

PART TWO

REPORT ON PERFORMANCE

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INTRODUCTION

The report on performance covers the Treasury's departmental and administered items for 2012-13.

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

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

The Treasury's 2012-13 performance is reported at the program level for its policy outcome:

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

Performance outcomes for each program are reported against the objectives, deliverables and key performance indicators published in the *Treasury Portfolio Budget Statements 2012-13* and *Treasury Portfolio Additional Estimates Statements 2012-13*.

The key strategies for 2012-13 are to provide advice on:

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

An assessment of this advice is included under each program.

PROGRAM 1.1: DEPARTMENT OF THE TREASURY

PROGRAM OBJECTIVE

The objectives of program 1.1 are to:

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

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PROGRAM KEY PERFORMANCE INDICATORS

The key performance indicators are:

- advice that meets the Government's needs in administering its responsibilities and making and implementing decisions. Advice is timely, of high quality, and based on an objective and thorough understanding of issues and a whole-of-government perspective. The degree of client satisfaction with the quality and timeliness of the advice provided is assessed through feedback mechanisms;
- timely, high-quality, accurate and transparent Budget, Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome documents that meet the expectations of the Government, the Parliament and the public. The budget preparation and coordination process is subject to an annual evaluation;
- published reports and other information that stimulate and inform government and public debate through robust analysis, modelling and research. Publications are timely, of high quality and widely available to the public; and
- legislation progressed by the Treasury is in accordance with the principles of good law design and is delivered according to government priorities:
 - the majority of prospective tax and retirement income legislation is ready to be introduced into Parliament within 12 months, and the majority of retrospective tax and retirement income legislation within six months of the Government announcing it, and
 - at least one tax or retirement income legislative measure is the subject of a post-implementation review annually.

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

MACROECONOMIC GROUP

Overview

Macroeconomic Group advised the Government on matters relating to the performance of the Australian economy, including Australia's current economic conditions and outlook, monetary and fiscal policies, and current and prospective international economic issues, in a volatile environment.

Macroeconomic Group examined:

- the implications of ongoing subdued growth in the advanced economies, and volatility in key emerging economies;
- the implications resulting from the economic crisis in the euro area;
- the impact of introducing a carbon price on the Australian economy;
- continued prudent household spending behaviour, and
- the transitions underway in the economy with the peaking of the mining investment boom and the continuing decline in the terms of trade.

Macroeconomic Group is responsible for delivering the Finance Ministers and Central Bank Governors' and related meetings of the G20 in 2014. In preparation for Australia's presidency, the group is supporting Russia, the current chair, to build a strong foundation for 2014.

In response to the *Australia in the Asian Century* White Paper, the group has continued to build bilateral cooperation with strategically important regional partners including China, Japan, India, Indonesia and Korea, while also building relationships and cooperation with Vietnam and the Philippines through Treasury's overseas posts.

Through active engagement with the G20, Macroeconomic Group advanced important initiatives to work towards the achievement of a strong, sustainable and balanced global economy. Specific initiatives sought to support reform that ensures the legitimacy, credibility and effectiveness of international financial institutions, particularly the International Monetary Fund (IMF) and the World Bank; strengthen international standards for the regulation of the financial system; and improve international development outcomes.

Group deliverables

Macroeconomic Group's key deliverables are to advise on:

- domestic and international developments affecting the Australian economy and forecasts of the direction of the Australian and international economies;
- the setting of sound macroeconomic policy;
- economy-wide modelling and a range of government policies, and modelling advice to other departments and agencies;

- findings from Treasury's liaison program with the business community across Australia;
- the effectiveness of international financial institutions, particularly the IMF and the World Bank;
- policy issues, risks and challenges being discussed by the G20 with a view to contributing Australia's perspective and shaping the G20 agenda and actions;
- the policy agenda, engagement priorities and strategies ahead of Australia's G20 host year, as well the preparation of G20 processes and logistics;
- ongoing economic analysis and deeper engagement with China, Japan, India and Indonesia, reflecting the increasing importance of these countries in the international economy; and
- improving the linkages between the priorities of the G20, the Asia-Pacific Economic Cooperation (APEC) process and the East Asia Summit processes.

Group outcomes

Macroeconomic Group's key outcomes were:

- providing analysis, preparing macroeconomic forecasts, and assisting in the formulation of policy solutions, taking into account:
 - ongoing weakness in advanced economies and growth transition in key emerging economies, such as China;
 - domestic and international fiscal consolidation;
 - the transition away from the investment phase in the resources sector to growth in exports and non-resources sectors;
 - the impact of Australia's high exchange rate;
 - the impacts of the Clean Energy Future Plan;
 - the uneven global economic recovery;
 - the evolving economic crisis in the euro zone; and
 - structural reform challenges.
- publicly releasing the results of the 2012 Review of Treasury's Forecasting Methodology and Performance and implementing the recommendations of the Review;
- contributing to the development of the *Australia in the Asian Century* White Paper, including modelling support;
- providing specific modelling analysis of business tax reform options for the Business Tax Working Group;
- providing advice and analysis related to the carbon pricing mechanism and related budget estimates;
- providing modelling assistance to other Government departments and agencies as required;
- delivering presentations and published material, including economic forecasts and analysis, in budget papers and the Treasury's *Economic Roundup and Working Papers* series to increase public awareness of economic issues and developments;

- assisting the Government to manage changing global economic conditions and to influence the development of international economic policy through engagement with international and regional institutions and forums;
- broadening and deepening engagement with key Asian and Pacific economies and contributing to improved policy outcomes through policy dialogue, cooperation, research and capacity building;
- strengthening of key relationships through a number of G20-related meetings with stakeholders, including both member and non-member countries, as well as domestic and international organisations;
- assisting the development of G20 policy positions and priorities, including in preparation for Australia's presidency;
- advising on government initiatives to encourage broad-based, stable and inclusive economic growth and developing well-functioning economic ministries in the south Pacific; and
- Australia's involvement in the African Development Bank (AfDB) and contributing to the work leading to the Australian Government's decision to join the AfDB.

Analysis of performance

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During 2012-13, the Treasury advised Treasury ministers, other members of the Government and relevant stakeholders on a range of macroeconomic issues:

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

Economic modelling

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

The Treasury provided modelling advice and support on a wide range of government policy issues, including key analytical work, such as modelling of:

- developments for the *Australia in the Asian Century* White Paper;
- tax policy options, including for the Business Tax Working Group; and

- climate change mitigation policy impacts for Budget estimates and annual emissions projections, as well as commencing analysis in support of reviews being conducted by the Climate Change Authority.

Cross-departmental modelling advice was also provided to a range of portfolios on policy issues under consideration by the Government, as well as also continuing to use our modelling capabilities to support more general macroeconomic analysis and forecasting.

Economic forecasting

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

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

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

In 2012, the Secretary to the Treasury commissioned an independently-overseen Review of Treasury's Forecasting Methodology and Performance. The Review found that Treasury approaches the forecasting task in a professional manner and the forecasts it generates are broadly as accurate as those of both domestic forecasters and those generated by comparable agencies in countries with similar institutional arrangements to Australia. The Review made 11 recommendations on how to improve forecasting performance, all of which are currently being implemented.

The Treasury's forecasting activity focused on 2012-13, 2013-14 and 2014-15, with forecasts published in the 2012-13 MYEFO and the 2013-14 Budget.

2013-14 Budget papers

The Treasury contributed to public awareness and debate on economic policy issues through its economic analysis in the annual budget papers and the 2012-13 MYEFO.

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

The 2012-13 MYEFO and 2013-14 Budget presented the outlook for the Australian economy. The 2013-14 Budget noted that against the backdrop of a fragile global recovery, the Australian economy is expected to undergo two large transitions over the next few years. After the largest investment boom in Australia's recent history, the resources boom will transition away from the investment phase towards growth in production and exports. More broadly, the economy will transition to non-resource drivers of growth. There is, however, a risk that a less-than-seamless transition to non-resources sectors as major contributors to growth will result in a period of weaker growth in activity and jobs, but low interest rates and recent falls in the exchange rate will support this transition. The economy was expected to grow close to its trend rate over the forecast horizon, unemployment was forecast to remain low and inflation was expected to remain well-contained.

In response to Recommendation 5 of the 2012 Review of Treasury's Forecasting Methodology and Performance, Statement 2 of Budget Paper No.1 published a high-level review of Treasury's economic forecast errors.

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

Statement 4 of Budget Paper No. 1 *Fiscal Policy in the Current Economic Environment* reported on the sustainability of the Government's fiscal position with reference to a range of internationally-recognised metrics and outlined how the Government intended to balance competing fiscal policy priorities over the short and medium term.

Economic publications and speeches

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

- Australia-China relations, China's economic transition and growth prospects for consumption and exports;
- Treasury's wellbeing framework;
- the measurement of market expectations for inflation;
- sovereign wealth funds;
- the appreciation of the Australian dollar;
- sustainability; and
- unemployment disparity across regions.

As part of its Working Paper series the Treasury published updated estimates of the structural budget balance of the Australian Government, with the aim of contributing to the broader public debate on fiscal sustainability.

Treasury, the RBA and the IMF jointly hosted a conference on *Structural Change and the Rise of Asia* on 19 September 2012 at the Hyatt Hotel, Canberra. The conference program, papers, speaker profiles and transcript (including video feed) are all available on the Treasury web page.

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

- the economic outlook;
- macroeconomic forecasting;
- long-term international GDP forecasts;
- productivity;
- global economic developments, including developments in the United States;
- the euro area economic crisis and underlying structural issues in European economies;
- the rise of China, India and other emerging economies;
- *Renminbi* internationalisation in China;
- the Japanese economy;
- unconventional monetary policy;
- fiscal policy and the terms of trade;
- macroprudential policy;
- structural budget balance measures;
- structural change and the Asian century;
- tax base erosion and profit shifting;
- the international monetary system;
- structural change and the impact of Asia's rise;
- state of the Australian economy; and
- wellbeing, living standards and economic growth.

Speeches were delivered to a wide range of organisations including:

- the Australian Business Economists;
- the Australian Conference of Economists;
- the California-Asia Business Council;
- the John Curtin Institute of Public Policy;
- the Reinventing Bretton Woods Committee;
- the Productivity Commission and Australian Bureau of Statistics;
- Senior Executive Service (SES) forums; and
- the Japanese and Indonesian Ministries of Finance.

International policy advice

The Treasury worked to enhancing international economic cooperation, including through the G20 and by providing economic analysis and advice on the implications for the Australian economy of international developments. In particular the advice focused on the evolving Euro area's economic crisis, the drawn-out US economic recovery, quantitative easing policies and growth outlooks in advanced economies, reform policies, leadership change and macroeconomic policies in China.

To achieve our outcomes, the Treasury supported active Australian participation in global and regional forums, assisted Treasury ministers at international meetings, and helped strengthen bilateral relations. There are Treasury officials at posts in Washington DC, London, Beijing, New Delhi, Jakarta, Tokyo and the Organisation for Economic Cooperation and Development (OECD). Treasury maintained close contact with its constituency offices in the International Monetary Fund, World Bank, Asian Development Bank and the European Bank for Reconstruction and Development (EBRD).

G20

The Treasury participated in the G20 and assisted the Deputy Prime Minister and Treasurer at three Finance Ministers' and Central Bank Governors' meetings.

The presidency leads a three-member management group of previous, current and future chairs, referred to as the Troika. From 1 December 2012 the Treasury supported Russia as a member of the Troika and co-chairs, together with Turkey, the G20 Working Group on International Financial Architecture.

The Treasury also undertook bilateral discussions and engagement in the margins of the G20 meetings to strengthen bilateral relations.

- The Treasury undertook initial operational planning for Australia's G20 host year in 2014. This includes developing core functions in the areas of transport, airports and accommodation; security; accreditation; media and communications; venue and event logistics; delegate liaison; and the programming governance to deliver finance track meetings during Australia's hosting.

