

The Treasury  
Annual Report  
2005-06

October 2006

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**Australian Government**  
**The Treasury**

**Office of the Secretary**

5 October 2006

The Hon Peter Costello MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the Annual Report of the Treasury for the year ended 30 June 2006. The report has been prepared under section 63 of the *Public Service Act 1999*. Subsection 63 (1) of the Act requires that a Secretary of a department is to provide a copy of the report to their Agency Minister for presentation to the Parliament.

As provided in subsection 63 (2) of the Act, the Report has been prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit. These guidelines provide that a copy of the Annual Report is to be laid before each House of the Parliament on or before 31 October.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Henry'.

Ken Henry  
Secretary to the Treasury



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## INTRODUCTION AND GUIDE TO THE REPORT

The 2005-06 Treasury Annual Report outlines performance against outcomes, outputs and performance information contained in the *2005-06 Portfolio Budget Statements*. In May 2005-06, Treasury reorganised its outcomes from three to four to align its outcome reporting structure with the organisational structure. The previous Outcome 2: Effective government spending and taxation arrangements, was split into two outcomes:

- Outcome 2: Effective government spending arrangements; and
- Outcome 3: Effective taxation and retirement income arrangements.

The previous Outcome 3: Well functioning markets has become Outcome 4 and no longer includes the former output 3.1.5: Circulating coin and like products, following the establishment of the Royal Australian Mint as a separate prescribed agency from 1 July 2005. Performance for 2005-06 is reported against Treasury's four outcome structure, however, is reconcilable with information published in the *2005-06 Portfolio Budget Statements*.

Changes to outcomes and outputs are detailed in the Part 2 of this report. Treasury's new outcome and output structure is reflected in Figure 1: Treasury's portfolio outcome chart, and Figure 2: Treasury's outcome and output structure chart in Part 1 of this report.

The 2005-06 Annual Report of the Treasury includes the reporting requirements and financial accounts for the Australian Government Actuary and the Foreign Investment Review Board. The financial accounts for the Takeovers Panel are included in this report, however, the performance reporting does not extend to the activities of the Takeovers Panel. The Takeovers Panel publishes its own annual report. As the Royal Australian Mint is now a prescribed agency it publishes its own performance report and financial accounts.

**Part 1** of this report includes a summary of significant issues and developments during 2005-06, and an overview of the department's performance and financial results. The Corporate Statement in Part 1 details Treasury's role and functions, portfolio and agency organisational structures and Treasury's senior management structure.

**Part 2** of the report provides an analysis of performance against Treasury's policy outcomes. A review of the Strategic Communication Division and Corporate Services Division performance is also provided in Part 2.

**Part 3** reports on management and accountability issues as required under the Annual Report Guidelines.

**Part 4** presents the audited financial status of Treasury as required under the Annual Report Guidelines. The audited financial statements are aligned to the three outcome structure as reported in the *2005-06 Portfolio Budget Statements*.

**Part 5** of the report includes other statistical information required under the Annual Report Guidelines.

The report concludes with a list of abbreviations and acronyms and an index to the report and its appendices.

### **Other sources of information**

Treasury releases information on its activities through many publications, press releases, speeches and reports including the Annual Report. Copies of all Treasury publications are available on our website at [www.treasury.gov.au](http://www.treasury.gov.au).

## ENQUIRIES

The contact officer to whom enquiries regarding this report may be directed is:

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A copy of this document can be located on the Treasury website at:  
[www.treasury.gov.au/annualreport](http://www.treasury.gov.au/annualreport)

# Part 1: Overview

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## SECRETARY'S REVIEW

For Treasury, 2005-06 represented another opportunity to expand on our efforts to improve the wellbeing of the Australian people. Wellbeing is central to our work, and the advice and assistance we provide to the Treasurer and to our portfolio ministers is guided by our pursuit of this mission.

### **Macroeconomic outcomes**

The Australian economy grew solidly in 2005-06. GDP growth of 2.7 per cent for the year was underpinned by robust business investment and moderate growth in consumption. The unemployment rate of 4.9 per cent in June was the lowest in 30 years, and the participation rate increased to a record high of 64.8 per cent. Australia's labour productivity grew by 1.9 per cent over the year, and our terms of trade reached their equal highest level since the early 1950s, reflecting strong overseas demand for our resource commodities. Partly reflecting this strength, the budget outcome was better than expected, with an underlying cash surplus of \$15.8 billion.

Compared with previous occasions, the Australian economy has adjusted well to the current terms of trade boom, with underlying inflation and wage pressures remaining contained. The ongoing challenge for Australia will be to ensure this prosperity can be sustained, critical to which will be building on the current extensive programme of reforms and maintaining current frameworks that guide monetary and fiscal policy.

### **Public policy priorities**

2005-06 posed a number of policy challenges for the department. Domestically, we increased our focus on whole-of-government solutions to key issues such as infrastructure, water and regulatory reform; and on the international stage, demand increased for our advice and expertise to improve the economic stability, governance and security in the Pacific and wider East Asian regions. These international demands,

## Part 1: Overview

combined with the aftermath of one-off events like major natural disasters, pose enormous policy challenges for Australia, but equally provide scope for Treasury to positively influence the policy environment in our region.

Treasury continued its priority work on reducing complexity in the tax system for Australians through streamlining and simplifying taxation and superannuation arrangements. This included providing policy input and assistance to the Government-announced *A Plan to Simplify and Streamline Superannuation*, and developing, with the Australian Taxation Office and the Office of Parliamentary Counsel, legislation to repeal inoperative provisions from tax laws. Treasury also provided a small secretariat to assist with preparation of the Warburton-Hendy report, *International Comparison of Australia's Taxes*. This is a significant document analysing and comparing Australia's tax system with tax systems in a number of other developed countries.

We also made significant progress on fostering well functioning financial and product markets, both in Australia and abroad, through refinements to financial services regulation; developing policies to address potential banking and insurance crisis management issues; release of the 'Understanding Money' financial literacy initiative; coordination of input into the IMF Financial Sector Assessment of Australia; collaboration on a joint OECD/APEC forum on Asian Insolvency Reform; hosting of the first meeting of the Asian Financial Markets Group; joint hosting of the first International Financial Reporting Standards Regional Forum; and promoting trade and investment policy.

Our international activities were headlined by our lead role in preparing for the upcoming meeting of the Group of Twenty (G-20) Finance Ministers and Central Bank Governors in November 2006. Australia and the G-20 played a key role in securing an agreement on IMF quota and governance reform at the IMF/World Bank Annual Meetings in Singapore in September 2006. The G-20 work spans the department, and includes reform of the Bretton Woods institutions, energy and minerals markets, demographic change as it relates to financial market development and people movement, and aid effectiveness. In addition, Treasury hosted the Global Forum on Taxation in Melbourne in 2005, which was opened by the Treasurer. Treasury also commenced preparatory work to ensure the finance, investment and microeconomic reform work streams deliver substantive outcomes during Australia's hosting of APEC in 2007. The success of these meetings is a key objective, and reaffirms our standing and influence globally and in the region. Progress was made towards enhancing investment opportunities through modernising Australia's tax treaties, resulting in new treaties being signed with France and Norway, and work is continuing with the OECD to tackle harmful tax practices including tax evasion.

In the Asia-Pacific region, we have been working closely with our counterparts in support of their efforts to enhance growth and reduce poverty. Deployment of Treasury officials to Papua New Guinea, Solomon Islands and Nauru, as part of a whole-of-government effort, facilitated support to improve economic governance and wellbeing in the region. Treasury worked closely with AusAID and other agencies on implementation of the \$1 billion Australia Indonesia Partnership for Reconstruction and Development, announced by the Australian Government following the 2004 Boxing Day tsunami.

At home, our role as a central policy agency extends beyond our immediate responsibilities, to working with other agencies and consulting widely with stakeholders on specific elements of the Government's domestic agenda.

This includes enhancing the wellbeing of Australians through developing and implementing policies to improve participation in the workforce, welfare, work and family arrangements, education and training, energy, defence and national security, infrastructure, science and innovation, the environment, and rural and regional areas. Treasury also provided expertise to the development of the National Reform Agenda, an important package of reforms for our future potential and prosperity, as announced by the Council of Australian Governments (COAG).

Treasury took a lead role in the preparation of the 2006-07 Budget, delivered by the Treasurer in May of this year. This budget was as smooth as any in my experience, and I would like to record my appreciation to all those who worked on this budget.

Treasury received 5.9 per cent more in Government funding in the 2005-06 financial year, compared to the previous year. This funding related to specific Government initiatives and will start to decline from 2007-08 onwards. Delays in implementing these new programmes have led to the department recording substantial surpluses over the last two financial years. However a significant proportion of this money will be spent in the first few months of the new year as these programmes are completed. Notwithstanding recent surpluses, careful financial management will be required to ensure that the core activities of Treasury remain within budget over the coming years.

Treasury also had a central role in the development of the governance framework and legislation to give effect to the Government's Future Fund, a 2004 election commitment.

## **Our organisation**

Our ability to positively influence our environment and improve wellbeing relies entirely on our organisation and the people who make it up. It is their resourcefulness, dedication and rigour that allows Treasury to pursue its mission.

Our staff are our greatest asset, and three of our staff demonstrated their abilities in winning overseas scholarships to further their studies. Susie Thorne won a scholarship to study at the Ecole National d'Administration in France; Susan Bultitude won a scholarship to Japan's National Graduate Institute for Policy Studies; and Paul Hubbard won a Fulbright Postgraduate Award to undertake a Masters of Arts in International Relations at the University of Syracuse. These scholarships are highly competitive, and it is testimony to these three Treasury officers that they have been given this opportunity.

On a very different note, we lost one of our valued Treasury officers during the year. Natalie Barnes lost her battle with cancer in August 2005. Natalie was loved and admired by her friends and colleagues in Treasury. She was a first-class Treasury officer and an outstanding and courageous person. Our sincere condolences to her family; we miss her deeply.

## Part 1: Overview

The department continues to provide a broad range of learning and development opportunities for staff, as well as improving our frameworks for organisational development and self-assessment. We have established a Policy Evaluation Unit to provide an in-house centre of expertise for evaluating the development and implementation of policy in Treasury. We continued proactive management of staff wellbeing through workplace health and safety preventative and early intervention strategies, awareness raising and health activities. In keeping with a major corporate focus on information and knowledge management, we commenced consultations with staff for the development of our Information and Knowledge Management Strategic Plan.

The maturing workforce and tightening labour market reach well beyond Treasury. The focus on addressing the need to attract and retain the right staff in 2006-07 will continue, including further implementation of the Mature Age Employment Strategy.

Treasury received an unqualified audit report for its financial statements for the 2005-06 financial year.

### **2006-07 outlook**

A key output for Treasury this coming year will be preparation of the second Intergenerational Report, to assess the long-term sustainability of Australian Government finances in the face of demographic and other changes. This will be a critical product for Treasury, and underpins our role as a central policy agency with a focus on the long-term prosperity and wellbeing of the Australian people.

Additionally, the implementation of the COAG-agreed National Reform Agenda; the hosting of the G-20 Finance Ministers and Central Bank Governors in November 2006; and the next round of APEC meetings throughout 2007, offer substantial challenges and opportunities for us to further demonstrate the value we can provide in this central policy agency role.

2005-06 has proven to be a very busy, and very successful, year for Treasury and our staff, and I would like to thank and congratulate staff for their effort and achievements over the past year. It is through their collective professionalism and enthusiasm that Treasury can achieve the results that I have highlighted here.

Ken Henry  
Secretary to the Treasury



## CORPORATE STATEMENT

### TREASURY'S MISSION

Treasury's mission is to improve the wellbeing of the Australian people by providing sound and timely advice to the government, based on objective and thorough analysis of options, and by assisting Treasury ministers in the administration of their responsibilities and the implementation of government decisions.

### POLICY OUTCOMES

In carrying out its mission, Treasury is responsible for the following policy outcomes:

- sound macroeconomic environment;
- effective government spending arrangements;
- effective taxation and retirement income arrangements; and
- well functioning markets.

### Outcome 1: Sound macroeconomic environment

A sound macroeconomic environment is an essential foundation for strong, sustainable economic growth and the improved wellbeing of Australians. It is characterised by low inflation, low interest rates, healthy economic and employment growth, and a sustainable external position.

As many influences on macroeconomic outcomes are beyond the control of the government, policy aims to improve the prospects of the Australian economy, rather than to target specific outcomes or major economic indicators. Success is judged more by medium- to long-term performance relative to Australia's past, and to other countries, rather than by particular results in any year.

Treasury aims to contribute to a sound macroeconomic environment through:

- maintaining a deep understanding of the operations of the Australian economy and how government action might influence it;
- monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy;

## Part 1: Overview

- providing strategic advice to portfolio ministers on Australia's international economic policies and programmes, and supporting portfolio ministers' international activities; and
- shaping the development and implementation of Treasury's engagement strategies in East Asia and the Pacific region, and assisting counterpart governments in the region to pursue improved economic governance.

Macroeconomic Group is responsible for the outputs associated with Outcome 1.

### **Outcome 2: Effective government spending arrangements**

Government spending arrangements contribute to the overall fiscal outcome and also influence strong sustainable economic growth and the improved wellbeing of Australians.

Spending measures should be effective in meeting their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs, thus contributing to the wellbeing of Australians.

Ongoing advice from Treasury to the portfolio ministers assists in formulating, implementing and explaining government spending decisions. Treasury does this by:

- putting together the budget as the key strategic planning and resource allocation tool of the government;
- providing high quality input into government consideration of expenditure programmes; and
- advising on the effective financial operations of government collectively in Australia (including in relation to the Australian Government's debt management).

Fiscal Group is responsible for the outputs associated with Outcome 2.

### **Outcome 3: Effective taxation and retirement income arrangements**

Taxation and retirement income arrangements contribute to the overall fiscal outcome and influence strong sustainable economic growth and the improved wellbeing of Australians.

Taxation measures should meet revenue objectives (or other public policy objectives) and have regard to the principles of economic efficiency, horizontal and vertical equity and transparency, whilst minimising compliance and administrative costs. By meeting these objectives, taxation measures contribute to wellbeing, either directly or by providing the revenue base to finance government services.

Ongoing advice from Treasury to the portfolio ministers assists in formulating, implementing and explaining government taxation and retirement income decisions. Treasury does this by:

- providing sound and timely tax and retirement income policy advice and legislation;
- delivering strategic reviews of government revenue policies and other programmes which are delivered through taxation provisions; and
- providing accurate and timely information on material changes to the taxation revenue forecasts and projections.

Revenue Group is responsible for the outputs associated with Outcome 3. Revenue Group is also responsible for the development of tax legislation.

#### **Outcome 4: Well functioning markets**

Well functioning markets contribute to the achievement of high, sustainable economic and employment growth and the wellbeing of Australians, by enabling resources to flow to those parts of the economy where they can be used most productively.

Well functioning markets operate when investors and consumers have the skills, confidence and certainty to make decisions that are well informed and free from market distortions and impediments.

Treasury contributes to well functioning markets by providing advice on policy processes and reforms that promote:

- effective development and implementation of foreign investment and trade policy in support of well functioning markets and Australia's national interest;
- a well functioning and competitive financial system;
- sound corporate practices and financial reporting, and the regulation of corporations and financial services;
- competitive, efficient, well informed and safe markets; and
- assistance to all Australians to increase their financial knowledge and better understand the choices they can make in using and managing their money.

## Part 1: Overview

In addition, Markets Group provides:

- professional actuarial services to public sector clients;
- the Executive to the Takeovers Panel; and
- assistance to the Royal Australian Mint.

Markets Group is responsible for the outputs associated with Outcome 4.

## TREASURY PEOPLE VALUES

Treasury has its own people values to reflect the management approach and these are within the broader Australian Public Service framework.

Treasury people:

- strive for excellence;
- value teamwork, consultation and sharing ideas;
- value diversity among our people;
- treat everyone with respect;
- exhibit honesty in all our dealings; and
- treat colleagues with fairness.

Treasury people management principles:

- there will be open, two-way communication at all levels;
- accountabilities will be clearly defined;
- remuneration will be based on work performance and determined by fair and transparent processes; and
- staff will be assisted in achieving appropriate work and private life balance.

## TREASURY'S ROLE AND CAPABILITIES

Our mission statement reflects the breadth of our ministers' responsibilities and underscores the key importance for Treasury of a strong relationship with its ministers, built on trust and effective advice. We play a central policy agency role in the development and implementation of public policy, and in assisting Government in the identification of national policy priorities.

In assessing public policy issues, we apply a broad wellbeing framework comprising five elements:

- opportunity and freedom — that individuals have the capability to lead the lives they want to lead;
- the level of consumption possibilities available to the community over time (including the level of goods and services which are available. The definition includes non-market goods and services, such as voluntary and community work, the quality of the physical environment, health and leisure);
- the distribution of these consumption possibilities (including among different groups within society, across geographical regions and inter-generational issues);
- the overall level of risk borne by individuals and, in aggregate, by the community; and
- the level of complexity confronting Australians in the number of considerations individuals must take account of when making daily decisions about their lives.

The application of the wellbeing framework, along with the scope of policy responsibilities held by Treasury ministers, means that Treasury must bring a whole-of-economy approach to its advice and analysis, taking account of a broad range of issues, such as freedom, opportunity and the natural environment.

To be an effective central policy agency across our full range of activities, we work to ensure that we:

- effectively focus our efforts on the issues that really matter, based on our understanding of government and of our ministers' interests;
- anticipate policy developments, both inside and outside the Treasury portfolio;
- bring a strong analytical approach to all issues by applying our understanding of economic principles and tools, the framework for understanding wellbeing, our knowledge of Australia and relevant international policy experience, and an understanding of relevant interests;

## Part 1: Overview

- provide high-quality policy advice that is compatible with practical realities and ensure that Government policy is implemented either by Treasury or, where appropriate, by others;
- remain relevant over time through an inclusive and participatory involvement in policy processes, domestic and international engagement and continued sensitivity to the changes in community values and the policy environment; and
- consistently achieve results working within the government.

In broad terms, the capabilities Treasury needs to fulfil its role and deliver the outputs are:

- leadership and governance;
- the right people with the right skills, including high-quality analytical strengths; and
- systems to support, and investments to sustain, services.

The production and delivery of our outputs relies on:

- policy development, which covers identifying policy issues, shaping policy approaches, managing issues during a process of change, and providing up-to-date information;
- quantitative analysis of the economy, policy options and their impacts, and of government and departmental finances;
- policy implementation and development of legislation and related instruments;
- public consultation and information in the development of policy and legislation and ongoing management of issues;
- good working relationships within the Treasury portfolio and with external stakeholders;
- effective and collaborative international engagement; and
- administration of governance arrangements, legislation and programmes.

These activities are supported by people; financial and facilities management systems; knowledge and information management systems; communications systems; and strategic leadership at multiple levels in the organisation.

**Table 1: Treasury financial and staffing resources summary**

	<b>Budget 2006 \$'000</b>	<b>Actual 2006 \$'000</b>	<b>Budget 2007 \$'000</b>
<b>Administered expenses</b>			
Appropriation Acts No. 1 and 3	6,000	576	5,000
Appropriation Acts No. 2 and 4	515,160	511,459	187,996
Special Appropriations	37,649,250	38,121,938	39,161,647
Other expenses	-	5,732	-
<b>Total administered expenses</b>	<b>38,170,410</b>	<b>38,639,705</b>	<b>39,354,643</b>
<b>Revenue from government</b>			
Output Group 1.1 Macroeconomic	32,485	32,485	36,092
Output Group 2.1 Fiscal	14,818	14,818	15,775
Output Group 3.1 Revenue	41,483	41,483	42,326
Output Group 4.1 Markets	45,254	45,254	38,800
<b>Total revenue from government contributing to the price of departmental outputs</b>	<b>134,040</b>	<b>134,040</b>	<b>132,993</b>
<b>Revenue from other sources</b>			
Output Group 1.1 Macroeconomic	4,810	3,777	4,527
Output Group 2.1 Fiscal	284	226	270
Output Group 3.1 Revenue	769	712	676
Output Group 4.1 Markets	2,263	2,147	2,211
<b>Total revenue from other sources</b>	<b>8,126</b>	<b>6,862</b>	<b>7,684</b>
<b>Total revenue for departmental outputs (Total revenues from government and other sources)</b>	<b>142,166</b>	<b>140,902</b>	<b>140,677</b>
<b>Price of departmental outputs</b>			
Output Group 1.1 Macroeconomic	37,295	31,568	40,619
Output Group 2.1 Fiscal	15,102	14,500	16,045
Output Group 3.1 Revenue	42,252	40,448	43,002
Output Group 4.1 Markets	47,517	37,094	41,011
<b>Total price of departmental outputs</b>	<b>142,166</b>	<b>123,610</b>	<b>140,677</b>
<b>Total estimated resourcing (Total price of outputs and administered expenses)</b>	<b>38,312,576</b>	<b>38,763,315</b>	<b>39,495,320</b>
Average staff levels (number)	837	805	869

Notes: This resource table is presented in the four outcome structure effective from 2006-07 Budget. Actuals from 2005-06 have been realigned to the 2006-07 Budget for comparative purposes.

**Figure 1: Treasury portfolio outcome and output structure (as at 30 June 2006)**

<p><b>Portfolio Minister — Treasurer</b> The Hon Peter Costello MP</p> <p><b>Minister for Revenue and Assistant Treasurer</b> The Hon Peter Dutton MP</p> <p><b>Parliamentary Secretary to the Treasurer</b> The Hon Chris Pearce MP</p>	
<p><b>Department of the Treasury</b> Secretary: Dr Ken Henry</p> <p><b>Strong, sustainable economic growth and the improved wellbeing of Australians</b></p>	
<p><b>Outcome 1: Sound macroeconomic environment</b></p> <p>Output 1.1.1: Domestic economic policy advice and forecasting</p> <p>Output 1.1.2: International economic policy advice and assessment</p> <p><b>Outcome 2: Effective government spending arrangements</b></p> <p>Output 2.1.1: Budget policy advice and coordination</p> <p>Output 2.1.2: Commonwealth-State financial policy advice</p> <p>Output 2.1.3: Industry, environment and defence policy advice</p> <p>Output 2.1.4: Social and income support policy advice</p>	<p><b>Outcome 3: Effective taxation and retirement income arrangements</b></p> <p>Output 3.1.1: Taxation policy and legislation advice</p> <p>Output 3.1.2: Retirement income and saving policy and legislation advice</p> <p><b>Outcome 4: Well functioning markets</b></p> <p>Output 4.1.1: Foreign investment and trade policy advice and administration</p> <p>Output 4.1.2: Financial system and corporate governance policy advice</p> <p>Output 4.1.3: Competition and consumer policy advice</p> <p>Output 4.1.4: Actuarial services</p>
<p><b>Australian Bureau of Statistics</b> Statistician: Mr Dennis Trewin</p>	
<p><b>Outcome 1: Informed decision-making, research and discussion within governments and the community, based on the provision of a high quality, objective and responsive national statistical service</b></p> <p>Output 1.1.1: Economic statistics</p> <p>Output 1.1.2: Population and social statistics</p>	
<p><b>Australian Competition and Consumer Commission</b> Chairman: Mr Graeme Samuel AO</p>	
<p><b>Outcome 1: To enhance social and economic welfare of the Australian community by fostering competitive, efficient, fair and informed Australian markets</b></p> <p>Output 1.1.1: Compliance with competition, fair trading and consumer protection laws and appropriate remedies when the law is not followed</p> <p>Output 1.1.2: Competitive market structures and informed behaviour</p>	
<p><b>Australian Office of Financial Management</b> Chief Executive Officer: Mr Neil Hyden</p>	
<p><b>Outcome 1: To enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt servicing costs and an improvement in the net worth of the Commonwealth over time</b></p> <p>Output 1.1.1: Debt management</p>	
<p><b>Australian Prudential Regulation Authority</b> Chairman: Dr John Laker</p>	
<p><b>Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety, efficiency, competition, contestability and competitive neutrality</b></p> <p>Output 1.1.1: Policy development</p> <p>Output 1.1.2: Surveillance programmes</p> <p>Output 1.1.3: Prudential advice</p>	



**Figure 1: Treasury portfolio outcome and output structure (continued)**

<p style="text-align: center;"><b>Australian Securities and Investments Commission</b> Chairman: Mr Jeffrey Lucy AM</p> <p><b>Outcome 1: A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers</b></p> <p>Output 1.1.1: Policy and guidance about the laws administered by ASIC</p> <p>Output 1.1.2: Comprehensive and accurate information on companies and corporate activity</p> <p>Output 1.1.3: Compliance monitoring and licensing of participants in the financial system to protect consumer interests and ensure market integrity</p> <p>Output 1.1.4: Enforcement activity to give effect to the laws administered by ASIC</p>
<p style="text-align: center;"><b>Australian Taxation Office</b> Commissioner: Mr Michael D'Ascenzo</p> <p><b>Outcome 1: Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems</b></p> <p>Output 1.1.1: Shape, design and build administrative systems</p> <p>Output 1.1.2: Management of revenue collection and transfers</p> <p>Output 1.1.3: Compliance assurance and support — revenue collection</p> <p>Output 1.1.4: Compliance assurance and support for transfers and regulation of superannuation funds compliance with retirement income standards</p> <p>Output 1.1.5: Services to governments and agencies</p>
<p style="text-align: center;"><b>Corporations and Markets Advisory Committee</b> Convenor: Mr Richard St John</p> <p><b>Outcome 1: Fair and efficient financial markets characterised by integrity and transparency, and supporting confident and informed participation of investors and consumers</b></p> <p>Output 1.1.1: Annual report and discussion papers</p> <p>Output 1.1.2: Recommendations and reports</p>
<p style="text-align: center;"><b>Inspector-General of Taxation</b> Inspector-General: Mr David Vos AM</p> <p><b>Outcome 1: Improved administration of the tax laws for the benefit of all taxpayers</b></p> <p>Output 1.1.1: Identification of issues for review and prioritisation of work program</p> <p>Output 1.1.2: Provision of independent advice to the government on the administration of the tax laws</p>
<p style="text-align: center;"><b>Productivity Commission</b> Chairman: Mr Gary Banks</p> <p><b>Outcome 1: Well informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective</b></p> <p>Output 1.1.1: Government commissioned projects</p> <p>Output 1.1.2: Performance reporting and other services to government bodies</p> <p>Output 1.1.3: Regulation review activities</p> <p>Output 1.1.4: Competitive neutrality complaints activities</p> <p>Output 1.1.5: Supporting research and activities and statutory annual reporting</p>
<p style="text-align: center;"><b>National Competition Council</b> President: Mr David Crawford</p> <p><b>Outcome 1: The achievement of effective and fair competition reforms and better use of Australia's infrastructure for the benefit of the community</b></p> <p>Output 1.1.1: Advice provided to governments on competition policy and infrastructure access issues</p> <p>Output 1.1.2: Clear, accessible public information on competition policy</p>
<p style="text-align: center;"><b>Royal Australian Mint</b> Chief Executive Officer: Ms Janine Murphy</p> <p><b>Outcome 1: Satisfy the Reserve Bank of Australia's forecast of circulated coin</b></p> <p>Output 1.1.1: Coin production, associated policy advice and visitor services</p>

**Figure 2: Treasury outcome and output structure (as at 30 June 2006)  
Strong, sustainable economic growth and the improved wellbeing of Australians**

<b>Outcome 1: Sound macroeconomic environment</b>	
Output Group 1.1: Macroeconomic	
1.1.1	Domestic economic policy advice and forecasting
	Domestic Economy Division Macroeconomic Policy Division
1.1.2	International economic policy advice and assessment
	International Economy Division International Finance Division Pacific and Assistance Division G-20 and APEC Secretariat Overseas Posts
<b>Outcome 2: Effective government spending arrangements</b>	
Output Group 2.1: Fiscal	
2.1.1	Budget policy advice and coordination
	Budget Policy Division
2.1.2	Commonwealth-State financial policy advice
	Commonwealth-State Relations Division
2.1.3	Industry, environment and defence policy advice
	Industry, Environment and Defence Division
2.1.4	Social and income support policy advice
	Social Policy Division
<b>Outcome 3: Effective taxation and retirement income arrangements</b>	
Output Group 3.1: Revenue	
3.1.1	Taxation policy and legislation advice
	Business Tax Division Indirect Tax Division Individuals and Exempt Tax Division International Tax and Treaties Division Tax Analysis Division Tax Design Division Tax System Review Division Board of Taxation
3.1.2	Retirement income and saving policy and legislation advice
	Superannuation, Retirement and Savings Division
<b>Outcome 4: Well functioning markets</b>	
Output Group 4.1: Markets	
4.1.1	Foreign investment and trade policy advice and administration
	Foreign Investment and Trade Policy Division Foreign Investment Review Board
4.1.2	Financial system and corporate governance policy advice
	Corporations and Financial Services Division Financial System Division Takeovers Panel
4.1.3	Competition and consumer policy advice
	Competition and Consumer Policy Division Strategy, Communications and Group Services Unit Financial Literacy Foundation
4.1.4	Actuarial services
	Australian Government Actuary

Note: Treasury reorganised its outcomes from three to four in May 2006, to align its outcome reporting structure with the organisational structure. The previous Outcome 2: Effective government spending and taxation arrangements, was split into two outcomes: Outcome 2: Effective government spending arrangements; and Outcome 3: Effective taxation and retirement income arrangements. The previous Outcome 3: Well functioning markets has become Outcome 4.

**Figure 3: Treasury top management structure (as at 30 June 2006)**

<b>Secretary: Ken Henry</b>	
<b>Strategic Communications Division</b> General Manager: Irene Sim	
<b>Macroeconomic Group: Executive Director, Martin Parkinson</b>	
<b>Macroeconomic Group: Executive Director, David Parker</b>	
Chief Adviser, Macroeconomic: David Gruen	<b>Overseas posts</b>
<b>Domestic Economy Division</b> General Manager: Steven Kennedy	Washington: Minister-Counsellor: (Economic) Steve Morling
<b>Macroeconomic Policy Division</b> General Manager: Paul O'Mara	Paris: (OECD) Blair Comley and (Europe) Paul Lindwall
<b>International Economy Division</b> General Manager: David Pearl	Tokyo: Minister-Counsellor: (Economic) Ron Foster
<b>International Finance Division</b> General Manager: Roger Brake	Beijing: Minister-Counsellor: (Financial) Stephen Joske
<b>Pacific and Assistance Division</b> General Manager: Christine Barron	Jakarta: Counsellor: (South East Asia Financial) Vincent Ashcroft
<b>G-20 and APEC Secretariat</b> General Manager: Gordon de Brouwer	
<b>Fiscal and Corporate Services Group: Executive Director, David Tune</b>	
Principal Adviser, Fiscal: Peta Furnell	<b>Social Policy Division</b>
<b>Budget Policy</b> General Manager: David Martine	General Manager: Rob Heferen
<b>Industry, Environment and Defence</b> General Manager: Maryanne Mrakovcic	<b>Corporate Services</b> General Manager: Ian Robinson
<b>Commonwealth-State Relations</b> General Manager: Michael Willcock	
<b>Revenue Group: Executive Director, Mike Callaghan</b>	
Chief Adviser, Taxation: Tom Reid	<b>Tax Design Division</b>
<b>International Tax and Treaties Division</b> General Manager: Mike Rawstron	General Manager: Deidre Gerathy
<b>Individuals and Exempt Tax Division</b> General Manager: Mark O'Connor	<b>Superannuation, Retirement and Savings Division</b> General Manager: John Lonsdale
<b>Tax System Review Division</b> General Manager: Paul McCullough	<b>Indirect Tax Division</b> General Manager: Patrick Colmer
<b>Tax Analysis Division</b> General Manager: Nigel Ray	<b>Board of Taxation</b> General Manager: Sue Vroombout
<b>Business Tax Division</b> General Manager: Colin Johnson	
<b>Markets Group: Executive Director, Jim Murphy</b>	
Chief Adviser, Competition and Consumer Policy: Frances Perkins	<b>Corporations and Financial Services Division</b> General Manager: Geoff Miller
<b>Foreign Investment and Trade Policy Division</b> General Manager: Gerry Antioch	<b>Australian Government Actuary</b> General Manager: Peter Martin
<b>Financial System Division</b> General Manager: Chris Legg	<b>Takeovers Panel</b> Director: Nigel Morris
<b>Competition and Consumer Policy Division</b> General Manager: Steve French	<b>Financial Literacy Foundation</b> General Manager: Peter McCray



# Part 2:

## Report on performance

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## INTRODUCTION

The report on performance covers Treasury's administered items and departmental outputs for 2005-06.

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

Treasury reorganised its outcomes from three to four in 2005-06, to align its outcome reporting structure with the organisational structure. Changes to outcomes and outputs are detailed in the Outcome Overview sections of this report. Treasury's new outcome and output structure is reflected in Figure 1: Treasury's portfolio outcome chart, and Figure 2: Treasury's outcome and output structure chart in Part 1 of this report.

Performance outcomes are reported against the performance information published in the Treasury section of the *2005-06 Portfolio Budget Statements*.

## OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

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

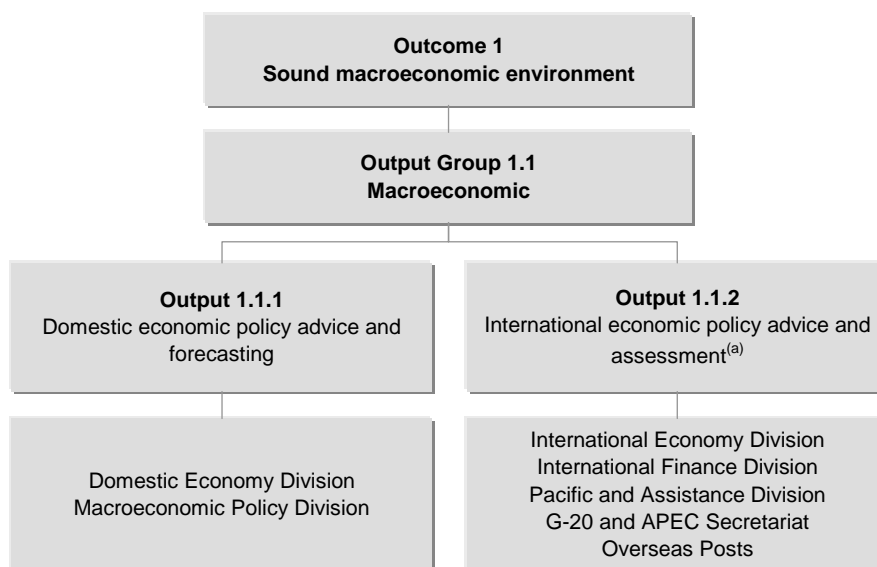
Treasury also provides advice on advancing Australia's interests at international forums and institutions such as the Group of Twenty (G-20), the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB), and the Asia-Pacific Economic Cooperation (APEC) process. Australia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

During 2005-06, Treasury provided strategic advice and assessments on a range of macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Its forecasts helped shape budget estimates and policy formulation. Treasury provided strategic advice on international economic policy issues, underpinning sustained growth, openness and sound governance in the global economy. Treasury also played a key role in advancing Australia's interests through international financial institutions and forums and bilaterally with a range of countries, particularly within the Pacific region.

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



**Figure 4: Outputs contributing to Outcome 1**



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

## KEY PRIORITIES IN 2005-06

Treasury's *2005-06 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- examining domestic and international developments affecting the Australian economy and forecasting the direction of the Australian and international economies;
- assisting in identifying policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- influencing international policy outcomes in favour of growth enhancement and poverty reduction, open trade and investment regimes, and market-oriented public policy based on rule of law and strong institutions through:
  - strengthening, effectively using and directly participating in international forums (including the IMF, World Bank, Organisation for Economic Co-operation and Development (OECD), ADB, G-20, APEC, Pacific Islands Forum Economic Ministers' Meeting and the East Asia Summit);
  - playing a lead role in the Government's initiatives to improve economic governance in the Pacific, particularly in Papua New Guinea (PNG), Solomon Islands and Nauru;

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- engaging directly with key counterparts in East Asia to strengthen relationships, build capacity and participate in policy dialogue; and
- providing technical assistance in the Asia-Pacific region.

## KEY OUTCOMES IN 2005-06

- The G-20 and APEC Secretariat continued preparations for Australia to host the G-20 meetings in November 2006 and the APEC meetings in March 2007.
  - For the G-20, this included further development of the policy agenda and logistics arrangements, as well as the organisation of policy analysis workshops that support the discussions of the deputies, ministers and governors of the G-20.
  - Treasury commenced preparations to host APEC in 2007.
- In the Asia-Pacific region, Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
  - Under the auspices of the Government Partnerships Fund, a partnership programme of capacity-building activities was developed with the Indonesian Ministry of Finance. As part of the programme, a senior Treasury official will be deployed to Indonesia on a long-term basis.
  - Treasury officials attended and participated in a range of conferences addressing economic and policy issues, received delegations for policy discussions and made regular visits to the region in 2005-06.
- Economic forecasts assisted the Government with policy formulation.
- Briefings were prepared for the Treasurer on economic statistics released by the Australian Bureau of Statistics (ABS) and the private sector, including advice on their implications for the economic outlook.
- The Treasurer regularly received advice from Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, four issues of the *Economic Roundup* and working papers and speeches to better inform the public about economic developments and issues.
  - The *Economic Roundup* examined the external sector, including mineral commodity exports, Australia's current account deficit and the terms of trade, as well as Australia's productivity trends and fiscal sustainability.

Outcome 1: Sound macroeconomic environment

- For the 2006-07 Budget, Statement 4 of Budget Paper No. 1, *Australia in the World Economy*, focused on the increasing economic importance of China and India and the resulting implications for Australia.
- Treasury continued to help the Government take an active role in international forums and institutions to influence outcomes supportive of sustained international economic stability, growth and development.
  - Australia helped to lead the debate around reforming the governance of the IMF.
  - Australia continued to engage with the IMF, World Bank, European Bank for Reconstruction and Development and ADB on strategic, governance and effectiveness issues.
- Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges, including PNG, Solomon Islands and Nauru.

**Table 2: Financial and staffing resources summary for Outcome 1**

	Budget 2006 \$'000	Actual 2006 \$'000	Budget 2007 \$'000
<b>Administered expenses</b>			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	24,867	28,498	31,647
Other expenses	-	-	-
<b>Total administered expenses</b>	<b>24,867</b>	<b>28,498</b>	<b>31,647</b>
<b>Revenue from government</b>			
<b>Output Group 1.1 Macroeconomic</b>			
Output 1.1.1 Domestic economic policy advice and forecasting	8,473	8,473	8,397
Output 1.1.2 International economic policy advice and assessment	24,012	24,012	27,695
<b>Total revenue from government contributing to the price of departmental outputs</b>	<b>32,485</b>	<b>32,485</b>	<b>36,092</b>
<b>Revenue from other sources</b>			
<b>Output Group 1.1 Macroeconomic</b>			
Output 1.1.1 Domestic economic policy advice and forecasting	158	197	135
Output 1.1.2 International economic policy advice and assessment	4,652	3,580	4,392
<b>Total revenue from other sources</b>	<b>4,810</b>	<b>3,777</b>	<b>4,527</b>
<b>Total revenue for departmental outputs (Total revenues from government and other sources)</b>	<b>37,295</b>	<b>36,262</b>	<b>40,619</b>
<b>Price of departmental outputs</b>			
<b>Output Group 1.1 Macroeconomic</b>			
Output 1.1.1 Domestic economic policy advice and forecasting	8,631	8,141	8,532
Output 1.1.2 International economic policy advice and assessment	28,664	23,427	32,087
<b>Total price of departmental outputs</b>	<b>37,295</b>	<b>31,568</b>	<b>40,619</b>
<b>Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)</b>	<b>62,162</b>	<b>60,066</b>	<b>72,266</b>
Average staff levels (number)	201	183	213

Notes: This resource table is presented in the four outcome structure effective from the 2006-07 Budget in May 2006. The Budget for administered expenses for 2006 is as per the *2005-06 Portfolio Additional Estimates Statements*. Actuals from 2005-06 have been realigned for comparative purposes to the 2006-07 Budget. The Budget for departmental price of outputs for 2006 and administered expenses and departmental price of outputs for 2007 is as per the *2006-07 Portfolio Budget Statements*.

## **OUTPUT 1.1.1: DOMESTIC ECONOMIC POLICY ADVICE AND FORECASTING**

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

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

### **PERFORMANCE INFORMATION**

The key performance indicators are:

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

### **ANALYSIS OF PERFORMANCE**

#### **Policy advice and inputs into policy processes**

During 2005-06, Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included advice on implications for the economic outlook and analysis to assist the Treasurer in responding to the releases.
- As part of the Business Liaison Programme, Treasury officers discussed issues relating to business activity with organisations in major business centres and regional Australia. Summaries of the liaison findings appeared in the *Economic Roundup*.
- Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.

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- The Treasurer was provided with advice on fiscal policy and strategies as part of developing the 2006-07 Budget.
- In preparing advice to the Secretary as a Reserve Bank of Australia (RBA) Board member, Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- Treasury also provided advice on administrative arrangements for the RBA.
- Treasury made a submission to the House of Representatives Standing Committee conducting a public inquiry into current and future directions of Australia's service industries.
- Similarly, Treasury made a submission to the House of Representatives Standing Committee inquiring into the outlook for Australia's manufactured exports.
- Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.

## Economic forecasts

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

Forecasting activity focused on 2005-06 and 2006-07, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2005-06* and the 2006-07 Budget. These forecasts helped develop policy that contributed to the solid performance of the Australian economy. In 2005-06, particular attention was paid to analysing movements in commodity prices, including oil prices, and their implications for economic growth.

Treasury's forecast for economic growth in 2005-06 was revised down from 3 per cent in the 2005-06 Budget to 2½ per cent in the 2006-07 Budget. This reflected slower export growth, a moderation in household consumption in response to higher than expected petrol prices and a more pronounced slowing in dwelling investment. These factors were partially offset by stronger business investment.

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

## Contributions to public awareness and debate

Important contributions to public awareness and debate were delivered to a wide audience including international forums, foreign government agencies, state government agencies, tertiary institutions and the Australian public. Treasury economic publications and selected presentations are available from [www.treasury.gov.au](http://www.treasury.gov.au).

Published economic forecasts, such as those contained in the *Mid-Year Economic and Fiscal Outlook 2005-06*, were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on economic growth in the short term. A comprehensive report on the domestic and international outlook, focused on 2006-07, was provided in Statement 3 of Budget Paper No. 1, *Economic Outlook*.

Statement 1 of Budget Paper No. 1, *Fiscal Strategy and Budget Priorities*, discussed the medium-term approach to fiscal policy, establishment of the Future Fund and the public debt position.

Statement 4 of Budget Paper No. 1, *Australia in the World Economy*, focused on the increasing economic importance of China and India and the resulting implications for Australia. In particular, the increased demand for resources by China and other economies has contributed to a huge rise in Australia's terms of trade. Compared with previous episodes, the Australian economy has adjusted well to the current terms of trade boom. The smoother adjustment partly reflects the benefits of a floating exchange rate, an independent monetary policy regime and competitive labour and product markets. Statement 4 also examined the continuing process of globalisation, population ageing and Australia's possible exposure to adverse external shocks, such as terrorism, pandemics and threats to energy security.

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

Media and market commentary enhanced public awareness about the Australian economy's current performance, outlook and risks to the outlook.

Treasury's *Economic Roundup* analysed key issues underpinning Australia's recent economic performance. Reflecting current interest in the external sector, articles covered mineral commodity exports, Australia's current account deficit and the terms of trade. In addressing another current theme, the Summer 2006 *Economic Roundup* contained articles on Australia's productivity trends, fiscal sustainability and pre-funding strategies in OECD countries, health promotion, innovation across OECD countries, recent developments in Australian bond yields and issues around the measurement of happiness and wellbeing in OECD countries. *Economic Roundup* includes contributions from all groups within Treasury. For example, the Winter *Economic Roundup* included articles analysing Australia's tax system.

Treasury's working paper series covered issues such as the evolution of fiscal policy in Australia, macroeconomic effects of an influenza pandemic, competitiveness of Australia's

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economy and importance of geographic isolation in explaining the difference between productivity levels in Australia and the United States.

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

Bilateral meetings with a range of external delegations were held and advice was provided on forecasting methodology and economic policy development.

Treasury provided training to the economic forecasting sections of the Bank of Thailand and the Indonesian Ministry of Finance.

The Secretary and other senior Treasury officials spoke on the short-term macroeconomic outlook, fiscal and monetary policy, the medium-term fiscal strategy and longer-term challenges. Particular issues addressed included Australia's terms of trade and current account deficit. The speeches were to organisations such as the Australian Business Economists, the Australian Industry Group's Economy 2006 Forum, the Leading Australia's Future in the Asia-Pacific programme, and the Cape York Institute. These speeches are available on the Treasury website.

### Reviews of economic data

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

## **OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT**

International Economy Division, International Finance Division, Pacific and Assistance Division and the G-20 and APEC Secretariat in Macroeconomic Group are responsible for delivery of Output 1.1.2: International economic policy advice and assessment.

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



## PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to international economic and financial issues;
- participation in international forums is effective and bilateral dialogue facilitates achievement of government objectives;
- effective hosting of G-20 meetings and associated workshops in 2006;
- preparations are made for the effective hosting of APEC meetings and associated workshops in 2007;
- advice on and direct support for improving economic governance and policies and building capacity in PNG, Solomon Islands and Nauru is effective;
- achievement of government objectives is facilitated in international forums, including strengthening the international financial system, progressing multilateral debt relief and achieving institutional reform in the multilateral development banks; and
- timely and accurate financial transactions with international financial institutions are made with due regard to minimising cost and risk for Australia.

## ANALYSIS OF PERFORMANCE

### Facilitation of government objectives in international forums

#### International Monetary Fund

In 2005-06, the IMF continued to work to promote macroeconomic and financial stability at the global and national levels. Australia continued to be actively engaged in this work, attending regular meetings of the International Monetary and Financial Committee Deputies and other forums, including the G-20. An important component of Australia's work as chair of the G-20 was to help lead the debate on reforming IMF governance.

The Managing Director released his report on the IMF's Medium-Term Strategy in September 2005, proposing a wide ranging reform agenda to help focus the work of the IMF and improve operational effectiveness. Australia has previously called for improved focus and effectiveness, and welcomed the report that proposes many reforms that Australia has advocated.

In June 2006, the Managing Director of the IMF visited Australia to meet with the Prime Minister, the Treasurer, the Minister for Foreign Affairs, the Shadow Treasurer, the Deputy Governor of the RBA, and other senior officials and representatives of the

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academic and business community. Treasury coordinated the visit, and also organised the IMF's annual Article IV consultations in June.

### **European Bank for Reconstruction and Development**

In 2005-06, the European Bank for Reconstruction and Development (EBRD) completed its third Capital Resources Review, outlining priorities and direction over the forthcoming five years. The review confirmed a further shift in the EBRD's activities to the east and south, with members who recently joined the European Union graduating within five years, and closure of some resident offices in central Europe.

The Capital Resources Review was endorsed by the Board of Governors at the 2006 Annual Meeting, held in May in London. A statement on behalf of Australia and New Zealand was delivered at the Annual Meeting by the New Zealand High Commissioner. The statement focused on Australia and New Zealand's key priorities for the EBRD, largely the implementation of the Capital Resources Review and ensuring good governance.

### **World Bank**

Australia continues to support the World Bank's objective of reducing global poverty. Australia worked to strengthen the World Bank's engagement in the Asia-Pacific region, emphasising the importance of a strong operational approach to address the development challenges confronted in small and fragile states. Australia also supported the World Bank's focus on anti-corruption and governance issues and improving the development effectiveness of aid flows.

In March 2006, the IMF and World Bank announced a review of collaboration between the institutions. The Executive Director of Revenue Group, Mike Callaghan, is a member of the External Review Committee which is scheduled to provide recommendations to IMF and World Bank management by the end of 2006.

### **Asian Development Bank**

Australia contributed to the ADB's decision-making through representation on its Board of Directors and ministerial representation at the 2006 Annual Meeting in Hyderabad, India. At the meeting, the Minister for Revenue and Assistant Treasurer, the Hon Peter Dutton MP, welcomed President Kuroda's announcement that the ADB will review its long-term strategic framework, highlighted the need for greater assistance to fragile states and encouraged the focus on internal governance to strengthen development effectiveness. More generally, Australia continued to engage the bank on its long-term strategic direction. Australia supported the Medium-Term Strategy II and enhanced regional cooperation and integration strategy, as well as the focus on catalysing investment, improving governance and preventing corruption to help reduce poverty in the region.

### **Debt relief**

Throughout 2005-06, Australia continued to support the provision of debt relief through the Heavily Indebted Poor Countries Initiative. This provides multilateral debt relief to the world's poorest and most heavily indebted countries, which have demonstrated commitment to reform. In 2005-06, Australia provided the World Bank with \$14.7 million for this initiative.

The Australian Government continued to provide a moratorium on scheduled debt repayments until the end of 2005 for governments of tsunami-affected countries. The moratorium was agreed by all Paris Club creditors in March 2005.

In May, the Australian Government signed the bilateral agreement with Iraq that put in place the legal arrangements to fulfill Australia's commitment, as a member of the Paris Club, to provide 80 per cent bilateral debt relief to Iraq.

In the 2006-07 Budget, the Treasurer announced that Australia had committed \$136 million to the World Bank for the Multilateral Debt Relief Initiative. Australia is one of only a handful of countries to have committed to an up-front payment to cover the first ten years of the World Bank's costs under this initiative.

