



PART TWO

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REPORT ON PERFORMANCE

The report on performance covers the Treasury's administered items and departmental outputs for 2008-09.

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

The Treasury's 2008-09 performance is reported at the outcome and output levels for its four policy outcomes:

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

Performance outcomes are reported against the performance information published in the Treasury section of the *Treasury Portfolio Budget Statements 2008-09*.

OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

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

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

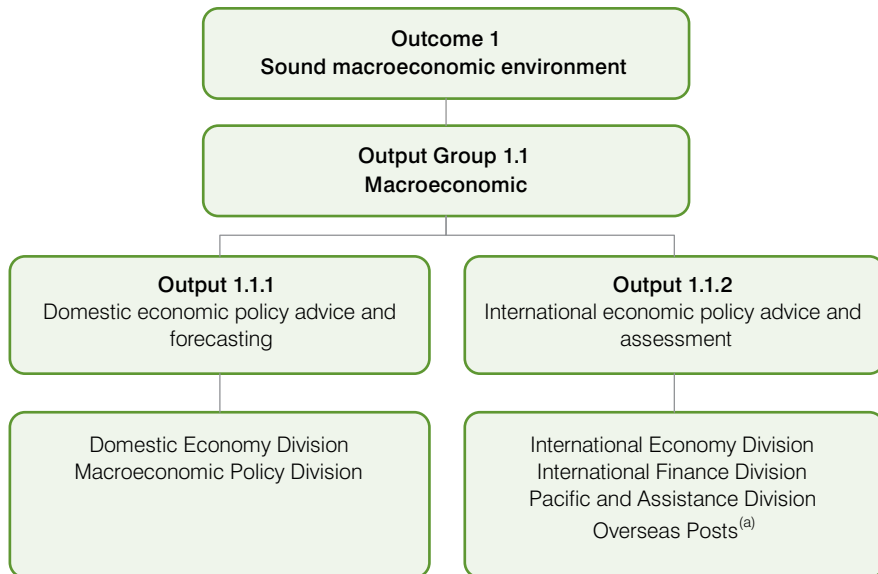
During 2008-09, the global financial crisis and associated deterioration in the world economic outlook significantly affected the domestic economy and Australia's international engagement strategy. The Treasury continued to provide strategic advice and assessments on macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Forecasts helped shape fiscal strategy and policy formulation in the crisis context. In particular, the analysis identified early the need to use fiscal policy to cushion the Australian economy from the effects of the crisis.

The G-20 coordinated international responses to the crisis. The Treasury contributed strategic advice on international economic policy issues, working to restore financial sector stability and sustainable economic growth through strong engagement in the G-20 Finance Ministers' and Leaders' Summit forums. The Treasury actively engaged in developing policy agendas for these meetings and ensuring implementation of outcomes, and also co-chaired the G-20 working group on reform of the IMF.

It also played a key role in advancing Australia's international objectives more generally, through participating in other international financial institutions and forums, and engaging bilaterally, particularly in the Asia-Pacific. Treasury officials provided ongoing support to the APEC Finance Ministers' process, reflecting the importance of this forum to Australia's regional interests. The Treasury continued to provide policy support to selected Pacific economies.

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

Figure 4: Outputs contributing to Outcome 1



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

Key priorities in 2008-09

Key priorities in 2008-09 were to provide advice 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;
- housing affordability, as part of the Treasury and Department of the Prime Minister and Cabinet's leadership role in delivering the Council of Australian Governments (COAG) Reform Agenda;
- policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- options for developing the G-20's role in responding to the global financial crisis including through coordinated policy actions, strengthening prudential regulatory systems and reforming the international economic architecture;
- work with others to reform, strengthen and modernise key international forums (including the World Bank, IMF, OECD, and ADB);
- the Treasury's key role in shaping the APEC forum and the East Asia Summit process;

- deeper economic engagement strategies with China and India, reflecting the importance of these countries in the international economy, and building on already close links with policy makers in other key East Asian countries, including Japan and Indonesia;
- work with Indonesian Government counterparts in support of their reform efforts under the \$50 million Government Partnerships Fund, a key component of the \$1 billion Australia-Indonesia Partnership for Reconstruction and Development;
- the lead role the Treasury can play in government initiatives to develop well functioning economic ministries in the Pacific, particularly in Papua New Guinea, Solomon Islands and Nauru, and advising Treasury Ministers in various Pacific ministerial forums; and
- high quality, strategic policy support to selected countries in the Asia-Pacific region.

Key outcomes in 2008-09

- Advice and analysis focused on developing and implementing policy responses to manage the impact of the global financial crisis, both in Australia and through international forums.
- Economic analysis and forecasts assessed the ongoing impact of the global financial crisis on the Australian economy and assisted the Government to develop appropriate policy responses. These policy responses were regularly monitored and evaluated through macroeconomic modelling and forecasting.
- Briefings for the Treasurer on the Australian Bureau of Statistics (ABS) and private sector economic statistics emphasised their implications for the economic outlook. The Treasurer regularly received advice from the Treasury on global economic developments and international risks in the crisis context.
- The Treasury provided advice on housing affordability, as part of the Treasury and Department of the Prime Minister and Cabinet's leadership role in delivering the COAG Reform Agenda. Reforms in the housing sector, including service integration and measures to improve access to housing, will be undertaken as part of the National Affordable Housing Agreement.
- Published material included economic forecasts and analysis in budget papers, *Economic Roundup*, working papers and speeches to better inform the public about economic developments and issues.
 - *Economic Roundup* included articles on the use of evidence in analysing policy decisions, measures of public debt, trends and influences on public sector borrowing and the importance of health and its contribution to economic growth.
 - For the 2009-10 Budget, Statement 4 of Budget Paper No. 1, *Assessing the Sustainability of the Budget*, outlined the challenges for fiscal policy due to the global economic recession, highlighting fiscal sustainability as a key element of sustainable economic growth.

- Treasury officials spoke to a range of organisations on issues including the macroeconomic outlook, tax reform and Australia’s Future Tax System Review; the global financial crisis; economic costs of reducing greenhouse gas emissions; the smarter use of data; and contemporary challenges in fiscal policy.
- The G-20 is the key forum for Australia to advance its international economic interests. During 2008-09, the Treasury worked actively to shape the G-20’s agenda and outcomes.
 - The Treasurer represented Australia at the four meetings of G-20 Finance Ministers and Central Bank Governors. The Prime Minister and Treasurer also attended two G-20 Leaders’ Summits. Treasury officials actively engaged in preparatory meetings for each of these meetings.
 - Treasury officials co-hosted and participated in a range of G-20 workshops throughout the year, including the economic and financial implications of climate change and IMF reform. The Treasury also co-chaired the G-20 working group on reform of the IMF.
 - The Treasury is chair of the G-20 Reform Implementation Committee, established by the Treasurer in May 2009, to ensure effective implementation in Australia of G-20 commitments to strengthen financial supervision and regulation.
- Beyond the immediate demands of the global financial crisis, the Treasury continued to assist the Government take an active role in international forums and institutions to influence outcomes supporting sustained international economic stability, growth and development.
 - Australia is a strong proponent of reforms to ensure quota and voting shares of emerging market and developing countries better reflect their growing weight in the world economy. As part of the reform of the governance structure of the IMF, and recognising the need to ensure that quota resources reflect changes in the world economy and the additional demands on the IMF, G-20 leaders called for the next review of IMF quotas to be completed by January 2011, two years earlier than scheduled.
 - In response to deteriorating economic conditions both globally and in central and eastern Europe, Australia will remain a member of the EBRD.
- APEC remains an important forum for Australia in its engagement with the Asia-Pacific region.
 - Throughout 2008-09, the Treasury continued efforts to improve the effectiveness of the APEC Finance Ministers’ process. The Treasury provided significant policy assistance to Peru during its hosting of APEC in 2008 and is working closely with Singapore, the current host.

- Treasury officials also worked with APEC counterparts to produce a set of common principles for formulating guidelines to develop well functioning public-private partnership markets.
- In the Asia-Pacific region more broadly, the Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
 - The Treasury continued to foster deeper economic engagement with China and India, reflecting the growing importance of those economies to Australia's performance.
 - The Treasury also continued to build its partnership with the Indonesian Finance Ministry through participating in the Government Partnership Fund and raising the profile of finance issues in the East Asia Summit process.
 - The Treasurer visited the region several times and Treasury officials also participated in a range of conferences addressing economic and policy issues and received delegations for policy discussions.
- The Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges, including Papua New Guinea, Solomon Islands and Nauru.
 - The Treasury also supported Treasury ministers attending the Pacific Islands Forum Economic Ministers' Meeting and the Australia-Papua New Guinea Ministerial Forum.
 - In 2008-09, the Treasury made a submission to a Senate inquiry into the economic and security challenges facing the Pacific island states.

OUTPUT 1.1.1: DOMESTIC ECONOMIC POLICY ADVICE AND FORECASTING

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

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

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities and making and implementing government decisions that contribute to a sound macroeconomic environment. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms; and

- effective presentation of budget documents and other publications adequately informs public debate.

Analysis of performance

Policy advice and inputs into policy processes

During 2008-09, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- The Treasury provided extensive advice on the economic outlook, fiscal policy and strategies, particularly for the discretionary fiscal stimulus packages developed in response to the global financial crisis and the 2009-10 Budget.
- The Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included analysis and advice to assist the Treasurer respond to the releases, emphasising their implications for the economic outlook against the backdrop of the global financial crisis.
- As part of the Treasury Business Liaison Program, officers discussed business activity issues with organisations in major centres. In addition to its formal business liaison program, the Treasury held regular phone consultations with key sectoral contacts to gauge the current state of economic activity. Liaison findings were summarised in the *Economic Roundup*.
- The Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- In preparing advice to the Secretary as a Reserve Bank of Australia Board member, the Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- The Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.
- The Treasurer was provided with advice on policies to improve Australia's economic growth potential, living standards and wellbeing.

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

Economic forecasts

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

Forecasting activity focused on 2008-09, 2009-10 and 2010-11 with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2008-09*, *Updated Economic and Fiscal Outlook 2008-09* and the 2009-10 Budget. These forecasts helped develop policy during the global financial crisis and the most challenging global economic conditions since the Great Depression. The forecasts contributed to the delivery of the Government's stimulus packages to cushion the effects of the global recession. In 2008-09, attention focused on the impact of the crisis on the domestic economy, falling business investment and exports, slowing domestic demand and rising unemployment.

The Treasury's forecast for economic growth in 2008-09 was revised down from 2¾ per cent in the 2008-09 Budget to zero per cent in the 2009-10 Budget. This reflected the severity of the global recession, resulting in sharp falls in business investment and exports, as well as a slight contraction in household consumption.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group, which comprises the Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation, and the ABS. These contributions, together with information gained from liaison with the private sector and other departments, helped improve the quality of 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.

Housing affordability

In 2008-09, the Treasury provided advice on housing affordability, as part of the Treasury and Department of the Prime Minister and Cabinet's leadership role in delivering the COAG Reform Agenda. In November 2008, COAG agreed to a new National Affordable Housing Agreement complemented by a commitment to three National Partnerships to address homelessness, social housing and Indigenous housing.

As part of the new agreement, governments are reforming the housing sector, including improving integration between the homelessness service system and mainstream services, reducing concentrations of disadvantage in some social housing estates, improving access by Aboriginal and Torres Strait Islander peoples to mainstream housing, including home ownership, enhancing the capacity and growth of the not-for-profit housing sector, and planning reforms for greater efficiency in the supply of housing.

In February 2009, as part of the Nation Building and Jobs Plan, the Commonwealth committed funding to construct around 20,000 social housing units, and repair and maintain around 2,500 existing public housing dwellings. COAG also agreed that the States would progress reforms in the sector and report to it by December 2009.

Contributions to public awareness and debate

Officers made important contributions to public awareness and debate to many audiences in international forums, foreign government agencies, state government agencies, tertiary institutions and public meetings. Treasury's economic publications and selected presentations are at www.treasury.gov.au.

Updated economic outlook and 2009-10 Budget papers

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

Statement 1 of Budget Paper No. 1, *Budget Overview*, discusses the key economic challenges of the global recession affecting domestic demand and rising unemployment, and outlines the Government's fiscal strategy and budget priorities.

Published forecasts in the *Mid-Year Economic and Fiscal Outlook 2008-09*, *Updated Economic and Fiscal Outlook 2008-09* and the 2009-10 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on short-term economic growth. A comprehensive report on the domestic and international outlook, focused on 2009-10, was in Statement 2 of Budget Paper No. 1, *Economic Outlook*.

Statement 4 of Budget Paper No. 1, *Assessing the Sustainability of the Budget*, outlined the challenges for fiscal policy due to the global economic recession. It examined the key challenges for fiscal policy of stimulating demand in the short term, returning the budget to surplus in the medium term, while investing in the long-term drivers of productivity and economic growth. It highlighted the importance of fiscal sustainability as one of the key ingredients of sustainable economic growth and concluded that Australia's fiscal position is one of the strongest in the advanced world.

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

Media and market commentary on the economic analysis in the 2009-10 Budget enhanced public awareness of the economy's current performance, outlook and risks.

The Treasury's economic publications and speeches

Economic Roundup included articles from all groups within the Treasury.

Issue one of 2009 focused on the use of evidence in the analysis of policy decisions. Articles included gathering evidence for policy making and hierarchies used by policy makers to focus on high-quality research. Another article also examined the role evidence played in promoting successful implementation of economic reforms in Australia.

Other articles throughout the year included measures of public debt, trends and influences on public sector borrowing, the importance of health and its contribution to economic growth, consumer policy in Australia and the phenomenon of financial deleveraging and its macroeconomic consequences.

Senior Treasury officials spoke publicly on the economic outlook, tax reform and the Australia's Future Tax System Review, the global financial crisis, economic costs of reducing greenhouse gas emissions, the smarter use of data and contemporary challenges in fiscal policy. The speeches were to a range of organisations, including the Committee for Economic Development of Australia, Australian Business Economists, UBS Global and the Sydney Institute.

Past issues of *Economic Roundup* and selected speeches are available on the Treasury website at www.treasury.gov.au.

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

Reviews of economic data

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

OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT

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

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

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities and making and implementing government decisions that contribute to a sound macroeconomic environment and relate to international economic and financial issues. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- participation in international forums, including the G-20 and bilateral dialogue, supports the achievement of government objectives;
- advice to ministers is effective in improving economic governance and policies in Papua New Guinea, Solomon Islands and Nauru;
- support is effective for Pacific programs — the Strongim Gavman Program in Papua New Guinea, Regional Assistance Mission to Solomon Islands and Economic Advice and Governance Assistance Program in Nauru; and
- financial transactions with the international financial institutions, including the payment of subscriptions, are timely and accurate.

Analysis of performance

Facilitation of government objectives in international forums

G-20

During 2008-09, the G-20 played the central role in coordinating a global response to the financial and economic crisis.

G-20 Finance Ministers and Central Bank Governors met on an unprecedented four occasions: Washington DC (11 October 2008); Sao Paulo (8-9 November 2008); Horsham in the United Kingdom (13-14 March 2009) and Washington DC (24 April 2009). The Treasurer represented Australia at all these meetings.

An important development for the G-20 in 2008-09 was the emergence of G-20 Leaders' Summits (in addition to existing meetings of finance ministers and central bank governors). The first Summit was held in Washington DC on 15 November 2008. The second was held in London on 2 April 2009. Australia was represented at these Summits by the Prime Minister and the Treasurer.

In their Washington DC Summit Declaration, G-20 leaders agreed that they would take all necessary action to restore economic and jobs growth. They also agreed on a 47 point Action Plan to strengthen the financial sector regulatory framework, enhance transparency and accountability, reinforce international cooperation and reform the international financial institutions.

In December 2008, the G-20 established four working groups to advance the Washington DC Summit Action Plan. Treasury officials participated in each working group, and Mr Mike Callaghan, Executive Director of Macroeconomic Group, co-chaired (with South Africa) the working group on IMF reform. Mr Callaghan, as the Prime Minister's Special Envoy for the International Economy and Australia's G-20 Finance Deputy, was also active in the G-20's broader work in response to the global financial crisis. The reports of these working groups were published in April 2009 following the London Summit.

The Horsham meeting of G-20 Finance Ministers and Central Bank Governors in March 2009 agreed to a framework for financial repair and recovery, including endorsing principles to address toxic assets and recapitalise financial institutions to restore the flow of credit necessary to support economic recovery. Australia had been a key proponent of the need for action in this area.

At the London Summit, G-20 leaders agreed on a comprehensive action plan for recovery and reform. The key outcomes from the London Summit were:

- a US\$1.1 trillion program to restore credit, growth and jobs in the world economy, including support for US\$500 billion in additional resources for the IMF and at least US\$100 billion additional lending by multilateral development banks;
- a commitment to take all action necessary to restore global growth and lending and repair the financial sector;
- agreement on the need to accelerate IMF quota reform and ensure all international financial institutions have the facilities they need to address the current crisis and meet the needs of developing countries;
- agreement to reject protectionism and ensure the availability of US\$250 billion support for global trade finance over the next two years; and
- expansion of Washington DC Summit commitments to strengthen financial supervision and regulation, including creating a new Financial Stability Board.