Financial Stability Board

The Treasury is a member of the Financial Stability Board (FSB) Plenary and Steering Committee and contributes to the work of its Standing Committees. The Treasury advised the Government on the key issues considered by the FSB, and was also involved in the FSB Regional Consultative Group for Asia.

International financial institutions

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

During 2012-13, the Treasury ensured that Australia fulfilled its commitment made at the G20 Summit in Cannes to increase the resources available to the IMF by developing legislation to enable a US\$7 billion contingent bilateral loan to the IMF to come into force. This legislation

received Royal Assent on 28 June. Treasury also facilitated a contribution of A\$13.9 million to the Poverty Reduction Growth Trust (PRGT) as part of the first distribution of IMF windfall gold sales profits and made preparations to participate in the second distribution of gold sales profits in 2014-15, estimated at A\$36.7 million.

The Treasury supported the World Bank Group's role in improving the living standards of the world's poor by providing advice to the World Bank's Executive Board and supporting Australia's attendance at the World Bank Spring and Annual meetings. The Treasury also provided a submission to the Independent Panel Review of the World Bank's annual *Doing Business* report.

Regional development banks

The Treasury continued to support the Asian Development Bank's (ADB) efforts to promote development in the Asia-Pacific region through close engagement with the ADB Executive Director.

The Treasury also contributed to the work of the EBRD.

The Treasury advanced the Government's commitment to join the African Development Bank (AfDB) Group.

Official development assistance

The Treasury provided advice on general development and aid issues, including Australia's multilateral and bilateral aid programs, new expenditure initiatives, and the framework for Australia's aid budget. This included examining proposals for Australian Civilian Corps (ACC) deployments and Government Partnership for Development (GPDF) proposals.

Asia

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

- working to improve the effectiveness of the APEC Finance Ministers' process and supporting Australia's engagement with the Asia-Pacific region by undertaking technical workshops to build support for the Asia Region Funds Passport and providing support and technical assistance to Indonesia as 2013 APEC host;
- working to strengthen regional financial cooperation by supporting the sustained establishment of a finance ministers' process under the East Asia Summit;
- supporting the Deputy Prime Minister and Treasurer at bilateral and multilateral meetings with senior Chinese and Hong Kong officials, and further Treasury's engagement with key Chinese policymaking agencies, through joint research with China's National Development and Reform Commission on topics of mutual interest such as global commodity markets;
- signing a new memorandum of understanding on bilateral economic partnership with the Indian Ministry of Finance to provide for the continuation of the annual economic policy dialogue, as well as supporting senior visits in India and in Australia;
- signing a new memorandum of understanding with the Indonesian Fiscal Policy Agency and supporting economic stability in Indonesia by developing a A\$1 billion contingent loan facility, which Indonesia can access if global financial conditions deteriorate such that Indonesia's

borrowing costs reach unsustainable levels. Treasury has also worked closely with the Fiscal Policy Office of the Indonesian Ministry of Finance through the Government Partnerships Fund to strengthen Indonesian economic policy advising capabilities and to develop lasting institutional relationships with the Ministry;

- signing a new memorandum of understanding with the Vietnamese Ministry of Finance that includes an ongoing bilateral dialogue;
- attending the ninth annual economic policy dialogue with the Japanese Ministry of Finance; and
- visiting the Korean Ministry of Strategy and Finance for the annual Australia-Korea Strategic Economic Dialogue.

Pacific region

The Treasury continued to promote economic management and development in the Pacific by undertaking research and analysis and by providing policy advice on a range of Australian Government Pacific-related policy issues. The Treasury also supported the attendance of the Parliamentary Secretary to the Treasurer at the 2012 Pacific Islands Forum Economic Ministers' Meeting.

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

The Australia-Hong Kong RMB Trade and Investment Dialogue

The Australia-Hong Kong RMB Trade and Investment Dialogue, held in Sydney in April 2013, provided a forum to discuss how to capture new business opportunities arising from the wider use of the RMB in trade and investment in our region and to facilitate the participation of Australian businesses in this growing market.

FISCAL GROUP

Overview

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

- the overall fiscal strategy and budget policy, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998* (the Charter);
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and tax issues, including through the ongoing management of the *Intergovernmental Agreement on Federal Financial Relations* (Intergovernmental Agreement);
- policy development in industry, regional, agriculture, environment, defence and national security policy; and

- policy development in social and income support policy, including health, the labour market, education, disability, family payments, Indigenous welfare and immigration.

Group deliverables

Fiscal Group's key deliverables are advice on:

- fiscal strategy that aims to ensure fiscal sustainability;
- effective government spending arrangements that contribute to improving the wellbeing of Australians;
- strategies that address intergenerational challenges, including social, fiscal and environmental sustainability; and
- Commonwealth-State financial relations.

Fiscal Group also coordinates the preparation of the Commonwealth Budget and other documents required under the Charter and administers National Specific Purpose Payments (National SPPs), National Health Reform payments, National Partnership payments, goods and services tax (GST) payments and other general revenue assistance to the States. Details of these payments can be found in programs 1.4 to 1.10.

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Group outcomes

In 2012-13, Fiscal Group's key outcomes were:

- advising on industry and regional policy responses to continued structural change, environment and agricultural policy, and on defence and national security matters;
- advising on the implementation of the Clean Energy Future Package and the establishment of the Clean Energy Finance Corporation;
- working with other agencies on the development and implementation of the National Plan for School Improvement;
- advising on the fiscal outlook and delivering the Government's commitments on fiscal policy;
- advising on budget priorities consistent with the medium term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, *the Final Budget Outcome 2011-12* (September 2012), *the Mid-Year Economic and Fiscal Outlook (MYEFO) 2012-13* (October 2012) and the 2013-14 Budget (May 2012);
- advising, in consultation with the Australian Office of Financial Management (AOFM), on debt issuance and debt policy issues;
- advising on operational issues related to the Future Fund and the three Nation-Building Funds;
- advising on issues related to the Parliamentary Budget Office (PBO), including amending the *Parliamentary Service Act 1999* to require the PBO to publish a post-election report on the cost of election commitments;

- advising on the framework for federal financial relations, which commenced on 1 January 2009, including the development of new National Partnerships and other agreements;
- payments to the States totalling over \$92.3 billion including National Health Reform funding, National SPPs (in schools, skills and workforce development, disability services and affordable housing), GST payments and other general revenue assistance and National Partnership payments;
- providing secretariat support to the GST Distribution Review;
- advising on and monitoring, the First Home Owners Boost;
- advising on the development and implementation of DisabilityCare Australia, the National Disability Insurance Scheme and the National Injury Insurance Scheme;
- providing secretariat support for the Advisory Panel on Positive Ageing;
- advising on social and economic policies in education, employment, immigration, families, health, ageing, disability and Indigenous issues; and
- continuing to participate in the Centre for Market Design in collaboration with the Victorian Department of Treasury and Finance, and the University of Melbourne.

Analysis of performance

Advice on the fiscal and budget strategies

During 2012-13, the Treasury provided advice to the Deputy Prime Minister and Treasurer and other portfolio ministers on the Australian Government's budget position over the forward estimates and the medium term, to inform overall policy settings and to provide context for the Government's decision-making. The fiscal outlook was updated in the 2012-13 MYEFO, and the 2013-14 Budget.

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

The 2012-13 MYEFO was released by the Deputy Prime Minister and Treasurer and Minister for Finance and Deregulation on 22 October 2012, and updated the fiscal estimates published in the 2012-13 Budget.

The 2013-14 Budget, published in May 2013, reported that the budget was returning to balance in 2015-16 and surplus by 2016-17.

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

Contribution to public debate and awareness

The Government's Budget publications are available free at www.budget.gov.au. Since the 2013-14 Budget, there have been over 210,270 unique visitors to the Budget website and over 2.6 million pages have been viewed. Widespread access to these documents helps keep the public informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the *Budget Overview*, *Budget at a Glance*, *the National Plan for School Improvement*, *DisabilityCare Australia*, *Nation Building Infrastructure* and the *Tax Reform Road Map*.

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

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

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

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

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

The *Final Budget Outcome 2011-12* was published in September 2012. In 2011-12, the Australian Government general government sector recorded an underlying cash deficit of \$43.7 billion. This outcome was around \$661 million lower than estimated at the 2012-13 Budget, reflecting higher than expected cash receipts and lower than expected cash payments.

Information on the Government's financial relations with State and Local Governments is detailed in the 2013-14 Budget, Budget Paper No. 3, *Australia's Federal Relations*. This paper, produced by the Treasury, is the main public source of information on Australian Government payments to the States. It also informs the States of their expected payments in the upcoming financial year.

In addition, this Budget Paper also includes information on fiscal developments in the States, as well as advice on policies relating to Commonwealth-State financial relations. Relevant information is also included in MYEFO and the Final Budget Outcome documents.

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

Debt management policy

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

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

Future Fund and Nation-Building Funds

During 2012-13, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund and the three Nation-building Funds. Further information regarding the performance of the Future Fund is at www.futurefund.gov.au.

Australia's Federal Financial Relations

The Commonwealth is working in partnership with the States in a number of reform areas benefitting all Australians. Significant progress has been made in implementing the reform agenda through the Intergovernmental Agreement. The framework has proved to be flexible and able to facilitate reform activity, including health reform, schools and the National Disability Insurance Scheme.

Under the Intergovernmental Agreement, the Commonwealth makes payments to the States equivalent to the revenue received from the GST. GST revenue is paid on a monthly basis and distributed in accordance with relativities determined by the Treasurer. This follows recommendations by the Commonwealth Grants Commission and discussion at the Standing Council for Federal Financial Relations.

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

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

Details on general revenue assistance are provided under Program 1.4.

Payments for specific purposes (National SPPs and National Partnerships)

The Commonwealth provides financial support to the States to be spent in five service delivery sectors – comprising four National SPPs (schools, skills and workforce development, disability services and affordable housing) and National Health Reform funding (which replaced the National Healthcare SPP from 1 July 2012). These are associated with six national agreements, 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 accordance with the transitional arrangements outlined in the National Health Reform Agreement, for 2012-13 and 2013-14 the Commonwealth provides funding equivalent to the amount that would otherwise have been payable under the National Healthcare SPP. From 2014-15, National Health Reform funding will also include an additional element comprising efficient growth funding. National Health Reform funding is paid into a National Health Funding Pool to support public hospital services.

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

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

Standing Council for Federal Financial Relations

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

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The Standing Council met twice in 2012-13. Treasurers focused on monitoring the national and state and territory economies; progressing GST Distribution Review recommendations; discussing infrastructure funding; and monitoring progress under the COAG reform agenda.

GST Distribution Review

On 30 March 2011, the Government appointed the Hon John Brumby, Mr Bruce Carter and the Hon Nick Greiner AC to review Australia's system of distributing the GST amongst the States and Territories.

The final report of the GST Distribution Review (the Review) was released publicly on 30 November 2012.

The recommendations of the Review were discussed at the Standing Council meeting in April 2013. The Standing Council agreed to initiate an expedited Commonwealth Grants Commission (CGC) methodology review, taking into account certain recommendations from the Review. The CGC has been issued with terms of reference for the methodology review and a final report is due by 28 February 2015.

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

Australian Loan Council

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

Heads of Treasuries

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

counterparts met on three occasions in 2012-13 to discuss the general operation of the Federal Financial Relations framework, current economic conditions and the fiscal outlook, and tax and financial issues.

GST Administration Sub-committee

The Treasury chairs this sub-committee, which comprises officials from the Treasury, the ATO and State Treasuries. The sub-committee met once in 2012-13. The subcommittee provided advice on GST policy and administrative issues, including discussing GST revenue and payments.

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

Industry and regional policy

The Treasury advised on industry assistance, science and innovation, arts, sports and regional development issues. This included advice on trade remedies, the manufacturing industry, structural and regional adjustment and venture capital.

