



Australian Government
The Treasury



2006-07

THE TREASURY
ANNUAL REPORT 2006-07



2006-07

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ANNUAL REPORT 2006-07

The Treasury
Annual Report
2006-07

October 2007

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Australian Government

The Treasury

Office of the Secretary

27 September 2007

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 2007. The report has been prepared in accordance with 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 Treasury Annual Report 2006-07 outlines performance against outcomes, outputs and performance information contained in the *2006-07 Portfolio Budget Statements*.

The 2006-07 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 Financial Reporting Panel and the Takeovers Panel are included in this report, however the performance reporting does not extend to the activities of the Financial Reporting Panel or the Takeovers Panel as they publish their own annual report.

Part 1 of this report includes a summary of significant issues and developments during 2006-07, and an overview of the department's performance. The Departmental overview in Part 1 details the Treasury's role and functions, portfolio and agency organisational structures and the Treasury's senior management structure.

Part 2 of the report provides an analysis of performance against the Treasury's policy outcomes. A review of the Strategic Communications 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 statements of the Treasury as required under the Annual Report Guidelines.

Part 5 of the report, appendices, includes other information as required under the Annual Report Guidelines.

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

Other sources of information

The Treasury releases information on its activities through many publications, press releases, speeches and other reports including the Annual Report. Copies of all the Treasury's publications are available on its website at www.treasury.gov.au.

Contact details

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

PART 1

OVERVIEW

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PART 1

Part 1: Overview

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SECRETARY'S REVIEW

In 2006-07, we continued to focus on improving the wellbeing of the Australian people. Wellbeing is central to our work, and the advice and assistance we provide to the Treasurer and portfolio ministers is guided by our pursuit of this mission.

Macroeconomic outcomes

The Australian economy continued to grow at a solid pace in 2006-07 and the terms of trade rose to their highest level since the early 1950s. This has provided a significant boost to incomes.

The ongoing challenge is to maintain and build on the current prosperity while managing the risks of future shocks. Critical to achieving this will be policy settings that enable the economy to respond flexibly to external shocks, facilitate structural adjustment and make the most efficient use of resources as the economy approaches full employment.

Public policy priorities

The year was another successful one for the Treasury in meeting our core outcomes of promoting a sound macroeconomic environment, contributing to effective government spending arrangements, effective taxation and retirement income arrangements and well functioning markets. As Australia becomes more integrated with the global economy each of these core outcomes has an increasing international dimension. We also enhanced our role as a central policy agency that, when required, can act as a resource for the whole of government.

The Treasury continued its priority work to attack complexity and reduce red tape for Australians through streamlining and simplifying taxation and superannuation

arrangements. Significant resources were devoted to implementing the Government's 2006-07 Budget plan to simplify the superannuation system, known as the Better Super reforms. These reforms simplify superannuation for retirees and enhance incentives to work and save.

The release of the Financial System Stability Assessment, undertaken by the International Monetary Fund (IMF), confirmed the strength of Australia's regulatory framework describing us as leaders in a number of areas. The IMF supported work the Treasury is undertaking with other agencies on establishing appropriate arrangements to deal with failing financial institutions.

We contributed significantly to Council of Australian Governments (COAG) processes, including advancing the National Reform Agenda in energy, transport, infrastructure regulation and regulatory burden. Noting business concerns about red tape, we supported the Government's programme initiatives to simplify and streamline corporate, financial services and prudential regulation.

We implemented some significant competition policy reforms to the *Trade Practices Act 1974* and hosted the 2007 National Consumer Congress on consumer policy issues. To help all consumers better understand matters involving financial literacy, the Financial Literacy Foundation delivered the *Understanding Money* campaign and has commenced work to deliver and support financial literacy education in schools.

The second intergenerational report, released by the Treasurer on 2 April 2007, was a key output for the Treasury. The updated projections give the Government the information it needs to assess the long-term sustainability of Commonwealth finances and prepare for demographic change. It also allows us to reflect on our ongoing programme of policy reform and will facilitate further public debate.

The Treasury, in conjunction with the Department of Finance and Administration, prepared the 2007-08 Budget which the Treasurer delivered in May. Many of the announcements reflect the hard work and professionalism of Treasury staff.

Australia has played a prominent role in a range of international forums in 2006-07. In particular, we had a once-in-a-generation opportunity to host two major international economic policy meetings — the G-20 Finance Ministers and Central Bank Governors' meeting in November 2006 in Melbourne and the APEC Finance Ministers' meeting in Coolom in early August 2007. These meetings were highly successful and enabled us to promote Australia's interests and pursue our strategic goals for economic growth and stability, well functioning markets and poverty reduction in the Asia-Pacific region and globally.

Our commitment to our regional neighbours continued in 2006-07. We made significant progress in deepening our high level partnership with the Indonesian Ministry of Finance and Treasury officers continued to provide valued economic and fiscal policy advice in Papua New Guinea, Solomon Islands and Nauru.

The Treasury's culture of working cooperatively with agencies has continued to pay dividends; our input is being more actively sought by others and our influence over many aspects of policy continues to expand. A significant example in the past year was the appointment of Dr Martin Parkinson, Executive Director, Macroeconomic Group, to head the secretariat on the Prime Minister's Task Group on Emissions Trading.

Our organisation

A key priority for the Treasury is to continue to develop organisational capability by investing in and encouraging the professional development of its staff. Focus areas include strengthening policy advising and technical skills, together with the leadership and teamwork skills needed to deliver departmental and whole-of-government policies, programmes and services.

The review of our Performance Management System found the system is mature and that it is supported by staff and generally well implemented. The report's recommendations and action items should improve the application and efficiency of the system, including by improving staff awareness and the consistency with which the system is administered. A roll out of further consultation and education is planned before recommendations are due to be implemented in 2008.

Other major actions included finalising a new Treasury Workplace Agreement, having the Executive Board endorse an Information and Knowledge Management Strategic Plan, establishing an Information Technology Project Management Office, as well as establishing a Policy Evaluation Unit to enhance systems of evaluating policy development and implementation.

The Treasury implemented a range of workforce and wellbeing strategies designed to support staff and monitor staff wellbeing. The strategies include benchmarking our performance against previous years and against the broader Australian Public Service and comparator agencies. Regular benchmarking assists us to identify potential risks to the delivery of organisational outcomes and to our capacity to provide an environment that nurtures our workforce in an increasingly tight labour market.

Several of our staff received awards and scholarships. The significant contribution of Treasury officers to public policy was again recognised with the awarding of a Public Service Medal to Ms Bernadette Welch for her contribution to the restructuring of the HIH Claims Support Scheme and the logistical arrangements for the meeting of the G-20 Finance Ministers and Central Bank Governors in Melbourne in November 2006. Mr Neil Motteram received the Matthews prize in public economics at the Australian National University and Mr Jeremy Bray was awarded a scholarship to undertake the Young Leaders' Program at the Japanese National Graduate Institute for Policy Studies, commencing his studies in October 2006.

Some key personnel changes occurred in the portfolio during the year. The Australian Statistician, Mr Dennis Trewin, retired and was replaced by Mr Brian Pink. The Chairman

of the Australian Securities and Investments Commission (ASIC), Mr Jeffrey Lucy AM, became Commissioner of ASIC and was replaced as Chairman by Mr Tony D'Aloisio.

2007-08 outlook

The economy is forecast to continue to operate close to full employment during 2007-08. For the Treasury, this poses challenges in our policy advising role, requiring us to focus more intently on advice that leads to expanded capacity and enhanced flexibility.

Key outputs this coming year will include those associated with our obligations under the Charter of Budget Honesty during the federal election. These include producing a *Pre-Election Economic and Fiscal Outlook* report in conjunction with the Department of Finance and Administration, and costing election commitments upon request from the government and opposition parties. After the election, the Treasury will work closely with the incoming government to expedite the implementation of its election commitments.

The Treasury will continue to take a leading role in developing a carbon emissions trading scheme, including through the provision of advice to government on the macroeconomic, sectoral and distributional implications for Australia of reducing greenhouse gas emissions.

There are, of course, uncertainties that make it difficult to anticipate precisely the full gamut of work that will occupy us over the coming year. However, the flexibility consistently demonstrated by the department in the past gives me great confidence that we will respond rapidly to unanticipated developments as they occur.

I would like to thank all Treasury staff for their professionalism and enthusiasm during the year.

Ken Henry
Secretary to the Treasury

DEPARTMENTAL OVERVIEW

THE TREASURY'S MISSION

The 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, the Treasury has responsibility 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 stable prices, low interest rates, healthy employment growth and a sustainable external position.

As many influences on macroeconomic outcomes are beyond the control of the Australian Government, policy aims to improve the prospects for 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.

The Treasury aims to contribute to a sound macroeconomic environment through:

- providing strategic advice on domestic and international economic developments;
- forecasting the Australian and global economies;
- providing strategic advice on macroeconomic policy frameworks (fiscal and monetary policy);

Part 1: Overview

- making effective use of bilateral relationships, and regional and global forums to advance Australia's interests and improve the international economic environment; and
- shaping the development and implementation of the 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 but 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 the Treasury to the portfolio ministers assists in formulating, implementing and explaining government spending decisions. The 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 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.

The Treasury provides policy advice to its portfolio ministers to promote government decisions that further these objectives.

The Treasury aims to contribute to effective taxation and retirement income arrangements through:

- analysing economic and social effects of policy proposals and developing policy options;
- providing sound and timely advice to portfolio ministers to assist in formulating, implementing and explaining government decisions on taxation and retirement income arrangements;
- contributing to the implementation of legislation which makes government decisions effective;
- providing accurate and timely information on material changes to revenue forecasts, projections and costing policies; and
- consulting with stakeholders and the community.

Revenue Group is responsible for the outputs associated with Outcome 3.

Outcome 4: Well functioning markets

Well functioning markets contribute to high sustainable economic and employment growth and the improved 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 where investors and consumers have confidence and certainty about the regulatory framework, and are able to make decisions that are informed and free of market distortions and impediments.

The Treasury aims to contribute to well functioning markets through:

- developing and implementing foreign investment and trade policy;
- maintaining a secure and competitive financial system;
- developing sound corporate practices and financial reporting, and regulating corporations and financial services;
- promoting competitive, efficient, well informed and safe markets; and
- assisting all Australians to increase their financial knowledge and better understand the choices they can make in using and managing their money.

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

Markets Group also maintains the operations of the Australian Government Actuary, the Financial Reporting Panel and the Takeovers Panel.

Treasury support services

To support the Treasury's policy outcomes, the Strategic Communications and Corporate Services Divisions provide key services to assist with systems and facilities which provide essential support and organisational backup to the groups.

Strategic Communications Division is primarily responsible for issues monitoring and management, ministerial support, budget lock-up, coordination of freedom of information requests, evaluation of the development and implementation of policy, advice to the Treasury's Executive on organisational and policy strategy, and general secretariat support for the Secretary, the Executive and the Audit Committee.

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

TREASURY PEOPLE VALUES

The Treasury's people values reflect its management approach and these values are within the broader Australian Public Service framework.

The Treasury people management principles are that:

- 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 people will:

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

THE TREASURY'S ROLE AND CAPABILITIES

The Treasury's mission statement reflects the breadth of its ministers' responsibilities and underscores the key importance for the Treasury of a strong relationship with its ministers, built on trust and effective advice. The Treasury plays a central policy agency role in developing and implementing public policy, and in assisting government in identifying national policy priorities.

In assessing public policy issues, the Treasury applies a broad wellbeing framework comprising five elements:

- opportunity and freedom — so individuals have the capability to lead lives of real value;
- the level of consumption possibilities available to the community over time (including the level of goods and services which are available and non-market goods 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 generations);
- the overall level of risk borne by individuals and, in aggregate, by the community; and
- the level of complexity confronting Australians in making decisions about their lives.

The application of the wellbeing framework, along with the scope of policy responsibilities held by Treasury ministers, means that the 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 the full range of activities, the Treasury works to ensure that it:

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

Part 1: Overview

- provides high-quality policy advice that is compatible with practical realities and ensures that government policy is implemented either by the Treasury or, where appropriate, by others;
- remains 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 achieves results working within the government.

In broad terms, the capabilities the Treasury needs to fulfil its role and deliver 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.

Production and delivery of the Treasury's 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, of 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 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, information and knowledge management systems, communications systems and strategic leadership at multiple levels in the organisation.