The Chair of the London Summit, British Prime Minister, Gordon Brown, also reported on progress in implementing the 47 items from the Washington DC Action Plan.

The London Summit was widely regarded as playing a successful role in helping to stabilise financial markets and restore global economic confidence. Since the London Summit, G-20 Finance Ministers and Central Bank Governors met on 24 April 2009 and G-20 Finance Deputies met on 27-28 June 2009 to progress the implementation of the Leaders' commitments.

To advance Australia's implementation of the G-20 commitments to strengthen financial supervision and regulation, the Treasurer established the G-20 Reform Implementation Committee in May 2009. It is chaired by the Treasurer and includes representatives from the

Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia.

Treasury officials participated in two G-20 workshops. Australia and the United Kingdom co-hosted a workshop in Sydney on the economic and financial implications of climate change (12-14 February 2009). A second workshop in Mumbai examined the causes and key lessons from the crisis (24–26 May 2009). Mr Mike Callaghan presented a paper on IMF reform at this workshop.

The Treasury contributed to the G-20 Study Group Report on Global Credit Market Disruptions, published in November 2008 and authored by the Reserve Bank of Australia.

Financial Stability Board

Participants at the London Summit on 2 April 2009 agreed to enlarge and restructure the Financial Stability Forum into the Financial Stability Board. Leaders also agreed to expand the mandate of the Financial Stability Board.

Expanded membership includes all G-20 countries (as well as the European Commission, the Netherlands, Hong Kong, Singapore, Spain and Switzerland). As part of this process, Australia was allocated a second seat in the enlarged plenary. The Treasury was nominated as Australia's second representative alongside the Reserve Bank of Australia. The first plenary meeting, held on 26-27 June 2009 in Basel, focused on implementing measures agreed by G-20 leaders to strengthen financial regulation and supervision.

Under its new mandate, the Financial Stability Board is responsible for identifying and addressing vulnerabilities affecting the international financial system; coordinating the work of international standard setting bodies; supporting cooperation and information exchange among regulators; promoting best practice in regulatory standards; and advising on the implications of market development for regulatory policy.

IMF

In 2008-09, under the encouragement of the G-20, the IMF's activities and role expanded to historic levels in response to the global financial crisis and recession.

At the IMF, Australia's Executive Director from 1 July 2008 to 31 October 2008 was Mr Richard Murray. Under agreed constituency arrangements Mr Chris Legg was appointed Alternate Executive Director beginning 1 November 2008. The Treasury and the Reserve Bank of Australia briefed the Executive Director on matters coming before the Executive Board.

IMF financial assistance to member countries facing balance of payments difficulties increased sharply as a result of the crisis: 15 stand-by arrangements totaling nearly SDR 50 billion were agreed between September 2008 and 30 June 2009. In the

18 months until 30 June 2009, total fund credit outstanding increased from Special Drawing Rights (SDR) 9.8 billion to SDR 33.3 billion. In addition, the IMF approved three precautionary arrangements totaling SDR 52.2 billion under its new Flexible Credit Line.

During 2008-09, the IMF acted to substantially increase its resource base so it could meet the potential needs of members.

As part of the coordinated response to the crisis, G-20 leaders agreed in London on 2 April 2009 to increase resources available to the IMF through immediate financing from members of US\$250 billion, subsequently incorporated into an expanded and more flexible New Arrangements to Borrow, increased by up to US\$500 billion.

The Treasurer announced on 12 May 2009 that Australia would contribute to the expanded New Arrangements to Borrow with a US\$7 billion contingent loan, increasing the line of credit Australia has made available to the IMF since 1998.

G-20 leaders also agreed, consistent with the IMF's new income model, to use additional resources from agreed sales of IMF gold, with surplus income, to provide US\$6 billion additional concessional and flexible finance for the poorest countries over the next two to three years.

In addition, G-20 leaders agreed to support a general allocation of SDRs to inject the equivalent of US\$250 billion into the world economy and increase global liquidity. As disclosed in the 2009-10 Budget, Statement 8 of Budget Paper No. 1, *Statement of Risks*, Australia will be allocated SDRs under this measure, along with other IMF members.

Work continues within the IMF on each of these measures.

On 2 April 2009, G-20 leaders also called for the next review of IMF quotas to be completed by January 2011, two years earlier than the previous due date. This will enable the size of the IMF's quota based resources to be considered in the light of the crisis and the IMF's ongoing need for liquidity. It will also enable further progress on aligning the quota and voting shares of dynamic emerging market economies with their growing weight in the global economy, building on the quota reforms agreed in April 2008. Australia is a strong proponent of these reforms which enhance the IMF's legitimacy and effectiveness.

During 2008-09, the IMF also:

- distilled lessons from the crisis, including for the IMF;
- assessed, at the request of G-20 leaders, actions taken and global actions required to return the world economy to trend growth;
- monitored, with the Financial Stability Board, progress in implementing measures called for by the G-20 to strengthen financial supervision and regulation;

- further strengthened its surveillance over member economies, including financial sector risks and spillovers to other economies, and its multilateral surveillance functions;
- developed, with the Financial Stability Board, an early warning exercise to identify macroeconomic and financial risks and policy responses; a pilot exercise was considered by the IMF's ministerial advisory committee, the International Monetary and Financial Committee, at their meeting in April 2009; and
- reformed its lending and conditionality frameworks to ensure they continue to meet the needs of members, including introducing the Flexible Credit Line — a new high access facility, able to be used on a precautionary basis, for economies with a strong track record of economic policy and performance.

Australia was active within the IMF, the Financial Stability Board and the G-20 in promoting these outcomes.

In June 2009, a team of IMF officials visited Australia as part of the annual Article IV consultations, meeting with various government and other organisations, including the Reserve Bank of Australia, in Sydney, Melbourne and Canberra. The concluding statement of this mission was released on 25 June 2009.

World Bank

Australia supported the World Bank's leadership role in improving the living standards of the world's poor, including through the Executive Board and 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 from 1 August 2007 for four years. The Treasury, in conjunction with the Australian Agency for International Development (AusAID) and other relevant departments, briefed him on matters coming before the Executive Board.

In 2008-09, Australia pledged \$150 million over three years to the World Bank-administered Climate Investment Funds, for large scale deployments of low carbon technology in major emitting developing countries and vulnerable countries. Australia also contributed \$50 million to the World Bank's Food Price Crisis Response Core Multi Donor Trust Fund during 2008-09, to assist vulnerable countries cope with higher and more volatile food prices.

The World Bank's work program in 2008-09 focused on supporting developing member countries' response to the global financial crisis and recession. Australia was supportive of these activities, particularly the focus on fragile and post conflict states.

Key developments at the World Bank during 2008-09 included: a commitment to triple lending by the bank's main arm, the International Bank for Reconstruction and Development

to US\$100 billion over the next three years; fast tracking International Development Association commitments; establishing new funds to assist countries to respond to climate change, high food and fuel prices and the financial crisis; and expanding the International Finance Corporation's trade finance programs. The bank also formally launched its Strategic Framework for Development and Climate Change.

World Bank governors agreed to a reform package to enhance the voice and participation of developing countries at the October 2008 annual meeting. This first phase of reform included an additional chair at the Executive Board for Sub Saharan Africa; voting share realignment, including through an increase in basic votes; measures to increase developing countries' voting power at the International Development Association; and support for broader governance reforms.

Following earlier undertakings by the G-20, the World Bank's Development Committee agreed to accelerate the second phase of voice and participation reforms, including realigning shareholdings to further increase the voice of developing countries, with agreement to be reached by April 2010. The bank will continue to review the capital adequacy of the International Bank for Reconstruction and Development, International Finance Corporation and International Development Association and their need for capital replenishments.

On 10 December 2008, the Prime Minister announced that Australia will provide up to US\$1 billion to Indonesia as a standby loan to help mitigate the effects of the global financial crisis, should Indonesia need it. Australia's standby loan is part of a loan arrangement led by the World Bank, with contributions from the ADB and Japan.

The legislation enabling Australia to enter into the loan agreement with Indonesia, the *International Monetary Agreements Amendment (Financial Assistance) Act 2009* received Royal Assent on 26 June 2009.

ADB

Australia contributed to decision making through representation on the Board of Directors and attendance at the 2009 annual meeting in Bali, Indonesia. Australia is represented on the ADB Board of Directors by Mr Phil Bowen.

As outlined in its country statement at the 2009 annual meeting, Australia supports the commitment to provide an additional US\$7-8 billion of funding support to crisis-affected developing members in 2009-10. Australia continues to encourage the bank to act quickly to address the current economic challenges through flexible, fast-disbursing and front loaded instruments, ensuring resources to fight the crisis are available to those most in need.

Australia was a key supporter of the US\$110 billion ADB general capital increase committed to by G-20 leaders in April 2009 and approved by the Board of Governors on 29 April 2009. Australia will contribute, over 10 years, an additional US\$197.6 million worth of paid-in

capital. The first payment is likely to be made in July 2010. Australia also will increase its uncalled capital subscription by around US\$4.8 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.

EBRD

The Government decided to remain a member of the EBRD in light of the global economic recession and the important role the EBRD is playing in the recovery of central and eastern Europe.

OECD

Treasury officials contributed to the OECD's work on macroeconomic issues, particularly in the financial and economic crisis. Treasury officials also contributed to the 2008 Economic Survey of Australia and peer reviews of economic policy in member countries. Other notable contributions were on climate change, taxation, corporate governance, foreign investment and inter-governmental relations.

In June 2009, Treasury officials attended the OECD Ministerial Council Meeting in Paris. Ministers discussed the road to recovery, the role of the OECD in global policy cooperation, green growth and the importance of maintaining open markets for 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 Indonesia.

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.

Treasury officials supported the ministerial attendance in October 2008, keeping Pacific ministers focused on policies to improve economic progress, particularly important given rising energy and food prices and the onset of the global recession.

Australia Papua New Guinea Ministerial Forum

The nineteenth Australia Papua New Guinea Ministerial Forum took place in Brisbane on 10 June 2009. The Treasury contributed to ministerial economic briefing.

APEC

APEC¹ is an important forum in Australia's engagement with the Asia-Pacific region. The Treasury continues to strive to improve the effectiveness of the APEC Finance Ministers' Process as a policy setting, outcomes-driven and reform-initiating forum.

In 2008, the Treasury provided significant assistance to Peru during its hosting of APEC. This involved policy support to ensure that previously agreed initiatives were delivered and that the momentum on addressing key agenda items within APEC's Finance Ministers' Process was progressed.

In responding to the global financial crisis, APEC's Finance Ministers' Process focused on supporting G-20 measures to stabilise financial markets, restore growth and resist protectionism. It also gave high priority to delivering targeted capacity building projects to address development gaps in the financial sector and support efforts to reform the function of capital markets. In partnership with Malaysia, Singapore and Vietnam, the Treasury led the development and delivery of a targeted capacity building activity that supported the broadening of the institutional investor base in APEC economies. Also, through workshops in Kuala Lumpur and Hanoi from March 2009 to July 2009, government officers from selected APEC economies developed and adopted action strategies to address some of the impediments to developing a diversified and sound institutional investor base.

The Treasury's other major contribution was to foster greater region-wide understanding of how public-private partnerships could not only play a part in meeting the region's infrastructure investment needs but also assist in developing capital markets. As a practical response, the Treasury worked with APEC counterparts and produced a set of common principles for formulating guidelines to develop well functioning public-private partnership markets. Finance ministers endorsed these principles in November 2008.

The Treasury continues to maintain a highly active role in APEC and is working closely with Singapore, the current host. To help foster a durable regional recovery, the Treasury is engaged in enhancing financial and investment flows, and contributing to measures to strengthen fiscal sustainability. The Treasury is working with the Malaysian Ministry of Finance to assist targeted economies in their efforts to improve strategies that help maintain medium to long-term fiscal sustainability policies while undertaking measures to restore growth and confidence during the economic recovery period.

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.

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.

The Treasury provided advice on 2009-10 Budget initiatives (such as *Food Security through Rural Development* and *Improving Responsiveness and Accountability in Government*) and the effectiveness of Australia's overseas development assistance.

During 2008-09, the Treasury contributed to inter-departmental committees and forums on climate change, infrastructure and food prices. The Treasury also participated in the Development Effectiveness Steering Committee, an inter-departmental committee convened to ensure effectiveness in Australia's overseas development assistance.

Timely and accurate financial transactions

Management of international financial commitments

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

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

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient as summarised in Table 1.

Table 1: Financial transactions with international financial institutions in 2008-09

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration	Revenue	4	3,811
Payments			
IMF special drawing rights allocation charges	Expense	4	17,543
IMF Poverty Reduction and Growth Facility	Expense	1	2,500
EBRD promissory note draw down	Financing transaction	1	592

Note: Australia has an IMF maintenance of value obligation of A\$996 million for the IMF's 2008-09 financial year. This financing transaction will be settled in 2009-10.

Policy advice

Relations with Asia

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

In March 2009, the Treasurer visited Japan, the first bilateral visit to Japan by an Australian Treasurer since 1995. He met with the Japanese Finance Minister and the Governor of the Bank of Japan to discuss the impact of the global recession on the region and the importance of a global response through the G-20. The Treasurer also met with financial sector executives and investors to promote Australia as a place to do business and invest. In addition, he spoke on the importance of the Australia-Japan bilateral relationship, the stability and strength of the Australian economy and financial markets, and Australia's priorities for the G-20 Leaders' Summit.

In October 2008, in Canberra, the Treasurer signed a Memorandum of Understanding between the Treasury and China's National Development and Reform Commission to establish a bilateral seminar program. It provided an opportunity to further strengthen institutional links with the Treasury's key counterpart agency in China and foster understanding of the Chinese economy. As part of the Memorandum of Understanding, the Treasury made two high-level presentations in China, and a senior National Development and Reform Commission delegation will visit the Treasury later in 2009.

The Treasurer, together with the Minister for Trade, held talks in Beijing on 7 December 2008 with China's Commerce Minister, the head of the National Development and Reform Commission, and Vice Minister of the Chinese Communist Party to discuss Australia's growing investment and trade relationship with China.

During 2008-09, the Treasury's strategic partnership with Indonesia's Fiscal Policy Office in the Ministry of Finance continued with two Treasury deployees based in the Fiscal Policy Office. The Treasury's engagement strategy is funded under the Government Partnership Fund initiative. The partnership supports the strengthening of Indonesian economic policy capabilities and the development of lasting institutional relationships. The Treasury is involved in efforts to improve Indonesian revenue forecasting, as well as macro and international forecasting. The Treasury is working to improve the Fiscal Policy Office's corporate management capacity, including a 'Treasury style' graduate program, and briefing and policy development processes. The Treasury is coordinating a climate change 'green paper' and a major project on natural resource management.

The Treasury held its second annual economic policy dialogue with the Indian Ministry of Finance in Canberra during April 2009. The dialogue allowed for the shared discussion of economic conditions, collaborative work in international forums (such as the G-20 and the East Asia Summit) and information sharing on issues of interest to both nations. Concurrently, the Treasury facilitated a visit from senior Indian officials to Canberra,

Melbourne and Sydney to discuss with prominent regulators, government officials and financial sector representatives, Australia's experience of financial sector reform.

In April 2009, the then Minister for Superannuation and Corporate Law attended meetings in Singapore to discuss policy responses to the global recession and efforts to improve corporate governance and financial markets regulation in both countries.

In addition, senior Treasury officials visited the region to discuss various policy issues, including the annual consultation with the Korean Ministry of Strategy and Finance in July 2008 and the Japanese Ministry of Finance in May 2009. Senior Treasury officials also presented at a range of forums on global and regional economic issues, including on East Asia's economic outlook and medium-term challenges and financial globalisation.

As part of the East Asia Summit process the Treasury worked actively to build a more robust finance agenda. The Treasury commissioned a report on financial sector capacity building needs of East Asia Summit countries and supported the second Informal Senior Finance Officials' Dialogue in Hakone, Japan, in November 2008 with a presentation on ways to progress the finance agenda.

Treasury officials posted to Beijing, Jakarta and Tokyo reported on economic and policy developments in their regions. They helped strengthen relations with the Treasury's counterparts in their countries of accreditation, including facilitating high-level meetings.

Relations with Pacific economies

The Treasury advises ministers and agencies on economic and fiscal issues relating to the Pacific, particularly the Solomon Islands, Papua New Guinea and Nauru, where deployed officers work to build sustainable and effective economic ministries.

In 2008-09, the Treasury made a submission to a Senate inquiry into the economic and security challenges facing Pacific island states. Treasury officials subsequently provided evidence to assist the committee.

Economic reconstruction issues

Solomon Islands

In 2008-09, six officers were working in the Solomon Islands Ministry of Finance and Treasury as part of the Regional Assistance Mission to Solomon Islands. Treasury officers engage with government, donors and other stakeholders to assist in economic reform, including micro-economic reform of aviation and telecommunications sectors. Treasury officers helped develop a macroeconomic model to boost capacity to provide accurate economic and budget projections. Future assistance will focus on improving the quality of public financial management, and provision of quality economic advice to the Solomon Islands Government.