Environment policy

The Treasury provided advice on implementing carbon pricing and the Clean Energy Future package, as well as on low emissions technologies and energy efficiency, renewable energy and alternative fuels, international engagement on climate change issues, and the establishment of the Clean Energy Finance Corporation (CEFC).

The Treasury advised the Deputy Prime Minister and Treasurer on the Tasmanian Forests Intergovernmental Agreement, the development of the National Food Plan, Australia's Antarctic Territory and live animal exports.

The Treasury participated in inter-departmental committees regarding biodiversity, marine reserves, biosecurity, drought policy, water policy and the Murray-Darling Basin Plan.

Defence and national security policy

The Treasury advised on a range of defence and national security issues, including unauthorised maritime arrivals; the Coordinated National Security Budget process and the 2013 Defence White Paper. The Treasury also provided advice to support the Secretary in his role on a number of subject-specific committees including the Defence Strategic Reform Advisory Board.

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

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

Social policy

During 2012-13, the Treasury:

- worked with the NDIS Taskforce, the States and Territories and other agencies to develop and implement DisabilityCare Australia, the National Disability Insurance Scheme, and the National Injury Insurance Scheme, and provided secretariat support to the National Injury Insurance Scheme Advisory Group;
- worked with other agencies on the development and implementation of the National Plan for School Improvement;
- worked with other agencies to progress the Social Inclusion agenda;
- provided secretariat support for the Advisory Panel on Positive Ageing;
- provided policy advice on child care and early childhood issues, including input to the development of the *National Partnership Agreement on Universal Access to Early Childhood Education*;
- worked with Revenue Group and the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) to review the adequacy of the Household Assistance Package; and
- provided policy advice on the Commonwealth response to natural disasters and on natural disaster recovery policy more broadly.

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Disability policy

Treasury worked closely with the NDIS Taskforce, the States and Territories and other agencies to develop and implement DisabilityCare Australia, the National Disability Insurance Scheme.

Treasury was also tasked with progressing the National Injury Insurance Scheme (NIIS), along with the States and Territories. The NIIS is a federated model of separate, state-based no fault schemes to provide lifetime care and support to people who incur a catastrophic injury as a result of an accident. In 2012-13, the minimum standards for a NIIS for motor vehicle accidents across the States and Territories were developed and agreed. Work on the other accident streams (workplace accidents, medical treatment injury and general accidents) also commenced.

Treasury provided secretariat support to the NIIS Advisory Group established by the Minister for Financial Services and Superannuation. The Advisory Group considered the four accident streams and undertook work on medical treatment injury and general accident injury.

Education policy

The Treasury continued to provide advice on education and skills policy during 2012-13, working collaboratively across Government on the National Plan for School Improvement and a range of other education and training-related budget initiatives. The Treasury also assisted the work of the National Panel for Economic Reform. This Panel, consisting of representatives from government, business, community groups and employee organisations, worked together to identify ways to boost the human capital of the Australian workforce.

Indigenous policy

The Treasury had a continued role in advising on the Government's commitment to closing the gap in Indigenous disadvantage.

Labour market programs, participation and workplace relations

The Treasury advised on a range of employment and participation issues, with a particular focus on working age income support payments. The Treasury also worked closely with the Department of Education, Employment and Workplace Relations to develop a whole-of-government approach to the 2013 Minimum Wage Review and prepare Government submissions to the Minimum Wage Panel's minimum wage decision.

Immigration

The Treasury continued to provide advice that links Australia's immigration policy to labour market needs and prevailing economic conditions. In particular, advice was provided on reforms to the *Migration Act 1958* and policy arrangements applying to temporary visas for skilled workers.

Health policy

A National Health Reform Agreement was finalised with all States and Territories in August 2011. The Treasury continued to assist the Department of Health and Ageing with implementation of this agreement, in the lead up to the July 2014 commencement of new arrangements directly linking Commonwealth National Health Reform funding to the level of services delivered by public hospitals. This included implementing changes to the financial framework and modelling of the fiscal implications of the agreement.

Advisory Panel on Positive Ageing

On 18 April 2012, the Government announced the establishment of an ongoing Advisory Panel on Positive Ageing as part of the Government's response to the Final Report of the Advisory Panel on the Economic Potential of Senior Australians 'Turning Grey into Gold'. In the 2012-13 Budget, the Government announced funding of \$4.7 million over four years to establish this Panel. The Panel consists of five members: Mr Everaldo Compton AM (Chairman); Professor Brian Howe AO; Professor Gill Lewin; Commissioner Susan Ryan AO; and Mr Neville Roach AO. The Secretariat for the Panel is located within Treasury.

The role of the Advisory Panel on Positive Ageing is to lead a national dialogue on ageing issues, improve coordination of policy design across portfolios, and work with the Government on implementation and design of ageing policy. The Panel has held targeted consultations throughout 2012-13 with a range of stakeholders to discuss issues such as lifelong learning, Indigenous aged care, mature-age employment and technology. In December 2012, the Panel held a roundtable to discuss affordable and age-friendly housing.

Further information on the Advisory Panel is available online at <http://www.treasury.gov.au/Policy-Topics/PeopleAndSociety/positive-ageing>.

Early Childhood

The Treasury continued to provide policy advice on child care and early childhood issues. This included input to the development of the *National Partnership Agreement on Universal Access to Early Childhood Education* through COAG's Senior Officials Working Group, comprising representatives of first ministers Departments, treasuries and early childhood education Departments.

Centre for Market Design

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

During the Centre's first year of operation Treasury, in conjunction with the Department of Resources, Energy and Tourism (DRET), participated in the offshore petroleum auction project which focused on optimising the allocation of permits under the existing legislative framework.

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

REVENUE GROUP

Overview

Revenue Group provides policy advice and designs legislative proposals to give effect to Government decisions to improve the efficiency, fairness and transparency of the Australian tax and retirement income systems while minimising their compliance and administration costs. Tax and retirement income policy advice is formulated through an integrated process that, at times, includes consultation with business and community bodies, and close cooperation with the ATO and relevant Commonwealth departments.

During 2012-13, Revenue Group developed legislation giving effect to measures that were announced in the 2012-13 and 2013-14 Budgets and the 2012-13 Mid-Year Economic and Fiscal Outlook.

Revenue Group established a Law Design Practice during 2012-13 to provide greater focus on the implementation of legislation in the Government's taxation and retirement income reform agenda.

The Treasury also provides secretariat services to the Board of Taxation. The Board publishes its own annual report at www.taxboard.gov.au.

Group deliverables

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

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

Group outcomes

Revenue Group's key outcomes were:

- providing quantitative work for the 2012-13 MYEFO and 2013-14 Budget including:
 - developing tax revenue estimates and analysis;
 - costings underpinning taxation proposals; and
 - demographic and labour force projections.
- advising and developing legislation on corporate tax reform including:
 - improving transparency;
 - introducing monthly PAYG instalments for large entities;
 - introducing a new tax loss concession to remove barriers to investment in nationally significant infrastructure projects;
 - redesigning Australia's general anti-avoidance rules; and
 - modernising our transfer pricing rules.
- advising on measures, announced in the 2013-14 Budget, to protect the corporate tax system from erosion and related integrity issues, including:
 - addressing mechanisms that enable entities to shift profits by artificially loading debt into Australia;
 - improving the integrity of our foreign resident capital gains tax regime and addressing the low levels of voluntary compliance with the regime;
 - closing loopholes in the Offshore Banking Unit regime to prevent banks shifting profits from domestic banking activities to the Offshore Banking Unit (while continuing to allow genuine offshore banking activities);
 - better targeting resource sector concessions to support genuine exploration, by limiting the deduction for purchases of mining rights and information first used for exploration;

- closing loopholes in the consolidation of business entities regime following recommendations from the Board of Taxation; and
- improving the efficiency and integrity of the tax system by preventing sophisticated investors from engaging in dividend washing; and
- the investor manager regime.
- advising on and implementing legislation for personal income tax policy reform, including:
 - an increase in the Medicare levy to provide funding for DisabilityCare Australia;
 - phasing out the net medical expenses tax offset;
 - consolidating the dependency offsets into a single offset;
 - removing concessional treatment of ‘in-house’ fringe benefits; and
 - changes to the fringe benefits tax on living-away-from-home allowances and benefits.
- advising on and implementing a range of superannuation and retirement income policies.
- advising on and implementing legislation for philanthropy policy, including:
 - the Government’s not-for-profit reform agenda;
 - establishment of an Australian Charities and Not-for-profits Commission (ACNC);
 - governance and financial reporting regulations for charities registered with the ACNC;
 - introduction of a statutory definition of a charity;
 - continuing negotiations with the states and territories on national not-for-profit reform; and
 - specifically listing organisations in the tax law as deductible gift recipients.
- assisting the Parliamentary Budget Office to fulfil its obligations, including:
 - supporting the PBO in its establishment phase, including seconding a number of staff; and
 - providing data, models and related advice.
- assisting the Government prioritise its tax and retirement income policy legislative agenda.
- developing the *Scoping Paper on Risks to the Sustainability of Australia’s Corporate Tax Base* and contributing to the OECD’s development of the Action Plan on Base Erosion and Profit Shifting.
- providing a range of secretariat support services including:
 - providing secretariat support to the Business Tax Working Group, the Taxation of Native Title and Traditional Owner Benefits and Governance Working Group, the Not-for-profit Sector Tax Concession Working Group and the Tax Issues Entry System Working Group;
 - providing secretariat support to the Charter Group convened to advise the Government on a Charter of Superannuation Adequacy and Sustainability, to the SuperStream Advisory Council and to the Government’s Superannuation Roundtable; and
 - providing secretariat support to the Board of Taxation.

Analysis of performance

Tax revenue estimates and analysis

The Treasury, in collaboration with the ATO, provided the Government with timely monitoring, analysis and estimation of tax revenues. Significant revisions to expected tax revenue in 2012-13 and over the forward estimates were made at both the economic and fiscal outlook releases through 2012-13 (MYEFO and the 2013-14 Budget), primarily reflecting weaker economic growth driven by lower commodity prices, company profits and capital gains.

A review of the quality of Treasury's forecasts of the macroeconomy and revenue was published in December 2012. This review was undertaken by a team from within the Treasury, overseen by an independent external reference group.

Development and management of the legislation program

The Law Design Practice was established in Revenue Group in September 2012 with responsibility to coordinate advice to the Government regarding priority setting of legislation, and to ensure that when a policy is being developed, the legislative implications are taken into account from the outset. This new Division is responsible for ensuring that final legislation introduced to Parliament delivers on the Government's policy intent, both directly and in how it interacts with the rest of the tax and superannuation law. It also ensures that measures are consistent with other laws, and with the legal policy of the Government.

The Law Design Practice has progressed and managed the preparation of tax and superannuation law measures, working with Revenue Group Policy Divisions, the Office of Parliamentary Counsel and the Australian Taxation Office.

A total of 39 tax bills containing 73 measures were introduced into Parliament in 2012-13.

Ensuring the integrity of the corporate tax system

Protecting the corporate tax base from erosion and loopholes

The Treasury provided policy advice on a package of measures, announced in the 2013-14 Budget, to improve the sustainability of the corporate tax base. The package addresses a range of aggressive tax minimisation strategies, which were being exploited to take advantage of design flaws, vulnerabilities and unexpected interactions in Australia's corporate tax laws. The Treasury undertook consultation with the private sector in developing the package, and continues to consult on the implementation of key elements of the package.

The OECD-G20 BEPS project

The Treasury contributed policy advice to the OECD throughout the development of the Action Plan on Base Erosion and Profit Shifting (BEPS). The action plan seeks to ensure that international tax settings are reformed to reflect the changes in global commerce. The Treasury

will have ongoing involvement in the implementation of the plan through representatives dedicated to each work stream.