### **Timely and accurate financial transactions**

#### **Management of international financial commitments**

As part of its membership of the international financial institutions, Australia makes a significant financial commitment to support their operations.

Treasury manages most of Australia's financial relations with the IMF, along with its capital contributions to the World Bank Group (IBRD, MIGA and IFC), ADB and EBRD.

Australia did not enter into any new commitments on general capital increases for the institutions during 2005-06. During the year, Treasury did conduct routine financial transactions to manage existing obligations. These transactions were conducted in a timely and efficient manner and are summarised in Table 3.

**Table 3: Financial transactions with the international financial institutions in 2005-06<sup>(a)</sup>**

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF Net Remuneration	Revenue	4	25,676
IMF Burden Sharing Refunds	Revenue	3	320
IMF Maintenance of value	Financing transaction	1	152,523
Payments			
IMF Special Drawing Rights allocation charges	Expense	4	26,629
IMF Poverty Reduction and Growth Facility	Financing transaction	1	2,500
EBRD Promissory note drawdown	Financing transaction	1	2,299

(a) Transactions are reported on a cash basis. There were no transactions relating to the IBRD, IFC, MIGA or ADB. Australia is a participant in the IMF's Financial Transactions Plan. Further information on these transfers is reported in Australia and the International Financial Institutions Annual Report to Parliament.

### Organisation for Economic Co-operation and Development

Treasury officials participated in the work of OECD committees on macroeconomic and microeconomic policies, structural reform, forecasting, taxation, statistics, budget policy, consumer policy, competition policy, corporate governance, insurance and private pensions, financial markets, sustainable development and investment, and capital markets. Treasury was involved in developing Australia's position on the selection of a new OECD Secretary-General as well as on new governance arrangements.

David Pearl, General Manager, International Economy Division, attended the OECD's Ministerial Council Meeting in May 2006 and participated in discussions on the OECD's Economic Outlook and country experiences with structural reform.

Treasury convened the OECD-sponsored Global Forum on Harmful Taxation Melbourne in November 2005. The forum was opened by the Treasurer, and attracted representatives from over 50 OECD and non-OECD jurisdictions.

Treasury organised the OECD's mission to Australia in March 2006 to review the Australian economy. Treasury also participated actively in the review of member and non-member economies, contributing to best practice policy development and influencing other member countries on matters of significance to Australia.

### Aid and development policy

Treasury contributed to policy formulation on key elements of Australia's aid programme and development policies. Treasury provided advice in the context of the Prime Minister's announcement on 13 September 2005 of the Government's goal to double overseas aid to about \$4 billion by 2010, conditional on strengthened governance and reduced corruption in recipient countries. Treasury also contributed significantly to the development of the Government's Aid White Paper, released by the Minister for Foreign

Affairs on 26 April 2006, which provides the strategic framework to guide the direction and delivery of Australia's overseas aid programme over the next ten years. Treasury is represented on the recently established Development Effectiveness Steering Committee which provides high level advice to the Government on aid effectiveness and priorities.

### **Relations with East Asia**

Treasury has continued to advance its engagement with key Asian economies, particularly with Indonesia, Japan and China.

Treasury continued its engagement with Indonesia under the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD). In September 2005, the Treasurer visited Indonesia where he met with senior Indonesian Government officials and visited areas of Aceh devastated by the 2004 Boxing Day tsunami. The Treasurer sits on the AIPRD Joint Commission and Treasury's Secretary is one of the five agency heads on the AIPRD Secretaries' Committee. Treasury provides advice to the Secretaries' Committee on all aspects of the programme.

An important component of the AIPRD is the \$50 million Government Partnerships Fund (GPF), which seeks to promote government-to-government cooperation, focusing on exchanging skills, knowledge and expertise with key public sector institutions in Indonesia. Under the GPF, Treasury has established a programme of capacity-building activities with our Indonesian counterparts. As part of this programme, Treasury expects to deploy a senior official to Indonesia to provide direct policy development assistance.

During the year senior Treasury officials gave addresses on issues of importance to Australia and East Asia, including financial challenges and opportunities in the Asia-Pacific region for the 21st century, and Asian economic growth prospects and the impact on Australia. The Treasurer also delivered a number of speeches on similar topics, including international demographic and economic change, and what it means for Australia, and energy security in the Asia-Pacific region. The Treasurer also featured Asia in his speech to the Australian-American Leadership Dialogue Forum.

As part of the Government's commitment in the 2004-05 Budget to promote economic security in East Asia, Treasury officials participated in a number of regional conferences dealing with economic and policy issues of importance to the region.

Gordon de Brouwer, General Manager, G-20 and APEC Secretariat, visited Tokyo in October 2005 and participated in the Asian Development Bank Institute's Seventh Tokyo Round Table on Capital Market Reform in Asia. Roy Nixon, Manager, International Investment and Compliance Unit, visited South Korea in November 2005 to participate in the APEC Investment Opportunities Conference. Treasury provided financial support and sent participants to the Asia Economic Panel Meeting held in September 2005 in Sydney. Treasury also provided funding to support Professor Allan Fels' OECD Secretary-General campaign, which helped raise Asia's profile and promoted greater OECD engagement with the region.

## Part 2: Report on performance

More generally, Treasury continued to receive delegations from the region for discussions of policy issues. Treasury hosted senior officials from the Japanese Ministry of Finance in August 2005, including the Vice Minister for International Affairs, Hiroshi Watanabe, for discussions on regional and global economic developments. Treasury facilitated the secondment of a Chinese Ministry of Finance official to the Victorian Department of Treasury and Finance under the auspices of the United Nations Development Programme. In November-December 2005, Treasury hosted three interns from the Indonesian Ministry of Finance under a World Bank programme. Treasury also helped establish the first AusAID-funded Joint Fiscal Policy Course for Chinese and Indonesian Government officials, held in March 2006. As part of the course, senior Treasury officials presented lectures on issues such as demographics and fiscal policy.

Canberra-based Treasury officials regularly visited the region in 2005-06. In addition, three Treasury officials remained posted to Beijing, Jakarta and Tokyo, to assist Treasury's understanding of conditions in regional economies. They continued to build closer contact with Treasury's counterparts in Japan, South Korea, China, Hong Kong, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines, and, as part of the team at the relevant embassies, helped enhance Australia's relations with the region.

### **Relations with Pacific economies**

Treasury provides policy advice to Australian Government ministers and departments on economic and fiscal issues relating to the Pacific, particularly Solomon Islands, PNG and Nauru where Treasury officers have been deployed as part of whole-of-government approaches.

#### **Pacific Islands Forum Economic Ministers' Meeting**

The Treasurer attended the tenth annual Pacific Islands Forum Economic Ministers' Meeting in Honiara, Solomon Islands in July 2006. The meeting focused on the necessity to improve the environment for economic growth in the Pacific and the importance of stronger governance to deliver stability and improved living standards.

## Policy advice

### Economic reconstruction issues

#### Solomon Islands

The Financial Management Strengthening Program is part of the Regional Assistance Mission to the Solomon Islands to assist the Solomon Islands Government in developing fiscal policy by improving fiscal and financial management systems, strengthening tax administration, managing public debt and building the capacity of Solomon Islanders to perform these functions. Three Treasury officers were deployed to the programme, including one as the Under-Secretary of the Department of Finance and Treasury. Treasury officers assisted the Solomon Islands Government to use the budget process as a mechanism to articulate its priorities through accountable and transparent spending decisions. Treasury officers also supported the Solomon Islands Government's processes for renegotiating government debt.

In addition, three Treasury officers, deployed to the Economic Reform Unit within Solomon Islands Department of Finance and Treasury, continued to engage with government, donors and other stakeholders to identify opportunities for economic reform and facilitate its implementation. For example, Treasury officers in the Economic Reform Unit worked with the Solomon Islands Department of Commerce, Industries and Employment to coordinate technical assistance, public consultations and legislative drafting for the new Foreign Investment Act which came into effect on 26 June 2006; contributed to a discussion paper, *A Better Tax System for Solomon Islands*, launched on 13 December 2005; and provided advice on the Goods Tax and Import Duty Exemption Guidelines to help reduce corruption in the Solomon Islands tax system by establishing a more transparent, fair and accountable exemptions process.

#### Papua New Guinea

The Papua New Guinea-Australia Treasury Twinning Scheme provides for short-term reciprocal placements. In 2005-06, two Treasury officers were deployed to the PNG Treasury, one PNG Treasury officer was deployed to work in the Australian Treasury and two PNG Treasury officers were deployed to the Australian Department of Finance and Administration. One PNG Treasury officer is also studying at the Australian National University.

Treasury works closely with other agencies involved in the economic and public sector reform component of the Enhanced Cooperation Program. Treasury officers deployed to the PNG Treasury under the programme worked closely with the PNG Treasury Secretary and senior officers.

Deployed Treasury officers assisted their PNG counterparts to establish the framework for the 2006 and 2007 Budgets within the context of a sustainable medium-term fiscal strategy. They also provided significant assistance to the Public Sector Rightsizing Working Group, tasked to advise the PNG Government on realigning expenditures against priorities under the Medium-Term Development Strategy (such as primary

## Part 2: Report on performance

education and health), and the Public Expenditure Review and Rationalisation Implementation Committee. Treasury officers also assisted the PNG Treasury on taxation policy, financing issues arising from the proposed PNG-Australia gas pipeline, and financial market regulation.

### Nauru

As part of the Economic Advice and Governance Assistance Program, two Treasury officers are deployed to the Nauru Ministry of Finance, one as the Secretary of Finance. During 2005-06, these officers assisted with development of Nauru's 2006-07 Budget and provided advice on state-owned enterprise reform and financial sector reform. With the assistance of Treasury officers, in October 2005, Nauru was removed from the OECD's Financial Action Task Force Non-cooperative Countries or Territories list.

### The Group of Twenty

The G-20 Finance Ministers' and Central Bank Governors' forum<sup>1</sup> brings together policymakers with the capacity and authority to shape the international economic and financial environment. The G-20's comparative advantage lies in its relatively small but diverse membership, representing a balance of advanced and developing country views.

Australia is host of the G-20 in 2006 and the Treasurer will chair its annual meeting in November in Melbourne. Throughout 2005-06, Treasury has been preparing for this meeting to deliver both policy and operational objectives.

The key agenda themes are reform of Bretton Woods institutions, global energy and minerals markets, demographic change, domestic economic policies and principles, and aid effectiveness.

The G-20 has had a mandate to review the Bretton Woods institutions from its inception in 1999. In 2006, the G-20 provided further focus to the reform agenda and helped sustain the momentum for reform, playing a key role in securing an agreement on IMF quota and governance reform at the IMF/World Bank Annual Meetings in Singapore in September 2006.

Australia introduced the theme of global energy and minerals markets for its 2006 host year. Discussion has focused on the broader effects of changing resource markets and the implications for economic growth and development. The G-20 is an ideal forum for such a discussion as it enjoys representation among the key resource producers and consumers.

G-20 dialogue on demographic change is focusing on the impact on economic growth, encompassing the capital market implications of ageing societies, alongside a continuing focus on labour mobility issues.

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<sup>1</sup> G-20 members are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom and the United States. The European Union is represented by the Council presidency and the President of the European Central Bank. The Managing Director of the IMF and the President of the World Bank, plus the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate as ex officio members.



In its Accord for Sustained Growth (2004), the G-20 agreed on a set of domestic policy principles, including the importance of robust domestic institutions, good governance, sound structural policies and stable macroeconomic frameworks. In 2006, discussion has focused on the implementation of these principles.

Following donors' commitments in 2005 to significant increases in aid volumes, the G-20 has considered the effective use of aid.

Australia remains a member of the G-20 management, comprising the previous, current, and future chairs (China, Australia and South Africa). Treasury officials participated in deputies' meetings by video-conference in November and February, and attended meetings in March in Adelaide and in June in Alberta.

In 2005-06, Treasury established a Consultation Group with the Victorian Government to coordinate support for the delivery of the G-20 Finance Ministers' and Central Bank Governors' meeting across Federal and State jurisdictions. Treasury is also represented on a Security Working Group and sub-committees that address the national and state security issues associated with hosting a high-profile international meeting.

Treasury briefed the Treasurer throughout 2005-06 on the G-20 themes and logistics, as well as briefing delegations to two G-20 deputies' meetings, four G-20 workshops, and the 2005 G-20 Finance Ministers' and Central Bank Governors' meeting.

Treasury provided a background paper on Demographic Challenges and Migration for the G-20 deputies' meeting in September 2005 and a paper on Reform of Bretton Woods Institutions for both the G-20 deputies' meeting and the G-20 Ministers and Governors' meeting in 2005. In early 2006, Treasury papers on IMF quota reform and broader IMF and World Bank governance reform were provided to other G-20 members as background for the March G-20 deputies' meeting in Adelaide, before being released publicly.

G-20 members participate in specially convened workshops that provide analytic support to the policy discussions of the deputies and ministers and governors. Treasury officials represented Australia at the following G-20 workshops in 2005-06: Economic Growth, in August 2005 in Pretoria; Demographic Challenges and Migration, in August 2005 in Sydney; Reform of Bretton Woods institutions, in February 2006 in Tokyo; and Energy and Resources, in June 2006 in Alberta.

As part of Australia's host year responsibilities for the G-20, Treasury organised several G-20 meetings, involving venue management, contract negotiations, delegate liaison and event management. Treasury successfully delivered the Demographic Challenges and Migration Workshop, in August 2005 in Sydney; Roundtable on Global Savings and Investments Patterns and the Changing Structure of the World Economy, in March 2006 in Adelaide; and the G-20 Finance and Central Bank Deputies' meeting, also in March 2006 in Adelaide.

## Part 2: Report on performance

Treasury prepared and began implementing an outreach strategy publicising Australia's chairing of the G-20 in 2006, Australia's role in the forum and the G-20's place in global economic governance. The Treasurer promoted the G-20 2006 agenda through a speech in Beijing after attending the G-20 2005 Ministers' and Governors' meeting and a piece published in the *China Daily* in October 2005.

### **Asia-Pacific Economic Cooperation**

The Treasurer received policy advice and briefings for the twelfth APEC Finance Ministers' Meeting, in September 2005 in Jeju Island, Korea. The meeting focused on the progress by APEC economies towards freer and more stable capital flows and the challenges facing ageing economies.

Treasury conducted policy and capacity building initiatives within the APEC Finance Ministers' process. Treasury co-sponsored workshops in February 2006 (Fiscal Management I), April 2006 (Insolvency Reform), and June 2006 (APEC Future Economic Leaders' Think Tank). Treasury officials also participated in key discussions at the Finance Ministers' Technical Working Group in December 2005 and June 2006.

Treasury provided assistance to Vietnam's Ministry of Finance in hosting the APEC Finance Ministers' Meeting in 2006 and commenced preparations to host the APEC Finance Ministers' Meeting in 2007.

Treasury sought to re-engage with the Economic Committee given its new policy focus on structural reform mandated by the APEC Leaders' Agenda to Implement Structural Reform. Treasury officers attended meetings in September 2005 and February 2006.

The Investment Experts Group chaired by Treasury is pursuing a substantial work programme (in conjunction with OECD, United Nations Conference on Trade and Development and other international organisations) on investment liberalisation and facilitation in the region. Treasury officers attended five meetings in Japan, Korea and Vietnam during the year.

## OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

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

Fiscal Group focuses on the core government activities of producing the Australian Government Budget and related updates; advising on debt management policy; reviewing the funding of other levels of government; and advising on core government services, such as social policy, health policy, labour market participation, industry and environment policy, and defence and national security policy. Policy advice includes attending to the need to address pressures from an ageing population by improving participation, productivity and fiscal sustainability.

During 2005-06, Treasury devoted significant resources to delivering services related to key budget products, administered payments to the States and Territories and to the development of the Council of Australian Government's (COAG) National Reform Agenda announced in February 2006.

By providing advice on welfare to work, education and training, immigration, health, water reform, climate change, defence and national security, and industrial relations reform, Treasury contributed significantly to policy development. Major contributions related to Government funding packages and/or measures announced in the 2006-07 Budget in relation to family assistance, child care, support for older Australians and carers, water infrastructure, illegal foreign fishing, venture capital industry initiatives, health and aged care, mental health care, education, strengthening indigenous communities, abolition of state taxes as agreed under the Intergovernmental Agreement, defence and national security.

### ORGANISATIONAL CHANGES

To better align reporting against the organisation's current structure, Outcome 2: Effective Government Spending and Taxation Arrangements, which incorporated both Fiscal and Revenue Groups, was split in 2005-06 into:

- Outcome 2: Effective government spending arrangements (Fiscal Group), and
- Outcome 3: Effective taxation and retirement income arrangements (Revenue Group).

Part 2: Report on performance

Within Outcome 2, Output 2.1.3: Industry, environment and social policy advice was split into:

- Output 2.1.3: Industry, environment and defence policy advice which covers the Industry, Environment and Defence Division, and
- Output 2.1.4: Social and income support policy advice which covers the Social Policy Division.

**Figure 5: Outputs contributing to Outcome 2**



## KEY PRIORITIES IN 2005-06

Policy advice from Fiscal Group covers a broad spectrum. Strategies to further enhance the Group's capabilities in policy advising include developing specialist expertise in policy design, further developing key partnerships with other participants in the policy process and focusing on the strategic assessment of emerging core issues. Key priorities in 2005-06 included:

- developing and advising on budget policies and government expenditure programmes, with a focus on programmes with significant economic or budgetary implications;
- providing advice on financial relations between the Australian Government and the States and Territories;
- developing policies relating to the Australian Government's debt portfolio and managing the portfolio;
- implementing the framework to support the establishment of the Future Fund;
- promoting policies to use resources efficiently and sustainably and improve the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth;
- producing the *Final Budget Outcome 2004-05*, *Mid-Year Economic and Fiscal Outlook 2005-06* and, 2006-07 Budget;
- providing advice on issues such as defence and national security, infrastructure, energy, science and innovation, the environment and rural and regional policy;
- involvement in the development of the human capital elements of the National Reform Agenda;
- assisting with implementation of Welfare to Work; and
- assisting in developing policies in relation to mental health, the health workforce and the Australian Better Health Initiative.

## KEY OUTCOMES IN 2005-06

Key achievements for Treasury during 2005-06 were:

- advising on the fiscal outlook and budget priorities consistent with the medium term fiscal strategy;
- initiating the review of the Commonwealth Grants Commission's methodology for distributing goods and services tax (GST) revenue, obtaining agreement from all States and Territories to abolish taxes under the Intergovernmental Agreement and making timely and accurate payments of GST revenue and other administered funds to the States;
- contributing to the harmonisation of Australian accounting standards with the Government Finance Statistics (GFS) framework;
- developing the governance framework and legislation for the Future Fund;
- advising the Government on venture capital, innovation, and industry policy issues, including venture capital initiatives announced in the 2006-07 Budget;
- continuing to be active in the areas of greenhouse, water infrastructure issues, including measures to enhance the infrastructure along the River Murray announced in the 2006-07 Budget, agricultural and natural resource management, and other environmental issues;
- with the Department of Finance and Administration, delivering the *Final Budget Outcome 2004-05* (September), the *Mid-Year Economic and Fiscal Outlook 2005-06* (December), and the 2006-07 Budget (May);
- advising on implementation of the Welfare to Work reform package which commenced on 1 July 2006;
- continuing to contribute to the development of immigration policy, especially skilled migration;
- contributing significantly to the development of education policy, particularly through the COAG initiatives to increase training and skills recognition and improve the quality of education;
- advising on measures to support Australian families announced in the 2006-07 Budget, including childcare places and child support arrangements;
- contributing to indigenous policy, including working with the Cape York Institute on developing a welfare reform trial;

Outcome 2: Effective government spending arrangements

- continuing work on the development of policy on a wide range of health issues, including with a longer term sustainability focus, in areas such as Medicare, the Pharmaceutical Benefits Scheme, Pharmacy Agreement, preventative health and mental health;
- advising on measures to build the capacity of the health workforce as part of the COAG reform agenda;
- advising on financial support arrangements for older Australians and carers;
- continuing to advise on industrial relation reforms;
- advising on defence expenditure, including the Defence Capability Plan; and
- continuing to provide advice on national security capabilities and on measures to manage the risks of illegal fishing.

**Table 4: Financial and staffing resources summary for Outcome 2**

	Budget 2006 \$'000	Actual 2006 \$'000	Budget 2007 \$'000
<b>Administered expenses</b>			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	350,459	347,717	19,504
Special Appropriations	37,623,225	38,093,267	39,130,000
Other expenses	-	-	-
<b>Total administered expenses</b>	<b>37,973,684</b>	<b>38,440,984</b>	<b>39,149,504</b>
<b>Revenue from government</b>			
<b>Output Group 2.1 Fiscal</b>			
Output 2.1.1 Budget policy advice and coordination	4,484	4,484	3,789
Output 2.1.2 Commonwealth-State financial policy advice	2,752	2,752	2,874
Output 2.1.3 Industry, environment and social policy advice	3,954	3,954	4,134
Output 2.1.4 Social and income support policy advice	3,628	3,628	4,978
<b>Total revenue from government contributing to the price of departmental outputs</b>	<b>14,818</b>	<b>14,818</b>	<b>15,775</b>
<b>Revenue from other sources</b>			
<b>Output Group 2.1 Fiscal</b>			
Output 2.1.1 Budget policy advice and coordination	71	52	63
Output 2.1.2 Commonwealth-State financial policy advice	56	46	50
Output 2.1.3 Industry, environment and social policy advice	83	66	74
Output 2.1.4 Social and income support policy advice	74	62	83
<b>Total revenue from other sources</b>	<b>284</b>	<b>226</b>	<b>270</b>
<b>Total revenue for departmental outputs (Total revenues from government and other sources)</b>	<b>15,102</b>	<b>15,044</b>	<b>16,045</b>
<b>Price of departmental outputs</b>			
<b>Output Group 2.1 Fiscal</b>			
Output 2.1.1 Budget policy advice and coordination	4,555	3,372	3,852
Output 2.1.2 Commonwealth-State financial policy advice	2,808	3,103	2,924
Output 2.1.3 Industry, environment and social policy advice	4,037	4,092	4,208
Output 2.1.4 Social and income support policy advice	3,702	3,933	5,061
<b>Total price of departmental outputs</b>	<b>15,102</b>	<b>14,500</b>	<b>16,045</b>
<b>Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)</b>	<b>37,988,786</b>	<b>38,455,484</b>	<b>39,165,549</b>
Average staff levels (number)	111	109	121

Notes: This resource table is presented in the four outcome structure effective from the 2006-07 Budget in May 2006. The Budget for administered expenses for 2006 is as per the *2005-06 Portfolio Additional Estimates Statements*. Actuals from 2005-06 have been realigned for comparative purposes to the 2006-07 Budget. The Budget for departmental price of outputs for 2006 and administered expenses and departmental price of outputs for 2007 is as per the *2006-07 Portfolio Budget Statements*.



## **OUTPUT 2.1.1: BUDGET POLICY ADVICE AND COORDINATION**

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

### **PERFORMANCE INFORMATION**

The key performance indicators are:

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

### **ANALYSIS OF PERFORMANCE**

#### **Advice on the budget outlook**

During 2005-06, Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the Mid-Year Economic and Fiscal Outlook and the 2006-07 Budget.

As budget estimates are a joint responsibility, preparation of this advice required extensive liaison with the Department of Finance and Administration, the Australian Taxation Office (ATO) and other Australian 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.

## **Final budget outcome for 2004-05**

The *Final Budget Outcome 2004-05* was published in September 2005. In 2004-05, the Australian Government general government sector recorded an underlying cash surplus of \$13.6 billion, some \$4.4 billion higher than estimated at budget time, mainly due to lower than expected cash payments.

An accrual fiscal surplus of \$10.8 billion was recorded for 2004-05. This was \$3.8 billion higher than estimated at the time of the 2005-06 Budget, primarily reflecting higher than expected revenue in accrual terms.

## **Budget forecasts**

The 2005-06 Budget, published in May 2005, contained forecasts of the fiscal outlook for 2005-06 and the following three years. The Mid-Year Economic and Fiscal Outlook (MYEFO), released by the Treasurer and Minister for Finance and Administration in December 2005, forecast an underlying cash surplus of \$11.5 billion for 2005-06, some \$2.5 billion more than at budget time. This largely reflected an increase of \$4.0 billion in receipts, partly offset by an increase of \$1.7 billion in expected payments.

The increase in estimated cash receipts followed higher than expected tax collections from individuals and companies, reflecting the continued strength in employment and company profits. The increase in expected payments was principally due to policy decisions taken following the 2005-06 Budget. In accrual terms, the 2005-06 fiscal balance was revised up \$3.0 billion to \$10.4 billion since the 2005-06 Budget.

The 2006-07 Budget, published in May 2006, revised up the estimated underlying cash surplus for 2005-06 by \$3.4 billion since the MYEFO to \$14.8 billion, largely reflecting the ongoing strength of company taxes. In accrual terms, the estimated fiscal surplus for 2005-06 was revised up by \$5.6 billion to \$16.0 billion.

## **Budget and financial frameworks policy advice**

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

## **Debt management policy**

While the Australian Office of Financial Management (AOFM) is responsible for operational aspects of the management of the Australian Government debt portfolio, Treasury provides advice to the Treasurer on strategic debt policy issues and relevant wider public policy issues. This includes providing advice to the Treasurer on matters

where debt management issues carry implications for other arms of government policy or for the effective functioning of the real economy. Treasury also provides advice where broader macroeconomic developments or public policy considerations may affect debt management, and Treasury plays an important role in the governance structures for the management of the Australian Government debt portfolio.

During 2005-06, Treasury worked closely with the AOFM on implementing the debt issuance strategy, consistent with the outcomes of the 2003 review of the Australian Government Securities market. These issues are discussed further in the AOFM's Annual Report.

## **Future Fund**

During 2005-06, Treasury took a lead role in developing the policy framework and governance arrangements for the Future Fund, and drafting the legislation. The Future Fund Management Agency was established on 3 April 2006, and the Future Fund Board was subsequently appointed.

An investment mandate was issued by the Government to give guidance on how the Board should invest the funds provided. An initial transfer of \$18 billion was made on 5 May 2006, with further contributions expected from future realised surpluses.

## **CONTRIBUTION TO PUBLIC DEBATE AND AWARENESS**

### **Budget publications**

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

Treasury and the Department of Finance and Administration jointly prepare the Government's budget documentation. Treasury also prepares accessible summaries for non-specialist readers. These were the general budget overview, an overview of *A Plan to Simplify and Streamline Superannuation*, a budget-at-a-glance and a budget highlights.

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

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

## Part 2: Report on performance

The 2006-07 Budget documents also included a ministerial statement prepared by Treasury, *Continuing Tax Reform*, outlining reforms undertaken over the past 10 years and major tax reforms included in the Budget.

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

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

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

The budget website at [www.budget.gov.au](http://www.budget.gov.au) was redesigned for the 2006-07 Budget. The new website presents information in a format that is more accessible to readers.

In 2005-06, Treasury met with representatives from countries including Korea, China, Cambodia and the Philippines, interested in learning about Australia's budgeting and reporting framework.

## Tax Expenditures Statement

Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *2005 Tax Expenditures Statement*, published in December 2005, reported on the cost of tax expenditures with estimates and projections to 2008-09. Production of this statement assists transparency and encourages public scrutiny of government programmes delivered through the tax system.

## **OUTPUT 2.1.2: COMMONWEALTH-STATE FINANCIAL POLICY ADVICE**

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

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

Fiscal Group also manages the efficient administration of payments to the States and Territories (the States), including GST revenue, Budget Balancing Assistance, compensation for GST revenue deferred, National Competition Policy Payments and Special Revenue Assistance.

### **PERFORMANCE INFORMATION**

The key performance indicators are:

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

### **ANALYSIS OF PERFORMANCE**

#### **Advice on reform of Commonwealth-State financial relations**

This was the sixth full year of operation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Treasury provided advice to the Treasurer on various aspects of the agreement, particularly issues such as calculation of the Guaranteed Minimum Amount and the abolition of state taxes listed in the Intergovernmental Agreement.

## **Ministerial Council for Commonwealth-State Financial Relations**

The Ministerial Council, comprising the Australian Treasurer and all State and Territory Treasurers, oversees the implementation and operation of the Intergovernmental Agreement. Treasury coordinates the agenda for the Ministerial Council. At the seventh Annual Meeting of the Ministerial Council in March 2006, Treasurers discussed the Australian Government's proposal for the elimination of inefficient state taxes and progress on the review of horizontal fiscal equalisation methodology. Other matters discussed included expected payments to the States, GST administration issues and other policy and administrative matters, including specific purpose payments. Treasury advised the Treasurer on the key issues.

The Australian Loan Council traditionally meets in March to consider each jurisdiction's expected borrowing for the next financial year. Treasury advised the Treasurer on the key issues and coordinated arrangements for this meeting, which was held in conjunction with the Ministerial Council meeting.

## **Heads of Treasuries**

The Heads of Treasuries meetings are a forum to share information on issues common to the Treasuries of the Australian, State and Territory governments. The Treasury Secretary and his State and Territory counterparts met three times to focus on issues arising under the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues and specific purpose payments.

## **GST Administration Sub-committee**

The GST Administration Sub-committee assists the Ministerial Council in monitoring the operation and administration of the GST. Treasury chairs the sub-committee, which comprises officials from the Australian Treasury, the ATO and State and Territory Treasuries. The sub-committee met three times and advised on proposals to modify the GST base and the ATO's administration of the GST. The sub-committee monitored the operation of the GST Administration Performance Agreement between the States and the ATO. The sub-committee discussed GST revenue receipts and payments, GST implementation and administrative issues.

## **Review of state taxes**

Treasury provided policy advice to the Treasurer on issues relating to the Ministerial Council's review of the need to retain the State and Territory stamp duties listed under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. In 2006, the Australian Government agreed with the States on a schedule to abolish all but one of these taxes listed for review.

## Information for the public

Treasury contributed to the Australian Government's provision of information, in particular, by facilitating the preparation of television and newspaper announcements to the public on Australian Government payments to the States.

## International relations

In 2005-06, Treasury continued to participate in the Organisation for Economic Co-operation and Development's (OECD) Network on Fiscal Relations across Levels of Government, and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States.

## Payments to the States

Treasury administers a number of payments to the States, including payments under the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*. A total of \$38.1 billion was paid to the States under the Act in 2005-06 comprising GST revenue and National Competition Policy Payments. In addition, compensation payments of \$127 million for GST revenue deferred were made in 2005-06.

## Goods and Services Tax Revenue

Under a key element of *The New Tax System*, introduced on 1 July 2000, the States receive all GST revenue. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST revenue in monthly payments, consistent with relativities determined by the Treasurer following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2005-06, the States received around \$37.2 billion in GST revenue. All payments were calculated correctly and paid on the scheduled dates.

The ATO collects GST revenue on behalf of the States, and the States compensate the Australian Government for the costs the ATO and the Australian Customs Service incur in administering and collecting GST. Estimated costs incurred in 2005-06 amounted to around \$604 million. Treasury monitored the payments made by the States to ensure all were accurately administered.

## Small business annual payment and lodgment of GST — compensating the States and Territories for GST deferred

In the 2004-05 Budget, the Government committed to compensate fully the States for the revenue impact of annual reporting and payment by taxpayers who voluntarily register for GST. Consistent with this commitment, Treasury paid around \$127 million to the States as compensation in 2005-06.

## Budget Balancing Assistance

The Australian Government guaranteed that, in the transitional years of tax reform, each State and Territory's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. Treasury provides advice to the Treasurer on how much funding each State and Territory would have received under the previous system to enable the Treasurer to determine the Guaranteed Minimum Amount.

To meet its guarantee, the Australian Government pays Budget Balancing Assistance to cover any shortfall of GST revenue compared with each State and Territory's Guaranteed Minimum Amount. In 2005-06, each State and Territory's GST revenue entitlement exceeded its determined Guaranteed Minimum Amount, so no State required this assistance.

Consistent with the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, the Australian Government advanced Budget Balancing Assistance of \$74.6 million to New South Wales during 2005-06. These advances were based on the Budget Balancing Assistance entitlement of New South Wales estimated at the time of each advance. However, the subsequent upward revision to GST estimates resulted in no Budget Balancing Assistance entitlement for New South Wales.

Consistent with provisions of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, Treasury will deduct the amount of excess Budget Balancing Assistance of \$74.6 million paid to New South Wales in 2005-06 from payments made in 2006-07.

## Residual adjustments

The Australian Government introduced residual adjustments in 2004 to ensure that all States receive their appropriate payments under the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* as they move off or onto Budget Balancing Assistance. The Act stipulates the Australian Government and the States must agree on the methodology for calculation of the adjustments before payments can be made. This was agreed; consequently Treasury gave effect to residual adjustments totaling \$95.2 million to the States in 2005-06.

## National Competition Policy Payments

Each State and Territory's receipt of National Competition Policy Payments is subject to its satisfactorily meeting conditions specified in the *Agreement to Implement the National Competition Policy and Related Reforms*. The National Competition Council (NCC) assesses whether each State and Territory has met the conditions and recommends associated penalties, and the States have the opportunity to comment. In 2005-06, for the first time,



the Australian Government also considered recommendations from the National Water Commission in relation to each State's and Territory's progress on water reform.

The Government, after considering recommendations from both the NCC and the National Water Commission, decided that out of a maximum level of payments in 2005-06 of \$799.9 million, it would apply permanent deductions of \$40.7 million and suspensions of \$43.2 million to the States. The Government also decided to reimburse \$100.5 million of amounts suspended from the States in 2004-05. Consistent with this decision, National Competition Policy Payments of \$816.5 million were made to the States in 2005-06. In relation to the 2005-06 suspensions for water reform, the National Water Commission has indicated it will, in 2007, assess jurisdictions progress relevant to the suspensions.

## **Budget publications**

Information on the Government's financial relations with State, Territory and local governments is documented in Budget Paper No. 3, *Federal Financial Relations 2006-07*. This document is the main public source of information on Australian Government payments to the States and local governments. It also informs the States of their expected payments in the upcoming financial year, including GST revenue and specific purpose payments.

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

## **OUTPUT 2.1.3: INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE**

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

IEDD contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury ministers and the Government in the areas of industry, regional assistance, agriculture, environment, defence and national security. While other departments have major responsibility for policy and programmes in these areas, IEDD focuses on improving productivity, competitiveness, and sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2005-06, Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

## PERFORMANCE INFORMATION

The key performance indicators are:

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

## ANALYSIS OF PERFORMANCE

### Environment and agriculture policy

Treasury provided advice to the Treasurer on environmental and agricultural issues including water reform, climate change, fisheries, alternative fuels, low emission technologies, quarantine and drought policy.

Particular examples of the provision of Treasury advice include assistance for the Great Barrier Reef Marine Park and for the Murray-Darling Basin Commission. In addition, Treasury provided advice on Australia's *Securing our Fishing Future* package which was announced in the *Mid-Year Economic and Fiscal Outlook 2005-06* and the *Securing borders against illegal foreign fishing* package in the 2006-07 Budget.

Treasury contributed to a number of inter-departmental committees during 2005-06. This included membership of the Biofuels Taskforce and providing advice on the report and its implementation process. Treasury was also involved in the development work associated with the COAG Climate Change Group and the National Water Initiative, as well as providing advice to inform debate in the Secretaries' Group on Greenhouse.

Treasury contributed to public awareness and debate to gain wider support for ideas on water policy through the Summer 2006 *Economic Roundup* article *Water and Australia's future economic growth*. In addition, Treasury's submission to the Agriculture and Food Policy Reference Group was also printed in the Spring 2005 *Economic Roundup*.

### Industry policy

Treasury provided advice on industry assistance, including export assistance, tariffs, customs operations, and innovation as well as advice on regional assistance.

In particular, Treasury provided advice on the venture capital review and measures to stimulate Australia's venture capital industry, including the introduction of the early stage venture capital limited partnership investment vehicle, improving the venture capital limited partnership regime, and continuation of the Innovation Investment Fund.

Treasury also provided advice on export assistance, participating in committees which reviewed the Export Finance and Insurance Corporation and the Export Market Development Grants scheme.

Additionally, Treasury provided advice on regional policy including the regional partnerships programme and participated in an inter-departmental committee on the revised support arrangements for natural disaster relief and recovery.

Treasury participated in a number of other inter-departmental committee meetings, bringing a broad whole of economy perspective. This included committees considering Australia's energy security position, innovation and Australian Government support for films.

### **National security policy**

Treasury provided advice on a range of defence and national security issues, including on long-term funding guidance for Defence, a revised Defence Capability Plan and a Defence strategic update. Ensuring that defence related expenditures remained fiscally sustainable in the long run was the focus of that advice.

Treasury also provided advice on domestic security arrangements, including the Wheeler report into airport security and policing, other aviation and maritime security issues, and additional resources for the Australian Security Intelligence Organisation. Advice was also provided on some non-security related aspects of the Attorney-General's portfolio.

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

## **OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE**

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

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

## Part 2: Report on performance

During 2005-06, Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for the consideration of Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget processes.

### PERFORMANCE INFORMATION

The key performance indicators are:

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

### ANALYSIS OF PERFORMANCE

#### Advice on labour market policy

During 2005-06, Treasury provided advice on the development of workplace relations reforms, with the Government's WorkChoices measures taking effect in March 2006 and an Independent Contractors Bill introduced to the Parliament in June 2006. Treasury also contributed to implementation of the WorkChoices reforms, particularly through involvement in developing the Australian Government's submission to the first minimum wage review by the Australian Fair Pay Commission and arrangements to promote further award rationalisation.

Treasury continued its focus on policies designed to remove barriers to participation in the workforce. This included assisting in the implementation of the Welfare to Work reforms announced in the 2005-06 Budget, providing advice on improving Indigenous wellbeing through economic development and reforms to the Community Development Employment Projects Programme, and advising on developing more effective systems of delivery for social and health-related services.

Treasury also contributed to a number of conferences on comparative labour market performance and policies, including the OECD's reassessment of its Jobs Strategy.

Development of labour market data is ongoing and Treasury is a member of the steering committees for the Melbourne Institute Poverty and Disadvantage project, the Household, Income and Labour Dynamics in Australia survey, Labour Statistics Advisory Group of the Australian Bureau of Statistics (ABS) and the National Ageing Statistics Unit of the ABS.

### **Advice on health policy**

Policy development processes spanned a range of health and aged care issues. Treasury advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, private health insurance, community care and residential aged care. Engagement in these areas assisted the Treasurer's involvement in several significant Government initiatives during the year.

Treasury participated in interdepartmental committees that provided advice to Government, including influenza pandemic, consideration of electronic claiming of Medicare benefits, and the effectiveness of the Pharmaceutical Benefits Scheme. Treasury was also involved in the development of a number of COAG initiatives, including the Australian Better Health Initiative, mental health reforms and strengthening the health workforce.

### **Advice on social policy**

Treasury made a substantial contribution to the development of the COAG National Reform Agenda. With respect to the human capital aspects of that Agenda, Treasury provided advice on potential participation and productivity gains, with a focus on the four areas identified as priorities: early childhood development, child care, literacy and numeracy, and diabetes.

During 2005-06 Treasury significantly increased its involvement in indigenous policy issues. Treasury worked with other agencies to identify priorities and address disadvantage and contributed to the development of the Cape York Welfare Reform Pilot.

In the context of the 2006-07 Budget, Treasury provided advice to the Treasurer on a range of measures with respect to families and child care, including uncapping outside school hours care and family day care places to increase the supply of child care places.

Treasury contributed to a number of processes focused on organisational and cultural change within the Department of Immigration and Multicultural Affairs following the report by Mr Mick Palmer AO APM. Treasury provided advice on both the scope and costs of the substantial reforms announced by the Government in response to the Palmer Report.

Treasury provided policy advice on a number of education measures to underpin a national approach to supporting skills being progressed through the COAG. This included programmes to encourage skills development, flexible pathways into skilled occupations and movement of trade qualified people throughout Australia.

## OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

Effective taxation and retirement income arrangements are crucial to achieving the Government's economic objectives and improving the wellbeing of Australians.

Revenue Group has the primary responsibility within the Australian Public Service for providing high-quality advice to the Treasury ministers on taxation and retirement income policies and legislation. Advice is formulated through an integrated process, beginning with design and costing, and including consultation with business and community interests and close cooperation with the Australian Taxation Office (ATO) and relevant Commonwealth departments. The contribution to better tax policy and better tax law are key elements of Treasury's role as a central policy agency.

During 2005-06, Treasury devoted significant resources to tax and retirement income reform, including establishing the Participation Modelling Project, reporting on the International Comparison of Australia's Taxes, hosting the Organisation for Economic Co-operation and Development (OECD) Global Forum on Taxation, identifying inoperative provisions which will cut tax legislation by more than 4,000 pages, and implementing fuel tax reform measures.

A longer term focus to develop a sustainable and effective superannuation system by simplifying superannuation was announced in the 2006-07 Budget. The proposals in *A Plan to Simplify and Streamline Superannuation* will simplify superannuation for retirees making it easier to understand, and improve incentives to work and save. Major personal tax changes and family tax benefit changes as well as business tax changes were also announced in the budget.

Revenue Group has primary responsibility for advising on, designing and bringing to Parliament all taxation and retirement income legislation. In all, 20 taxation and superannuation bills, containing 73 measures, were introduced into Parliament.

Treasury continued to consult extensively with industry and other stakeholders on taxation and superannuation measures. Consultation processes were evaluated and Treasury made available on the Treasury website three reports on consultation on announced tax measures. These reports were also provided to the Board of Taxation to assist in its role of monitoring consultation processes.

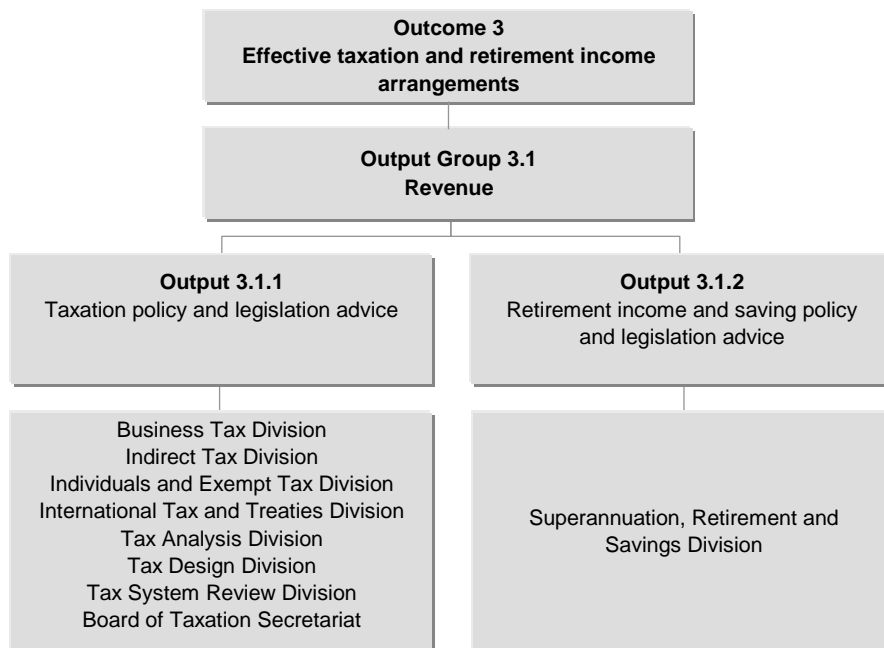
## ORGANISATIONAL CHANGES

To better align reporting against the current organisational structure of the department in 2005-06, Outcome 2 was split into:

- Outcome 2: Effective government spending arrangements (Fiscal Group); and
- Outcome 3: Effective taxation and retirement income arrangements (Revenue Group).

The new Outcome 3 has two new output groups, Output 3.1.1: Taxation policy and legislation advice, and Output 3.1.2: Retirement income and saving policy and legislation advice.

**Figure 6: Outputs contributing to Outcome 3**



## KEY PRIORITIES IN 2005-06

Treasury contributes to Outcome 3 by providing high quality advice on taxation and retirement income policies and legislation. Advice is formulated through an integrated process, including consultation with business and community interests.

## Part 2: Report on performance

Treasury's 2005-06 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for 2005-06:

- commencing development of quantitative modeling to identify the labour force participation effects of government policy proposals, including tax and income support changes;
- implementing decisions arising from the Australian Government's Review of the System of Self Assessment for Income Tax Returns;
- improving processes and outputs in developing advice on taxation and superannuation policies (including consultation processes and design of legislation);
- implementing the business fuel tax credits and the first phase of the fuel excise reforms as announced in the white paper, *Securing Australia's Energy Future*;
- advancing measures relating to the taxation of financial arrangements, the definition of charities, penalties for tax scheme promoters, taxation treatment of business 'blackhole' expenditures, foreign resident withholding tax and a substantial programme of other tax legislation;
- developing the child care tax rebate and introducing five new deductible gift recipient categories;
- improving preparation of costings and quantitative analysis of taxation, income support and retirement incomes policy proposals, as well as revenue forecasting;
- implementing additional measures arising from the review of international taxation arrangements;
- hosting the OECD Global Forum on Taxation and continuing with the negotiation of international tax treaties;
- implementing a range of superannuation measures, as well as monitoring the implementation of the choice of fund initiative; and
- identifying inoperative provisions in tax legislation.

Other key priorities identified through the year were:

- launching by the Treasurer of a major study to examine how Australia's tax system compares with other developed economies. The study was led by Mr Richard Warburton AO and Mr Peter Hendy and supported by a small secretariat within Treasury; and
- commencing development of superannuation reform proposals.



## KEY OUTCOMES IN 2005-06

- Provision of the secretariat to report on the *International Comparison of Australia's Taxes*.
- Advice to the Government on *A Plan to Simplify and Streamline Superannuation*, which was announced in the 2006-07 Budget. Treasury coordinated extensive public and industry consultation on the proposals and continues to develop legislation to implement these proposals.
- Commencement of development of quantitative modeling to identify the labour force participation effects of government policy proposals, including getting the Melbourne Institute Tax and Transfer Simulator behavioural microsimulation model operational in Treasury.
- Advice to the Government on a range of business tax policy issues included the consolidation regime, imputation system reforms, taxation of financial arrangements, taxation treatment of business 'blackhole' expenditures, moving depreciation allowances closer to economic rates of depreciation, enhancements to the simplified tax system and changes to both venture capital arrangements, and company loss recoupment rules.
- Advice to the Government and implementation of a range of indirect tax policy initiatives including fuel tax credits, goods and services tax (GST) amendments, excise and budget announcements relating to petroleum resource rent tax.
- Advice to the Government on the design and implementation of a number of personal tax measures including personal income tax cuts, family tax benefit reform, employee share schemes, capital gains tax (CGT) marriage roll-over, small business CGT concessions and deductible gift recipients.
- Advice to the Government led to the enactment of an Act implementing the second stage of the Government's decisions arising from the *Report on Aspects of Income Tax Self-Assessment*.
- Advice to the Government led to the enactment of an Act to create a regime to deter the promotion of tax avoidance schemes.
- Participation in the Review of the Taxation Treatment of Plantation Forestry.
- The project of identifying inoperative provisions which will cut tax legislation by more than 4,000 pages.
- Treasury continued to assess developments in the tax system as well as advancing a strategic approach to tax policy issues, including efforts to reduce complexity and compliance costs.

Part 2: Report on performance

- Treasury implemented further changes to Australia's international tax arrangements announced in the 2003-04 and 2005-06 Budgets. These changes ensure the continued modernisation and competitiveness of Australia's international tax system.

**Table 5: Financial and staffing resources summary for Outcome 3**

	Budget 2006 \$'000	Actual 2006 \$'000	Budget 2007 \$'000
<b>Administered expenses</b>			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	-	-	-
Other expenses	-	-	-
<b>Total administered expenses</b>	-	-	-
<b>Revenue from government</b>			
<b>Output Group 3.1 Revenue</b>			
Output 3.1.1 Taxation policy and legislation advice	35,038	35,038	35,899
Output 3.1.2 Retirement income and saving policy and legislation advice	6,445	6,445	6,427
<b>Total revenue from government contributing to the price of departmental outputs</b>	<b>41,483</b>	<b>41,483</b>	<b>42,326</b>
<b>Revenue from other sources</b>			
<b>Output Group 3.1 Revenue</b>			
Output 3.1.1 Taxation policy and legislation advice	647	605	571
Output 3.1.2 Retirement income and saving policy and legislation advice	122	107	105
<b>Total revenue from other sources</b>	<b>769</b>	<b>712</b>	<b>676</b>
<b>Total revenue for departmental outputs (Total revenues from government and other sources)</b>	<b>42,252</b>	<b>42,195</b>	<b>43,002</b>
<b>Price of departmental outputs</b>			
<b>Output Group 3.1 Revenue</b>			
Output 3.1.1 Taxation policy and legislation advice	35,685	33,624	36,470
Output 3.1.2 Retirement income and saving policy and legislation advice	6,567	6,824	6,532
<b>Total price of departmental outputs</b>	<b>42,252</b>	<b>40,448</b>	<b>43,002</b>
<b>Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)</b>	<b>42,252</b>	<b>40,448</b>	<b>43,002</b>
Average staff levels (number)	302	292	304

Notes: This resource table is presented in the four outcome structure effective from the 2006-07 Budget in May 2006. The Budget for administered expenses for 2006 is as per the *2005-06 Portfolio Additional Estimates Statements*. Actuals from 2005-06 have been realigned for comparative purposes to the 2006-07 Budget. The Budget for departmental price of outputs for 2006 and administered expenses and departmental price of outputs for 2007 is as per the *2006-07 Portfolio Budget Statements*.