Table 1: Treasury financial and staffing resources summary

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	(326)	5,000
Appropriation Acts No. 2 and 4	189,796	170,292	175,603
Special Appropriations	39,374,943	39,587,717	41,887,996
Other expenses	-	197,955	-
Total administered expenses	39,569,739	39,955,638	42,068,599
Revenue from Government			
Output Group 1.1 Macroeconomic	36,142	35,663	28,534
Output Group 2.1 Fiscal	15,783	15,636	17,171
Output Group 3.1 Revenue	42,141	41,994	43,286
Output Group 4.1 Markets	39,470	40,243	49,000
Total revenue from Government contributing to the price of departmental outputs	133,536	133,536	137,991
Revenue from other sources			
Output Group 1.1 Macroeconomic	5,675	4,776	5,795
Output Group 2.1 Fiscal	260	348	320
Output Group 3.1 Revenue	640	881	764
Output Group 4.1 Markets	2,540	2,688	2,429
Total revenue from other sources	9,115	8,693	9,308
Total revenue for departmental outputs (total revenues from Government and other sources)	142,651	142,229	147,299
Price of departmental outputs			
Output Group 1.1 Macroeconomic	41,817	41,112	34,329
Output Group 2.1 Fiscal	16,043	15,445	17,491
Output Group 3.1 Revenue	42,781	41,790	44,050
Output Group 4.1 Markets	53,747	54,292	51,429
Total price of departmental outputs	154,388	152,639	147,299
Total estimated resourcing (Total price of outputs and administered expenses)	39,724,127	40,108,277	42,215,898
Average staffing levels (number)	887	854	853

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

Figure 1: Treasury top management structure (as at 30 June 2007)

Secretary: Ken Henry	
Strategic Communications Division General Manager: Frank Di Giorgio	
Macroeconomic Group: Executive Director, David Parker	
Macroeconomic Group: A/g Executive Director, David Gruen	
Chief Adviser, International: Jim Hagan	Overseas Posts
Domestic Economy Division General Manager: Steven Kennedy	Washington Minister-Counsellor (Economic): Steve Morling
Macroeconomic Policy Division General Manager: Paul O'Mara	Paris Gerry Antioch (OECD) and Damien Dunn (Europe)
International Economy Division General Manager: David Pearl	Tokyo Minister-Counsellor (Economic): Bruce Paine
International Finance Division General Manager: Jan Harris	Beijing Minister-Counsellor (Financial): Irene Sim
Pacific and Assistance Division General Manager: Neil Motteram	Jakarta Counsellor (South East Asia Financial): Vincent Ashcroft
G-20 and APEC Secretariat General Manager: Gordon de Brouwer	
Fiscal and Corporate Services Group: Executive Director, David Tune	
Budget Policy Division General Manager: David Martine	Social Policy Division General Manager: Rob Heferen
Industry, Environment and Defence Division General Manager: Maryanne Mrakovcic	Corporate Services Division General Manager: Deidre Gerathy
Commonwealth-State Relations Division General Manager: Michael Willcock	
Revenue Group: Executive Director, Mike Callaghan	
Chief Adviser, Taxation: Tom Reid	Tax Design Division General Manager: Brenda Berkeley
International Tax and Treaties Division General Manager: Mike Rawstron	Personal and Retirement Income Division General Manager: John Lonsdale
Tax System Review Division General Manager: Paul McCullough	Indirect Tax Division General Manager: Christine Barron
Tax Analysis Division General Manager: Nigel Ray	Board of Taxation Secretariat General Manager: Sue Vroombout
Business Tax Division General Manager: Blair Comley	
Markets Group: Executive Director, Jim Murphy	
Chief Adviser, Competition and Consumer Policy: Frances Perkins	Australian Government Actuary General Manager: Peter Martin
Foreign Investment and Trade Policy Division General Manager: Patrick Colmer	Takeovers Panel Director: Nigel Morris
Financial System Division General Manager: Chris Legg	Financial Literacy Foundation General Manager: Peter McCray
Competition and Consumer Policy Division General Manager: Steve French	Financial Reporting Panel Executive Director: Paul Power
Corporations and Financial Services Division General Manager: Geoff Miller	Standard Business Reporting Management Group Programme Manager: Paul Madden

Figure 2: Treasury outcome and output structure (as at 30 June 2007)
Strong, sustainable economic growth and the improved wellbeing of Australians

Outcome 1: Sound macroeconomic environment	
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
Outcome 2: Effective government spending arrangements	
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
Outcome 3: Effective taxation and retirement income arrangements	
Output Group 3.1: Revenue	
3.1.1	Taxation policy and legislation advice
	Business Tax Division Indirect Tax Division International Tax and Treaties Division Personal and Retirement Income 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
	Personal and Retirement Income Division
Outcome 4: Well functioning markets	
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 Financial Reporting Panel Takeovers Panel
4.1.3	Competition and consumer policy advice
	Competition and Consumer Policy Division Financial Literacy Foundation
4.1.4	Actuarial services
	Australian Government Actuary

Figure 3: Treasury portfolio outcome and output structure (as at 30 June 2007)

<p>Portfolio Minister — Treasurer The Hon Peter Costello MP</p> <p>Minister for Revenue and Assistant Treasurer The Hon Peter Dutton MP</p> <p>Parliamentary Secretary to the Treasurer The Hon Chris Pearce MP</p>			
<p>Department of the Treasury Secretary: Dr Ken Henry AC</p> <p>Strong, sustainable economic growth and the improved wellbeing of Australians</p> <table border="0"> <tr> <td style="vertical-align: top;"> <p>Outcome 1: Sound macroeconomic environment</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>Outcome 2: Effective government spending arrangements</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> </td> <td style="vertical-align: top;"> <p>Outcome 3: Effective taxation and retirement income arrangements</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>Outcome 4: Well functioning markets</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> </td> </tr> </table>		<p>Outcome 1: Sound macroeconomic environment</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>Outcome 2: Effective government spending arrangements</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>Outcome 3: Effective taxation and retirement income arrangements</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>Outcome 4: Well functioning markets</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>
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<p>Australian Bureau of Statistics Statistician: Mr Brian Pink</p> <p>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</p> <p>Output 1.1.1: Economic statistics</p> <p>Output 1.1.2: Population and social statistics</p>			
<p>Australian Competition and Consumer Commission Chairman: Mr Graeme Samuel AO</p> <p>Outcome 1: To enhance social and economic welfare of the Australian community by fostering competitive, efficient, fair and informed Australian markets</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>Australian Office of Financial Management Chief Executive Officer: Mr Neil Hyden</p> <p>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</p> <p>Output 1.1.1: Debt management</p>			
<p>Australian Prudential Regulation Authority Chairman: Dr John Laker</p> <p>Outcome 1: To enhance public confidence in Australia's financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality</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 3: Treasury portfolio outcome and output structure (continued)

<p style="text-align: center;">Australian Securities and Investments Commission Chairman: Mr Tony D'Aloisio</p> <p>Outcome 1: A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers</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;">Australian Taxation Office Commissioner: Mr Michael D'Ascenzo</p> <p>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</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</p> <p>Output 1.1.5: Services to governments and agencies</p>
<p style="text-align: center;">Corporations and Markets Advisory Committee Convenor: Mr Richard St John</p> <p>Outcome 1: A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers</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;">Inspector General of Taxation Inspector-General: Mr David Vos AM</p> <p>Outcome 1: Improved administration of the tax laws for the benefit of all taxpayers</p> <p>Output 1.1.1: Identification of issues for review and prioritisation of work programme</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;">National Competition Council President: Mr David Crawford</p> <p>Outcome 1: The achievement of effective and fair competition reforms and better use of Australia's infrastructure for the benefit of the community</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;">Productivity Commission Chairman: Mr Gary Banks</p> <p>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</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;">Royal Australian Mint Chief Executive Officer: Ms Janine Murphy</p> <p>Outcome 1: Satisfy the Reserve Bank of Australia's forecast for circulated coin</p> <p>Output 1.1.1: Coin production, associated policy advice and visitors services</p>

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REPORT ON PERFORMANCE

The report on performance covers the Treasury's administered items and departmental outputs for 2006-07.

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

The Treasury's 2006-07 performance is reported at the outcome and output levels for its four policy outcomes:

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

Performance outcomes are reported against the performance information published in the Treasury section of the *2006-07 Portfolio Budget Statements*.

OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

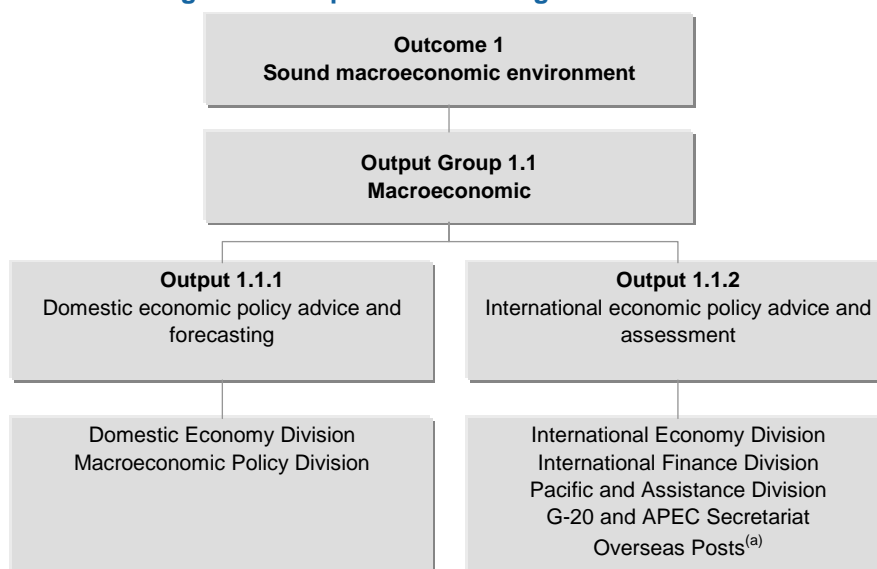
The Treasury aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

The 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, the European Bank for Reconstruction and Development, the Organisation for Economic Cooperation and Development (OECD) 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 2006-07, the 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. The Treasury provided strategic advice on international economic policy issues, working towards sustained growth, openness and sound governance in the global economy. The 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) The Treasury's overseas posts are a whole-of-department resource but are allocated to this output for reporting purposes.

KEY PRIORITIES IN 2006-07

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 1:

- examine domestic and international developments affecting the Australian economy and forecast the direction of the Australian and international economies;
- assist 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;
- influence international policy outcomes to enhance growth and reduce poverty, open trade and investment regimes, and encourage market-oriented public policy based on the rule of law and strong institutions through:
 - strengthening, effectively using and directly participating in international forums, including the World Bank, IMF, OECD, Asian Development Bank, 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, Solomon Islands and Nauru,

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- engaging directly in a policy dialogue with key counterparts in East Asia, and
- providing technical assistance in the Asia-Pacific region;
- effectively promote the G-20 2006 agenda and the forum's role in global economic governance;
- develop effective, relevant and achievable policy outcomes and work programmes for both the G-20 and APEC; and
- oversee the implementation of the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) and develop an engagement strategy under the Government Partnerships Fund.

KEY OUTCOMES IN 2006-07

- Australia hosted a successful meeting of the G-20 Finance Ministers and Central Bank Governors in Melbourne on 17-19 November 2006. The overarching theme for the meeting was building and sustaining prosperity.
 - The meeting provided strong support for agreed and future reforms of IMF quota and governance arrangements, and IMF and World Bank key policies and instruments, and modernisation of World Bank governance arrangements.
 - There were a number of important outcomes from the meeting in relation to energy and minerals security. Participants also engaged in wide-ranging discussions around demographic issues, implementation and consolidation of domestic economic reforms, and aid and debt relief.
 - During 2006-07, the Treasury worked closely with the G-20 management troika comprising Australia, South Africa and Brazil (the past, current and future G-20 hosts). The Treasury initiated a comprehensive hand-over strategy of policy and logistics for future G-20 hosts.
- The Treasury continued preparations, in conjunction with the APEC taskforce, for Australia to host APEC in 2007.
 - The Treasury has endeavoured to improve the effectiveness of the APEC Finance Ministers' process. In particular, the Treasury has worked to encourage an effective policy-setting, outcomes-driven and reform-initiating process that strengthens the link between the Finance Ministers and Economic Leaders.
 - The Treasury has made efforts to raise awareness of the importance of structural reform in promoting and sustaining regional growth.
 - The Treasury also participated in a range of policy based capacity building initiatives, including workshops on financial sector reform and fiscal

management, the APEC Future Economic Leaders' Think Tank and a public-private dialogue on bond market development.

- In the Asia-Pacific region more broadly, the Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
 - Significant progress was made in further developing a strategic partnership with the Indonesian Ministry of Finance, under the auspices of the Government Partnerships Fund.
 - The Treasury, working closely with the Department of Foreign Affairs and Trade, ensured that the East Asia Summit focused on priority Australian issues, in particular, regional financial cooperation and integration.
 - Treasury officials attended and participated in a range of conferences addressing economic and policy issues, received delegations for policy discussions and visited the region regularly in 2006-07.
- Aside from G-20 and APEC host year processes, the 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.
 - Improving governance arrangements in international financial institutions remains important to ensuring their ongoing effectiveness. Australia strongly contributed to the debate on improved IMF governance arrangements and continues to support and work towards a second stage of reforms, and had a representative on an External Review Committee on IMF-World Bank collaboration.
 - Australia supported the agreement to implement a new framework to improve IMF surveillance of member countries.
- The Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges, including Papua New Guinea, Solomon Islands and Nauru.
- Economic forecasts assisted the Government with policy formulation.
- Briefings were prepared for the Treasurer on the Australian Bureau of Statistics (ABS) and private sector economic statistics, with an emphasis on their implications for the economic outlook. The Treasurer regularly received advice from the Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, the *Economic Roundup*, working papers and speeches to better inform the public about economic developments and issues.