Papua New Guinea

In 2008-09, deployees contributed to macroeconomic stability by assisting in responding to the global economic crisis. Treasury officers also supported the Papua New Guinea Treasury on a range of structural policy, taxation and investment issues.

Nauru

Since 2004, the Treasury has assisted the Nauru Department of Finance. In 2008-09, the Treasury deployed two officers to Nauru, as Secretary of Finance and economic adviser. They helped develop the 2009-10 Nauru Budget, worked to strengthen domestic economic and financial management capacity, liaised with donors to administer Nauru's debt position, and provided advice on further economic reforms to assist Nauru's continued economic recovery. In consultation with the Government of Nauru, the Treasury has begun transitioning the economic adviser role to an AusAID managed position.

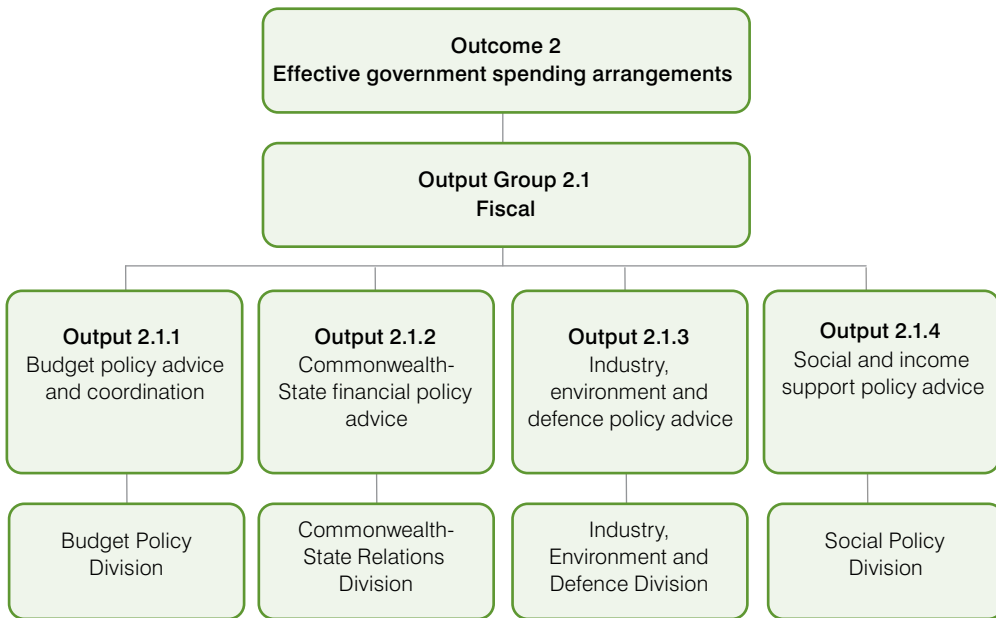
OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

Fiscal Group's mission is to ensure government spending arrangements are effective as they are crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Within the context of the wellbeing framework, ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. The Treasury provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998*;
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including developing and implementing the Intergovernmental Agreement on Federal Financial Relations and progressing ongoing reforms across a broad spectrum of policy responsibilities through the 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.

The Treasury is involved intensively in the COAG reform processes established by the Government in December 2007, continuing to progress reforms across a broad spectrum of policy responsibilities including the working groups on health and ageing, productivity, climate change and water, and Indigenous reform, housing, and business regulation and competition.

Figure 5: Outputs contributing to Outcome 2



Key priorities in 2008-09

Key priorities for Outcome 2 were to provide advice on:

- the fiscal strategy and outlook, including for the medium-term, and on budget priorities, debt and balance sheet management, consistent with the fiscal strategy. This includes advising on the operation of the Future Fund, developing the Building Australia Fund and contributing to the Review of Government Spending;
- the Commonwealth Budget and related financial papers;
- leadership and policy expertise to deliver the COAG Reform Agenda agreed in December 2007, particularly the agendas for the working groups on health and ageing, productivity, climate change and water, and Indigenous reform;
- leadership and policy expertise to enable Commonwealth and State Treasurers to finalise and implement a new Intergovernmental Agreement on Federal Financial Relations (agreed November 2008); and
- market mechanisms and frameworks to achieve environmental outcomes, including modelling climate change, and contributing to the design of an Emissions Trading System, for implementation by 2010, and devising a system of mandatory renewable energy targets by 2020.

Key outcomes in 2008-09

Key group outcomes were:

- providing advice on the fiscal outlook and possible policy responses to reduce the severity of the impact of the global financial crisis on the Australian economy;
- providing advice on budget priorities consistent with the medium-term fiscal strategy, on how the fiscal strategy needed to adjust to take account of the changing economic conditions, including the need for timely, targeted and temporary stimulus, and to establish the framework for implementing the medium-term fiscal strategy as the economy recovers;
- preparing with the Department of Finance and Deregulation, the 2009-10 Budget (May 2009) and related financial papers — *Final Budget Outcome 2007-08* (September 2008) and *Mid-Year Economic and Fiscal Outlook 2008-09* (November 2008);
- also preparing the Economic Security Strategy stimulus package (October 2008) and the *Updated Economic and Fiscal Outlook 2008-09* (February 2009) in conjunction with the Department of Finance and Deregulation;
- consulting with the Australian Office of Financial Management on the Commonwealth Securities and Investment Legislation Amendment Bill 2008 which supports the effective and efficient operation of the Treasury Bond and Treasury Bond futures markets;
- providing advice on operational issues relating to the Future Fund and the nation building funds;
- providing advice on, and implementing the First Home Owners Boost, and the Guarantee of State and Territory Borrowing;
- developing, as part of the COAG reforms, and implementing the new framework for federal financial relations which commenced on 1 January 2009. The new arrangements focus on the reform of National Specific Purpose Payments (SPP) and establish National Partnership payments to facilitate or reward priority national reforms or fund specific projects;
- providing secretariat support for the Ministerial Council for Federal Financial Relations on policy issues relevant to both the Australian Government and States;
- managing the administration of payments to the states and territories;
- advising on industry, climate change and environment, defence and national security. In its central policy agency role the Treasury engages on these issues with a view to improving productivity and competitiveness, ensuring sustainable economic growth, meeting fiscal policy objectives and broader issues relating to wellbeing. The Treasury was engaged in a diverse range of issues and processes (specified under Output 2.1.3), including developing the Carbon Pollution Reduction Scheme, publishing climate change mitigation modelling in the report *Australia's Low Pollution Future*, modelling

climate change scenarios for the Garnaut Review of Climate Change, co-hosting a G-20 Workshop on Climate Change, developing the Defence White Paper, and developing the Government's response to the reviews into the automotive industry, textile, clothing and footwear industries and the national innovation system; and

- advising on social, education, Indigenous, labour market and health policy applying a broad central policy agency perspective. Fiscal Group was engaged in a diverse range of issues and processes (specified under Output 2.1.4), including the Government's Economic Security Strategy, Nation Building and Jobs Plan, workplace relations reforms, and commitment to closing the gap in Indigenous disadvantage. It was engaged in five COAG working groups dealing with social policy issues and provided advice on the associated new National Agreements with the States and Territories. Fiscal Group also contributed advice on numerous National Partnerships aimed at driving reforms of national significance, as well as the National Early Childhood Development Strategy.

OUTPUT 2.1.1: BUDGET POLICY ADVICE AND COORDINATION

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

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities and making and implementing government decisions on fiscal and budget strategy and spending arrangements, including its longer term strategies. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms; and
- timely, high-quality, accurate and transparent budget reports, Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome documents meet the Government's expectations. The budget preparation and coordination process is subject to an annual evaluation.

Analysis of performance

Advice on the fiscal and budget strategies

During 2008-09, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making.

Global economic conditions changed dramatically after the 2008-09 Budget was delivered, requiring the publication of more frequent updates on the economic outlook and the Government's responses to the global financial crisis.

The Treasury advised the Government in the lead up to the announcement of its Economic Security Strategy of October 2008 which provided a public update to reflect changing economic circumstances and the impact of the \$10.4 billion spending package.

A more detailed revised economic outlook was published in MYEFO in November 2008. During September and October 2008, it became clear that the impact of the global financial crisis on the economy would be more severe than previously anticipated. Accordingly, the Government responded by adapting its fiscal policy settings for 2008-09 in a manner consistent with the medium-term fiscal strategy.

In February 2009, a further economic and fiscal update — the Updated Economic and Fiscal Outlook (UEFO) — was published. In this statement, the Government announced a \$42 billion Nation Building and Jobs Plan to provide immediate support for jobs and growth. To support economic growth in a way consistent with the medium-term fiscal strategy, the Government stated the action it would take to return the budget to surplus as the economy started to recover.

The Treasury assisted the Government in preparing its 2009-10 Budget, presented in May 2009, which provided a further economic and fiscal update. In the budget, the Government delivered further fiscal stimulus measures, and met other spending and reform commitments, whilst finding structural savings to offset the cost of new spending.

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.

Final budget outcome for 2007-08

The *Final Budget Outcome 2007-08* was published in September 2008. In 2007-08, the Australian Government general government sector recorded an underlying cash surplus of \$19.7 billion. This outcome was around \$2.9 billion higher than estimated at

the 2008-09 Budget, reflecting lower than expected cash payments offset by lower than expected cash receipts.

Budget forecasts

The 2008-09 MYEFO, released by the Treasurer and Minister for Finance and Deregulation on 5 November 2008, updated the 2008-09 Budget which was released in May 2008. The forecast underlying cash surplus of \$5.4 billion for 2008-09 was \$16.3 billion lower than the forecast at the time of the 2008-09 Budget. This reflected significant downward revisions to cash receipts associated with the global financial crisis.

The decrease in estimated receipts was primarily due to downward revisions to tax receipts, which were driven by lower than forecast capital gains and company tax. The increase in estimated payments largely reflected new policy decisions announced since the 2008-09 Budget of \$11 billion.

The UEFO, released in February 2009, forecast an underlying cash deficit of \$22.5 billion and \$35.5 billion for 2008-09 and 2009-10 respectively.

The 2009-10 Budget, published in May 2009, estimated an underlying cash deficit of \$57.6 billion for 2009-10. The deterioration in the forecast deficit across the forward estimates was a consequence of the global recession resulting in downward revisions of revenue to around \$210 billion over the period 2008-09 to 2012-13.

Strategic budgetary advice

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising Treasury portfolio ministers on the overall budget strategy and priorities. In particular, the Treasury provided advice to the Government on the budget strategy in the context of supporting growth through economic slowdown and returning the budget to surplus as economic growth returns to above trend levels. Good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Debt management policy

In consultation with the Australian Office of Financial Management, the Treasury provides advice to the Treasurer on debt issuance and debt policy issues. This includes supporting an efficient and effective issuance program, and managing and optimally 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.

In February 2009, the Australian Government released UEFO. Consistent with the forecast in UEFO, the Australian Office of Financial Management increased its issuance of Treasury Bonds. To give effect to this new borrowing task, the Treasurer introduced

the Commonwealth Inscribed Stock Amendment Bill 2009, which received Royal Assent in February 2009.

Treasury Bond issuance in 2009-10 is expected to be around \$60 billion. The face value of securities offered at each tender will be between \$500 million and \$1 billion. In addition, Treasury Notes will be offered at regular tenders to support the within year financing task.

Specific details of the Government's forward debt issuance program in 2009-10 are outlined in the *Australian Office of Financial Management Annual Report 2008-09*.

Future Fund

During 2008-09, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund. Further information regarding the performance of the Future Fund can be found in the *Future Fund Annual Report 2008-09* at www.futurefund.gov.au.

Three new nation-building funds

In the 2008-09 Budget, the Government announced its commitment to establish three new nation-building funds, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund. Parliament passed the legislation to establish these funds, the *Nation-building Funds Act 2008*, in December 2008.

During 2008-09, the Treasury contributed to the establishment of these three new funds by providing advice to the Department of Finance and Deregulation and other relevant agencies on governance and management arrangements.

Contribution to public debate and awareness

Budget publications

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

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the general budget overview, budget at a glance, budget highlights, overviews of Secure and Sustainable Pensions, Nation Building for the Future and the Universities, Innovation and Education Revolution.

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

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

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

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

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

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

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

Overseas delegations

In 2008-09, the Treasury met with international delegations from Cambodia and Mongolia interested in learning about Australia's budgeting and reporting framework.

Tax Expenditures Statement

The Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *Tax Expenditures Statement 2008*, published in January 2009, reported on the cost of tax expenditures with estimates and projections to 2011-12. Production of this statement assists transparency and encourages public scrutiny of government programs delivered through the tax system.

OUTPUT 2.1.2: COMMONWEALTH-STATE FINANCIAL POLICY ADVICE

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

Fiscal Group contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues.

Fiscal Group also manages the administration of payments to the states and territories. From 1 January 2009, under the new *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement), the Treasury is responsible for administering National SPPs, National Partnership payments and goods and services tax (GST) payments.

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities and making and implementing government decisions as they relate to Commonwealth-State financial relations. 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 reports, MYEFO and final budget outcome documents meet the Government's expectations;
- progress made on the COAG Reform Agenda meets the expectations of the Commonwealth and States agreed at the December 2007, March 2008 and subsequent meetings; and
- calculation of payments to State and Territory Governments is accurate.

Analysis of performance

Reform of Federal Financial Relations

On 29 November 2008, COAG agreed to a new Intergovernmental Agreement which provides the overarching framework for collaboration between the Commonwealth and the States and Territories. This represents the most significant reform of Australia's federal relations in decades and establishes the foundation to deliver on long-term economic and social reform.

The framework commenced on 1 January 2009 and involved:

- significant rationalisation of the number of payments made to the States and Territories and increasing the overall amount of funding;
- centralisation of payment arrangements through the Commonwealth Treasury with payments made monthly to each State and Territory treasury;
- greater funding certainty and flexibility for the States and Territories through provision of on-going financial support for the delivery of services by the States through:
 - General revenue assistance, including GST;
 - National SPPs to be spent in key service delivery sectors; and
 - National Partnership payments; and
- clarification of the roles and responsibilities of each level of government and improved public accountability through a new performance reporting framework.

In 2008-09, the Treasury has made payments for general revenue assistance, including GST, National SPPs and National Partnership payments.

General revenue assistance

Under the Intergovernmental Agreement, all GST revenue is provided to the states. 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 Commonwealth provides general revenue assistance to the states, including GST payments, without conditions, to spend according to their own budget priorities.

- In 2008-09, the states and territories received \$42.4 billion in general revenue assistance, including \$41.2 billion in GST payments. These payments were calculated correctly and paid on the scheduled dates.

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 by the states and ensured they were administered accurately.

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

To meet its guarantee, the Australian Government paid budget balancing assistance to cover any shortfall between GST revenue and each state and territory's guaranteed minimum amount. Consequently, the Commonwealth provided total budget balancing assistance of \$275 million.

Payments for Specific Purposes (National SPPs and National Partnerships)

Five new National SPPs have been agreed 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.

- The Commonwealth paid the states and territories \$41.7 billion in 2008-09 in National SPPs and National Partnerships. The Treasury started payments on National SPPs and National Partnerships from 1 January 2009.
- The Treasury made efficient payments of both National SPP and National Partnerships. Advice on the amount was made available to the treasuries and portfolio agencies. The Treasury made timely payments on the scheduled dates, and in accordance with the relevant agreement (for National Partnership payments).

The framework has provided the foundation for the Commonwealth and the states to assist in sustaining the Australian economy through the global recession. Key elements that Commonwealth-State Relations Division provided advice on were:

- the First Home Owners Boost; and
- the Commonwealth guarantee of state borrowing.

Ministerial Council for Federal Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers on-going reform of federal financial relations and oversees the Intergovernmental Agreement. The Treasury provides secretariat support to the Ministerial Council. A new website for the Ministerial Council was established in 2008-09.

At Ministerial Council meetings held in 2008-09, treasurers focused on developing and implementing the new framework. The Treasury advised the Treasurer on the key issues: performance reporting and the appropriate level of funding for National SPPs and National Partnerships.

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 agreed to take on two new roles: to look at macroeconomic impacts on infrastructure and to take on a new oversight function of 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 2008-09 to discuss drafts of the Intergovernmental Agreement, 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 twice in 2008-09 and developed a new performance agreement between the ATO and the Ministerial Council for Federal Financial Relations to reflect the Intergovernmental Agreement. The sub-committee monitored the performance agreement and discussed GST revenue and payments, and GST policy and administrative issues.

International relations

In 2008-09, the Treasury continued to participate in the OECD Network on Fiscal Relations across levels of government, and presented to visiting overseas delegations on funding arrangements between the Australian Government and the states.

Contribution to public debate and awareness

Information on the Government's financial relations with state and local governments is in the 2009-08 Budget, Budget Paper No. 3, *Australia's Federal Relations*. This is the main public source of information on Australian Government payments to the states and local governments. It also informs the states of their expected payments in the upcoming financial year.