## **OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE**

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

Seven divisions contribute to Output 3.1.1. The Business Tax Division, the Indirect Tax Division, the Individuals and Exempt Tax Division, the International Tax and Treaties Division and the Tax System Review Division are responsible for the delivery of taxation and income support policy advice. The Tax Analysis Division prepares revenue forecasts, costings and quantitative analysis of taxation policy proposals, provides strategic analysis of key developments in the tax system and current policy issues, and develops and maintains models for labour force participation and tax-related analysis. The Tax Design Division assists Revenue Group by formulating a strategic direction on organisational issues for the group, improving the tax design process, providing a range of services such as managing the legislation programme, budgeting and administration, assisting in governance issues, and developing and leading key relationships.

During 2005-06, Revenue Group provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website.

### **PERFORMANCE INFORMATION**

The key performance indicators are:

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

## **ANALYSIS OF PERFORMANCE**

### **Business taxation**

Policy advice on business taxation issues covered the consolidation regime, imputation system reforms, taxation of financial arrangements, company loss recoupment rules, plantation forestry and a range of small business tax issues.

#### **Consolidation**

Treasury consulted with the business sector and provided policy advice on the consolidation regime to make refinements to overcome practical concerns and to clarify interactions with other parts of the income tax law. The Minister for Revenue and Assistant Treasurer announced changes to improve the treatment of pre-CGT membership interests and to clarify the operation of the tax cost setting rules. The Minister also announced changes to improve interactions with the life insurance provisions and the demerger rules.

Amendments to improve the operation of the consolidation regime were included in the *Tax Laws Amendment (2005 Measures No. 5) Act 2005*, which received Royal Assent on 19 December 2005, the *Tax Laws Amendment (2005 Measures No. 6) Act 2006*, which received Royal Assent on 29 March 2006, and the *Tax Laws Amendment (2006 Measures No. 4) Bill 2006*, which was introduced into the House of Representatives on 22 June 2006.

#### **Imputation system**

Treasury consulted with the business sector and provided policy advice on the share capital tainting rules. The new share capital tainting rules were included in the *Tax Laws Amendment (2006 Measures No. 3) Act 2006*, which received Royal Assent on 30 June 2006 and the *New Business Tax System (Untainting Tax) Act 2006*, which received Royal Assent on 30 June 2006. Amendments to modify the operation of the franking deficit tax rules contained in the *Tax Laws Amendment (2006 Measures No. 2) Act 2006*, which received Royal Assent on 22 June 2006, were made in response to industry concerns and will remove uncertainties and practical difficulties.

Treasury continues to consult with the business sector and to provide policy advice on the dividend tainting rules, the trans-Tasman imputation rules and the holding period and related payment rules.

#### **Taxation of financial arrangements**

Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. Exposure draft legislation and explanatory material were released in December 2005. Treasury is continuing to consult with key industry and professional bodies.

Treasury continued to develop legislation to restore fairness and neutrality to the taxation of capital protected borrowing arrangements. Confidential consultation was undertaken on this issue with both financial institutions and other taxpayers.

The Office of Parliamentary Counsel and Treasury prepared legislation and explanatory memorandum relating to the taxation of 'at call' loans of small business which was included in the *Tax Laws Amendment (2005 Measures No. 5) Act 2005*. This Act received Royal Assent on 19 December 2005.

### **Lower Tier 2 subordinated debt**

Treasury consulted with the business sector and provided policy advice on the effect of a clause (under the debt/equity rules in the income tax law), which allows an issuer to defer payment if the payment would cause insolvency. The Minister for Revenue and Assistant Treasurer announced that an income tax regulation would be made to clarify that the existence of such a clause in certain term subordinated notes would not preclude the notes from being debt for tax purposes.

### **Improved depreciation arrangements**

The 2006-07 Budget announced a major improvement to the depreciation arrangements in the uniform capital allowance regime by increasing the diminishing value rate for the purposes of determining depreciation deductions. The measure was included in the *Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Act 2006*, which received Royal Assent on 19 June 2006.

### **Company loss recoupment reforms**

Treasury consulted with the business sector and provided policy advice on the company loss recoupment rules to improve the operation of the continuity of ownership test and to remove the same business test for large companies. These amendments were included in the *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005*, which received Royal Assent on 14 December 2005. Further consultation with stakeholders took place in 2006, in relation to the operation of the same business test, following a request from the former Minister for Revenue and Assistant Treasurer for submissions on this issue.

### **Simplified tax system and aligning business thresholds**

Treasury provided advice on simplifying and improving alignment of various small business tax thresholds in the tax laws, including the simplified tax system (STS). In particular, the package of measures will increase the STS annual turnover threshold from \$1 million to \$2 million; remove the \$3 million depreciating assets test from the STS eligibility requirements; increase the net assets threshold for the CGT small business concessions from \$5 million to \$6 million; and allow STS taxpayers to be eligible for the CGT small business concessions (without having to satisfy the net assets threshold) and to pay quarterly pay-as-you-go instalments on the basis of gross domestic product (GDP)-adjusted notional tax.

## Part 2: Report on performance

Treasury also provided advice on extending optional depreciating asset roll-over relief to taxpayers in the STS. Providing roll-over relief in these situations will provide more flexibility for STS taxpayers wishing to restructure their business and ensure that roll-over relief available under the uniform capital allowances regime is also available in relation to STS depreciating asset pools. The Government announced these measures in the 2006-07 Budget.

### **Venture capital**

Treasury provided advice on measures aimed at increasing activity and investment in the venture capital sector. The measures will introduce an early stage venture capital limited partnership investment vehicle providing flow-through tax treatment and a complete tax exemption for income, both revenue and capital, received by its domestic and foreign partners. As the income will be exempt from tax, investors will not be able to deduct investment losses. As a consequence of the introduction of the new vehicle, the existing pooled development funds arrangements will be closed to new registrations. The Government announced these measures in the 2006-07 Budget.

### **Family trust elections**

Treasury provided advice on increasing flexibility for family trust elections and interposed entity elections. This measure will allow family trust elections and interposed entity elections to be revoked or varied in certain limited circumstances. The definition of a family group will be broadened to include lineal descendants of family group members. In addition, trust distributions to former spouses, and to widows or widowers of family group members with new spouses, will be exempted from family trust distribution tax. The Government announced this measure in the 2006-07 Budget.

### **Taxation of trusts**

Treasury provided advice on simplifying the reporting requirements under the ultimate beneficiary rules for closely held trusts. The measure will require that trustees of closely held trusts report and identify (with a tax file number) only the first-tier of trustee beneficiary instead of the trustee having to trace the distribution through to the final recipient of the distribution. The measure will reduce compliance costs for taxpayers while maintaining the integrity of the taxation of trust income. The Government announced this measure in the 2006-07 Budget.

### **Taxation treatment of business 'blackhole' expenditures**

The 2005-06 Budget announced a proposed treatment in the income tax law to recognise business 'blackhole' expenditures from 1 July 2005. Treasury undertook confidential targeted stakeholder consultations on the policy and draft legislation. The measure was included in the *Tax Laws Amendment (2006 Measures No. 1) Act 2006*, which received Royal Assent on 6 April 2006.

### **Review of plantation forestry**

Treasury, together with the Department of Agriculture, Fisheries and Forestry and the Department of Prime Minister and Cabinet, undertook a comprehensive review of the taxation arrangements for plantation forestry. There was extensive consultation with stakeholders, who also provided a significant number of submissions to the review. On 9 May 2006, the Minister for Revenue and Assistant Treasurer announced that there would be further consultation on the basis of proposed new taxation arrangements for plantation forestry.

### **Inclusion of film copyright in the effective life regime**

Treasury provided advice on amendments to the uniform capital allowance rules to allow the cost of copyright, and certain licenses relating to copyright, in a film, to be written-off over their effective life. Legislation to give effect to this measure was included in the *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005*, which received Royal Assent on 14 December 2005.

### **Indirect taxation**

Treasury provided advice on fuel tax reform, cleaner fuels, GST, tourist shopping, excise and petroleum resource rent tax issues.

### **Fuel tax reforms**

On 1 July 2006, the new fuel tax credit system took effect, implementing Government policy as announced in the energy white paper *Securing Australia's Energy Future*. The *Fuel Tax Act 2006* and the *Fuel Tax (Consequential and Transitional Provisions) Act 2006* were given Royal Assent on 27 June 2006.

The fuel tax credit system will lower compliance costs and reduce the burden of taxation for thousands of businesses and households. The new system is being introduced over a number of years. It will extend fuel tax relief to business activities and fuels not previously eligible. Treasury worked closely with the ATO and relevant industry groups to implement these policies.

### **Cleaner fuels**

As part of the cleaner fuels measure announced by the Government in the 2003-04 Budget, a grant is being provided to suppliers of premium unleaded petrol with 50 parts per million or less of sulphur over the period 1 January 2006 to 31 December 2007. This will encourage the supply of this fuel into the domestic market before it becomes mandatory under the fuel standard on 1 January 2008. This measure was implemented via the *Energy Grants (Cleaner Fuels) Scheme Amendment Regulations 2005 (No. 1)*.

### **Goods and services tax**

In partnership with the States and Territories, Treasury has fine-tuned the GST law in several areas, including property and telecommunications vouchers. These enhancements will ensure that the GST continues to operate as intended.

### **Review of the administrative arrangements for tourist shopping**

Treasury led a review of the administrative arrangements for tourist shopping in Australia. This review examined options to improve the delivery and administration of the tourist refund function and inwards and outwards duty free shops. Targeted public consultation with industry occurred as part of this process.

### **Excise**

Legislation was enacted to replace the current Schedule to the *Excise Tariff Act 1921*, which specifies the excise duty applicable to goods, and to amend related excise and customs laws as a consequence of an extensive review undertaken by Treasury. Targeted public and confidential consultation with industry occurred as part of this review.

The legislation, which received Royal Assent on 27 June 2006, implemented certain elements of the Government's fuel tax reforms and clarified and simplified excise arrangements with a view to reducing compliance costs for excise manufacturers, importers and administering authorities.

### **Petroleum resource rent tax**

Treasury implemented a number of measures relating to the petroleum resource rent tax which were announced in the 2005-06 Budget. These measures are directed at lowering compliance costs, improving administration and removing inconsistencies. These measures are contained in the *Petroleum Resource Rent Tax Assessment Amendment Act 2006* and the *Petroleum Resource Rent Tax (Instalment Transfer Interest Charge Imposition) Act 2006*, which both received Royal Assent on 30 June 2006.

### **Personal taxation**

Advice to the Government on the design and implementation of a number of personal tax measures sought to promote economic growth, participation in the workforce and good governance.

### **Reductions in personal income tax**

The 2006-07 Budget included tax cuts worth \$36.7 billion over four years. The tax cuts were included in the *Tax Laws Amendment (Personal Tax Reduction and Improved Depreciation Arrangements) Act 2006*, which received Royal Assent on 19 June 2006.



The key changes taking effect from 1 July 2006 were:

- increasing the 30 per cent tax threshold from \$21,601 to \$25,001;
- increasing the low income tax offset from \$235 to \$600. In addition, the point at which the low income tax offset starts to phase out was increased from \$21,600 to \$25,000;
- cutting the top marginal tax rate from 47 per cent to 45 per cent and increasing the top tax threshold from \$95,001 to \$150,001; and
- reducing the second-highest marginal tax rate from 42 per cent to 40 per cent and increasing the threshold at which it cuts in from \$63,001 to \$75,001.

In addition, with effect from 1 April 2006, the fringe benefit tax rate was reduced from 48.5 per cent to 46.5 per cent.

### **Fringe benefits reporting exclusion for security concerns**

Treasury advised the Government and helped develop legislation that excludes, from reporting, fringe benefits provided to address certain security concerns relating to the personal safety of an employee, or an associate of the employee, arising from the employee's employment. As a result of this reporting exclusion, the payment summaries of employees who receive such fringe benefits will not include these amounts. This measure was included in the *Tax Laws Amendment (2006 Measures No. 3) Act 2006*, which received Royal Assent on 30 June 2006.

### **Employee share schemes**

Treasury advised the Government and helped develop legislation that amended the employee share scheme provisions to ensure that a taxing point does not arise for taxpayers participating in an employee share scheme in the event of a corporate restructure or 100 per cent takeover. In the event of such, taxpayers are now able to treat the new shares or rights they are issued as a continuation of their old shares or rights.

This measure was included in the *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005*, which received Royal Assent on 14 December 2005.

Treasury hosted several consultation meetings attended by industry representatives to discuss employee share scheme issues and to identify inhibitors to employee participation in employee share schemes.

### **Amendments to the capital gains tax marriage roll-over**

Treasury advised the Government and developed legislation to extend the CGT marriage breakdown roll-over relief to assets transferred to a spouse or a former spouse under certain binding financial agreements, arbitral awards and written agreements. This measure was introduced into Parliament on 22 June 2006 in the *Tax Laws Amendment (2006 Measures No. 4) Bill 2006*.

### **Amendments to the small business capital gains tax concessions**

Treasury advised the Government on its response to the Board of Taxation's review of the small business CGT concessions. Following this advice:

- the Government will reduce the compliance costs for small business by making changes to the maximum net asset value test, the active asset test, the 15-year exemption, the retirement exemption, the small business roll-over, and how the concessions apply to partnerships; and
- the Government will increase the availability of the concessions by replacing the 50 per cent controlling individual test with a new significant individual 20 per cent test that can be satisfied either directly or indirectly.

These amendments were announced in the 2006-07 Budget and will take effect from 1 July 2006.

### **Five new deductible gift recipient categories**

Treasury advised the Government and helped develop legislation to introduce five new deductible gift recipient general categories, with effect from 1 July 2006, to cover war memorials, disaster relief, animal welfare, charitable services and educational scholarships. This legislation will allow taxpayers to claim an income tax deduction for certain gifts of money or property to organisations that are endorsed as deductible gift recipients under these categories.

This measure was included in *Tax Laws Amendment (2006 Measures No. 3) Act 2006*, which received Royal Assent on 30 June 2006.

### **International taxation**

A range of reforms to international tax arrangements were implemented during 2005-06 including further measures as part of the Government's ongoing response to the 2003 Review of International Taxation Arrangements:

- The *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005*, which received Royal Assent on 14 December 2005, included legislation extending the exemption from Australian tax of dividends paid to foreign shareholders in Australian companies out of foreign profits, through the broadening of the categories of income subject to conduit taxation relief.
- Reforms to the Australian CGT treatment of non-residents were included in the *Tax Laws Amendment (2006 Measures No. 4) Bill 2006*, which was introduced into Parliament on 22 June 2006. These reforms narrow the range of assets subject to Australian CGT and strengthen the integrity of CGT regime. The reforms more closely align Australia's domestic CGT law with international practice and the approach adopted in Australia's tax treaties.

These measures continue efforts to make investment in Australian multinational companies more attractive to foreign investors and encourage foreign businesses to establish regional holding companies in Australia.

The *Tax Laws Amendment (2005 Measures No. 5) Act 2005*, which received Royal Assent on 19 December 2005, contained amendments simplifying the operation of the foreign employment income exemption by allowing different service periods to be aggregated. The amendments also extended the exemption to situations where an individual dies before completing the required period of foreign service, and reinstated the exemption for Australians employed in Iraq. This Act also introduced amendments providing a three-year transitional period under the thin capitalisation rules, during which entities may choose to defer the impact of the adoption in Australia of international financial reporting standards and continue to use the former accounting standards for thin capitalisation purposes.

The *Tax Laws Amendment (2006 Measures No. 1) Act 2006*, which received Royal Assent on 6 April 2006, contained amendments to introduce a foreign source income tax exemption for certain temporary residents. This measure was first introduced into Parliament in 2002, but did not pass the Senate. The Government announced its reintroduction in the 2005-06 Budget. The exemption will assist Australian business in attracting mobile skilled labour and improve the international competitiveness of Australian business through the skills and knowledge such employees transfer to Australia.

### **OECD global forum**

Treasury convened the OECD Global Forum on Taxation, which Australia hosted in Melbourne in November 2005. The Forum brought together OECD countries and other jurisdictions with significant offshore financial centres — around 60 countries in all. The Forum is committed to implementing higher standards of transparency and information exchange in relation to tax matters, and removing limitations such as bank secrecy.

Australia also concluded its first tax information exchange agreement with Bermuda on 10 November 2005. The agreement provides for full exchange of information on criminal and civil tax matters between Australia and Bermuda. These agreements are an essential tool in Australia's efforts to reduce offshore tax evasion.

### **Tax treaties**

The Government's tax treaty programme of 20 countries promotes closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment caused by overlapping taxing jurisdictions. Tax treaties offer protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. During the year, negotiations were held with five countries and resulted in tax treaties being signed by the Government with France and New Zealand.

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Tax policy advice was provided on various international agreements, including free trade proposals and privileges and immunities requests being negotiated by the Government.

### Tax system review

Treasury provided advice on, and developed legislation on systemic issues in tax system administration, including the assessment process, ATO rulings and advice, compliance and enforcement, tax offences and penalties, tax collection and recovery systems, tax relief, tax identity, disclosure of taxpayer information, record keeping obligations, and tax agent matters. Tax administration systems must contribute to the tax policy outcomes Parliament intends and avoid the pitfalls of unnecessary risk, complexity and high transaction costs.

The Government announced reviews on the following issues:

- specific provisions that expose taxpayers to open-ended review periods to identify those that could have a set period before a taxpayer's liability is considered to be final;
- Commissioner of Taxation (Commissioner) discretions that determine a taxpayer's liability to increase certainty by recommending replacement tests that a taxpayer can apply at the time of lodgment;
- taxpayer elections to establish guidelines for framing those elections in the law;
- possible application of the Review of Self Assessment recommendations to all federally administered taxes; and
- the possibility of reducing the volume of law that individuals and small businesses with very simple affairs need to access.

The *Tax Laws Amendment (Improvements to Self Assessment) Act (No. 2) 2005* received Royal Assent on 19 December 2005. It amends the income tax laws to reduce the periods in which the Commissioner may amend many income tax assessments to increase a taxpayer's liability, and also enhances the framework for the provision of ATO advice, including through the rulings system in the *Taxation Administration Act 1953*.

The *Tax Laws Amendment (2006 Measures No. 1) Act 2006* received Royal Assent on 6 April 2006. It amends the *Taxation Administration Act 1953* to impose civil penalties on promoters of tax exploitation schemes. Prior to this amendment, the Commissioner could not take legal action to stop the promotion of tax exploitation schemes.

Treasury has also been involved in the Joint Committee on Public Accounts and Audit inquiry into 'Certain Taxation Matters'. The inquiry, announced on 7 December 2005, is examining the administration of tax laws by the ATO and the FBT regime, particularly its interaction with the family tax benefit programme. In a submission made to the inquiry, Treasury outlined:

- key policy measures that have been implemented or are under development to improve the framework within which the ATO must operate; and
- the purpose of FBT and an explanation of the important role that reporting of fringe benefits plays in enhancing the overall fairness of the taxation and welfare systems.

## Policy evaluation frameworks

Treasury has developed enhanced frameworks for the evaluation of taxation policy to ensure appropriate consideration of taxation proposals within the broad policy context of Treasury's mission of improving the wellbeing of Australians. The new frameworks are designed to improve the quality of advice provided to ministers and are a response to the increasing community and government concern to achieve an appropriate balance between the benefits of tax regulation and the efficiency, compliance and administration costs associated with its implementation.

Treasury has commenced the development of quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes. This included getting the Melbourne Institute Tax and Transfer Simulator behavioural microsimulation model, developed by the Melbourne Institute, operational in Treasury.

## Community consultation

Treasury consults to gather information about the practical operation of the taxation system and improve the quality and effectiveness of proposed changes to the system. The emphasis on enhanced community consultation continued, including liaising with peak bodies on tax system issues and extensive consultation on individual measures. Evaluation of consultations is continuing. Generally, feedback from consultation participants was positive. Some concerns were raised about insufficient feedback to participants. Treasury is working to improve this. Treasury prepares a report three times a year which provides details of the consultation strategy for announced tax measures, the progress of the measures and a contact officer for each consultation. These reports are published on the Treasury website and are provided to the Board of Taxation to assist in its role of monitoring consultation processes.

## Repeal of inoperative provisions from the tax laws

Treasury provided advice on, and developed with the Office of Parliamentary Counsel and the ATO, draft legislation to repeal inoperative provisions from tax laws.

The *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* which received Royal Assent on 14 September 2006 repeals more than 4,000 pages of inoperative provisions and inoperative Acts from Australia's tax legislation. Inoperative provisions and Acts are

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those that no longer apply to taxpayers, either because they have no effect after a date in the past or because all the transactions or events they did affect have now concluded.

Public consultation on a draft of the legislation was undertaken in April and May 2006 to ensure that the provisions identified were inoperative. In announcing the release of the draft legislation, the Treasurer described it as a major step to reducing the complexity of tax laws. It reduces the income tax law by almost one-third and the *Income Tax Assessment Act 1936* to half its current size.

In addition to repealing inoperative provisions and Acts, this Act also makes a number of minor improvements to the usability and readability of tax law. For example, it makes a number of amendments to ensure that certain expressions are defined in only one way across the tax laws.

## Publications

### International comparison of Australia's taxes

In April 2006 the Treasurer released the *International Comparison of Australia's Taxes*, a report prepared for the Treasurer by Mr Richard Warburton and Mr Peter Hendy. Treasury provided secretariat support for the analysis of Australia's tax settings and the preparation of the report. The report delivered some significant insights into the taxation arrangements both within Australia and in other countries around the world. The study attracted wide public interest and provided an important opportunity to inform the public discussion about Australia's taxation arrangements.

## OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

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

Superannuation, Retirement and Savings Division contributes to Output 3.1.2. The division has an ongoing programme to improve retirement incomes for Australians. In its role, the division consults widely across the private and public sectors. It has close relationships with the Tax Analysis Division which prepares revenue forecasts, costings of policy proposals and other quantitative studies, and provides strategic analysis of tax-related issues, and with the Tax Design Division which formulates a strategic direction on organisational issues and provides key services, such as managing the legislation programme, budgeting and administration.

## PERFORMANCE INFORMATION

The key performance indicators are:

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

## ANALYSIS OF PERFORMANCE

### Superannuation, retirement income and saving

#### A Plan to Simplify and Streamline Superannuation

On 9 May 2006, the Government announced *A Plan to Simplify and Streamline Superannuation* to simplify superannuation for retirees, provide greater flexibility in drawing on superannuation saving and improve incentives to work and save.

Treasury provided policy advice and assisted the Government in developing the plan.

Treasury also coordinated consultation on the plan. Submissions on the proposals were invited for three months, until 9 August 2006. Around 1,500 submissions were received from the superannuation industry, professional associations and the general public.

During this period Treasury analysed the submissions and extensively discussed particular aspects of the proposals with the superannuation industry, employer and other interested groups. Treasury also consulted a number of other Government departments and agencies. Fact sheets outlining various aspects of the plan were posted on Treasury's website and made available to the general public.

Implementation of the Government's proposed reforms to simplify and streamline superannuation remains a Treasury priority for 2006-07.

### **Other superannuation measures**

Treasury also consulted with the superannuation sector, provided policy advice, developed legislation and implemented policy on other superannuation issues, including:

- prevention of the inappropriate use of pre-1 July 1988 funding credits by certain superannuation schemes;
- a submission to the inquiry by the House of Representatives Standing Committee on Economics, Finance and Public Administration into improving the superannuation savings of people under 40;
- the extension of choice of superannuation fund to employees working for a corporation who were previously employed under a state award;
- implementation of superannuation contribution splitting from 1 January 2006;
- extension of the law on family law and superannuation to cover superannuation annuity products;
- provision for 'interdependency' relationships in determining if someone is a dependant under certain provisions of superannuation law;
- development of new rules for the recovery of superannuation contributions in the event of bankruptcy; and
- negotiation and implementation of social security treaties to provide exemptions from the need to make compulsory superannuation or social security contributions for employees working temporarily in treaty countries. Treaties with Belgium and Ireland commenced during the year and a treaty was signed with Norway. Negotiations continued with a number of other countries, including Germany, Japan, South Korea and Greece.



## OUTCOME 4: WELL FUNCTIONING MARKETS

A well functioning market economy and financial system is integral to the continued economic development of Australia and the wellbeing of the Australian people. Improving the operation of markets is intended to underpin stronger sustainable economic growth and enhanced living standards for all Australians.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. Treasury provides advice to the Government on forming and implementing policies to support well functioning markets. Treasury's advice and other outputs help maintain and improve markets so investors and consumers can have confidence and certainty in making decisions that are well informed and free from market distortions and impediments. Treasury also provides the executive for the Takeovers Panel, and is represented on the advisory board of the Australian Government Actuary. The Royal Australian Mint became a prescribed agency with effect from 1 July 2005.

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

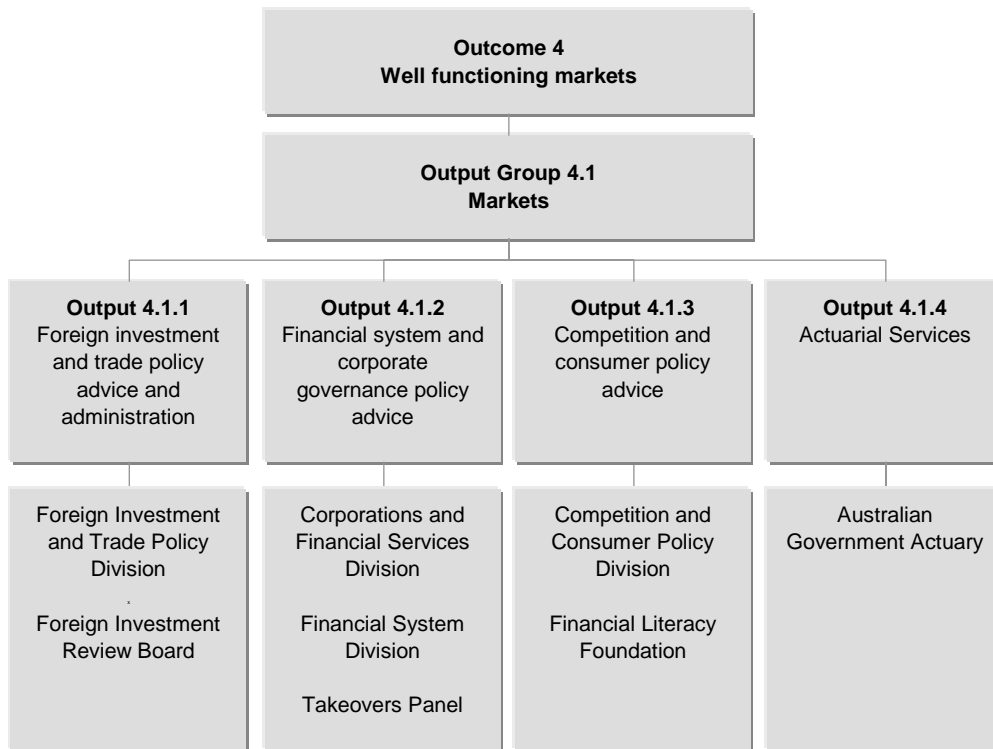
Markets Group is involved in consultations, particularly where reforms or new Government measures are proposed, with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders.

In 2005-06, Markets Group provided advice on a range of issues affecting the operation of markets. For financial markets, that included advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency and corporate financial reporting. For markets more generally, that included advice on structural reforms of key sectors and the operation of competition and consumer policy, including issues of financial literacy. Markets Group also provided professional actuarial services, and advice on foreign investment and trade policy.

Markets Group also commenced negotiations with New Zealand for an investment protocol under the Closer Economic Relations Agreement, and continued to contribute to the Free Trade Agreement negotiations with China, Malaysia and, in partnership with New Zealand, the Association of South East Asian Nations (ASEAN).

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

**Figure 7: Outputs contributing to Outcome 4**



## KEY PRIORITIES IN 2005-06

Treasury's 2005-06 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for Markets Group in 2005-06:

- providing advice on foreign investment and trade policy, and screening foreign investment proposals;
- representing Australia's interest in international negotiations on investment issues, currently with China, Malaysia, and, in partnership with New Zealand, ASEAN;
- progressing a range of international investment cooperation issues, particularly with the United States under the Australia-United States Free Trade Agreement, and with New Zealand under the Australia-New Zealand Closer Economic Relations Trade Agreement;
- contributing to trade and investment issues in international groupings such as the Asia-Pacific Economic Cooperation (APEC), G-20, OECD and World Trade Organization (WTO);
- providing advice on a range of initiatives to integrate more closely the Australian and New Zealand markets, including in prudential supervision of banking, in competition and consumer law and administration, in fundraising and accounting standards, including harmonising financial reporting frameworks, and through forums such as the Trans-Tasman Council on Banking Supervision;
- providing advice on implementing reforms covering auditor independence, legislative backing of auditing standards and oversight arrangements for the Financial Reporting Council (FRC);
- progressing reforms relating to corporate insolvency;
- consulting on and implementing refinements to financial services regulation;
- coordinating implementation of the recommendations of the Review of Corporate Governance of Statutory Authorities and Office Holders for Treasury portfolio agencies falling within this outcome, such as the Australian Prudential Regulation Authority (APRA), the Australian Competition and Consumer Commission (ACCC), and the Australian Securities and Investments Commission (ASIC);
- monitoring and liaising with APRA and stakeholders on the transition to the superannuation trustee licensing reforms introduced under the *Superannuation Safety Amendment Act 2004*;

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- providing advice on a sound and efficient prudential framework, including through work on the International Monetary Fund (IMF) Financial Sector Assessment Program, the Council of Financial Regulator's proposed financial claims compensation arrangements, the recommendations of the HIH Royal Commission, the HIH Claims Support Scheme and the General Insurance Stage 2 Reforms proposed by APRA;
- facilitating well functioning and competitive financial markets, particularly by addressing insurance market issues including public liability, professional indemnity and medical indemnity;
- providing amendments to the Commonwealth legislation to support state and territories insurance liability law reform;
- contributing to the development of the Commonwealth Government Action Plan for a possible influenza pandemic;
- implementing reforms relating to the Dawson Review, the Senate small business report, criminal sanctions for cartels and the National Access Regime;
- contributing to the Council of Australian Governments (COAG) review of National Competition Policy and the development of the COAG National Reform Agenda;
- advancing reforms in key infrastructure markets including energy, transport and communications;
- reviewing the Australian consumer policy framework, including the product safety framework and penalties available for consumer protection;
- implementing a national financial literacy strategy to deliver the Government's commitment to give all Australians the opportunity to better manage their money;
- raising awareness of financial literacy and its benefits and building the capacity of Australians to take advantage of significant reforms to the finance sector that have improved competition and consumer choice;
- providing services, through the Australian Government Actuary, related to financial matters including benefits depending on contingencies such as injury, death or retirement. The Australian Government Actuary also assists departments and agencies with policy development in areas where it has specialist expertise;
- continuing to provide advice relating to the currency system; and
- maintaining successful operations of the Australian Government Actuary and the Takeovers Panel.

## KEY OUTCOMES IN 2005-06

In 2005-06, Markets Group advice covered a broad agenda including issues such as corporate governance, market integrity, financial system safety, financial product safety, financial literacy, competition and consumer policy, and protecting the national interest under Australia's foreign investment policy.

Key Group outcomes included:

- working on a range of international investment cooperation issues, particularly the Trade and Investment Framework with Indonesia, a Trade and Economic Framework with India, and an Investment Protection and Promotion Agreement with Mexico. Markets Group also contributed to Free Trade Agreement negotiations with China, Malaysia and — in partnership with New Zealand — ASEAN;
- assisting the Council of Financial Regulators in formulating recommendations for the Government to consider in dealing with distressed financial institutions, including a Financial Claims Compensation Scheme (FCCS) to enhance current arrangements. Markets Group also contributed to the IMF's Financial Sector Assessment of Australia, to be released later in 2006;
- contributing to the Taskforce on *Reducing Regulatory Burdens on Business*, and the Government's interim response to the recommendations relating to Financial and Corporate Regulation in the *Report of the Taskforce on Reducing Regulatory Burdens on Business — Rethinking Regulation*;
- progressing the new superannuation trustee licensing reforms introduced by the *Superannuation Safety Amendment Act 2004*. The transition period for these reforms concluded on 30 June 2006;
- finalising amendments to the Commonwealth legislation to support State and Territory insurance liability law reform. The *Trade Practices Amendment (Personal Injuries and Death) Act 2006* received Royal Assent on 23 March 2006;
- working with the Department of Finance and Administration to implement the recommendations arising from the Review of Corporate Governance of Statutory Office Holders (Uhrig Review);
- working with the National Competition Policy Review Secretariat, within the Department of Prime Minister and Cabinet, to develop the National Reform Agenda announced by COAG on 10 February 2006;

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- continuing to progress reforms relating to the *Trade Practices Act 1974* on competition provisions and national access regimes. These reforms were integrated into the Trade Practices Amendment (2006 Measures No. 2) Bill 2006, the Trade Practices Legislation Amendment Bill (No. 1) 2005, and the Trade Practices Amendment (National Access Regime) Bill 2006;
- developing a draft Bill on component pricing reforms, releasing a discussion paper on pecuniary penalties, and through the Commonwealth Consumer Affairs Advisory Council, releasing a booklet, *The Australian Guidelines for Electronic Commerce*;
- continuing to develop the *Understanding Money* media campaign, website and handbook, and progressing the education, training and research initiatives which underpin the advancement of financial literacy in the longer term;
- executing necessary arrangements in the lead up to the establishment of the Financial Reporting Panel. The Parliamentary Secretary to the Treasurer announced the appointment of Mr Paul Shannon as the inaugural Chairman on 23 May 2006;
- implementing a package of refinements to the Financial Services Reform Act in December 2005 after extensive consultation;
- developing a revised Memorandum of Understanding on the coordination of business law and a treaty regarding mutual recognition of securities offerings which were both signed by Australian and New Zealand Ministers on 22 February 2006;
- conducting, through the Trans-Tasman Accounting Standards Advisory Group, a regional policy forum in October 2005 in Sydney which promoted cooperation and communication in adopting International Financial Regulatory Standards in the Asia-Oceania region; and
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary and the Takeovers Panel.

**Table 6: Financial and staffing resources summary for Outcome 4**

	Budget 2006 \$'000	Actual 2006 \$'000	Budget 2007 \$'000
<b>Administered expenses</b>			
Appropriation Acts No. 1 and 3	6,000	576	5,000
Appropriation Acts No. 2 and 4	164,701	163,742	168,492
Special Appropriations	1,158	173	-
Other expenses	-	5,732	-
<b>Total administered expenses</b>	<b>171,859</b>	<b>170,223</b>	<b>173,492</b>
<b>Revenue from government</b>			
<b>Output Group 4.1 Markets</b>			
Output 4.1.1 Foreign investment policy advice and administration	3,990	3,990	3,962
Output 4.1.2 Financial system and corporate governance policy advice	21,972	21,972	21,797
Output 4.1.3 Competition and consumer policy advice	19,292	19,292	13,041
Output 4.1.4 Actuarial Services	-	-	-
<b>Total revenue from government contributing to the price of departmental outputs</b>	<b>45,254</b>	<b>45,254</b>	<b>38,800</b>
<b>Revenue from other sources</b>			
<b>Output Group 4.1 Markets</b>			
Output 4.1.1 Foreign investment policy advice and administration	92	83	80
Output 4.1.2 Financial system and corporate governance policy advice	307	557	267
Output 4.1.3 Competition and consumer policy advice	235	343	235
Output 4.1.4 Actuarial Services	1,629	1,164	1,629
<b>Total revenue from other sources</b>	<b>2,263</b>	<b>2,147</b>	<b>2,211</b>
<b>Total revenue for departmental outputs (Total revenues from government and other sources)</b>	<b>47,517</b>	<b>47,401</b>	<b>41,011</b>
<b>Price of departmental outputs</b>			
<b>Output Group 4.1 Markets</b>			
Output 4.1.1 Foreign investment policy advice and administration	4,082	4,918	4,042
Output 4.1.2 Financial system and corporate governance policy advice	22,279	19,463	22,064
Output 4.1.3 Competition and consumer policy advice	19,527	11,818	13,276
Output 4.1.4 Actuarial Services	1,629	895	1,629
<b>Total price of departmental outputs</b>	<b>47,517</b>	<b>37,094</b>	<b>41,011</b>
<b>Total estimated resourcing for Outcome 4 (Total price of outputs and administered expenses)</b>	<b>219,376</b>	<b>207,317</b>	<b>214,503</b>
Average staff levels (number)	223	221	231

Notes: This resource table is presented in the four outcome structure effective from the 2006-07 Budget in May 2006. The Budget for administered expenses for 2006 is as per the *2005-06 Portfolio Additional Estimates Statements*. Actuals from 2005-06 have been realigned for comparative purposes to the 2006-07 Budget. The Budget for departmental price of outputs for 2006 and administered expenses and departmental price of outputs for 2007 is as per the *2006-07 Portfolio Budget Statements*.

## **OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION**

During 2005-06, Foreign Investment and Trade Policy Division in Markets Group was responsible for the delivery of Output 4.1.1: Foreign investment and trade policy advice and administration.

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

### **PERFORMANCE INFORMATION**

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities;
- foreign investment proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents;
- Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums; and
- the OECD Guidelines are promoted effectively and Australian National Contact Point responsibilities are fulfilled.

Performance is currently regarded as satisfactory if:

- Treasury effectively disseminates and explains Australia's foreign investment policy to improve the standard of applications and compliance to minimise the proportion of foreign investment proposals requiring Interim or Final Orders;
- Treasury undertakes a programme of compliance checks on previous proposals subject to conditions — possibly leading to prosecutions, but overall aimed at reducing non-compliance; and
- ministerial correspondence is handled satisfactorily.



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

Most proposals require notification to the Treasurer. Proposals must conform with the general and particular requirements of Australia's foreign investment policy. If a proposal is determined to be contrary to the national interest, it can be prohibited.

Where a foreign person enters into an agreement to acquire an interest in Australian urban land, they must notify the Treasurer under section 26A of the FATA. In most real estate cases, applicants are required to comply with specified conditions. Where a foreign person proposes to acquire a substantial interest<sup>2</sup> in an Australian corporation valued above \$50 million (or from 1 January 2006, \$831 million for a United States investor, except in prescribed sensitive sectors), they must notify the Treasurer under section 26 of the FATA. Proposals to establish a new business must be notified if the value of that business exceeds \$10 million. Direct investments, regardless of size, by foreign governments and their agencies must be notified.

Under authorisation from the Treasurer, senior Treasury staff make decisions on less complex proposals that do not involve issues of high sensitivity. The bulk of proposals (around 95 per cent) are decided under such authorisation.

Treasury considered 5,721 proposals in 2005-06, which represented 808 (or 16.4 per cent) more than in 2004-05. Around 91 per cent of proposals received were decided within 30 days. Treasury also received around 32,000 telephone calls and 4,580 items of written and email correspondence during the year. In examining large or otherwise significant proposals, State and Australian government departments and authorities, with responsibilities relevant to the proposed activity, are consulted to provide advice and comment to assist in assessing the implications of proposals.

During 2005-06, the Foreign Investment Review Board provided advice to the Treasurer on a number of major proposals. The Foreign Investment Review Board oversaw the investment screening functions of the division on a weekly basis. The General Manager of Foreign Investment and Trade Policy Division is also the ex officio executive member of the Foreign Investment Review Board.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is contained in the Foreign Investment Review Board's Annual Report. A copy and other information is at [www.firb.gov.au](http://www.firb.gov.au).

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

## Compliance standards

Treasury's efforts through 2005-06 to strengthen compliance focused on three broad elements:

- introducing a new case management system and integrated online application facility to improve application accuracy and reduce processing times;
- enhancing communication about foreign investment policy to foreign investors, their agents, industry associations and other government agencies involving a continuing programme of targeted public speeches, ongoing improvements to the Foreign Investment Review Board website and development of easy-to-follow written materials; and
- monitoring compliance with foreign investment policy through a rolling programme. Treasury examined around 3,000 decided proposals in 2005-06 to ensure fulfilment of conditions, and monitored all major conditional business sector approvals. Targeted follow-up in the real estate sector ranged from routine checking of compliance with conditions to more complex investigations based on information from the public and from interagency sources. In some instances, this resulted in action against foreign parties, including prosecution.

## Representation in international forums

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

### Free trade agreements/closer economic cooperation

#### New negotiations

In February 2006, Australia and New Zealand agreed to commence negotiations on an Investment Protocol to form part of the Australia New Zealand Closer Economic Relations Trade Agreement.

The Investment Protocol aims to facilitate stronger trans-Tasman investment flows and further strengthen the economic relationship between Australia and New Zealand. It will benefit investors by reducing compliance costs and providing improved legal certainty. Inclusion of an Investment Protocol would bring this agreement into line with Australia's more recent free trade agreements with Singapore, Thailand and the United States. Although the 1988 Australia New Zealand Closer Economic Relations Agreement in Services Protocol covers investment in establishment of a commercial presence by a trans-Tasman service provider, the broad carve-out for each country's foreign investment

policies means neither nation needs to make liberalising commitments for their respective foreign investment screening regimes.

Negotiation of a trans-Tasman Investment Protocol is an important step towards the goal of creating a single economic market between Australia and New Zealand.

#### **Continuing negotiations**

During 2005-06, Australia continued free trade agreement negotiations with China, Malaysia and ASEAN. The ASEAN Free Trade Agreement is being negotiated by Australia in partnership with New Zealand.

Australia's free trade agreement negotiations with the United Arab Emirates were suspended in June 2006 following the decision to expand the negotiations include all members of the Gulf Cooperation Council. Australia is currently analysing the economic and trade implications of this.

#### **Other agreements**

In September 2005, Australia signed a Trade and Investment Framework with Indonesia. This aims to strengthen commercial ties by enhancing business opportunities and improving facilitation of trade in goods, services and investment.

During 2005-06, work commenced on the Australia-Japan Free Trade Agreement feasibility study. The feasibility study group met three times and aims to finalise the study towards the end of 2006.

During 2005-06, Australia signed an Investment Protection and Promotion Agreement with Mexico, although it has not yet entered into force. Australia also commenced negotiations with Iran and Lebanon.

In March 2006, Australia signed a Trade and Economic Framework with India to support the further expansion of economic and commercial ties.

Under a side letter to the Australia-United States Free Trade Agreement, Australia had to review certain aspects of its investment screening arrangements by 30 June 2006. Treasury undertook that review in consultation with United States authorities and other relevant stakeholders.

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

Australia is represented at the OECD's Investment Committee meetings by the General Manager of the Foreign Investment and Trade Policy Division. The committee promotes investment for growth and economic development, and represents the investment community from developed countries which are the source of 90 per cent of world investment flows.

The Investment Committee oversees the operation of the OECD Guidelines, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, taxation and consumer welfare. As a signatory,

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the Australian Government has undertaken a commitment to promote and implement the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, the General Manager of the Foreign Investment and Trade Policy Division.

In 2005-06, the Australian National Contact Point reviewed a submission lodged in June 2005 by five Australian and overseas non-government organisations. The submission alleged that, through its provision of immigration detention services to the Australian Government, GSL (Australia) Pty Ltd (a UK-controlled multinational enterprise) had breached the OECD Guideline's human rights and consumer interest provisions. The review process culminated in a mediation session involving conciliation on many issues. The Australian National Contact Point successfully concluded the proceedings and released a final statement on 6 April 2006. The Australian National Contact Point also worked to maintain stakeholder awareness of the guidelines by conducting targeted business and community consultation. This consultation focused on the Australian Textiles, Clothing and Footwear Industry and was well attended by representatives from businesses, trade unions and non-government organisations.

### **Asia-Pacific Economic Cooperation**

Since taking over convenorship of the Investment Experts Group in early 2005, Treasury has undertaken a more active and strategic role in APEC's investment liberalisation agenda. Our leading role continues to form a significant part of Treasury's contribution to the development of key policy themes and priorities in the lead up to 2007, the year Australia hosts APEC.

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

Treasury provided specialised advice to the Department of Foreign Affairs and Trade on Australia's involvement in the WTO Working Group on Trade and Investment and the WTO Doha round of negotiations on the General Agreement on Trade and Services. Treasury also provides advice to the Department of Foreign Affairs and Trade on Australia's negotiation of bilateral and regional free trade agreements and bilateral investment treaties.

## **OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE**

During 2005-06, the Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel, were responsible for the delivery of Output 4.1.2: Financial system and corporate governance policy advice.

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

## **PERFORMANCE INFORMATION**

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues;
- effective presentation of relevant information informs public debate;
- statutory and other procedural requirements are met;
- secretariat services provided to advisory bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, are assessed by participants as effective;
- Takeovers Panel achieves intended results; and
- ministerial correspondence is handled satisfactorily.

## **ANALYSIS OF PERFORMANCE**

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

### **Financial system reform**

#### **Financial Claims Compensation Scheme**

Treasury contributed to the work of the Council of Financial Regulators examining crisis management arrangements in Australia. The council endorsed many of the arrangements currently in place for dealing with distressed financial institutions. It also recommended that the Government consider introducing a financial claims compensation scheme to enhance current arrangements. The council consulted with industry on the proposed

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scheme and its design before reporting back to the Treasurer. Treasury participated in this process.

### **Reducing Regulatory Burdens on Business**

Treasury provided assistance to the Taskforce on Reducing Regulatory Burdens on Business, including providing resources for the secretariat. Treasury provided advice and assisted the Government in developing its interim response to the recommendations by analysing areas of prudential regulation where the regulatory burden could be reduced.

### **Superannuation**

The *Superannuation Safety Amendment Act 2004* introduced a universal licensing regime for trustees of superannuation funds regulated by APRA. The transition period for these reforms concluded on 30 June 2006. Treasury liaised with APRA and industry stakeholders to ensure a smooth transition to the new licensing regime.

### **General Insurance Stage 2 Reforms**

Treasury liaised with APRA and industry stakeholders and provided advice to the Government on APRA's proposed further reforms to the general insurance prudential framework, collectively known as the General Insurance Stage 2 Reforms.

These reforms primarily include prudential standards concerning corporate governance arrangements, 'fit and proper' requirements, risk and financial management, outsourcing arrangements and prudential supervision of corporate groups involving an authorised general insurer.

Final prudential standards concerning 'fit and proper' requirements, risk and financial management and corporate governance arrangements will be implemented from 1 October 2006. Generally, the insurance industry has received these standards well.

### **Money laundering**

Treasury continued to assist the Attorney-General's Department in developing a risk based legislative proposal to implement the recommendations of the *Financial Action Task Force on Money Laundering*. Treasury consulted with financial sector representatives on the legislative proposals and the potential implications of the anti-money laundering and counter-terrorism financing standards, and remains in close contact with other government departments and regulators.

### **Professional indemnity and public liability insurance**

The *Trade Practices Amendment (Personal Injuries and Death) Act 2006* received Royal Assent on 23 March 2006. It implements recommendations 19 and 20 of the Review of the Law of Negligence, chaired by the Hon Justice David Ipp of the NSW Court of Appeal, and applies to personal injuries or death claims made in relation to unfair practices such as misleading and deceptive conduct.

In May 2006, the Australian Government prescribed the New South Wales Bar Association's professional standards scheme. This scheme limits an eligible member's civil liability to \$1,000,000, in return for risk management practices and compulsory insurance cover.

Commonwealth prescription ensures State and Territory professional standards legislation is not undermined through the use of Commonwealth legislation as an alternative avenue for legal action.

### **Discretionary mutual funds and direct offshore foreign insurers**

Treasury released a discussion paper in December 2005 examining how to implement the findings of the Review of Discretionary Mutual Funds and Direct Offshore Foreign Insurers. It continues to progress the implementation of the review's recommendations.

### **Natural disaster insurance**

Treasury is working with the Insurance Council of Australia to progress the insurance recommendations contained in several reports to the Government on natural disasters. The reports include the COAG report, *Natural Disasters in Australia: Reforming mitigation, relief and recovery arrangements* and the COAG National Inquiry on Bushfire Mitigation and Management.

### **Assessment of APRA and ASIC against Uhrig Review recommendations**

Treasury is working with the Department of Finance and Administration to implement the recommendations arising from the Uhrig Review. APRA, ASIC and the Corporations and Markets Advisory Committee probably will each transfer to a new governance and financial framework by 1 July 2007.

### **Financial services refinements**

Treasury assisted the Government to prepare proposed refinements to the regulatory regime and consulted widely on their implementation.

### **International liaison**

#### **IMF Financial Sector Assessment Program**

The IMF conducted a Financial Sector Assessment of Australia, assessing the codes and standards relating to banking, insurance, securities and the payments system. A macroeconomic stress test assessed the strengths and vulnerabilities of major banks to an economic downturn.

The IMF's Executive Board will consider the outcome and release it as the IMF's Financial Sector Stability Assessment for Australia later in 2006.

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

With the support of the Australian Agency for International Development, Treasury collaborated with partners including the OECD and APEC to hold a forum on Asian Insolvency Reform, held in April 2006 in Beijing.