Risks to the corporate tax base

At the request of Government, Treasury developed a scoping paper to assess the risks to the sustainability of the corporate tax base. The increasing use of strategies to exploit gaps and inconsistencies in tax treaties, the increased 'digitisation' of industries and the challenges for the international community to effectively curb the harmful tax practices of some jurisdictions, have all highlighted risks in the international tax framework. A specialist reference group comprising representatives with expertise in tax including the tax profession, corporate Australia and civil society groups was assembled to support Treasury's development of the scoping paper.

Increasing the transparency of tax payable by large corporate entities

The Treasury advised the Government on, and developed legislation, requiring the Commissioner of Taxation to publish limited tax return information of corporate tax entities with total incomes of \$100 million or more in an income year. This reform was implemented in the *Tax Laws Amendment (2013 Measures No. 2) Act 2013* which received Royal Assent on 29 June 2013. This reform applies to income reported from the 2013-14 income year onwards.

Personal tax and fringe benefits tax policy reform

Increase in the Medicare levy

The Treasury advised on the 2013-14 Budget measure to increase the Medicare levy. From 1 July 2014, the Medicare levy will increase by half a percentage point from 1.5 per cent to 2 per cent. The revenue from increasing the Medicare levy will be directed to funding DisabilityCare Australia. This reform was implemented by the *Medicare Levy Amendment (DisabilityCare Australia) Act 2013* and associated Acts.

Phasing out the net medical expenses tax offset

The Treasury advised on the 2013-14 Budget measure to phase out the net medical expenses tax offset (NMETO). The NMETO will be available for taxpayers for out-of-pocket expenses relating to disability aids, attendant care or aged care expenses until 1 July 2019. From 1 July 2013 those taxpayers who claimed the NMETO for the 2012-13 income year will be eligible for the NMETO for the 2013-14 income year if they have eligible out-of-pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO in 2013-14 will be eligible for the NMETO in 2014-15. Legislation implementing this measure is being developed.

Removal of concessional treatment of 'in-house' fringe benefits if accessed through a salary sacrifice arrangement

The Treasury provided advice and developed legislation to remove the concessional fringe benefits tax treatment for in-house fringe benefits if they are accessed by way of a salary sacrifice arrangement. This measure was implemented by *Tax Laws Amendment (2012 Measures No. 6) Act 2013*.

Superannuation and retirement income policy reform

2012-13 MYEFO measures

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

- increasing the number of lost member accounts transferred to the ATO;
- providing greater tax certainty in situations where a fund member who was receiving a superannuation pension dies; and
- reforming the self-managed superannuation fund levy.

Superannuation reforms announced on 5 April 2013

The Treasury provided advice to the Government on the reforms announced on 5 April 2013 to improve the fairness, sustainability and efficiency of Australia's superannuation system, and developed legislation for some of the measures. The announced changes included:

- better targeting the tax exemption for investment earnings on assets supporting income streams by capping it to the first \$100,000 of future earnings from 1 July 2014;
- simplifying the design of the higher concessional contributions cap from 1 July 2013 by setting a cap of \$35,000 to anyone who meets certain age requirements;
- allowing individuals to withdraw any excess concessional contributions made from 1 July 2013 from their superannuation fund, and taxing the excess contributions at the individual's marginal tax rate plus an interest charge (rather than at the top marginal rate);
- encouraging the take-up of deferred lifetime annuities by giving these products the same concessional tax treatment that applies to assets supporting superannuation income streams;
- further reforming the arrangements for lost superannuation; and
- establishing a Super Council to ensure any future changes are consistent with an agreed Charter of Superannuation Adequacy and Sustainability.

The Treasury provided secretariat support to the Charter Group convened by the Government to provide advice on the establishment of the Super Council and the Charter of Superannuation Adequacy and Sustainability.

International tax arrangements

Modernising Australia's Transfer pricing rules

The Treasury provided policy advice on the development of modernised transfer pricing rules. The rules align more closely with international best practice and provide a mechanism to access and include international guidance (for instance as developed by the OECD) as relevant to Australia.

Reforms that clarified the application of the tax treaty transfer pricing rules, enacted by *Tax Laws Amendment (Crossborder Transfer Pricing) Act (No. 1) 2012*, were passed by the Parliament on 20 August 2012. Remaining reforms that modernised Australia's transfer pricing rules to better align with international best practice as set out by the OECD, were enacted by *Tax Laws*

Amendment (Tax Avoidance and Multinational Profit Shifting) Act 2013, which received Royal Assent on 29 June 2013.

Investment Manager Reforms

The Treasury has consulted extensively with industry on the implementation of an investment manager regime (IMR), which is intended to provide clear and comprehensive statutory rules for taxing non-resident investment into Australian and foreign assets. Legislation to clarify the tax treatment of income of foreign managed funds for previous income years, and the foreign conduit income of such funds was enacted through *Tax Laws Amendment (Investment Manager Regime) Act 2012* which received Royal Assent on 13 September 2012.

The Treasury continued to progress the Government's tax treaty negotiation program through negotiations and discussions with a number of countries. Australia's new tax treaties with Chile and Turkey, and its amended treaty with India, entered into force in the first half of 2013. Negotiations for a revised treaty with Switzerland were also concluded during this time.

The Treasury provided advice on various international agreements the Government is negotiating, including free trade agreements, film co-production agreements, and proposed agreements with potential tax privileges and immunities. The Treasury also contributed to international tax treaty policy development and capacity-building through its work with the OECD's Committee on Fiscal Affairs. Treasury officials also commenced negotiations with United States officials for an intergovernmental agreement to implement the US Foreign Account Tax Compliance Act (FATCA) in Australia.

Tax information exchange agreements

The Treasury has led Australia's contribution to international efforts to address tax transparency and the use of secrecy for tax evasion purposes, and is involved in G20 and OECD efforts to improve global exchange of information for tax purposes.

A Treasury official represented Australia as Chair of the Global Forum on Transparency and Exchange of Information until 31 December 2012. The Forum has overseen substantial progress in the removal of secrecy and provisions preventing the exchange of information on tax matters between jurisdictions.

Other international tax agreements

Australia ratified the Multilateral Convention on Mutual Administrative Assistance in August 2012. The convention has been signed by nearly 60 jurisdictions and provides for assistance between national revenue authorities in three areas: the exchange of taxpayer information, the recovery of outstanding tax debts and the service of documents.

Australia has also announced that it will participate in a pilot program to automatically exchange information with other countries broadly using the principles of the US FATCA.

International representation

The Treasury represented Australia on the OECD's Committee on Fiscal Affairs and its associated working parties dealing with international tax matters, particularly in relation to the Base Erosion and Profit Shifting (BEPS) project, developing comprehensive tax treaty policy, and

the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meetings of the United Nations Committee of Experts on International Cooperation in Tax Matters and the Global Forum for Transparency and Exchange of Information for Tax purposes.

Productivity Commission Inquiry into the Retail Industry

In response to the Productivity Commission's recommendations relating to the appropriateness of current indirect tax arrangements in its report on the *Economic Structure and Performance of the Australian Retail Industry* the Government established the Low Value Parcel Processing Taskforce (the taskforce) to investigate new approaches for the handling and administration of low value imports of goods. The Treasury assisted the taskforce with its report which was provided to Government in July 2012.

In releasing its interim response to the taskforce report, the Government indicated it will develop business cases and possible implementation plans for reforms to low value parcel processing. The Treasury has been assisting in the development of these business cases and plans.

Tax Expenditures Statement

The Treasury coordinated the *2012 Tax Expenditures Statement* publication and provided quantitative advice in respect of the estimates of tax expenditures (that is, the value of concessional taxation treatment) associated with taxation policy.

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ANAO review of Tax Expenditures Statement

On 9 May 2013, the Australian National Audit Office (ANAO) tabled an audit report, *Preparation of the Tax Expenditure Statement*, in the Parliament. The report assesses the extent to which the Treasury has improved the management of tax expenditure estimates by implementing the six recommendations from the original 2007-08 ANAO audit and the three subsequent recommendations by the Joint Committee of Public Accounts and Audit (JCPAA). The ANAO found that two of the previous recommendations have been fully implemented and that the remaining recommendations have been partially addressed. The report made one new recommendation — that the Australian Taxation Office (ATO) and the Treasury review and standardize the methodology for allocating reliability ratings to tax expenditures. The ATO and the Treasury have agreed to this recommendation.

The Treasury is committed to ongoing improvement of the TES, including progressing recommendations made by the ANAO and the JCPAA, in line with available resources and Government priorities.

Tax policy consultation

The Treasury implemented a program of high-level stakeholder consultation meetings to engage the taxpayer community in a wider conversation about strategic tax policy issues. Two consultation meetings were held in 2012-13 with representatives from the tax industry, and business and community groups.

The Treasury updated the Government's Forward Work Program on a monthly basis and made it available publicly. The document is published to inform taxpayers and their advisers about the Government's current and forthcoming consultation process on tax measures. It outlines

discussion papers, and exposure drafts of legislation and regulation that are currently open for consultation as well as those currently in preparation.

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

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

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

Miscellaneous amendments and technical corrections

Measures making miscellaneous amendments and technical corrections to the taxation laws were included in the *Tax Laws Amendment (2012 Measures No. 6) Act 2013* and the *Tax and Superannuation Laws Amendment (2013 Measures No. 1) Act 2013*, which both received Royal Assent on 28 June 2013.

Issues raised through the Tax Issues Entry System are addressed in miscellaneous amendment packages. The Tax Issues Entry System website (www.ties.gov.au) is jointly operated by the ATO and the Treasury and allows tax professionals and the general public to raise issues on the care and maintenance of the tax system. The Treasury provided support to the Tax Issues Entry System Working Group which met four times during 2012-13.

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Secretariat support to the Board of Taxation

The Treasury provided secretariat support to the Board of Taxation, including to the:

- review of the tax arrangements applying to permanent establishments;
- post-implementation review into certain aspects of the consolidation tax cost setting process;
- post-implementation review into Division 7A of Part III of the *Income Tax Assessment Act 1936*;
- review of the debt/equity tax rules; and
- review of the thin capitalisation arm's length test.

MARKETS GROUP

Overview

A focus for the Treasury in 2012-13 was on ensuring the financial system remains robust and dynamic and that regulatory frameworks promoted macroeconomic stability and market confidence.

The Treasury implemented measures designed to empower and protect financial consumers through the development of MySuper, and enhanced the availability and quality of financial advice. The Treasury continued to monitor and provide advice on the prudential framework applying to financial markets, including the banking sector, insurers, superannuation funds and capital markets.

During 2012-13, the Treasury continued to pursue sound regulatory and structural reforms to foster well-functioning markets in infrastructure, energy and housing markets. Treasury's work in supporting the COAG competition and regulatory reform agenda contributed to this goal, particularly ongoing work to support and maintain the national law for consumer protection; contributing to the development of energy market reforms for COAG; and hosting a symposium on Standard Business Reporting (SBR) to help foster greater awareness of the SBR's potential to drive productivity.

The Treasury participated actively in international forums, such as the G20 and Financial Stability Board (FSB), to enhance the regional and global financial system. In addition, the Treasury provided advice on foreign investment and trade policy, and continued to participate in free trade agreement negotiations. Treasury also played an active role in promoting regional financial engagement by organising the Asia-Pacific Financial Market Development Symposium and progressing work to establish an Asia Region Funds Passport.

During 2012-13, the Treasury continued to promote the stable and efficient provision of financial market infrastructure, particularly through emphasising the role of competition. Treasury also provided policy advice regarding the improved operation of Australia's financial reporting, corporate governance and corporate insolvency regimes, and progressed specific reforms in relation to director liability, the reporting of executive remuneration, audit, and reform of the regulation of corporate insolvency.

