234.8 million; and
- contingent payments to the States of \$434.2 million.

Payments were made by the Treasury on advice from portfolio agencies, with amounts to be paid certified by the agency's Chief Financial Officer, or other authorised delegate.

All payments were accurately determined and made in a timely manner in accordance with the payment arrangements specified in National Partnership agreements.

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