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

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and New Zealand Minister of Finance on promoting a joint approach to trans-Tasman banking supervision to deliver a seamless regulatory environment for banking services. The council is chaired jointly by the Secretaries to the Treasuries of Australia and New Zealand, and its membership also comprises senior officials from APRA, and the Reserve Banks of New Zealand and Australia.

In February 2005, Ministers endorsed a forward work programme that includes looking at improved cooperation on crisis management, promoting seamless services provision for customers and sharing experiences on improving the quality of insurance regulation.

In August 2005, the Trans-Tasman Council on Banking Supervision reported to ministers on legislative changes that would require APRA and the Reserve Bank of New Zealand to support each other in the performance of their statutory objectives and, wherever reasonably practicable, avoid actions that would have a detrimental effect on the other country. Both Governments agreed to implement the changes, which Treasury is progressing in Australia.

### **Financial Markets Meeting**

Australia hosted the first meeting of the Financial Markets Group in October 2005, in Sydney. Australia, China, Japan, Hong Kong (PRC), South Korea and Singapore share their perspectives on macroeconomic, financial market and regulatory developments in the region.

This forum has grown out of the Four Markets Group, of Australia, Hong Kong (PRC), Japan, and Singapore, which in 2004, agreed to expand in view of the importance to the Asian region's financial markets of China and Korea.

The topics discussed were domestic and regional macroeconomic developments, key developments in domestic financial markets and regulation in the region, prospects for regional financial integration and international standards. Australia led a discussion on the role international standards play in domestic policy development, the policy challenges that countries have experienced in dealing with international standards and membership of standards-setting bodies.

Member countries rotate the hosting of meetings and Hong Kong has agreed to host the 2006 meeting.



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

A revised Memorandum of Understanding on coordination of business law was signed by Australian and New Zealand Ministers on 22 February 2006. The work programme includes issues relating to competition, regulation of financial intermediaries and accounting standards and frameworks.

On the same day, they signed a treaty regarding mutual recognition of securities offerings. Australia will need to amend its corporations legislation to implement this treaty.

Treasury also participated in a Trans-Tasman Accounting Standards Advisory Group with representatives from the FRC, Australian Accounting Standards Board (AASB), Financial Reporting Standards Board (New Zealand), Accounting Standards Review Board (New Zealand), officials from the New Zealand Ministry of economic development and members of professional accounting bodies of both countries. Treasury is working towards consistency in financial reporting frameworks and implementation of International Financial Reporting Standards in both countries.

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

In October 2005, the Australian and New Zealand Governments hosted a regional policy forum to promote cooperation and communication in adopting International Financial Reporting Standards in the Asia-Oceania region. Representatives from relevant policy and standard setting institutions in eleven countries attended. A second forum is planned for early 2007.

### **Takeovers Panel**

The Takeovers Panel contributed to well functioning securities markets in Australia by resolving 31 applications, based on the Takeovers Chapter of the *Corporations (Repeals, Consequential and Transitional) Act 2001*, ensuring the acquisition of control over voting shares in listed and widely held companies takes place in an efficient, competitive and informed market; security holders and directors are appropriately informed; security holders have a reasonable and equal opportunity to participate in the benefits from a proposal; and appropriate procedures are followed.

The panel also fosters the confidence and efficiency of the market by publishing Guidance Notes. In 2005-06, the Panel released three new Guidance Notes, revised others and published two issues papers for public comment.

A panel decision was challenged for the first time in court. Glencore International AG applied to the Court for review of the panel's decisions. The application was upheld, but the constitutional validity of the legislation was maintained.

## **Financial Reporting Panel**

On 23 May 2006, the Parliamentary Secretary to the Treasurer announced the appointment of Mr Paul Shannon as the inaugural Chairman of the Financial Reporting Panel and eight other members. The new alternative dispute resolution body was established under the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* to determine contested issues between ASIC and companies on the application of accounting standards and the true and fair view requirement in companies' financial reports.

The panel is located in Melbourne and formally commenced operation on 3 July 2006.

## **Currency**

Treasury chaired and served on the Royal Australian Mint Advisory Board. Treasury also prepared currency determinations for the Perth Mint's numismatic coin programmes.

## **Company law and corporate governance**

### **Corporate governance**

Treasury provided advice to Government on a range of corporate governance issues, including development of draft amendments to the *Corporations Act 2001* on shareholder participation. Treasury officials made submissions to an inquiry into corporate social responsibility by the Parliamentary Joint Committee on Corporations and Securities, which reported in June 2006.

### **Corporate insolvency**

Treasury provided advice to the Government on reform proposals for Australia's corporate insolvency framework. An Insolvency Law Advisory Group comprising private sector experts was established to assist Treasury develop a package of draft legislation, which is expected to be introduced in 2006-07.

### **Corporate Law Economic Reform Program 9 (CLERP 9)**

Treasury continues to monitor the implementation of CLERP 9, particularly auditor independence and audit standards. Treasury consulted with the Auditing and Assurance Standards Board (AuASB), ASIC, the FRC, professional accounting bodies and industry stakeholders on implementation issues.

### **International Financial Reporting Standards**

Treasury provided advice to the Government on implementing the International Financial Reporting Standards. Treasury also consulted with the FRC, the AASB, professional accounting bodies, ASIC, industry groups and individual companies on this issue.

## **Statutory and other procedural requirements**

### **Financial sector levies**

Treasury consulted with industry and provided advice to the Government in relation to the determination of financial sector levies which primarily support APRA's operations.

### **Ministerial decisions under statutes**

In 2005-06, Treasury officers made delegated decisions regarding the availability of body corporate names and related matters.

Treasury also advised on, and prepared associated instruments on, nine applications under the *Financial Sector (Shareholdings) Act 1998*; two applications under section 63 of the *Banking Act 1959*; two applications under the *Insurance Acquisitions and Takeovers Act 1991*; and one application under the *Financial Sector (Transfers of Business) Act 1999*.

### **Appointments**

Treasury processed appointments to the AuASB, the AASB, APRA, the Australian Reinsurance Pool Corporation Board, ASIC, the Companies Auditors and Liquidators Disciplinary Board, the Corporations and Markets Advisory Committee and its legal subcommittee, the FRC, the Financial Reporting Panel, the Financial Sector Advisory Council, the Life Insurance Actuarial Standards Board, the Payments System Board, the Superannuation Complaints Tribunal, and the Takeovers Panel.

### **Secretariat services**

Treasury provided secretariat services to the Ministerial Council for Corporations, which met three times during 2005-06. Treasury also assisted the Parliamentary Secretary to fulfil the Government's obligations under the Corporations Agreement 2002.

Treasury provided secretariat support for the FRC, a stakeholder body that provides strategic oversight of the accounting and audit standard setting processes, including the AuASB, and the AASB.

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

## **OUTPUT 4.1.3: COMPETITION AND CONSUMER POLICY ADVICE**

During 2005-06, Competition and Consumer Policy Division and the Financial Literacy Foundation were responsible for the delivery of Output 4.1.3: Competition and consumer policy advice.

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

Through the work of the Financial Literacy Foundation, Markets Group provided policy advice on initiatives which will lead, over time, to the advancement of consumer financial literacy, and a greater capacity for consumers to function effectively in financial markets and better understand and manage financial risk. The foundation provides a national focus for financial literacy issues and works in partnership with government, industry and community organisations to advance financial literacy in Australia.

### **PERFORMANCE INFORMATION**

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy and national financial literacy issues;
- statutory and other procedural, administrative and reporting requirements are met;
- effective representation and/or liaison with other agencies, private sector organisations and international bodies promotes competitive, efficient and well informed markets;
- effective presentation of relevant information informs consumers and businesses;
- implementation of the Government's financial literacy initiative;
- secretariat services provided to advisory bodies are effective;
- ministerial correspondence is handled satisfactorily;

- clearinghouse and website services with information on financial and education services, superannuation and superannuation choice are established and maintained effectively; and
- establishment of educational benchmarks and standards in schools is promoted.

## ANALYSIS OF PERFORMANCE

### Competition policy

Treasury has been developing legislation to implement the Australian Government's response to a June 2004 report of the Senate Economics References Committee on *The effectiveness of the Trade Practices Act 1974 in protecting small business*. In accordance with the intergovernmental Conduct Code Agreement, the Australian Government has consulted with the States and Territories on the draft Bill. The voting requirements of the agreement have been met.

Treasury is developing the Trade Practices Amendment (2006 Measures No. 2) Bill 2006 which will introduce criminal penalties for serious cartel conduct. The Bill, along with the Trade Practices Legislation Amendment Bill (No. 1) 2005, implements the Government's response to the independent review of the competition provisions (Part IV) of the *Trade Practices Act 1974* (the Dawson Review).

At their annual bilateral meeting on 22 February 2006, the Treasurer and the New Zealand Finance Minister announced they agreed to amend the Trade Practices Act and NZ Commerce Act to allow the ACCC and the New Zealand Competition Commission to exchange information gathered in the course of investigating competition and consumer protection matters under the agencies' respective powers. Treasury is developing legislation to implement this decision.

Treasury has also been involved in negotiations for the inclusion of competition chapters in free trade agreements with several countries. Treasury led the Australian Government's involvement in the Australia-United States Free Trade Agreement Working Group on Competition Law and Anti-competitive Business Practices. The working group was established to further advance cooperation between Australia and the United States for the effective enforcement of each other's competition laws and policies.

Treasury coordinates and advises the Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2005-06, this involved four public inquiries and three commissioned research references.

Treasury has an advisory, reporting and coordination role for the Government's implementation of National Competition Policy. During 2005-06, Treasury provided advice to ministers on the last round of payments to the State and Territory governments. Treasury also provided advice on sector-specific reforms and inter-jurisdictional issues.

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Treasury worked closely with, and provided staff to, the National Competition Policy Review Secretariat within the Department of the Prime Minister and Cabinet to develop the new reform agenda that was announced in 2005-06 by COAG as part of the National Reform Agenda.

Treasury prepared amendments to the Trade Practices Amendment (National Access Regime) Bill 2006, which implements the Government's final response to the Productivity Commission's review of the National Access Regime for infrastructure facilities of national significance. The amendments were made by the Government in response to a report on the Bill by the Senate Economics Legislation Committee on 8 September 2005. Overall, the reforms aim to improve the operation of the National Access Regime and promote more efficient investment in, and use of, essential infrastructure. The House of Representatives passed the Bill and its amendments on 9 February 2006. A consolidated Bill was introduced in the Senate on 28 February 2006.

Treasury prepared advice on a range of issues concerning energy market reform. Treasury has worked with the Department of Industry, Tourism and Resources, and State and Territory governments towards amending COAG's Australian Energy Market Agreement 2004, and commencing implementation of the amendments. This agreement provides for the transfer of energy regulation functions from multiple state regulators to the new national regulator, the Australian Energy Regulator.

Treasury provided policy advice on a range of transport issues, including implementation of the Government's national land transport plan, *AusLink*; the Government's review of international aviation policy; and development of the Government's response to the Productivity Commission's review of Part X of the *Trade Practices Act 1974*.

Treasury engaged with other central and relevant line agencies (including the ACCC) on implementing measures contained in the Telstra sale legislation, including arrangements for the operational separation of Telstra, and regulatory and targeted funding measures to ensure the ongoing adequacy of telecommunications services for all Australians.

Treasury has also been involved in addressing key regulatory issues in telecommunications, including wholesale access pricing arrangements for Telstra's Unconditioned Local Loop Service, and the application of Part XIC of the Trade Practices Act to Telstra's proposed fibre-to-the-node broadband network.

Treasury is working closely with other agencies to progress key reforms in Australia's media sector. Central to the reform agenda is ensuring that Australians are able to access exciting new broadcasting services delivered, via new and emerging technological platforms, as well as liberalising media ownership regulations.

## Consumer policy

In 2005-06, Treasury provided advice to the Government regarding the consumer policy framework which facilitates the effective and positive engagement of consumers in the economy.

Treasury continued to provide advice regarding the review of the Australian consumer product safety system, following release in February 2006 of the Productivity Commission's research study. Treasury examined the recommendations, and provided advice on the implications of adopting them.

Following the Treasurer's announcement in 2005 that the Australian Government would be amending the *Trade Practices Act 1974* to respond to the increased use of component pricing in a number of industries, Treasury progressed the proposed changes. A draft Bill and the draft Explanatory Memorandum were prepared and released in March 2006. Treasury has consulted with various stakeholders about the impact of the amendment.

Treasury also progressed the Ministerial Council on Consumer Affairs consumer policy research agenda. The two projects are research into scams in Australia and form a baseline study for product safety.

## Financial Literacy Foundation

The Financial Literacy Foundation was established in June 2005 to give all Australians the opportunity to better manage their money.

The foundation aims to build the capacity of Australians to better understand and manage financial risk, deal effectively with market complexity and take advantage of increased competition and choice in Australia's finance sector. The foundation is addressing the structural, attitudinal and behavioural barriers to meeting these objectives through:

- developing partnerships with relevant government, industry and community organisations to deliver quality financial literacy programmes and resources;
- creating opportunities for Australians of all ages to learn more about money — at school, through vocational and higher education, in the workplace and in the community;
- playing a leadership role in obtaining the national endorsement of the National Consumer and Financial Literacy Framework, under which all Australian school children would receive financial literacy education in their compulsory years at school from the beginning of 2008;
- facilitating and supporting the introduction of financial literacy to workplace training, such as through the pilot programme implemented in partnership with the Master Builders Association (ACT);
- researching financial literacy issues, including establishing benchmark levels of financial literacy awareness, engagement and competence across the Australian community, and investigating the most effective ways to deliver financial literacy information to consumers; and

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- raising community awareness of financial literacy and its benefits through delivery of the *Understanding Money* media campaign, which will run from 30 July 2006 to mid-December 2006, and be supported by the *Understanding Money* website and handbook, and a programme of community seminars.

The Foundation's Advisory Board, chaired by Mr Paul Clitheroe, provides independent and strategic guidance on financial literacy issues. Advisory Board members are appointed by the Minister for Revenue and Assistant Treasurer, with the Prime Minister's approval.

### Secretariat services

Treasury continued to provide secretariat support to the Ministerial Council on Consumer Affairs. A discussion paper was published in September 2005 on *Civil Penalties for Australian Consumer Protection Provisions*. Treasury analysed the submissions in preparation for drafting a position paper.

Treasury also continued to provide secretariat support to the Commonwealth Consumer Affairs Advisory Council, including publication of the booklet, *The Australian Guidelines for Electronic Commerce*, and an accompanying Fact Sheet, launched in March 2006 at the National Consumer Congress.

## OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2005-06, the Australian Government Actuary was responsible for the delivery of Output 4.1.4: Actuarial services.

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

### PERFORMANCE INFORMATION

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

### ANALYSIS OF PERFORMANCE

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special



account to ensure its financial operations are managed properly and transparently. At 30 June 2006, the account was in a sound financial position.

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

### **Consultancy services**

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

Departments which sought advice included Defence; Attorney-General's; Education, Science and Training; Family, Community Services and Indigenous Affairs; Health and Ageing; Veterans' Affairs; and Finance and Administration. Centrelink, Medicare Australia and the Australian Taxation Office also sought advice.

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

### **Services to Treasury**

The Australian Government Actuary contributed its technical expertise on a range of policy issues, including long-term care, medical indemnity arrangements, the superannuation system and insurance matters.

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

### **Operational outcomes**

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

## STRATEGIC COMMUNICATIONS DIVISION

Strategic Communications Division assists in the achievement of Treasury's outcomes by providing services in relation to Cabinet liaison; parliamentary liaison; ministerial correspondence; ministerial briefing coordination; coordination of freedom of information requests; advice and general secretariat services to the Secretary, Executive Board and Audit Committee; issues monitoring and management; proofreading services and evaluation of policy development and implementation.

It also undertakes Treasury-wide projects directed at enhancing the services provided to ministers, including on risk management and quality assurance.

### KEY PRIORITIES IN 2005-06

The key priorities were to:

- ensure the delivery of appropriate services to Treasury ministers; and
- monitor and manage issues, in partnership with relevant policy areas in groups.

### KEY OUTCOMES IN 2005-06

The key outcomes achieved were:

- provision of issues management services and support across Treasury;
- liaison, briefing and correspondence coordination for Treasury and its stakeholders;
- continued enhancement of Treasury's risk management and quality assurance capabilities;
- further improvement of reporting, support services and systems for advice sent to ministers; and
- implementation of the Executive Board decision to establish a policy evaluation function within the division.

## CORPORATE SERVICES DIVISION

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

In 2005-06, Corporate Services Division restructured from six units to four units by merging four units into two new units. The key objectives of the amalgamation were to strengthen synergies between teams, eliminate overlap and duplication of services, and streamline reporting. The restructure was also aimed at providing staff in Corporate Services Division with improved career opportunities in the larger units and an opportunity to use resources more effectively and flexibly during peak periods. The newly formed units are:

- the Information Services Unit which is responsible for the delivery of information technology (IT) training, publishing, internet, intranet, library and records management services.
- the Financial and Facilities Management Unit which is responsible for the delivery of financial, accounting, facilities management, procurement, security and governance services.

Two Senior Executive Service (SES) positions, one in the Human Resources Unit and one in the Financial and Facilities Management Unit, were created to strengthen the strategic capacity of the division.

Other corporate structural changes made in 2005-06, included:

- transferring risk management and audit functions to the Strategic Communications Division; and
- transferring information and knowledge management responsibilities to the newly created Information Services Unit.

### KEY PRIORITIES IN 2005-06

Corporate Services Division priorities identified in the 2004-05 Corporate Plan were to:

- continue to progress knowledge management initiatives, including continuing to implement electronic records management, enhancing the departmental intranet and continuing to develop departmental internet sites;
- promote a risk management framework across Treasury;

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- contribute to the negotiation and implementation of Treasury's remuneration and conditions framework;
- enhance further human resource and financial information management systems;
- further develop internal financial management processes, including implementing a long-term capital management plan;
- analyse and align the staff survey outcomes with organisational strategies;
- maintain and expand IT applications to support departmental operations;
- continue to ensure the security of the IT network and systems, including a re-accreditation of the Internet gateway; and
- enhance professional development programmes for staff at all levels.

## KEY OUTCOMES IN 2005-06

Key outcomes in 2005-06 were:

- Consultation for the development of Treasury's Information and Knowledge Management Strategic Plan commenced in May 2006. The plan will set out the overall direction and general framework in which Treasury's knowledge management initiatives can be assessed and prioritised, so corporate objectives can be achieved. The plan is due to be released in October 2006.
- Other information and knowledge management initiatives progressed in 2005-06, included:
  - Treasury's Legal Opinion Register which will provide a central repository for all legal advice provided to Treasury; and
  - Recordkeeping and TRIM Electronic Records Management which included recordkeeping field visits to each division in Treasury. The field visits evaluated the progress of records management, assisted staff in using the TRIM recordkeeping system more effectively and provided advice on records management policies and procedures. In 2006, the focus was on addressing issues relating to staff awareness of recordkeeping obligations and staff concerns regarding accessibility of documents. Emphasis was placed on continuing user training on the TRIM system and improving the stability and usability of the system.
- Treasury's Corporate Policy and Framework for Managing Risk was finalised in April 2006. The statement integrates existing risk management initiatives under one framework and establishes a risk communication strategy and training framework for stakeholders.

- Treasury's Mature Age Employment Strategy which provides mature age workers with more flexible options for continuing to work. The strategy was released in May 2006.
- The Treasury Certified Agreement 2004–2006 is due to expire in September 2006. Processes to replace the Certified Agreement with a new collective agreement, incorporating the government's recent WorkChoices changes, are under way.
- Treasury consulted with staff and the representative staff body, the Workplace Relations Committee, on Treasury's remuneration framework, which includes the Collective Agreement and Australian Workplace Awards (AWAs). AWAs are offered to all APS6, Executive Level 1 and Executive Level 2 employees. AWAs offer performance based pay points above those available under the Collective Agreement. Both types of agreement offer conditions of service that are designed to make Treasury an attractive employer of choice. SES employees are exclusively covered by AWAs.
- Treasury continued to enhance its Human Resource Management Information System in areas which support business functions, including reporting and employee access to personnel information. In 2005-06, a query tool and single sign-on for Employee Self Service were introduced. Use of Treasury's web-based recruitment system, JobOffice, was expanded to include job seekers, managers and selection panels for advertised vacancies.
- A new contracts' module in Treasury's Financial Management and Information System will link financial management and contracts information, ensuring better reporting and control in the procurement of goods and services.
- The Capital Management Plan is being updated to enable Treasury to evaluate its requirements for infrastructure and information management initiatives and set priorities. The plan will address the capital needs for the full range of infrastructure, including Information Communications and Technology (ICT) infrastructure, which will contribute to a well functioning organisation. Components of the Capital Management Plan will be aligned to the Information Knowledge Management Strategy, currently under development. This strategy is designed to better integrate the systems and ICT resources across the whole of Treasury.
- The results of the Staff Opinion Survey conducted in 2005 indicated, overall, that staff satisfaction had improved. Areas of particular strength include people values, commitment to the department, satisfaction with the nature of the work and the quality of staff. The results indicated staff are highly satisfied that Treasury provides a safe, healthy and supportive work environment including support for learning and development. Staff were especially satisfied with work/life balance and the value placed on diversity. The results of the

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survey did suggest, however, that staff would value more career guidance, especially from their Manager-One-Removed.

- Key outcomes in information management and IT security in 2005-06 were developing and implementing the new Foreign Investment Management System, implementing Treasury's email classification system, re-accrediting Treasury's Internet gateway and certifying Treasury's network to the protected level.
- Treasury received a favourable outcome following the internal audit of IT Governance and Benchmarking against industry standards and other government agencies. There were no reported hackings, unauthorised intrusions or IT virus infections of Treasury's IT Network in 2005-06.
- Treasury's Professional Development Framework continued to place a high priority on skill development. Executive coaching was introduced in 2005 for senior executive staff members, with a gradual take-up of the opportunity. Changes to the studies assistance guidelines and postgraduate study awards were implemented in 2005 with almost 14 per cent of staff accessing the financial and leave provisions. Other key learning and development priorities for 2005-06, included:
  - selection of a new provider for Treasury's Executive Level Leadership Programme;
  - a panel arrangement for skills development workshops;
  - launch of an extended Business Services Programme for administrative staff;
  - semester-long courses in law and economics; and
  - delivery of technical seminars and workshops relating to the core business areas of Treasury.

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## CORPORATE GOVERNANCE

Treasury's corporate governance practices comply with statutory and other external requirements, and aim to achieve sound administrative and financial management practice. They are designed to ensure efficient, effective and ethical use of Treasury's resources.

Key aspects of Treasury's corporate governance practices include:

- clearly established role accountabilities, including clear delegations of authority and responsibilities;
- planning and monitoring of outputs; and
- monitoring of Treasury's resource use, based on budgeting, financial accounting, audit, fraud control, risk management and other reporting systems.

The Executive Board is Treasury's primary decision-making body. The Audit Committee is the other body that ensures accountability.

The Treasury Management Model sets out the role accountabilities of the five levels of the management structure. Treasury's management levels and primary role accountabilities are:

- Secretary: accountable for the department's management and strategic leadership;
- Executive Director: accountable for a group's management and strategic leadership;
- General Manager: accountable for a division's management and strategic leadership;
- Manager: accountable for a unit's management and leadership; and
- Adviser and Analyst: accountable for provision of technical expertise and team leadership and contributions to unit outputs.

## **SENIOR MANAGEMENT COMMITTEES AND THEIR ROLES**

### **The Executive Board**

Treasury's Executive Board comprises the Secretary, the Executive Directors and the General Manager of Corporate Services. The Executive Board is responsible for high-level policy issues relating to the department's strategic leadership and management, including:

- organisational development — shaping Treasury's future;
- policy development and coordination — involving major and/or new economic policy issues, generally with implications that involve more than one group;
- corporate governance — ensuring the efficient, effective and ethical use of resources; and
- planning and allocating resources — meeting current and future work priorities.

The Executive Board members as at 30 June 2006 were:

- Dr Ken Henry, Secretary;
- Dr Martin Parkinson, Executive Director, Macroeconomic Group;
- Mr Jim Murphy, Executive Director, Markets Group;
- Mr Mike Callaghan, Executive Director, Revenue Group;
- Mr David Tune, Executive Director, Fiscal Group;
- Dr David Parker, Alternative Executive Director, Macroeconomic Group; and
- Mr Ian Robinson, General Manager, Corporate Services Division.

## **Audit Committee**

The Audit Committee functions as a forum of review of audit issues by:

- supporting and enhancing the control framework;
- ensuring the objectivity and reliability of published financial information;
- monitoring and evaluating Treasury's risk management strategies; and
- helping the Secretary to comply with all legislative and other obligations.

Treasury's Audit Committee follows the recommended best practice guidelines issued by the Australian National Audit Office (ANAO). The ANAO also attends Treasury Audit Committee meetings as an observer. The Audit Committee reviews internal and external audits relating to Treasury.

The Audit Committee members as at 30 June 2006, were David Parker (the Chair), Mark O'Connor, Ian Robinson, Geoff Miller, David Martine and Jim Kropp (the external representative). The Audit Committee met eight times during 2005-06.

## **Remuneration committees**

Remuneration committees are established within the Executive, Corporate Services Division, Strategic Communications Division and the four policy groups in Treasury to recommend to the Secretary the determination of salary rates available under Australian Workplace Agreements (AWAs) for Australian Public Service 6 (APS6), Executive Level 1 (EL1) and Executive Level 2 (EL2) employees.

The Executive Board determines each remuneration committee's membership and the Executive Director of the relevant group chairs each remuneration committee. The committee comprises the Chair, the Manager of Human Resources and all general managers in the group. One general manager from another group is included to promote consistency of ratings between groups.

## **SENIOR MANAGEMENT STRUCTURE**

Details of Treasury's management structure are set out in Figure 3, in Part 1.

## **CORPORATE PLANNING AND REPORTING**

Treasury's internal corporate planning and reporting framework is an integrated system linked to the department's financial management, human resource and business management systems.

### Part 3: Management and accountability

The Executive Board sets the broad strategic direction for the department. The corporate plan articulates this direction and provides context for policy group operational plans and Corporate Services Division and Strategic Communications Division. The corporate plan includes an identity statement based on Treasury's mission statement and people values, sets out Treasury's outcomes and outputs, and identifies high-level priorities for the following year.

Groups and divisions prepare operational plans at the beginning of the financial year. They identify key priorities, performance information, risks, relationships and financial information.

Treasury meets its external reporting responsibilities through its portfolio budget statements and annual report.

The Corporate Services Division uses a Balanced Scorecard Performance Reporting Framework to enable the division to measure overall business performance against the four perspectives of customer satisfaction, financial efficiency and effectiveness, operational efficiency and effectiveness, and staff learning and growth. The division reports progress twice a year.

## RISK MANAGEMENT

Treasury is committed to a comprehensive, coordinated and systematic approach to the management of risk. That approach is directed toward supporting managers to anticipate uncertain events, exploit opportunities and respond appropriately to potential weaknesses.

The approach has five key components.

- The Corporate Policy and Framework for Managing Risk and associated guidelines, released in April 2006. This policy, which is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004), aims to:
  - integrate and formalise existing risk management processes across the department;
  - ensure appropriate identification, analysis and evaluation of relevant risks;
  - continue monitoring risk and considering treatment strategies; and
  - establish a risk communication strategy and training framework for stakeholders.
- The Fraud Control Plan complies with Australian Government Fraud Control Guidelines.

- The Chief Executive Instructions put into effect the Financial Management and Accountability Act requirements, setting out responsibilities and procedures which provide an overarching framework for transparent and accountable financial management. They also contain topics relating specifically to risk management and internal accountability.
- The Internal Audit Plan identifies services and functions for auditing. It incorporates issues raised by the ANAO in its audit of Treasury's financial statements, and where appropriate, recent ANAO reports on cross-agency matters, upcoming management issues, policy evaluations, previous internal audits and strategic risk management issues.
- Risk management and insurable risks are aligned through Comcover and Comcare.

Treasury strategies aim to identify and manage risks associated with the delivery of information technology (IT) services. IT governance includes:

- The IT Disaster Recovery Plan which sets out the strategies and processes to restore services if Treasury's central computing infrastructure is lost completely or partially. The plan aims to restore services within an appropriate time.
- Business Continuity Plans for Treasury's IT application systems which set out alternate methods and processes to use, so Treasury can continue to work while the environment is restored.
- The IT Security Policy which addresses the requirements to protect information holdings and secure operation of Treasury IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communications Security Instruction — Electronic Security Instructions 33(A) and ANAO recommendations.
- The Internet and Email Acceptable Use Policy which sets out responsibilities for appropriate use of the Internet, email facilities and services. This policy refers to the Australian Public Service (APS) Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation and the Treasury IT Security Policy.
- Website Development Standards and Guidelines based on ISO 9001 and ACSI 33, and International Standards Organisation and Defence Signals Directorate guidelines which ensure compliance with best practice website security.

### Part 3: Management and accountability

- IT Change Control Guidelines (an internal management tool) which assists with quality assurance control over proposed changes to the technical environment and facilities. It involves reviewing proposed variations and clearing them before releasing changes in the production environment.
- IT Risk Management Strategy, developed in accordance with Defence Signals Directorate guidelines, which identifies technical risks associated with Treasury's IT infrastructure and management practices.
- Applications Development and Project Standards, internal standards based on the Structured System Development Methodology PRINCE 2 for system development, which provide a phased system development life cycle to ensure correct project governance is applied to systems development.
- Applications Systems Forward Work Plan which is prepared on an annual basis in consultation with the Executive Board, General Managers and client representatives. It identifies applications systems development and enhancement requirements for the next year and facilitates priority setting and resource allocation in relation to approved IT applications projects.

Staff awareness of risk management policies and procedures is raised through training programmes and departmental staff notices. All policies and procedures are available to staff in hard copy and on the Intranet.

## **ETHICAL STANDARDS AND ACCOUNTABILITY**

The Treasury Management Model incorporates Treasury people values to guide and support Treasury staff members in their day-to-day work. These values are closely aligned with the APS values. They are embedded in the Performance Management System and are referred to in the capability framework for non-SES staff. Staff members are appraised against the values.

Both the Treasury Certified Agreement and AWAs contain a commitment from employees to uphold Treasury values and comply with the APS Code of Conduct.

Departmental learning and development activities reinforce the ethical responsibilities of staff. The Executive Level Leadership Programme, the Treasury Certificate in Business Services for APS1-5 officers, the Graduate Development Programme and performance appraisal training reinforce the values and behaviours expected of staff within both the department and the broader public sector.

The Chief Executive Instructions establish Treasury's financial administrative framework under the Financial Management and Accountability Act. They provide the basis for effective, efficient, ethical and accountable use and management of Commonwealth money and property. Treasury reviews and updates the instructions regularly.

The Chief Executive Instructions provide a user-friendly approach to financial management processes and provide staff with guidance to assist them to comply with legislation and Treasury's ethical standards.

All corporate governance policies and procedures are available on the Intranet.

## **SENIOR EXECUTIVE SERVICE REMUNERATION**

All Treasury senior executive service employees have entered into an AWA with the Secretary.

Senior executive service employees are appraised using the APS's Senior Executive Leadership Capability Framework. That involves making individual rankings against each of the framework's five criteria, then arriving at an overall relative ranking for the employee, which reflects performance.

An increase in ranking based on longer-term performance can lead to an increase in base salary. See Tables 9 and 10 for details of senior executive service salary scales. Additional information on remuneration and performance pay is set out in Note 16: Executive Remuneration in Part 4 of the Financial Statements.

## INTERNAL AND EXTERNAL SCRUTINY

### AUDIT

The Audit Committee convened eight times in 2005-06. Its work included reviewing the department's financial statements and reviewing a range of internal and external audit reports.

The Audit Committee's Financial Statements sub-committee convened three times in 2005-06, and consisted of members from the Treasury, ANAO and the internal audit service provider. The sub-committee monitors the production of the financial statements and acts as a forum for the resolution of issues.

The contract held with Deloitte Touche Tohmatsu for the provision of internal audit services expired in October 2005. After a tender evaluation process, KPMG was appointed in December 2005 as Treasury's internal auditors for three years, with an option to extend for a further two years. The Audit Committee and KPMG undertook a reassessment of the internal audit work programme which resulted in a revised programme for the financial year.

The Audit Committee, assisted by KPMG, has a continuous improvement approach to audit services, regularly reviews Treasury's audit programme and scrutinises recommendations arising from completed internal audits, as well as relevant ANAO reviews.

### INTERNAL AUDITS — TREASURY

Treasury completed five internal audits/reviews during 2005-06.

### Governance review of selected portfolio bodies

The purpose of this review was to assess whether current arrangements within six nominated Treasury portfolio bodies facilitated the achievement of stated objectives. The bodies involved were the Financial Reporting Council, the Australian Accounting Standards Board, the Australian Government Actuary, the Takeovers Panel, the Board of Taxation and the Royal Australian Mint.

The review focused on three key themes:

- Purpose — the body's organisational focus and how this dictates roles and operations. The concern is whether Treasury is constructive and cooperative, and working in the best interest of the public to deliver appropriate outcomes. Membership and funding are covered by this theme.



- Relationships — ensuring the relationships between the body and Treasury are clear and fit for purpose.
- Performance evaluation — whether the evaluation is objective, constructive and used to facilitate real performance improvements.

The review determined that Treasury has maintained, in all material respects, appropriate arrangements, policies and procedures in relation to its governance processes with the selected portfolio bodies.

### **The revised procurement framework**

This review provided assurance that changes mandated by the revised *Commonwealth Procurement Guidelines* have been applied to procurement policies and practices within Treasury.

Treasury has, in all material respects, ensured the mandated changes have been applied. The report contained 14 medium/low level recommendations which Treasury has agreed to implement.

### **Post implementation review — rollout and upgrade of the electronic document management system**

The review was to provide an assessment of whether practices and procedures used in the electronic document management system rollout and upgrade followed best practice and met Treasury's objectives.

Effective control procedures had been maintained. Treasury has agreed to implement two recommendations on the development of departmental guidelines and training of officers in relation to file naming, security and folder structure.

### **Review of employee entitlements calculations**

This review examined the methodology currently employed within the Aurion payroll system to ensure correct calculation of employee entitlements in accordance with Australian accounting standards. The review made recommendations on:

- payroll staff resources;
- the current and non-current component split of long service leave entitlements;
- reconciliation of timing differences between payroll and general ledgers; and
- a review of Treasury leave guidelines, particularly leave without pay.

Treasury agreed to implement the recommendations.

## Review of IT governance

This review sought to benchmark Treasury's current IT practices to the better practice model for IT and information systems management, *Control Objectives for Information and Related Technology (COBIT)*. The key output was an assessment and gap analysis to assist Treasury to further enhance existing controls.

In most cases, Treasury is at or exceeding the benchmark level.

## AUSTRALIAN NATIONAL AUDIT OFFICE REPORTS

The ANAO conducted one performance audit specific to Treasury's operations in 2005-06.

### **Audit Report No. 25: Australian Securities and Investments Commission's Implementation of Financial Services Licences**

The *Financial Services Reform Act 2001* introduced a requirement that providers of financial services hold an Australian Financial Services Licence. The ANAO reviewed the effectiveness and efficiency of the implementation by the Australian Securities and Investments Commission (ASIC) of the Australian Financial Services License. In particular, the audit examined ASIC's planning for the introduction of financial services licences; the roles of Treasury and ASIC in defining the effective scope of licensing; ASIC's assessment and processing of licence applications and ASIC's supervision of licencees.

The report contained seven recommendations, six directly related to ASIC and one joint recommendation with Treasury relating to the benefits of making licence applicants' certifications more enforceable. Treasury and ASIC agreed with the recommendations.

Other ANAO reports relevant to Treasury's operations in 2005-06 are:

- Report No. 2: Bank Prudential Supervision;
- Report No. 11: The Senate Order for departmental and agency contracts (calendar year 2004 compliance);
- Report No. 13: Administration of goods and services tax compliance in the large business market segment;
- Report No. 16: Management and processing of leave;
- Report No. 17: Administration of the Superannuation List Members' Register;
- Report No. 21: Audits of the financial statements of Australian Government entities for the period ending 30 June 2005;
- Report No. 22: Cross-portfolio audit of Green Office procurement;

- Report No. 23: IT security management;
- Report No. 26: Forms for individual service delivery;
- Report No. 27: Reporting of expenditure on consultants;
- Report No. 28: Management of net appropriation agreements;
- Report No. 30: The Australian Taxation Office's strategies to address the cash economy;
- Report No. 33: Administration of petroleum and tobacco excise collections: follow-up audit;
- Report No. 35: The Australian Taxation Office's administration of activity statement high risk refunds;
- Report No. 37: Management of infrastructure, plant and equipment assets;
- Report No. 45: Internet security in Australian Government agencies; and
- Report No. 48: Interim phase of the audit of financial statements of general government sector entities for the year ending 30 June 2006.

Treasury's Audit Committee follows ANAO better practice guidelines by actively reviewing relevant matters raised in performance audit reports, and overseeing follow-up action. Details of audit reports are available at [www.anao.gov.au](http://www.anao.gov.au).

## **FRAUD**

In 2005-06, no new cases of fraud were identified in Treasury. Treasury is currently pursuing actions concerning the submission of false information by claimants seeking compensation from the HHH Claims Support Scheme. In two of the cases, recovery action is in hand and in the third case, money owed has been repaid.

## **OMBUDSMAN COMMENTS, COURT DECISIONS, ADMINISTRATIVE TRIBUNAL DECISIONS**

### **Ombudsman**

There were no comments received from the Ombudsman in 2005-06.

## Courts and proceedings

### Corporations Act — transitional provisions — *Forge v ASIC*

On 7 and 8 February 2006, the High Court heard argument in the matter of *Forge v ASIC* on the constitutional validity of the transitional provisions in Chapter 10 of the *Corporations Act 2001*. The Solicitor-General for the Commonwealth, instructed by Treasury, made submissions in support of validity. The case also concerned the constitutional validity of the use of acting judges on the NSW Supreme Court. The High Court has not yet handed down its decision.

### Freedom of information — *McKinnon v Secretary, Department of the Treasury*

On 26 August 2005, Mr McKinnon appealed a decision of the Full Court of the Federal Court to the High Court. The appeal was heard in Canberra on 18 May 2006. The central issue was the interpretation of subsection 58(5) of the *Freedom of Information Act 1982* which sets out the role of the Administrative Appeals Tribunal in reviewing a conclusive certificate issued by a Minister (or their delegate) to protect internal working documents from disclosure. In its decision delivered on 6 September 2006, the High Court ruled in favour of Treasury, dismissing the appeal by a majority of 3-2.

### Trade Practices Act — Access to services — *Virgin Blue Airlines Limited*

On 9 December 2005, the Australian Competition Tribunal issued its decision to declare airside services at Sydney Airport following an application by Virgin Blue Airlines under Part IIIA of the *Trade Practices Act 1974*. The Tribunal set aside the previous decision by the Parliamentary Secretary to the Treasurer, made on the recommendation of the National Competition Council, not to declare the services.

On 6 January 2006, Sydney Airport Corporation Limited applied to the Full Court of the Federal Court seeking judicial review of the Tribunal's decision. The matter was heard on 2 and 3 May 2006, and judgment has not yet been handed down.

### Foreign Acquisitions and Takeovers Act — *Wight v Pearce (Parliamentary Secretary to the Treasurer)*

Dr Wight, a Swiss citizen, challenged the validity of an order made by the Parliamentary Secretary under the *Foreign Acquisitions and Takeovers Act 1975*. Dr Wight also challenged the constitutionality of certain provisions of that Act. The Federal Court heard the case on 6 and 7 June 2006, and judgment has not yet been handed down.

## **Administrative Appeals Tribunal**

### **Freedom of information — McKinnon v Secretary, Department of the Treasury**

Applications were made to the Administrative Appeals Tribunal for review of two decisions by Treasury regarding partial withholding of information in response to requests under the FOI Act, for material in relation to cutting the top rate of tax to 30 per cent and automatically indexing income tax scales. The Tribunal granted a consent order on 6 June 2006 for Treasury to release some further, but not all, material prior to the matter being heard.

On 12 July 2006, the Secretary issued two conclusive certificates under subsection 36(3) that disclosure of the documents not released under both requests would be contrary to the public interest. The cases have not yet been heard.

### **Freedom of information — Baronsun Pty Ltd v Secretary, Department of the Treasury**

An application was made to the Administrative Appeals Tribunal for review of a decision by Treasury regarding partial withholding of information in response to a request under the FOI Act, for material in relation to investments in Australia by the applicants, considered by the Foreign Investment Review Board. The main issues in the case are, firstly, whether the documents to which access has been refused are exempt under a number of sections of the FOI Act and, secondly, whether Treasury has taken all reasonable steps to find further documents requested by the applicant and whether such documents cannot be found or do not exist. The case has not yet been heard.

## MANAGEMENT OF HUMAN RESOURCES

Treasury's people management systems are underpinned by Treasury people management principles and values. The values define the way staff work in Treasury and provide the basis for people management systems and processes.

Key 2005-06 workforce initiatives included:

- Development of a Mature Age Employment Strategy provided a framework to assist managers and staff deal with the emerging issues of a maturing workforce and a tightening labour supply. The strategy complements Treasury's workforce planning strategies by addressing both the retention of valued mature age employees and the attraction of mature age employees from outside Treasury, including former high performing workers. The strategy contains a range of initiatives and flexibilities available to managers and staff in Treasury. Some of these initiatives are already in place; others will be developed in 2006-07.
- Systems improvement in 2005-06 included more user-friendly Employee Self Service access to the Human Resource Management Information System and a new query tool to capture more complex human resources management information and benchmarking data.
- Progress was made in developing and negotiating a new Collective Agreement consistent with the new WorkChoices legislation. The Certified Agreement Team consulted extensively with a representative employee body and staff more generally.
- A Staff Opinion Survey in late 2005 informed organisational initiatives and provided staff feedback about a range of workplace issues.
- A cadetship programme for honours and postgraduate economics students was established to target high potential students for the Treasury Graduate Programme.
- Treasury's Professional Development Framework was enhanced to strengthen technical and leadership capabilities.

## PERFORMANCE MANAGEMENT

Treasury's Performance Management System has operated since 1999. The principles underlying it are fairness, transparency and consistency. The capability framework provides not only the basis for the appraisal processes but also aligns recruitment strategies, the Professional Development Framework and the Career Development System to ensure a consistent approach across the organisation.

Processes to maintain the principles of the system include context setting for all senior executive service staff prior to each appraisal round. The key messages disseminated in the November 2005 and June 2006 context meetings included:

- staff discussing career development in appraisals with managers and in career development discussions with managers-one-removed;
- managers and staff being fully informed about appraisal processes and the performance of appraisees throughout the appraisal cycle; and
- managers being consistent in their approach to appraisals, effectively managing the appraisals of new recruits and graduates, and managing performance particularly when performance has declined.

To develop a common understanding of the system, workshops are available to all staff to explain the system and develop skills in managing appraisal meetings and giving and receiving feedback. A hotline provides individual advice and assistance.

Formal appraisal meetings are held twice a year. Regular informal feedback during the appraisal period is encouraged to minimise surprises at appraisal time and facilitate productive staff management. Managers are encouraged to seek feedback from a range of sources before the appraisal meetings. Appraisals are conducted against the capability frameworks, with the rating against each capability criteria contributing to the overall outcome, which determines pay outcomes. An important factor in the process is upward feedback which provides input to the appraisals of managers.

Review panels, usually at divisional level, examine the outcomes of appraisals to ensure consistency, with cross-group representatives providing an additional focus on consistency.

Development opportunities are identified and recorded during the appraisal discussion. This information informs the learning and development strategies for the department.

Informal appraisals are offered at the February appraisal round as an option for staff who meet specified criteria. Almost 15 per cent of the appraisals recorded in February were informal. Informal appraisals are conducted in a similar manner to formal appraisals but appraisees are not rated. The administrative workload for informal appraisals is reduced as there are no pay outcomes and less emphasis on gathering feedback.

## **TREASURY CERTIFIED AGREEMENT**

The 2004-2006 Treasury Certified Agreement came into operation on 20 September 2004 and will nominally expire on 4 September 2006.

The Certified Agreement provides for increased pay rates (Table 11), conditions of service, including options for leave and attendance, to allow staff more flexibility in planning their personal commitments, and reinforces initiatives that foster skills and career development, and a healthy work environment.

As part of the remuneration and conditions framework, Treasury continued the programme of AWAs for employees classified at APS6, EL1 and EL2. The performance based pay model has salary levels above those available under the Certified Agreement but identical conditions of service.

A proposed new collective agreement will be offered to employees who are not parties to AWAs; if a majority accepts the proposed collective agreement, it will take effect in September 2006.

## **WORKPLACE RELATIONS**

Treasury continues to consult extensively with staff on workplace matters and the Certified Agreement reinforces staff involvement in decision making. The primary conduit for consultation is the Workplace Relations Committee, elected by all Treasury staff and comprising eight members. The committee meets regularly with the Secretary to discuss a wide range of employment-related matters.

The Certified Agreement which is to be replaced in September 2006, and AWAs contain procedures to resolve disputes and provide for direct consultation with staff as appropriate.

A network of staff advisers assists staff with issues relating to performance appraisal, remuneration, AWAs or relations with managers. This network complements other staff support processes, such as human resources advisers and an employee assistance programme delivered by an external provider.

## **RECRUITMENT AND SUCCESSION PLANNING**

Graduate recruitment forms a major part of Treasury's recruitment and succession planning strategy. In 2005-06, Treasury staff attended university career fairs and economic society information sessions, presented to final year students and distributed *Graduate Careers in Treasury* brochures to university careers centres and faculties. In addition, a broad marketing campaign appeared in major national newspapers and on most university Intranet sites.



A section dedicated to graduate careers on Treasury's website provides information on the Graduate Development Programme and outlines the role and expectations of Treasury graduates. The graduate intake was 33 in 2005, and 40 in 2006.

In 2005-06, Treasury introduced a cadetship programme targeted at economic honours and postgraduate students involving a 4-6 week summer internship with financial assistance and support from a Treasury mentor throughout the cadets' final year of study.

Job seekers can lodge their applications for graduate campaigns, bulk-round recruitment, specific recruitment exercises and Treasury's non-ongoing and general employment registers via the Internet.

Recruitment information and procedures to assist applicants, managers, referees and selection committees were complemented by the delivery of interviewer/interviewee skills training courses.

The Human Resources Unit in conjunction with the strategy units in the four policy groups works closely on workforce planning to recruit appropriately skilled staff. Workforce diagnostic information is used to inform workforce planning.

Group specific recruitment campaigns were conducted in addition to the bi-annual bulk selection and transfer rounds, together with re-designed media campaigns enhancing our presence in the marketplace and capacity to attract high calibre candidates.

Workforce planning initiatives, particularly in relation to mature age employees were introduced as part of Treasury's Mature Age Employment Strategy.

## **Learning and development**

Treasury's professional development framework provides staff with timely opportunities to develop the skills and knowledge required for their current and future roles and responsibilities.

Treasury's capability frameworks form the basis for identifying learning and development requirements across the organisation. The frameworks work with the Performance Management and Career Development Systems to match staff needs and expectations with departmental learning and development priorities.

When implementing these processes, managers are encouraged to think critically about the development needs of individual staff in the context of departmental capability requirements, the potential contribution of employees to the department and the operational requirements of the work area.

## Learning and development strategies

The Executive Level Development Programme (ELDP) was further strengthened in 2005-06. The programme aims to develop leadership capabilities and equip managers to meet their roles. Each programme is continuously evaluated with feedback and improvements incorporated into subsequent programmes. Thirty-nine staff members attended the ELDP in 2005-06, incorporating modules such as leading and managing, project management, coaching skills, teamwork, strategic thinking to output management, change and risk management and influencing skills. A new programme commenced in June 2006 with a focus on strategic leadership and the engagement of managers and the Senior Executive.

Senior Executives continue to use a suite of development opportunities including the Australian Public Service Commission (APSC) leadership courses. Executive coaching has gained momentum since its launch in June 2005 and provides an additional means of skills development for senior executive staff.

Treasury introduced Teamwork in Action workshops in June 2006. These workshops are designed to build and enhance teamwork within Treasury units and may be incorporated into strategic planning days. A number of managers have expressed an interest in their units participating in these workshops and have scheduled sessions to run in early 2006-07.

A Policy Advising workshop was offered in November 2005 and facilitated by senior staff from Treasury and other agencies. The workshops continue to receive positive feedback from participants and complement on-the-job policy advising experience. Evaluation outcomes feed into the development of workshops for the following year.

Planning commenced for the delivery of the third semester-long Introduction to Economics course, scheduled to commence in September 2006. Offered by the Research School of Social Sciences, Australian National University (ANU), the course is closely aligned to Treasury's core business and includes participation from guest lecturers. Some participants from the second programme have taken up the opportunity of accreditation towards further economics study at ANU.

Introduction to Law was again offered by the Faculty of Law, ANU with 32 staff attending the semester-long course in 2005. The programme provided participants with the opportunity to gain accreditation for a postgraduate law qualification from the Faculty of Law, ANU.

A range of learning and development workshops are offered to staff. These are delivered by internal and external presenters and are tailored to the needs of the organisation. Each is evaluated, with evaluation outcomes feeding into the development of the next workshop. The workshops are mapped against the capability frameworks to ensure development opportunities are available against the capabilities across all classifications.