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- *Economic Roundup* included a diverse range of articles, including analysis of the policy issues surrounding the ‘3Ps’ of productivity, participation and population.
- For the 2007-08 Budget, Statement 4 of Budget Paper No. 1, *Australia’s Labour Force Utilisation*, examined Australia’s labour force in an international and historical context, and the role of recent Government policy in influencing labour market decisions.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	31,764	35,779	37,996
Other expenses	-	197,948	-
Total administered expenses	31,764	233,727	37,996
Revenue from Government			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	8,703	8,930	9,628
Output 1.1.2 International economic policy advice and assessment	27,439	26,733	18,906
Total revenue from Government contributing to the price of departmental outputs	36,142	35,663	28,534
Revenue from other sources			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	146	234	195
Output 1.1.2 International economic policy advice and assessment	5,529	4,542	5,600
Total revenue from other sources	5,675	4,776	5,795
Total revenue for departmental outputs (Total revenues from Government and other sources)	41,817	40,439	34,329
Price of departmental outputs			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	8,849	9,381	9,823
Output 1.1.2 International economic policy advice and assessment	32,968	31,731	24,506
Total price of departmental outputs	41,817	41,112	34,329
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	73,581	274,839	72,325
Average staffing levels (number)	218	203	187

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 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.

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

PERFORMANCE INFORMATION

The key performance indicators are:

- advice 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 macroeconomic environment; and
- effective presentation of budget documents and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Policy advice and inputs into policy processes

During 2006-07, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- The Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included analysis and advice to assist the Treasurer respond to the releases, with an emphasis on their implications for the economic outlook.
- As part of the Business Liaison Programme, Treasury officers discussed issues relating to business activity with organisations in major business centres and regional Australia. Liaison findings were summarised in the *Economic Roundup*.
- The Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- The Treasurer was provided with advice on fiscal policy and strategies as part of developing the 2007-08 Budget.

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- In preparing advice to the Secretary as a Reserve Bank of Australia Board member, the Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- The Treasury also provided advice on administrative arrangements for the Reserve Bank of Australia.
- The Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.

The Treasury received positive feedback from the Treasurer, Minister for Revenue and Assistant Treasurer, and the Parliamentary Secretary to the Treasurer on the effectiveness of this advice.

Economic forecasts

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

Forecasting activity focused on 2006-07 and 2007-08, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2006-07* and the 2007-08 Budget. These forecasts helped develop policy that contributed to the strong performance of the Australian economy. In 2006-07, attention focused on the impact of the drought on the economy, and analysis of the implications of movements in commodity prices, including oil prices, continued.

The Treasury's forecast for economic growth in 2006-07 was revised down from 3¼ per cent in the 2006-07 Budget to 2½ per cent in the 2007-08 Budget. This largely reflected the severe drought, slower export growth from the drought-driven fall in farm production and slower business investment growth. These factors were partially offset by a recovery in dwelling investment and stronger household consumption, supported by strong employment growth, and increases in wealth and disposable income, and stronger public final demand.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group, which comprises the Treasury (chair), the Reserve Bank of Australia, the Department of the Prime Minister and Cabinet, the Department of Finance and 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 the Treasury's macroeconomic model of the Australian economy contributed to the forecasting process, and sensitivity analyses using the model helped 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. The Treasury's economic publications and selected presentations are at www.treasury.gov.au.

2007-08 Budget papers

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

Published economic forecasts in the *Mid-Year Economic and Fiscal Outlook 2006-07* and the 2007-08 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on economic growth in the short term. A comprehensive report on the domestic and international outlook, focused on 2007-08, was 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, challenges for economic growth and long-term fiscal sustainability arising from the findings of the *Intergenerational Report 2007*, and measures to further improve Australia's long term economic growth and prosperity.

Statement 4 of Budget Paper No. 1, *Australia's Labour Force Utilisation*, examined Australia's labour force in an international and historical context, and the role of recent Government policy in influencing labour market decisions. Across a broad range of indicators, Australia's labour market performance has been impressive. Unemployment rates are at historical lows, employment growth has been high and Australia's participation rate has increased and is well above the OECD average. These outcomes partly reflect the benefits of ongoing economic reforms in taxation, welfare, labour market flexibility, education and training, and immigration. Statement 4 also examined casual employment, including the relationship between flexible labour markets and employment security.

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

Media and market commentary on the economic analysis in the 2007-08 Budget enhanced public awareness about the Australian economy's current performance, outlook and risks to the outlook.

The Treasury's economic publications and speeches

The Treasury's *Economic Roundup* included a range of articles, with contributions from all groups within the Treasury.

The release of the 100th *Economic Roundup* (Spring 2006) included an article tracing the evolution of the publication from mainly discussing recent economic statistics and

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reprinting budget statements to being a vehicle for placing the Treasury research and policy analysis before the wider community. Historical articles also covered Australia's first Treasurer and the tax system.

The *Economic Roundup* continued to focus on the policy issues surrounding the '3Ps' of productivity, participation and population with articles on the participation modelling project, re-emergence of older male workers, geography's effects on labour productivity, infrastructure trends and the scope for further productivity growth through infrastructure policy reform.

The *Economic Roundup* in 2006-07 also focused on the external sector, with articles on the implications of China's re-emergence, Australia's manufacturing and services exports, and the impact of international investment flows on Australia's balance of payments.

Articles on Australia's G-20 host year, the AIPRD, economic developments in the Pacific and the investment climate in APEC economies reflected the Treasury's increased role in international engagement.

In 2006-07, four Treasury working papers covered Australia's productivity prospects, sustainability of US external imbalances, extending income contingent loans to TAFE and merit-based selection of the heads of international financial institutions.

Senior Treasury officials spoke publicly on the short-term macroeconomic outlook, fiscal and monetary policy, the medium-term fiscal strategy and longer term challenges. Issues covered included the resources boom, role of the G-20, economic impact of Australia's ageing population and policies to address global pressures. The speeches were to a range of organisations, including the Australian Business Economists, the Australian Industry Group, the Committee for Economic Development of Australia, the National Consumer Congress, the 2006 Economic and Social Outlook Conference, and the Cape York and Lowy Institutes. These speeches are on the Treasury's website.

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

Reviews of economic data

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

OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT

International Economy Division, International Finance Division, 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.

The Treasury contributes to Outcome 1 by providing strategic advice to government ministers on the global and regional economic outlook, Australia's economic engagement with East Asia, the global economic architecture including the international financial institutions, and development prospects and governance challenges facing Pacific economies. The 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 is effective in key regional forums, including the East Asia Summit, and engagement of major regional economies, including Indonesia;
- hosting of G-20 meetings and associated workshops in 2006 is effective;
- hosting of APEC meetings and associated workshops in 2006 and 2007 is effective;
- advice on, and direct support for improving economic governance and policies and building capacity in Papua New Guinea, Solomon Islands and Nauru is effective;
- achievement of government objectives is facilitated in international forums, including strengthening the international financial system, multilateral debt relief and 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 2006-07, the IMF continued to work to promote macroeconomic and financial stability at the global and national levels. Australia was actively engaged in this work through the Executive Board and attendance at regular meetings of the International Monetary and Financial Committee Deputies and other forums.

The IMF continues to work towards implementing the various reform initiatives set out in the Managing Director's report on the IMF's Medium-Term Strategy. The medium-term strategy was released in late 2005, and it proposed a wide-ranging reform agenda to help focus the work of the IMF and improve operational effectiveness.

Efforts to reform the IMF's governance arrangements culminated in agreement on the first stage of governance reform at the IMF annual meetings in Singapore, which provided quota increases to increase the voting power of China, Mexico, Republic of Korea and Turkey. Australia was a strong supporter of this reform, and made a strong contribution to the debate, including as chair of the G-20 throughout 2006. Australia continues to work towards achieving agreement on the second stage of reform, due to be completed no later than the annual meetings in 2008.

Efforts to improve the IMF's surveillance of member countries' economic policies culminated in agreement on a new Decision on Bilateral Surveillance over Members' Policies, which will provide a framework to guide the IMF's surveillance. Australia has been a longstanding advocate of more effective surveillance, and expects the framework to improve the IMF's effectiveness in promoting sound policies.

World Bank

Australia continued to support the World Bank's leadership role in improving the living standards of the world's poor, including through the Executive Board and at the World Bank spring and annual meetings. In June 2007, Australia also participated in the first negotiation meeting for the fifteenth replenishment of the International Development Association, the grant and concessional lending arm of the World Bank Group.

In each of these forums, Australia focused attention on the development needs of the World Bank's poorest and most fragile development partners. Australia also highlighted the importance of acting across a broad range of development fronts to reduce global poverty. In this context, Australia argued that aid, trade liberalisation and debt relief are important and most effective when they are supported by improved governance, institution building and measures to avoid the accumulation of unsustainable debts. Australia also contributed to debate on reforming the internal and external governance arrangements of the World Bank.

In February 2007, the IMF and World Bank released the report of the External Review Committee on IMF-World Bank Collaboration (Malan report). A joint IMF-World Bank response to the committee's recommendations is expected to be finalised in 2007. The Executive Director of Revenue Group, Mr Mike Callaghan, was a member of the committee.

Australia welcomed the appointment of Mr Robert Zoellick as President of the World Bank from 1 July 2007. The Treasurer also nominated Dr Jim Hagan for appointment as Executive Director of the World Bank from 1 August 2007 for a period of four years. Dr Hagan will represent a constituency of countries comprising Australia, Cambodia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea (PNG), Samoa, Solomon Islands and Vanuatu.

Asian Development Bank

Australia contributed to the Asian Development Bank's decision making through representation on its Board of Directors and at the 2007 annual meeting in Kyoto, Japan. In April 2007, Mr Phil Bowen replaced Mr Stephen Sedgwick as Director of Australia's constituency on the Board of Directors.

The bank's long-term strategic framework review remained a focus of Australia's engagement with the bank and a key theme at the 2007 annual meeting. The Parliamentary Secretary to the Treasurer, Mr Chris Pearce, delivered Australia's statement to the annual meeting and emphasised the need for the bank to serve all of its developing member countries and strengthen support for the poorest countries in the region. Australia continues to support the bank's engagement in weakly performing countries and to encourage the bank to focus on internal governance to strengthen development effectiveness. Australia prepared for the first Asian Development Fund X replenishment meeting in Sydney in September 2007.

European Bank for Reconstruction and Development

In 2006-07, the European Bank for Reconstruction and Development commenced implementation of its third Capital Resources Review, shifting resources towards transitioning economies in Central Asia and South Eastern Europe. Consolidation of resident offices in Central Europe was also advanced.

The 2007 annual meeting was held in May in Kazan, Russia. A statement on behalf of Australia and New Zealand was delivered at the annual meeting by the Alternate Director for Australia, the Hon Peter Reith. The statement focused on Australia and New Zealand's key priorities for the bank, largely the need for an ongoing focus on advancing the bank's mandate to assist the transition towards market based economies, and the need for the active involvement of shareholders in deliberations on the use of net income.

Organisation for Economic Co-operation and Development

Treasury officials participated in the work of OECD committees on a range of macroeconomic and microeconomic policies, including structural reform, forecasting,

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taxation, statistics, consumer policy, competition policy, corporate governance, insurance and private pensions, sustainable development and investment, and capital markets.

Working closely with the Department of Foreign Affairs and Trade and Australia's OECD delegation, the Treasury played an important role in urging the OECD to raise its profile in our region. As a result of these efforts, OECD ministers agreed in May to strengthen the OECD's cooperation with Indonesia (with a view to possible membership in the long term) and focus more attention on South East Asia (when considering possible future accessions).

The Group of 20

On 17-19 November 2006, the Treasury delivered a highly successful meeting of the G-20 Finance Ministers and Central Bank Governors in Melbourne. The meeting's content and conduct promoted Australia's interests and pursued the Treasury's strategic interests in global economic growth, poverty reduction and well functioning markets.

Held under the overarching theme 'building and sustaining prosperity', the G-20 meeting saw the world's most influential economic and financial leaders meet at the Grand Hyatt, Melbourne. The Treasury worked closely with Australian and Victorian government agencies to ensure delegates met in a secure environment and enjoyed Australian hospitality.

The G-20 is particularly valuable to Australia due to its specific make-up and the opportunity this affords the forum to act as a circuit breaker for difficult global issues. The diversity of geographical areas and economies at the meeting strengthens the forum by providing a high degree of legitimacy to decisions.

G-20 activities throughout the year made an important contribution to the IMF's historic decision in September 2006 to undertake, in a two-stage process, comprehensive reform of its quota arrangements and enhance the voice of low income countries. At the ministerial meeting, the G-20 agreed on the importance of ensuring that the second stage of reforms is comprehensive and delivered on time; South Africa, as the 2007 G-20 chair, is taking this matter forward as a key legacy item in its host year. The G-20 also agreed on the need for further consideration of IMF and World Bank key policies and instruments, giving priority to: IMF surveillance; the IMF's role in emerging market economies, including a possible new liquidity instrument; and collaboration between the IMF and World Bank. In addition, members agreed that they can play an important role in the renewed debate within the World Bank aimed at modernising its governance arrangements.

The G-20 discussion of energy and minerals security led to a number of important outcomes. Members agreed on the importance of well functioning markets characterised by clear price signals, transparency, sound governance, open trade and investment, and effective competition among firms. Indeed, Ministers and Governors committed to encourage the development of clear principles to guide trade and investment in extractive industries, and efficient and effective governance of both private and state-owned

extractive firms. Further, in dealing with key challenges such as resource security and climate change, there was a commitment to ensure international and domestic policies are directed towards investment in new supply, innovation and efficiency. The G-20 noted the benefits of the Extractive Industries Transparency Initiative, and called for the Joint Oil Data Initiative to be extended to other energy sectors, such as natural gas, and for further work on incorporating a common definition of energy reserves. A select delegation of leaders in global energy and minerals industries¹ was invited to a working lunch with Ministers and Governors to inject business perspectives on ways to strengthen energy and minerals markets.