Group deliverables

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

- measures to promote competition, market confidence, macroeconomic stability, and the efficient flow of funds between entities — including providing advice on the prudential frameworks applying to banking, insurance superannuation and capital markets;
- financial services reform addressing emerging issues in investor protection, including systemic reforms to financial advice and consumer credit;
- reform of corporate regulation, including addressing issues in executive remuneration, corporate governance, financial reporting, auditing, and corporate insolvency;
- COAG's competition and regulatory reform agenda, including the maintenance of a national law for consumer protection, national consumer credit law, cross-jurisdictional reform of personal criminal liability for corporate fault, and the reduction of red tape;
- the administration and management of the forward work program of the Productivity Commission;
- managing incoming foreign investment to ensure that the national interest is protected, and the free flow of investment is encouraged;
- promoting well-functioning infrastructure markets with appropriate regulatory intervention for road, rail and port, communications, energy and housing, and developing possible approaches to funding and financing major infrastructure projects;
- the oversight and administration of Treasury portfolio regulators, including the Australian Competition and Consumer Commission (ACCC), the Australian Securities and Investments Commission (ASIC), and the Australian Prudential Regulatory Authority (APRA);

- initiatives to position Australia as a leading financial services centre in the Asia-Pacific region arising from the Government's response to the Australian Financial Centre Forum's report, *Australia as a Financial Centre: building on our strengths*;
- how to best influence and implement international financial system regulation, such as that formulated by the G20, FSB and other international standard setting bodies, including in areas like banking, corporate governance, financial reporting, auditing and corporate insolvency;
- representation of Australia's interest on investment, financial services, competition and consumer issues in negotiating free trade agreements and, in relation to investment and competition, in multilateral forums like the OECD and APEC; and
- actuarial matters through the Australian Government Actuary, which provides actuarial services to the Government, the Treasury and other agencies.

Group outcomes

Markets Group's key outcomes for 2012-13 were:

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- implementing the MySuper and governance aspects of the Government's Stronger Super initiatives to improve retirement benefits, including by requiring improved disclosure of superannuation fund costs and fees;
- implementing regulations supporting the Future of Financial Advice initiatives that became mandatory on 1 July 2013 and which are intended to improve the quality of financial advice provided to Australians;
- implementing and monitoring reforms to foster competition and stability in the banking sector including the new 'tick and flick' deposit account switching service that came into effect on 1 July 2012 and the provision of free transaction facilities at ATMs in selected very remote indigenous communities;
- implementing the National Insurance Affordability Initiative and Council to reduce flood risk and reduce insurance premiums;
- implementing the *Insurance Contracts Amendment Act 2012* including establishing a standard definition of 'flood' and developing a fact sheet for home building and home and contents insurance policies, securing passage of the *Insurance Contracts Amendment Act 2013* and introducing reforms into Parliament governing unfair terms in insurance contracts;
- progressing the Government's initiative to position Australia as a leading financial services centre in the Asia-Pacific region, including work to develop an Asia Region Funds Passport;
- hosting a symposium on Asia-Pacific Financial Market Development in April 2013 which brought together regulators, officials and private sector leaders from across the region;
- providing advice to Government on financial regulation reforms and representing Australia at key international forums, including sub-committees of the Financial Stability Board;
- working closely with the IMF on its financial stability assessment of Australia in 2012 and providing advice to Government on the IMF's recommendations;

- continuing to work on refining Australia's arrangements for crisis management and resolution of financial institutions, including in conjunction with the Australian Council of Financial Regulators and New Zealand's financial regulators;
- achieving closer economic integration with New Zealand through the adoption of the Protocol on Investment to the Australia-New Zealand Closer Economic Relations Trade Agreement which came into force on 1 March 2013;
- facilitating the implementation for banks, superannuation, and companies of COAG Housing Supply and Affordability Reform recommendations, which were developed to improve housing supply in Australia;
- leading reforms of the COAG Business Regulation and Competition Working Group to progress reforms in some of the 27 areas where duplicate and/or inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- providing advice on competition policy, as well as supporting links with economies in the region to encourage the development of sound competition regulatory regimes;
- maintaining and enhancing a national consumer law through engagement with the ACCC, and States and Territories to support consistency in consumer protection, product safety regulation, and cooperative enforcement;
- delivering the Energy Security Council program, including liaising with potential applicants for assistance and between energy market institutions;
- developing legislation to amend the *National Consumer Credit Protection Act 2009* to give consumers better and more efficient outcomes when they use small amount credit contracts, consumer leases, and reverse mortgages;
- providing advice on the Parliamentary Joint Committee (PJC) on Corporations and Financial Services report *Inquiry into the Collapse of Trio Capital*, and developing the Government's response to the recommendations in Mr Richard St. John's report, *Compensation Arrangements for Consumers of Financial Services*;
- progressing reforms to remove unnecessary regulatory burdens on directors and corporate officers, and minimise inconsistency between Australian jurisdictions in the application of personal criminal liability for corporate fault. The *Personal Liability for Corporate Fault Reform Act 2012* was enacted in December 2012 to implement Commonwealth reforms to this effect;
- progressing reforms to the framework for corporate and personal insolvency regulation to promote practitioner professionalism and competency, as well as increased efficiency in insolvency administration. A draft Bill, the *Insolvency Law Reform Bill 2012*, was released for public consultation on 19 December 2012;
- providing advice, in consultation with the Foreign Investment Review Board, on significant foreign investment cases;
- contributing to free trade agreement negotiations with Australia's key trading partners;
- leading the inter-agency working group established by the Government on 15 June 2012 to canvass the issues and consult with the community on developing a national foreign ownership register for agricultural land;
- implementing G20 commitments related to over-the-counter (OTC) derivatives by passing legislative framework that allows for flexible implementation of obligations (in coordination

with other jurisdictions) and enabling the introduction of a new trade reporting regime for OTC derivatives;

- enabling the introduction of retail trading in Commonwealth Government Securities, with the passage of the *Commonwealth Government Securities Legislation Amendment (Retail Trading) Act 2012*;
- working with other Council of Financial Regulators agencies to complete the review of competition in clearing cash equities, leading to the establishment by ASX of its Code of Practice for Clearing and Settlement of Cash Equities in Australia;
- completion, in conjunction with ASIC, of its review of cost recovery arrangements related to the supervision of financial markets;
- facilitating the transition of business names registration from State and Territory-based registers to a single national register operated by ASIC. Additional funding, offset by a small increase in business name registration fees, was provided to ASIC in the 2013-14 Budget to alleviate congestion in ASIC's Client Contact Centre caused by larger-than-expected volumes of inquiries relating to the national register;
- reviewing the current stock of legislation and regulatory instruments overseen by Markets Group for the purposes of the sun-setting regime that applies under the *Legislative Instruments Act 2003*, including considering the need to continue, remake or exempt instruments;
- leading the ongoing governance of SBR through to April 2013, at which point the SBR Program Office moved from the Treasury to the Australian Business Registrar, which is housed in the Australian Taxation Office; and
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary.

Analysis of performance

Superannuation

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

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

The Treasury provided advice to the Government in developing legislation to implement the reforms. During 2012-13, four tranches of legislation implementing the Government's MySuper and governance reforms received Royal Assent.

- The *Superannuation Legislation Amendment (MySuper Core Provisions) Act 2012* received Royal Assent on 8 September 2012. The *Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Act 2012* received Royal Assent on 3 December 2012. The *Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Act 2012* received Royal Assent on 3 December 2012. The *Superannuation Legislation Amendment (Service Providers and Other Governance Measures) Act 2013* received Royal Assent on 26 June 2013.

Two tranches of regulations to support the MySuper and governance reforms were made in 2012-13:

- the *Superannuation Legislation Amendment Regulation 2013 (No. 1)* was made on 1 March 2013; and
- the *Superannuation Legislation Amendment (MySuper Measures) Regulation 2013* was made on 28 June 2013.

In consultation with the Department of Education, Employment and Workplace Relations, the Treasury provided advice on the development of a new system for assessing and selecting default superannuation funds in modern awards. The relevant amendments to the *Fair Work Act 2009* were included in the *Superannuation Laws Amendment (MySuper Capital Gains Tax Relief and Other Measures) Act 2013*, which received Royal Assent on 28 June 2013.

On 16 May 2012, the Parliamentary Joint Committee (PJC) on Corporations and Financial Services released its report, *Inquiry into the Collapse of Trio Capital*. The Treasury, in conjunction with the regulators (APRA, ASIC and the ATO), provided advice on the Government's response to the PJC report, which was released on 26 April 2013. The Treasury continues to work with the regulators to further strengthen the regulatory framework.

The Treasury provided advice on two applications for compensation to members of APRA regulated superannuation funds under Part 23 of the *Superannuation Industry (Supervision) Act 1993* and formulated regulations for collecting the industry levy to fund the compensation.

The *Superannuation (Financial Assistance Funding) Levy and Collection Amendment Regulation 2013 (No. 1)* was registered on 18 March 2013.

Infrastructure policy

The Treasury provided advice on the Government's investment in infrastructure projects announced in the 2012-13 Budget, including a number of nationally significant projects identified by Infrastructure Australia as priorities for Australia.

The Secretary to the Treasury is a member of the Infrastructure Australia Council, the Government's key advisory body on nationally significant infrastructure. The Treasury is also engaged in the activities of the COAG Infrastructure Working Group, including the Private-Public Partnership Subgroup.

During the year, the Treasury continued its work on ways to encourage greater private sector investment in infrastructure. The Treasury was provided funding in the 2013-14 Budget to establish an advisory function that will provide advice to the Government on the financial risks and implications of funding agreements for certain infrastructure projects, utilising specialist financial, legal and probity expertise from the private and public sectors.

The Treasury continued to work with the Department of Infrastructure and Transport and State governments to progress COAG's Heavy Vehicle Charging and Investment reforms.

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

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

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The Treasury also continued to work with the Department of Broadband, Communications and the Digital Economy on ensuring that the radio frequency spectrum is efficiently allocated.

The Treasury led key activities of the COAG Housing Supply and Affordability Reform (HSAR) Working Party, which is responsible for reporting to COAG through the Ministerial Council for Federal Financial Relations on issues like planning and zoning, infrastructure charges and an audit of under-utilised land. COAG endorsed the HSAR report during 2012-13 and it was released on the COAG website in August 2012.

The Treasury advised the Government on housing supply policy and provided strategic analysis of broader housing matters.

Competition policy

The Treasury provides advice on competition policy issues as they arise, including on competition laws in Part IV of the *Competition and Consumer Act 2010*. In 2012-13, this included considering competition issues and small business concerns in concentrated markets.

The Treasury contributed to COAG's competition and regulatory reform agenda, including by participating in the inter-jurisdictional Taskforce, which was set up to advise COAG following the Prime Minister's Business Advisory Forum (BAF) meeting in April 2012. Following the BAF, COAG committed to pursuing a range of reforms to lower costs for business and improve productivity, such as energy market reform and reforms to lift regulatory performance and reduce red tape.

These reforms build on the *National Partnership Agreement to Deliver a Seamless National Economy*, which ended on 31 December 2012. The Treasury provided advice on progressing reforms in some of the 27 areas where duplicate and inconsistent regulation across jurisdictions unnecessarily burdens business.

The Treasury coordinates the Productivity Commission's work program and advises departments and the Government on preparing terms of reference for reviews. In 2012-13, the Productivity Commission commenced five public inquiries and three commissioned studies. In 2012-13, the PC also completed four public inquiries and two commissioned research studies.

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

Consumer policy

In 2012-13, the Treasury provided advice to the Government on Australia's consumer policy framework, including ongoing work to support and maintain the Australian Consumer Law (ACL). The ACL includes provisions about unfair practices and fair trading, unfair contract terms, consumer guarantees and product safety. Specific amendments in 2012-13 included exempting restaurant and café menu surcharges from the component pricing laws; clarifying lay-by sales rules; and enhancing the tobacco information standard.