The Graduate Development Programme includes on-the-job coaching, and in-house courses such as advanced writing, economics for non-economists, policy development, presentation skills and communicating with influence. The programme also includes external courses such as the Senate and Legislative Process and observation at Budget Question Time. The programme is refined through feedback from graduates, managers and the Graduate Managers Forum which the graduate team attends every three months.

The Treasury Certificate in Business Services Programme, designed for executive support, administrative and corporate services staff at the APS1-5 levels, is in its fourth year. The redesigned programme which commenced in February following an open tender process, now incorporates three advanced modules which complement the nine foundation modules. These modules are open to APS6 staff as well. The programme provides participants with a greater understanding of their work context, Treasury's structure and mission, and the opportunity to improve skills and potential in current and future work roles.

Treasury has established a mentoring programme for new staff recruited to the department. Interested staff who attended the ELDP Coaching Skills module facilitate the integration of new recruits into the department.

In 2005-06, Treasury's four policy groups organised internal workshops and divisional policy seminars to share and disseminate information to staff.

- Revenue Group ran a Tax Policy Framework Course for Revenue Group staff, consisting of seminars and a two-day intensive workshop. The Australian Tax Office also presented two four-day introductory tax courses for new Revenue Group staff.
- Macroeconomic Group established the Macroeconomic Analysis Project which trained analysts to better understand links between different sectors of the economy, held a course on Kalman filters, and conducted a reading group which examined key economic journal articles. Macroeconomic Group also hosted economic policy workshops in which analysts presented and discussed issues pertinent to Australia's economic landscape and engaged in econometrics training provided by Dr Robert Breunig of the ANU.
- As part of its preparations for Australia hosting the G-20 in 2006 and the APEC Finance Ministers' Meeting in 2007, Treasury's G-20 and APEC Secretariat organised a series of work-based learning and development opportunities for Treasury staff.
  - In March 2006, Curtin University's Western Australian School of Mines provided a two-day internal short course on mineral economics, drawing on its corresponding Masters programme. This event was attended by 24 staff from the Treasury and the Reserve Bank of Australia.

### Part 3: Management and accountability

- A series of internal seminars were offered to G-20 and APEC Secretariat staff. These seminars were led by Senior Treasury officials and academics from ANU's Asia-Pacific School of Economics and Government. Topics covered included global and regional institutions and forums, political institutions and economic development.
- Fiscal Group held a series of internal seminars on relevant emerging policy issues and further developed its understanding of the Treasury wellbeing framework and its application to core policy responsibilities. Fiscal Group's Senior and Executive Level staff also participated in forums to consider organisational and policy strategy issues.
- Markets Group offered a one-day Regulation Impact Statement training session to staff and held internal policy presentations on emerging and current policy issues and Treasury's role as a central policy agency.

The Treasury Seminar Series continued with prominent guest speakers presenting current economic issues and research. An average of 45 staff attended each of the 19 seminars.

### Information technology and systems training

In 2005-06, Treasury provided staff with IT training opportunities in Microsoft desktop applications, IT for new staff, one-on-one training for voice activated software, electronic document records management, financial management systems and in-house systems.

During the year, 281 staff attended Microsoft desktop applications courses with an overall 96 per cent level of satisfaction with the training. Microsoft Excel was one of the most popular desktop application courses with 119 staff attending the tailored training that included fundamentals through to Excel Visual Basic for Applications.

The Introduction to Treasury Computing for new staff continues to receive positive feedback with 117 new staff attending the course. During the year, 183 staff attended training on the Ministerial, Minute Register and Contracts systems, an increase from the previous year.

Other specialised training included Intranet content manager, SmartDraw and tailored courses for preparing budget documentation. Feedback for the courses indicated a high level of satisfaction.

In December, Treasury introduced Enterprise Email Vault, with training sessions available for all staff. Fortnightly training continues to be available for new and existing staff.

For the first time, a tailored course using Microsoft Outlook as a tool for managing time was included in the Managing Workloads and Time course. Feedback was positive and as a result, future courses will follow this format.

Some 134 staff attended training on using Treasury's Electronic Records Management System and 55 staff attended training on good recordkeeping practices.

During the year, 58 staff attended training on the Financial Management Information System and the internal budgeting and reporting tool (TM1). This specialised in-house training received positive feedback.

## **External learning and development opportunities**

In addition to its internal learning and development opportunities, Treasury encourages participation in external learning and activities.

Assistance to study part-time and postgraduate full-time study awards contributes to developing organisational capability. Over 100 staff accessed studies assistance each semester and a few high performing staff received postgraduate study awards. The postgraduate study award guidelines include a cost recovery provision to facilitate the department's return on investment.

Treasury entered into an agreement with ANU in 2004 to enable selected staff to undertake short-term research projects as a Visiting Fellow at the university; one project has been completed. The arrangement fosters links and provides opportunities for academics to work closely with Treasury economists on current economic issues.

Treasury's agreement with the Cape York Institute for Policy and Leadership (Griffith University) is intended to enhance Treasury's policy capabilities on Indigenous affairs and provide the Cape York Institute with the opportunity to work closely with Treasury economists on current policy issues. Three Treasury officers are currently seconded to the Cape York Institute.

Four Treasury staff attended the APSC managed Career Development Assessment Centre. Feedback received from participants was positive.

Treasury has sponsored five participants to the Australian and New Zealand School of Government since its inception in 2003. Three staff have completed the Executive Fellows Programme, one has completed the Executive Master of Public Administration, and another has commenced the Executive Master of Public Administration.

Treasury encourages participation in overseas scholarships including the Young Leaders' Programme, a 12 month scholarship to study in Japan, and the Ecole National d'Administration, a scholarship to study at France's premier school of public administration. Both scholarships are highly competitive with limited places and rigorous selection criteria. Treasury staff successfully secured places on the Young Leader's Programme in both 2005 and 2006, and one secured an 18-month placement to study at the Ecole National d'Administration in France in 2005.

Staff also attend a wide range of conferences, seminars and workshops providing subject specific training.

### Part 3: Management and accountability

Treasury's staff development costs totaled over \$2 million in 2005-06. This includes participant salary and on-costs, registration fees of external training courses, and external providers' development and delivery costs.

## STAFFING INFORMATION

Treasury's ongoing and non-ongoing employee numbers increased slightly to 836, up from the 2004-05 figure of 827. Treasury recruited 40 graduates this financial year compared to 33 in the 2004-05 financial year.

**Table 7: Operative and paid inoperative staff by classification and gender (as at 30 June 2006)**

Classification	Ongoing				Non-ongoing						Total	
	Full-time		Part-time		Full-time		Part-time		Casual			
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female		
Cadet	1	-	-	-	1	1	-	-	-	-	-	3
APS1	-	2	-	-	-	-	-	-	-	-	-	2
APS2	-	4	-	1	-	2	-	-	-	-	1	8
APS3	29	41	-	6	1	3	-	-	-	-	1	81
APS4	12	37	-	7	2	3	-	2	-	-	-	63
APS5	43	40	1	9	1	-	-	-	-	-	-	94
APS6	70	79	5	11	-	2	-	-	-	-	1	168
EL1	105	62	4	12	-	2	-	-	-	-	-	185
EL2	105	35	2	15	5	-	-	-	-	1	-	163
SEB1	31	9	1	2	-	-	-	-	-	-	-	43
SEB2	13	2	1	1	2	1	-	-	-	-	-	20
SEB3	5	-	-	-	-	-	-	-	-	-	-	5
Secretary	1	-	-	-	-	-	-	-	-	-	-	1
<b>TOTAL</b>	<b>415</b>	<b>311</b>	<b>14</b>	<b>64</b>	<b>12</b>	<b>14</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>836</b>

Note: Staff paid by other agencies are not included in this table.

**Table 8: Staff located at overseas posts**

Overseas post	SES Band 2	SES Band 1	EL2	Total
Beijing	-	1	-	1
Jakarta	-	1	-	1
Paris	1	-	1	2
Tokyo	-	1	-	1
Washington	1	-	-	1
<b>Total</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>6</b>

Note: Locally engaged staff are not included in this table.

## Senior Executive Service — remuneration and performance appraisal

Remuneration and conditions for Treasury Senior Executives are determined under AWAs, supported by a remuneration model that determines pay levels within each Senior Executive Service (SES) level, based on performance.

**Table 9: Salary scales — SES**

Classification	20 September 2004		8 September 2005	
	Maximum	Minimum	Maximum	Minimum
	\$	\$	\$	\$
SES Band 1	138,973	116,053	143,142	119,535
SES Band 2	177,449	147,932	182,773	152,370
SES Band 3	230,894	192,484	237,821	198,259

Senior Executives are appraised using the APSC's Senior Executive Capability Framework to assess performance and rank each employee relative to their peers. An increase in relative ranking can lead to an increase in base salary.

A change in Treasury's remuneration policy in September 2002 discontinued senior executives' access to a private plated vehicle, with provisions made for a payment in lieu. In a further change in May 2006, the payment in lieu of the vehicle was rolled into base salary, which resulted in the following salary scales. The payment in lieu of the vehicle is not included as part of salary for superannuation purposes.

**Table 10: Salary scales — SES (from May 2006)**

Classification	Maximum	Minimum
	\$	\$
SES Band 1	169,134	145,527
SES Band 2	208,765	178,362
SES Band 3	270,709	231,146

Note: The amounts in this table are a sum of the rates in Table 8 plus the amount formerly received as a payment in lieu of a vehicle.

Senior Executives may have access to airline lounge membership, mobile phones and handheld wireless communication devices. Some may also have home office facilities, if appropriate.

## Remuneration — non-SES employees

The Treasury Certified Agreement 2004-06 determines salary rates for all non-SES staff.

**Table 11: Certified Agreement salary scales — non-SES**

Classification	20 September 2004		8 September 2005	
	Maximum	Minimum	Maximum	Minimum
	\$	\$	\$	\$
APS1	35,298	32,505	36,357	33,480
APS2	39,947	37,467	41,145	38,591
APS3	44,907	42,427	46,254	43,700
APS4	49,867	47,387	51,363	48,809
APS5	56,689	53,279	58,390	53,877
APS6	63,510	60,100	65,415	61,903
EL1	78,393	70,735	80,745	72,857
EL2	95,755	87,073	98,628	89,685

Note: Salary levels under the Certified Agreement are determined on the basis of performance appraisal under Treasury's Performance Management System.

Treasury's remuneration policy provides for access to pay rates higher than those in the Certified Agreement to all employees classified as APS6, EL1 and EL2, through AWAs.

**Table 12: APS6, EL1 and EL2 additional pay points**

Classification	Staff eligible 2005-06	Staff receiving additional pay point 2005-06	Maximum additional pay point 2005-06	Minimum additional pay point 2005-06
			\$	\$
APS6	168	74	74,996	70,526
EL1	186	107	92,625	87,081
EL2	162	112	113,191	103,483
Total	516	293		

Note: Two EL2 and two EL1 employees have salary rates which fall outside the pay structure.

Salary levels under AWAs are determined by the Secretary based on Remuneration Committee recommendations aligned to performance appraisal assessments as well as relevant skills and responsibilities.



## Senior management changes

Senior management movements in 2005-06 within Treasury are shown in Table 13.

**Table 13: SES commencements and cessations**

Reason	SES Band 3	SES Band 2	SES Band 1	Total
Appointment	-	2	-	2
Internal promotion	-	-	2	2
Non-ongoing specific term engagement	-	1	1	2
Resignation	-	-	1	1

## PROCUREMENT AND ASSETS MANAGEMENT

### PROCUREMENT

Treasury's new procurement framework for goods and services includes a new suite of Request for Tender and draft contract templates (with user guides), delegate submission templates, various new and updated guidance documents (including a revised Risk Management Guide, a Tender Evaluation Plan template and a Guide to Negotiating Contracts), and the *Treasury Procurement Procedures Manual*. A series of tailored procurement seminars accompanied the introduction of the new framework.

Involvement in government forums on procurement ensures Treasury maintains procurement expertise and complies with government policy and guidelines. Information on the Treasury's Intranet was upgraded significantly to reflect the new procurement framework and contemporary procurement practices. The site also contains links to relevant Australian Government procurement policies.

### ASSETS MANAGEMENT

Treasury manages both current and non-current assets in accordance with guidelines set out in the Chief Executive Instructions and Australian Accounting Standards.

Treasury's non-current assets are subject to an annual stocktake to ensure the records are accurate. Revaluations have been done using the fair value method of valuation required by the Australian Equivalents to International Financial Reporting Standards AASB 116 Property, Plant and Equipment. All assets were tested for impairment, with no adjustment to the carrying values required.

## CONSULTANCIES

Consistent with the *Commonwealth Procurement Guidelines* (CPGs) and the Chief Executive Instructions, Treasury engaged consultants and contractors on the basis of:

- value for money;
- open and effective competition;
- ethics and fair dealing;
- accountability and reporting;
- national competitiveness and industry development; and
- support for other Australian Government policies.

Typically, consultants are engaged to investigate or diagnose a defined issue or problem; carry out defined research, reviews or evaluations; provide independent advice; and provide information or creative solutions to assist the Treasury manage its decision-making. The most common reasons for engagement of consultancy services are:

- unavailability of specialist in-house resources in the short timeframe allowed;
- the need for an independent study or review; and
- specialist skills and knowledge not available in-house.

The selection methods used for consultancies are categorised in column five of Table 15.

Treasury continued to implement initiatives to improve the management of Treasury's contracts and consultancies throughout the year. A suite of new streamlined, user-friendly templates was introduced including Contract, Request for Tender and User Guides. Further, a new contracts module has progressed, as a part of Treasury's Financial Management Information System. This system is designed to improve the accuracy of recorded contract information and will ensure better compliance with Australian Government reporting obligations. Combined with a series of targeted procurement seminars, these initiatives have seen an increase in awareness and understanding of procurement processes and a greater compliance with Australian Government policy requirements amongst Treasury staff.

During 2005-06, 21 new consultancy contracts each valued at \$10,000 or above, were entered into involving total actual expenditure of \$2,288,907. In addition, 22 ongoing consultancy contracts each valued at \$10,000 or above, were active during the year involving total actual expenditure of \$5,999,019.

**Table 14: Total number and expenditure of new and ongoing consultancies \$10,000 and over in 2005-06 by output group<sup>(a)</sup>**

Output Group		Number of consultancies	Cost \$
1.1	Macroeconomic	6	\$160,356
2.1	Fiscal	1	\$228,064
3.1	Revenue	13	\$476,471
4.1	Markets	18	\$6,803,083
	Corporate Services Division	5	\$619,952
Total		43	\$8,287,926

(a) Table 14 shows the total expenditure and number of new and ongoing consultancies \$10,000 and over for 2005-06. This table does not correspond with Table 15 which shows the total value of new consultancies over \$10,000. All amounts are GST inclusive.

**Table 15: List of new consultancies over \$10,000 in 2005-06 by output group**

Consultant name	Description	Contract price	Selection process <sup>(1)</sup>	Justification <sup>(2)</sup>
<b>Output Group 1.1 (Macroeconomic)</b>				
Australian National University	Develop and deliver a specialist course on macroeconomic policy	\$39,000	direct engagement	e
Dr Robert Breunig	Provide specialist economics training and assistance	\$35,000	select	e
Greg Smith	Provide a study/report on a framework for a future Treasury-Indonesia engagement	\$33,000	direct engagement	b
<b>Total Output Group 1.1</b>		<b>\$107,000</b>		
<b>Output Group 2.1 (Fiscal)</b>				
Watson Wyatt Australia Pty Ltd	Provide advice to Treasury on formulating an investment mandate for the Future Fund	\$228,064	open	c
<b>Total Output Group 2.1</b>		<b>\$228,064</b>		
<b>Output Group 3.1 (Revenue)</b>				
Australian National University	Develop and provide a specialist on-site training course in Gauss Programming Language	\$29,700	select	e
Creating Coherence Pty Ltd	Develop a new approach for the design of tax policy and tax law based on coherent principles	\$180,000	direct engagement	e
Monash University	Provide research services and contribute to working group discussions on tax policy and tax law issues	\$80,000	direct engagement	e
PricewaterhouseCoopers	Provide expert financial accounting advice for Taxation of Financial Arrangements Stages 3 & 4 exposure draft legislation	\$55,000	direct engagement	e

**Table 15: List of new consultancies over \$10,000 in 2005-06 by output group (continued)**

Consultant name	Description	Contract price	Selection process <sup>(1)</sup>	Justification <sup>(2)</sup>
<b>Output Group 3.1 (Revenue) continued</b>				
The University of Melbourne	Develop a fully and effectively operational Melbourne Institute Tax and Transfer Simulator (MITTS model)	\$100,000	direct engagement	e
University of Melbourne	Provide expert advice and report in relation to a series of questions on Taxation of Financial Arrangements financial instruments	\$20,000	direct engagement	e
University of New South Wales	Provide consultancy services on small business compliance costs	\$78,114	open	e
<b>Total Output Group 3.1</b>		<b>\$542,814</b>		
<b>Output Group 4.1 (Markets)</b>				
Ciptanet International Pty Ltd	Provide consultancy services for the quality review programmes of professional accounting bodies	\$129,000	open	c,e
DBM Consulting Pty Ltd*	Provide market research services for Financial Literacy Benchmarking	\$400,124	select	b
Henderson Walton Consulting Pty Ltd	Provide consultancy services for the teaching of professional and business ethics by, and on behalf of, the professional accounting bodies	\$75,000	open	c,e
Kevin Simpkins Advisory Services Ltd	Provide research services into the relative merits of Sector Neutral and Sector Specific Accounting standards	\$103,200	open	e
Publicis Mojo Pty Ltd*	Provide creative services for the Financial Literacy Foundation Campaign	\$1,071,980	select	e
Quantum Market Research*	Provide market research services for Financial Literacy Foundation information campaign	\$568,373	select	e
Watson Wyatt Australia Pty Ltd	Provide consultancy services in relation to the transition to the HIH Scheme Salary Continuance Claims Portfolio from Gallagher Bassett to Centrelink	\$95,600	direct engagement	e
William J Barlett	Provide consultancy services on the disciplinary procedures of the professional accounting bodies	\$97,500	open	c,e
Clayton Utz	Provide legal services relating to the HIH Claims Support Scheme	\$250,000	direct engagement	e
<b>Total Output Group 4.1</b>		<b>\$2,790,777</b>		

**Table 15: List of new consultancies over \$10,000 in 2005-06 by output group (continued)**

Consultant name	Description	Contract price	Selection process <sup>(1)</sup>	Justification <sup>(2)</sup>
<b>Corporate Services</b>				
SMS Consulting Group Ltd	Review the business processes and identify strategic directions for systems development to support taxation measures	\$132,660	open	e
<b>Total Corporate Services</b>		<b>\$132,660</b>		
<b>Total consultancies over \$10,000</b>		<b>\$3,801,315</b>		

Note: All amounts are GST inclusive.

\* Consultancy includes expenditure on advertising and market research, and is reported in both the Consultancies and Advertising and Market Research categories of this report.

(1) Explanation of selection process terms:

(i) Direct engagement includes the engagement of: a consultant selected from a pre-qualified panel arrangement; a recognised and pre-eminent expert; a consultant who had previously undertaken closely related work for the department; or a consultant known to have the requisite skills where the value of the project did not justify the expense or delay associated with seeking tenders.

(ii) Select tenders are invited from a short list of competent suppliers. This category is applied where there is a known limited market for the services required, and when value for money would not be achieved through a full open tender process.

(2) Justification of decision to use consultancy:

(a) Need for rapid access to latest technology and expertise in its application.

(b) Specialist in-house resources unavailable in time allowed.

(c) Need for an independent study or review.

(d) Need for a change agent or facilitator.

(e) Specialist skills or knowledge not available in-house.

## WORKPLACE DIVERSITY

Treasury's Workplace Diversity Programme reflects the APS Values and its own Treasury Values. Valuing diversity both enriches Treasury's work environment and its policy advice.

Results from the 2005 Staff Opinion Survey indicate an increasingly positive perception amongst respondents that workplace diversity is demonstrated in workplace behaviours.

At 30 June 2006, Treasury's staff included:

- 47 per cent women;
- 17 per cent born overseas;
- 9 per cent with English as a second language;
- 0.7 per cent who identify as being Aboriginal or a Torres Strait Islander; and
- 1.8 per cent who identify as having a disability (see Table 16).

Treasury has an ongoing commitment to family-friendly and work/life balance practices through flexible working arrangements. In 2005-06, 78 ongoing staff worked part-time, including five at SES level. This represents 9.7 per cent of all ongoing staff. There were 73 part-timers in 2004-05. In the 2005 Staff Opinion Survey, 75 per cent of respondents indicated that, overall, they were satisfied with their work/non-work balance.

During the year, Treasury participated in the Management Advisory Committee Review of the Employment of People with a Disability in the Australian Public Service. Treasury provided the Senior Executive chair for the committee, Ms Brenda Berkley. Treasury's involvement also included the conduct of a discussion group with managers of people with a disability and a focus group for people with a disability. As a result of this process, the department encouraged staff to regularly update their Equal Employment Opportunity (EEO) data.

The number of staff identifying as being from an Indigenous background has remained static. However, to encourage development of Indigenous employees from within the APS, Treasury has worked with the Department of the Prime Minister and Cabinet, Department of Finance and Administration, and the APSC to develop a Central Agency Indigenous Exposure Programme. This programme will offer ongoing Indigenous employees at the EL1 and EL2 levels opportunities for secondments to the central agencies to gain broader experience.

To assist staff who have parental responsibilities, a carers' room is provided in the Treasury building so that parents can care for children in an emergency situation. The accredited breastfeeding facilities also assist new mothers return to work. However,

### Part 3: Management and accountability

accessing appropriate childcare remains an issue for a number of staff. Treasury continues to use an external service provider to assist staff with a range of information including elder care, childcare and care for dependants with disabilities.

Treasury has a home-based work policy so that staff in particular circumstances, such as a graduated return to work, can formally perform some of their duties from home.

In 2005-06, Treasury developed a Mature Age Workers' Strategy to provide flexible working arrangements to facilitate continuation of mature age workers in the workforce and transition to retirement. These work arrangements will help to address an emerging skills shortage, loss of corporate knowledge and promotion of work/life balance.

A number of staff fulfil the role of Workplace Harassment Contact Officer to support staff who are experiencing difficulties. Recently these officers attended a tailored in-house training course.

**Table 16: Operative and paid inoperative staff by EEO target group**

Classification	Female	Born overseas	ESL	AATSI	Disability
Cadet	1	1	1	1	-
APS1	2	-	-	-	-
APS2	8	-	-	1	1
APS3	51	19	11	1	1
APS4	49	8	8	-	-
APS5	49	27	18	-	3
APS6	93	29	14	2	4
EL1	76	26	9	1	-
EL2	50	22	11	-	5
SES1	11	7	2	-	1
SES2	4	3	-	-	-
Total	394	142	74	6	15

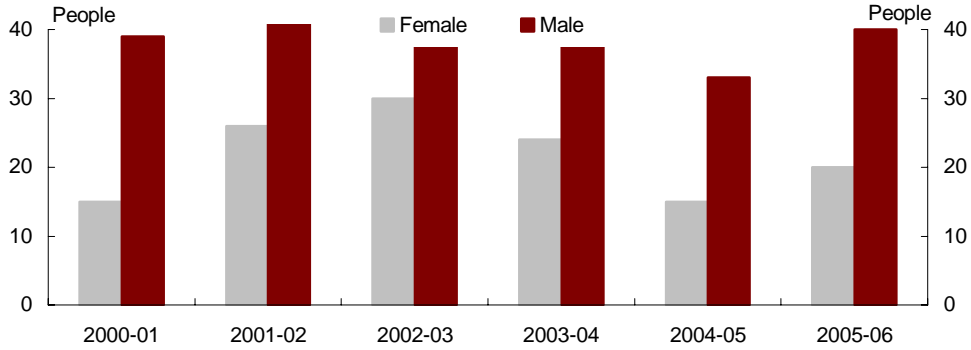
### Disability Action Plan

Treasury's Disability Action Plan 2001 was developed initially in consultation with staff and has since been reviewed and updated in line with the Australian Government Disability Strategy and the *Disability Discrimination Act 1992*. During the coming year the action plan will again be updated to reflect the recommendations outlined in the Management Advisory Committee report on *Employment of People with Disability in the Australian Public Service*.

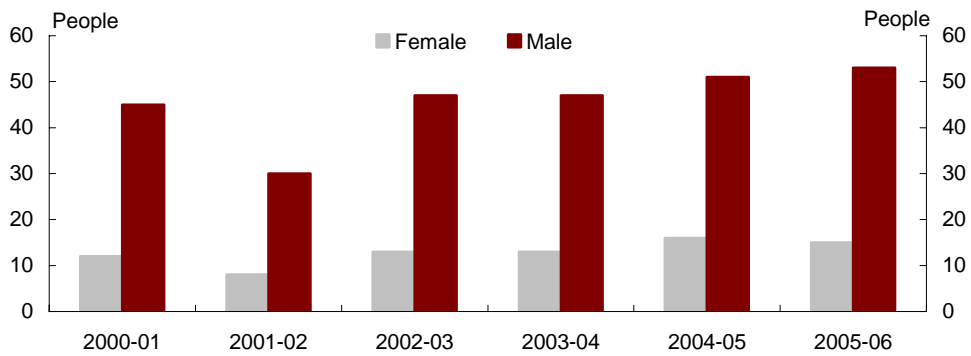
Considerable assistance is provided for employees with special needs. Special equipment is purchased, such as voice recognition software, and individually tailored training is made available. Tutoring in written communication is provided as needed, as well as counselling and translators for hearing impaired staff. This proactive approach has resulted in high retention rates of staff with a disability.



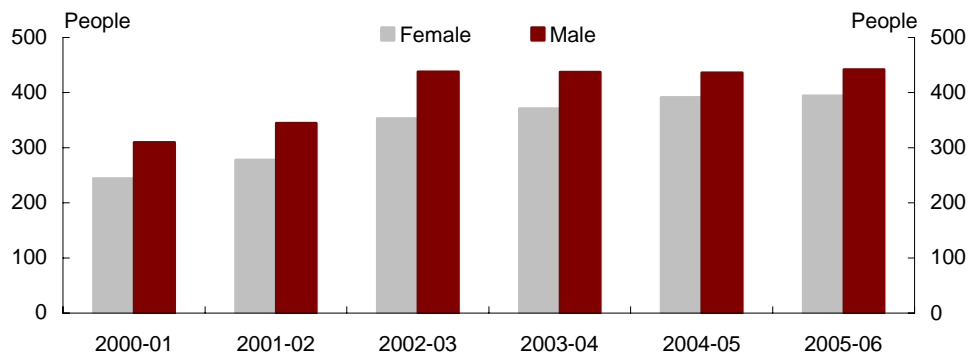
**Chart 1: Number of new entrant graduates**



**Chart 2: Number of SES staff**



**Chart 3: Treasury staff levels**



**Table 17: EEO in appointments to boards or equivalent of statutory and non-statutory bodies (as at 30 June 2006)**

	Total positions filled as at 30 June	Number from EEO target groups	Number of appointments made during the year	Number of appointments from EEO target groups
Australian Accounting Standards Board	1	-	-	-
Australian Competition and Consumer Commission	8	2	-	-
Australian Competition Tribunal	17	2	1	-
Australian Energy Regulator	4	-	-	-
Australian Prudential Regulation Authority	3	-	-	-
Australian Reinsurance Pool Corporation	6	2	1	-
Australian Securities and Investments Commission	3	-	1	-
Australian Statistics Advisory Council	24	7	2	2
Auditing and Assurance Standards Board	1	1	-	-
Board of Taxation	10	1	1	-
Business Regulation Advisory Group	10	6	-	-
Commonwealth Consumer Advisory Council	11	2	9	2
Companies Auditors and Liquidators Disciplinary Board	14	-	4	-
Corporations and Markets Advisory Committee	10	5	1	-
Financial Literacy Foundation	6	3	-	-
Financial Reporting Council	17	3	9	1
Financial Reporting Panel	9	2	9	2
Financial Sector Advisory Council	10	2	3	1
Foreign Investment Review Board	3	1	-	-
HIH Assistance Review Panel	3	2	-	-
HIH Claims Support Limited	4	1	4	1
Inspector-General of Taxation	1	-	-	-
Legal Sub-Committee of the Corporations and Markets Advisory Committee	5	4	-	-
Life Insurance and Actuarial Standards Board	7	-	-	-
National Competition Council	5	1	1	-
Payments System Board	7	1	-	-
Productivity Commission	9	1	4	1
Reserve Bank of Australia Board	8	1	2	-
Superannuation Complaints Tribunal	24	11	23	11
Takeovers Panel	47	17	13	6
Tax Agent's Boards	18	1	2	-
<b>Total</b>	<b>305</b>	<b>79</b>	<b>90</b>	<b>27</b>

Note: In this table, the only EEO target group notified is women.

# Part 4:

## Financial statements

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Auditor-General for Australia



## INDEPENDENT AUDIT REPORT

To the Treasurer

### Scope

#### *The financial statements and Chief Executive's responsibility*

The financial statements comprise:

- Statement by the Departmental Secretary and Chief Finance Officer;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- Schedules of Commitments and Contingencies;
- Schedule of Administered Items; and
- Notes to and forming part of the Financial Statements

of the Department of the Treasury for the year ended 30 June 2006.

The Department of the Treasury's Chief Executive is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Department of the Treasury, and that they comply with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia. The Department of the Treasury's Chief Executive is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

### *Audit Approach*

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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## Part 4: Financial statements

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Department of the Treasury's financial position, and of its financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chief Executive.

### ***Independence***

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

### **Audit Opinion**

In my opinion, the financial statements of the Department of the Treasury:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (b) give a true and fair view of the Department of the Treasury's financial position as at 30 June 2006 and of its performance and cash flows for the year then ended, in accordance with:
  - (i) the matters required by the Finance Minister's Orders; and
  - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Ian McPhee

Auditor-General  
Canberra  
22 August 2006

# THE TREASURY

## STATEMENT BY THE DEPARTMENTAL SECRETARY AND CHIEF FINANCE OFFICER

### Certification of financial statements

In our opinion, the attached financial statements for the year ended 30 June 2006 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



Ken Henry  
Secretary to the Treasury

21 August 2006



Michael Burton  
Chief Financial Officer

21 August 2006

**Income statement**  
for the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>INCOME</b>			
<b>Revenues from ordinary activities</b>			
Revenues from Government	4A	134,040	126,555
Goods and services	4B	6,258	60,116
Interest	4C	-	479
Other revenues	4D	210	623
<b>Total revenues from ordinary activities</b>		<b>140,508</b>	<b>187,773</b>
<b>Gains</b>			
Net gains from sale of assets	4E	-	1
Resources received free of charge	4E	394	468
<b>Total gains</b>		<b>394</b>	<b>469</b>
<b>TOTAL INCOME</b>		<b>140,902</b>	<b>188,242</b>
<b>EXPENSES</b>			
Employees	5A	84,399	86,444
Suppliers	5B	35,592	78,157
Royalties	5B	-	1,355
Depreciation and amortisation	5C	3,460	4,888
Borrowing costs expense	5D	109	124
Write-down and impairment of assets	5E	7	189
Net losses from sale of assets	5F	43	-
<b>TOTAL EXPENSES</b>		<b>123,610</b>	<b>171,157</b>
<b>Operating result before income tax</b>		<b>17,292</b>	<b>17,085</b>
Income tax equivalent expense	7A	-	286
<b>OPERATING RESULT</b>		<b>17,292</b>	<b>16,799</b>

This statement should be read in conjunction with the accompanying notes.



**Balance sheet**  
as at 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash and cash equivalents	8A	2,107	12,883
Deferred income tax asset		-	353
Receivables	8B	58,869	37,509
<b>Total financial assets</b>		<b>60,976</b>	<b>50,745</b>
<b>Non-financial assets</b>			
Land and buildings	9A	7,158	7,954
Infrastructure, plant and equipment	9B	8,141	15,118
Inventories	9D	-	21,224
Intangibles	9C	810	1,805
Other non-financial assets	9E	1,809	8,394
<b>Total non-financial assets</b>		<b>17,918</b>	<b>54,495</b>
<b>Total assets</b>		<b>78,894</b>	<b>105,240</b>
<b>LIABILITIES</b>			
<b>Interest bearing liabilities</b>			
Leases	10	1,192	1,422
<b>Total interest bearing liabilities</b>		<b>1,192</b>	<b>1,422</b>
<b>Provisions</b>			
Employees	11A	29,291	31,063
Other provisions	11B	-	152
<b>Total provisions</b>		<b>29,291</b>	<b>31,215</b>
<b>Payables</b>			
Suppliers	12A	1,634	2,587
Seigniorage payable	12B	-	4,384
Other payables	12D	2,737	2,346
<b>Total payables</b>		<b>4,371</b>	<b>9,317</b>
<b>Tax liabilities</b>			
Tax liabilities equivalent	12C	-	823
Deferred income tax liabilities		-	136
<b>Total tax liabilities</b>		<b>-</b>	<b>959</b>
<b>Total liabilities</b>		<b>34,854</b>	<b>42,913</b>
<b>NET ASSETS</b>		<b>44,040</b>	<b>62,327</b>
<b>EQUITY</b>			
Asset revaluation reserve		3,644	9,037
Contributed equity		3,685	12,230
Retained surpluses		36,711	41,060
<b>Total equity</b>		<b>44,040</b>	<b>62,327</b>
<b>Current assets</b>		<b>62,785</b>	<b>53,743</b>
<b>Non-current assets</b>		<b>16,109</b>	<b>51,497</b>
<b>Current liabilities</b>		<b>26,186</b>	<b>37,748</b>
<b>Non-current liabilities</b>		<b>8,668</b>	<b>5,165</b>

This statement should be read in conjunction with the accompanying notes.

### Cash flow statement for the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		9,642	26,749
Appropriations		110,779	109,597
Face value - circulating coin		-	137,696
Net GST received from ATO		2,813	4,802
Other cash received		1,697	-
<b>Total cash received</b>		<b>124,931</b>	<b>278,844</b>
<b>Cash used</b>			
Employees		83,891	85,001
Suppliers		39,919	89,909
Seigniorage - circulating coins		-	98,927
Grants		1,317	-
Financing costs		110	124
Net GST paid to ATO		140	2,682
Cash to the OPA		225	-
Other cash used		3	5
<b>Total cash used</b>		<b>125,605</b>	<b>276,648</b>
<b>Net cash from/(used by) operating activities</b>	14	<b>(674)</b>	<b>2,196</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of property, plant and equipment		10	81
<b>Total cash received</b>		<b>10</b>	<b>81</b>
<b>Cash used</b>			
Purchase of property, plant and equipment		1,252	5,725
Purchase of intangibles		185	449
<b>Total cash used</b>		<b>1,437</b>	<b>6,174</b>
<b>Net cash from/(used by) investing activities</b>		<b>(1,427)</b>	<b>(6,093)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations - contributed equity		-	2,965
Capital injections		33	-
<b>Total cash received</b>		<b>33</b>	<b>2,965</b>
<b>Cash used</b>			
Repayment of debt (includes finance lease principal)		807	1,590
Other cash used		7,901	-
<b>Total cash used</b>		<b>8,708</b>	<b>1,590</b>
<b>Net cash from/(used by) financing activities</b>		<b>(8,675)</b>	<b>1,375</b>
<b>Net increase/(decrease) in cash held</b>		<b>(10,776)</b>	<b>(2,522)</b>
Cash at the beginning of the reporting period		12,883	15,405
<b>Cash at the end of the reporting period</b>	8A	<b>2,107</b>	<b>12,883</b>

This statement should be read in conjunction with the accompanying notes.

**Statement of changes in equity**  
for the year ended 30 June 2006

	Accumulated results		Asset revaluation reserve		Contributed equity		Total equity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Opening balance as at 1 July	41,060	24,258	9,037	6,017	12,230	9,241	62,327	39,516
<b>Income and expense</b>								
Net operating result	17,292	16,799	-	-	-	-	17,292	16,799
Net revaluation increment	-	-	-	3,020	-	-	-	3,020
<b>Total income and expenses recognised directly in equity</b>								
<b>Transactions with owner:</b>								
<i>Distributions to owners:</i>								
Returns of capital								
Restructuring (note 13)	(21,641)	-	(5,393)	-	(8,578)	-	(35,612)	-
<i>Contributions by owners:</i>								
Appropriations (equity injections)	-	-	-	-	33	2,965	33	2,965
Restructuring (note 13)	-	3	-	-	-	24	-	27
<b>Sub-total transactions with owners</b>	<b>(21,641)</b>	<b>3</b>	<b>(5,393)</b>	<b>-</b>	<b>(8,545)</b>	<b>2,989</b>	<b>(35,579)</b>	<b>2,992</b>
<b>Closing balance as at 30 June</b>	<b>36,711</b>	<b>41,060</b>	<b>3,644</b>	<b>9,037</b>	<b>3,685</b>	<b>12,230</b>	<b>44,040</b>	<b>62,327</b>
<b>Total equity attributable to the Australian Government</b>	<b>36,711</b>	<b>41,060</b>	<b>3,644</b>	<b>9,037</b>	<b>3,685</b>	<b>12,230</b>	<b>44,040</b>	<b>62,327</b>

This statement should be read in conjunction with the accompanying notes.

**Schedule of commitments**

As at 30 June 2006

	2006 \$'000	2005 \$'000
<b>BY TYPE</b>		
<b>Capital commitments</b>		
Infrastructure, plant and equipment <sup>1</sup>	-	1,163
<b>Total capital commitments</b>	-	1,163
<b>Other commitments</b>		
Operating leases <sup>2</sup>	60,993	72,110
Other <sup>3</sup>	22,257	18,915
<b>Total other commitments</b>	83,250	91,025
<b>Commitments receivable</b>		
GST receivable	(7,331)	(6,418)
Other	-	-
<b>Total commitments receivable</b>	(7,331)	(6,418)
<b>NET COMMITMENTS</b>	<b>75,919</b>	<b>85,770</b>
<b>BY MATURITY</b>		
<b>Capital commitments</b>		
One year or less	-	1,163
<b>Total capital commitments</b>	-	1,163
<b>Operating lease commitments</b>		
One year or less	6,123	7,107
From one to five years	24,204	27,741
Over five years	25,397	31,286
<b>Total operating lease commitments</b>	55,724	66,134
<b>Other commitments</b>		
One year or less	16,893	6,061
From one to five years	3,066	12,412
Over five years	236	-
<b>Total other commitments</b>	20,195	18,473
<b>NET COMMITMENTS BY MATURITY</b>	<b>75,919</b>	<b>85,770</b>

This schedule should be read in conjunction with the accompanying notes.

**Schedule of commitments (continued)**

Note: Commitments are GST inclusive where relevant.

1 Plant and equipment commitments are primarily contracts for purchases of coin presses and furniture and fittings.

2 Operating leases included are effectively non-cancellable and comprise of:

Nature of lease	General description of leasing arrangement
Leases for accommodation	<ul style="list-style-type: none"> <li>• Commercial — leases comprise various periods, including both initial and options periods.</li> <li>• Overseas estate — some commercial lease payments are adjusted annually by two per cent and residential lease payments are reviewed bi-annually to reflect market movements.</li> <li>• The initial periods of office accommodation leases are still current and each may be renewed with options for a further three or five years.</li> <li>• Australian estate — residential lease payments are reviewed bi-annually to reflect market movements.</li> </ul>
Agreements for the provision of motor vehicles to Senior Executive Officers	<ul style="list-style-type: none"> <li>• No contingent rentals exist.</li> <li>• No renewal or purchase options are available to the Treasury.</li> </ul>
Leases for computer equipment and office equipment	<ul style="list-style-type: none"> <li>• The lessor provides all computer equipment designated as necessary in the supply contract for three years with an option to extend the term for a fixed period as agreed by both parties.</li> <li>• The lessor provides all photocopier equipment designated as necessary in the supply contract for four years with an option to extend the term for a fixed period as agreed by both parties.</li> </ul>

Comparative for prior year has been adjusted to reflect correct calculation by \$5,425,000. This has a follow on effect in the GST receivable.

3 Other commitments include commitments for consultants, building services and other commitments.

## Schedule of contingencies

as at 30 June 2006

	Claims for		Other		TOTAL	
	damages or costs					
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Contingent liabilities</b>						
Balance from previous period	20	400	145	120	165	520
New	-	20	133	145	133	165
Re-measurement	-	-	-	-	-	-
Liabilities crystallised	-	-	-	-	-	-
Obligations expired	(20)	(400)	(145)	(120)	(165)	(520)
<b>Total contingent liabilities</b>	-	20	133	145	133	165
<b>NET CONTINGENT LIABILITIES</b>	-	20	133	145	133	165

This schedule should be read in conjunction with the accompanying notes.

Note: Departmental remote and unquantifiable contingencies are disclosed in Note 15: Contingent liabilities and assets.

**Schedule of administered items**  
for the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>Income administered</b>			
<b>on behalf of Government</b>			
for the year ended 30 June 2006			
<b>Non-taxation revenue</b>			
Interest	22	690	3,940
Dividends	22	1,363,000	694,000
Goods and services	22	605,888	591,922
Other sources of non-taxation revenue	22	53,889	184,313
<b>Total revenues administered</b>			
<b>on behalf of Government</b>		<b>2,023,467</b>	1,474,175
<b>Gains</b>			
Net foreign exchange gains	22	146,143	-
<b>Total gains administered</b>			
<b>on behalf of Government</b>		<b>146,143</b>	-
<b>Total income administered</b>			
<b>on behalf of Government</b>		<b>2,169,610</b>	1,474,175
<b>Expenses administered</b>			
<b>on behalf of Government</b>			
for the year ended 30 June 2006			
Grants	23	38,604,660	36,224,215
Other expenses	23	35,045	24,493
<b>Losses</b>			
Net foreign exchange losses	23	-	448,386
<b>Total expenses administered</b>			
<b>on behalf of Government</b>		<b>38,639,705</b>	36,697,094

This schedule should be read in conjunction with the accompanying notes.

**Schedule of administered items (continued)**  
as at 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>Assets administered</b>			
<b>on behalf of Government</b>			
as at 30 June 2006			
<b>Financial assets</b>			
Cash and cash equivalents	24	7,736	9,089
Receivables	24	314,063	485,755
Loans	24	-	14,805
Investments	24	20,033,896	14,954,009
<b>Non-financial assets</b>			
Grant prepayments	24	74,600	219,400
Other	24	2,347	2,222
<b>Total assets administered</b>			
<b>on behalf of Government</b>		<b>20,432,642</b>	<b>15,685,280</b>
<b>Liabilities administered</b>			
<b>on behalf of Government</b>			
as at 30 June 2006			
<b>Payables</b>			
Loans	25	3,870,825	3,871,107
Grants	25	7,500	10,000
Other payables	25	961,985	903,352
<b>Provisions</b>			
Other provisions	25	257,486	334,873
<b>Total provisions and payables</b>		<b>5,097,796</b>	<b>5,119,332</b>
<b>Total liabilities administered</b>			
<b>on behalf of Government</b>		<b>5,097,796</b>	<b>5,119,332</b>
<b>Net assets administered</b>			
<b>on behalf of Government</b>		<b>15,334,846</b>	<b>10,565,948</b>
<b>Current assets</b>		<b>398,740</b>	<b>731,240</b>
<b>Non-current assets</b>		<b>20,033,902</b>	<b>14,954,040</b>
<b>Current liabilities</b>		<b>101,420</b>	<b>94,101</b>
<b>Non-current liabilities</b>		<b>4,996,376</b>	<b>5,025,231</b>

This schedule should be read in conjunction with the accompanying notes.



**Administered cash flows**  
for the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
GST administration fees		595,902	591,922
Interest		690	3,940
International Monetary Fund (IMF) remuneration		25,995	37,019
Dividends		1,383,000	1,338,466
Net GST received from ATO		3,303	4,026
HIH Group liquidation proceeds		26,356	-
Other		9,832	103,217
<b>Total cash received</b>		<b>2,045,078</b>	<b>2,078,590</b>
<b>Cash used</b>			
Grant payments		38,459,858	36,069,855
Other		115,762	111,755
<b>Total cash used</b>		<b>38,575,620</b>	<b>36,181,610</b>
<b>Net cash from/(used in) operating activities</b>		<b>(36,530,542)</b>	<b>(34,103,020)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
IMF		152,523	-
PNG loan principal repayment		14,805	64,051
<b>Total cash received</b>		<b>167,328</b>	<b>64,051</b>
<b>Cash used</b>			
Settlement of International Financial Institution's obligations		2,299	9,222
<b>Total cash used</b>		<b>2,299</b>	<b>9,222</b>
<b>Net cash from/(used in) investing activities</b>		<b>165,029</b>	<b>54,829</b>
<b>Net increase/(decrease) in cash held</b>		<b>(36,365,513)</b>	<b>(34,048,191)</b>
Cash at the beginning of the reporting period		9,089	3,288
Cash from official public account for appropriations		38,574,011	36,194,381
Cash to official public account for appropriations		2,209,851	2,140,389
<b>Cash at the end of the reporting period</b>	24	<b>7,736</b>	<b>9,089</b>

This schedule should be read in conjunction with the accompanying notes.

## Administered commitments

as at 30 June 2006

	2006 \$'000	2005 \$'000
<b>BY TYPE</b>		
<b>Other commitments</b>		
Other <sup>1</sup>	3,423	6,782
<b>Total other commitments</b>	<b>3,423</b>	<b>6,782</b>
<b>Commitments receivable</b>		
GST receivable	311	32
<b>Total commitments receivable</b>	<b>311</b>	<b>32</b>
<b>NET ADMINISTERED COMMITMENTS BY TYPE</b>	<b>3,112</b>	<b>6,750</b>
<b>BY MATURITY</b>		
<b>Other commitments</b>		
One year or less	3,067	3,663
From one to five years	356	3,119
<b>Total other commitments</b>	<b>3,423</b>	<b>6,782</b>
<b>Commitments receivable</b>		
One year or less	279	22
From one to five years	32	10
<b>Total commitments receivable</b>	<b>311</b>	<b>32</b>
<b>NET ADMINISTERED COMMITMENTS BY MATURITY</b>	<b>3,112</b>	<b>6,750</b>

This schedule should be read in conjunction with the accompanying notes.

Note: All commitments are GST inclusive where relevant.

1 Other commitments relates to services provided with respect to the HIH Claims Support Scheme and the Housing Loan Insurance Corporation.

## Administered contingencies

as at 30 June 2006

	Guarantees		Indemnities		Uncalled shares or capital subscriptions <sup>1</sup>		Claims for damages or costs		Warranties		Letters of comfort		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Administered contingent liabilities</b>														
Balance from previous period	-	-	-	-	7,095,559	7,865,855	-	75	-	-	-	-	7,095,559	7,865,930
Re-measurement	-	-	-	-	201,330	(770,296)	-	-	-	-	-	-	201,330	(770,296)
Liabilities crystallised	-	-	-	-	-	-	-	(75)	-	-	-	-	-	(75)
<b>Total contingent liabilities</b>	-	-	-	-	<b>7,296,889</b>	<b>7,095,559</b>	-	-	-	-	-	-	<b>7,296,889</b>	<b>7,095,559</b>
<b>Total contingent assets</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>NET CONTINGENT LIABILITIES</b>	-	-	-	-	<b>7,296,889</b>	<b>7,095,559</b>	-	-	-	-	-	-	<b>7,296,889</b>	<b>7,095,559</b>

This schedule should be read in conjunction with the accompanying notes.

Note: Administered remote and unquantifiable contingencies are disclosed in Note 27: Administered contingent liabilities and assets.

<sup>1</sup> Other guarantees comprise of EBRD, IBRD, MIGA and ADB uncalled shares.

**Statement of activities administered on behalf of Government**

The major administered activities of the Treasury are directed towards achieving the three outcomes described in Note 1 to the Financial Statements. Details of planned activities for the year can be found in the Treasury Portfolio Budget Statements, Portfolio Additional Estimates Statements and Portfolio Supplementary Additional Estimates Statements for 2005-06, which have been tabled in Parliament.

**Notes to and forming part of the financial statements**  
for the period ended 30 June 2006

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## Note 1: Summary of significant accounting policies

### 1.1. Objectives of the Treasury

The Treasury aims to improve the wellbeing of the Australian people. It does so by providing sound and timely advice to the Government, based on objective and thorough analysis of options, and by assisting Treasury Portfolio Ministers in the administration of their responsibilities and implementation of Government decisions.

The Treasury is structured to meet three outcomes:

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

Until 30 June 2005, the reporting entity comprised the Treasury, the Australian Government Actuary and the Royal Australian Mint (the Mint). On 1 July 2005, the Mint was prescribed as an agency under the *Financial Management and Accountability Act 1997* resulting in the Mint's financial statements no longer being consolidated with the Treasury reports (although it will remain within the Treasury portfolio). Thus, from 1 July 2005, the reporting entity, hereafter referred to as 'the Treasury', comprises the Treasury and the Australian Government Actuary.

Activities contributing towards the outcomes detailed above are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Administered activities involve the management or oversight by the Treasury on behalf of the Government of items controlled or incurred by the Government. For these purposes, the HIH Claims Support Limited and the HIH Claims Support Scheme Trust have been included in the administered schedules.

Departmental activities are identified under four Output Groups. Outcome 1 has one output group, 1.1 Macroeconomic. Outcome 2 has two output groups, 2.1 Fiscal and 2.2 Revenue. There is one output group in Outcome 3, 3.1 Markets.