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 MYEFO, UEFO and Final Budget Outcome.

Information on the federal financial framework is available on the Ministerial Council website at www.federalfinancialrelations.gov.au.

OUTPUT 2.1.3: INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE

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

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

During 2008-09, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and COAG.

Performance information

The key performance indicators are:

- advice meets the Government's needs in making and implementing government decisions on industry, environment and defence policy issues. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms.

Analysis of performance

Industry policy

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

The Treasury also provided advice on the Government's response to the reviews into the automotive industry, textile, clothing and footwear industries, and the national innovation system. The Treasury participated in inter-departmental committee meetings and forums during 2008-09, including considering the national tourism strategy, the Excellence in Research for Australia initiative, Australia's bid for the 2018 FIFA World Cup, and Export Finance and Insurance Corporation proposals.

Climate change and environment policy

The Treasury provided advice to 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 has worked closely with the Department of Climate Change in designing the Carbon Pollution Reduction Scheme and associated transition and assistance mechanisms. The Treasury also hosted a G-20 workshop in February 2009 which considered the economic and financial implications of climate change.

The Treasury also provided economic modelling and advice on climate change policy to the Government. This included the detailed economic modelling in *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, released on 30 October 2008. In addition, the Treasury provided input into the *Garnaut Climate Change Review*, with the final report published on 30 September 2008. The Treasury also provided advice in response to and in support of commissioned economic modelling of climate change mitigation policies by government, industry and other groups.

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

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

The Treasury's advice covered the development of the Caring for our Country program, the partial deregulation of wheat exports, as well as funding for small irrigator exit assistance, Antarctica, and national parks as announced in the 2009-10 Budget. Additional advice was on specific agricultural commodity issues including wheat, dairy, sheep and beef.

During 2008-09, the Treasury also contributed to inter-departmental committees dealing with water policy, wheat marketing arrangements and drought.

National security policy

The Treasury provided advice on a range of defence and national security issues, including the Defence White Paper. The Treasury also contributed to a range of reviews of current national security arrangements, including the Federal Audit of Police Capabilities.

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 participates in inter-departmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE

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

Fiscal Group contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the government in areas such as early childhood and families, education, social housing, Indigenous welfare, labour market and health policy. While other departments have major responsibility for policy and program implementation in these areas, Fiscal Group seeks to ensure a focus on wellbeing with a priority on sustainable economic and social outcomes, including consideration of distribution, risk and capability development.

During 2008-09, 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. Social Policy Division also assisted in preparing briefings for the other Treasury portfolio ministers.

Performance information

The key performance indicators are:

- advice meets the Government's needs in making and implementing government decisions on social and income support policy issues. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms.

Analysis of performance

Labour market policy

The Treasury provided advice to the Treasurer on income support, immigration, employment services, service delivery reform and workplace relations matters.

Workplace relations

The Treasury provided advice to the Treasurer to help put into effect the Government's workplace relations reforms.

The Treasury worked closely with the Department of Education, Employment and Workplace Relations to develop submissions to the Australian Fair Pay Commission's final minimum wage decision (the 2009 Minimum Wage Review) and to develop and present a whole-of-government approach to this policy.

Immigration

The Treasury provided advice to the Treasurer on a range of immigration matters, including reforms to migration programs, the economic and labour market impacts of immigration, and changes to the Temporary Business (Long-Stay) Visa (Subclass 457) Program.

Employment services

In light of the dramatic changes in the economic environment during 2008-09 and its implications for the Australian labour market, the Treasury contributed to policy advice on appropriate policy settings for employment service provision and on elements of the Jobs and Training Compact announced in the 2009-10 Budget.

Australian Government Service Delivery Reform

The Treasury worked closely with other policy agencies in progressing the Government's commitments to service delivery reform initiatives in the Human Services Portfolio.

The Treasury also contributed to developing a more strategic approach to managing fraud and compliance efforts across health and social welfare payments.

Health policy

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

The Treasury also contributed to developing health initiatives announced in the 2009-10 Budget and provided advice to the Government in preparation for the release of the final report from the National Health and Hospitals Reform Commission.

The Treasury continued exploring the impact of chronic disease on the economy and potential economic benefits of a greater focus on preventative health.

Education policy

The Treasury significantly contributed to education policy issues, not only through the COAG agenda, but also in development of the education aspects of both the Economic Security Strategy and the Nation Building and Jobs Plan.

The Treasury played a key role in developing and publishing the Government's response to the Bradley Review of Higher Education as part of the 2009-10 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, the Northern Territory Emergency Response and development of an Indigenous Expenditure Report for COAG.

Social policy

The Treasury provided policy advice in supporting the development of several key government initiatives. These included the Economic Security Strategy, the Carbon Pollution Reduction Scheme, UEFO, the Nation Building and Jobs Plan, and pension and family payment reforms announced in the 2009-10 Budget.

The Treasury was also involved in developing measures to support community recovery and resilience in the cases of the Victorian bushfires and the Queensland floods. It helped develop measures to assist stability and certainty of access to child care for families following the insolvency of ABC Learning Centres Ltd.

The Treasury continued to work on shaping the social inclusion agenda, including the early childhood education and care agenda, and developing a national compact with the not-for-profit sector.

The Treasury was involved in developing the Government's Paid Parental Leave scheme announced in the 2009-10 Budget, and began work for the third intergenerational report.

COAG

The Treasury continued to be heavily involved with the COAG Working Groups.

The Treasury actively engaged in the Health and Ageing Working Group, the Productivity Agenda Working Group, the Indigenous Reform Working Group, the Housing Working Group and the Business Regulation and Competition Working Group. This included providing policy advice on the design of the new funding agreements, including: the National Healthcare Agreement, the National Disabilities Services Agreement, the National Indigenous Reform Agreement, the National Education Agreement, the Skills and Workforce Development Agreement and the National Affordable Housing Agreement.

The Treasury also contributed advice on numerous National Partnerships to drive reforms of national significance and development of the National Early Childhood Development Strategy. National Partnerships announced at the COAG meeting of 29 November 2008

covered key areas in preventative health, hospitals (including the primary care interface and activity-based funding reform), harmonisation of occupational health and safety regulation, reforms to address the educational needs of disadvantaged school communities and reforms to help close the gap in Indigenous disadvantage.

OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

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

The Treasury, through Revenue Group, has primary responsibility within the Australian Public Service for providing high-quality advice to Treasury portfolio ministers on tax and retirement income policies and legislation. The Treasury designs policies and legislative proposals to reform the Australian tax system in terms of efficiency, equity and transparency, whilst minimising compliance and administrative costs. Advice is formulated through an integrated process which includes consultation with business and community interests and close cooperation with the ATO and relevant Commonwealth departments.

During 2008-09, tax and retirement incomes policy considerations were integral to the Treasury's advice to assist the Government respond to the global financial crisis. The Treasury provided advice on the Economic Security Strategy payments for families and pensioners announced on 8 December 2008; the Nation Building and Jobs Plan, including one-off \$900 cash payments to eligible taxpayers and a Small Business and General Business Tax Break, announced on 3 February 2009; the savings decisions, including superannuation changes and changes to the private health insurance rebate, to support the pension reform package in the 2009-10 Budget; the measures announced in the 2009-10 Budget to ensure the budget's sustainability, including better targeting the tax exemption for Australians' foreign employment income and concessions for employee share schemes, and the increase in the Medicare levy surcharge rate; and the pay-as-you-go (PAYG) instalment reductions to provide cash flow relief to small businesses announced in the 2009-10 Budget.

The Treasury advised the Government on tax and compensation arrangements for the Carbon Pollution Reduction Scheme, and undertook comprehensive distributional modelling and analysis of the household assistance package and fuel tax concessions under the scheme. It also developed legislation for the tax treatment of emission units under the scheme, which was introduced into the Parliament on 14 May 2009. The Senate rejected the legislation on 13 August 2009.

The Treasury also provided advice on other business, personal and indirect tax policy issues. Business tax policy issues included the taxation of financial arrangements, research and development tax reforms, managed investment trusts and capital account election, the Financial Claims Scheme, withholding arrangements for closely held trusts, and amendments to improve the integrity and efficiency of the Australian Business Register.

The Treasury also provided advice on personal and retirement income policy issues including superannuation contribution caps, changes to the superannuation co-contribution, the tax deductibility of political donations and temporary residents' superannuation. Significant indirect tax policy issues on which the Treasury provided advice were 'ready-to-drink' alcoholic beverages and luxury car tax.

The Treasury continued to provide secretariat and other support to the Australia's Future Tax System Review, which is examining the current tax system and making recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The Treasury, in collaboration with the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Employment, Education and Workplace Relations and the ATO, produced a background paper, *Architecture of Australia's Tax and Transfer System*, describing Australia's tax and transfer systems from a factual and analytical perspective, to inform public discussion. The Treasurer and Treasury Secretary released the paper on 6 August 2008. The Australia's Future Tax System Review Panel released a consultation paper, providing the basis for further community input, on 10 December 2008, together with a separate consultation paper inviting submissions on the specific issues facing the retirement income system. The Government released the Review Panel's report, *Australia's Future Tax System — The Retirement Income System: Report on Strategic Issues*, on 12 May 2009.

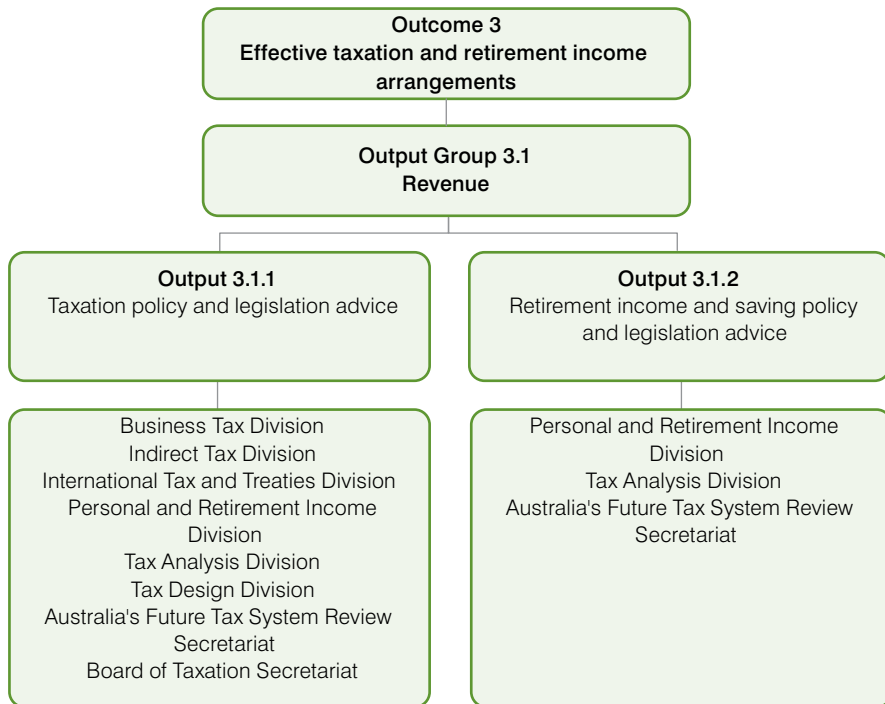
Significant progress was made in tax treaty negotiations with key investment partners during 2008-09, including the signing of a new tax treaty with New Zealand, an amending protocol on tax information exchange with Belgium, and enactment of the new treaty with Japan and the amending protocol with South Africa. Following the Government's January 2008 announcement, the Treasury also further examined and consulted on Australia's future tax treaty negotiation program and policy.

The Treasury also analysed and provided estimates of the Government's tax revenue for economic and fiscal updates (usually budgets and MYEFOs). In 2008-09, with economic conditions deteriorating quickly because of the global financial crisis, an additional set of estimates was published in UEFO released in February 2009.

The Treasury designed and brought to Parliament the Government's tax and retirement income legislation. In 2008-09, 36 tax and superannuation bills containing 74 measures were introduced into Parliament.

During 2008-09, the Treasury implemented the recommendations of the Tax Design Review Panel, including enhanced arrangements for consulting with stakeholders on tax and superannuation measures.

Figure 6: Outputs contributing to Outcome 3



Key priorities in 2008-09

Key priorities in 2008-09 were:

- implementing government election commitments, including introducing an education tax refund and first home saver accounts, and establishing an optional superannuation clearing house facility;
- supporting the Australia's Future Tax System Review Panel's comprehensive review of Australia's tax and transfer system;
- progressing the National Reform Agenda agreed to by COAG with the housing, water, business regulation and competition working groups;
- developing quantitative modelling to identify the labour force participation effects of government policy proposals, including tax changes;
- meeting obligations under the *Charter of Budget Honesty Act 1998*;
- reviewing and renegotiating tax treaties with key investment partners, pursuing tax information exchange agreements with offshore financial centres, contributing to the tax policy work of the OECD and continuing the reform of Australia's international tax arrangements; and

- continuing to improve processes and outputs in developing advice on tax and retirement income policies (including implementing outcomes of the Tax Design Review Panel review into streamlining and enhancing tax law changes).

Other priorities identified through the year were:

- assisting the Government respond to the global financial crisis by analysing and implementing, where appropriate, stimulus payments to eligible taxpayers, business tax assistance and budget balancing measures;
- estimating revenue costs, undertaking modelling and analysing tax policy proposals, in the context of the Economic Security Strategy and UEFO;
- monitoring tax collections and regularly updating tax revenue estimates as the global financial crisis continued to affect economic conditions and the outlook;
- assisting the Government develop and implement the tax aspects of its Carbon Pollution Reduction Scheme;
- examining retirement income and saving issues, including superannuation and other income support arrangements, intended to improve the wellbeing of Australians;
- finalising legislation on the final reforms to the taxation of financial arrangements and developing a substantial program of other business tax related legislation; and
- continuing to develop revenue analysis and forecasting models, methods and models for costing, and analysis of distributional and participation effects of tax and transfer policy.

Key outcomes in 2008-09

Key outcomes in 2008-09 included:

- providing advice to the Government on appropriate tax and retirement income policy responses to the global financial crisis, including:
 - stimulus payments to eligible taxpayers by the ATO as part of the Nation Building and Jobs Plan; and
 - the Small Business and General Business Tax Break and PAYG instalment reductions for small business and other taxpayers for the 2008-09 and 2009-10 income years;
- providing advice on the 2009-10 Budget, including savings proposals and budget balancing measures;
- developing legislation to implement the Government's election commitments to provide an education tax refund and a first home saver account, and releasing a discussion paper relating to the Government's election commitment to provide a superannuation clearing house as well as to possible initiatives to address the growth in lost superannuation;

- providing secretariat and other support to the Australia's Future Tax System Review Panel, including preparing advice on a broad range of tax and transfer issues, analysing public submissions, organising consultations with a wide range of stakeholders and a tax policy conference, commissioning research and preparing publications such as the background paper, *Australia's Future Tax System — Architecture of Australia's Tax and Transfer System*, which was released on 6 August 2008, three consultation papers *Australia's Future Tax System — Consultation paper*, *Australia's Future Tax System — Consultation paper — Summary* and *Australia's Future Tax System — The Retirement income — Consultation paper* released in December 2008, and final retirement income report *Australia's Future Tax System — The retirement income system: Report on strategic issues* released in May 2009;
- regularly revising tax revenue estimates and analysis taking into account the impact of deteriorating economic conditions and outlook, and incorporating them into the overall fiscal outlook and strategy in MYEFO, UEFO and the 2009-10 Budget;
- further developing quantitative modelling, providing better capacity to identify the labour force participation and distributional effects of government policy proposals under the Carbon Pollution Reduction Scheme;
- providing advice on and implementing legislation for business tax proposals, including for the Carbon Pollution Reduction Scheme, amendments to the capital gains tax rules to increase access to the small business concessions and smooth the introduction of the Financial Claims Scheme and the National Rental Affordability Scheme, application of crude oil excise to condensate, the framework for the tax agent services regulatory reform, stages 3 and 4 of the taxation of financial arrangements reforms, interim reforms to the taxation of managed investment trusts, and implementation of Board of Taxation recommendations on off-market share buybacks and managed investment trusts capital account treatment;
- providing advice on and implementing legislation for a range of personal tax policy proposals including: reforming income tests to tighten eligibility for certain tax and transfer system programs; revising the taxation of employee share scheme arrangements; increasing the income thresholds above which taxpayers are liable for the Medicare levy surcharge; removing the tax deductibility of political donations; developing philanthropy tax policy issues, including specifically listing organisations in the tax law as deductible gift recipients and income tax exempt; and establishing the 2009 Victorian Bushfire Appeal Fund's tax arrangements;
- providing advice on and implementing legislation for superannuation and retirement incomes policies, including temporary residents' superannuation and the Memorandum of Understanding between Australia and New Zealand to establish a retirement savings portability scheme;
- providing advice 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*;

- progressing tax treaty negotiations with key investment partners, including signing a new tax treaty with New Zealand and concluding tax information exchange agreements with several other jurisdictions;
- providing advice 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*, luxury car tax and 'ready-to-drink' alcoholic beverages;
- implementing the Tax Design Review Panel recommendations, including enhanced consultation arrangements and release of a forward work program of announced tax measures. Tenders were sought to establish a panel of private sector experts to provide the Treasury with advice on tax policy and legislative design. The Tax Issues Entry System, launched in November 2008, allows the public to raise issues about the care and maintenance of the tax system;
- providing secretariat support to the Board of Taxation, including to its reviews of the legal framework to administer the GST, of Australia's foreign source income anti-tax deferral regimes and of the tax arrangements applying to managed investment trusts; and
- providing secretariat support to the Superannuation Advisory Committee, which the former Minister for Superannuation and Corporate Law established in March 2008 and which met three times during 2008-09.

OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE

The Treasury provides a wide range of services to Treasury portfolio ministers to support their role in delivering effective taxation arrangements. This includes overall strategic advice, policy and legislation advice, revenue forecasting, policy costing and provision of information services.

Six divisions contribute to Output 3.1.1: Taxation policy and legislation advice. Business Tax Division, Indirect Tax Division, International Tax and Treaties Division, Personal and Retirement Income Division and Tax Design Division are responsible for delivering tax and income support policy advice. Tax Analysis Division prepares revenue forecasts, costings and quantitative analysis of taxation and Government cash transfer policy proposals, and develops and maintains models for retirement income, intergenerational economic and fiscal analysis, labour force participation, household expenditure and tax and transfer systems. Tax Design Division also assists Revenue Group by formulating a strategic direction on organisational issues for the group, improving the tax design process, managing the legislation program, assisting in governance issues, and developing and leading key relationships.

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

During 2008-09, the Treasury also provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website at www.taxboard.gov.au.

Performance information

The key performance indicators are:

- 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;
- advice meets the Government's needs in administering its responsibilities, and making and implementing decisions on tax policy and legislation. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- effective presentation of relevant information, including budget documentation and other publications, adequately informs public debate;
- tax policy law is developed in accordance with the principles of good law design; and
- legislation is delivered according to government priorities.

Analysis of performance

Personal taxation

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

Tax bonus to support jobs

In developing the Nation Building and Jobs Plan, the Treasury advised the Government and developed legislation to provide a tax bonus of up to \$900 to eligible Australians with incomes of \$100,000 or less who paid tax in 2007-08 after taking into account tax offsets and credits. The *Tax Bonus for Working Australians Act (No. 2) 2009* was enacted to provide the payments and received Royal Assent on 18 February 2009.

Payments were made automatically by the ATO.

The Treasury estimated the cost of the tax bonus would be \$7.7 billion with payments to 8.7 million taxpayers.

Increase in the Medicare levy surcharge income thresholds

The Treasury advised the Government and developed legislation that increased the income thresholds above which taxpayers are required to pay the Medicare levy surcharge. These changes were included in the *Tax Laws Amendment (Medicare Levy Surcharge Thresholds) (No. 2) Act 2008* which received Royal Assent on 31 October 2008.

From 1 July 2008:

- the threshold for singles is \$70,000 (up from \$50,000)
 - In future years, the singles threshold will be indexed annually to movements in average weekly ordinary time earnings and will increase in \$1,000 increments.
- the threshold for couples/families is \$140,000 (up from \$100,000)
 - In future years, the threshold for couples/families will be double the threshold for singles.

In addition, to ensure taxpayers were not disadvantaged by the change in the budget announcement, the law was amended so that, as long as taxpayers obtained appropriate private health cover before 1 January 2009, they would avoid the Medicare levy surcharge for the period 1 July 2008 to 31 December 2008.

The Treasury estimated around 250,000 taxpayers would receive tax relief as a result of the changes.

Rebalancing support for private health insurance

The Treasury advised the Government and developed legislation to rebalance the suite of policies supporting private health insurance. To bring Government support for private health insurance into line with the principle underpinning the Australian tax and transfer system — that the largest benefits are provided to those on lower incomes — the Government's legislation, introduced on 27 May 2009, proposes that high income earners would receive less in government payments for their private health insurance, but face increased costs should they opt-out of their health cover.

From 1 July 2010, the Government proposes to introduce three new private health insurance incentive tiers to rebalance the incentives for higher income individuals to be insured.

- **Tier 1:** for singles earning more than \$75,000 (couples \$150,000), the Private Health Insurance Rebate will be 20 per cent for those up to 65 years (25 per cent for those over 65, and 30 per cent for those over 70 years). The surcharge for avoiding private health insurance will remain at 1 per cent.
- **Tier 2:** for singles earning more than \$90,000 (couples \$180,000), the Private Health Insurance Rebate will be 10 per cent, for those up to 65 years (15 per cent for those

over 65, and 20 per cent for those over 70 years). The surcharge for avoiding private health insurance will increase to 1.25 per cent.

- **Tier 3:** for singles earning more than \$120,000 (couples \$240,000), no Private Health Insurance Rebate will be provided. The surcharge for avoiding private health insurance will increase to 1.5 per cent.

All income thresholds will be indexed to wages, keeping these changes fair and sustainable into the future.

The legislation was defeated in the Senate on 9 September 2009.

Means testing of government support — expanded definitions of income

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

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

A consultation paper on the reforms was released with the draft legislation, and stakeholders were invited to lodge submissions. The Treasury received several submissions and took into account stakeholder views in finalising the legislation.

These changes were included in the *Tax Laws Amendment (2009 Measures No. 1) Act 2009* which received Royal Assent on 26 March 2009.

Improving the integrity of prescribed private funds

The Treasury advised the Government, undertook public consultation and developed legislation and guidelines to improve the integrity of prescribed private funds. Prescribed private funds are a type of private philanthropic trust fund that is income tax exempt, and can collect tax deductible donations.

Legislation implementing these changes is in the *Tax Laws Amendment (2009 Measures No. 4) Bill 2009*, and is expected to come into effect on 1 October 2009. The Government announced these changes in the 2008-09 Budget.

Non-commercial losses

In the 2009-10 Budget, the Government announced changes to the non-commercial losses rules to reduce the ability of high income earners who carry on non-commercial business activities that are hobbies or lifestyle choices from applying losses from their business activity against their other income. The Treasury prepared an exposure draft for consultation, and will continue to assist in implementing the measure in 2009-10.

Employee share scheme arrangements

The Government announced changes in the 2009-10 Budget to the tax concessions for employee share schemes to target eligibility for the tax concessions and reduce opportunities for tax avoidance. The Treasury provided policy advice and undertook public consultation on the announced changes.

The Treasury is preparing legislation on the Government's final position for introduction into Parliament in the Spring 2009 sittings.

Reductions in personal income tax

The 2009-10 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 2009:

- the 30 per cent marginal tax rate threshold will increase to \$35,001;
- the 40 per cent marginal tax rate will fall to 38 per cent; and
- the low income tax offset will increase to \$1,350 and 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 \$15,000.

From 1 July 2010:

- the 30 per cent marginal tax rate threshold will increase to \$37,001;
- the 38 per cent marginal tax rate will fall to 37 per cent; and
- the low income tax offset will increase to \$1,500 and 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 \$28,867 for singles and \$24,680 for each member of a couple from 1 July 2008. These thresholds will rise to \$29,867 for singles and \$25,680 for each member of a couple from 1 July 2009 and to \$30,685 for singles and \$26,680 for each member of a couple from 1 July 2010.

Bushfires

The Treasury advised the Government and developed legislation to list the 2009 Victorian Bushfire Appeal Fund as a deductible gift recipient to provide for recovery and community reconstruction efforts, as well as direct relief in communities affected by fire.

Business taxation

Small Business and General Business Tax Break

On 12 December 2008, the Government announced it would introduce a temporary investment allowance to stimulate investment by Australian business. Subsequently, on 3 February 2009, the Government announced the Small Business and General Business Tax Break would expand and subsume the investment allowance. As part of the 2009-10 Budget, the Government further expanded the tax break for small business. The tax break provides a bonus tax deduction to businesses acquiring new tangible depreciating assets between 13 December 2008 and 31 December 2009. The Treasury provided policy advice to the Government and undertook public consultation on draft legislation. The *Tax Laws Amendment (Small Business and General Business Tax Break) Act 2009* received Royal Assent on 22 May 2009.

Small business PAYG instalment reductions

The Treasury provided policy advice and developed legislation that led to reducing PAYG instalments for both the 2008-09 and 2009-10 income years for small business. The measures provide cash flow relief to small business and other eligible taxpayers by ensuring PAYG instalment amounts approximate actual income tax liabilities. The measures were included in the *Tax Laws Amendment (2009 Measures No. 1) Act 2009* which received Royal Assent on 26 March 2009, and the *Tax Laws Amendment (2009 Measures No. 3) Act 2009* which received Royal Assent on 24 June 2009.

Applying crude oil excise to condensate

As part of the 2008-09 Budget, the Government announced it would remove the exemption of condensate from crude oil excise. Legislation to implement this measure was introduced into Parliament on 15 May 2008 and received Royal Assent on 18 October 2008. The Treasury provided advice to the Government on the legislation while it was before Parliament and on regulations giving effect to the legislation. The Treasury also responded to two freedom of information requests related to this measure.

National Rental Affordability Scheme

Before the 2007 election, the Government committed to introducing a National Rental Affordability Scheme, including a refundable tax offset to encourage construction of new affordable housing to rent to low to moderate income families and individuals at 20 per cent below market rates in the particular area. The Treasury provided advice to the Government on the design of legislation to implement the National Rental Affordability Scheme. The *National Rental Affordability Scheme (Consequential Amendments) Act 2008* received Royal Assent on 28 November 2008.

Carbon Pollution Reduction Scheme

The Treasury provided policy advice and developed legislation on the tax treatment of emissions units under the Carbon Pollution Reduction Scheme. The Treasury undertook consultation with key stakeholder groups throughout the legislative development process. The Government introduced into Parliament, on 14 May 2009, a package of Carbon Pollution Reduction Scheme Bills which establish the Carbon Pollution Reduction Scheme and cover related issues, including the tax treatment of emissions. The Bills were defeated in the Senate on 13 August 2009.

Taxation of Financial Arrangements (TOFA)

The Treasury provided policy advice and developed legislation to implement the TOFA Stages 3 and 4. The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* received Royal Assent on 26 March 2009. This concluded a process that began in the 1992 Budget and was endorsed by the Ralph Review in 1999.

TOFA Stage 3 and 4 measures have been subject to extensive consultation and provide a comprehensive framework for taxing financial arrangements. The new rules modernise the taxation of financial arrangements, reduce compliance costs and better reflect economic and commercial reality.

TOFA Stage 3 and 4 measures will apply, for relevant taxpayers, for income years commencing on or after 1 July 2010. However, taxpayers may elect to have the measures apply for income years commencing on or after 1 July 2009.

The Treasury will continue to monitor implementation of the TOFA legislation and will consider the need for refinements, as the measures address many complex arrangements. Monitoring will include the need for additional integrity measures.

Tax agent services regulatory reform

The Treasury provided policy advice and developed legislation to implement the new tax agent services regime which is expected to commence in early 2010. The *Tax Agent Services Act 2009* received Royal Assent on 26 March 2009. It establishes a national statutory body, the Tax Practitioners Board, with an enhanced regulatory function to replace the existing state based boards and introduces a legislative Code of Professional Conduct for registered agents, along with a wider and more flexible range of disciplinary sanctions. The Treasury undertook public consultation on an exposure draft Tax Agent Services (Transitional Provisions and Consequential Amendments) Bill which was introduced into Parliament in June 2009. The process to appoint members of the new board commenced with the advertising of positions in May 2009.

Small business capital gains tax concessions

The Treasury developed legislation to increase access to small business capital gains tax concessions for taxpayers owning a capital gains tax asset used in a business by a related entity and for partners owning a capital gains tax asset used in the partnership business. Legislation implementing these changes was included in the *Tax Laws Amendment (2009 Measures No. 2) Act 2009* which received Royal Assent on 23 June 2009. These amendments have effect from the 2007-08 income year.

Tax benefits and capital gains tax

The Treasury provided policy advice and developed legislation to provide a general exemption from capital gains tax for capital gains or capital losses arising from a right or entitlement to a tax offset, deduction or similar benefit. The measure was included in the *Tax Laws Amendment (2009 Measures No. 2) Act 2009* which received Royal Assent on 23 June 2009.

Reform of research and development tax concession

The Treasury provided policy advice 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.

Review of non-forestry managed investment schemes

The Treasury completed a review of the costs and benefits of non-forestry managed investment schemes. This included examining how the tax system treats these schemes. The Treasury undertook public consultation and produced a report released publically on 29 May 2009. The review was an election commitment.

Consolidation

The Treasury consulted with the business sector and provided policy advice on the consolidation regime to refine concerns and clarify interactions with other parts of the income tax law.

Amendments to clarify the interaction between the consolidation provisions and the Taxation of Financial Arrangements provisions were included in the *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* which received Royal Assent on 26 March 2009. Exposure draft legislation and explanatory material relating to 19 other measures was released on 28 April 2009.

Capital gains tax rollover for corporate restructures

Amendments to modify the capital gains tax provisions for corporate restructures, to prevent a market value cost base from arising when another entity acquires shares and certain other interests after a scrip for scrip rollover were included in the *Tax Laws Amendment (2008 Measures No. 6) Act 2009* which received Royal Assent on 26 March 2009.

Off-market share buybacks

On 12 May 2009, the Government announced it would implement Board of Taxation recommendations to improve the tax treatment of off-market share buybacks. The Treasury released a discussion paper on 1 June 2009.

Immediate annuity business of life insurance companies

The former Minister for Revenue and Assistant Treasurer announced changes to correct technical defects in the legislation which exempts income derived by life insurance companies from immediate annuity business. A Treasury discussion paper relating to the issue was released on 12 May 2009.

Changes to the non-commercial loan rules

The 2009-10 Budget announced changes to tighten the non-commercial loan rules in Division 7A of the *Income Tax Assessment Act 1936*. The changes include broadening the definition of payments, so payments falling under Division 7A include a payment by licence or right to use real property or chattels, and amendments to avoid circumventing Division 7A through corporate limited partnerships or technical deficiencies. The Treasury issued a discussion paper on the announced changes on 5 June 2009 and received submissions on the changes.

Annual PAYG instalments when voluntarily registered for GST

The 2008-09 Budget announced deferral of the measure to align PAYG instalments and GST payment and reporting requirements for taxpayers who are voluntarily registered for GST until 1 July 2009. The measure allows taxpayers who voluntarily register for the GST and choose to remit GST annually, to make PAYG instalments annually if they satisfy other eligibility tests for annual instalments. The Treasury undertook confidential targeted consultation on the draft legislation. The measure was included in the *Tax Laws Amendment (2009 Measures No. 3) Act 2009* which received Royal Assent on 24 June 2009.

Australian Business Register amendments

The Treasury developed legislation regarding a number of amendments to the *A New Tax System (Australian Business Number) Act 1999* to improve the integrity and efficiency of the Australian Business Register. The amendments will help position the registrar take on the Multi-agency Registration Authority role. The Multi-agency Registration Authority is part of the Standard Business Reporting program to enable business representatives to be

identified for electronic communications with multiple government agencies on behalf of the business. The measure was included in the *Tax Laws Amendment (2009 Measures No. 2) Act 2009* which received Royal Assent on 23 June 2009.

Demutualisation of friendly societies

The Treasury provided policy advice to the Government and, following consultation with industry, developed legislation to provide relief from capital gains tax to members and policy holders of friendly societies that have a life insurance business and/or a private health insurance business when the society demutualises to a for-profit entity. Legislation implementing these changes was introduced into Parliament on 25 June 2009 as part of the *Tax Laws Amendment (2009 Measures No. 4) Bill 2009*. If enacted, these amendments will apply from 1 July 2008.

Indirect taxation

Excise and custom duty

The Treasury provided advice on measures to tax ready-to-drink beverages and the definition of beer and wine products. This included input into legislative amendments to implement these arrangements.

Luxury car tax amendments

The Treasury provided advice on legislative amendments, including regulations, on the taxation of luxury cars.

Carbon Pollution Reduction Scheme

The Treasury provided policy advice and developed legislation on the GST treatment of emissions units and on transitional fuel tax arrangements for the Carbon Pollution Reduction Scheme.

GST

The Treasury conducted consultations and implemented amendments to the GST law to ensure the interaction between GST provisions does not allow real property transactions to be structured to reduce GST liability. This measure was announced in the 2008-09 Budget and included in the *Tax Laws Amendment (2008 Measures No. 5) Act 2008* which received Royal Assent on 9 December 2008.

The Treasury provided advice on amendments to the GST law on insolvency following the Federal Court of Australia (FCA) decision in the case of *Deputy Commissioner of Taxation v PM Developments Pty Ltd* [2008] FCA 1886. The amendments restore the original intention of the GST law that representatives of incapacitated entities are responsible for the GST consequences that arise during their appointment.

The Treasury provided advice and conducted consultations on a measure to ensure consistent GST treatment of automatic teller machine transactions. The measure was announced by the Assistant Treasurer on 18 December 2008. Regulations were registered on 27 February 2009.