Building on past discussions on the demographic theme, the G-20 reiterated calls for international cooperation to improve remittance services and reduce transaction costs. Members also considered the financial market aspects of demographic change and developed specific initiatives to gain more information on the adequacy of financial market instruments to manage long-term pension liabilities. The G-20 also discussed the potential for improved portability of social security and health care payments to reduce the cost of migration, particularly for temporary migrants, and invited the World Bank to quantify the costs and benefits of improved portability as a basis for further discussion in the G-20.

The G-20 had a wide-ranging and pragmatic discussion, sharing experiences on implementing and consolidating domestic economic reforms. Discussion focused on the politics of reform and practical ways to implement the reforms embodied in the G-20 Accord for Sustained Growth.

The G-20 welcomed recent increases in aid and debt relief and emphasised the importance of avoiding a new build up of unsustainable debt. The Australian Treasurer gave an important presentation to the meeting on the effective use of aid, encouraging the G-20 to use the platform provided by its officials' discussions this year to push forward with further consideration of this issue in future years. By the 2006 meeting, all G-20 members had pledged their support for the Paris Declaration on Aid Effectiveness.

In addition to the ministerial meeting, the second G-20 deputies' meeting was successfully delivered in August 2006. The Treasury was also actively engaged with South Africa before and during the first half of their host year, and key legacy issues arising out of Australia's 2006 host year remained in the G-20 agenda for 2007. A comprehensive hand-over strategy of policy and logistics was developed, and support and advice to key South African officials is ongoing both informally and through membership of the G-20 management troika. The Treasury developed guidelines and planning materials for the hand-over to future hosts, and for the first time, retained and shared corporate knowledge on meeting organisation.

1 Mr Charles Goodyear, CEO, BHP Billiton Limited; Mr Leigh Clifford, CEO, Rio Tinto Limited; Dr Ali Al-Naimi, Minister for Petroleum and Mineral Resources of Saudi Arabia and Chairman of Saudi Aramco; Mr Roger Agnelli, Managing President of CVRD; Sir Mark Moody-Stuart, Chairman, Anglo American plc; Mr Ron Brenneman, President and CEO, PetroCanada; and Sir Robert Wilson, Chairman of BG Group.

Since South Africa became host of the G-20 in January 2007, the Treasury and Reserve Bank of Australia staff have worked with their South African and Brazilian counterparts — who will host the G-20 in 2009 — on the management troika. Australia has been actively involved in the first deputies meeting and in workshops on reform of the Bretton Woods Institutions and on commodities and financial sustainability. The Treasury continues to pursue Australia's interests through strategic engagement in the G-20.

Asia-Pacific Economic Cooperation

APEC² is an important regional forum, bringing together the key developed and developing economies from around the Pacific rim, which together comprise around 56 per cent of world gross domestic product (GDP). During 2006-07, the Treasury commenced preparations for hosting the 14th APEC Finance Ministers' Meeting in August 2007, in conjunction with the APEC Taskforce, as part of Australia's APEC 2007 host year.

During its host year, the Treasury sought to improve the effectiveness of the APEC Finance Ministers' Process as a policy-setting, outcomes-driven and reform-initiating forum. The Treasury has worked hard to revitalise the APEC Finance Ministers' Process to promote continuity of policy themes across host years, strengthen discussion of regional and global economic issues, and make the Finance Ministers' Meeting more policy focused and directly relevant to the issues on the agenda for the APEC Economic Leaders' meeting. In addition, the Treasury worked to raise the awareness of the role of structural reform in promoting and sustaining growth in the region.

The Treasury worked closely with the Department of Foreign Affairs and Trade and the Department of the Prime Minister and Cabinet to develop the agenda and themes for Australia's APEC host year.

Australian Treasury officials chaired the APEC Senior Finance Officials' process throughout 2007. Policy themes covered fiscal and financial market issues. The fiscal theme, Transparency and Sustainability of the Public Balance Sheet, examined explicit and implicit off balance sheet liabilities of governments, and how to report on and address these to ensure fiscal sustainability. The financial theme, Deepening and Integrating Private Capital Markets, examined the underdevelopment of private capital markets in the region, and the policy interventions required to deepen and strengthen them.

The discussion on the global and regional economic outlook focused on Energy Markets that Support Macroeconomic Stability and Sustainable Growth, and Recovery and Efficiency in Investment in the region. Consideration of energy issues focused on the appropriate macroeconomic policy responses to high and volatile energy prices, the need for well functioning international energy markets to promote energy security, and the role of markets in meeting the challenges of climate change. Discussions on investment

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

focused on the apparent decline in investment in the Asian region following the 1997 Asian financial crisis, and concluded that greater structural reforms were required in the region to allow savings to flow towards sustainable, pro-growth investment in the region.

In December 2006, the Treasury hosted the first APEC Senior Finance Officials' Meeting in the Southern Highlands of New South Wales. The second Senior Finance Officials' Meeting was held in Melbourne in May 2007. These meetings involved representatives from 20 of the 21 APEC economies, the IMF, the World Bank, the Asian Development Bank and representatives of the APEC Business Advisory Council.

As chair of the APEC Senior Finance Officials' Meeting, the Treasury has cooperated with other APEC processes, including the Senior Officials and Economic Committee, to raise awareness of the complementarity between the work of various committees and ministerial processes within APEC to promote greater coordination of activities.

The Treasury also commenced developing an outreach programme to raise domestic and international awareness of the 2007 APEC Finance Ministers' Meeting.

The Treasury provided the Treasurer with briefing for the 13th APEC Finance Ministers' Meeting held in Hanoi, Vietnam in September 2006, focusing on the two policy themes for 2006 — Promoting Public Finance Efficiency and Sustainability, and Financial Sector Reform to Attract Capital Flows.

Policy initiatives

A key role of APEC is its capacity building and experience sharing dimensions. The Treasury delivered and participated in policy-based capacity building initiatives within the Finance Ministers' Process.

- The Reform of Financial Sector initiative comprised three policy dialogue workshops held in China, Indonesia and Australia during 2006-07. It focused on prioritising and sequencing financial sector reform. A key outcome of the initiative will be the development of a web-based information resource on financial sector reform — the Catalogue of Policy Experience and Choices — that will allow policymakers and regulators to draw on the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances.
- Australia, Vietnam and Indonesia co-hosted the Fiscal Management initiative. A workshop was held in Lombok, Indonesia in November 2006, which followed on from a workshop held in Hanoi, Vietnam in February 2006. This collaborative initiative discussed management of significant off balance sheet risks. The November Fiscal Management Workshop focused on how economies can monitor and manage their contingent liabilities and off-balance sheet risks with particular reference to off budget liabilities. The workshop considered tools for evaluating public-private partnerships and also how to minimise risks to the public balance sheet from state-owned enterprises and sub-national levels of government.

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- APEC Future Economic Leaders' Think Tank was held in April 2007 in Sydney, and attended by 29 delegates from 17 APEC member economies. The think tank, which is in its seventh successive year, was co-hosted by the Treasury and Axis Australia, and project managed by the Lowy Institute for International Policy. The theme for 2007 was Transparency and Sustainability in the Public Balance Sheet and a report will be submitted to finance ministers in 2007-08.
- The Treasury participated in the APEC Public-Private Dialogue on Bond Market Development hosted by the APEC Business Advisory Council in May 2007.

Structural reform

Following from the Treasury's re-engagement in the APEC Economic Committee in 2005-06, Treasury officers represented Australia at the 2006 Economic Committee II in Hoian, Vietnam.

During 2007, the Treasury took a leading role and hosted two seminars to coincide with APEC Economic Committee meetings during 2007. In January 2007, the Treasury hosted a seminar on Priorities for Structural Reform in APEC Economies in Canberra. At the Economic Committee II meeting in June in Cairns, the Treasury hosted another seminar on the Role of Competition Policy in Structural Reform.³ These seminars focused on the role of structural reform and developing a competition culture in promoting and sustaining economic growth of domestic economies. Participants included representatives from all APEC economies, the World Bank, IMF, Asian Development Bank, OECD, Australian Competition and Consumer Commission, Productivity Commission, AusAID and academia.

During 2006-07, the economic committee began to develop work programmes to implement the Leaders' Agenda to Implement Structural Reform, and the Treasury undertook to chair the Friends of the Chair Group on regulatory reform, and participate in the group on competition policy, chaired by Hong Kong.

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.

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

³ This seminar was organised by Markets Group, and forms part of Output 4: Well functioning markets.

Corporation), the Asian Development Bank and the European Bank for Reconstruction and Development.

Australia did not enter into any new commitments on general capital increases for the institutions during 2006-07. During the year, the 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 below.

Table 3: Financial transactions with the international financial institutions in 2006-07

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration	Revenue	4	11,621
IMF maintenance of value	Financing transaction	1	319,395
Payments			
IMF special drawing rights allocation charges	Expense	4	35,458
IMF Poverty Reduction and Growth Facility	Financing transaction	1	2,500
IMF maintenance of value	Financing transaction	1	27,082
EBRD promissory note drawdown	Financing transaction	1	1,603

Policy advice

Relations with East Asia

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

The Treasury continued its engagement with Indonesia under the AIPRD, which has committed \$1 billion of assistance to Indonesia since the Boxing Day tsunami. The Treasurer sits on the AIPRD Joint Commission and the Treasury's Secretary is one of the five agency heads on the AIPRD Secretaries' Committee.

Over the past year, the Treasury has made significant progress in developing a strategic partnership with Indonesia's Fiscal Policy Office in the Ministry of Finance under the AIRPD's Government Partnership Fund initiative. The Treasury's engagement strategy with the Fiscal Policy Office has a strong partnership focus, and aims to develop Indonesian leadership abilities in economic policy, build policy formulation capacities and develop lasting relationships.

During the year, the Treasurer delivered a number of high profile addresses, including on East Asian financial integration, the regional architecture and key challenges facing East Asia. Senior Treasury officials also presented on global and regional economic issues, including on the East Asian economic outlook and medium-term challenges, global demographic changes, financial globalisation and the importance of open world markets.

Australia strongly supported the East Asia Summit, with the Treasury encouraging the summit to focus its agenda on policy options to further develop regional financial cooperation and integration. The Treasury is also supporting Indonesia to host a

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workshop for East Asia Summit officials to progress this important initiative. The Treasury funded a range of activities under an East Asian engagement initiative (announced in the 2004-05 Budget), including an OECD Vietnam Investment Study and an APEC workshop on Priorities in Structural Reform in APEC economies both held in Canberra on 20 January 2007.

The Treasury received delegations from the region for discussions on various policy issues. This included delegations from the Treasury's key counterpart agencies in China (the Ministry of Finance and the National Development and Reform Commission) to discuss the role of the Treasury; fiscal and budget management; Commonwealth-State fiscal relations; Australia's economic reform experience; and China's macroeconomic performance and reform priorities. The Treasury also contributed to two AusAID funded Joint Fiscal Policy Courses for Chinese and Indonesian Government officials, held in August to September 2006 and May to June 2007. As part of these courses, senior Treasury officials presented lectures on issues such as demographics and fiscal policy.

Treasury officials posted to Beijing, Jakarta and Tokyo reported on economic developments in their host countries and the wider region. They played a key role in strengthening relations with the Treasury's counterparts throughout the region.

Relations with Pacific economies

The 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 deployed Treasury officers provide technical assistance as part of whole-of-government approaches.

Pacific Islands Forum Economic Ministers' Meeting

The Assistant Treasurer attended the eleventh annual Pacific Islands Forum Economic Ministers' Meeting in Koror, Republic of Palau in July 2007. The overarching theme of the 2007 meeting was reform commitments and economic growth. During the meeting Ministers discussed a number of regional approaches to support economic growth.

Economic reconstruction issues

Solomon Islands

Treasury officers were first deployed to Solomon Islands as part of the Regional Assistance Mission to Solomon Islands in 2003-04. Treasury officers are deployed as part of the Financial Management Strengthening Program, which helps the Solomon Islands Government improve fiscal and financial management systems, strengthen tax administration and manage public debt. Three Treasury officers were deployed in 2006-07, including one as the Under-Secretary of the Ministry of Finance and Treasury. These officers continued to assist their counterparts to use the budget process as a mechanism to articulate its priorities through accountable and transparent spending decisions.

Four other Treasury officers, deployed to the Economic Reform Unit within the Ministry 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 facilitated the introduction of Tax Exemption Guidelines to create a simpler, fairer and more transparent exemptions process. They also helped develop a State-Owned Enterprises Bill to establish an effective and consistent framework for good governance across all state-owned enterprises. In addition, Canberra-based Treasury officers presented a three-day public policy and forecasting workshop to officials from the Ministry of Finance and Treasury.

Papua New Guinea

Treasury officers were first deployed to PNG under the Enhanced Cooperation Program in 2003-04. The programme seeks to improve governance, on a sustainable basis, in economic management and public sector reform, law and order, justice, border control and transport safety and security.

In 2006-07, deployed Treasury officers assisted their PNG Treasury counterparts to establish the framework for the 2007 and 2008 Budgets within the context of a sustainable medium-term fiscal strategy. Treasury officers also assisted the PNG Treasury on taxation policy, structural policy and investment issues and superannuation reform.