The output groups comprise the following outputs:

- Output Group 1.1 Macroeconomic — Outputs 1.1.1 and 1.1.2
- Output Group 2.1 Fiscal — Outputs 2.1.1, 2.1.2 and 2.1.3
- Output Group 2.2 Revenue — Output 2.2.1
- Output Group 3.1 Markets — Outputs 3.1.1, 3.1.2, 3.1.3 and 3.1.4

All outputs under Output Groups 1 and 2 provide services on a non-profit basis.

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Under Output Group 3.1, Outputs 3.1.1, 3.1.2 and 3.1.3 also provide services on a non-profit basis. Output 3.1.4, that relates to the Australian Government Actuary, operates via a special account.

### 1.2. Basis of accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMOs, being the Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2005));
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period; and
- Interpretations issued by the Urgent Issues Group (UIG) that apply for the reporting period.

This is the first financial report to be prepared using Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement and the Balance Sheet have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 15).

Revenues and expenses are recognised in the Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.



The continued existence of the Treasury in its present form and with its present programmes is dependent on Government policy and on continuing appropriations by Parliament for the Treasury's administration and programmes.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for agency items, except where otherwise stated at Note 1.25.

### **1.3. Significant accounting judgments and estimates**

Apart from an Australian Government Actuary (AGA) review on employee benefits resulting in changes to on-cost calculations and discount factors, no accounting assumptions or estimates have been identified for agency items that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

In the process of applying the accounting policies for administered items listed in Note 1.32 and 1.33, the Treasury has obtained independent actuarial assessments of the Housing Loans Insurance Corporation (HLIC) premiums, recoveries, claims and acquisition costs in addition to the HHH Claims Support Scheme liability.

In relation to uncalled shares disclosed in the administered contingencies table, Treasury has judged the risk of these shares being called as low for the foreseeable future. This judgment is based on historical and current performance of the international financial institutions. Some of the factors considered are the financial strength of the development banks (that is, most have AAA credit ratings), established risk management policies, healthy debt ratios, no adverse financial statement audit opinions, and the fact that no calls have ever been made.

### **1.4. Statement of compliance**

The financial report complies with Australian Accounting Standards, which include AEIFRS.

Australian Accounting Standards require the Treasury to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for the Treasury in the future. The nature of the impending change within the table, has been abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Treasury's initial assessment at this date,

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which may change in future reporting periods. The Treasury intends to adopt all standards upon their application date.

**Notes to and forming part of the financial statements**

<b>Title</b>	<b>Standard affected</b>	<b>Application date*</b>	<b>Nature of impending change</b>	<b>Impact expected on financial report</b>
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease.  Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regard to financial guarantee contracts.	No expected impact
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact
	AASB 7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact

\* Application date is for annual reporting periods beginning on or after the date shown.

## 1.5. Revenue

### Revenues from Government

Amounts appropriated for departmental outputs appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

### Other revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;
- The revenue and costs incurred for the transaction can be reliably measured; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- The amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- The probable economic benefits with the transaction have flowed to the entity.

Receivables for goods and services are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is not longer probable.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

## 1.6. Gains

### Resources received free of charge

Services received free of charge are recognised as gains when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from

another Government agency as a consequence of a restructuring of administrative arrangements. (Refer to Note 1.7)

#### **Other Gains**

Gains from disposal of non-current assets were recognised when control of the asset has passed to the buyer.

### **1.7. Transactions with the Government as owner**

#### **Equity injections**

Amounts appropriated which are designated as 'equity injections' for a year (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in contributed equity in that year.

#### **Restructuring of administrative arrangements**

Net assets received from or relinquished to another Commonwealth agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against equity.

#### **Other distributions to owners**

The FMO's require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

### **1.8. Employee benefits**

As required by the FMOs, the Treasury has early adopted AASB 119 Employee Benefits as issued in December 2004.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for short-term employee benefits (including wages and salaries and other non-monetary benefits expected to be settled within 12 months of the reporting date) are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

#### **Leave**

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Treasury is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Treasury's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for both recreation and long service leave has been determined by reference to the work of an actuary as at 30 June 2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

#### **Separation and redundancy**

No provision has been made for separation and redundancy benefit payments during the year (2005: Nil).

#### **Superannuation**

Staff of the Treasury are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap). New employees (from 1 July 2005) are eligible to join the new PSS Accumulation Scheme which is a defined contribution scheme.

The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The Treasury makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Treasury's employees.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

### **1.9. Leases**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the beginning of the lease term and a liability recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense. At reporting date, the Treasury had finance leases with terms averaging three years and a maximum term of five years. The interest rate implicit in the leases averaged 8.31 per cent (2005: 7.51 per cent). The lease assets secure the lease liabilities.

#### Part 4: Financial statements

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

#### **1.10. Borrowing costs**

All borrowing costs are expensed as incurred.

#### **1.11. Cash**

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount. Any interest receivable is credited to revenue as it accrues. The Treasury maintains bank accounts with the Reserve Bank of Australia (RBA) for administration of petty cash and for the receipt and payment of monies.

For comparative purposes, under the Government's national competition policy the Mint earns interest equivalent to the daily bank balance at a rate of two per cent. The amount is netted against tax payable to the Government under the policy.

The Mint maintains its own commercial accounts for the conduct of its business operations.

#### **1.12. Financial risk management**

The Treasury's activities expose it to normal commercial financial risk. As a result of the nature of the Treasury's business and internal and Australian Government policies, dealing with the management of financial risk, the Treasury's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

#### **1.13. Other financial instruments**

Government loans are carried at the balance yet to be repaid. Interest is expensed as it accrues unless it is directly attributable to a qualifying asset.

##### **Receivables for goods and services**

Receivables are recognised at their nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed regularly throughout the year and at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely. Credit terms are net 30 days (2005: 30 days).

##### **Trade creditors**

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

### **Contingent liabilities and contingent assets**

Contingent liabilities (assets) are not recognised in the balance sheet but are disclosed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability (asset), or represent an existing liability (asset) in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, a contingent liability (asset) is recognised. A liability (asset) is recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

### **1.14. Derecognition of financial assets and liabilities**

As prescribed in the FMOs, the Treasury has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred. Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

### **1.15. Impairment of financial assets**

As prescribed in the FMOs, the Treasury has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. Financial assets are assessed for impairment at each balance date.

#### **Financial assets held at amortised cost**

If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in profit and loss.

#### **Financial assets held at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

#### **Available for sale financial assets**

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the profit and loss.

### Comparative year

The above policies were not applied for the comparative year. For receivables, amounts were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. Bad debts were written off as incurred. Other financial assets carried at cost which were not held to generate net cash inflows, were assessed for indicators of impairment. Where such indicators were found to exist, the recoverable amount of the assets was estimated and compared to the assets carrying amount and, if less, reduced to the carrying amount. The reduction was shown as an impairment loss.

### 1.16. Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

### 1.17. Property, plant and equipment

#### Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

#### Revaluations

##### Basis

Land, buildings, plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset class is not materially different, at reporting date, from its fair value.

Fair values for each class of asset are determined as shown below.

Asset class	Fair value measured at
Buildings	Market selling price
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Market selling price

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.



Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Treasury performed a valuation of buildings, infrastructure, plant and equipment and heritage assets on 1 July 2004. The valuation was performed by independent valuers Preston Rowe Paterson NSW Pty Limited and was based on valuing the assets at fair value.

### Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Treasury using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	<b>2005-06</b>	2004-05
Computers, plant and equipment	<b>3-10 years</b>	3-10 years
Leasehold improvements	<b>5-10 years</b>	5-10 years
Motor vehicles	<b>4 years</b>	4 years
Office equipment	<b>5 years</b>	5 years
Capitalised software	<b>3-5 years</b>	3-5 years
Factory machinery	<b>10-20 years</b>	10-20 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

### 1.18. Impairment of non-current assets

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

#### Part 4: Financial statements

No indicators of impairment were found for assets at fair value.

The non-current assets which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the asset is written down to the higher of its net selling price and if the entity would replace the asset's service potential, its depreciated replacement cost.

Last year certain internally developed software was identified as being carried above its cost of replacement and was written down as at the 30 June 2005 reporting date (Refer note 5E).

#### **1.19. Intangible assets**

Treasury's intangibles comprise internally developed and purchased software for internal use. These assets are carried at cost.

Software is amortised on a straight line basis over its anticipated useful life. The useful lives of the Treasury's software is 3 to 5 years (2004-05: 2 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2006.

#### **1.20. Taxation/competitive neutrality**

The Treasury is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST). For comparative purposes only, the Mint is liable for FBT and GST on sale of products and via a tax equivalent payment for Payroll Tax and Company Tax. Company Income Tax became applicable for the first time in 1998-99, as a result of the competitive neutrality arrangements.

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recovered from the Australian Taxation Office; and
- except for receivables and payables.

#### **1.21. Foreign currency**

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

#### **1.22. Insurance**

The Treasury has insured for risks through the Australian Government's insurable risk managed fund, called Comcover. Workers compensation is insured through the Australian Government's insurable risk managed fund called Comcare Australia.

### **1.23. The Mint — seigniorage and repurchase of circulating coins**

Seigniorage is collected by the Mint on behalf of the Australian Government. Seigniorage represents the difference between the face value of coinage sold to the RBA and its cost of production to the Mint.

The Mint repurchases circulating coins on behalf of the Australian Government. The costs incurred by the Mint in repurchasing circulating coins are offset to an extent by the sale of scrap metal and the balance is supplemented by the Australian Government through a reduction in the total amount paid to the Australian Government.

The revenues from circulating coin sales are not directly available to be used by the Mint for its own purposes and are remitted to the Australian Government's Official Public Account.

### **1.24. Economic dependency**

The Mint is economically dependent on the RBA for the purchase of circulating coin.

### **1.25. Reporting of administered activities**

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the schedule of administered items and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards, Accounting Interpretations and UIG Abstracts.

### **1.26. Administered cash transfers to and from Official Public Account (OPA)**

Revenue collected by the Treasury for use by the Government rather than the Treasury is Administered Revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by the Treasury on behalf of the Government and reported as such in the statement of cash flows in the schedule of administered items and in the administered reconciliation table in Note 26. Thus the Schedule of Administered Items largely reflects the Government's transactions, through the Treasury, with parties outside the Government.

Administered appropriations received or receivable from the OPA are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the OPA are not reported as administered expenses or payables. These transactions or balances are internal to the administered entity.

### 1.27. Revenue

All administered revenues are revenues relating to the core operating activities performed by the Treasury on behalf of the Australian Government.

#### Reserve Bank of Australia dividend

Dividends from the RBA are recognised when a determination is made by the Treasurer and thus control of the income stream has been established. On this basis, the RBA's dividend for 2005-06 will be recognised in the Treasury's Financial Statements in 2006-07. Dividends are measured at nominal amounts.

The Treasurer is able to determine what portion of the RBA's earnings is made available as a dividend to Government having regard to the Reserve Bank Board's advice and in accordance with section 30 of the *Reserve Bank Act 1959*.

#### Interest on Papua New Guinea loan

The interest on the outstanding principal amount is paid annually in arrears, due on 30 June every year until paid in full.

The loan to Papua New Guinea is made under contract with the interest and principle components fully repaid as at 30 June 2006. The loan is measured at the amount lent with collectibility of amounts outstanding reviewed at balance date.

#### International Monetary Fund remuneration

Remuneration is interest paid by the International Monetary Fund (IMF) to Australia for the use of its funds. It includes the proportion of the quota that was paid in special drawing rights and held by the IMF and money lent out under the Financial Transaction Plan.

Where the IMF's holdings of Australian dollars fall below a specified level, it pays remuneration on Australia's average remunerated reserve tranche position. The rate of remuneration is equal to the Special Drawing Rights (SDR) interest rate. This rate is then adjusted for burden sharing. Remuneration is calculated and paid at the end of the IMF's financial quarters. An annual adjustment maintenance of value (MOV) is made to the IMF's holdings of member currencies (quota) to maintain their value in terms of the SDR. In 2005-06, this gave rise to a payable (2004-05 gave rise to a receivable).

### 1.28. Administered capital

Appropriations of 'administered capital' are recognised in administered equity where the amounts appropriated by Parliament are drawn down.

## 1.29. Grants

The Treasury administers a number of grant schemes on behalf of the Australian Government.

Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made. A commitment is recorded when the Government enters into an agreement to make these grants but services have not been performed or criteria satisfied.

### Grants to the IMF

This represents Australia's contribution to the Poverty Reduction and Growth Facility (PRGF), previously known as the Enhanced Structural Adjustment Facility (EASF), of the IMF. The PRGF will enable the IMF to provide concessional funding to support medium term macroeconomic adjustment and structural reforms in low income countries. The PRGF will assist Australia to promote its international economic and aid interests with developing countries in the Asian region. Australia's contribution involves \$30 million to be paid in annual installments of \$2.5 million over a 12 year period.

### Grants to States and Territories

#### *Payments under A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*

The outcome of the taxation reform process is a taxation system which provides a stable and equitable revenue source to fund governmental services essential to the wellbeing of Australians. Special appropriations relating to this legislation fall under four categories, namely, GST Revenue Payments to the States and Territories, Budget Balancing Assistance Grants, Residual Adjustment Amounts and National Competition Policy Payments.

The introduction of *The New Tax System* on 1 July 2000 has significantly reformed payments made under Commonwealth-State financial relations. The Treasury has responsibility for administering these payments.

The largest payment is the provision of GST revenue. The Australian Government pays to the States and Territories all GST collected, and commenced monthly payments of GST revenue to the States and Territories in July 2000. GST revenue payments to the States and Territories in 2005-06 were distributed in accordance with relativities recommended by the Commonwealth Grants Commission. The Treasury also administered General Revenue Assistance payments to the States and Territories consisting of Budget Balancing Assistance, Residual Adjustment Amounts and National Competition Policy Payments in 2005-06.

Budget Balancing Assistance arises from the Australian Government's guarantee that in each of the transitional years following the introduction of the GST, each State and Territory budgetary position will be no worse off than had the reforms in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* not been implemented.

#### Part 4: Financial statements

The Australian Government introduced Residual Adjustment Amounts to ensure that all States receive their appropriate payments under *The New Tax System* as they move on or off Budget Balancing Assistance. Residual Adjustment Amounts offset any underestimate or overestimate of payments that cannot be paid or recovered using other mechanisms under *The New Tax System*.

National Competition Policy Payments to the States and Territories are conditional on the States and Territories meeting their obligations under the agreement to implement the National Competition Policy and related reforms.

As a consequence of the Australian Taxation Office (ATO) collecting GST for distribution to the States and Territories, the States and Territories make payments to the Australian Government to meet the agreed costs incurred in administering the GST. The Treasury is responsible for collection of GST administration fees from the States and Territories.

A new First Home Owners Scheme commenced on 1 July 2000. Under the First Home Owners Scheme, a grant of \$7,000 is available to eligible applicants who are buying or building their first home. The First Home Owners Scheme is administered by the states on the basis of principles agreed to by all jurisdictions in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

On 9 March 2001, the Australian Government announced that an additional \$7,000 grant, fully funded by the Australian Government, would be available for first home owners building or purchasing new but previously unoccupied homes before 31 December 2001. In December 2001, the Government announced a phase down of the additional grant making it available for a further six months, from 1 January 2002, at a reduced rate of \$3,000 per grant. The additional grant ceased on 30 June 2002, while the original scheme will continue to offer \$7,000 grants to eligible first home buyers. The Government also announced that more liberal construction commencement and completion requirements will apply to additional First Home Owners Scheme grants for contracts made on or after 9 October 2001.

#### Mirror taxes collected by State Governments

On behalf of the States, the Australian Government imposes mirror taxes which replace State taxes in relation to Australian Government places that may be constitutionally invalid. Mirror taxes are collected and retained by the States, under the *Commonwealth Places (Mirror Taxes) Act 1998*. State Governments bear the administration costs of collecting mirror taxes. Mirror taxes are disclosed at Note 31F.

#### 1.30. Administered investments

Administered investments were assessed for impairment at 30 June 2006. No indicators of impairment were noted.

#### Development banks

Investments in development banks are classified as non-monetary assets and owing to their nature, these investments are not revalued. As such, these investments are

recognised at historical cost where the information is available. Where historical cost records are not readily available, a notional cost has been established at 30 June 1993 by reference to the development banks' financial statements and exchange rates at that time.

Initial investments in the Asian Development Bank (prior to 1995), the International Finance Corporation (prior to 1991) and the International Bank for Reconstruction and Development (prior to 1988) have been recognised at notional cost. Any subsequent capital subscriptions to these development banks have been recognised at historical cost.

Investments in the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency are recognised at historical cost.

#### **International Monetary Fund**

The quota is the current value in Australian dollars of Australia's subscription to the IMF.

The SDR allocation liability reflects the current value in Australian dollars of the Treasury's liability to repay to the IMF Australia's cumulative allocations of SDR. This is classified as 'other payables'.

#### **Australian Government entities**

Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole of government level.

The Australian Government's investment in controlled entities and companies in this portfolio are measured at their fair value. Fair value has been taken to be the net assets of the entities as at balance date. For the comparative period, these investments were measured at aggregate value of the Australian Government's share of the net assets and net liabilities of each entity as at 30 June 1997. Where controlled entities came into existence after 30 June 1997, the investment was valued at the Australian Government's share of capital contributions by Government at the date of inception.

#### **1.31. Promissory notes**

Promissory notes have been issued to the IMF, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the Asian Development Bank and the Multilateral Investment Guarantee Agency.

Where promissory notes have been issued in foreign currencies, they are recorded at their nominal value by translating them at the spot rate at balance date. The promissory notes are not interest bearing and relate to the undrawn paid in capital subscriptions.

Foreign currency gains and losses are recognised where applicable.

### **1.32. Mortgage insurance policies written by the Housing Loans Insurance Corporation up to 12 December 1997**

The Australian Government sold HLIC on 12 December 1997. Under the terms and conditions of the sale the Australian Government remained responsible for the mortgage insurance policies written up to the time of the sale.

The Treasury maintains bank accounts with a commercial bank for the purposes of making claims payments arising from mortgage insurance policies written by HLIC prior to the sale and a bank account for administering the wrap-up of the final accounts and other minor details up to the point of wind-up or sale of HLIC.

Accounting policies adopted are:

#### **Premiums**

Premiums comprise amounts charged to the policy holder or other insurer, excluding amounts collected on behalf of third parties, principally stamp duties. The earned portion of premiums received and receivable is recognised as revenue. Premiums are treated as earned from the date of attachment of risk.

Premiums received in respect of insured loans are apportioned over a number of years in accordance with an actuarial determination of the pattern of risk in relation to the loans. Premium amounts carried forward in this way are credited to 'provision for unearned premiums'.

#### **Recoveries**

Claims incurred recoveries and a receivable for outstanding recoveries are recognised in respect of insurance policies. The asset is assessed on an actuarial basis and covers recoveries incurred but not yet received, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The asset (HLIC premiums receivable) has been recognised in Note 24, based on the estimated discounted future cash flows.

#### **Claims**

Claims incurred expenses and a liability for outstanding claims are recognised in respect of insurance policies. The liability is assessed on an actuarial basis and covers claims incurred but not yet paid, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The liability has been recognised based on the estimated discounted future cash flows.

#### **Acquisition costs**

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits. Deferred acquisition costs are amortised on an actuarial basis over the reporting periods expected to benefit from the expenditure.



### 1.33. Provisions and contingent liabilities

#### HIH Claims Support Scheme liability

HIH Claims Support Scheme (the Scheme) was established by the Australian Government to provide financial assistance to eligible HIH policy-holders effected by the collapse of the HIH Group of companies in March 2001. HIH Claims Support Limited (HCSL) was established by the Insurance Council of Australia as a not-for-profit company to manage claims made under the Scheme on behalf of the Australian Government. The HIH Claims Support Trust was established in order to perform HCSL's obligations under the *Commonwealth Management Agreement* dated 6 July 2001. As the beneficiary of this trust, the Australian Government is entitled to any residual balance of the trust, after the collection of recoveries and making of payments to claimants.

Following a strategic review in 2003 the operation of the Scheme was restructured. HCSL withdrew from claims management, a new claims manager was appointed and the Scheme was closed to new applications in 2004. A Gateway facility was retained to handle for special circumstance applications. HCSL was subsequently sold by the Insurance Council of Australia to the Australian Government in August 2005.

An actuarial assessment was conducted by an independent actuary as at February 2006, and the results of the review indicated that the overall cost of the scheme discounted to present value is estimated to be \$810 million. This estimate incorporates an allowance for future inflation and provides for the estimated costs of both the claim payments and the scheme management fees.

The Australian Government will continue to assess the estimated liability in future years. Further assessments will also include quantifying possible recoveries to be made by HCSL (which is currently acting as the Trustee on behalf of the Australian Government in relation to the Scheme) and the new claims manager (which will be acting as an agent of the Australian Government).

### 1.34. Administered financial instruments

AASB 139 requires financial instruments to be classified into one of four categories. The financial instruments specific to the Treasury's administered items are classified as follows:

- Loans and receivables (these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market),
  - IMF related moneys receivable (measured at amortised cost using the effective interest rate method),
  - RBA dividend receivable (measured at amortised cost using the effective interest rate method),
  - Papua New Guinea loan receivable (measured at amortised cost using the effective interest rate method);
- Available-for-sale financial assets,
  - Investments in development banks (measured at cost),
  - IMF quota (measured at cost),
  - Investments in Australian Government entities (measured at fair value),
  - SDR allocation (measured at amortised cost using the effective interest rate method),
  - Promissory notes (measured at amortised cost using the effective interest rate method),
  - IMF related monies payable (measured at amortised cost using the effective interest rate method).

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Although a number of the Treasury's financial instruments are classified as 'available for sale' they do not have a quoted market price in an active market and their fair value can not be reliably measured at the reporting date. These items are valued at cost. The Treasury holds these instruments for policy reasons and as such does not hold these instruments for the purposes of trading.

Promissory notes are financial liabilities that are required to be measured at amortised cost using the effective interest rate method. The contractual terms of the promissory notes are non-interest bearing making the effective interest rate zero. Therefore the measurement would be the initial value less any repayments plus or minus movements in exchange rates as a result of translation on reporting date.

Administered financial instruments are accounted for in accordance with the accounting policies detailed above.

The Treasury is applying the exemption under AASB 132 and AASB 139 from reporting comparative disclosures and has not restated comparatives for financial instruments as allowed by AASB 1. There are no adjustments between AEIFRS and the previous Australian Generally Accepted Accounting Principles (AGAAP) figures to be taken up at 1 July 2005. The accounting policies for the Treasury's financial instruments under AEIFRS are consistent with those applied under AGAAP except in respect to impairments. The new policies are outlined at Note 1.15.

Administered financial instruments are disclosed at Note 29.

**Note 2: The impact of the transition to AEIFRS from previous AGAAP**

	2005 \$'000	2004 \$'000
<b>Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS</b>		
Total equity under previous AGAAP	62,468	39,564
Adjustments to retained earnings:		
Employee provisions <sup>1</sup>	24	23
Other payables <sup>2</sup>	(165)	(171)
Deferred income tax asset <sup>3</sup>	-	186
Deferred income tax liability <sup>3</sup>	-	(86)
Total equity translated to AEIFRS	<u>62,327</u>	<u>39,516</u>
<b>Reconciliation of profit or loss as presented under previous AGAAP to AEIFRS</b>		
Prior year profit as previously reported	16,892	
Adjustments:		
Employee expenses <sup>1</sup>	1	
Supplier expenses <sup>2</sup>	6	
Income tax equivalent expense <sup>3</sup>	(100)	
Prior year profit translated to AEIFRS	<u>16,799</u>	

Note: The cash flow statement presented under previous AGAAP is equivalent to that prepared under AEIFRS.

- 1 AEIFRS requires that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, the employee provision liability was reduced.
- 2 AEIFRS requires that the operating lease rental expense be recognised on a straight line basis over the lease term. Upon review of the lease agreement, this adjustment was recognised accordingly.
- 3 AEIFRS requires that deferred tax balances are to be determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. Amounts for the deferred tax asset and liability relating to the Mint have been recognised accordingly.

**Note 3: Events occurring after reporting date**

The RBA has calculated a dividend of \$1.177 billion in respect of its results for the year ended 30 June 2006 (\$1.363 billion 2004-05). The Treasurer has ratified the payment in accordance with the recommendation of the RBA's Board of Directors. As a consequence, the Treasury will record this dividend income in its accounts for the year ended 30 June 2007 in accordance with its accounting policy (Note 1.27).

**Note 4: Operating revenues**

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
<b>Note 4A: Revenue from Government</b>		
<b>Appropriations</b>		
Departmental outputs	<b>134,040</b>	124,144
Revenues from prior year	-	2,411
<b>Total revenues from Government</b>	<b>134,040</b>	126,555
<b>Note 4B: Goods and services</b>		
Provision of goods to:		
Related entities	-	37,383
External entities	<b>66</b>	17,262
Rendering of services to:		
Related entities	<b>5,217</b>	5,420
External entities	<b>921</b>	(4)
Operating lease rental	<b>54</b>	55
<b>Total goods and services</b>	<b>6,258</b>	60,116
<b>Note 4C: Interest</b>		
Interest on deposits	-	479
<b>Total interest</b>	-	479
<b>Note 4D: Other revenues</b>		
Other	<b>210</b>	623
<b>Total other revenues</b>	<b>210</b>	623
<b>Note 4E: Gains</b>		
Resources received free of charge	<b>394</b>	468
Net gains from sale of assets:		
Other infrastructure, plant and equipment		
Proceeds from disposal	-	81
Net book value of assets disposed	-	(80)
Net gain from disposal	-	1
<b>Total gains</b>	<b>394</b>	469

**Note 5: Operating expenses**

	2006	2005
	\$'000	\$'000
<b>Note 5A: Employee expenses</b>		
Wages and salary	61,288	63,252
Superannuation	13,941	13,100
Leave and other entitlements	6,843	7,566
Separation and redundancies	-	24
Other	2,327	2,502
<b>Total employee expenses</b>	<b>84,399</b>	<b>86,444</b>
<b>Note 5B: Supplier expenses</b>		
Provision of goods from:		
Related entities	58	282
External entities	2,033	38,918
Rendering of services from:		
Related entities	4,716	13,364
External entities	20,606	17,070
Operating lease rentals <sup>1</sup>	7,731	8,017
Workers Compensation Premiums	448	506
<b>Total supplier expenses</b>	<b>35,592</b>	<b>78,157</b>
<b>Royalties</b>		
Royalty on numismatic sales	-	1,355
<b>Total royalties</b>	<b>-</b>	<b>1,355</b>
<b>Note 5C: Depreciation and amortisation</b>		
<b>Depreciation</b>		
Other infrastructure, plant and equipment	1,368	1,717
Buildings - leasehold improvements	797	735
<b>Total depreciation</b>	<b>2,165</b>	<b>2,452</b>
<b>Amortisation</b>		
Intangibles - computer software	571	815
Assets held under finance lease	724	1,621
<b>Total amortisation</b>	<b>1,295</b>	<b>2,436</b>
<b>Total depreciation and amortisation</b>	<b>3,460</b>	<b>4,888</b>
<b>The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:</b>		
Depreciation - personal computers	18	23
Depreciation - other IT equipment	498	139
Depreciation - office equipment	519	1,234
Depreciation - furniture	300	284
Depreciation - motor vehicles	33	37
Depreciation - leasehold improvements	797	735
Depreciation - computer software	571	815
Depreciation - finance leases	724	1,621
	<b>3,460</b>	<b>4,888</b>

1 These comprise minimum lease payments only.

**Note 5: Operating expenses (continued)**

	2006 \$'000	2005 \$'000
<b>Note 5D: Borrowing costs expense</b>		
Leases	109	124
<b>Total borrowing costs expense</b>	<b>109</b>	<b>124</b>
<b>Note 5E: Write down and impairment of assets</b>		
Financial assets		
Receivables - bad and doubtful debt expense	7	9
Non-financial assets		
Infrastructure, plant and equipment	-	148
Intangibles	-	32
<b>Total write down and impairment of assets</b>	<b>7</b>	<b>189</b>
<b>Note 5F: Losses</b>		
Other infrastructure, plant and equipment		
Proceeds from disposal	(6)	-
Net book value of assets disposed	49	-
Net losses from disposal	43	-
<b>Total losses</b>	<b>43</b>	<b>-</b>

**Note 6: Business operations**

In 2005-06, as a result of restructuring, the Royal Australian Mint became a prescribed agency under the *Financial Management and Accountability Act 1997*. The Royal Australian Mint gained financial autonomy from the Treasury on 1 July 2005.

The Australian Government Actuary continues to operate via a special account and the balance of the special account is disclosed at Note 31G.

### Note 7: Competitive neutrality expense

	2006	2005
	\$'000	\$'000
<b>Note 7A: Competitive neutrality expense</b>		
Bank deposit interest equivalent	-	(479)
Payroll tax equivalent	-	416
Income tax equivalent expense	-	286
<b>Total competitive neutrality expense</b>	<b>-</b>	<b>223</b>

### Note 8: Financial assets

	2006	2005
	\$'000	\$'000
<b>Note 8A: Cash and cash equivalents</b>		
<b>Cash:</b>		
Special accounts	1,560	9,290
Departmental (other than special accounts)	547	3,593
<b>Total cash</b>	<b>2,107</b>	<b>12,883</b>
<b>Note 8B: Receivables</b>		
Goods and services	877	1,555
Less: Provision for doubtful debts	-	(5)
Total goods and services	877	1,550
Net GST receivable from the ATO	206	623
Interest	-	479
Appropriations receivable - undrawn	56,683	33,197
Other	1,103	1,660
<b>Total receivables (net)</b>	<b>58,869</b>	<b>37,509</b>
All receivables are current assets		
<b>Receivables (gross) are aged as follows:</b>		
Not overdue	58,388	35,833
Overdue by:		
Less than 30 days	315	1,499
30 to 60 days	46	16
61 to 90 days	-	6
More than 90 days	120	160
<b>Total receivables (gross)</b>	<b>58,869</b>	<b>37,514</b>
<b>The provision for doubtful debts is aged as follows:</b>		
Overdue by:		
More than 90 days	-	(5)
<b>Total provision for doubtful debts</b>	<b>-</b>	<b>(5)</b>



**Note 9: Non-financial assets**

	2006	2005
	\$'000	\$'000
<b>Note 9A: Land and buildings</b>		
<b>Leasehold improvements - fair value</b>		
- At fair value	10,943	10,942
- Accumulated amortisation	(3,785)	(2,988)
<b>Total leasehold improvements - fair value</b>	<b>7,158</b>	<b>7,954</b>
<b>Total land and buildings (non-current)</b>	<b>7,158</b>	<b>7,954</b>
<b>Note 9B: Infrastructure, plant and equipment</b>		
<b>Plant and equipment - fair value</b>		
- At fair value	9,146	15,454
- Accumulated depreciation	(2,206)	(1,690)
<b>Total plant and equipment - fair value</b>	<b>6,940</b>	<b>13,764</b>
<b>Plant and equipment under finance lease</b>		
- Under finance lease	2,762	2,722
- Accumulated amortisation	(1,561)	(1,368)
<b>Total plant and equipment under finance lease</b>	<b>1,201</b>	<b>1,354</b>
<b>Total infrastructure, plant and equipment (non-current)</b>	<b>8,141</b>	<b>15,118</b>
<b>Note 9C: Intangibles</b>		
<b>Computer software - fair value</b>		
- At fair value	3,360	5,268
- Accumulated amortisation	(2,550)	(3,463)
<b>Total computer software</b>	<b>810</b>	<b>1,805</b>
<b>Total intangibles (non-current)</b>	<b>810</b>	<b>1,805</b>

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

**Note 9: Non-financial assets (continued)**

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	<b>Total \$'000</b>
<b>As at 1 July 2005:</b>						
Gross book value	-	-	10,942	18,176	5,268	34,386
Accumulated depreciation/amortisation	-	-	(2,988)	(3,058)	(3,463)	(9,509)
<b>Opening net book value</b>	-	-	<b>7,954</b>	<b>15,118</b>	<b>1,805</b>	<b>24,877</b>
<b>Additions</b>						
By purchase	-	-	565	687	185	1,437
By finance lease	-	-	-	576	-	576
Depreciation/amortisation expense	-	-	(797)	(2,092)	(571)	(3,460)
<b>Disposals</b>						
From disposal of entities or operations (including restructuring)	-	-	-	(6,620)	(649)	(7,269)
Other disposals	-	-	-	(49)	-	(49)
<b>Transfers</b>	-	-	(564)	521	40	(3)
<b>As at 30 June 2006:</b>						
Gross book value	-	-	<b>10,943</b>	<b>11,908</b>	<b>3,360</b>	<b>26,211</b>
Accumulated depreciation/amortisation	-	-	<b>(3,785)</b>	<b>(3,767)</b>	<b>(2,550)</b>	<b>(10,102)</b>
<b>Closing net book value</b>	-	-	<b>7,158</b>	<b>8,141</b>	<b>810</b>	<b>16,109</b>

## Note 9: Non-financial assets (continued)

Table B: Property, plant and equipment and intangibles held under finance lease

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
<b>As at 30 June 2006:</b>						
Gross book value	-	-	-	2,762	-	2,762
Accumulated depreciation/amortisation	-	-	-	(1,561)	-	(1,561)
<b>Closing net book value</b>	-	-	-	1,201	-	1,201
<b>As at 30 June 2005:</b>						
Gross book value	-	-	-	2,722	-	2,722
Accumulated depreciation/amortisation	-	-	-	(1,368)	-	(1,368)
<b>Closing net book value</b>	-	-	-	1,354	-	1,354

Table C: Property, plant and equipment and intangibles under construction

	Land \$'000	Buildings on freehold land \$'000	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
<b>As at 30 June 2006:</b>						
Gross book value	-	-	47	-	-	47
<b>As at 30 June 2005:</b>						
Gross book value	-	-	550	-	-	550

**Note 9: Non-financial assets (continued)**

	2006	2005
	\$'000	\$'000
<b>Note 9D: Inventories</b>		
Raw materials	-	11,003
Work in progress (cost)	-	1,680
Finished goods (cost)	-	8,541
<b>Inventories held for sale</b>	-	21,224
Inventories not held for sale (cost)	-	-
<b>Total inventories</b>	-	21,224
<b>Note 9E: Other non-financial assets</b>		
Coin collection - at valuation	-	5,396
Prepayments	1,454	2,998
Other	355	-
<b>Total other non-financial assets</b>	1,809	8,394

Note: Other non-financial assets except for the coin collection and prepayments in the comparative year only are current assets.

**Note 10: Interest bearing liabilities**

	2006	2005
	\$'000	\$'000
<b>Note 10: Leases</b>		
Finance lease commitments:	1,192	1,422
Payable:		
Within one year		
Minimum lease payments	591	780
Deduct: future finance charges	(84)	(89)
	507	691
In one to five years		
Minimum lease payments	745	806
Deduct: future finance charges	(60)	(75)
	685	731
<b>Finance lease recognised in balance sheet</b>	1,192	1,422

Note: Finance leases exist in relation to certain major office equipment assets. The leases are non-cancellable and for fixed terms averaging three years, with a maximum of five years. The Department guarantees the residual values of all assets leased. There are no contingent rentals.

**Note 11: Provisions**

	2006	2005
	\$'000	\$'000
<b>Note 11A: Employee provisions</b>		
Salaries and wages	486	216
Leave	28,381	30,657
Superannuation	285	46
<b>Aggregate employee benefit liability</b>	<b>29,152</b>	<b>30,919</b>
Other employee entitlements	139	144
<b>Aggregate employee benefit liability and related on-costs</b>	<b>29,291</b>	<b>31,063</b>
Current	21,308	26,640
Non-current	7,983	4,423
<b>Note 11B: Other provisions</b>		
Fees and sales in advance	-	152
<b>Total other provisions</b>	<b>-</b>	<b>152</b>

Note: All other provisions are current liabilities.

The split between current and non-current liabilities has changed for the comparative year as a result of a requirement to use a new method of recognising long service leave. Previously estimated long service leave to be taken in the following 12 months was considered to be current; the above calculations now consider all long service leave balances for staff members with unconditional leave entitlements as a current liability.

**Note 12: Payables**

	2006	2005
	\$'000	\$'000
<b>Note 12A: Supplier payables</b>		
Trade creditors	1,634	2,587
<b>Total supplier payables</b>	<b>1,634</b>	<b>2,587</b>
All supplier payables are current liabilities		
<b>Note 12B: Seigniorage payable</b>		
Seigniorage payable	-	4,384
<b>Total seigniorage payable</b>	<b>-</b>	<b>4,384</b>
All seigniorage payable is a current liability		
<b>Note 12C: Tax liabilities equivalent</b>		
Payroll tax equivalent	-	420
Income tax equivalent	-	403
<b>Competitive neutrality tax liabilities equivalent</b>	<b>-</b>	<b>823</b>
<b>Note 12D: Other payables</b>		
Other creditors	2,737	2,346
<b>Total other payables</b>	<b>2,737</b>	<b>2,346</b>

Note: All other payables are current liabilities. Settlement of payables is usually made net 30 days.

Comparative information has changed from previously published statements to due AEIFRS adjustments which have led to the inclusion of tax liability equivalences as well as a reclassification in other creditors.

### Note 13: Restructuring

In 2005-06, as a result of restructuring, the Royal Australian Mint became a prescribed agency under the *Financial Management and Accountability Act 1997*. The Royal Australian Mint gained financial autonomy from the Treasury as at 1 July 2005.

In 2004-05, as a result of restructuring, the Treasury relinquished responsibility for administration of product safety and related consumer information functions to the Australian Competition and Consumer Commission (ACCC) effective from 26 October 2004.

In respect of the functions relinquished, the following assets and liabilities were transferred by the Treasury:

	2006 \$'000	2005 \$'000
<b>Royal Australian Mint</b>		
Assets related to operating activities	29,426	-
Liabilities related to operating activities	(8,983)	-
<b>Net assets relating to operating activities relinquished</b>	<b>20,443</b>	-
Assets related to non-operating activities	15,169	-
Liabilities related to non-operating activities	-	-
<b>Net assets relating to non operating activities relinquished</b>	<b>15,169</b>	-
<b>Net assets relinquished</b>	<b>35,612</b>	-
<b>ACCC</b>		
Assets related to operating activities	-	97
Liabilities related to operating activities	-	(121)
<b>Net assets relating to operating activities relinquished</b>	-	(24)
<b>Net assets relinquished</b>	-	(24)
<b>Net decrease in Departmental net assets during the year</b>	<b>35,612</b>	<b>(24)</b>

**Note 14: Cash flow reconciliation**

	2006	2005
	\$'000	\$'000
<b>Reconciliation of cash per balance sheet to cash flow statement</b>		
Cash at year end per cash flow statement	2,107	12,883
Balance sheet items comprising above cash:		
Financial asset - cash	2,107	12,883
<b>Reconciliation of net surplus to net cash from operating activities</b>		
Net surplus/(deficit)	17,292	16,799
Restructuring	(20,443)	24
Depreciation/amortisation	3,460	4,888
Loss on disposal of non-current assets	43	1
Net write down of non-financial assets	-	180
(Increase)/decrease in net receivables	(21,359)	(17,854)
(Increase)/decrease in other non financial assets	6,938	831
(Increase)/decrease in inventories	21,224	(5,692)
Increase/(decrease) in provisions	(1,924)	2,241
Increase/(decrease) in other payables	(4,952)	3,302
Increase/(decrease) in supplier payables	(953)	(3,483)
Increase/(decrease) in tax liabilities	-	959
<b>Net cash from/(used by) operating activities</b>	<b>(674)</b>	<b>2,196</b>

As a restructuring of the Mint occurred on 1 July 2005, certain assets and liabilities were relinquished. Note 13 refers.

## **Note 15: Contingent liabilities and assets**

### **Quantifiable contingencies**

The schedule of contingencies reports liabilities in respect of claims for damages/costs of \$0 (2005: \$20,000). The amount for the comparative year represents an estimate of the Treasury's liability based on precedent cases as at 30 June 2005.

The schedule of contingencies also reports liabilities in respect of other of \$133,000 (2005: \$145,000). The amount represents an estimate of the Treasury's liability in respect of studies assistance.

### **Unquantifiable contingencies**

As at 30 June 2006, the Treasury had a number of legal claims against it. The Treasury has denied liability and is defending the claims. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims.

The courts may award legal costs against the Treasury in the event it is unsuccessful in an action before the courts. Because of the uncertainty over the outcome of outstanding and pending court cases, duration of court cases and the legal costs of the opposing party, these costs cannot be reliably measured.

### **Remote contingencies**

The Treasury has entered into a contract which contains a limited liability clause amounting to \$5 million. The probability of events taking place which would result in this amount being utilised has been deemed as remote.

The Treasury's lease on its current premises contains a make good clause which has been estimated by an independent valuer at \$1.3 million. Treasury has received an external assessment on the likelihood of this being needed, and has deemed it as remote.



**Note 16: Executive remuneration**

Total remuneration includes actual salary, all allowances, employer superannuation component, leave accrued during the period, vehicle costs and fringe benefits tax.

	2006	2005
<b>The number of executives who received or were due to receive total remuneration of \$130,000 or more:</b>		
\$130,000 to \$144,999	2	1
\$145,000 to \$159,999	-	2
\$160,000 to \$174,999	2	5
\$175,000 to \$189,999	5	2
\$190,000 to \$204,999	9	10
\$205,000 to \$219,999	17	9
\$220,000 to \$234,999	9	14
\$235,000 to \$249,999	4	3
\$250,000 to \$264,999	2	3
\$265,000 to \$279,999	-	5
\$280,000 to \$294,999	2	1
\$295,000 to \$309,999	-	1
\$310,000 to \$324,000	3	1
\$325,000 to \$339,999	-	1
\$340,000 to \$354,999	3	1
\$355,000 to \$369,999	-	2
\$370,000 to \$384,999	2	-
\$400,000 to \$414,999	-	1
\$415,000 to \$429,999	1	-
\$430,000 to \$444,999	1	-
\$505,000 to \$519,999	-	1
\$520,000 to \$534,999	1	-
	<b>63</b>	<b>63</b>
<b>Aggregate amount of total remuneration of executives as shown above</b>	<b>\$15,153,616</b>	<b>\$14,800,897</b>
<b>Aggregate amount of separation and redundancy / termination benefit payments during the year to executives shown above</b>	<b>\$0</b>	<b>\$0</b>

Note: The 2004-05 comparative does not match what was published in the Treasury's Annual Report for 2005-06 due to a revision in the method of calculation. Prior year included 13 overseas staff members who should have been excluded, and the method in deriving the total remuneration was flawed with regard to calculating leave expense.

**Note 17: Remuneration of auditors**

	2006	2005
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Treasury		
The fair value of the services provided was:		
Treasury	320	319
Royal Australian Mint	-	125
<b>Total</b>	<b>320</b>	<b>444</b>

Note: The above amounts are exclusive of GST. No other services were provided by the Auditor-General.

**Note 18: Average staffing levels**

	2006	2005
Treasury	806	782
Locally engaged staff	-	7
Royal Australian Mint	-	115
<b>Total</b>	<b>806</b>	<b>904</b>

Note: Locally engaged staff relate to overseas posts. These staff are engaged by the Department of Foreign Affairs and Trade (DFAT) on behalf of the Treasury. Costs for these staff are recovered by DFAT through a Service Level Agreement with the Treasury.

**Note 19: Act of grace payments, waivers and defective administration scheme**

	2006	2005
	\$	\$
<b>Administered</b>		
One 'act of grace' payment was made during the reporting period. (2005 - no payments made)	2,182	-
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2005 - no waivers made)	-	-
<b>Total</b>	<b>2,182</b>	<b>-</b>
<b>Departmental</b>		
No 'act of grace' payments were made during the reporting period. (2005 - no payments made)	-	-
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2005 - no waivers made)	-	-
No payments were made under s73 of the <i>Public Service Act 1999</i> during the reporting period. (2005: one payment made)	-	17,965
<b>Total</b>	<b>-</b>	<b>17,965</b>

## Note 20: Departmental consolidation

	Treasury		Royal Australian Mint		Total	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>INCOME</b>						
<b>Revenues from ordinary activities</b>						
Revenues from Government	134,040	126,555	-	-	134,040	126,555
Goods and services	6,258	5,609	-	54,507	6,258	60,116
Interest	-	-	-	479	-	479
Other revenues	210	459	-	164	210	623
<b>Total revenues from ordinary activities</b>	<b>140,508</b>	<b>132,623</b>	<b>-</b>	<b>55,150</b>	<b>140,508</b>	<b>187,773</b>
<b>Gains</b>						
Net gains from sale of assets	-	1	-	-	-	1
Resources received free of charge	394	330	-	138	394	468
<b>Total gains</b>	<b>394</b>	<b>331</b>	<b>-</b>	<b>138</b>	<b>394</b>	<b>469</b>
<b>TOTAL INCOME</b>	<b>140,902</b>	<b>132,954</b>	<b>-</b>	<b>55,288</b>	<b>140,902</b>	<b>188,242</b>
<b>EXPENSES</b>						
Employees	84,399	78,679	-	7,765	84,399	86,444
Suppliers	35,592	33,943	-	44,214	35,592	78,157
Royalties	-	-	-	1,355	-	1,355
Depreciation and amortisation	3,460	3,898	-	990	3,460	4,888
Borrowing costs expense	109	124	-	-	109	124
Write-down and impairment of assets	7	188	-	1	7	189
Net losses from sale of assets	43	-	-	-	43	-
<b>TOTAL EXPENSES</b>	<b>123,610</b>	<b>116,832</b>	<b>-</b>	<b>54,325</b>	<b>123,610</b>	<b>171,157</b>
<b>Operating result before income tax</b>	<b>17,292</b>	<b>16,122</b>	<b>-</b>	<b>963</b>	<b>17,292</b>	<b>17,085</b>
Income tax expense equivalent	-	-	-	286	-	286
<b>OPERATING RESULT</b>	<b>17,292</b>	<b>16,122</b>	<b>-</b>	<b>677</b>	<b>17,292</b>	<b>16,799</b>

Note: The above amounts have been consolidated into the Treasury's balances shown in these financial statements.

**Note 20: Departmental consolidation (continued)**

	Treasury		Royal Australian Mint		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>ASSETS</b>						
<b>Financial assets</b>						
Cash and cash equivalents	2,107	4,982	-	7,901	2,107	12,883
Deferred income tax asset	-	-	-	353	-	353
Receivables	58,869	36,035	-	1,474	58,869	37,509
<b>Total financial assets</b>	<b>60,976</b>	<b>41,017</b>	<b>-</b>	<b>9,728</b>	<b>60,976</b>	<b>50,745</b>
<b>Non-financial assets</b>						
Land and buildings	7,158	7,954	-	-	7,158	7,954
Infrastructure, plant and equipment	8,141	8,499	-	6,619	8,141	15,118
Inventories	-	-	-	21,224	-	21,224
Intangibles	810	1,156	-	649	810	1,805
Other non-financial assets	1,809	2,019	-	6,375	1,809	8,394
<b>Total non-financial assets</b>	<b>17,918</b>	<b>19,628</b>	<b>-</b>	<b>34,867</b>	<b>17,918</b>	<b>54,495</b>
<b>Total assets</b>	<b>78,894</b>	<b>60,645</b>	<b>-</b>	<b>44,595</b>	<b>78,894</b>	<b>105,240</b>
<b>LIABILITIES</b>						
<b>Interest bearing liabilities</b>						
Leases	1,192	1,422	-	-	1,192	1,422
<b>Total interest bearing liabilities</b>	<b>1,192</b>	<b>1,422</b>	<b>-</b>	<b>-</b>	<b>1,192</b>	<b>1,422</b>
<b>Provisions</b>						
Employees	29,291	28,138	-	2,925	29,291	31,063
Other provisions	-	-	-	152	-	152
<b>Total provisions</b>	<b>29,291</b>	<b>28,138</b>	<b>-</b>	<b>3,077</b>	<b>29,291</b>	<b>31,215</b>

Note: The above amounts have been consolidated into the Treasury's balances shown in these financial statements.

**Note 20: Departmental consolidation (continued)**

	Treasury		Royal Australian Mint		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Payables</b>						
Suppliers	1,634	2,344	-	243	1,634	2,587
Seigniorage payable	-	-	-	4,384	-	4,384
Other payables	2,737	2,026	-	320	2,737	2,346
<b>Total payables</b>	<b>4,371</b>	<b>4,370</b>	<b>-</b>	<b>4,947</b>	<b>4,371</b>	<b>9,317</b>
<b>Tax liabilities</b>						
Tax liabilities equivalent	-	-	-	823	-	823
Deferred income tax liabilities	-	-	-	136	-	136
<b>Total tax liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>959</b>	<b>-</b>	<b>959</b>
<b>Total liabilities</b>	<b>34,854</b>	<b>33,930</b>	<b>-</b>	<b>8,983</b>	<b>34,854</b>	<b>42,913</b>
<b>NET ASSETS</b>	<b>44,040</b>	<b>26,715</b>	<b>-</b>	<b>35,612</b>	<b>44,040</b>	<b>62,327</b>
<b>EQUITY</b>						
Asset revaluation reserve	3,644	3,644	-	5,393	3,644	9,037
Contributed equity	3,685	3,652	-	8,578	3,685	12,230
Retained surpluses	36,711	19,419	-	21,641	36,711	41,060
<b>Total equity</b>	<b>44,040</b>	<b>26,715</b>	<b>-</b>	<b>35,612</b>	<b>44,040</b>	<b>62,327</b>

Note: The above amounts have been consolidated into the Treasury's balances shown in these financial statements.