The Treasury worked with both national and State and Territory consumer agencies during 2012-13 to maintain the policy and enforcement framework for the ACL. The Treasury played an active role in considering the role of the consumer policy framework in regulating food labelling claims, examining the provision of price information to consumers on fuel price boards and preparing guidelines to assist jurisdictions to ensure laws remain consistent with the ACL.

The Treasury provided secretariat support to the COAG Legislative and Governance Forum on Consumer Affairs, as well as Consumer Affairs Australia and New Zealand (including its advisory committees). The Treasury also provided secretariat support to the Commonwealth Consumer Affairs Advisory Council, which, in 2012-13, gave independent advice to the Assistant Treasurer on a range of consumer-related issues, such as app purchases on mobile and hand-held devices, as well as sharing repair information in the automotive industry.

In 2012-13, the Treasury continued to represent Australia in international forums on consumer policy, including as a member of the OECD Committee on Consumer Policy.

National regulation of credit

The *Consumer Credit Legislation Amendment (Enhancements) Act 2012* passed the Senate in August 2012. It introduced specific protections for seniors in relation to reverse mortgages, a national cap on costs (to replace inconsistent State and Territory caps), changes to make it more straightforward for consumers to obtain a variation of their repayments when they experience financial hardship, and reforms to address the current regulatory arbitrage between consumer leases and credit contracts.

The reforms were developed through consultations with stakeholders, principally through a Working Group with representation from major industry bodies, the Law Council, external dispute resolution schemes, consumer groups and the Law Council of Australia.

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

the *National Consumer Credit Protection Act 2009* (Credit Act). This statute replaced the State and Territory-administered Uniform Consumer Credit Code with a nationally consistent consumer credit framework; introduced a national credit licensing system with both entry standards and ongoing conduct requirements for all persons engaging in credit activities; and required lenders, as well as those intermediaries who provide credit assistance, to meet responsible lending obligations, which include assessing the capacity of borrowers to make the proposed repayments.

Phase two of the National Credit Reforms requires consideration of the need to regulate investment lending and fringe financial products, and to also address avoidance of the Credit Act. The Commonwealth is continuing to negotiate with the states in relation to a possible referral of legislative power to comprehensively support any reforms.

Financial system reform

A specific focus during 2012-13 was the provision of policy analysis and advice to deepen the supply potential of the economy after the global financial crisis and the global recession. These policies focused on ensuring the financial system remained robust and dynamic, and the regulatory framework promoted macroeconomic stability and market confidence.

Treasury officials continued to participate in the work of the G20, contributing to the development of global reforms to financial regulation. Treasury provided advice on implementation of strengthened standards for capital and liquidity and is implementing the Australian Government's G20 over-the-counter derivatives market commitments.

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

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

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

Financial sector crisis management

The Treasury released the *Strengthening APRA's Crisis Management Powers* consultation paper in September 2012 for a three-month consultation period. The proposals outlined in the paper will more closely align APRA's powers with the Financial Stability Board's *Key Attributes of Effective Crisis Resolution Regimes*.

Treasury worked with Australia's financial regulators to ensure the adequacy of our arrangements for crisis management and resolution, including assessing their consistency with new and emerging international standards. The Treasury continued to work with the Council of Financial Regulators and liaise with other government agencies to monitor developments in the global and domestic financial markets and to provide policy advice. As part of this work, Australian authorities engaged with their New Zealand counterparts under the framework of the Trans-Tasman Council on Banking Supervision.

The department continued to monitor developments in overseas and domestic financial markets to inform policy considerations across the financial system.

IMF Financial Stability Assessment Program Report

The IMF conducted its Financial Stability Assessment Program (FSAP) review of Australia in 2012. The FSAP provides a comprehensive and in-depth analysis of a country's financial sector. It is a key instrument of the IMF's surveillance and provides a valuable opportunity to obtain an independent analysis of the health of a country's financial sector and the robustness of its regulatory framework and supervisory approach. The IMF's FSAP Report, delivered in October 2012, found Australia's financial system is sound, resilient and well-managed, and that the Australian financial regulatory and supervisory framework exhibits a high degree of compliance with international standards.

The Treasury and the other CFR agencies worked closely with the IMF review team that developed the FSAP report. The Treasury also provided advice on the IMF's recommendations to enhance Australia's financial regulatory framework.

Unclaimed moneys

Treasury advised the Government on the implementation of changes, announced in October 2012, to the treatment of unclaimed money in relation to unclaimed bank accounts. This included developing legislation and regulations in consultation with industry on special rules for certain types of accounts, such as term deposits, children's accounts, security and escrow accounts, and reactivated accounts. New regulations were also introduced that make it possible for account holders to inform their banks that they do not want their accounts to become unclaimed, without having to make a transaction.

Banking competition reforms

The Treasury continued to work on implementing reforms to foster competition and stability in the banking sector. In 2012-13, the following measures were implemented:

- the commencement of an initiative by the banking industry and two major independent automatic teller machine (ATM) companies to voluntarily provide free transactions at ATMs in selected very remote Indigenous communities. The initiative has provided fee-free ATMs at up to 85 sites since 1 December 2012, alongside a Government information and education campaign; and
- the Government's new 'tick and flick' deposit account switching service came into effect on 1 July 2012, making it easier for consumers to move their deposit accounts between financial institutions.

National Insurance Affordability Initiative and Insurance Contract Reforms

Treasury has advised on the implementation of the National Insurance Affordability Initiative, which will invest \$100 million in targeted flood and other natural disaster mitigation measures and create a National Insurance Affordability Council (NIAC). The Initiative complements existing flood risk management strategies by ensuring that Government action is informed by the needs of the insurance industry, and has the effect of reducing insurance premiums.

Securitisation market

Treasury provided advice on developments in the domestic securitisation market. In 2008, the Government agreed to provide temporary support to the securitisation market during a period of severe dislocation. The Government provided assistance by investing in the highly rated securitisation issuances of smaller lenders. This supported competition in the banking sector while also preserving securitisation market infrastructure. The market recovered substantially in 2012-13 and on 9 April 2013 the Government ceased new investment in the securitisation market. The Government continues to manage the existing portfolio of securitisation investments and is adjusting its holdings consistent with supporting the market's ongoing sustainability.

Financial industry supervisory levies

During 2012-13, the Treasury, in conjunction with APRA, consulted with industry and provided advice to the Government on the determination of financial industry supervisory levies that support the operations of APRA and other agencies.

In addition, the Treasury, in conjunction with APRA, commenced a four-yearly review in 2013 of the parameters and methodology underpinning financial industry supervisory levies. To support consultation on the methodology, Treasury released a discussion paper in April 2013 and received feedback from key industry groups and entities. It intends to consult further with key stakeholders and APRA before releasing a response paper in late 2013. The findings of the methodology review will inform the Treasury's advice in the 2014-15 levies process.

Financial market infrastructure

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

The CFR responded to that request by advising the Government on potential measures to ensure Australia's regulatory system for financial market infrastructure continues to protect the interests of Australian issuers, investors and market participants, including under a scenario where the ASX is part of a foreign-domiciled group. The working group is also progressing reforms that ensure appropriate crisis management arrangements are in place to systemically import financial market infrastructure.

G20 commitments on over-the-counter derivatives

Treasury developed policy advice during 2012-13 in conjunction with APRA, ASIC and the RBA, and consulted on mandatory reporting of OTC derivatives trades to trade repositories. May 2013, the Minister made a determination that enabled ASIC to make rules, and subsequently approved initial rules in June.

Treasury also engaged in international efforts to address conflicting and inconsistent implementation of these commitments across jurisdictions. This work is designed to minimise duplicative regulatory burdens by ensuring that Australian businesses can continue to participate in international markets while remaining primarily regulated in Australia; and that Australia does

its part to maintain a consistent global framework and remove opportunities for regulatory arbitrage.

Market supervision and competition cost-recovery

New market supervision and competition cost-recovery arrangements commenced on 1 July 2013. The arrangements provide a mechanism for the Australian Government to recover the funding it has provided to ASIC to meet its additional costs for undertaking its new regulatory functions following the transfer of market supervision (on 1 August 2010), the introduction of market competition (in equity securities, in October 2011), and enhancements to market supervision announced in the 2012-13 Budget.

The new cost-recovery regime was developed by Treasury and ASIC in consultation with industry, and complies with the Australian Government cost-recovery guidelines.

Competition in the clearing of Australian Cash Equity Market

In the course of the review of financial market infrastructure regulation, a question arose about competition in clearing and settlement. Treasury, together with other Council agencies, subsequently invited the ACCC to form a working group to further develop analysis of the competition aspects of clearing and settlement.

In December 2012, the working group finalised a conclusions paper that made recommendations to Government on how to approach competition in clearing and settling the Australian cash equity market.

In February 2013, the Government accepted the CFR recommendations, which included a deferral of consideration of competition for two years; adoption of a Code of Practice to address stakeholder concerns in relation to the status quo; and a review of the Code's effectiveness following the deferment period.

Following the ASX's commitment to implement the recommendations, the Treasury — together with the other CFR agencies (the RBA, APRA and ASIC) — provided guidance to ASX in developing its Code of Practice for Clearing and Settlement of Cash Equities in Australia to ensure that the code was consistent with the principles and developed in consultation with industry. The ASX released the final code on 18 July, with a start date of 9 August 2013.

Australian Government Bonds and Retail Corporate Bonds

Facilitating trading of Australian Government Bonds (AGB) on retail financial markets forms part of the banking package announced by the Government in December 2010. One of the objectives of that package is to secure the long-term safety and sustainability of the Australian financial system by reducing reliance on off-shore wholesale funding markets. To that end, the Government has committed to fostering a deep and liquid corporate bond market. Introducing trading of AGB on retail financial markets will provide retail investors with a visible pricing benchmark for investments in corporate bonds.

The Treasury coordinated the implementation of the arrangements required to facilitate the trading of AGB on retail financial markets. The *Commonwealth Government Securities Legislation Amendment (Retail Trading) Act 2012* was passed in November 2012 and trading in retail AGB commenced on 21 May 2013.

In 2012-13, the Treasury continued retail corporate bond reforms, which will cut red tape for businesses issuing simple corporate bonds, thereby making it easier to buy and sell such products. The reforms focus on streamlining disclosure, refining director liabilities and establishing a framework for parallel trading.

The Corporations Amendment (Simple Corporate Bonds and Other Measures) Bill 2013 was introduced into Parliament on 20 March 2013. The Treasury has commenced work on developing supporting regulation.

Financial services reforms

Financial advice reform

In June 2012, Parliament passed the Future of Financial Advice (FoFA) reforms, which focused on improving the quality of advice and enhancing retail investor protection. In particular, the FoFA initiatives introduced an obligation for financial advisers to act in the best interests of their clients; banned financial advisers from receiving conflicted remuneration; and established an adviser charging regime for ongoing fees.

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In 2012-13, the Treasury developed regulations to support the measures passed by Parliament. Among other things, these regulations:

- introduced grandfathering arrangements for the ban on conflicted remuneration;
- made it easier for professionals wanting to provide financial advice to clients without a specific product recommendation to obtain a licence;
- clarified the operation of the simplified best interests duty for basic banking and general insurance products;
- exempted limited forms of superannuation advice fees from the adviser charging regime and clarified the operation of the product fee exemption; and
- provided exemptions from the ban on conflicted remuneration for additional stockbroker-related activities.

The FoFA package became mandatory on 1 July 2013; parts of the ban on conflicted remuneration will, however, apply only to new clients after 1 July 2014. The Treasury will continue to monitor the impact of the initiative in 2013-14 to assess if any further changes are needed.