The Treasury provided advice on measures to provide new diplomatic and consular concessions announced in the 2009-10 Budget. Determinations giving effect to these were registered on 5 and 6 May 2009.

Board of Taxation — review of the legal framework of the GST

The Treasury provided support to the Board of Taxation in preparing the board's *Review of the Legal Framework for the Administration of the Goods and Services Tax*, which was provided to the Assistant Treasurer in December 2008. The report was issued publicly on 12 May 2009 when the Assistant Treasurer announced the Government's response to it. At the same time, the Treasury released consultation papers on implementing the Government's decisions.

International taxation and tax treaties

The Treasury implemented or initiated a range of changes to international tax arrangements during 2008-09.

Exemption of income earned in overseas employment

The *Tax Laws Amendment (2009 Budget Measures No. 1) Act 2009* amended section 23AG of the *Income Tax Assessment Act 1936* to limit the scope of the exemption for foreign employment income to income earned as an aid worker, a charitable worker or as a member of a disciplined force deployed overseas by an Australian government. The amendments remove circumstances whereby Australian residents, who have paid little or no foreign tax on their foreign income, can claim an exemption from Australian tax.

Thin capitalisation rules

The *Tax Laws Amendment (2008 Measures No. 5) Act 2008* amended the thin capitalisation rules to accommodate the effects from the 2005 adoption of Australian equivalents to International Financial Reporting Standards. These amendments allow entities to depart from the current accounting treatment for specified assets.

The Government announced in the 2009-10 Budget it intends to consult on exposure draft legislation on changes to the thin capitalisation regime for authorised deposit taking institutions. The changes will clarify how the provisions will recognise Treasury shares, certain insurance assets and capitalised software costs.

Strengthening Australia's finance markets

The *Tax Laws Amendment (2008 Measures No. 5) Act 2008* amended interest withholding tax provisions of the *Income Tax Assessment Act 1936* to introduce a new interest withholding tax exemption for bonds issued in Australia by state government central borrowing authorities. This should improve depth, liquidity and prices in this market.

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

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

On 12 May 2009, the Government announced it intends to 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. A Treasury discussion paper released at budget outlined the framework to redesign foreign source income attribution rules consistent with the Government's announcement. Twenty-two submissions commented on the Treasury's discussion paper, and public consultation has occurred on the design of the reforms. Further consultation will occur on the draft legislation.

Comprehensive tax treaties

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. The Assistant Treasurer announced a review of Australia's tax treaty negotiation program and policy on 25 January 2008. As part of the review, the Treasury continued to analyse submissions from Australian businesses and consulted with industry through the Tax Treaties Advisory Panel. The Treasury also continued to progress the Government's tax treaty negotiation program. During 2008-09, negotiations were held with New Zealand, the United Kingdom and Belgium, and a new tax treaty with New Zealand was signed, as was a Protocol amending the Belgian treaty in respect of exchange of information. Treaties with Japan and South Africa were legislated and took effect. 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.

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 the British Virgin Islands, the Isle of Man and Jersey. Tax information exchange agreements provide a legal basis for bilateral exchange of tax information, for both civil and criminal tax purposes, and are an important component of Australia's efforts to combat offshore tax evasion. The Treasury also participated in the ministerial conference on the fight against international tax fraud and evasion hosted by the French and German Governments in Paris.

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 also provided an instructor to an OECD course on tax treaty issues.

Tax administration

Extra-statutory concession power for the Commissioner of Taxation

On 22 August 2008, the then Assistant Treasurer released the Tax Design Review Panel report on how to reduce delays in introducing tax legislation and improve the quality of tax law changes. One recommendation was the Government consider whether to give the Commissioner of Taxation further power to modify the tax law to give relief to taxpayers, or whether there were preferable ways for the Commissioner to provide extra-statutory concessions in appropriate circumstances.

The Treasury released a discussion paper on 12 May 2009 inviting the community's views on whether there should be an extra-statutory concession power and, if so, what form the power should take and what limits there should be on its exercise. The closing date for submissions was 10 July 2009.

Australia's Future Tax System

Australia's Future Tax System 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, chaired by Dr Ken Henry AC (Secretary to the Treasury) and comprising Dr Jeff Harmer (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), conducts the review.

The Treasury established a secretariat to support the panel and released a discussion paper outlining the architecture of Australia's tax and transfer system on 6 August 2008. The panel released a series of consultation papers on 10 December 2008 and the Government released the panel's report on strategic issues in retirement incomes on 12 May 2009.

Up until 30 June 2009, the panel has received over 1,000 written submissions from the public and more than 550 people attended 10 public meetings and 13 focus groups held across Australia in March and April 2009. In addition, the panel and secretariat held over 120 meetings with government, business, industry and community sector stakeholders. The panel also commissioned a comprehensive program of research, including a conference on tax and transfer policy in June 2009, hosted by the panel in conjunction with the Melbourne Institute of Applied Economic and Social Research.

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 continues to increase capacity through quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes. This includes working with the Melbourne Institute Tax and Transfer Simulator behavioural microsimulation model developed by the Melbourne Institute.

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.

Technical corrections and minor improvements

Measures to make technical corrections and amendments to the law and other minor improvements involving no significant policy change were included in the *Tax Laws Amendment (2008 Measures No. 6) Act 2009* which received Royal Assent on 26 March 2009, and in the *Tax Laws Amendment (2009 Measures No. 4) Bill 2009* which was introduced on 25 June 2009.

Minor amendment packages now include addressing issues raised through the Tax Issues Entry System. The Tax Issues Entry System website (www.ties.gov.au), which the ATO and

the Treasury jointly operate, allows tax professionals and the general public to raise issues on the system's care and maintenance.

Publications

Taxation revenue estimation and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues as the global financial crisis led to significant deterioration in economic conditions and outlook. Substantial downward revisions to expected tax revenue in 2008-09 and over the forward estimates, reflecting continued global financial turmoil, a worsening global economic outlook and sharp falls in commodity prices, were made at each of the three economic and fiscal outlook releases through 2008-09 (MYEFO, UEFO and the 2009-10 Budget).

Management of legislation program

Advice to the Government on tax policy and legislation (as well as on retirement income and saving policy and legislation discussed in Output 3.1.2) was timely, influential and high in quality, enabling the Government to make informed decisions in responding to the global financial crisis, developing tax and compensation arrangements for the Carbon Pollution Reduction Scheme and developing a range of other business, personal, indirect, international and personal income tax measures.

The report, *Australia's Future Tax System — The retirement income system: Report on strategic issues*, released by the Government on 12 May 2009, was influential in the Government's decision making in the budget context and is likely to continue to be influential in developing longer term strategies for the tax and transfer system.

Consultation on tax and retirement incomes policy was extensive, with public consultation on new measures now generally occurring at both the policy design and legislative design stages, following implementation in 2008 of the Tax Design Review Panel recommendations for enhanced Treasury consultation arrangements on tax design. Discussion papers, draft legislation and draft explanatory materials are published on the Treasury website for comment. The default minimum period for consultation was four weeks, although on occasions this was reduced, for example, where the priority was to introduce legislation.

Submissions made to consultation processes are also published on the Treasury website, except when confidentiality was requested.

In another new development recommended by the Tax Design Review Panel, consultation summaries were posted on the Treasury website for a number of new legislative measures introduced into Parliament. These summaries outline the issues raised in consultation, changes resulting from consultation and, where possible, reasons why certain suggestions are not adopted. Consultation summaries also invite feedback on the consultation

process to inform the Treasury so it continuously improves its consultation practices and arrangements.

Also to keep the public informed, the Treasury published the Government's forward work program on the Treasury website for the first time in February 2009. The program sets out the consultation planned for announced tax measures and indicates the legislation planned for the next parliamentary sittings.

An increasing number of tax and superannuation measures were designed using a principles-based approach, with discussion papers (including the Treasury discussion paper on *Reform of the foreign source income anti-tax-deferral (attribution) rules*) and consultation papers arising from the *Review of the Legal Framework for the Administration of the Goods and Services Tax* and legislation (including parts of the *Tax Agent Services Act 2009*) also using a principles-based approach.

In June 2009, the Government asked the Board of Taxation to undertake post-implementation reviews of aspects of the consolidation regime and the provisions on the alienation of personal services income. Post-implementation reviews of this kind provide an opportunity to establish if tax legislation is operating as intended and whether its implementation can be improved. The Tax Design Review Panel recommended the Government more regularly ask the Board of Taxation to undertake post-implementation reviews of tax legislation.

Fifty-seven of the 58 prospective tax and retirement income legislative measures (98 per cent) introduced into Parliament during 2008-09 were introduced within 12 months of being announced by the present government. Thirteen of the 16 retrospective tax and retirement income legislative measures (81 per cent) introduced during 2008-09 were introduced within six months of announcement. Two of the other three measures were announced before the Government accepted the recommendations of the Tax Design Review Panel on 22 October 2008, including the goals of introducing legislation for prospective measures within 12 months of announcement and for retrospective measures within six months.

OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

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

The Personal and Retirement Income Division contributes to Output 3.1.2: Retirement income and saving policy and legislation. The division consults widely across the private and public sectors. It has a close relationship with Tax Analysis Division.

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

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities, and making and implementing decisions on retirement income and saving policy and legislation. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- effective presentation of relevant information, including budget documentation and other publications, adequately informs public debate;
- retirement income and savings policy law is developed in accordance with the principles of good law design; and
- legislation is delivered according to government priorities.

Analysis of performance

2009-10 Budget superannuation measures

The Treasury provided policy advice and developed legislation for the Government's 2009-10 Budget measures announced on 12 May 2009, including:

- reducing the minimum payment amounts for account-based pensions by 50 per cent for 2009-10 to assist self-funded retirees affected by the global economic downturn. This extended the drawdown relief which the Government provided in 2008-09;
- reducing the concessional contributions caps and temporarily reducing the superannuation co-contribution matching rate and maximum payable through the *Tax Laws Amendment (2009 Budget Measures No. 1) Act 2009*;
- clarifying employer superannuation guarantee obligations for certain leave payments through the *Superannuation Guarantee (Administration) Amendment Regulations 2009 (No. 1)*; and
- requiring superannuation providers to transfer certain superannuation accounts belonging to lost members to unclaimed monies, with effect from 2010-11.

Trans-Tasman retirement savings portability

The Treasury worked with New Zealand officials to finalise a memorandum of understanding to provide a basis to establish a scheme so Australians and New Zealanders could take their retirement savings with them when they moved 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.

The memorandum was signed by the Australian Treasurer and the New Zealand Finance Minister, the Hon Bill English, on 16 July 2009. The two countries are now working towards enacting legislation to give effect to this new regime.

Payment of departed temporary residents' superannuation to unclaimed money

The Treasury developed and implemented legislation requiring superannuation funds to pay the unclaimed superannuation of departed temporary residents to the ATO.

The legislation reduces the number of lost accounts and unclaimed money in the superannuation system from temporary visa holders leaving Australia without taking their superannuation with them.

The *Temporary Residents' Superannuation Legislation Amendment Act 2008* and the *Superannuation (Departing Australia Superannuation Payments Tax) Amendment Act 2008* both received Royal Assent on 11 December 2008.

The Treasury also developed and implemented regulations supporting the measure which were registered in two packages, the first on 17 December 2008 and the second on 6 February 2009.

In February 2009, the Treasury developed and implemented regulations to halve the minimum drawdown requirements for account-based pensions for 2008-09.

Australia's Future Tax System Review

The Treasury provided secretariat and other support to the Australia's Future Tax System Review Panel in developing its report *The retirement income system: Report on strategic issues*. This report was released by the Government on 12 May 2009.

Other superannuation measures

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

- issuing a two-part discussion paper outlining implementation issues associated with the superannuation clearing house initiative, and possible policy options to address the growth in lost superannuation; and

- assisting other officials within the Treasury to design legislation to implement the Government's financial claims scheme.

OUTCOME 4: WELL FUNCTIONING MARKETS

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

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

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

The Treasury is involved in consultations, particularly where reforms or new Government measures are proposed, with other Australian Government agencies, State and Territory Governments, industry, the general public and other stakeholders.

A key focus for the Treasury in 2008-09 was providing policy analysis and advice to manage the impacts of the global financial crisis and global recession. 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.

In particular, the Treasury provided advice on guaranteeing the deposits and wholesale borrowings of deposit-taking institutions, maintaining the Government's investment in quality residential mortgage-backed securities, and developing and implementing liquidity support measures to address capital constraints resulting from the global financial crisis. These initiatives played a critical role in supporting eligible businesses, employment and overall economic activity.

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 to reform the financial regulatory system to support growth and employment and to strengthen the financial system in the future.

During 2008-09, the Treasury continued to pursue sound regulatory and structural reforms designed to enhance Australia's productivity and international competitiveness, and deepen the supply potential of the economy. This included enhancing frameworks for competition and consumer policy, including introducing and implementing criminal sanctions for serious cartel conduct, and establishing national regulatory systems for consumer law and consumer credit law. This work also included improving the regulation of nationally significant infrastructure and contributing advice on building the nation's infrastructure, including a National Broadband Network.

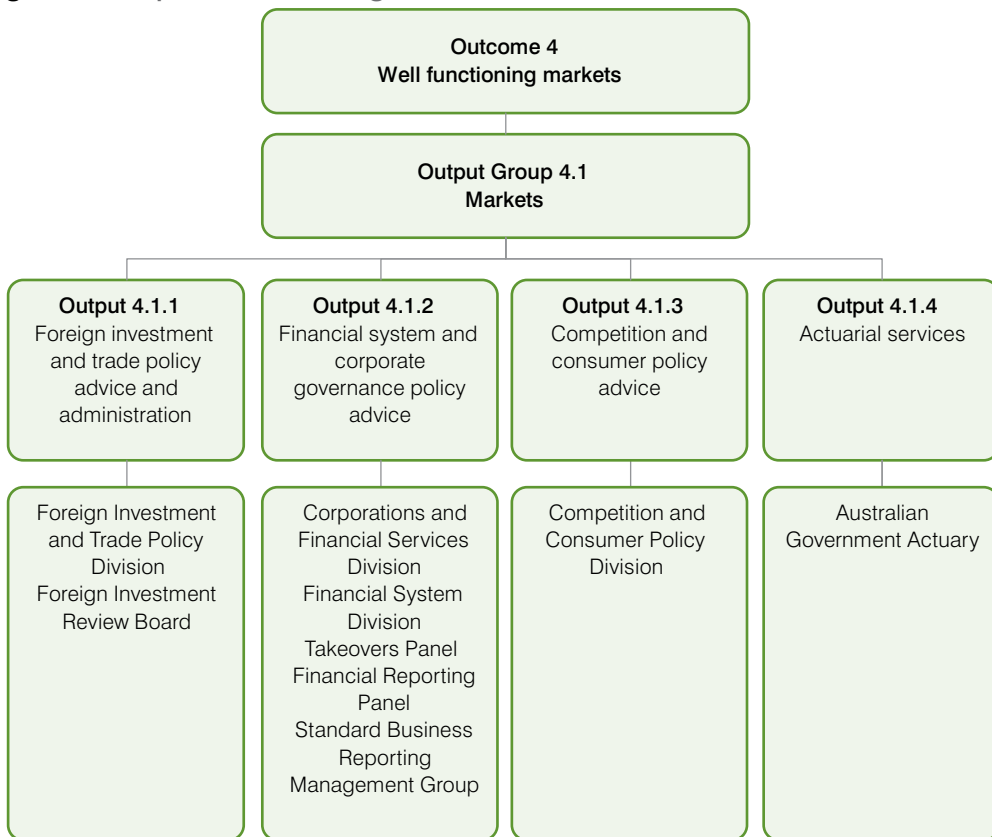
Work continued towards the implementation of Standard Business Reporting (SBR) from mid-2010. This multi-agency program led by the Treasury is a key plank in the COAG reform agenda to reduce the regulatory burden facing business.

The Treasury also continued to progress the single economic market concept under the Closer Economic Relations Agreement with New Zealand, with 2008 the 25th anniversary of the program. Key achievements and advances were made under the Memorandum of Understanding on Coordination of Business Law between the two jurisdictions.

In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in negotiating free trade agreements. Negotiations for the Association of Southeast Asian Nations (ASEAN)-Australia-New Zealand free trade agreement concluded in 2008-09, while negotiations progressed with Japan, China and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating and implementing policies to support well functioning markets and mitigating the impact of the global financial crisis and global recession.

Figure 7: Outputs contributing to Outcome 4



Key priorities in 2008-09

The key priorities for Markets Group in 2008-09 were set out in the *Treasury Portfolio Budget Statements 2008-09*, and later modified to include providing strategic and timely responses to the significant challenges posed by the global financial crisis and global recession, to maintain efficient operation of the Australian financial system and support growth and employment.