**Note 21: Financial instruments****Note 21A: Interest rate risk**

Financial instrument	Notes	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total		Weighted average effective interest rate	
				1 year or less		1 to 5 years		> 5 years							
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
<b>Financial assets</b>															
Cash at bank	8A	-	-	-	7,901	-	-	-	-	2,107	4,982	2,107	12,883	-	2.00
Deferred income tax asset		-	-	-	-	-	-	-	-	-	353	-	353	-	-
Receivables (gross):															
Goods and services	8B	-	-	-	-	-	-	-	-	877	1,555	877	1,555	-	-
Other	8B	-	-	-	-	-	-	-	-	1,309	2,283	1,309	2,283	-	-
Interest	8B	-	-	-	-	-	-	-	-	-	479	-	479	-	-
Appropriations	8B	-	-	-	-	-	-	-	-	56,683	33,197	56,683	33,197	-	-
<b>Total financial assets</b>		-	-	-	7,901	-	-	-	-	60,976	42,849	60,976	50,750	n/a	n/a
<b>TOTAL ASSETS</b>												78,894	105,240	n/a	n/a
<b>Financial liabilities</b>															
Finance lease liabilities	10	-	-	507	691	685	731	-	-	-	-	1,192	1,422	8.31	7.51
Trade creditors	12A	-	-	-	-	-	-	-	-	1,634	2,587	1,634	2,587	-	-
Seiniorage payable	12B	-	-	-	-	-	-	-	-	-	4,384	-	4,384	-	-
Tax liabilities equivalent	12C	-	-	-	-	-	-	-	-	-	823	-	823	-	-
Deferred income tax liabilities		-	-	-	-	-	-	-	-	-	136	-	136	-	-
Other liabilities	12D	-	-	-	-	-	-	-	-	2,737	2,346	2,737	2,346	-	-
<b>Total financial liabilities</b>		-	-	507	691	685	731	-	-	4,371	10,276	5,563	11,698	n/a	n/a
<b>TOTAL LIABILITIES</b>												34,854	42,913	n/a	n/a

**Note 21: Financial Instruments (continued)****Note 21B: Net fair values of financial assets and liabilities**

	Notes	2006		2005	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
<b>Departmental financial assets</b>					
Cash at bank	8A	2,107	2,107	12,883	12,883
Deferred income tax asset		-	-	353	353
Receivables (net):					
Goods and services	8B	877	877	1,550	1,550
Other	8B	1,309	1,309	2,283	2,283
Interest	8B	-	-	479	479
Appropriations	8B	56,683	56,683	33,197	33,197
<b>Total financial assets</b>		<b>60,976</b>	<b>60,976</b>	<b>50,745</b>	<b>50,745</b>
<b>Financial liabilities (recognised)</b>					
Finance lease liabilities	10	1,192	1,192	1,422	1,422
Trade creditors	12A	1,634	1,634	2,587	2,587
Seiniorage payable	12B	-	-	4,384	4,384
Tax liabilities equivalent	12C	-	-	823	823
Deferred income tax liabilities		-	-	136	136
Other liabilities	12D	2,737	2,737	2,346	2,346
<b>Total financial liabilities (recognised)</b>		<b>5,563</b>	<b>5,563</b>	<b>11,698</b>	<b>11,698</b>

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair values of the finance leases are based on discounted cash flows using current interest rates for liabilities with similar risk profiles.

The net fair values for trade creditors and other liabilities are approximated by their carrying amounts.

**Note 21C: Credit risk exposures**

For both Departmental and Administered the Treasury's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

The Treasury has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

**Note 22: Income administered on behalf of Government**

	2006	2005
	\$'000	\$'000
<b>Non-taxation revenue</b>		
<b>Interest</b>		
Interest on Papua New Guinea loan	479	3,637
Other interest	211	303
<b>Total interest</b>	<b>690</b>	<b>3,940</b>
<b>Dividends</b>		
Reserve Bank of Australia	1,363,000	694,000
<b>Total dividends</b>	<b>1,363,000</b>	<b>694,000</b>
<b>Goods and services</b>		
GST administration fees - external entities	605,888	591,922
<b>Total goods and services</b>	<b>605,888</b>	<b>591,922</b>
<b>Other revenues</b>		
Gross IMF remuneration	24,403	39,202
Less: Burden sharing	(1,937)	(2,188)
Add: Burden sharing refunds	320	-
Net IMF remuneration	22,786	37,014
Write back of HCS Scheme	-	21,647
Royal Australian Mint - monies in excess of requirements	-	104,620
Increased investment in Australian Government entities	-	14,917
HIH Group liquidation proceeds	26,356	-
Other revenues	4,747	6,115
<b>Total other revenues</b>	<b>53,889</b>	<b>184,313</b>
<b>Total revenues administered on behalf of Government</b>	<b>2,023,467</b>	<b>1,474,175</b>
<b>Gains</b>		
<b>Net foreign exchange gains/(losses)</b>		
IMF SDR allocation	(29,813)	-
IMF maintenance of value	(27,082)	-
IMF quota revaluation	205,056	-
Other	(2,018)	-
<b>Total net foreign exchange gains/(losses)</b>	<b>146,143</b>	<b>-</b>
<b>Total gains administered on behalf of Government</b>	<b>146,143</b>	<b>-</b>
<b>Total income administered on behalf of Government</b>	<b>2,169,610</b>	<b>1,474,175</b>



**Note 23: Expenses administered on behalf of Government**

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
<b>Grants</b>		
Grants to State and Territory Governments	<b>38,603,409</b>	36,221,000
Other grants	<b>1,251</b>	3,215
<b>Total grants</b>	<b>38,604,660</b>	36,224,215
<b>Other expenses</b>		
IMF charges	<b>28,498</b>	20,371
HLIC claims <sup>1</sup>	<b>(3,736)</b>	(878)
HCS Scheme claims <sup>2</sup>	<b>10,283</b>	-
Decreased investment in Australian Government entities	-	5,000
<b>Total other expenses</b>	<b>35,045</b>	24,493
<b>Losses</b>		
<b>Net foreign exchange losses/(gains)</b>		
IMF SDR allocation	-	(103,423)
IMF maintenance of value	-	(152,523)
IMF quota revaluation	-	711,343
Other	-	(7,011)
<b>Total net foreign exchange losses/(gains)</b>	-	448,386
<b>Total losses administered on behalf of Government</b>	-	448,386
<b>Total expenses administered on behalf of Government</b>	<b>38,639,705</b>	36,697,094

1 HLIC claims expenses include payments and management fees.

2 HCS Scheme claims expenses include payments and management fees.

**Note 24: Assets administered on behalf of Government**

	2006 \$'000	2005 \$'000
<b>Financial assets</b>		
<b>Cash and cash equivalents</b>		
Administered bank accounts - The Treasury	7,736	9,089
<b>Receivables</b>		
GST appropriation receivable	-	128
Net GST receivable from the ATO	111	-
HLIC premiums receivable	1,886	3,120
IMF related moneys owing	2,515	5,724
IMF maintenance of value	-	152,523
RBA dividend receivable	299,534	319,534
Other receivables	10,017	4,726
<b>Total receivables (net)</b>	<b>314,063</b>	<b>485,755</b>
<b>Receivables (gross) are aged as follows:</b>		
Current	314,063	485,755
<b>Total receivables (gross)</b>	<b>314,063</b>	<b>485,755</b>
<b>Loan</b>		
Loan to Papua New Guinea	-	14,805
Maturity schedule for the loan is as follows:		
Payable: Within one year	-	14,805
<b>Total loan</b>	<b>-</b>	<b>14,805</b>
<b>Investments</b>		
<b>International financial institutions</b>		
Asian Development Bank	287,069	287,069
European Bank for Reconstruction and Development	84,824	84,824
International Finance Corporation	69,144	69,144
International Bank for Reconstruction and Development	259,049	259,049
Multilateral Investment Guarantee Agency	10,694	10,694
<b>Total international financial institutions</b>	<b>710,780</b>	<b>710,780</b>
<b>Quota</b>		
International Monetary Fund	6,388,472	6,183,416
<b>Australian Government entities</b>		
Reserve Bank of Australia	12,685,000	8,035,042
Australian Securities and Investments Commission	10,450	16,184
Corporations and Markets Advisory Committee	32	332
Australian Reinsurance Pool Corporation	220,711	-
Australian Prudential Regulation Authority	15,932	8,255
Australian Accounting Standards Board	2,156	-
Auditing and Assurance Standards Board	363	-
<b>Total Australian Government entities</b>	<b>12,934,644</b>	<b>8,059,813</b>
<b>Total investments</b>	<b>20,033,896</b>	<b>14,954,009</b>
<b>Non-financial assets</b>		
<b>Prepayments</b>		
Prepayment of grants State and Territory Governments	74,600	219,400
<b>Other</b>		
Deferred acquisition costs	31	111
Other prepayments	2,316	2,111
<b>Total other</b>	<b>2,347</b>	<b>2,222</b>
<b>Total non-financial assets</b>	<b>76,947</b>	<b>221,622</b>
<b>Total assets administered on behalf of Government</b>	<b>20,432,642</b>	<b>15,685,280</b>

**Note 25: Liabilities administered on behalf of Government**

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
<b>Loans</b>		
IMF promissory notes	<b>3,807,615</b>	3,807,615
Other promissory notes	<b>63,210</b>	63,492
<b>Total loans</b>	<b>3,870,825</b>	3,871,107
Maturity schedule for loans is as follows:		
Payable: Within one year	<b>1,733</b>	2,138
In one to two years	<b>1,156</b>	1,603
In two to five years	<b>578</b>	1,603
In more than five years	<b>3,867,358</b>	3,865,763
<b>Total loans</b>	<b>3,870,825</b>	3,871,107
<b>Grants</b>		
IMF - poverty reduction and growth facility	<b>7,500</b>	10,000
Maturity schedule for grants is as follows:		
Payable: Within one year	<b>2,500</b>	2,500
In one to two years	<b>2,500</b>	2,500
In two to five years	<b>2,500</b>	5,000
<b>Total grants</b>	<b>7,500</b>	10,000
<b>Other payables</b>		
Net GST payable to the ATO	-	128
GST appropriation payable	<b>111</b>	-
IMF SDR allocation	<b>928,829</b>	899,016
IMF maintenance of value	<b>27,082</b>	-
IMF related monies owing	<b>5,600</b>	3,731
Other	<b>363</b>	477
<b>Total other payables</b>	<b>961,985</b>	903,352
<b>Other provisions</b>		
Provision for insurance claims	<b>1,157</b>	5,965
Provision for unearned premiums	<b>248</b>	858
Provision for HCS Scheme	<b>256,081</b>	328,050
<b>Total other provisions</b>	<b>257,486</b>	334,873
<b>Total other provisions and payables</b>	<b>1,219,471</b>	1,238,225
<b>Total liabilities administered on behalf of Government</b>	<b>5,097,796</b>	5,119,332

**Note 26: Administered reconciliation table**

	Notes	2006 \$'000	2005 \$'000
<b>Opening administered assets less administered liabilities at 1 July</b>		<b>10,565,948</b>	11,734,874
Opening balances fair value adjustment			
- administered investments		<b>1,678,520</b>	-
<b>Plus</b> administered revenues	22	<b>2,169,610</b>	1,474,175
<b>Less</b> administered expenses	23	<b>(38,639,705)</b>	(36,697,094)
Administered transfers to/from Australian Government			
Appropriation transfers from OPA:			
Annual appropriations administered expenses		<b>512,036</b>	175,264
Administered assets and liabilities appropriations		<b>4,799</b>	7,066
Special appropriations (limited)		<b>81,404</b>	92,541
Special appropriations (unlimited)		<b>37,975,268</b>	35,919,511
Refunds of receipts (s28 FMA)		<b>504</b>	-
Transfers to OPA		<b>(2,209,851)</b>	(2,140,389)
Administered investments - gains/(losses)		<b>3,196,313</b>	-
<b>Closing administered assets less administered liabilities</b>		<b>15,334,846</b>	10,565,948

## **Note 27: Administered contingent liabilities and assets**

### **1.1 Quantifiable administered contingencies**

Quantifiable administered contingencies that are not remote are disclosed in the schedule of administered items as quantifiable administered contingencies.

### **1.2 Unquantifiable administered contingencies**

#### **Contingent Loss**

##### *Terrorism insurance — Australian Reinsurance Pool Corporation (ARPC)*

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The scheme plans to accumulate approximately \$300 million from reinsurance premiums paid to the Australian Reinsurance Pool Corporation (ARPC) to help meet administrative expenses and future claims. The Commonwealth guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured's if the Commonwealth's liability would otherwise exceed \$10 billion.

#### **Contingent gain**

##### *HIH Claims Support Scheme*

As a beneficiary of the HIH Claims Support Trust, the Australian Government will be entitled to the residual balance of the Trust, after the collection of recoveries and making of payments to claimants. Due to the inherent uncertainty regarding the measurement of the recoveries, it is not possible to quantify these amounts at this time. In June 2006 the Treasury received a distribution from this Trust, however the amount and timing of future recoveries is unknown.

##### *International Monetary Fund*

Under a policy adopted by the Executive Board of the IMF since 1986, an amount equal to overdue charges and an allocation to the Special Contingent Account have been generated each quarter by downward adjustment to the rate of IMF remuneration paid to the Treasury and other member countries. This charge, known as burden sharing is levied on member countries to cover the financial consequences to the IMF of overdue obligations. Resources collected from individual members under the burden sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF. Thus, resources collected for unpaid charges are refunded when these charges are eventually settled.

As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to the Treasury this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

**Note 27: Administered contingent liabilities and assets (continued)****1.3 Remote administered contingencies****Guarantees**

The following borrowings have been guaranteed by the Australian Government in respect of Authorities within the Treasury portfolio:

Borrower	Legislation authorising guarantee	Principal covered by guarantee 2006	Balance outstanding 2006	Balance outstanding 2005
Papua New Guinea	<i>PNG Act 1949-75 and PNG Loans Guarantee Act 1975</i>	<b>4,930,000</b>	<b>4,930,000</b>	5,170,000
Housing Loans Insurance Corporation	<i>HLIC Act 1965</i>	<b>5,726,000</b>	<b>5,726,000</b>	5,397,000
Commonwealth Bank of Australia <sup>a</sup>	<i>CBA Act 1959 s117</i>	<b>9,316,000,000</b>	<b>9,316,000,000</b>	9,316,000,000
Commonwealth Bank of Australia - Officers				
Superannuation Fund <sup>a</sup>	<i>CBA Act 1959 s117</i>	<b>3,511,000,000</b>	<b>3,511,000,000</b>	3,511,000,000
Reserve Bank of Australia <sup>b</sup>	<i>RBA Act s77</i>	<b>63,507,000,000</b>	<b>63,507,000,000</b>	46,828,000,000
<b>Total</b>		<b>76,344,656,000</b>	<b>76,344,656,000</b>	59,665,567,000

a Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various liabilities of the Commonwealth Bank of Australia (CBA), and the Commonwealth Bank Officers' Superannuation Corporation (CBOSC). The guarantee for the CBA relates to both on and off balance sheet liabilities. The guarantee of the CBOSC covers the due payments of any amount that is payable to or from Officers' of the Superannuation Fund (the Fund), by CBOSC or by CBA, in respect of a person who was a member, retired member or beneficiary of the Fund immediately before 19 July 1996. The guarantee of the CBA and CBOSC reflected in the above table is the value at 30 September 2004 and 30 June 2004 respectively. At the time of finalisation of these statements the 30 June 2006 figure was not reliably measurable.

b The contingent liability for the Reserve Bank of Australia (RBA), relates to the Australian Government's guarantee of the liabilities of the RBA. It is measured as the Bank's total liabilities excluding capital, reserves and Australian Government deposits. The major component of the Bank's liabilities are notes (that is, currency) on issue. As at 30 June 2006, notes on issue totalled \$38.1 billion.

**HIH Claims Support Scheme**

The Australian Government has a number of indemnities and guarantees in respect of the Scheme.

## **Note 28: Administered investments**

**The principal activities of each of Treasury's administered investments are as follows:**

### **Development Banks**

Investments in development banks are classified as non-monetary assets and owing to their nature, these investments are not revalued. As such, these investments are recognised at historical cost where the information is available. Where historical cost records are not readily available, a notional cost has been established at 30 June 1993 by reference to the development banks' financial statements and exchange rates at that time.

Initial investments in the Asian Development Bank (prior to 1995), the International Finance Corporation (prior to 1991) and the International Bank for Reconstruction and Development (prior to 1988) have been recognised at notional cost. Any subsequent capital subscriptions to these development banks have been recognised at historical cost.

Investments in the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency are recognised at historical cost.

### **International Monetary Fund**

The quota is the current value in Australian dollars of Australia's subscription to the IMF.

The Special Drawing Rights allocation liability reflects the current value in Australian dollars of the liability to repay to the IMF. This is classified as 'Other payables'.

### **Australian Government entities**

The Australian Government's investment in controlled entities and companies in this portfolio are measured at their fair value. Fair value has been taken to be the net assets of the entities as at balance date. For the comparative period, these investments were measured at aggregate value of the Australian Government's share of the net assets and net liabilities of each entity as at 30 June 1997. Where controlled entities came into existence after 30 June 1997, the investment was valued at the Australian Government's share of capital contributions by Government at the date of inception.

**Note 29: Administered financial instruments****Note 29A: Administered interest rate risk**

Financial instrument	Note	Floating interest rate		Fixed interest rate maturing in						Non-interest bearing		Total		Weighted average effective interest rate	
				< 1 year		1 to 5 years		> 5 years							
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 %	2005 %
<b>Financial assets</b>															
Cash	24	4,296	4,711	-	-	-	-	-	-	3,440	4,378	7,736	9,089	4.41	4.34
IMF monies															
owing	24	-	-	-	-	-	-	-	-	2,515	158,247	2,515	158,247	-	-
Loan to PNG	24	-	-	-	14,805	-	-	-	-	-	-	-	14,805	-	6.80
RBA dividend															
receivable	24	-	-	-	-	-	-	-	-	299,534	319,534	299,534	319,534	-	-
Other															
receivables	24	-	-	-	-	-	-	-	-	12,014	7,974	12,014	7,974	-	-
<b>Total</b>		<b>4,296</b>	<b>4,711</b>	<b>-</b>	<b>14,805</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>317,503</b>	<b>490,133</b>	<b>321,799</b>	<b>509,649</b>	<b>n/a</b>	<b>n/a</b>
<b>Total assets</b>												<b>20,432,642</b>	<b>15,685,280</b>		
<b>Financial liabilities</b>															
Grant liabilities	25	-	-	-	-	-	-	-	-	7,500	10,000	7,500	10,000	-	-
IMF allocation															
liability	25	928,829	899,016	-	-	-	-	-	-	-	-	928,829	899,016	4.20	3.31
Loans:															
Promissory															
notes	25	-	-	-	-	-	-	-	-	3,870,825	3,871,107	3,870,825	3,871,107	-	-
Other liabilities	25	-	-	-	-	-	-	-	-	290,642	339,209	290,642	339,209	-	-
<b>Total</b>		<b>928,829</b>	<b>899,016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,168,967</b>	<b>4,220,316</b>	<b>5,097,796</b>	<b>5,119,332</b>	<b>n/a</b>	<b>n/a</b>
<b>Total liabilities</b>												<b>5,097,796</b>	<b>5,119,332</b>		
<b>Liabilities</b>															
<b>unrecognised</b>															
Unrecognised															
indemnity	27	-	-	-	-	-	-	-	-	76,344,656	59,665,567	76,344,656	59,665,567	n/a	n/a



**Note 29: Administered financial instruments (continued)****Note 29B: Net fair values of financial assets and liabilities**

	Note	2006		2005	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
<b>Administered financial assets</b>					
Cash	24	7,736	7,736	9,089	9,089
IMF related monies owing	24	2,515	2,515	158,247	158,247
Loan to Papua New Guinea	24	-	-	14,805	14,805
RBA dividend receivable	24	299,534	299,534	319,534	319,534
Other receivables	24	12,014	12,014	7,974	7,974
<b>Total financial assets</b>		<b>321,799</b>	<b>321,799</b>	<b>509,649</b>	<b>509,649</b>
<b>Financial liabilities (recognised)</b>					
Grant liabilities	25	7,500	7,500	10,000	10,000
IMF allocation liability	25	928,829	928,829	899,016	899,016
Loans - promissory notes	25	3,870,825	3,870,825	3,871,107	3,871,107
Other financial liabilities	25	290,642	290,642	339,209	339,209
<b>Total financial liabilities (recognised)</b>		<b>5,097,796</b>	<b>5,097,796</b>	<b>5,119,332</b>	<b>5,119,332</b>
<b>Financial liabilities (unrecognised)</b>					
Guarantees	27	76,344,656	76,344,656	59,665,567	59,665,567
<b>Total financial liabilities (unrecognised)</b>		<b>76,344,656</b>	<b>76,344,656</b>	<b>59,665,567</b>	<b>59,665,567</b>

**Note 30: Administered consolidation**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>REVENUE:</b>						
<b>Non-taxation revenue</b>						
<b>Interest</b>						
Interest Papua New Guinea loan	479	3,637	-	-	479	3,637
Other interest	34	42	177	261	211	303
<b>Total interest</b>	<b>513</b>	<b>3,679</b>	<b>177</b>	<b>261</b>	<b>690</b>	<b>3,940</b>
<b>Dividends</b>						
Reserve Bank of Australia	1,363,000	694,000	-	-	1,363,000	694,000
<b>Total dividends</b>	<b>1,363,000</b>	<b>694,000</b>	<b>-</b>	<b>-</b>	<b>1,363,000</b>	<b>694,000</b>
<b>Goods and services</b>						
GST administration fees						
- external entities	605,888	591,922	-	-	605,888	591,922
<b>Total goods and services</b>	<b>605,888</b>	<b>591,922</b>	<b>-</b>	<b>-</b>	<b>605,888</b>	<b>591,922</b>
<b>Other sources of non-taxation revenue</b>						
Gross IMF remuneration	24,403	39,202	-	-	24,403	39,202
Less: Burden sharing	(1,937)	(2,188)	-	-	(1,937)	(2,188)
Add: Burden sharing refunds	320	-	-	-	320	-
Net IMF remuneration	22,786	37,014	-	-	22,786	37,014
Write back of HCS scheme	-	21,647	-	-	-	21,647
Royal Australian Mint	-	104,620	-	-	-	104,620
Increased investment in Australian Government entities	-	14,917	-	-	-	14,917
HIH group liquidation proceeds	26,356	-	-	-	26,356	-
Other revenues	4,720	6,115	27	-	4,747	6,115
<b>Total other revenues</b>	<b>53,862</b>	<b>184,313</b>	<b>27</b>	<b>-</b>	<b>53,889</b>	<b>184,313</b>
<b>Total revenues administered on behalf of Government</b>	<b>2,023,263</b>	<b>1,473,914</b>	<b>204</b>	<b>261</b>	<b>2,023,467</b>	<b>1,474,175</b>

**Note 30: Administered consolidation (continued)**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Gains</b>						
<b>Net foreign exchange gains/(losses)</b>						
IMF SDR allocation	(29,813)	-	-	-	(29,813)	-
IMF maintenance of value	(27,082)	-	-	-	(27,082)	-
IMF quota revaluation	205,056	-	-	-	205,056	-
Other foreign exchange	(2,018)	-	-	-	(2,018)	-
<b>Total net foreign exchange gains/(losses)</b>	<b>146,143</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>146,143</b>	<b>-</b>
<b>Total gains administered on behalf of Government</b>	<b>146,143</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>146,143</b>	<b>-</b>
<b>Total income administered on behalf of Government</b>	<b>2,169,406</b>	<b>1,473,914</b>	<b>204</b>	<b>261</b>	<b>2,169,610</b>	<b>1,474,175</b>

**Note 30: Administered consolidation (continued)**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>EXPENSES:</b>						
<b>Grants</b>						
Grants to State and Territory Governments	38,603,409	36,221,000	-	-	38,603,409	36,221,000
Other grants	1,251	3,215	-	-	1,251	3,215
<b>Total grants</b>	<b>38,604,660</b>	<b>36,224,215</b>	<b>-</b>	<b>-</b>	<b>38,604,660</b>	<b>36,224,215</b>
<b>Other expenses</b>						
IMF charges	28,498	20,371	-	-	28,498	20,371
HLIC claims	(3,736)	(878)	-	-	(3,736)	(878)
HCS Scheme claims	10,283	-	-	-	10,283	-
Decreased investment in Australian Government entities	-	5,000	-	-	-	5,000
<b>Total other expenses</b>	<b>35,045</b>	<b>24,493</b>	<b>-</b>	<b>-</b>	<b>35,045</b>	<b>24,493</b>
<b>Losses</b>						
<b>Net foreign exchange losses/(gains)</b>						
IMF SDR allocation	-	(103,423)	-	-	-	(103,423)
IMF maintenance of value	-	(152,523)	-	-	-	(152,523)
IMF quota revaluation	-	711,343	-	-	-	711,343
Other	-	(7,011)	-	-	-	(7,011)
<b>Total net foreign exchange losses/(gains)</b>	<b>-</b>	<b>448,386</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>448,386</b>
<b>Total losses administered on behalf of Government</b>	<b>-</b>	<b>448,386</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>448,386</b>
<b>Total expenses administered on behalf of Government</b>	<b>38,639,705</b>	<b>36,697,094</b>	<b>-</b>	<b>-</b>	<b>38,639,705</b>	<b>36,697,094</b>

**Note 30: Administered consolidation (continued)**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>ASSETS:</b>						
<b>Financial assets</b>						
<b>Cash and cash equivalents</b>						
Administered bank accounts						
- Department of the Treasury	4,000	5,341	3,736	3,748	7,736	9,089
<b>Receivables</b>						
GST appropriation receivable	-	128	-	-	-	128
Net GST receivable						
from the ATO	111	-	-	-	111	-
HLIC premiums receivable	1,886	3,120	-	-	1,886	3,120
IMF related moneys owing	2,515	5,724	-	-	2,515	5,724
IMF maintenance of value	-	152,523	-	-	-	152,523
RBA dividend receivable	299,534	319,534	-	-	299,534	319,534
Other receivables	9,986	4,671	31	55	10,017	4,726
<b>Total receivables (net)</b>	<b>314,032</b>	<b>485,700</b>	<b>31</b>	<b>55</b>	<b>314,063</b>	<b>485,755</b>
<b>Loans</b>						
Loan to Papua New Guinea	-	14,805	-	-	-	14,805
<b>Investments</b>						
<b>International financial institutions</b>						
Asian Development Bank	287,069	287,069	-	-	287,069	287,069
European Bank for						
Reconstruction & Development	84,824	84,824	-	-	84,824	84,824
International Finance Corporation	69,144	69,144	-	-	69,144	69,144
International Bank for						
Reconstruction & Development	259,049	259,049	-	-	259,049	259,049
Multilateral Investment						
Guarantee Agency	10,694	10,694	-	-	10,694	10,694
<b>Total international financial institutions</b>	<b>710,780</b>	<b>710,780</b>	<b>-</b>	<b>-</b>	<b>710,780</b>	<b>710,780</b>
<b>Quota</b>						
International Monetary Fund	6,388,472	6,183,416	-	-	6,388,472	6,183,416

**Note 30: Administered consolidation (continued)**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Australian Government entities</b>						
Reserve Bank of Australia	12,685,000	8,035,042	-	-	12,685,000	8,035,042
Australian Securities and Investments Commission	10,450	16,184	-	-	10,450	16,184
Corporations and Markets Advisory Committee	32	332	-	-	32	332
Australian Reinsurance Pool Corporation	220,711	-	-	-	220,711	-
Australian Prudential Regulation Authority	15,932	8,255	-	-	15,932	8,255
Australian Accounting Standards Board	2,156	-	-	-	2,156	-
Auditing and Assurance Standards Board	363	-	-	-	363	-
<b>Total Australian Government entities</b>	<b>12,934,644</b>	<b>8,059,813</b>	<b>-</b>	<b>-</b>	<b>12,934,644</b>	<b>8,059,813</b>
<b>Total investments</b>	<b>20,033,896</b>	<b>14,954,009</b>	<b>-</b>	<b>-</b>	<b>20,033,896</b>	<b>14,954,009</b>
<b>Non-financial assets</b>						
Prepayment of grants to State and Territory Governments	74,600	219,400	-	-	74,600	219,400
Deferred acquisition costs	31	111	-	-	31	111
Other prepayments	3,691	3,700	(1,375)	(1,589)	2,316	2,111
<b>Total non-financial assets</b>	<b>78,322</b>	<b>223,211</b>	<b>(1,375)</b>	<b>(1,589)</b>	<b>76,947</b>	<b>221,622</b>
<b>Total assets administered on behalf of Government</b>	<b>20,430,250</b>	<b>15,683,066</b>	<b>2,392</b>	<b>2,214</b>	<b>20,432,642</b>	<b>15,685,280</b>

**Note 30: Administered consolidation (continued)**

	Treasury		HCS Scheme		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>LIABILITIES:</b>						
<b>Loans</b>						
IMF promissory notes	3,807,615	3,807,615	-	-	3,807,615	3,807,615
Other promissory notes	63,210	63,492	-	-	63,210	63,492
<b>Total loans</b>	<b>3,870,825</b>	<b>3,871,107</b>	<b>-</b>	<b>-</b>	<b>3,870,825</b>	<b>3,871,107</b>
<b>Grants</b>						
IMF - poverty reduction and growth facility	7,500	10,000	-	-	7,500	10,000
<b>Total grants</b>	<b>7,500</b>	<b>10,000</b>	<b>-</b>	<b>-</b>	<b>7,500</b>	<b>10,000</b>
<b>Other payables</b>						
Net GST payable to the ATO	-	128	-	-	-	128
GST appropriation payable	111	-	-	-	111	-
IMF SDR allocation	928,829	899,016	-	-	928,829	899,016
IMF maintenance of value	27,082	-	-	-	27,082	-
IMF related monies owing	5,600	3,731	-	-	5,600	3,731
Other	287	374	76	103	363	477
<b>Total other payables</b>	<b>961,909</b>	<b>903,249</b>	<b>76</b>	<b>103</b>	<b>961,985</b>	<b>903,352</b>
<b>Other provisions</b>						
Provision for insurance claims	1,157	5,965	-	-	1,157	5,965
Provision for unearned premiums	248	858	-	-	248	858
Provision for HCS scheme	256,081	328,050	-	-	256,081	328,050
<b>Total other provisions</b>	<b>257,486</b>	<b>334,873</b>	<b>-</b>	<b>-</b>	<b>257,486</b>	<b>334,873</b>
<b>Total other provisions and payables</b>	<b>1,219,395</b>	<b>1,238,122</b>	<b>76</b>	<b>103</b>	<b>1,219,471</b>	<b>1,238,225</b>
<b>Total liabilities administered on behalf of Government</b>	<b>5,097,720</b>	<b>5,119,229</b>	<b>76</b>	<b>103</b>	<b>5,097,796</b>	<b>5,119,332</b>
<b>Net assets administered on behalf of Government</b>	<b>15,332,530</b>	<b>10,563,837</b>	<b>2,316</b>	<b>2,111</b>	<b>15,334,846</b>	<b>10,565,948</b>

**Note 31: Appropriations**

Note 31A: Acquittal of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations

	Administered expenses						Departmental outputs		Total	
	Outcome 1		Outcome 2		Outcome 3		2006	2005	2006	2005
	2006	2005	2006	2005	2006	2005				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Balance carried from previous period	-	-	-	-	7,719,416	-	31,735,053	16,873,643	39,454,469	16,873,643
Adjustment to prior year	-	-	-	-	-	-	5,654,639	-	5,654,639	-
Reductions of appropriations (prior years)	-	-	-	-	(7,719,416)	-	-	-	(7,719,416)	-
Adjusted balance carried from previous period	-	-	-	-	-	-	37,389,692	16,873,643	37,389,692	16,873,643
Appropriation Act (No.1)	-	-	-	-	6,000,000	9,000,000	134,151,000	109,064,000	140,151,000	118,064,000
Appropriation Act (No.3)	-	-	-	-	-	-	72,000	13,944,000	72,000	13,944,000
Appropriation Act (No.5)	-	-	-	-	-	-	-	1,800,000	-	1,800,000
Adjustment to appropriations on change of entity function (FMAA s32)	-	-	-	-	-	-	(183,000)	(663,786)	(183,000)	(663,786)
Refunds credited (FMAA s30)	-	-	-	-	-	-	-	-	-	-
Appropriation reduced by section 9 determination (current year)	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	-	-	-	-	6,000,000	9,000,000	134,040,000	124,144,214	140,040,000	133,144,214
Adjusted annual appropriation balance	-	-	-	-	6,000,000	9,000,000	134,040,000	124,144,214	140,040,000	133,144,214
Comcover Receipts (Appropriation Act s13)	-	-	-	-	-	-	1,946	-	1,946	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	57,418	44,500	2,871,334	2,977,806	2,928,752	3,022,306
Annotations to 'net appropriations' (FMA s31)	-	-	-	-	-	-	8,999,226	4,958,426	8,999,226	4,958,426
Total appropriations available for payments	-	-	-	-	6,057,418	9,044,500	183,302,198	148,954,089	189,359,616	157,998,589



### Note 31: Appropriations (continued)

Note 31A: Acquittal of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations (continued)

	Administered expenses						Departmental outputs		Total	
	Outcome 1		Outcome 2		Outcome 3		2006	2005	2006	2005
	2006	2005	2006	2005	2006	2005				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cash payments made during the year (GST inclusive)	-	-	-	-	(633,783)	(1,325,084)	(125,959,962)	(117,219,036)	(126,593,745)	(118,544,120)
Balance of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations	-	-	-	-	5,423,635	7,719,416	57,342,236	31,735,053	62,765,871	39,454,469
<i>Represented by:</i>										
Cash at bank and on hand	-	-	-	-	-	-	547,426	2,793,279	547,426	2,793,279
Departmental appropriations receivable	-	-	-	-	-	-	56,683,423	28,380,942	56,683,423	28,380,942
GST receivable from the ATO	-	-	-	-	-	-	166,027	625,895	166,027	625,895
Receivables - goods and services - GST receivable from customers	-	-	-	-	-	-	38,439	26,571	38,439	26,571
Payables - suppliers - GST portion	-	-	-	-	-	-	(93,079)	(91,634)	(93,079)	(91,634)
Undrawn, unexpired administered appropriations	-	-	-	-	5,423,635	7,719,416	-	-	5,423,635	7,719,416
<b>Total</b>	-	-	-	-	<b>5,423,635</b>	<b>7,719,416</b>	<b>57,342,236</b>	<b>31,735,053</b>	<b>62,765,871</b>	<b>39,454,469</b>

**Note 31: Appropriations (continued)**

Note 31B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations

	Operating											
	Outcome 1				Outcome 2				Outcome 3			
	SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Balance carried from previous period	-	-	-	-	4,475,000	-	-	-	50,610	-	-	-
Reduction of appropriations (prior years)	-	-	-	-	(4,475,000)	-	-	-	(610)	-	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-	50,000	-	-	-
Appropriation Act (No.2)	-	-	-	-	4,272,000	16,414,000	-	-	164,701,000	159,799,000	-	-
Appropriation Act (No.4)	-	-	-	-	346,187,000	2,296,000	-	-	-	-	-	-
Adjustment of appropriations change of entity function (FMA s32)	-	-	-	-	-	-	-	-	-	-	-	-
Refunds credited (net) (FMA s30)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation reduced by section 11 determination (current period)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	-	-	-	-	350,459,000	18,710,000	-	-	164,701,000	159,799,000	-	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	-	-	-	-	-	-	-	-
Departmental adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	-	-	-	-	350,459,000	18,710,000	-	-	164,751,000	159,799,000	-	-

**Note 31: Appropriations (continued)**

Note 31B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Operating											
	Outcome 1				Outcome 2				Outcome 3			
	SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
\$		\$		\$		\$		\$		\$		
Cash payments made during the year (GST inclusive)	-	-	-	-	(347,717,000)	(14,235,000)	-	-	(163,742,100)	(159,748,390)	-	-
Appropriations credited to special accounts (GST exclusive)	-	-	-	-	-	-	-	-	-	-	-	-
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations	-	-	-	-	2,742,000	4,475,000	-	-	1,008,900	50,610	-	-
Represented by:												
Undrawn, unexpired administered appropriations	-	-	-	-	2,742,000	4,475,000	-	-	1,008,900	50,610	-	-
<b>Total</b>	-	-	-	-	<b>2,742,000</b>	<b>4,475,000</b>	-	-	<b>1,008,900</b>	<b>50,610</b>	-	-

Notes to and forming part of the financial statements

**Note 31: Appropriations (continued)**

Note 31B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Non-operating								Total	
	Equity		Loans		Previous years' outputs		Admin assets and liabilities		Previous years' outputs	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous period	-	-	-	-	-	-	730,327	400,986	-	-
Reduction of appropriations (prior years)	-	-	-	-	-	-	-	-	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	730,327	400,986	-	-
Appropriation Act (No.2)	4,243,000	2,165,000	-	-	-	5,216,000	2,500,000	7,223,000	-	5,216,000
Appropriation Act (No.4)	-	800,000	-	-	-	-	2,237,000	172,000	-	-
Adjustment of appropriations change of entity function (FMA s32)	(4,210,000)	-	-	-	-	-	-	-	-	-
Sub-total annual (FMA s30) appropriation	33,000	2,965,000	-	-	-	5,216,000	4,737,000	7,395,000	-	5,216,000
Appropriations to take account of recoverable GST (FMA s30A)	3,300	-	-	-	-	-	-	-	-	-
Departmental adjustments	-	-	-	-	-	(400,000)	-	-	-	(400,000)
Total appropriations available for payments	36,300	2,965,000	-	-	-	4,816,000	5,467,327	7,795,986	-	4,816,000

**Note 31: Appropriations (continued)**

Note 31B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Non-operating						Total			
	Equity		Loans		Previous years' outputs		Admin assets and liabilities		Previous years' outputs	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash payments made during the year (GST inclusive)	(36,300)	(2,965,000)	-	-	-	(4,816,000)	(4,798,851)	(7,065,659)	-	(4,816,000)
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations	-	-	-	-	-	-	668,476	730,327	-	-
Represented by: Undrawn, unexpired administered appropriations	-	-	-	-	-	-	668,476	730,327	-	-
<b>Total</b>	-	-	-	-	-	-	668,476	730,327	-	-

Note: The 2004-05 Annual Report incorrectly disclosed the Admin assets and liabilities 'Cash payments made during the year (GST inclusive)' as \$(7,795,986) and the 2005 closing balance to be carried forward as \$nil. The table above reflects the correct comparative amounts.

**Note 31: Appropriations (continued)**

Note 31C: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (unlimited amount)

<i>A New Tax System (Commonwealth-State) Financial Arrangements Act 1999</i>	2006	2005
	\$	\$
	<b>Outcome 2</b>	
<i>Purpose:</i> An Act under which the Australian Government guaranteed that in the transitional years following the introduction of tax reform, each State's budgetary position would be no worse off than had the reforms not been implemented.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	<b>(37,948,467,173)</b>	(35,892,228,319)
Total charged to appropriation	<b>(37,948,467,173)</b>	(35,892,228,319)
Budget estimate	<b>37,728,225,000</b>	36,319,192,000
	<b>2006</b>	2005
	\$	\$
	<b>Outcome 1</b>	
<i>Purpose:</i> An Act is to represent an instrument of subscription whereby Australia agrees to purchase 102,370 additional shares. The ADB assists with the economic and social development of countries in the Asian Pacific region by providing financial and technical assistance for projects and programs.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	-	(4,655,773)
Total charged to appropriation	-	(4,655,773)
Budget estimate	-	4,656,000

### Note 31: Appropriations (continued)

Note 31C: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (unlimited amount) (continued)

<i>International Monetary Agreements Act 1947</i>	2006	2005
	\$	\$
	<b>Outcome 1</b>	
<i>Purpose:</i> An Act 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 the balance of payments adjustment.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	<u>(26,628,555)</u>	(19,489,312)
Total charged to appropriation	<u>(26,628,555)</u>	(19,489,312)
Budget estimate	<b>28,359,000</b>	19,539,000
	<b>2006</b>	2005
	\$	\$
	<b>Outcome 3</b>	
<i>Purpose:</i> An Act to provide the framework for providing financial assistance to superannuation funds that had suffered an eligible loss, that is a loss as a result of fraudulent conduct or theft.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	<u>(172,457)</u>	(3,188,026)
Total charged to appropriation	<u>(172,457)</u>	(3,188,026)
Budget estimate	<b>1,158,000</b>	3,308,000
	<b>2006</b>	2005
	\$	\$
<b>Totals for unlimited special appropriations</b>		
Cash payments made during the year	<u>(37,975,268,185)</u>	(35,919,561,430)
Total charged to appropriation	<u>(37,975,268,185)</u>	(35,919,561,430)
Budget estimate	<b>37,757,742,000</b>	36,346,695,000

**Note 31: Appropriations (continued)**

Note 31C: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (limited amount) (continued)

<i>Appropriation (HIH Assistance) Act 2001</i>	2006 \$	2005 \$
	<b>Outcome 3</b>	
<i>Purpose:</i> An Act to provide Australian Government funded assistance to policy holders suffering financial hardship as a result of the failure of the HIH group companies and the appointment of the provisional liquidators of the HIH group companies. This special appropriation is limited to \$640,000,000.		
All transactions under this Act are recognised as administered items.		
Amount available carried from previous period	<b>152,456,980</b>	240,619,647
Appropriations to take account for recoverable GST (FMA s30A)	<b>3,083,133</b>	940,084
Available for payments	<b>155,540,113</b>	241,559,731
Cash payments made during the year	<b>(85,425,055)</b>	(89,102,751)
Amount available carried to the next period	<b>70,115,058</b>	152,456,980
<i>Represented by:</i>		
Cash	<b>3,439,996</b>	4,378,235
Undrawn, unexpired administered appropriations	<b>66,675,062</b>	148,078,745
Total	<b>70,115,058</b>	152,456,980

Note: In previous Annual Reports, details of the *Appropriation (HIH Assistance) Act 2001* had been disclosed as 'Special Appropriations (unlimited amount)'.



**Note 31: Appropriations (continued)**

Note 31D: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (Refund Provisions)

<i><b>Financial Management and Accountability Act 1997</b></i>	<b>2006</b>	2005
Transactions reported in this table are Administered items	<b>\$</b>	<b>\$</b>
	<b>Outcome 2</b>	
Cash payments made during the year	<b>501,287</b>	-
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	<b>501,287</b>	-
Budget estimate (FMA s28)	-	-
	<b>Outcome 3</b>	
Cash payments made during the year	<b>3,105</b>	-
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	<b>3,105</b>	-
Budget estimate (FMA s28)	-	-

Note 31E: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (Section 39 of the FMA Act)

For the periods 2004-05 and 2005-06, Treasury has not used section 39 of the FMA Act.

**Note 31: Appropriations (continued)****Note 31F: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (other disclosures)**

The special appropriations listed below are administered in nature and the responsibility of the Treasury and were not used in the current reporting period or the previous reporting period and are therefore not shown in separate tables.

<b>Limited</b>	
<b>Act</b>	<b>Purpose</b>
<i>Asian Development Bank Act 1966</i>	Payments and promissory notes to establish the Bank. Balance available is USD\$42,500,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1972</i>	Subscribe to 2,550 (paid-in) and 10,200 (callable) shares. Balance available is USD\$102,000,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1977</i>	Subscribe to 2,869 (paid-in) and 25,818 (callable) shares. Balance available is USD\$258,180,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1983</i>	Subscribe to 2,622 (paid-in) and 49,811 (callable) shares. Balance available is USD\$498,110,000 in callable shares.
<i>European Bank for Reconstruction and Development Act 1990</i>	Payments and promissory notes to establish the Bank. Balance available is USD\$81,690,700 in callable shares.
<i>International Financial Institutions (Share Increase) Act 1982</i>	For payments for additional shares of capital stock in the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD). Balance available is USD\$692,927,440 in callable shares (IBRD).
<i>International Monetary Agreements Act 1974</i>	Making payments, including for promissory notes, to the International Bank for Reconstruction and Development (IBRD). Balance available is USD\$37,638,120 in callable shares (IBRD).
<i>Multilateral Investment Guarantee Agency Act 1997</i>	Payments of capital and on securities issued to establish the Agency. Balance available is USD\$14,827,728 in callable shares.
<i>Papua New Guinea Loans Guarantee Act 1975</i>	Continuation of guarantees under the <i>Papua New Guinea Act 1949-75</i> . Balance available is AUD\$5,170,000.
<b>Unlimited</b>	
<b>Act</b>	<b>Purpose</b>
<i>Financial Agreements (Commonwealth Liability) Act 1932</i>	Payment of principal and interest on bonds issued under the <i>Financial Agreement Validation Act 1929</i> , consolidating State debts.
<i>Housing Loans Insurance Corporation (Transfer of Assets and Abolition) Act 1996</i>	Payments for amounts arising from claims made before the transfer period leading to the abolition of the HLIC.
<i>Mint Employees Act 1964</i>	Top up superannuation entitlements.
<i>Payment of Tax Receipts (Victoria) Act 1996</i>	Payment to Victoria of certain taxes collected by the Australian Government on Victoria's behalf.
<i>States Grants Act 1927</i>	Distribution of surplus revenue to the States.

**Note 31: Appropriations (continued)****Note 31F: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (other disclosures) (continued)**

The disclosure below is for note purposes only and is not recognised in the financial statements.

*Commonwealth Places (Mirror Taxes) Act 1998*

The Treasury is responsible for administering the above Act for the purpose of paying compensation to the States in respect of constitutionally invalid States taxes levied on Commonwealth places. Under the Act, the Australian Government is liable to pay to a State amounts equal to amounts received by the Australian Government (including amounts received by a State on behalf of the Australian Government) under an applied law of the State. During the current reporting period and previous reporting period the States collected and retained the following taxes pursuant to the Act:

	<b>2006</b>	2005
	<b>Actual</b>	Actual
	<b>\$</b>	<b>\$</b>
Total mirror tax collection	<b>327,631,464</b>	306,725,426

**Note 31: Appropriations (continued)****Note 31G: Special Accounts****Royal Australian Mint and Coinage (Departmental)***Legal authority: Financial Management and Accountability Act 1997; s20**Purpose: (a) Payment of goods and services, salaries and expenses incurred for activities entered into by the Mint approved by the Treasurer.**(b) Repayment of capital funds and payment of moneys in excess of requirements to consolidated revenue fund.*

	2006	2005
	\$	\$
<i>This account is non-interest bearing</i>		
Balance carried from previous period	8,021,448	11,526,739
Transfer due to restructure of special account	(8,021,448)	-
Appropriation Act (No. 2) current period	-	2,165,000
Costs recovered from provision of goods	-	20,233,668
GST credits (FMA s30A)	-	2,682,074
Other receipts		
Goods - provision of goods to related entities	-	137,696,000
Services - rendering of services to related entities	-	-
Available for payments	-	174,303,481
Payment made to the Australian Government for seigniorage	-	(97,563,078)
Payments made for competitive neutrality	-	(1,364,265)
Payments made to employees	-	(7,677,840)
Payments made to suppliers	-	(54,869,408)
Other payments	-	(4,807,442)
<b>Balance carried to next period</b>	-	8,021,448
<i>Represented by:</i>		
Cash held by the Royal Australian Mint	-	7,900,533
Add: Receivables - goods and services - GST receivable from customers	-	84,199
Add: Receivables - net GST receivable from the ATO	-	36,716
<b>Total balance carried to the next period</b>	-	8,021,448

During 2005-06 the Mint gained control of their Special Account as a result of a restructure making the Mint a prescribed entity and is no longer being consolidated with the Treasury. This Special Account is now disclosed in the Mint's Accounts.

## Note 31: Appropriations (continued)

### Note 31G: Special Accounts (continued)

#### Australian Government Actuary Account (Departmental)

*Legal authority: Financial Management and Accountability Act 1997; s20*

*Purpose: for receipt of all moneys and payment of all expenditure related to the operation of the Australian Government Actuary.*

	2006	2005
	\$	\$
<i>This account is non-interest bearing</i>		
Balance carried from previous period	1,368,544	1,283,803
Adjustment to prior year	8,274	-
Adjusted balance carried forward from previous period	1,376,818	1,283,803
Costs recovered from services	135	6,126
GST credit (FMA s30A)	6,351	14,514
Other receipts from rendering of services	1,661,357	1,633,424
Available for payments	3,044,661	2,937,867
Payments made to employees	(1,051,826)	(1,005,385)
Payments made to suppliers	(435,971)	(563,938)
<b>Balance carried to next period</b>	<b>1,556,864</b>	<b>1,368,544</b>
<i>Represented by:</i>		
Cash held by the Australian Government Actuary	1,559,690	1,388,558
Add: Receivables - goods and services - GST receivable from customers	33,422	19,951
Less: Other payables - net GST payable to the ATO	(35,538)	(38,859)
Less: Payable - suppliers - GST portion	(710)	(1,106)
<b>Total balance carried to the next period</b>	<b>1,556,864</b>	<b>1,368,544</b>

**Note 31: Appropriations (continued)****Note 31G: Special Accounts (continued)****Trustee Companies (ACT) Deposits Trust Account (Departmental)**

*Legal authority: Financial Management and Accountability Act 1997; s20*

*Purpose: for the purpose of the Australian Capital Territory ordinance in relation to Trustee Companies. The ordinance became the Trustee Companies Act 1947 (ACT).*

	2006	2005
	\$	\$
<i>This account is non-interest bearing</i>		
Balance carried from previous period	120,000	120,000
Other receipts from rendering of services	8,400	8,400
Available for payments	128,400	128,400
Payments made to suppliers	(128,400)	(8,400)
<b>Balance carried to next period</b>	-	120,000
<i>Represented by:</i>		
Securities held by Treasury	-	120,000
<b>Total balance carried to the next period</b>	-	120,000

Note: The transactions in this special account ceased on 23/5/06. All monies were transferred back to the Trustee Companies following a change in ACT Government Legislation. This special account will be abolished in 2006-07.