Statutory Compensation Scheme Review

As part of the FoFA package, Mr Richard St. John was commissioned to undertake a review of the cost and benefits of a statutory compensation scheme for financial services. In May 2012, Mr St. John provided his report, *Compensation Arrangements for Consumers of Financial Services*, to Government. During 2012-13, the Treasury worked on developing a Government response to the recommendations in this report. On 26 April 2013, the Government released its response, accepting the vast majority of the report's recommendations, including:

- legislative changes to strengthen the professional indemnity insurance requirements of providers of financial services that deal with retail consumers;
- changes to improve the communication of risks to investors and to ensure the adequacy of regulatory processes; and

- consultation papers by the Treasury on powers to support ASIC in its enforcement role and to improve the governance arrangements of managed investment schemes.

During 2013-14, the Treasury will work on implementing these recommendations.

Insurance contract reforms

On 28 June 2013, the *Insurance Contracts Amendment Act 2013* (the Act) received Royal Assent. The Act gives effect to a number of recommendations made by Mr Alan Cameron AM and Ms Nancy Milne in their 2004 review of the operation of the *Insurance Contracts Act 1984* (ICA).

The Act facilitates beneficial outcomes for insurers and those insured by modernising and streamlining the operation of the ICA. In particular, the Act enables insurers to communicate with consumers via electronic means. The ability to communicate with consumers through electronic means allows insurers to provide consumers with key documents in a way that is more in keeping with the way consumers currently access information.

Australia as a Financial Centre

In September 2008, the Government commissioned a panel of experts — the Australian Financial Centre Forum — to identify the key priority areas that would position Australia as a leading financial centre in the Asia-Pacific region. The Forum's report, *Australia as a Financial Centre: building on our strengths*, was released in January 2010. The Government has supported all 19 recommendations. These included recommendations on the taxation of financial services, commissioning a Board of Taxation review of Islamic financial products and collective investment vehicles, and the development of an Asia Region Funds Passport.

The Asia Region Funds Passport is being led by the Treasury and progressed under the auspices of APEC. Considerable progress was made in the first half of 2013 to develop the proposed arrangements, including at a policy and technical workshop held in Taipei in June 2013 attended by officials from 12 APEC economies.

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 that may affect the effectiveness of existing policy settings. In addition, the Treasury has advised the Government on developments in banking; the affordability and availability of insurance; and the operation, structure and cost of the superannuation system.

Corporations regulation reforms

Executive remuneration

Treasury developed legislative reforms to implement the Government's decision to further strengthen Australia's executive remuneration framework. Several of the proposed reforms address recommendations made by the Corporations and Markets Advisory Committee in its 2011 report on executive remuneration, and include proposals to relieve certain unlisted entities from the obligation to prepare a remuneration report and relieve public companies from the obligation to appoint auditors if audits are not required. Draft legislation was released

in December 2012 for public comment. Regulations were also developed to ensure continued reporting of related party transactions following changes to relevant accounting standards.

Director liability

Reforms have been developed to remove unjustified or excessive regulatory burdens on directors and corporate officers, and to enhance consistency between Australian jurisdictions in applying personal criminal liability for corporate fault. These reforms aim to reduce the risk that directors will be prosecuted for misconduct in situations where they could not reasonably be expected to prevent the misconduct. The reforms form part of the Commonwealth's obligations under the COAG Seamless National Economy National Partnership to implement a coordinated national approach to director liability. The *Personal Liability for Corporate Fault Reform Act 2012* was enacted in December 2012 to implement Commonwealth reforms to this effect. The majority of the States and Territories have also enacted similar legislation.

Insolvency regulation

On 19 December 2012, the Parliamentary Secretary to the Treasurer and the former Attorney-General jointly released the draft Insolvency Law Reform Bill 2012 for public comment. The draft Bill set out a framework for corporate and personal insolvency regulation that promotes a high level of practitioner professionalism and competence, enhances transparency and communication between insolvency practitioners and stakeholders, and promotes increased efficiency in insolvency administration.

Dividends test

The Parliamentary Secretary to the Treasurer released draft legislation in December 2012 outlining amendments to the test for payment of dividends (dividends test). The Government is currently considering issues raised in the submissions received in response to the draft legislation.

Individual foreign investment proposals: advice and processing

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

Foreign persons are required to notify the Treasurer when entering into an agreement to acquire an interest in certain types of Australian real estate or a substantial interest¹ in an Australian business or corporation valued above \$248 million.² All foreign government investors must notify and get prior approval before making a direct investment in Australia, starting a new business or acquiring any interest in land, regardless of the value of the investment.

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

2 Under the Australia-United States Free Trade Agreement and the Protocol to the Australia and New Zealand Closer Economic Relations Trade Agreement, a higher threshold of \$1,078 million applies for United States and New Zealand investors. The higher threshold does not apply to government investors or investments in prescribed sensitive sectors.

During 2012-13, the Foreign Investment Review Board (a non-statutory body that advises the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals. The General Manager of the Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

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

Advice on investment and trade policy

The Treasury provides advice to the Government on general foreign investment and trade policy matters. The Treasury also provides advice on Australia's participation in multilateral, regional and bilateral investment and trade agreements.

Representation in international forums and trade negotiations

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

On 1 March 2013, the Protocol on Investment to the Australia-New Zealand Closer Economic Relations Trade Agreement came into force. The Treasury was responsible for implementing the Protocol.

OECD Investment Committee

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

The committee also oversees the operation of the OECD Guidelines for Multinational Enterprises, a voluntary code providing recommendations for responsible business conduct. 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 (ANCP), a role filled by the General Manager of the Foreign Investment and Trade Policy Division.

In 2012-13, the Australian National Contact Point received one specific instance complaint under the guidelines. This complaint concerned the operation of an Australian mining company in the Eastern Cape region of South Africa. The ANCP was not able to accept the matter as a specific instance complaint under the guidelines. Additional information is provided on the ANCP website at www.ausncp.gov.au.

APEC

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

International liaison

Asia Region Funds Passport

The sixth and seventh Asia Region Funds Passport Policy and Technical Workshops were held in Hanoi in December 2012 and Taipei in June 2013, respectively. The workshops were co-organised by Treasury and the Department of Foreign Affairs and Trade, and were attended by representatives of 12 APEC economies. The sixth workshop was also attended by representatives of the Shanghai Financial Services Office. The workshops developed further the framework for, and governance of, an Asia Region Funds Passport.

Asia-Pacific Financial Market Development Symposium

Australia hosted a symposium on Asia-Pacific Financial Market Development in April 2013, which was co-organised by Treasury and the APEC Business Advisory Council (ABAC). Regulators, government officials and industry representatives from over 15 countries met in Sydney to explore ABAC's proposal to establish an Asia Pacific Financial Forum (APFF) to promote regional financial market integration. ABAC will draw on these discussions to present a refined proposal to APEC finance ministers in September 2013.

G20/Financial Stability Board

The Treasury has provided the Australian representatives to various Financial Stability Board (FSB) committees, including the Standing Committee on Standards Implementation (SCSI) and the Standing Committee for Supervisory and Regulatory Cooperation (SRC). The SCSI monitors the implementation of international financial regulations standards agreed by the G20 and FSB and undertakes peer reviews of individual FSB countries and on key priorities issues. The SRC aims to address key financial stability issues relating to the development of supervisory and regulatory policy and assist in enhancing cross-border cooperation between national supervisors.

OECD Insurance and Private Pensions Committee

The Treasury provided an Australian representative to the OECD Insurance and Private Pensions Committee, which also includes the Working Party on Private Pensions and the Working Party of Governmental Experts on Insurance. In 2012-13, the committee focused on emerging issues of relevance to insurance sectors and private pension funds across member countries. These included issues around long-term investment by institutional investors' retirement savings adequacy, disaster risk and insurance financing, and annuities markets.

International Financial Reporting Standards regional policy forum

The seventh International Financial Reporting Standards regional policy forum, which was held in Hong Kong in June 2013, was attended by many jurisdictions from the Asia-Oceania region. Australia participated in the forum through representatives from the Treasury, the Financial Reporting Council, the accounting standard setters, professional accounting bodies and business representatives. The theme of the forum was 'A Journey to Better Financial Reporting'.

Trans-Tasman coordination to develop a Single Economic Market

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

reporting policy, financial services policy, competition policy, business reporting, corporations law, personal property securities law, intellectual property law and consumer policy.

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

Australia New Zealand Therapeutic Products Agency (ANZTPA)

In 2003, the Australian and New Zealand Governments signed an agreement to establish a joint regulatory scheme for therapeutic products, which will regulate medicines (including complementary medicines) and medical devices. The objective is to safeguard public health and safety while encouraging economic integration and benefitting industry in both countries.

In 2012-13 Parliamentary Secretary to the Treasurer was a member of the ANZTPA Implementation Ministerial Council and the Treasury is a member of a Trans-Tasman Senior Officials Group (TTSOG), which supports the Ministerial Council.

Trans-Tasman Accounting and Auditing Standards Advisory Group

The Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG) comprises representatives from accounting and auditing standard setters, professional accounting bodies, and policymakers from Australia and New Zealand. TTAASAG's focus is to ensure that the financial reporting and auditing frameworks of both countries do not unnecessarily impede Trans-Tasman business activity. During 2012-13, the Group helped to progress a range of crossborder economic initiatives designed to ensure greater commonality and alignment between the two frameworks. All outcomes agreed between the Australian and New Zealand Governments related to accounting and auditing have been achieved or otherwise dealt with, and the Group continues to monitor their operation.

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 that delivers a seamless regulatory environment for banking services. The Secretaries to the Treasuries of Australia and New Zealand jointly chair the Council, and its membership includes senior officials from the financial system regulators.

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

Financial Reporting Council

The Financial Reporting Council (FRC) comprises 19 members responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include overseeing the accounting and auditing standards-setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework.

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

The FRC has four committees — nominations, audit quality, public sector and strategic plan. The FRC currently has two task forces — Integrated Reporting and Financial Report. The Managing Complexity and Board Education Task Forces reported to the FRC and completed their work in 2012-13. The Treasury has engaged with the activities of the various task forces and committees by providing secretarial support, fostering dialogue with stakeholders on the issues being explored, liaising with the chairs of the committees and taskforces to form their strategic direction and providing assistance to key outputs.

Takeovers Panel

The Takeovers Panel contributed to well-functioning securities markets in Australia by dealing with 20 applications, which are essentially disputes relating to takeovers made under the Takeovers Chapter of the *Corporations Act 2001* and other control transactions. The Panel, a peer review body with regulatory functions, has 48 members who are specialists in mergers and acquisitions as investment bankers, lawyers, company directors or other professionals. In resolving disputes, the panel helps to ensure that acquisition of control over voting shares in listed and widely-held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. The Panel also publishes guidance notes to help foster market confidence and efficiency.

In 2012-13, the Panel:

- considered a number of applications alleging association;
- considered some significant and complex applications including on the policies in relation to truth in takeovers and rights issues; and
- issued an index of its decisions from 2005-2012 (inclusive).

Standard Business Reporting

SBR is co-designed by Commonwealth, State and Territory government agencies and the private sector to reduce the business-to-government reporting burden by providing standardised electronic reporting. SBR simplifies financial reporting to government and makes it a byproduct of natural business systems.

Since the SBR Program became operational in 2010, the whole-of-government functions were split between a small team within the Treasury and a larger team under the Australian Business Registrar, which is housed in the Australian Taxation Office.

To enhance these activities and improve information-sharing and stakeholder engagement, these two teams were co-located in April 2013 under the Australian Business Registrar.

The direction and governance of the SBR Program will not change and the Secretary of the Treasury will continue to chair the SBR Board.

Currency

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

Secretariat services

The Treasury provided secretariat services to the Legislative and Governance Forum for Corporations (formerly constituted as the Ministerial Council for Corporations (MINCO)). The Treasury also assisted ministers in fulfilling the Government's obligations under the Corporations Agreement 2002, the Intergovernmental Agreement (IGA) for Business Names Agreement, and the IGA on National Credit Law.