The Papua New Guinea-Australia Treasury Twinning Scheme provides for short-term reciprocal placements. In 2006-07, one Treasury officer was deployed to the PNG Treasury and two PNG Treasury officers were deployed to the Australian Department of Finance and Administration. The Government is also funding one PNG Treasury officer to study at the Australian National University.

Nauru

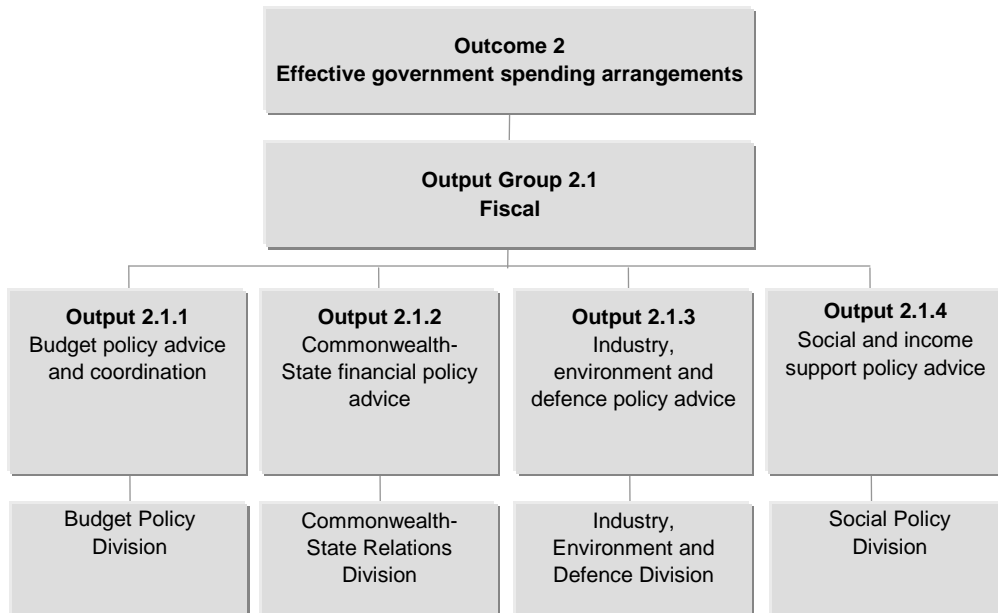
The Australian Finance Team was first deployed to Nauru in 2004-05 as part of a package of assistance to Nauru offered by Australia under a Memorandum of Understanding. Two Treasury officers are deployed to the Nauru Ministry of Finance, one as the Secretary of Finance. During 2006-07, these officers helped develop Nauru's 2007-08 Budget, continued to provide advice on a range of economic reforms and assisted with the introduction of tax and utilities reform.

OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

Effective government spending arrangements are crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Within the context of the wellbeing framework, ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998*;
- Commonwealth-State financial policy, including implementing the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
- policy development in industry, environment, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Figure 5: Outputs contributing to Outcome 2



KEY PRIORITIES IN 2006-07

The Treasury's 2006-07 *Portfolio Budget Statements* and internal planning processes identified the following key priorities for Outcome 2:

- budget policies, including arrangements for distributing resources between the Australian Government and other levels of government, consistent with sustainable public finances and macroeconomic objectives;
- production of the *Final Budget Outcome 2005-06, Mid-Year Economic and Fiscal Outlook 2006-07, 2007-08 Budget*, and second intergenerational report;
- policies relating to the Australian Government's debt portfolio and its management;
- Commonwealth-State financial policy, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, and on the fiscal and economic positions of the State and Territory governments;
- government expenditure programmes, with a focus on those with significant economic or budgetary implications, including in the areas of demographic change, improving participation in the workforce, welfare, work and family policies, health, education, energy, defence and national security, infrastructure, science and innovation, the environment and rural and regional policy;
- policies to promote the efficient and sustainable use of resources and improve the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth;
- provision of advice under the framework for the National Reform Agenda, agreed by the Council of Australian Governments (COAG) in February 2006, particularly initiatives to boost participation and productivity including to:
 - encourage greater workforce participation, particularly by older Australians;
 - address skill shortages, including in regional Australia, by developing more flexible pathways into skills-shortages trades;
 - improve the health of Australians including through policies on primary care preventative health and mental health;
 - improve the effectiveness of the health system;
 - improve early childhood programmes;
 - improve transition pathways from school to work;

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- boost competition and productivity through reform initiatives in areas such as transport, energy, infrastructure regulation and planning, and climate change technological innovation and adaptation; and
- improve the wellbeing of Australia's Indigenous population.

KEY OUTCOMES IN 2006-07

Key achievements for the Treasury during 2006-07 were:

- advising on the fiscal outlook and budget priorities consistent with the medium-term fiscal strategy;
- with the Department of Finance and Administration, delivering the *Final Budget Outcome 2005-06* (September 2006), the *Mid-Year Economic and Fiscal Outlook 2006-07* (December 2006), and the 2007-08 Budget (May 2007);
- preparing the *Intergenerational Report 2007* (April 2007) in accordance with the *Charter of Budget Honesty Act 1998*;
- monitoring the implementation and operation of the Future Fund;
- progressing the review of the Commonwealth Grants Commission's methodology for distributing goods and services tax (GST) revenue;
- processing timely and accurate payments of GST revenue and other administered funds to the States and supporting Australian Government efforts to reach agreement with the States on a schedule to abolish taxes under the Intergovernmental Agreement;
- advising on State and local government funding, and arranging Ministerial Council for Commonwealth-State Financial Relations Meeting discussions on policy issues relevant to both the Australian Government and States;
- advising the Government on a range of expense measures across portfolios, including education sector reforms, and measures targeting industry and the rural sector, national security and defence, health and aged care and immigration;
- advising on climate change issues and natural resource depletion, including through contributions to the Task Group on Emissions Trading and on implementation of A National Plan for Water Security;
- progressing the human capital stream of the COAG National Reform Agenda; and
- contributing to Indigenous policy, including working with the Cape York Institute on welfare reform.

Table 4: Financial and staffing resources summary for Outcome 2

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	19,504	-	2,399
Special Appropriations	39,341,702	39,551,938	41,850,000
Other expenses	-	-	-
Total administered expenses	39,361,206	39,551,938	41,852,399
Revenue from Government			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,723	3,703	4,078
Output 2.1.2 Commonwealth-State financial policy advice	2,568	2,654	2,757
Output 2.1.3 Industry, environment and defence policy advice	4,052	4,236	4,456
Output 2.1.4 Social and income support policy advice	5,440	5,043	5,880
Total revenue from Government contributing to the price of departmental outputs	15,783	15,636	17,171
Revenue from other sources			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	62	76	83
Output 2.1.2 Commonwealth-State financial policy advice	42	53	45
Output 2.1.3 Industry, environment and defence policy advice	69	96	94
Output 2.1.4 Social and income support policy advice	87	123	98
Total revenue from other sources	260	348	320
Total revenue for departmental outputs (Total revenues from Government and other sources)	16,043	15,984	17,491
Price of departmental outputs			
Output Group 2.1 Fiscal			
Output 2.1.1 Budget policy advice and coordination	3,785	3,637	4,161
Output 2.1.2 Commonwealth-State financial policy advice	2,610	2,624	2,802
Output 2.1.3 Industry, environment and defence policy advice	4,121	4,588	4,550
Output 2.1.4 Social and income support policy advice	5,527	4,596	5,978
Total price of departmental outputs	16,043	15,445	17,491
Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)	39,377,249	39,567,383	41,869,890
Average staffing levels (number)	122	117	122

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 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:

- provision of 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 the Treasury has responsibility and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Advice on the budget outlook

During 2006-07, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the 2006-07 Mid-Year Economic and Fiscal Outlook and the 2007-08 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 at the time the budget was prepared.

Final budget outcome for 2005-06

The Final Budget Outcome 2005-06 was published in September 2006. In 2005-06, the Australian Government general government sector recorded an underlying cash surplus of

\$15.8 billion, around \$1 billion higher than estimated at the 2006-07 Budget, mainly due to lower than expected cash payments.

An accrual fiscal surplus of \$14.8 billion was recorded for 2005-06. This was \$1.2 billion lower than estimated at the time of the 2006-07 Budget, primarily reflecting lower than expected revenue in accrual terms.

Budget forecasts

The 2006-07 Budget, published in May 2006, contained forecasts of the fiscal outlook for 2006-07 and the following three years. The Mid-Year Economic and Fiscal Outlook, released by the Treasurer and Minister for Finance and Administration in December 2006, forecast an underlying cash surplus of \$11.8 billion for 2006-07, some \$1 billion more than at budget time. This reflected an increase in receipts and lower than expected cash payments.

The increase in estimated receipts was primarily due to an increase in non-taxation receipts, with taxation receipts broadly unchanged. The fall in estimated payments was mainly due to slippage in some defence acquisition projects and lower payments across a range of income support programmes, partially offset by policy measures announced following the 2006-07 Budget. In accrual terms, the 2006-07 fiscal balance was revised up \$0.1 billion since the 2006-07 Budget to \$10.4 billion.

The 2007-08 Budget, published in May 2007, revised up the estimated underlying cash surplus for 2006-07 by \$1.8 billion since the Mid-Year Economic and Fiscal Outlook to \$13.6 billion, largely reflecting higher than expected tax receipts and lower than expected payments across a number of programmes, partially offset by policy measures announced in the 2007-08 Budget. In accrual terms, the estimated fiscal surplus for 2006-07 was revised up by \$1.5 billion to \$11.9 billion.

Intergenerational Report 2007

Intergenerational reports provide a basis for considering the Australian Government's fiscal outlook over the long term and the implications of Australia's ageing population and other factors on economic growth.

The second intergenerational report released by the Treasurer in April 2007, found the Australian Government's long-term fiscal sustainability had improved since the first intergenerational report in 2002, although demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

Intergenerational Report 2007 noted that over the next 40 years, the ageing of the population is projected to slow economic growth. At the same time, spending pressures in areas such as health, age pensions, and aged care are projected to rise, due to demographic and other factors. The 'fiscal gap' or the amount by which spending is projected to exceed revenue is projected to be around 3½ per cent of GDP by 2046-47.

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The outcome for the second intergenerational report compares to a projected fiscal gap in first intergenerational report of 5 per cent of GDP by 2041-42. The improved outcome is due to a lower rate of growth in projected spending per person, mainly in health, and higher projected nominal GDP per person, predominantly due to the recent strong rise in the terms of trade.

The demographic, economic and fiscal projections contained in the second intergenerational report assist the policy debate about the choices governments can make today to improve the wellbeing of current and future generations of Australians.

Strategic budgetary advice

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

Debt management policy

In consultation with the Australian Office of Financial Management, the Treasury provides advice to the Treasurer on strategic debt policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or the effective functioning of the real economy. The Treasury also provides advice where broader macroeconomic developments or public policy considerations may affect debt management, and the Treasury plays an important role in the governance structures for the management of the Australian Government debt portfolio.

During 2006-07, the Treasury worked closely with the Australian Office of Financial Management to implement the debt issuance strategy, consistent with the outcomes of the 2003 review of the Australian Government Securities market. Specific details of the Government's debt issuance in 2006-07 are outlined in the *Australian Office of Financial Management 2006-07 Annual Report*.

Future Fund

During 2006-07, the Treasury continued to provide policy advice to portfolio ministers on operational issues of the Future Fund, including advice on membership changes to the Future Fund Board of Guardians and further Government contributions to the fund.

Contributions exceeding \$30 billion were made to the Future Fund in 2006-07. These included a component of the 2005-06 cash surplus and transfer of the initial proceeds from the sale of Telstra (T3). As at 30 June 2007 the Future Fund balance, including earnings, was around \$52 billion.

In line with the guidelines provided in the Government's investment mandate, the Future Fund commenced diversifying from interest bearing investments to a broader range of financial assets in late 2006-07.

Higher Education Endowment Fund

The Treasury, in consultation with the Department of Finance and Administration and the Department of Education, Science and Training was, and continues to be, involved in the development of the Higher Education Endowment Fund announced in the 2007-08 Budget. The fund, which will receive an initial investment of \$5 billion from the 2006-07 surplus, will operate as a perpetual endowment fund to generate earnings for capital expenditure and research facilities in the higher education sector.

Contribution to public debate and awareness

Budget publications

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

The Treasury and the Department of Finance and Administration jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the general budget overview, budget at a glance, budget highlights and an overview of the higher education package: Realising Our Potential.

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

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

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

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;

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- 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 continues to be improved to present information in a format that is easy for readers to access and understand.

In 2006-07, the Treasury met with international delegations from Taiwan, Mongolia, China, Indonesia and the IMF, interested in learning about Australia's budgeting and reporting framework.

Tax Expenditures Statement

The Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *2006 Tax Expenditures Statement*, published in December 2006, reported on the cost of tax expenditures with estimates and projections to 2009-10. 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 implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* and related state and territory (state) fiscal and taxation issues.

Fiscal Group also manages the administration of the goods and services tax (GST) revenue payments to the states and territories.

PERFORMANCE INFORMATION

The key performance indicators are:

- payments to state governments are calculated accurately according to agreed formulas 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 budget documentation and other publications informs public debate adequately.