## Note 31: Appropriations (continued)

### Note 31G: Special Accounts (continued)

#### Lloyd's Deposit Trust Account (Departmental)

*Legal authority: Financial Management and Accountability Act 1997; s20*

*Purpose: for recording deposits made in accordance with the provisions of the Insurance Act 1973*

	2006	2005
	\$	\$
<i>This account is non-interest bearing</i>		
Balance carried from previous period	2,000,000	2,000,000
Other receipts from provision of goods	150,000	165,000
Available for payments	2,150,000	2,165,000
Payments made to suppliers	(150,000)	(165,000)
<b>Balance carried to next period</b>	<b>2,000,000</b>	<b>2,000,000</b>
<i>Represented by:</i>		
Securities held by Treasury	2,000,000	2,000,000
<b>Total balance carried to the next period</b>	<b>2,000,000</b>	<b>2,000,000</b>

**Note 31: Appropriations (continued)****Note 31G: Special Accounts (continued)****Services for other Governments and non agency bodies special account (Departmental)**

The Treasury has a 'Services for other Governments and non-agency bodies special account' established under section 20 of the *Financial Management and Accountability Act 1997* (FMA Act). The purpose of this special account is for the expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the FMA Act. For the years ended 30 June 2005 and 30 June 2006 this special account had nil balances and no transaction were credited or debited to the account.

**Other trust moneys special account (Departmental — Special Public Money)**

The Treasury has a 'Other trust moneys special account' established under section 20 of the FMA Act. The purpose of this special account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act. For the years ended 30 June 2005 and 30 June 2006 this special account held monies advanced to the Treasury by Comcare for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*. Where the Treasury makes payments against accrued sick leave entitlements pending determination of an employee's claim, permission is obtained in writing from each individual to allow Treasury to recover the payments from the monies in the account. Treasury obtains the employees consent prior to the determination of the claim to allow the Treasury to recover the payments from the monies when received. In this respect only overpayments and errors in payments are special public monies and credited to the account accordingly until returned to Comcare.

	<b>2006</b>	2005
	<b>Actual</b>	Actual
	<b>\$</b>	\$
Balance carried forward from previous year	-	29,287
Receipts during the year	<b>39,684</b>	24,664
Available for payments	<b>39,684</b>	53,951
Payments made	<b>(39,684)</b>	(53,951)
<b>Balance carried forward to next year held by the entity</b>	<b>-</b>	<b>-</b>



**Other trust moneys special account (Administered — Special Public Money)**

The Treasury has an 'Other trust moneys special account' established under section 20 of the FMA Act. The purpose of this special account is for expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act.

For the year ended 30 June 2006 this special account held monies in relation to HIH recoveries received from the HIH Claims Manager, which were recovered from third parties in relation to claims made by persons insured by HIH. These recoveries comprise a portion which is due to third parties (non-Commonwealth) and part to the Commonwealth. Receipts and subsequent payments relating to third parties (non-Commonwealth) are treated as special public monies.

	<b>2006</b>	2005
	<b>Actual</b>	Actual
	<b>\$</b>	\$
Balance carried forward from previous year	-	-
Receipts during the year	<b>509,239</b>	407,588
Available for payments	<b>509,239</b>	407,588
Payments made	<b>(464,523)</b>	(407,588)
<b>Balance carried forward to next year held by the entity</b>	<b>44,716</b>	-
<i>Represented by:</i>		
Cash held by Treasury	<b>44,716</b>	-
<b>Balance carried forward to next year held by the entity</b>	<b>44,716</b>	-

**Note 31H: Special Accounts investment of public money**

For the periods 2004-05 and 2005-06, Treasury has not used section 39 of the FMA Act or section 18 and 19 of the *Commonwealth Authorities and Companies Act 1997* in respect of this Special Account.

**Note 32: Reporting of outcomes**

The Treasury uses a process of cost allocation to estimate the allocation of shared costs. The cost of each output is comprised of direct and indirect costs. Direct costs are assigned to outputs according to detailed cost profiles. Indirect costs that comprise corporate and overhead items such as information technology, accommodation and human resource management are allocated to outputs based on a (cost driver) consumption basis. This basis of allocation is consistent with the basis used for previous years.

**Note 32: Reporting of outcomes (continued)****Note 32A: Net cost of outcome delivery**

	Outcome 1		Outcome 2		Outcome 3		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Expenses</b>								
Administered expenses	28,498	471,803	38,440,984	36,063,089	170,223	162,202	38,639,705	36,697,094
Departmental expenses	31,142	27,086	55,334	52,603	37,134	91,754	123,610	171,443
<b>Total expenses</b>	<b>59,640</b>	<b>498,889</b>	<b>38,496,318</b>	<b>36,115,692</b>	<b>207,357</b>	<b>253,956</b>	<b>38,763,315</b>	<b>36,868,537</b>
<b>Costs recovered from provision of goods and services to the non-government sector</b>								
Administered	-	365	-	230	-	1,634	-	2,229
Departmental	3,463	3,276	169	122	254	35	3,886	3,433
<b>Total costs recovered</b>	<b>3,463</b>	<b>3,641</b>	<b>169</b>	<b>352</b>	<b>254</b>	<b>1,669</b>	<b>3,886</b>	<b>5,662</b>
<b>Other external revenues</b>								
<b>Administered</b>								
Interest	479	3,637	-	-	211	303	690	3,940
Dividends	1,363,000	694,000	-	-	-	-	1,363,000	694,000
GST administration fees	-	-	605,888	591,922	-	-	605,888	591,922
Premiums received	-	-	-	-	-	1,519	-	1,519
HIH Group liquidation proceeds	-	-	-	-	26,356	-	26,356	-
IMF remuneration payments	22,786	37,014	-	-	-	-	22,786	37,014
Net gains	146,143	-	-	-	-	-	146,143	-
Other revenue	-	9,155	-	5,420	4,747	128,976	4,747	143,551
<b>Total administered</b>	<b>1,532,408</b>	<b>743,806</b>	<b>605,888</b>	<b>597,342</b>	<b>31,314</b>	<b>130,798</b>	<b>2,169,610</b>	<b>1,471,946</b>
<b>Departmental</b>								
Interest on all cash deposits	-	-	-	-	-	479	-	479
Net gains	95	99	225	155	74	215	394	469
Other	64	163	98	195	48	265	210	623
Related goods and services revenue	253	83	415	183	1,326	40,095	1,994	40,361
External goods and services revenue	48	33	79	124	251	16,166	378	16,323
<b>Total departmental</b>	<b>460</b>	<b>378</b>	<b>817</b>	<b>657</b>	<b>1,699</b>	<b>57,220</b>	<b>2,976</b>	<b>58,255</b>
<b>Total other external revenues</b>	<b>1,532,868</b>	<b>744,184</b>	<b>606,705</b>	<b>597,999</b>	<b>33,013</b>	<b>188,018</b>	<b>2,172,586</b>	<b>1,530,201</b>
<b>Net cost/(contribution) of outcome</b>	<b>(1,476,691)</b>	<b>(248,936)</b>	<b>37,889,444</b>	<b>35,517,341</b>	<b>174,090</b>	<b>64,269</b>	<b>36,586,843</b>	<b>35,332,674</b>

Outcomes 1, 2 and 3 are described in Note 1.1. Net costs shown include intra-government cost that are eliminated in calculating the actual budget outcome.

**Note 32: Reporting of outcomes (continued)**

Note 32B: Major classes of Departmental revenues and expenses by output group and outputs

	Output Group 1.1		Output Group 1.1		Outcome 1	
	Output 1.1.1		Output 1.1.2		Total	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Departmental expenses</b>						
Employees	6,142	6,204	15,470	12,930	21,612	19,134
Suppliers	1,850	2,049	6,660	4,729	8,510	6,778
Depreciation and amortisation	238	320	745	767	983	1,087
Write down of assets	-	16	-	37	-	53
Borrowing costs expense	8	10	22	24	30	34
Net losses from sale of assets	2	-	5	-	7	-
Income tax equivalent expense	-	-	-	-	-	-
<b>Total Departmental expenses</b>	<b>8,240</b>	<b>8,599</b>	<b>22,902</b>	<b>18,487</b>	<b>31,142</b>	<b>27,086</b>
<b>Funded by:</b>						
Revenues from Government	8,465	8,765	23,050	17,293	31,515	26,058
Interest revenue	-	-	-	-	-	-
Sale of goods and services	163	72	3,601	3,320	3,764	3,392
Other non-taxation revenues	15	32	49	131	64	163
Net gains	22	26	73	73	95	99
<b>Total Departmental revenues</b>	<b>8,665</b>	<b>8,895</b>	<b>26,773</b>	<b>20,817</b>	<b>35,438</b>	<b>29,712</b>

**Note 32: Reporting of outcomes (continued)**

## Note 32B: Major classes of Departmental revenues and expenses by output group and outputs (continued)

	Output Group 2.1						Output Group 2.2		Outcome 2			
	Output 2.1.1		Output 2.1.2		Output 2.1.3		Output 2.1 Total		Output 2.2.1		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Departmental expenses</b>												
Employees	2,478	2,576	2,088	2,228	6,195	5,892	10,761	10,696	29,802	28,289	40,563	38,985
Suppliers	922	806	898	872	1,575	1,290	3,395	2,968	9,661	8,598	13,056	11,566
Depreciation and amortisation	103	135	84	109	242	246	429	490	1,220	1,410	1,649	1,900
Write down of assets	-	7	-	5	-	12	-	24	-	68	-	92
Borrowing costs expense	3	4	3	3	8	8	14	15	39	45	53	60
Net losses from sale of assets	1	-	1	-	2	-	4	-	9	-	13	-
Income tax equivalent expense	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Departmental expenses</b>	<b>3,507</b>	<b>3,528</b>	<b>3,074</b>	<b>3,217</b>	<b>8,022</b>	<b>7,448</b>	<b>14,603</b>	<b>14,193</b>	<b>40,731</b>	<b>38,410</b>	<b>55,334</b>	<b>52,603</b>
<b>Funded by:</b>												
Revenues from Government	4,402	3,522	2,791	5,843	7,748	7,111	14,941	16,476	41,679	39,732	56,620	56,208
Interest revenue	-	-	-	-	-	-	-	-	-	-	-	-
Sale of goods and services	41	29	33	24	94	55	168	108	495	321	663	429
Other non-taxation revenues	6	14	5	11	14	28	25	53	73	142	98	195
Net gains	9	9	8	9	22	22	39	40	186	115	225	155
<b>Total Departmental revenues</b>	<b>4,458</b>	<b>3,574</b>	<b>2,837</b>	<b>5,887</b>	<b>7,878</b>	<b>7,216</b>	<b>15,173</b>	<b>16,677</b>	<b>42,433</b>	<b>40,310</b>	<b>57,606</b>	<b>56,987</b>

## Note 32: Reporting of outcomes (continued)

### Note 32B: Major classes of Departmental revenues and expenses by output group and outputs (continued)

	Output Group 3.1										Outcome 3	
	Output 3.1.1		Output 3.1.2		Output 3.1.3		Output 3.1.4		Output 3.1.5		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Departmental expenses</b>												
Employees	3,584	3,089	10,458	10,723	7,131	6,215	1,051	1,038	-	7,766	22,224	28,831
Suppliers	1,307	1,068	9,027	8,093	3,878	5,504	(186)	429	-	45,568	14,026	60,662
Depreciation and amortisation	157	174	399	460	265	268	7	9	-	990	828	1,901
Write down of assets	-	8	-	22	-	13	7	-	-	1	7	44
Borrowing costs expense	5	6	13	15	8	9	-	-	-	-	26	30
Net losses from sale of assets	1	-	3	-	2	-	17	-	-	-	23	-
Income tax equivalent expense	-	-	-	-	-	-	-	-	-	286	-	286
<b>Total Departmental expenses</b>	<b>5,054</b>	<b>4,345</b>	<b>19,900</b>	<b>19,313</b>	<b>11,284</b>	<b>12,009</b>	<b>896</b>	<b>1,476</b>	<b>-</b>	<b>54,611</b>	<b>37,134</b>	<b>91,754</b>
<b>Funded by:</b>												
Revenues from Government	4,502	4,229	21,998	21,048	19,405	19,012	-	-	-	-	45,905	44,289
Interest revenue	-	-	-	-	-	-	-	-	-	479	-	479
Sale of goods and services	59	38	501	92	103	61	1,168	1,597	-	54,507	1,831	56,295
Other non-taxation revenues	9	17	23	49	16	35	-	-	-	164	48	265
Net gains	14	13	35	40	25	24	-	-	-	138	74	215
<b>Total Departmental revenues</b>	<b>4,584</b>	<b>4,297</b>	<b>22,557</b>	<b>21,229</b>	<b>19,549</b>	<b>19,132</b>	<b>1,168</b>	<b>1,597</b>	<b>-</b>	<b>55,288</b>	<b>47,858</b>	<b>101,543</b>

Notes to and forming part of the financial statements

**Note 32: Reporting of outcomes (continued)**

Note 32C: Major classes of Administered revenues and expenses by outcome

	Outcome 1		Outcome 2		Outcome 3		Total	
	Sound macroeconomic environment		Effective Government spending and taxation arrangements		Well functioning markets			
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Administered revenues</b>								
Interest	479	3,637	-	-	211	303	690	3,940
Dividends	1,363,000	694,000	-	-	-	-	1,363,000	694,000
Goods and services	-	-	605,888	591,922	-	-	605,888	591,922
HIH Group liquidation proceeds	-	-	-	-	26,356	-	26,356	-
Other	22,786	46,534	-	5,650	4,747	132,129	27,533	184,313
Net gains	146,143	-	-	-	-	-	146,143	-
<b>Total administered revenues</b>	<b>1,532,408</b>	<b>744,171</b>	<b>605,888</b>	<b>597,572</b>	<b>31,314</b>	<b>132,432</b>	<b>2,169,610</b>	<b>1,474,175</b>
<b>Administered expenses</b>								
Grants	-	-	38,440,984	36,061,287	163,676	162,928	38,604,660	36,224,215
Other	28,498	23,417	-	1,802	6,547	(726)	35,045	24,493
Foreign exchange losses	-	448,386	-	-	-	-	-	448,386
<b>Total administered expenses</b>	<b>28,498</b>	<b>471,803</b>	<b>38,440,984</b>	<b>36,063,089</b>	<b>170,223</b>	<b>162,202</b>	<b>38,639,705</b>	<b>36,697,094</b>

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## OCCUPATIONAL HEALTH AND SAFETY

The Treasury actively encourages and supports a safe and healthy working environment for its staff. In accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and Treasury's Occupational Health and Safety Policy and Agreement, Treasury continued to implement wellbeing strategies in 2005-06, with a primary emphasis on prevention, early intervention and education.

In the 2005 Treasury Staff Survey, 91 per cent of respondents indicated that Treasury is a safe and healthy workplace. The 2006 Balanced Scorecard also showed positive results with a 90 per cent satisfaction rate with occupational health and safety services.

Treasury's Health Month was successfully launched in September 2005 by Sarah Ryan, Olympic swimmer and media commentator. During Health Month, staff were encouraged to take part in the 10,000 Steps programme which included a virtual journey from Rockhampton to the Gold Coast. Around 300 staff purchased subsidised pedometers and 150 staff participated in the 10,000 Steps virtual journey. Other Health Month initiatives included wellbeing seminars attended by 265 staff and introduction in Treasury's cafeteria of a new healthy menu range offering nutritious, low fat alternatives.

Treasury's Comcare premium rate continues to decrease relative to the average Commonwealth agency rate. The rate for 2006-07 is 0.59 per cent of payroll (including figures for the Royal Australian Mint, the Australian Office of Financial Management and the Australian Government Actuary). This figure was considerably lower than the average rate of 1.77 per cent for the Commonwealth as a whole.

During 2005-06, Treasury received 33 incident reports, 5 of which resulted in compensation claims. No notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. All Treasury staff are encouraged to report incidents as soon as they occur. All incidents are investigated as a matter of priority. Immediate action is then taken to rectify hazards and ensure employees are provided with appropriate assistance and support.

As a preventive measure, Treasury staff were offered training on workstation set-up to help them understand ergonomic principles, workplace practices, exercise and workstation adjustment. Twenty-one staff participated in this training programme in 2005-06. One-on-one workstation assessments were also available, with 150 assessments completed in 2005-06. In addition, staff who were prescribed glasses for the use of screen-based equipment were reimbursed for a portion of the cost. Sixty staff sought screen-based eyesight appointments in 2005-06, with 12 receiving partial reimbursement for glasses.

As part of the induction process, all new staff were briefed on occupational health and safety, including information on emergency procedures, employee assistance, incident reporting, first-aid officers, correct workstation set-up, eyesight testing and health activities.

#### Part 5: Other statistical information

To keep staff active, Treasury delivered a number of onsite health activities throughout the year at lunchtime including pilates, body balance, flexibility for life and aerobics.

Treasury provides an employee assistance programme which is managed by an external provider to assist staff who may be experiencing personal problems. This programme provides a free, confidential counselling service to Treasury staff and their families. To complement this service, the eapdirect™ website offers easy access to information on stress, depression, anxiety, work/life balance, career development and management techniques.

The employee assistance provider also offers a ManagerAssist™ service which assists managers and team leaders manage situations relating to work performance and personal difficulties.

Treasury's first aid officers continue to play a vital role in providing first aid to staff. First aid officers are located on each floor to ensure employees in need receive immediate assistance.

Treasury's health and safety representatives help manage risks by conducting quarterly workplace inspections to assess and rectify workplace hazards and promote health and safety awareness. Occupational health and safety issues which cannot be rectified by health and safety representatives may be raised with Treasury's Occupational Health and Safety Committee.

Treasury's Occupational Health and Safety Committee meets quarterly to develop, monitor and review measures aimed at protecting the wellbeing of employees. Committee members also offer advice on more complex health and safety issues.

As part of the 2004-2006 Certified Agreement, 715 employees took advantage of Treasury's Healthy Lifestyle Payment during 2005-06. This one-off annual payment of \$400 is available to contribute to activities such as stress management, gym membership, quit smoking workshops and similar activities which promote a healthy lifestyle.

## FREEDOM OF INFORMATION

Treasury handles Freedom of Information matters for Treasury, the Foreign Investment Review Board, the Takeovers Panel, the Australian Office of Financial Management, the Companies Auditors and Liquidators Disciplinary Board and the Financial Reporting Council.

Under section 8 of the *Freedom of Information Act 1982*, Treasury must report on its activities. The Australian Competition Tribunal's statement then follows. The Tribunal is a separate agency within the Treasury portfolio but does not publish an annual report.

### TREASURY — STATEMENT

Section 8 of the *Freedom of Information Act 1982* requires Treasury to publish detailed information about:

- how it is organised and what decision-making powers it has;
- what arrangements it makes for public involvement in its work;
- what types of documents it holds; and
- how the public can obtain access to these documents.

The following information addresses these requirements.

### Organisation of Treasury

Details of Treasury's organisational and top management structure are set out in Part 1, Figure 3 of this report. Treasury's functions and the decision-making powers exercised in carrying out those functions are described in the Departmental Overview and Corporate Governance sections of this report.

Details of the organisation and structure of the Foreign Investment Review Board and the Takeovers Panel are published separately in the annual reports of each of those bodies.

### Treasury delegations and authorisations

The Treasurer, other Ministers and the Secretary to the Treasury have delegated certain powers to officials, or have authorised officials to act on their behalf, under Acts of Parliament and agreements. These delegations and authorisations stand in force until renewed, and are listed below:

#### Part 5: Other statistical information

- The Treasurer has the discretionary power to guarantee the borrowings of some Commonwealth statutory authorities, and in some cases, to delegate his guarantee powers to Treasury officers. The Treasurer has delegated his powers to guarantee the borrowings of Australian National Railways to the General Manager, Commonwealth-State Relations Division; Manager, Intergovernmental Agreement Unit; and Manager, State Finances and Reporting Unit.
- Under section 21 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, the Treasurer has delegated the power to make payments to the States under sections 18 and 19 of the Act to the Executive Director, Corporate Services and Fiscal Group; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under subclause 7(5) of Schedule 1 to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, the Treasurer has delegated the functions under subclauses (1), (3) and (4) of clause 7 of Schedule 1 to the Executive Director, Corporate Services and Fiscal Group; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under the *Disposal of Forfeited Articles Direction Act 1999*, the Treasurer has delegated certain powers to the Controller, Royal Australian Mint and Senior Manager, Currency Operations, Reserve Bank of Australia, pursuant to the definition of 'an authorised person' in subsection 3(1) of the *Crimes (Currency) Act 1981*.
- Under the *Crimes (Currency) Authorisation Act 1999*, the Treasurer has delegated certain powers to the General Manager, Corporations and Financial Services Division; the Controller, Royal Australian Mint; and the Senior Manager, Currency Operations, Reserve Bank of Australia, pursuant to the definition of 'an authorised person' in subsection 3(1) of the *Crimes (Currency) Act 1981*.
- Under the *Currency Delegation 1999*, the Treasurer has delegated the power to determine the issue price of coins of certain denominations under subsection 14A(2) of the *Currency Act 1965*, to the Executive Director, Markets Group and the General Manager, Corporations and Financial Services Division.
- The authority to approve a range of essentially administrative matters provided for under the Gold Corporation Agreement between the Commonwealth and Goldcorp Australia relating to gold, platinum and silver coins has been delegated by the Treasurer to the Executive Director, Markets Group and the General Manager, Corporations and Financial Services Division.
- Under subsections 22(1) and 21A(2) of the *Foreign Acquisitions and Takeovers Act 1975*, the Treasurer has authorised the General Manager, Managers and

Assistant Managers of the Foreign Investment and Trade Policy Division to act on his behalf to approve and conditionally approve various proposals and, in specific circumstances, to make an order.

- The Treasurer has delegated to Treasury officials the authority to vote on routine matters arising from the Treasurer's Governorship of the International Monetary Fund, the World Bank Group, the Asian Development Bank and the European Bank for Reconstruction and Development.
- The Treasurer has authorised the Secretary to enter into agreements with the Minister for Finance and Administration under section 31 of the *Financial Management and Accountability Act 1997*.
- The Treasurer has authorised the Secretary, Executive Directors and the General Manager, Corporate Services Division to approve payments under the Compensation for Detriment Caused by Defective Administration scheme on his behalf.
- The Minister for Revenue and Assistant Treasurer, on behalf of the Treasurer, has delegated power to the Executive Director, Markets Group and the General Manager Financial System Division under subsection 9A(2) of the *Australian Prudential Regulation Authority Act 1988*, to approve the Australian Prudential Regulation Authority to enter into an agreement to provide prudential regulation of advice services for a fee.
- Under subsection 35(1) of the *Archives Act 1983*, the Assistant Treasurer, on behalf of the Treasurer, has delegated to the General Manager, Corporations and Financial Services Division the authorisation to arrange to exempt records from the open access period.
- The Assistant Treasurer has authorised Treasury officials to make interest payments to Lloyd's under section 92Q of the *Insurance Act 1973*.
- Under subsections 147(2) and 601DC(2) of the *Corporations Act 2001*, the Parliamentary Secretary to the Treasurer has delegated the powers to consent to a name being available to a body corporate, to the General Manager, Corporations and Financial Services Division.
- Under subsection 56(2) of the *Archives Act 1983*, the Minister for Finance and Administration has delegated to the Treasurer, the Secretary to the Treasury and other departmental officers the authorisation to approve access to records not in the open access period.
- The Minister for Finance and Administration has delegated certain powers under the *Financial Management and Accountability Act 1997*, and the *Financial Management and Accountability Regulations 1997*, to the Secretary who has sub-delegated them to Treasury officials. The Secretary holds powers in his

## Part 5: Other statistical information

own right under the *Financial Management and Accountability Act 1997*, and these have also been delegated to Treasury officials.

- The Secretary has authorised Senior Executive Service (SES) officers within Treasury under subsection 23(1) of the *Freedom of Information Act 1982*, to make decisions regarding initial requests for access to documents. Executive Directors are authorised under section 23 to consider and make decisions on applications for internal review.
- The Treasurer has delegated his powers to the Secretary, in accordance with subsections 33(5), 33A(6) and 36(8) of the *Freedom of Information Act 1982*, in respect of documents of the Department of the Treasury.
- Under the following legislation the Secretary has delegated to nominated Treasury officials certain of his responsibilities and decision-making powers as an employer: *Public Service Act 1999*; *Public Service Regulations 1999*; *Public Service Classification Rules 2000*; *Public Service Commissioner's Directions 1999*; *Long Service Leave (Commonwealth Employees) Act 1976*; *Maternity Leave (Commonwealth Employees) Act 1973*; and *Safety, Rehabilitation and Compensation Act 1988*.

## Arrangements for outside participation

People or organisations outside the Australian Government administration may participate in forming policy or administering enactments and schemes for which Treasury is responsible. They can do this by writing to Treasury portfolio ministers, the Secretary to the Treasury, or agencies in the Treasury portfolio. In addition, the Treasury website includes details of current public consultations, reviews and enquiries, with details about how to make submissions.

### Consultation arrangements

Community consultation enables Treasury to be better informed when providing advice to the Government.

Treasury officers conduct regular discussions with companies and organisations to monitor, analyse and report on economic conditions and prospects. Treasury also engages in consultation to inform the development and implementation of specific policy proposals, including a comprehensive consultation programme on substantive tax and superannuation policy proposals. By being fully informed of the effects of specific proposals, Treasury can better advise the government on how to best meet its objective and minimise any unintended consequences.

Treasury takes a number of different approaches to liaison and consultation, depending on the time available or commercial and other sensitivities surrounding an issue. For example, in tax design and legislation, Treasury liaises with peak bodies on issues relating to the tax system as a whole, with specialist stakeholder groups focusing on more specific areas of tax, and with stakeholders on specific measures. Treasury prepares a consultation

report three times a year with details of the consultation strategy for announced tax measures and the progress of the consultation. This report is provided to the Board of Taxation and published on the Treasury website.

Consultation on policy proposals may be broad with submissions invited from the general public or targeted with submissions sought from specific stakeholders, representative focus groups or technical experts with knowledge in the relevant field. These consultations are based on publicly available documents such as discussion or issues papers. At times, targeted consultation may be conducted on a confidential basis owing to the sensitivity of particular proposals. Sensitivity can sometimes preclude consultation on a particular measure.

When engaging in community consultation, the Treasury seeks to involve an appropriate range of stakeholders; ensure all participants have an opportunity to contribute to the consultation; endeavour to provide realistic timeframes for participants to contribute; acknowledge, respect and seek to understand the views of participants and provide feedback on those views where possible. While consultation will not always result in a consensus, it assists Treasury to provide advice to the Government that both alerts it to community concerns and balances the competing factors that affect the wellbeing of the Australian people.

Additionally, the following arrangements allow bodies outside the Australian Government administration to participate in advising on policy and administering enactments or schemes.

### **Australian Office of Financial Management Advisory Board**

The Australian Office of Financial Management (AOFM) Advisory Board is a non-statutory advisory body established by the Secretary to the Treasury in December 2000, to advise on the activities of the AOFM. The board comprises seven members: the Secretary, the AOFM Chief Executive Officer, a senior Treasury official, a senior officer of the Department of Finance and Administration and three experts drawn from the financial sector. The outside appointments are for three years and members may be reappointed.

The accountability of the AOFM Advisory Board is to the Secretary to the Treasury who is the Chair of the Board. The Board performs an advisory role and does not possess executive powers or decision-making authority in its own right. The Board provides general counsel and guidance to the Secretary on all aspects of operational debt policy matters and the performance of the AOFM generally. It reviews the financial statements, legislative and policy compliance, and management recommendations on matters requiring ministerial approval.

### **Board of Taxation**

The Treasurer established the Board of Taxation, a non-statutory advisory body, in August 2000, to advise on the design and operation of Australia's tax laws, ensuring full and effective community consultation in designing and implementing tax legislation.

## Part 5: Other statistical information

The Board comprises ten members; seven are drawn from the business and community sectors, including the chair. These members are appointed on a part-time basis and with a view to their ability personally to contribute a broad range of relevant business, practitioner and broader community knowledge and experience to the development of the tax system. The appointments are for up to three years and members may be reappointed. The Secretary to the Treasury, the Commissioner of Taxation and the First Parliamentary Counsel serve as ex officio members.

The Board of Taxation provides advice to the Treasurer on:

- the quality and effectiveness of tax legislation and processes for its development, including community consultation and other aspects of tax design;
- improvements to the general integrity and functioning of the tax system;
- research and other studies it commissions on topics approved or referred by the Treasurer; and
- other tax matters referred to it by the Treasurer.

Treasury provides the secretariat support.

### **Business Regulation Advisory Group**

The Business Regulation Advisory Group is a non-statutory consultative body of nine part-time members, appointed from the Australian business community and the legal and accounting professions. These members provide advice on initiatives under the Government's Corporate Law Economic Reform Program.

The Corporate Law Economic Reform Program refocuses and improves laws governing Australian corporations and the financial markets to promote business and economic development. The Business Regulation Advisory Group provides an ongoing means of direct consultation with the business community on programme position papers and draft legislation.

### **Commonwealth Consumer Affairs Advisory Council**

The Commonwealth Consumer Affairs Advisory Council is a non-statutory body established by the Minister for Financial Services and Regulation in May 1999, and reappointed by the Parliamentary Secretary to the Treasurer in February 2002, to provide independent advice on current and emerging consumer issues.

The Commonwealth Consumer Affairs Advisory Council comprises eight members, including the chair. Members present a range of consumer perspectives and all serve as individuals rather than as representatives of organisations or interest groups.

The Commonwealth Consumer Affairs Advisory Council meets regularly to investigate, advise on and report to the Minister on consumer issues the Minister refers to them.



### **Corporations and Markets Advisory Committee**

The Corporations and Markets Advisory Committee was established under Part 9 of the *Australian Securities Commission Act 1989* (the ASC Act). It continues under section 261 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act).

The Corporations and Markets Advisory Committee is a body corporate, comprising part-time members appointed by the Treasurer. Members are selected from throughout Australia on the basis of their knowledge of or experience in business, company administration, financial markets, law, economics or accounting. The chairman of the Australian Securities and Investments Commission is an ex officio member of the Advisory Committee by the operation of section 147 of the ASIC Act.

The committee, on its own initiative or when requested by the Minister, provides advice and recommends on such matters connected with:

- a proposal to make or amend corporations legislation (except excluded provisions);
- the operation or administration of the corporations legislation (except excluded provisions);
- law reform on corporations legislation (except excluded provisions);
- companies or a segment of the financial products and financial services industry; and
- a proposal to improve the efficiency of financial markets.

In fulfilling these functions, the committee seeks to stimulate and lead public debate to enhance the standards for corporations and participants in financial markets, and propose suitable regulatory reform when necessary.

The committee is assisted by its legal subcommittee.

### **Electronic Commerce Expert Group**

The Electronic Commerce Expert Group is a non-statutory body that advises the Parliamentary Secretary on consumer issues in e-commerce. It comprises 12 members who represent both industry and consumer interests. The group leads the development and promotion of the Building Consumer Sovereignty in Electronic Commerce: A Best Practice Model for Business and dispute resolution in e-commerce.

Treasury provides secretariat support.

### **Financial Literacy Foundation Advisory Board**

The Financial Literacy Foundation Advisory Board is a non-statutory body established by the Minister for Revenue and Assistant Treasurer, the Hon Mal Brough MP, on

## Part 5: Other statistical information

6 June 2005. The Board provides independent expert advice, guidance and strategic direction to the Financial Literacy Foundation on financial literacy issues.

The Advisory Board currently comprises 10 members, including the chairman, who are leaders in their respective fields and bring strength and experience in financial literacy matters. The members are appointed in their own right and not in their capacity as representatives of organisations or interest groups. Members are appointed on a part-time basis and do not receive sitting fees. Appointments are for a period of 12 months and may be renewed.

### **Financial Sector Advisory Council**

The Financial Sector Advisory Council is a non-statutory body established in April 1998 by the Treasurer as part of the Government's response to the Financial System Inquiry. The council provides advice to the Government on policies to facilitate the growth of a strong and competitive financial system. The Treasurer appoints members in their personal capacity for two years, subject to their continued involvement in the relevant area of the financial sector.

The council can act on its own motion or as a government reference. Financial Sector Advisory Council submissions and recommendations to Treasury ministers are confidential.

Treasury provides secretariat support.

### **Foreign Investment Review Board**

The Foreign Investment Review Board is a non-statutory body that advises the Government on foreign investment policy and its administration. The board comprises four members; three, including the chair, are drawn from the business and community sectors. These members are appointed on a part-time basis. The General Manager of the Foreign Investment and Trade Policy Division also serves on the board as an executive member. The board:

- examines proposals by foreign interests for acquisitions of new investment projects in Australia and, against the background of the Government's foreign investment policy, makes recommendations to the Treasurer on those proposals;
  - advises the Government on foreign investment matters generally;
  - fosters an awareness and understanding, both in Australia and abroad, of the Government's foreign investment policy;
  - provides guidance, where necessary, to foreign investors so their proposals conform with the policy; and
  - monitors and ensures compliance with foreign investment policy.

The board's functions are advisory only. Responsibility for the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.

### **Financial Services Reform Implementation Consultative Committee**

The Financial Services Reform Implementation Consultative Committee assists in developing regulations for the *Financial Services Reform Act 2001*, which introduced a harmonised licensing, disclosure and conduct framework for the financial services industry. The committee includes participants from 40 key interest groups representing the financial services industry and consumers.

### **Categories of documents held by the Treasury**

Treasury holds correspondence, analysis and policy advice by Treasury officers, comments on Cabinet submissions and drafts of these and other documents. Every six months Treasury posts an indexed list of its policy file titles at [www.treasury.gov.au](http://www.treasury.gov.au).

Treasury holds representations made to Treasury ministers on matters falling within their portfolio responsibilities, including:

- economic, fiscal and monetary policy;
- international economic conditions;
- Commonwealth-State financial relations;
- taxation and excise;
- superannuation;
- microeconomic reform;
- competition policy;
- consumer affairs;
- corporate regulation;
- financial sector policy and regulation;
- foreign investment in Australia and free trade agreements; and
- activities of portfolio agencies.

Treasury holds files dealing with policy and administration in areas falling within the responsibilities of the Treasury portfolio detailed in the annual report.

## **Documents on internal departmental administration**

Treasury documents relating to staff and departmental organisation and operation include personal records, organisation and staffing records, financial and expenditure records, and internal operations such as office procedures and instructions.

Treasury holds documents relating to grants that the Government provides to other levels of government and to certain organisations under the programmes it administers.

A detailed listing of Treasury documents published during the year and available on request (publications, papers and annual reports) is available at [www.treasury.gov.au](http://www.treasury.gov.au).

## **Facilities for access to documents**

If a member of the public requests a document and Treasury approves access, Treasury will provide copies of documents after the applicant pays any charges.

Alternatively, applicants may arrange to inspect documents at the Treasury, Langton Crescent, Parkes, ACT between 9.00 am and 5.00 pm, Monday to Friday (except public and public service holidays).

## **Freedom of information applications and initial contact points**

Strategic Communications Division coordinates requests under the *Freedom of Information Act 1982 (the Act)*. Applicants seeking access under the Act to Treasury documents should apply in writing to:

The Secretary  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
Attention: Freedom of Information Coordinator

An application fee of \$30 or a written request, pursuant to subsection 30A(1) of the Act, that the application fee be waived should accompany requests. Telephone inquiries should be directed to the Freedom of Information Coordinator, telephone (02) 6263 2976, between 9.00 am and 5.00 pm Monday to Friday (except public or public service holidays).

Officers of the SES in Treasury can grant or refuse requests for access to documents under section 23 of the *Freedom of Information Act 1982*. In accordance with section 54 of the Act, an applicant may, within 30 days of receiving notification of a decision under the Act, apply to the Secretary to the Treasury, seeking an internal review of a decision to refuse a request. The prescribed fee of \$40 should accompany the application. Executive Directors are authorised under section 23 to consider and make decisions on applications for internal review.

## Freedom of information activity

In 2005-06, Treasury and the Treasurer received 38 requests for access to documents under the *Freedom of Information Act 1982*, compared with 37 requests in the previous year. Further details are set out in Table 18.

**Table 18: Freedom of Information statistics 2005-06**

Description	Number
<b>Requests received</b>	
On hand at 1 July 2005	12
Received	38
<b>Breakdown across Treasury</b>	
Treasurer	2
Executive	0
Fiscal Group	7
Revenue Group	14
Macroeconomic Group	1
Markets Group	11
Corporate Services Division	1
Strategic Communications Division	1
Australian Accounting Standards Board	1
<b>Action on requests</b>	
Access in full	2
Access in part	11
Access refused or no documents located	6
Transferred in whole	4
Withdrawn/lapsed	17
Current as at 30 June 2006	10
<b>Internal review</b>	
Applications	4
<b>Review by Administrative Appeals Tribunal</b>	
Outstanding at 1 July 2005	1
New applications	3
Withdrawn	0
<b>Fees and charges</b>	
Total application fees collected	\$1,180.00
Total charges collected	\$19,393.00
Total application fees and charges collected	\$20,573.00

Note: A new request does not include an internal review or an appeal to the Administrative Appeals Tribunal. Section 16 of the *Freedom of Information Act 1982* provides that, as far as possible, the most appropriate agency will deal with a Freedom of Information request, regardless of which agency receives it. Details relating to reviews by the Administrative Appeals Tribunal are provided in Part 3, Internal and External Scrutiny section of this report.

## AUSTRALIAN COMPETITION TRIBUNAL STATEMENT

The tribunal is an agency within the Treasury portfolio. As it does not publish an annual report its section 8 statement follows.

### Establishment

The tribunal was established under the *Trade Practices Act 1965* and continues under the *Trade Practices Act 1974*.

### Organisation

The tribunal consists of a president and such number of deputy presidents and other members as the Governor-General appoints. A presidential member must be a federal court judge. Other members must have knowledge of, or experience in industry, commerce, economics, law or public administration. For the purposes of hearing and determining proceedings, the tribunal is constituted by a presidential member and two non-presidential members. Currently, all presidential members are judges of the Federal Court of Australia.

The Federal Court of Australia manages the tribunal's funds and provides registry services and administrative support. The registry receives documents, arranges tribunal sittings and undertakes general administration.

### Functions and powers

The tribunal is a review body that re-hears or reconsiders matters. It may perform all the functions and exercise all the powers of the original decision-maker to affirm, set aside or vary the original decision.

The tribunal hears applications for review of determinations of the Australian Competition and Consumer Commission, granting or revoking authorisations that permit conduct and arrangements (including company mergers and acquisitions) that otherwise would be prohibited under the Trade Practices Act because of their anti-competitive effect.

The tribunal hears applications for review of certain decisions on access matters under the Trade Practices Act's regime to facilitate third party access to the services of certain essential facilities of national significance. The tribunal also hears applications for review of determinations of the Australian Competition and Consumer Commission on exclusive dealing. The tribunal also hears applications for review of certain decisions under the Trade Practices Act's regime for non-conference ocean carriers.

## Arrangements for outside participation

Tribunal review proceedings, except under special circumstances, are public.

When a new review application is made to the tribunal, the tribunal ascertains who made submissions to, or registered their interest with the Australian Competition and Consumer Commission or the National Competition Council on the decision. The tribunal directs the applicant to serve the application on each interested party. At the same time, these parties are advised when the application will first come before the tribunal, and whether they have leave to intervene in the proceedings.

The tribunal may permit a person to intervene in the proceedings before it. Participants may appear on their own behalf or represent a firm or association, subject to the tribunal's approval, or, be represented by a barrister or solicitor.

## Categories of documents the tribunal holds

The tribunal maintains the following categories of documents:

- documents lodged with the registrar on particular proceedings, including applications, notices of appearance, statements of facts and contentions, and witness statements;
- correspondence concerning particular tribunal proceedings;
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters;
- register of applications made to the tribunal;
- documents concerning administrative and financial aspects of the tribunal's operations; and
- general correspondence.

The public may inspect the following categories of documents free of charge:

- documents lodged with the registrar in respect of particular proceedings (except where the Act or the tribunal restricts public access on the ground of confidentiality);
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters; and
- register of applications made to the tribunal.

The public can obtain copies of the above four categories of documents after paying the fees set out in the Trade Practices Regulations.

## **Facilities for access to documents**

Facilities are provided to access documents from 9.00 am to 4.00 pm, Monday to Friday (except public and public service holidays).

If an applicant does not live in Sydney, alternative arrangements could reduce the inconvenience to the applicant.

## **Freedom of information applications and initial contact points**

General inquiries relating to freedom of information should be directed to:

Registrar  
Australian Competition Tribunal  
Level 16  
Law Courts Building  
Queens Square  
SYDNEY NSW 2000

Telephone: (02) 9230 8567  
Facsimile: (02) 9230 8535  
DX: 613 – Sydney

The Registrar of the Tribunal, as principal officer, can deny access to a document under the *Freedom of Information Act 1982*.

## **Freedom of information activity**

The tribunal did not receive any requests for access to documents under the *Freedom of Information Act 1982* in 2005-06.



## ADVERTISING AND MARKET RESEARCH

The following table sets out amounts paid by Treasury on advertising and market research in 2005-06.

**Table 19: 2005-06 expenditure for advertising and market research**

Vendor	Purpose	Cost (\$)
AAP Information Services	Media releases announcing applications and decisions of the Takeovers Panel	3,771
Attorney-General's Department	Announcements regarding foreign investment proposals	12,584
Attorney-General's Department	Announcements regarding legislative instruments	2,366
DBM Consulting Pty Ltd*	Provision of market research for Financial Literacy Benchmarking	198,000
George Patterson Y & R Pty Ltd	GST campaign television advertising	9,079
Hays Personnel Services	Recruitment advertising — general vacancies	18,002
HMA Blaze	Recruitment advertising — general vacancies	363,993
HMA Blaze	Recruitment advertising — graduate recruitment	52,117
HMA Blaze	Advertising for Financial Reporting Council consultancies	25,697
HMA Blaze	Advertising for appointments Auditing and Assurance Standards Board	16,822
HMA Blaze	Advertising for appointments Australian Accounting Standards Board	15,981
HMA Blaze	Announcements regarding foreign investment proposals	11,581
HMA Blaze	Media announcement regarding civil penalties	4,625
Hobsons Australia	Recruitment advertising — graduate recruitment	7,150
Publicis Mojo Pty Ltd*	Creative services for the Financial Literacy Foundation Campaign	672,009
Quantum Market Research*	Developmental market research consultancy for Financial Literacy Foundation Information Campaign	339,344
Universal McCann	GST campaign television advertising	136,024
Universal McCann	Financial Literacy Programme television advertising	128,523
Total		2,017,670

Notes: These figures are inclusive of GST. Projects totaling less than \$1,500 for the year and accrued expenses are not included in this table.

\* Items also reported in Table 15 Consultancies.

## ECOLOGICALLY SUSTAINABLE DEVELOPMENT

In 2005-06, Treasury continued to develop and incorporate best practice strategies that enable the department to improve its overall energy consumption. Treasury participates in various government forums and has in place strategies to improve the environmental performance of its office based activities in energy and water conservation and waste minimisation.

In addition, Treasury monitors and reviews information on property, building and environmental management through its membership of property and building industry groups including the Australian Property Institute and the Facilities Management Association of Australia.

### Energy management

Treasury has further reduced its overall energy consumption, in line with government energy consumption targets for this reporting period. A planned Energy Audit in 2006-07, should provide the opportunity for Treasury to effect further reductions in energy consumption.

The Treasury building is controlled by a building management system that provides energy management and reporting facilities for three separate tenancies within the building. Tenancy areas are separately metered to allow monitoring and profiling and the diagnosis of consumption to the distribution board level.

Electricity supplies have power analysis facilities to provide instantaneous readings of kilowatt consumption, load, power factor correction, and line voltage.

Lights operate during normal working hours via timer switches that control all general lighting in the building. Manually operated switches turn on lights in specific areas for up to two hours after normal business hours. Lighting in areas that are not in constant use, such as conference rooms and meeting rooms, is controlled by infrared motion detection. High performance light fittings are 35 per cent more efficient than standard fittings with low ballasts.

### Environmental management system

Treasury's Environmental Management System, implemented in December 2002, complies with International Standard ISO 14001:1996. Consistent with its commitment to ongoing improvement in overall environmental performance, Treasury undertook a review of its Environmental Management Plan in early 2006, with a view to gaining certification to the revised International Standard 14001: 2004.

## **Paper and glass and plastics recycling**

Treasury recycles paper and cardboard products. A local recycling firm collects desktop and workplace containers of paper and cardboard products. Classified waste paper is pulped and paper hand towels are recycled. Staff kitchen facilities use a recycle bin system which simplifies the separation of recyclable items previously sent to landfill. In 2005-06, Treasury recycled 188 cubic metres of used paper, 10 per cent more than in 2004-05. In addition, there was 23 per cent more recycling of glass and plastics from the staff kitchens.

Treasury's target is to reduce its waste to landfill by 90 per cent.

## **Compost recycling**

Treasury currently has a two year contract with a compostable recycling service. The service enables compostable waste which would normally be sent to landfill to be recycled organically.

Treasury's staff kitchens have sealed compost waste containers. This service enables compost waste to be recycled organically. In 2005-06, Treasury recycled 3,044 kilograms of compost, 3 per cent more than in 2004-05.

## **Procurement practices**

Treasury purchases goods and services in accordance with environmental procurement policy as set out in the Commonwealth Procurement Guidelines. This ensures that goods and services are:

- environmentally sound in manufacture;
- reusable or recyclable;
- designed and made for reliability and long life; and
- environmental best practice in energy efficiency and or energy consumption.

Paper made from 80 per cent recycled fibre is used in the reproduction areas. Treasury actively encourages all areas to purchase and use recycled paper and stationery products.

Treasury participates in the Cartridges 4 Planet Ark programme. Toner cartridges can be recycled and old cartridges are delivered to a recycling outlet. Cartridges that cannot be reused are broken down and recycled so they can be made into new products. This guarantees cartridges do not end up at landfill.

## **Water usage**

Tenancies within Treasury building are not metered separately for water consumption. The overall water consumption for the building in 2005-06 was 14,311 kilolitres compared with 17,150 kilolitres in 2004-05. Awareness of water conservation issues was raised through staff notices.

## DISCRETIONARY GRANTS

In 2005-06 Treasury administered the following discretionary grants:

- Two contributions to the Australian Research Council grant to assess the social and fiscal policy implications of an ageing population totaling \$44,000.
- Asian Economic Panel Meeting: contribution of \$11,000 to the Australian National University to discuss economic and policy issues that are of vital importance to Asian economies collectively or individually.
- Thirty fifth Annual Conference of Economists: contribution of \$6,000 to the Economic Society of Australia (Western Australian Branch).
- Financial Literacy and Inclusion Forum: contribution of \$7,500 to the Australian Financial Counseling and Credit Reform Association to address the information needs of Australians with low incomes.
- Organisation for Economic Cooperation and Development Comparative Taxation Study: contribution of \$10,000 to the OECD for assisting with Australia's Comparative Taxation Study.

## ABBREVIATIONS AND ACRONYMS

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADB	Asian Development Bank
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AGAAP	Australian Generally Accepted Accounting Principles
AIPRD	Australia-Indonesia Partnership for Reconstruction and Development
ANAO	Australian National Audit Office
ANU	Australian National University
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
APSC	Australian Public Service Commission
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AuASB	Auditing and Assurance Standards Board
AWA	Australian Workplace Agreement
CAC	Commonwealth Authorities and Companies
COAG	Council of Australian Governments
CPGs	Commonwealth Procurement Guidelines
EBRD	European Bank for Reconstruction and Development
EEO	Equal Employment Opportunity
EL1	Executive Level 1
EL2	Executive Level 2
ELDP	Executive Level Development Programme
FATA	<i>Foreign Acquisitions and Takeovers Act 1975</i>
FMA	<i>Financial Management and Accountability Act 1997</i>
FMO	Finance Minister's Orders
FOI	Freedom of Information
FRC	Financial Reporting Council
GST	Goods and Services Tax
HLIC	Housing Loans Insurance Corporation
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
ISO	International Standards Organisation

## Acronyms and abbreviations

IT	Information Technology
MIGA	Multilateral Investment Guarantee Agency
NCC	National Competition Council
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
PNG	Papua New Guinea
RBA	Reserve Bank of Australia
SDR	Special Drawing Rights
SEB	Senior Executive Band
SES	Senior Executive Service
The Mint	Royal Australian Mint
UIG	Urgent Issues Group
WTO	World Trade Organisation

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