Other key priorities for Markets Group in 2008-09 were:

- promoting competition in the financial system, including the availability and diversity of finance and strategies to enhance consumers' ability to switch between banking providers and enhance disclosure of penalty fees;
- transferring responsibility from the states and territories to the Commonwealth to regulate trustee corporations and all consumer credit products, including mortgages, credit cards, some investment lending, and margin loans;

- progressing policy projects on director liability, corporate responsibility and corporate reporting;
- expanding Australia's export of financial services; promoting competition in banking, superannuation and insurance; improving payment systems; and ensuring ongoing access and affordability of insurance;
- cooperating at an international level in financial system regulation, corporate governance, financial reporting, auditing and corporate insolvency, including further regulatory recognition and cooperation with the United States and New Zealand;
- implementing criminal offences for serious cartel conduct;
- implementing the COAG reform agenda (particularly competition and regulatory reform) and microeconomic reforms in energy and transport;
- improving the regulation of nationally significant infrastructure;
- progressing National Broadband Network policy and telecommunications regulatory issues;
- assessing infrastructure projects to increase national productivity;
- developing a single national consumer policy framework and reforms, and single national consumer product safety system;
- examining issues raised in the Australian Competition and Consumer Commission (ACCC) inquiry into the competitiveness of retail prices for standard groceries;
- developing Australia's foreign investment policy, including reforms to the existing framework, as well as international investment and trade policy issues. The Treasury will advise on the appropriateness of existing provisions and processes for handling of individual foreign investment applications;
- working with the Foreign Investment Review Board and other stakeholders to ensure foreign investment analysis and advice is appropriately coordinated, particularly on proposals that are potentially significant for Australia's national interest; and
- representing Australia's interests on investment issues in free trade agreements and multilateral forums such as the OECD and APEC, including promoting OECD Guidelines for Multinational Enterprises to businesses operating in and out of Australia.

Additional priorities for Markets Group were:

- continuing to provide services to support a range of portfolio bodies. This includes providing secretariat services and, in some cases, maintaining day-to-day operations;
- serving as lead agency in the multi-agency SBR program; and
- supporting the operations of the Australian Government Actuary.

Key outcomes in 2008-09

In 2008-09, Markets Group advice covered a broad agenda, including corporate governance, market integrity, financial system stability, financial products and services, competition and consumer policy, and protection of the national interest under Australia's foreign investment policy.

Key group outcomes included:

- providing advice on Australia's financial sector crisis management arrangements, including introducing a financial claims scheme to provide depositors and insurance policyholders with timely access to funds if a financial institution failed. The Parliament passed the enabling legislation in October 2008;
- providing advice on introducing a guarantee for deposits and wholesale funding of authorised deposit-taking institutions, to ensure institutions can continue to raise funds and support depositor and investor confidence. The Parliament passed the enabling legislation in October 2008;
- providing advice on the Government's investment of up to \$8 billion in quality residential mortgage-backed securities to support competition in mortgage lending;
- providing advice on initiatives to provide liquidity support for the commercial property and car dealership financing sectors;
- commencing work in relation to the review into the governance, efficiency, structure and operation of Australia's superannuation system;
- contributing to the work of international forums such as the G-20, IMF and Financial Stability Forum in developing policy responses to the global financial crisis and global recession;
- providing advice on improving the regulatory framework for short selling and credit rating agencies in Australia;
- establishing a mutual recognition arrangement between Australia and the United States for securities regulation;
- reviewing disclosure of equity derivatives;
- strengthening the framework to regulate director and executive remuneration in Australia;
- working with countries across the Asia-Pacific region to promote the adoption of International Financial Reporting Standards;
- progressing the Government's plan to develop Australia as a financial services hub, through the joint government-industry Australian Financial Centre Forum;
- completing a statutory review of the *Terrorism Insurance Act 2003*, which is required at least once every three years for the Act to continue in operation;

- drafting a legislative reform package to bring the regulation of Australia's consumer credit (mortgages, credit cards, some investment lending, margin loans and trustee corporations) under one national system;
- drafting the Trade Practices Amendment (Cartel Conduct and Other Measures) Bill 2008 to criminalise serious cartel conduct. The Parliament passed the legislation in the Winter 2008 sittings;
- coordinating the Government response to the ACCC grocery inquiry and implementing reforms;
- taking a leading role in the activities of the COAG Business Regulation and Competition Working Group to progress reforms in 27 areas where duplicate and inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing amendments to the National Access Regime (Part IIIA of the *Trade Practices Act 1974*) to promote the efficient operation and use of infrastructure and investment in key infrastructure markets;
- participating in the activities of the COAG Infrastructure Working Group to support Infrastructure Australia, a statutory board advising governments on the planning, coordination and efficient use of transport, energy, communications and water infrastructure;
- working closely with the Department of Broadband, Communications and the Digital Economy, the ACCC and central agencies to develop policy on regulating the telecommunications industry;
- developing legislation to clarify the regulation of component pricing; implementing the Unit Pricing Code as a prescribed industry code under Part IVB of the *Trade Practices Act 1974*; and developing legislation to implement an enhanced national framework for consumer policy;
- providing advice on general foreign investment and trade policy matters. Against the backdrop of the global financial crisis and global recession, this included advice on global investment, trade flows and trends; foreign government investment and trade policy responses; and the implications for Australia;
- contributing to free trade agreement negotiations with Japan, China and the Gulf Cooperation Council;
- chairing APEC's Investment Experts Group until mid-2009. The group focused on investment liberalisation and improving the transparency of investment regimes in the APEC region;
- continuing to coordinate business law with New Zealand and implementing the Closer Economic Relations initiatives set out in the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007*;

- continuing to develop, as part of the Financial Services Working Group, short, simplified Product Disclosure Statements to better inform consumers' investment decisions;
- progressing development of the Standard Business Reporting program to make it faster, cheaper and easier for business to report their financial information to government;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel; and
- providing advice on managing the HIH Claims Scheme and its future operation. From July 2001, when it began operation, until the end of June 2009, the scheme has paid \$653 million in assistance to settle 10,860 claims. At the end of June 2009, fewer than 70 claims remain.

OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION

During 2008-09, the Foreign Investment and Trade Policy Division was responsible for delivering Output 4.1.1: Foreign investment and trade policy advice and administration.

The Treasury provided advice on foreign investment proposals, providing executive support to the Foreign Investment Review Board and making decisions under the *Foreign Acquisitions and Takeovers Act 1975* and Australia's foreign investment policy under authorisations provided by the Treasurer, consistent with the policy. It also advised the Government on foreign investment and trade policy, and participated in trade and investment negotiations. Further, the Treasury provided the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises.

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities, and making and implementing decisions on foreign investment and trade policy. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- effective presentation of relevant information, including publications, adequately informs public debate;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies is effective;
- Australian Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums; and

- the Treasury implements Australia's foreign investment policy framework efficiently and effectively.

Analysis of performance

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 the Treasurer 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 interest² in an Australian corporation valued above \$100 million³. The Treasurer is also notified of proposals to establish new businesses valued at over \$10 million, and proposals to involve direct investments by foreign governments and their agencies, regardless of size.

On 18 December 2008, the Assistant Treasurer announced changes to the screening procedure for handling real estate acquisitions by temporary residents and foreign investors to streamline the application process. The changes were implemented progressively; those requiring changes only to the policy came into effect immediately; those requiring changes to the regulations came into effect on 31 March 2009. The *Foreign Acquisitions and Takeovers Act 1975* was not changed.

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.

The Treasury considered around 5,800 proposals in 2008-09, around 30 per cent fewer proposals than in 2007-08. This decrease in real estate proposals reflected changes to the regulations and policy implemented during 2008-09. The number of business cases remained stable at around 580. About 95 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.

During 2008-09, the Foreign Investment Review Board (an independent body established in 1976 to advise the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals and oversaw the 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.

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 2009, the threshold is \$953 million except for acquisitions involving a US government entity or in prescribed sensitive sectors.

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

Advice on investment and trade policy

The Treasury provides advice to the Government on general foreign investment and trade policy matters. Against the backdrop of the global financial crisis and global recession, 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

In 2008-09, the Australian Government concluded negotiations on the ASEAN-Australia-New Zealand free trade agreement. It is expected to enter into force on 1 January 2010 following ratification in each country.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China and the Gulf Cooperation Council. 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 will also contribute to negotiations once they begin.

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

Other processes

The Treasury contributed to feasibility studies relating to possible free trade agreements with India and Indonesia.

OECD

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 Australian Government promotes and implements the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, the General Manager of the Foreign Investment and Trade Policy Division.

In 2008-09, the Australian National Contact Point concluded its examination of an Australian company's involvement in a mining operation in Colombia. A statement on this matter was released in June 2009, and can be viewed at www.ausncp.gov.au.

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.

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 mid-2009. The group focused on liberalising investment and improving the transparency of investment regimes in the APEC region. The 2008-09 work program included:

- continuing analysis of behind-the-border barriers to investment climate reform;
- exploring the usefulness of the OECD's Policy Framework for Investment for investment climate reform by APEC's developing member economies;
- collaborating on a joint APEC-United Nations Conference on Trade and Development project to examine best practice use of foreign direct investment to provide electricity and roads infrastructure; and
- developing, then getting APEC ministers and leaders to endorse, a three-year APEC Investment Facilitation Action Plan.

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

Liaison with Department of Foreign Affairs and Trade

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

OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE

During 2008-09, the Financial System Division and Corporations and Financial Services Division in Markets Group, together with the Takeovers Panel and Financial Reporting Panel, were responsible for the delivery of Output 4.1.2: Financial system and corporate governance policy advice.

The Treasury provided advice on the functioning of the financial system in supporting growth and employment, the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting, consumer credit, the responsible portfolio agencies and currency.

The Treasury also continued developing the SBR program.

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities, and making and implementing decisions on financial system and corporate governance policy. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- effective presentation of relevant information, including publications, adequately informs public debate;
- progress made on the COAG Reform Agenda meets the expectations of the Commonwealth and States agreed at the December 2007, March 2008 and subsequent meetings;
- statutory and other procedural, administrative and reporting requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies is effective; and
- Australian Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums.

Analysis of performance

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

Financial system reform

Response to the global financial crisis

A key focus of activities was to provide policy analysis and advice to manage the impacts of the global financial crisis and the global recession. These policies focused on promoting economic growth and supporting employment, ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

Treasury officials participated in the work of the G-20 to develop policy responses to the global financial crisis.

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

These include examining the role and regulation of credit rating agencies and short selling; improving the transparency of credit instruments; examining executive remuneration; and improving coordination between regulatory agencies, both domestically and internationally.

- In December 2008, the Government passed the *Corporations Amendment (Short Selling) Act 2008* to permanently ban naked short selling, clarify the powers of ASIC in relation to short selling and establish a framework for the disclosure of covered short sales. This helped restore confidence in Australian equity markets following the global financial crisis.
- Following a review, the Government resolved that all credit rating agencies operating in Australia would have to hold an Australian Financial Services Licence by 1 January 2010. This includes an obligation to report on agency compliance with the Code of Rating Fundamentals issued by the International Organization of Securities Commissions. On 5 March 2009, the Government held two roundtables to encourage industry to reduce unnecessary investor reliance on ratings.
- In June 2009, the Treasury released an issues paper seeking feedback on disclosure of equity derivative products (for example, contracts for difference) in Australia and, based on the feedback received on this paper, will progress this work in the coming year.

- The Treasury developed the Corporations Amendment (Improving Accountability on Termination Payments) Bill 2009 to strengthen arrangements for the payment of termination benefits to company directors and executives. The Treasury also continued to review the broader executive remuneration regulatory framework and links with the review into executive remuneration currently being undertaken by the Productivity Commission.

Financial sector crisis management

The Treasury provided advice on Australia's financial sector crisis management arrangements, including introduction of a Financial Claims Scheme to provide depositors and insurance policyholders with timely access to funds if a financial institution fails. The Parliament passed the enabling legislation for the scheme in October 2008.

In developing the scheme, the Treasury provided advice and developed legislation to ensure that payments made by APRA or liquidator under the scheme are treated for tax purposes as if they had been paid by an institution to which the scheme applies, if the scheme is activated. This measure was introduced in Tax Laws Amendment (2009 Measures No. 2) Bill 2009, which received Royal Assent on 23 June 2009.

The Treasury provided advice on introducing a guarantee of deposits and wholesale funding of authorised deposit-taking institutions to ensure they can continue to raise funds for lending activities and support depositor and investor confidence. The Treasury also provided advice on liquidity support arrangements for the commercial property and car dealership financing sectors.

The global financial crisis demonstrated the interconnection between companies in a conglomerate, including between prudentially regulated entities and unregulated entities. APRA could regulate the non-operating holding company, if an authorised deposit-taking institution under the Banking Act, and of a general insurer under the Insurance Act. However, APRA could not regulate non-operating holding companies of life insurance companies under the Life Insurance Act. The Treasury provided advice and developed legislation to remove this gap in Australia's prudential regulation framework. The *Financial Sector Legislation Amendment (Enhancing Supervision and Enforcement) Act 2009* was passed on 13 August 2009. It provides APRA with the power to supervise life insurers' non-operating holding companies. This measure is consistent with the Insurance Core Principle ICP17 of the International Association of Insurance Supervisors on Group-wide supervision.

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.

Promoting competition

The Treasury developed the Account Switching Package, announced by the Treasurer in February 2008, to promote competition in the financial sector by making it easier for consumers to switch financial products and providers. The package includes comprehensive consumer education resources on switching, including a detailed and informative website and a consumer complaints hotline, maintained by ASIC as the first contact point for all consumer complaints about basic banking products. Financial institutions implemented the arrangements on switching providers in November 2008.

The Treasury continued to monitor implementation of the package, in consultation with ASIC, the Reserve Bank of Australia and financial institutions.

The Treasury provided advice on the Government's investment of up to \$8 billion in quality residential mortgage-backed securities to support competition in mortgage lending.

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 has the goal of ensuring that the superannuation system operates in the most cost effective manner and best interests of all its members. It will consider how to maximise retirement income for Australians, including through increasing efficiencies, reducing costs and fees, and lifting long-term rates of return.

A panel of experts will conduct the review, made up of a full-time Chair and seven part-time members. Mr Jeremy Cooper moved from his former role as Deputy Chairperson of ASIC to chair the panel. Dr David Gruen, Executive Director, Macroeconomic Group, is a panel member.

The review panel will consult widely and call for public submissions. The review will report to the Government by 30 June 2010. The terms of reference for the review are available at www.supersystemreview.gov.au.

The Treasury is providing support to this review.

Trustee corporations

COAG agreed, at its 26 March 2008 meeting, that the Commonwealth would assume responsibility for regulating trustee corporations. In 2008-09, the Treasury worked to develop and implement an appropriate regulatory framework, and consult with stakeholders, including State and Territory Governments, industry and consumer groups. A Bill to give effect to the transfer was introduced into Parliament on 25 June 2009.

HIH Claims Support Scheme

The Treasury provided advice to the Government on the management of the HIH Claims Support Scheme and its future operation. The Treasury has continued to work closely with the HIH administrators, McGrathNicol+Partners, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims as quickly as possible. From July 2001 to 30 June 2009, the scheme has paid \$653 million to settle 10,860 claims. Fewer than 70 claims remain.

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 26 September 2008, the then Assistant Treasurer announced 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 region. This follows the Financial Services Hub Summit the Government co-hosted with the NSW Government on 31 July 2008.

The government and industry partnership comprises a chairman, Mr Mark Johnson, to provide industry leadership; a panel of experts, consisting of six senior financial sector representatives; a Treasury taskforce; and a reference group, which includes representatives from the peak financial sector industry associations, the State Governments and Austrade.

The Australian Financial Centre Forum has received written submissions from industry and consulted widely to identify opportunities and policy priorities for the industry and to develop practical strategies to position Australia as a leading financial services centre. It is working on a final report recommending how to enhance the international competitiveness of Australia's financial services sector.

National regulation of credit

Following the 3 July 2008 COAG announcement that the Commonwealth will adopt regulatory responsibility for credit, intensive work has progressed to transfer the responsibility.

The Treasury continues to lead development of the reform, closely consulting with state and territory representatives under the auspices of the Financial Services and Credit Reform Implementation Taskforce. A package of Bills to give effect to the transfer was introduced into Parliament on 25 June 2009. In addition to transferring existing consumer credit regulation, the package seeks to establish a new regulatory framework for margin lending. State and territory legislation and an intergovernmental agreement will be needed to complement the package; these are expected to be finalised in the latter half of 2009.

Financial Services Working Group

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. The overarching objective is to facilitate the creation of shorter and simpler product disclosure statements.

The working group designed a short (four A4 pages), standardised and easy-to-understand product disclosure statement for the new First Home Saver Account. The statement provides key information that consumers need to know to make an investment decision, with other more detailed information incorporated by reference.

Throughout 2008-09 the working group undertook further projects to simplify disclosure for margin loans, superannuation funds and simple managed investment schemes.

In 2008-09 the working group also substantially progressed intra-fund, simple superannuation advice. In mid-2009, after a lengthy period of industry consultation, ASIC released guidance and class order relief to enable millions of Australians to access low-cost, simple advice on their superannuation investments.