ANALYSIS OF PERFORMANCE

Advice on reform of Commonwealth-State financial relations

This was the seventh full year of operation of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The Treasury provided advice to the Treasurer and other Portfolio Ministers on various aspects of the agreement, such as distributing GST revenue among the states, calculating the guaranteed minimum amount and abolishing state taxes listed in the Intergovernmental Agreement.

Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Australian Treasurer and all State Treasurers, oversees the implementation and operation of the Intergovernmental Agreement. The Treasury provides secretariat support to the Ministerial Council. At the eighth Annual Meeting of the Ministerial Council on 30 March 2007, treasurers discussed the Intergovernmental Agreement, payments to the States, distribution of GST revenue among the States, specific purpose payments, GST administration issues and state tax reform. The 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. The Treasury advised the Treasurer on 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 and state governments. The Secretary to the Treasury and his state counterparts met three times in 2006-07 to discuss a range of issues, such as the

implementation 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. The Treasury chairs the sub-committee, which comprises officials from the Treasury, the ATO and state treasuries. The sub-committee met three times in 2006-07 and considered 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, and discussed GST revenue and payments, GST policy and administrative issues.

Goods and services tax revenue

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST revenue is provided to the States. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST revenue in monthly payments, distributed in accordance with relativities determined by the Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2006-07, the Treasury administered payments of GST revenue to the States of \$39.6 billion. 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 that the ATO and the Australian Customs Service incur in administering and collecting GST revenue. Estimated costs incurred in 2006-07 were \$619 million. The Treasury monitored the payments made by the States to ensure all were administered accurately.

Budget balancing assistance

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

To meet its guarantee, the Australian Government pays budget balancing assistance to cover any shortfall of GST revenue compared with each State and Territory's guaranteed minimum amount. In 2006-07, each State's GST revenue entitlement exceeded its determined guaranteed minimum amount, so no State required this assistance.

Specific purpose payments

The Australian Government makes specific purpose payments as a contribution to areas that are the constitutional or traditional responsibility of the States. Specific purpose payments are provided to the States or local governments for a particular activity, such as health or education.

The Australian Government provided the States with specific purpose payments totalling \$28.2 billion in 2006-07. The Treasury provided advice on a range of specific purpose payments to relevant portfolio ministers.

International relations

In 2006-07, the Treasury continued to participate in the OECD Network on Fiscal Relations across levels of government, and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States.

Budget publications

Information on the Government's financial relations with State and local governments is documented in Budget Paper No. 3, *Federal Financial Relations 2007-08*. 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 budget paper also includes information on fiscal developments in the States, as well as any policy changes affecting the relationship between the Australian and State governments.

OUTPUT 2.1.3:

INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE

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

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

During 2006-07, the 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 adequately informs public debate.

ANALYSIS OF PERFORMANCE

Environment and agriculture policy

The Treasury provided advice to the Treasurer on environmental and agricultural issues including water reform, fisheries, quarantine, drought policy, rural structural adjustment and natural resource management issues.

Examples of the Treasury's advice include for the Natural Heritage Trust Phase III, the Environmental Stewardship Programme and the renewal of the Agriculture — Advancing Australia package, announced in the 2007-08 Budget. Additionally, advice was provided on specific agricultural commodity issues, including wheat, dairy, sugar and wool.

Throughout 2006-07, the Treasury also contributed to inter-departmental committees dealing with a range of policy issues, including water policy, wheat marketing arrangements and drought.

Energy and greenhouse policy

The Treasury provided advice to the Treasurer on energy and climate change issues including climate change adaptation, greenhouse gas emissions abatement, emissions trading, low emissions technologies, uranium mining and nuclear energy, renewable energy and alternative fuels, and energy security. The Treasury also analysed climate change issues in the intergenerational report.

The Treasury provided advice feeding into, and responding to, the work of the Task Group on Emissions Trading, and the Uranium Mining, Processing and Nuclear Energy Review Taskforce.

The Treasury contributed to a number of inter-departmental committees during 2006-07. This included membership of inter-departmental committees on adaptation, emissions reporting, biofuels, and the Intergovernmental Panel on Climate Change's *Fourth Assessment Report*. The Treasury was also involved in the COAG Climate Change Group.

The Government's response to the Report of the Task Group on Emissions Trading indicated the Treasury would examine the effects of different abatement targets over selected periods and advise on macroeconomic, sectoral and distributional implications for Australia. This work commenced towards the end of 2006-07 and will continue into 2007-08.

Industry policy

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

The Treasury provided advice to develop the 2007 Industry Statement, *Global Integration*, as well as reform of government support for the Australian screen media industry. The Treasury also provided advice on export assistance strategies, and participated in the review of the Export Finance and Insurance Corporation.

The Treasury participated in a number of inter-departmental committee meetings and forums during 2006-07, including ones to consider renewing the funding agreements with the Commonwealth Scientific and Industrial Research Organisation, the Australian Nuclear Science and Technology Organisation, and the Australian Institute of Marine Science.

National security policy

The Treasury provided advice on defence and national security issues, including on defence force retention and recruitment, and funding to operate and maintain equipment. Ensuring that defence related expenditures were well targeted and fiscally sustainable in the long run was the focus of that advice. Long-term defence projections were considered in the intergenerational report.

The Treasury also provided advice on domestic security arrangements, including initiatives to strengthen aviation security, and expand the Australian Federal Police's International Deployment Group.

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

OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE

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

Fiscal Group contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government in 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.

During 2006-07, the 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 2006-07, the Treasury provided advice on welfare, employment services and workplace relations matters. This included continuing to monitor the implementation of the workplace relations and Welfare to Work reforms, contributing to the Australian Government's submission to the 2007 Australian Fair Pay Commission minimum wage review and providing advice on improving Indigenous wellbeing through economic development and reforms to the Community Development Employment Projects Programme.

Development of labour market data is ongoing and the Treasury continued to engage in the Labour Statistics Advisory Group of the ABS.

Advice on health policy

Policy development processes spanned a range of health and aged care issues. The Treasury advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, private health insurance, public and preventative health, community care and aged care. Engagement in these areas assisted the Treasurer's involvement in significant Government initiatives, such as the Pharmaceutical Benefits Scheme reforms to achieve better value from off-patent medicines.

Other work related to development of the health model for the second intergenerational report, discussed in Output 2.1.1.

The Treasury also participated in interdepartmental committees that provided advice to Government, including on aged care, combating illicit drugs and combating the influenza pandemic.

Advice on social policy

During 2006-07 the Treasury made a significant contribution to education policy issues. The Treasury played an important role in developing the 2007-08 Budget package *Realising Our Potential*, which will deliver major reforms to higher education, vocational education and training, and schools to improve the quality of education outcomes in Australia.

The Treasury provided policy advice on a number of measures relating to families and child care, including increasing rates of the Child Care Benefit, making the Child Care Tax Rebate timelier to provide greater assistance to families, and increasing child care access for families and communities with special needs.

In 2006-07, the Treasury continued to engage in policy processes to address disadvantage amongst Indigenous Australians. Some areas of focus have been: Cape York welfare pilots, the Single Indigenous Budget Submission process and promotion of human capital and economic development.

The Treasury contributed advice to a number of significant actions within the human capital stream of the COAG National Reform Agenda. These covered type 2 diabetes, vocational education and training, literacy and numeracy, and early childhood and child care.

In the context of the 2007-08 Budget, the Treasury provided advice to the Treasurer on a range of measures on immigration, including expanding the Skilled Migration Programme, increasing funding for a series of Humanitarian Programmes and introduction of the Citizenship Test. The Treasury also provided advice on a range of measures with respect to older Australians, such as the seniors bonus payment and increased support for veterans.

OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

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

Revenue Group has primary responsibility within the Australian Public Service for providing high-quality advice to Treasury portfolio ministers on taxation and retirement income policies and legislation. Advice is formulated through an integrated process which includes consultation with business and community interests and close cooperation with the ATO and relevant Commonwealth departments.

During 2006-07, the Treasury devoted significant resources to tax and retirement income reform, implementing the Government's 2006-07 Budget plan to simplify the superannuation system, known as the Better Super reforms. The Better Super reforms simplify superannuation for retirees, make superannuation easier to understand and improve incentives to work and save. Revenue Group also contributed to *Intergenerational Report 2007*; provided advice to Government on a range of business and other tax policy issues, including forestry managed investment schemes; and continued efforts to reduce the complexity of tax law, releasing discussion papers for the Review of Taxation Secrecy and Disclosure Provisions, and the Review of Discretions in the Income Tax Laws.

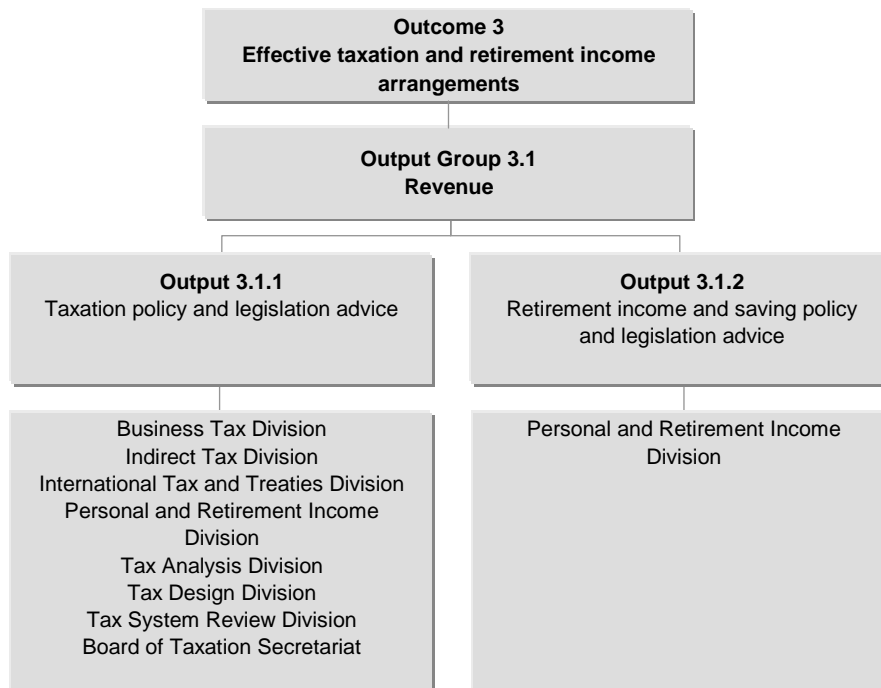
Revenue Group also designs and brings to Parliament all taxation and retirement income legislation. In 2006-07, 27 taxation and superannuation bills containing 83 measures were introduced into Parliament.

In 2006-07, the Treasury continued to consult extensively with stakeholders on taxation and superannuation measures. Consultation processes are evaluated and the results used to improve processes. Three reports on consultation arrangements for announced tax measures were made available on the Treasury website. These reports also are provided to the Board of Taxation to assist it monitor consultation processes.

ORGANISATIONAL CHANGES

In response to changing work priorities and to improve synergies between work areas, the Superannuation, Retirement and Savings Division and the Individuals and Exempt Tax Division merged in June 2007 to form a new division, Personal and Retirement Income Division, while the Capital Gains Tax Unit moved to Business Tax Division.

Figure 6: Outputs contributing to Outcome 3



KEY PRIORITIES IN 2006-07

The Treasury contributes to Outcome 3 by providing high quality advice on taxation and retirement income policies and legislation.

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities:

- providing advice on issues the Australian Government identifies as its key strategic priorities;
- improving processes and outputs in developing advice on taxation and retirement income policies (including consultation processes and law design);

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- implementing the Australian Government's Better Super reforms to simplify and streamline superannuation;
- developing quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes;
- contributing to *Intergenerational Report 2007*;
- providing advice under the framework for the National Reform Agenda, agreed by COAG in February 2006, particularly initiatives to address the burden of legislative and administrative 'red tape' both within the current taxation and retirement income systems and on proposals for change;
- implementing decisions arising from the Australian Government's *Review of Aspects of Income Tax Self Assessment*;
- finalising legislation relating to the taxation of financial arrangements and tax exempt asset financing, and developing a substantial programme of other tax legislation; and
- accelerating a comprehensive programme for the negotiation of Tax Information Exchange Agreements with non-OECD offshore financial centre jurisdictions.

Other key priorities identified through the year were:

- resolving outstanding policy issues such as plantation forestry, non-forestry managed investment schemes and carbon sinks; implementing previous government policy decisions on capital gains tax (CGT) liability of non residents, tax-exempt asset financing and interest withholding tax; researching business tax issues such as treatment of losses and goodwill; working on the scope for reducing the compliance costs of CGT and implementing the recommendations from the Board of Taxation's review of the small business CGT concessions;
- reducing compliance costs through improved procedures for assessing the compliance costs of new measures; and identifying and evaluating opportunities in key policy areas of child care, personal tax, CGT, fringe benefits tax, not-for-profit sector and international tax;
- implementing the 2006-07 Budget decision to align the thresholds for various small business concessions via a single 'small business entity' test; and
- advancing tax treaty negotiations with Japan and assisting the Board of Taxation in its review of the foreign source income anti-tax-deferral rules.