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. FSAC has discussed and provided advice on a range of topics including financial sector regulation; exchange rate intervention; the G20 agenda; and the future of the Australian financial sector.

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

During 2012, the Treasury provided secretariat support for the former COAG Business Regulation and Competition Working Group (BRCWG) Competition Sub-Committee, which was chaired by the Assistant Treasurer. The Sub-Committee oversaw the eight competition reform areas under the *National Partnership to Deliver a Seamless National Economy* (SNE NP), which ended on 31 December 2012. Since 2013, oversight of implementation of the SNE NP reforms, previously undertaken by the BRCWG, has been coordinated through the BAF Taskforce.

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

The Treasury provided secretariat support to the National Housing Supply Council (NHSC). On 1 March 2013, the NHSC released the *Housing Supply and Affordability Issues 2012-13* report. The report contains detailed information on housing trends including Census

analysis, summaries of studies on housing and ageing, migration and recent housing policy developments around Australia.

Australian Government Actuary

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. Australian Government Actuary maintains a special account to ensure its financial operations are managed properly and transparently. At 30 June 2013, the account was in a sound financial position.

Demand for service was again high during 2012-13.

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.

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Departments that sought advice included Defence; Attorney-General's; Industry, Innovation, Science, Research and Tertiary Education; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; Finance and Deregulation, and Veterans' Affairs. Human Services and Immigration and Citizenship also sought advice.

Feedback from these agencies indicates general satisfaction with the advice received and its value as an input in achieving agencies' objectives.

Services to the Treasury

Australian Government Actuary contributed its technical expertise on policy issues, including the superannuation system and insurance matters. The Australian Government Actuary reported on an investigation into strata title insurance price rises in North Queensland and provided advice on the National Disability Insurance Scheme.

CORPORATE STRATEGY AND SERVICES GROUP

The Corporate Strategy and Services Group assists in setting and delivering the corporate strategic direction of Treasury. The group delivers quality and valued corporate advice and services for the department, its people and Ministers.

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

Key priorities

The key priorities in 2012-13 were:

- Facilitating behavioural and organisational change by implementing the Strategic Review and Progressing Women agendas.

- Implementing strategic and operational workforce planning and more considered analysis, reporting and evaluation.
- Improving the availability and security of IT infrastructure, and its operational capabilities in the event of a disaster.
- Increasing productivity by improving IT mobility.
- Deploying technology that enhances internal and external collaboration.
- Managing the implementation of the Business Innovation project as part of Treasury's Strategic Review.
- Undertaking business as usual operations for all statutory and other Commonwealth financial framework requirements.
- Continuing to improve the provision of financial information to assist decision makers in a tight fiscal environment.
- Delivering production and logistics services for Budget 2013-14 and related processes (eg MYEFO).
- Implementing a new Treasury intranet.
- Coordinating the production of Treasury's Annual Report.
- Maintaining effective working relationships with Treasury Ministers' offices.

Key outcomes

The key outcomes were:

- Continuing work on behavioural and organisational change implemented through the Strategic Review and Progressing Women agendas.
- The implementation of Strategic and operational workforce planning and more considered analysis, reporting and evaluation.
- An improved availability and security of IT infrastructure to develop business continuity and operational capabilities in the event of a disaster.
- An improvement in IT mobility with beneficial improvements to productivity.
- The enhancement of internal and external collaboration by deploying technology.
- Continuing the implementation of the Business Innovation project.
- The progression of business as usual operations for all statutory and other Commonwealth financial framework requirements.
- Assisting decision makers in a tight fiscal environment through improvement in the provision of financial information.
- The delivery of production and logistics services for Budget 2013-14 and related processes.
- The production of Treasury's Annual Report.
- The continuance of effective working relationships with Treasury Ministers' offices.

PROGRAM 1.2: PAYMENTS TO INTERNATIONAL FINANCIAL INSTITUTIONS

PROGRAM OBJECTIVE

The objectives of program 1.2 are to:

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

PROGRAM DELIVERABLES

The program deliverables are:

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

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

Australia makes substantial financial payments to international financial institutions to support their operations.

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

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

Table 1: Financial transactions with international financial institutions in 2012-13

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration*	Revenue	4	1,034
Payments			
IMF special drawing rights allocation charges*	Expense	4	3,489
IMF financial transactions plan	Financing transaction	2	96,875
IMF new arrangements to borrow	Financing transaction	7	204,280
			-31,582
Asian Development Bank general capital increase	Investing transaction	1	16,239
International Bank for Reconstruction and Development general capital increase	Investing transaction	1	9,623

*The proportion of the IMF net remuneration and charges referring to May and June is based on estimated figures as of 30 June 2013.

PROGRAM 1.3: SUPPORT FOR MARKETS AND BUSINESS

PROGRAM OBJECTIVE

The objectives of program 1.3 are to:

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

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PROGRAM DELIVERABLES

The program deliverables are:

- payments to the Centre for International Finance and Regulation are made according to agreed milestones and schedules;
- payments of claims arising from the Housing Loans Insurance Company Limited old book and assistance under the HIH Claims Support Scheme are made according to agreed schedules; and
- payments to New South Wales under the loan arrangements are made according to agreed schedules.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

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

PROGRAM 1.4: GENERAL REVENUE ASSISTANCE

PROGRAM OBJECTIVE

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

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

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

PROGRAM DELIVERABLES

The program deliverables are:

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

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

In accordance with the Intergovernmental Agreement, total general revenue assistance payments of \$49.3 billion were made to the States and Territories in 2012-13. Payments included:

- GST entitlements to the States and Territories totalling \$48.1 billion;
- payments to Western Australia of a share of royalties collected by the Commonwealth under the *Offshore Petroleum (Royalty) Act 2006* totalling \$1.0 billion; and
- other general revenue assistance payments totalling \$154.9 million.

The Treasury also recouped \$0.7 billion in GST administration costs in 2012-13.

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

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

PROGRAM 1.5: ASSISTANCE TO THE STATES FOR HEALTHCARE SERVICES

PROGRAM OBJECTIVE

The objective of program 1.5 is:

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

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

PROGRAM DELIVERABLES

The program deliverable is:

- Payments to the States and Territories are made according to the payment arrangements specified in the Intergovernmental Agreement and the National Health Reform Agreement.

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KEY PERFORMANCE INDICATORS

The key performance indicators are:

- From 1 July 2012, the National Healthcare SPP will be replaced by National Health Reform funding and be paid into a National Health Funding Pool. The national efficient price of public hospital services will be determined by the Independent Hospital Pricing Authority, to allow the introduction of activity-based funding for public hospital services from 1 July 2012. This will ensure public hospital funding is more transparent and drive efficiency, as public hospitals will be funded according to the number and kind of services they provide. In addition, the National Health Performance Authority will report on the performance of every Local Hospital Network, hospital and Medicare Local, through Hospital Performance Reports and Healthy Communities Reports.
- To reflect the changed payment arrangements for public hospital and health services under the National Health Reform Agreement, amendments have been made to the Intergovernmental Agreement on Federal Financial Relations and are underway for the *Federal Financial Relations Act 2009*. An Administrator, which will be jointly established by the Commonwealth and the States, will be responsible for calculating the Commonwealth funding amount for public hospitals, and advising the Treasurer of the level of Commonwealth funding.
- The Administrator will be responsible for making payments from the National Health Funding Pool of Commonwealth and State funding to Local Hospital Networks on an activity basis. The Administrator will transparently report each month on the amounts paid through the National Health Funding Pool to Local Hospital Networks, the basis on which payments were made and the number of services provided.

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in the delivery of healthcare services.

- From 1 July 2012, National Health Reform funding replaced the National Healthcare SPP. Payments totalling \$13.3 billion were paid into the National Health Funding Pool.
- The national efficient price of public hospital services was determined by the Independent Hospital Pricing Authority on 30 May 2012, which allowed the introduction of activity-based funding for public hospital services from 1 July 2012. In addition, the National Health Performance Authority has published several reports on Hospital Performance and Healthy Communities.
- Amendments were made to the *Federal Financial Relations Act 2009* to reflect the changed payment arrangements. An Administrator of the National Health Funding Pool has been jointly established by the Commonwealth and the States, with responsibility for calculating the Commonwealth funding amount for public hospitals, and advising the Treasurer of the level of Commonwealth funding.
- The Administrator is responsible for making payments from the National Health Funding Pool of Commonwealth and State funding to Local Hospital Networks on an activity basis. The Administrator has published monthly reports on the amounts paid through the National Health Funding Pool to Local Hospital Networks, the basis on which payments were made and the number of services provided.

PROGRAM 1.6: ASSISTANCE TO THE STATES FOR SCHOOLS

PROGRAM OBJECTIVE

The objective of program 1.6 is:

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

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

PROGRAM DELIVERABLES

The program deliverable is:

- payments to the States and Territories in accordance with the payment arrangements specified in the Intergovernmental Agreement.

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in the delivery of government schools services.

- Payments under the National Schools SPP (government schools component) payments were \$3.9 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.

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

To demonstrate that the National Schools SPP (government schools component) has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2013, disclosing relevant information in accordance with the Intergovernmental Agreement.

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

PROGRAM OBJECTIVE

The objective of program 1.7 is:

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

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

PROGRAM DELIVERABLES

The program deliverable is:

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

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in the delivery of skills and workforce development services.

- Payments under the National Skills and Workforce Development SPP were \$1.4 billion.
- All payments were accurately determined and made in a timely manner in accordance with payment arrangements specified in the Intergovernmental Agreement.
- Advice was provided to the States and Territories prior to each payment being made.

To demonstrate that the Skills and Workforce Development SPP has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months of 30 June 2013, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.8: ASSISTANCE TO THE STATES FOR DISABILITY SERVICES

PROGRAM OBJECTIVE

The objective of program 1.8 is:

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

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

PROGRAM DELIVERABLES

The program objective is:

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

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KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in the delivery of disability services.

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

To demonstrate that the National Disability SPP has been spent in the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council within six months

of 30 June 2013, disclosing relevant information in accordance with the Intergovernmental Agreement.

It should be noted that an adjustment is made to the National Disability SPP to ensure that the changes to Commonwealth and State roles and responsibilities for aged care and disability services, as part of the National Health Reform arrangements, are budget neutral for participating jurisdictions.

PROGRAM 1.9: ASSISTANCE TO THE STATES FOR AFFORDABLE HOUSING

PROGRAM OBJECTIVE

The objective of program 1.9 is:

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

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

PROGRAM DELIVERABLES

The program deliverable is:

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

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KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in the delivery of affordable housing services.

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

To demonstrate that the National Affordable Housing SPP has been spent within the relevant sector, each State and Territory Treasurer will provide a report to the Standing Council

within six months of 30 June 2013, disclosing relevant information in accordance with the Intergovernmental Agreement.

PROGRAM 1.10: NATIONAL PARTNERSHIP PAYMENTS TO THE STATES

PROGRAM OBJECTIVE

The objective of program 1.10 is:

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

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

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PROGRAM DELIVERABLES

The key program deliverable is:

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

KEY PERFORMANCE INDICATORS

The key performance indicators are:

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

ANALYSIS OF PERFORMANCE

The Treasury facilitated the Government's 2012-13 financial support for the States and Territories in improving outcomes in areas specified in National Partnership agreements.

National Partnership payments for 2012-13 were \$13.9 billion, comprising:

- Payments to support state health services of \$1.7 billion;

- payments to support state education services of \$1.6 billion;
- payments to support state skills and workforce development-related services of \$0.3 billion;
- payments to support state community services of \$0.9 billion;
- payments to support affordable housing services of \$0.5 billion;
- payments to support state infrastructure services of \$3.6 billion;
- payments to support state environmental services of \$0.6 billion;
- payments to support other state services of \$2.6 billion; and
- contingent payments to the States of \$1.9 billion.

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

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

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