Trade in financial services

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

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 (legacy products) by transferring investors into newer, more efficient products.

In 2007-08, the Treasury held discussions with an expert panel of industry representatives to reach an in-principle agreement on an outline high-level mechanism for rationalising legacy products in managed investments and life insurance.

On 5 August 2009, the Minister for Financial Services, Superannuation and Corporate Law announced a proposals paper will be issued for wider public consultation on the proposed mechanisms.

Unsolicited share offers

In May 2009, the then Minister for Superannuation and Corporate Law issued an options paper *Access to Share Registers and the Regulation of Unsolicited Off-market Offers* for public consultation for eight weeks. A total of 32 submissions were received from individuals, companies and representative groups.

International liaison

International Financial Reporting Standards regional policy forum

In April 2009, the third International Financial Reporting Standards Regional Policy Forum was held in China. Australia was well represented at this forum with representatives from government, the accounting standard setters and the professional accounting bodies. A key outcome was that regional accounting standard setting bodies will intensify their cooperation. A regional accounting standard setting group has been established to ensure all countries in the region have the ability to contribute to developing the standards.

Coordination of business law with New Zealand

The work program under the Memorandum of Understanding on Coordination of Business Law between Australia and New Zealand is an important component of efforts to advance a single economic market. It focuses on areas where two jurisdictions seek to achieve comparable outcomes and lower the regulatory barriers for businesses, including through alignment or harmonisation of business laws.

In 2008-09, work by the Treasury was informed by the implications of the global financial crisis, particularly on possible changes to financial market and corporate governance regulation. The Closer Economic Relations program celebrated its 25th anniversary in 2008 and saw some key achievements and advances under the memorandum of understanding.

- The mutual recognition of securities offerings regime came into force.
- The mutual recognition of director disqualifications that occur in New Zealand came into force in Australia by virtue of the *Corporations Amendment (No. 1) Act 2009*.
- In New Zealand, the Commerce Commission (International Co-operation and Fees) Bill was introduced, to allow the Commerce Commission to share confidential information with overseas agencies for enforcement purposes.

- Cross-border insolvency legislation came into effect in both jurisdictions.

Although it is not within the scope of the Memorandum of Understanding, an important milestone during 2008 was the signing of a Treaty on Trans-Tasman Court Proceedings and Regulatory Enforcement. The treaty was developed to improve the effectiveness of civil court proceedings and enforcement of judgments across the Tasman, and underpin many memorandum initiatives by providing a coherent legal framework that will help resolve civil disputes with a trans-Tasman element, more efficiently and at lower cost.

Trans-Tasman Accounting and Auditing Standards Advisory Group

The Trans-Tasman Accounting and Auditing Standards Advisory Group comprise representatives from the accounting and auditing standard setters, the professional accounting bodies, and the governments of both Australia and New Zealand. The Treasury currently chairs the group. The group's focus is to ensure the financial reporting frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During the year, the group progressed a range of reforms to ensure greater commonality between the two financial reporting 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 and 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 steering group on corporate governance

The Treasury provided the Australian representative to the OECD steering group on corporate governance. Work included examining the role of stock exchanges in corporate governance and lessons for corporate governance practices coming from the financial crisis. The four main areas identified for improvement were governance of remuneration, risk management systems, the functions of boards and role of shareholders. The Treasury also provided the Australian representative to the Asian corporate governance roundtable. Recent roundtable work has concentrated on producing a guide to fighting abusive related party transactions in Asia. The focus will now move to the Asian financial crisis experience, concentrating on areas for improving corporate governance practices.

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 2008 and 2009, the committee focused on the impact of the financial crisis on insurance sectors and private pension funds across member countries. It is also undertaking further work on the OECD guidelines on insurer corporate governance in cooperation with International Association of Insurance Supervisors.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by dealing with 30 applications, essentially disputes about the application of the Takeovers Chapter of the *Corporations Act 2001*. The panel, a peer review body with regulatory functions, has 53 members who are specialists in mergers and acquisitions, either as investment bankers, lawyers, company directors or other professionals. When resolving disputes, the panel helps ensure that acquisition of control over voting shares in listed and widely held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The panel also publishes guidance notes to help foster market confidence and efficiency.

In 2008-09 the panel:

- dealt with complex and challenging issues, including reverse takeovers, standstill agreements and share splitting; and
- updated three existing guidance notes and released a consultation paper containing proposals to update a further four guidance notes.

On 23 October 2008, Justice Stone of the Federal Court of Australia dismissed CEMEX Australia Limited's application for judicial review of the review panel's decision in Rinker Group Limited 02R. On 30 June 2009, CEMEX's appeal to the Full Court of the Federal Court of Australia also was dismissed.

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 alleviates ASIC from initiating court proceedings when a dispute on the application of accounting standards arises between it and companies. While disputes are predominantly referred to the panel by ASIC, they may, with ASIC's consent, also be referred by the lodging entity.

During the year, the panel undertook a strategic review of its operation to examine its functions and its role in the Australian corporate reporting regulatory framework. While no cases were referred during the period, the panel's existence and the threat of referral may have acted as a strong incentive for companies to meet their financial reporting obligations.

Standard Business Reporting (SBR)

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, ATO and all state and territory government revenue offices.

SBR is 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 a year when the initiative is fully operational.

SBR has established ongoing communication and collaboration with the Netherlands, New Zealand, 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 forms part of COAG's broader agenda for deregulation, under the oversight of the Business Regulation and Competition Working Group chaired by the Minister for Finance and Deregulation and the Minister for Small Business.

Contracts to build the program's core infrastructure and single secure sign-on facility were signed in early 2009 with IBM Australia Ltd and Verizon Business respectively. These contracts build on earlier design work undertaken by these providers.

SBR delivered additional versions of harmonised reporting definitions (taxonomies) for various financial reports for participating agencies. A small scale pilot to test the design occurred between February 2009 and May 2009. The pilot proved the concept, successfully transmitting reports (in this case the Tax File Number Declaration) to the ATO which were auto-generated by business software using the reporting definitions, as well as a secure sign-on.

Conferences were held in Sydney and Melbourne during May 2009 and were highly successful, attracting good numbers of target stakeholders. The conferences showcased the Australian design, international experience and relevance of SBR with contributing presenters from the Netherlands, New Zealand and the United States. Follow-up consultation with participants indicates significant support for the concept amongst Australian businesses and financial, accounting and payroll software developers.

SBR is on track to be delivered on schedule in mid-2010.

Currency

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

Mutual recognition of securities regulation with the United States

In August 2008, a mutual recognition arrangement on securities regulation was signed between Australia and the United States. The arrangement aims to promote cross-border capital flows between the two countries and improve regulatory cooperation between the United States Securities and Exchange Commission and ASIC. Since then the Treasury has worked with the regulators to implement the arrangements effectively.

Statutory and other procedural requirements

Financial sector levies

During 2008-09, 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. The Treasury and APRA reviewed the methodological issues governing the levy calculations; the review was announced by the Assistant Treasurer in July 2008.

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. Following a consultation process, the Treasury completed the statutory review and reported to the Minister for Financial Services, Superannuation and Corporate Law. The review addresses the need for the Act to continue operating and recommends refinements to the scheme established under the Act. A report will be published in 2009.

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 twice during 2008-09. The Treasury also assisted ministers to fulfil the Government's obligations under the Corporations Agreement 2002.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2008-09. 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.

OUTPUT 4.1.3: COMPETITION AND CONSUMER POLICY ADVICE

During 2008-09, the Competition and Consumer Policy Division was responsible for the delivery of Output 4.1.3: Competition and consumer policy advice.

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

Performance information

The key performance indicators are:

- advice meets the Government's needs in administering its responsibilities, and making and implementing decisions on competition and consumer policy. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through formal and informal feedback mechanisms;
- effective presentation of relevant information including publications, adequately informs public debate;
- progress made on the COAG Reform Agenda meets the expectations of the Commonwealth and States;
- statutory and other procedural, administrative and reporting requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;

- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies is effective; and
- Australian Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums.

Analysis of performance

Competition policy

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

The Treasury developed legislation and regulations to criminalise serious cartel conduct. The *Trade Practices Amendment (Cartel Conduct and Other Measures) Act 2009* received Royal Assent on 26 June 2009. Individuals involved in giving effect to a cartel arrangement will now face jail sentences of up to 10 years.

The Treasury produced a discussion paper to seek views on whether the current interpretation of 'understanding' limits the ability of the Trade Practices Act to properly address anticompetitive conduct.

The Treasury coordinated the Government response to the ACCC inquiry into competitiveness of retail prices for standard groceries. The inquiry raised concerns about creeping acquisitions in grocery retailing, whereby businesses make a series of small acquisitions over time that do not individually substantially lessen competition in breach of section 50 of the Trade Practices Act. The Treasury prepared two discussion papers released for public comment on models to address creeping acquisitions.

The Treasury leads key activities of the COAG Business Regulation and Competition Working Group. The group is to progress reforms in 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business. The Treasury has progressed measures that address the anti-competitive impacts of occupational licensing and is examining the effects of state and territory planning and zoning laws.

The Treasury coordinates and advises the Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2008-09, this involved six public inquiries and eight commissioned research references.

The Treasury provided advice on the Government's investment in road, rail and port infrastructure projects announced in the 2009-10 Budget. The Secretary to the Treasury is a member of Infrastructure Australia, the Government's key advisory body on national infrastructure. The Treasury is engaged in the activities of the COAG Infrastructure Working Group which supports Infrastructure Australia.

The Treasury was actively engaged in the work of the Ministerial Council on Energy Standing Committee of Officials which provides advice on ongoing energy market reforms and the interaction between energy markets and the Government's Carbon Pollution Reduction Scheme.

The Treasury 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. Following Government agreement on the elements of the reform package, the Treasury discussed the proposed changes with state and territory officials and prepared drafting instructions for amending legislation.

The Treasury is working with the Department of Broadband, Communications and the Digital Economy, the ACCC and other central agencies on implementing the Government's National Broadband Network policy, and providing advice on telecommunications regulatory issues. The Secretary to the Treasury was a member of the Panel of Experts that made recommendations to Government on proposals for a National Broadband Network.

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

The Treasury has worked with relevant agencies to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition.

The Treasury has contributed to ongoing work on international air service agreements and proposals for liberalising international air routes, including the treatment of competition law in air service agreements and access to Australian routes. The Treasury is represented on an interdepartmental steering committee for the Government's review of national aviation policy.

The Treasury has been involved in competition policy-related aspects of free trade agreements, including with China, Japan, the Republic of Korea, Malaysia, and the Gulf Cooperation Council. In August 2008, Australia hosted the inaugural APEC Structural Reform Ministerial Meeting. The meeting provided an opportunity for APEC Ministers to engage in an open dialogue about their experiences in developing and implementing structural reform focusing on institutional frameworks and regulatory reform. It led to greater understanding of the importance of domestic structural reforms in supporting productivity growth and economic prosperity, and to broadening the APEC agenda to include structural reform.

In addition, the Treasury was Deputy Chair of the APEC Economic Committee and led the Friends-of-the-Chair Group on regulatory reform. The Treasury also participated in several roundtable discussions on regulatory reform.

The Treasury participated in the OECD competition policy committee and contributed to the competition chapter in the Regulatory Review of Australia report.

Consumer policy

In 2008-09, the Treasury provided advice to the Government on the consumer policy framework.

The Treasury developed legislation to clarify the regulation of component pricing. Under the new provisions, when businesses advertise a price, they must prominently display as a single figure, a total price that includes all known, quantifiable amounts that a consumer would be required to pay. The *Trade Practices Amendment (Clarity in Pricing) Act 2008* came into effect on 25 May 2009.

The Treasury implemented the Unit Pricing Code as a prescribed industry code under Part IVB of the *Trade Practices Act 1974*. The code requires supermarket retailers to display the price of a good by reference to standard units of measurement, so consumers can compare relative prices of similar grocery items. The code commenced on 1 July 2009, and makes unit pricing mandatory in all large and online supermarkets by 1 December 2009.

The Treasury developed legislation which was introduced into the Parliament on 24 June 2009 and is the first stage in implementing an enhanced national framework for consumer policy. The Trade Practices Amendment (Australian Consumer Law) Bill 2009 will establish a single national consumer law — to be called the Australian Consumer Law — and start replacing inconsistent consumer laws in place across Australia. The Bill includes the national unfair contract terms law and new civil penalties, enforcement powers and consumer redress options.

The Treasury is leading a number of projects being progressed under COAG's consumer policy agenda, including a model for the reform of product safety regulatory arrangements and reforms to be agreed with State and Territory Governments and based on best practice in existing state and territory consumer protection laws.

The Treasury represents Australia in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy and facilitated an OECD roundtable on product safety reform in October 2008. The Treasury also provided input into the development of the OECD's *Building a Consumer Policy Toolkit*.

The Treasury has been involved in consumer policy-related aspects of free trade agreements, including with Japan and the Republic of Korea. The Treasury also gave a presentation to consumer policy officials in Bhutan on Australia's consumer policy framework.

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

OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2008-09, the Australian Government Actuary was responsible for delivery of Output 4.1.4: Actuarial services.

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

Performance information

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

Analysis of performance

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2009, the account was in a sound financial position.

Demand for service was again high during 2008-09.

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 Treasury officers, including the Australian Government Actuary. The board reviews financial performance and oversees the strategic direction of the office.

EXECUTIVE AND PARLIAMENTARY DIVISION

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

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

Key priorities in 2008-09

The key priorities in 2008-09 were to:

- ensure delivery of appropriate services to Treasury portfolio ministers;
- provide high-level services to the Secretary and the Executive Board that support and enable key forums within the Treasury's governance framework;
- facilitate efficient and effective communications between the Executive Board, ministers' offices and within the Treasury, including furthering the development of a communications strategy;
- monitor and manage issues, in partnership with relevant policy areas in groups;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of the Treasury's activities, systems and processes;
- continue to provide a policy implementation monitoring and advising capability; and
- establish, coordinate and support processes within the department to develop and progress an ongoing strategic policy dialogue.

Key outcomes in 2008-09

The key outcomes achieved were:

- 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, SBR and Australia's Future Tax System review;
- coordination of significant briefing products including for the budget, Senate Estimates and UEFO;
- provision of issues management services, including media and parliamentary monitoring;
- establishment, coordination and support of processes to progress ongoing strategic policy thinking;
- further enhanced support for the Audit Committee and Executive Board;
- developed products to further improve risk management and corporate planning in the Treasury;
- delivery of a system to review the quality of executive minutes;
- improved practices and mechanisms for effective communication both internal and external to the Treasury;
- further improvement of reporting, support services and systems for advice sent to ministers; and
- establishment of a policy implementation monitoring and advising function.

CORPORATE SERVICES GROUP

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

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

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

The work of the group in 2008-09 was directed towards:

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

Key priorities in 2008-09

Key priorities in 2008-09 were:

- managing the outcomes from the review of group support services;
- developing strategies for the Treasury's ongoing financial sustainability;
- reviewing and improving the delivery of information management and communication technology services;
- progressing implementation of a new Workplace Relations Framework;
- ensuring timely and accurate financial, budgeting and compliance reporting;
- managing the introduction to the Treasury of whole-of-government centralised procurement arrangements;
- delivering priority elements of the Information and Knowledge Management Strategic Plan 2007-09; and
- ensuring people management strategies meet organisational needs.

Key outcomes in 2008-09

The following were key outcomes in 2008-09:

- the 2007-08 Financial Statements were completed and audited with no major issues raised;
- changes to budget and payment processes as a result of reforms to the federal financial framework were successfully implemented;
- the implementation of recommendations flowing from the review of group support units was successfully managed across Corporate Services Group;
- improvements flowing from a March 2009 information technology (IT) client satisfaction survey are being progressed, particularly the IT network, the Financial Management Information System and IT Helpdesk efficiency;
- priority elements of the Information and Knowledge Management Strategic Plan completed in 2008-09 include an upgrade to TRIM to improve content search capability, improvements to intranet content including an intranet content governance framework and first release of a phased deployment of Enterprise Search;
- the information management framework was reviewed in May 2009. The review included an analysis and revision of policy and documentation on information governance in the Treasury;
- action addressing key issues identified in the 2007 staff survey included staff seminars with Executive Board members, improved information on support programs and exploration of strategies to improve workflow processes, internal communication and work-life balance;
- key professional development activities included the Executive Leadership Program to develop leadership and strategic thinking skills, comprehensive training programs to develop skills identified in performance appraisal discussions and an extensive series of Treasury seminars. A graduate Diploma in Economic Studies, delivered by Monash University, commenced in February 2009 and was offered to Treasury staff and staff in other Australian Public Service (APS) agencies;
- the Performance Management System was reviewed in 2007 in collaboration with staff, managers and the Workplace Relations Committee and confirmed support for the system. The review adopted a new naming convention using descriptors for ratings against individual criteria and overall ratings. The changes took effect from August 2008 after comprehensive staff training; and
- consultations were progressed with the Workplace Relations Committee, the Community and Public Sector Union and staff to identify focus areas leading up to formal negotiations for a new workplace agreement.