KEY OUTCOMES IN 2006-07

The key outcomes in 2006-07 were:

- advice to the Government on taxation policies and legislative design proposals contributed to reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs;
- advice to the Government was robust and the Better Super reforms were implemented;
- better capacity through quantitative modelling helped identify the labour force participation effects of government policy proposals;
- advice to the Government covered a range of business tax policy issues including the consolidation regime, imputation issues, treatment of losses, tax-exempt asset financing reforms, off-market share buy-backs, taxation of financial arrangements, family trust elections, trustee beneficiary rules, Australian property trusts, private company distributions, small business CGT concessions, CGT roll-over for medical defence organisations, taxation treatment of capital gains of testamentary trusts, forestry managed investment scheme issues, venture capital, and the Australian film industry;
- advice to the Government was robust and a range of indirect tax policy initiatives, including the implementation of fuel tax credits, amendments to the GST and excise arrangements to assist small businesses in meeting their tax obligations, was implemented;
- advice to the Government was robust and a range of personal tax policy initiatives including personal tax cuts, pre-filing of electronic tax returns, extension of the employee share scheme concessions and amendments to the fringe benefits tax to reduce compliance costs, tax deductibility of the donation of certain publicly listed shares and streamlining the gift fund and integrity arrangements for deductible gift recipients, was implemented;
- the long-term demographic, revenue and spending projections were updated in *Intergenerational Report 2007*;
- enhanced procedures for the assessment and quantification of compliance costs were developed and implemented in collaboration with the ATO;
- the Treasury's assessment of developments in the tax system continued and a strategic approach to tax policy issues, including efforts to reduce complexity and compliance costs, was advanced;
- further changes were introduced to Australia's international tax arrangements which reflect efforts to maintain the integrity of the tax base, as well as provide

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a competitive and modern international tax system which accommodates taxpayer needs for certainty and the dynamic nature of international business. Changes were made to the CGT liability of non residents, the withholding arrangements for managed investment trust distributions to non-residents and interest withholding tax arrangements for syndicated loans. Significant progress was made in progressing tax treaty negotiations with key investment partners, including the signing of new tax treaties with Finland and Norway. Further, Tax Information Exchange Agreements were signed with the Netherlands Antilles, Antigua and Barbuda;

- advice to the Government was robust and the exposure draft tax agent services Bill, regulations and explanatory materials for public consultation were developed;
- discussion papers for the Review of Taxation Secrecy and Disclosure Provisions, and the Review of Discretions in the Income Tax Laws were released;
- the Taxation Test Case Funding Review Panel, which provides a right of review to unsuccessful applicants of decisions made by the ATO in relation to test case funding, was established;
- advice to the Government was robust and an Act that aligns the thresholds of various small business concessions through a single small business entity test was enacted.

Table 5: Financial and staffing resources summary for Outcome 3

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	-	-	-
Other expenses	-	-	-
Total administered expenses	-	-	-
Revenue from Government			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	34,558	35,255	36,427
Output 3.1.2 Retirement income and saving policy and legislation advice	7,583	6,739	6,859
Total revenue from Government contributing to the price of departmental outputs	42,141	41,994	43,286
Revenue from other sources			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	519	717	627
Output 3.1.2 Retirement income and saving policy and legislation advice	121	164	137
Total revenue from other sources	640	881	764
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,781	42,875	44,050
Price of departmental outputs			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	35,077	34,459	37,054
Output 3.1.2 Retirement income and saving policy and legislation advice	7,704	7,331	6,996
Total price of departmental outputs	42,781	41,790	44,050
Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)	42,781	41,790	44,050
Average staffing levels (number)	300	272	296

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE

Revenue Group provides a wide range of services to Treasury portfolio 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. Business Tax Division, Indirect Tax Division, International Tax and Treaties Division, Personal and Retirement Income Division and Tax System Review Division are responsible for delivery of taxation and income support

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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, managing the legislation programme, providing budgeting and administration services to the group, assisting in governance issues, and developing and leading key relationships.

During 2006-07, 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 adequately informs public debate;
- tax law is developed in accordance with the principles of 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, treatment of losses, taxation of financial arrangements, plantation forestry and a range of other tax issues.

Consolidation

The Treasury consulted with the business sector and provided policy advice on the consolidation regime to make refinements to overcome practical concerns and clarify interactions with other parts of the income tax law. The Minister for Revenue and Assistant Treasurer announced changes to allow consolidated groups and multiple entry consolidated groups to restructure with minimal tax consequences and to modify the tax cost setting rules to remove anomalies and ensure that they operate effectively. The Minister also announced changes to improve interactions between the consolidation provisions and other parts of the income tax law, including the capital gains tax provisions and the uniform capital allowances system.

Amendments to clarify the interaction between the consolidation provisions and the demerger provisions were included in *Tax Laws Amendment (2006 Measures No. 4) Act 2006*, which received Royal Assent on 12 December 2006. Amendments to remove taxation barriers for approved deposit-taking institutions that adopt a non-operating holding company structure, including modifying the consolidation membership rules, were included in the *Financial Sector Legislation Amendment (Restructures) Act 2007*, which received Royal Assent on 28 June 2007.

Company loss recoupment rules

The Treasury consulted with the business sector and provided policy advice on the company loss recoupment rules. The Minister for Revenue and Assistant Treasurer announced changes to remove the \$100 million cap on the same business test and modify the continuity of ownership test for companies that have multiple classes of shares.

Tax exempt asset financing reforms

The Treasury consulted with the business sector and provided policy advice on the tax exempt asset financing reforms.

Taxation of rights issues

The Treasury consulted with the business sector and provided policy advice on taxation of rights issues. The Minister for Revenue and Assistant Treasurer announced changes to restore the taxation treatment of rights issues that existed before the decision of the High Court of Australia in *Commissioner of Taxation v McNeil* [2007] HCA 5.

Taxation of financial arrangements

The Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. Revised exposure draft legislation and explanatory material were released in January 2007. The Treasury is continuing to consult with key industry and professional bodies.

The Office of Parliamentary Counsel and the Treasury prepared legislation and explanatory material relating to the taxation of capital protected borrowings included in *Tax Laws Amendment (2006 Measures No. 7) Act 2007*, which received Royal Assent on 12 April 2007.

Lower Tier 2 subordinated debt regulation

The Treasury continued to develop an income tax regulation on the effect of a clause, which allows an issuer to defer payment if the payment would cause insolvency, under the debt/equity rules in the income tax law. The Minister for Revenue and Assistant Treasurer announced the regulation would clarify that existence of such a clause in certain term subordinated notes would not preclude the notes from being debt for tax purposes.

Family trust elections

The 2006-07 Budget announced changes to increase flexibility for family trusts. The measure will, for the purpose of the trust loss tax regime, allow family trust elections and interposed entity elections to be revoked or varied in certain limited circumstances. The definition of a family will be broadened to include lineal descendants of family group members. In addition, distributions to former spouses, former widows or widowers and former step children of family members will be exempted from family trust distribution tax. The Treasury undertook confidential targeted stakeholder consultations on implementation details of the policy and draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007.

Trustee beneficiary reporting rules

The 2006-07 Budget announced changes to simplify the reporting requirements for trustees of closely held trusts. The measure will require that trustees of closely held trusts need only report the details of trustee beneficiaries presently entitled to certain net income and tax preferred amounts, instead of the trustee having to trace distributions through to the ultimate beneficiary. The measure will reduce compliance costs for taxpayers while maintaining the integrity of the taxation of trust income. The Treasury undertook confidential targeted stakeholder consultations on the draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007.

Private company distributions

The Treasury provided advice on the operation of Division 7A of the *Income Tax Assessment Act 1936*. On 6 December 2006, the Government announced it would amend the law to reduce the extent that taxpayers could trigger inadvertently a deemed dividend under Division 7A and the punitive impact of the provisions. The Commissioner of Taxation also will be provided with a discretion to disregard a deemed dividend that arises because of an honest mistake or omission. The Treasury undertook confidential targeted stakeholder consultation on the policy and draft legislation. The measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Small business capital gains tax concessions

The Treasury developed legislation that implemented the Government's response to the Board of Taxation's post-implementation review of the small business capital gains tax concession, which took effect from 1 July 2006. Legislation introduced into Parliament on 7 December 2006 (*Tax Laws Amendment (2006 Measures No. 7) Act 2007*) received Royal Assent on 12 April 2007.

Taxation treatment of capital gains of testamentary trusts

The Treasury provided advice to the Government and developed legislation to allow a trustee of a resident testamentary trust to choose to be assessed on the capital gains of the trust that would otherwise be assessed to an income beneficiary who could not benefit from them under the terms of the trust. This measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Plantation forestry

On 21 December 2006, the Government announced new arrangements for the taxation of investments in forestry managed investment schemes. The Government decided that, with effect from 1 July 2007, investors in forestry managed investment schemes would be entitled to immediate upfront deductibility for all expenditure provided that (amongst other requirements) at least 70 per cent of the expenditure was directly related to developing forestry ('direct forestry expenditure'). The measure also contains rules to encourage secondary market trading of interests in existing and future forestry managed investment schemes. The Treasury consulted with industry and released an exposure draft of the proposed legislation for public consultation. Legislation to give effect to the measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Venture capital

Legislation was enacted to give effect to changes to the venture capital regime, announced by the Government in the 2006-07 Budget. The Treasury consulted with relevant stakeholders and worked with the Department of Industry, Tourism and Resources as part of the implementation task. This measure was included in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Screen media support

The Treasury provided advice on developing a screen media support package, following involvement in a review of Australian Government film funding support. The package includes introducing a new tax offset for domestic productions and enhancing current incentives to attract large budget international productions to be made in Australia. The Government announced these changes in the 2007-08 Budget.

Taxation of boating activities

The 2006-07 Budget foreshadowed legislative amendments to allow taxpayers who cannot demonstrate they are carrying on a business using a boat, to claim deductions for boating expenses up to the level of their boating income. Following public consultation on the draft legislation, the measure was included in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Taxation of non-resident trustee beneficiaries

The 2006-07 Budget foreshadowed legislative amendments to ensure that a trustee can be taxed on net income of the trust in relation to a non-resident trustee beneficiary in a similar way to the treatment of non-resident company and individual beneficiaries. Following confidential consultation on the draft legislation, the measure was included in the *Tax Laws Amendment (2007 Measures No. 3) Act 2007*, which received Royal Assent on 21 June 2007.

Indirect taxation

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

Fuel tax reforms

On 1 July 2006, the new fuel tax credit system took effect, implementing Government policy announced in the energy white paper *Securing Australia's Energy Future*. In line with Government commitments during the Parliamentary passage of the relevant legislation, the Treasury consulted with industry to ensure the fuel tax legislation had the intended consequences and delivered the Government's policy intent.

Cleaner fuels

As part of the cleaner fuels measure the Government announced in the 2003-04 Budget, a grant is being provided from 1 January 2007 to 31 December 2008 to suppliers of diesel with 10 parts per million or less of sulphur. This will encourage supply of this fuel into the domestic market before it becomes mandatory under the fuel standard on 1 January 2009. This measure was implemented via the *Energy Grants (Cleaner Fuels) Scheme Amendment Regulations 2006 (No. 1)*.

Goods and services tax

The Treasury implemented a number of small amendments to improve operation of the GST law. Several were announced in the 2007-08 Budget to assist taxpayers in meeting their GST obligations, following agreement from the States and Territories. The registration turnover threshold was increased to \$150,000 for non-profit bodies and \$75,000 for all other enterprises. As a result of this increase, more enterprises can opt to not register for GST. Those enterprises that voluntarily register may choose to prepare a single business activity statement each year. Further reductions in compliance costs were made through increasing the value of purchases on which enterprises can claim input tax credits without obtaining a tax invoice, from \$50 to \$75, and allowing more small businesses to access a simplified accounting method. The Government also decided that certain international telecommunications services, such as global roaming, would remain GST free.

Review of the administrative arrangements for tourist shopping

The Government made decisions following a review of the administrative arrangements for tourist shopping in Australia. The Treasury provided advice to the Government on implementing those decisions; a number require the unanimous agreement of the States and Territories.

Personal taxation

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

Reductions in personal income tax

The 2007-08 Budget provided tax cuts worth \$31.5 billion over four years. The tax cuts which included changes to the low income tax offset were included in the *Tax Laws Amendment (Personal Income Tax Reduction) Act 2007*, which received Royal Assent on 21 June 2007.

From 1 July 2007:

- the 30 per cent threshold will increase from \$25,001 to \$30,001; and
- the low income tax offset will increase from \$600 to \$750 and will begin to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$11,000 (up from \$10,000).

From 1 July 2008:

- the 40 per cent threshold will increase from \$75,001 to \$80,001; and
- the 45 per cent threshold will increase from \$150,001 to \$180,001.

Senior Australians will benefit from these changes and the increased low income tax offset. The low income tax offset adds to the tax offset available to seniors so that seniors eligible for the senior Australians tax offset will have \$1,000 more in their effective tax free threshold from \$24,867 to \$25,867 for singles and \$2,000 more from \$41,360 to \$43,360 for couples.

Child care

The Treasury advised the Government on changes to the child care benefit and child care tax rebate announced in the 2007-08 Budget.

This increased the rate of child care benefit by 10 per cent on top of annual indexation. In addition, the child care tax rebate is converted from a tax offset to a direct payment administered by Centrelink and payable shortly after the financial year in which the child care costs are incurred. This significantly brings forward the timing of the Child Care Tax

Rebate. In addition, lower income families who previously had insufficient income to receive their full rebate entitlement now can receive the full Child Care Tax Rebate.

Pre-filing electronic tax returns for simple tax affairs

The Treasury provided advice on pre-filing the electronic tax returns of around 9 million taxpayers who currently lodge their tax return electronically (either directly or through a tax agent). The ATO will pre-fill electronic returns with information on income from sources such as salary, wages, dividend and interest income, payments from Centrelink and the Department of Veterans' Affairs, Medicare out-of-pocket expenses and private health insurance information, and Higher Education Contribution Scheme and Higher Education Loan Programme details. This measure was announced in the 2007-08 Budget and will make completing income tax returns significantly easier for the 80 per cent of individual taxpayers who use e-tax or lodge their returns through a tax agent.

Employee share schemes

The Treasury advised the Government on and developed legislation extending the employee share scheme and related capital gains tax provisions to stapled securities that include an ordinary share and are listed on the Australian Securities Exchange, with effect from 1 July 2006. This measure increases the accessibility of employee share scheme concessions to employers with stapled securities, and decreases the complexity and cost associated with providing certain stapled securities to their employees.

This measure was included in the *Tax Laws Amendment (2007 Measures No. 1) Act 2007*, which received Royal Assent on 12 April 2007.

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

Fringe benefits — reducing regulatory burdens on business

Following the Report of the Taskforce on Reducing the Regulatory Burdens on Business, *Rethinking Regulation*, the Treasury advised the Government and developed the following fringe benefits tax measures:

- increasing the minor benefits exemption threshold from \$100 to \$300, reducing compliance and recordkeeping costs for employers who infrequently provide benefits that do not exceed \$300;
- increasing the reportable fringe benefits threshold from \$1,000 to \$2,000, enabling employers to reduce their compliance and recordkeeping costs by not having to report fringe benefits for employees who receive no more than \$2,000 worth of fringe benefits in the fringe benefits tax year; and
- increasing the reduction of taxable value for eligible fringe benefits (in-house fringe benefits and airline transport fringe benefits) from \$500 to \$1,000.

These measures were included in the *Tax Laws Amendment (2006 Measures No. 5) Act 2006*, which received Royal Assent on 23 October 2006.

Philanthropy — tax deductibility for the donation of certain publicly listed shares

The Treasury advised the Government and developed legislation extending the tax treatment of property donated to a deductible gift recipient, by allowing taxpayers to claim a tax deduction for the donation of publicly listed shares that have been held for at least 12 months and are valued at \$5,000 or less.

This measure was introduced in the *Tax Laws Amendment (2007 Measures No. 2) Act 2007*, which received Royal Assent on 21 June 2007.

Philanthropy — gift fund and integrity arrangements

The Treasury advised the Government and developed legislation that streamlines the gift fund and integrity arrangements for deductible gift recipients.

The requirement for certain deductible gift recipients to maintain a gift fund was removed, lowering administrative costs for affected deductible gift recipients.

In addition, the power of the Commissioner of Taxation to review the activities of deductible gift recipients endorsed under the general deductible gift recipient categories against the terms of their deductible gift recipients status was extended to specifically listed deductible gift recipients. The Government and the Parliament will retain the power to approve (or revoke) the status of specifically listed deductible gift recipients.

These measures were introduced in the *Taxation Laws Amendment (2006 Measures No. 7) Act 2007*, which received Royal Assent on 12 April 2007.

International taxation and tax treaties

The Treasury implemented or initiated a range of changes to international tax arrangements during 2006-07; a number addressed outstanding elements of the Government's response to the 2003 Review of International Tax Arrangements.

Reforms to the Australian CGT treatment of non-residents were in the *Tax Laws Amendment (2006 Measures No. 4) Act 2006*, which received Royal Assent on 12 December 2006. These reforms narrow the range of assets subject to Australian CGT and strengthen the integrity of the 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.

Tax Laws Amendment (2007 Measures No. 3) Act 2007, which received Royal Assent on 21 June 2007, contained several amendments on international taxation, such as the range of debt interests (other than debentures) eligible for exemption from interest withholding

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tax under sections 128F and 128FA of the *Income Tax Assessment Act 1936* on interest paid to foreign residents. Broadly, eligibility is extended to non-equity shares, syndicated loans and other debt interests prescribed by regulation for that purpose. These amendments reduced uncertainty for taxpayers and the ATO by confirming the Government's policy intent in relation to debt interests, and enhanced the integrity of the tax base. The Act also introduced a new non-final withholding regime for distributions by managed investment trusts and Australian custodians to foreign resident beneficiaries of certain non-dividend, interest and royalty income sourced from Australia. A uniform withholding rate of 30 per cent is to be applied. This regime should reduce compliance costs and provide greater certainty around the law in this area. It replaced a multitude of existing arrangements. The final amendment was to extend by one year the existing transitional period relating to the application of accounting standards for thin capitalisation purposes, during which time taxpayers may elect to use either the former accounting standards or the current Australian adopted equivalents to International Financial Reporting Standards.

Regulations were made to enable United Kingdom Limited Liability Partnerships to satisfy the partnership treatment arrangements for the purposes of the foreign hybrid rules in Division 830 of the *Income Tax Assessment Act 1997*. This is consistent with the Government's policy intent in this area, which seeks to avoid the risk that entities face double taxation and significant compliance costs as a result of being classified differently between jurisdictions.

Legislation to give effect to the Government's 2005-06 Budget announcement to abolish the current quarantining rules that have applied to foreign tax credits and foreign losses was in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007*, which received Royal Assent on 24 September 2007. It also proposes the replacement of the existing legislation with new simplified foreign income tax offset rules.

The Treasurer announced on 10 October 2006 that the Board of Taxation would undertake a review into Australia's foreign source income anti-tax-deferral regimes (that is, the controlled foreign company, the foreign investment fund, the transferor trust and the deemed present entitlement rules). The review aims to identify ways to reduce the complexity and compliance costs associated with the anti-tax-deferral regimes and examine whether the regimes strike an appropriate balance between effectively countering tax deferral and unnecessarily inhibiting Australian companies from competing in the global economy. The Treasury assisted the board in conducting the review, including providing input to prepare a discussion paper.

The Treasury consulted with industry on the impact of Australian adopted equivalents to International Financial Reporting Standards for those entities subject to the thin capitalisation regime.

Comprehensive 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 2006-07, negotiations were held with six countries and resulted in tax treaties being signed by the Government with Norway and Finland. Further, legislation was passed to give effect to international assistance in tax collection and legislation was introduced to give the force of law to the revised treaties with France, Norway and Finland. Tax policy advice was provided on various international agreements, including free trade, film cooperation proposals, and privileges and immunities requests the Government is negotiating.

Tax Information Exchange Agreements

Two further Tax Information Exchange Agreements were signed, with Antigua and Barbuda in January 2007 and the Netherlands Antilles in March 2007. Both provide for full exchange of information on criminal and civil tax matters between Australia and the treaty partner. These agreements are important elements in broader efforts to combat offshore tax evasion and avoidance, and broader criminal activity such as money laundering. Negotiations for further agreements with other jurisdictions with offshore financial centres were advanced.

International representation

The Treasury represented Australia on the OECD Committee on Fiscal Affairs and associated working parties dealing with international tax matters, particularly those related to the development of comprehensive tax treaty policy and the harmful tax practices initiative. Representation also was provided to the related Global Forum on Taxation, which comprises OECD member countries and offshore financial centre jurisdictions committed to implementing higher standards of transparency and information exchange. Australia is a member of the sub-group, which guides its deliberations. In addition, the Treasury represented Australia on the United Nations Committee of Experts on International Cooperation in Tax Matters.

Tax system review

The Treasury provided advice, and developed legislation, on systemic issues in tax policy and administration on issues that affect the tax system's operation, especially its efficient administration.

Areas of primary focus include compliance and enforcement, taxpayers' rights, collection and recovery, the role of tax agents, the assessment process, ATO rulings and advice, tax offences and penalties, tax identity, disclosure of taxpayer information and record keeping obligations.

The Government announced reviews, or its decisions on reviews, on:

- taxation secrecy and disclosure provisions. The Government agreed to implement the recommendations of the review for a single set of standardised

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provisions to replace the plethora of existing rules to reduce repetition and inconsistency;

- anti-avoidance provisions. The review will examine the scope for reducing repetition and standardising the operation of similar anti-avoidance provisions;
- Commissioner of Taxation discretions. The review will increase certainty for taxpayers by replacing certain discretions with tests that taxpayers can apply at the time of lodgment;
- tax practitioner regulations. The review will reduce the level of risk taxpayers face by ensuring appropriate regulation of tax practitioners; and
- open-ended review periods. The review proposes to increase certainty for taxpayers by replacing open-ended review periods with a set period after which a taxpayer's liability is considered to be final.

A standard eligibility criterion that applies across the small business tax concessions available in the taxation legislation was introduced in *Tax Laws Amendment (Small Business) Act 2007*, which received Royal Assent on 21 June 2007. Before this, multiple eligibility criteria across small business concessions caused complexity and unnecessary compliance costs for small businesses.

Secrecy and disclosure provisions in the Taxation Administration Act 1953 were amended in *Tax Laws Amendment (2007 Measures No. 1) Act 2007*, which received Royal Assent on 12 April 2007. It allows the Commissioner of Taxation to make disclosures of taxpayer information to Project Wickenby taskforce officers and other prescribed taskforces officers.

Policy evaluation frameworks

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

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

Repeal of inoperative provisions

The *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* repealed over 4,100 pages of taxation provisions that had become inoperative, including all of the sales tax Acts and over 2,300 pages of income tax law. A draft Bill was exposed for public consultation in April and May 2006 and the resulting Act received Royal Assent on 14 September 2006.

Technical corrections and minor improvements

Measures to make technical corrections and amendments to the tax laws and other minor improvements involving no policy change were included in three Bills introduced in 2006-07. All three bills have been enacted: the *Tax Laws Amendment (2006 Measures No. 6) Act 2007* received Royal Assent on 19 February 2007, the *Tax Laws Amendment (2007 Measures No. 2) Act 2007* received Royal Assent on 21 June 2007 and the *Tax Laws Amendment (2007 Measures No. 4) Act 2007* received Royal Assent on 24 September 2007.

Community consultation

The 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. Community consultation continued to be a priority, with liaison with peak bodies on tax system issues and extensive consultation on individual measures. The Treasury continues to evaluate its consultation processes to improve them. It prepares a report three times a year which outlines the consultation strategy for each announced tax measure, the progress of the measure and a contact officer for the consultation. These reports are published on the Treasury website and are provided to the Board of Taxation to assist it monitor consultation processes. The Treasury participated in the Board of Taxation's review of international consultations processes which sought to identify any improvements to the Australian system. The board's report was released in August 2007.

Publications

Intergenerational Report

Revenue Group contributed to updating projections in *Intergenerational Report 2007* released in April 2007, including projections for population, labour force, GDP, superannuation, pensions, allowances, family payments aged care and revenue.

OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

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

Personal and Retirement Income Division (which incorporates the former Superannuation, Retirement and Savings Division) contributes to Output 3.1.2. 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 budget documentation and other publications adequately 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

Better Super reforms

On 5 September 2006, after extensive industry consultation, the Government released the outcomes of consultation to simplify and streamline superannuation. The Treasury coordinated the consultation process, analysed submissions and provided policy advice to the Government.

During 2006-07 the Treasury, with the Office of Parliamentary Counsel and the Office of Legislative Drafting, developed the legislation and regulations to implement the reforms, in a short timeframe. Approximately 700 pages of legislation and associated explanatory

material were prepared for Parliament. As a result of the reforms, superannuation law was consolidated in the *Income Tax Assessment Act 1997*; readability and usability of the law was improved; and the number of pages of superannuation taxation law was reduced by over one third.

The *Tax Laws Amendment (Simplified Superannuation) Act 2007* and associated Acts that gave effect to the reforms received Royal Assent on 15 March 2007.

Targeted consultation on the legislation and regulations took place with the superannuation industry, employers and other interested groups, and government departments and agencies. Some public consultation on the regulations also occurred.

The Treasury established and maintained a website to provide up-to-date information on the reforms and the developing legislation and regulations. It proved a useful tool during consultation and in maintaining community awareness about the reforms.

The Treasury contributed to development of the ATO's 'Better Super' information initiative through the technical review of different education products and provision of financial modelling.

The Treasury will continue to monitor the implementation of the new regime in 2007-08.

Other superannuation measures

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

- payment of an additional one-off doubling of the Government superannuation co-contribution for eligible personal superannuation contributions made during 2005-06;
- allowing a superannuation fund to invest in installment warrants of a limited recourse nature;
- preventing public offer funds from requiring an employer to become a standard employer sponsor before accepting contributions made on behalf of an existing member;
- providing for concessional taxation treatment for lump sum benefits paid to non dependants of Defence Force Personnel or Australian Federal Police killed in the line of duty;
- introducing new rules to allow the Commissioner of Taxation to provide information to employees on the progress of their Superannuation Guarantee Complaints;

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- guiding superannuation fund trustees on how to work out the amount of pre-1 July 1988 funding credits that can be used to reduce the taxable contributions that are included in the assessable income of the fund; and
- negotiating and implementing social security treaties to provide exemptions from the need to make compulsory superannuation or social security contributions for employees working temporarily in treaty countries. The social security treaty with Norway commenced during the year. Social security treaties were signed with Switzerland, Republic of Korea, Japan, Germany and Greece, but have not yet commenced. Negotiations continue with a number of other countries including Austria, Latvia, the Czech Republic, Poland, the Slovak Republic and France.

OUTCOME 4: WELL FUNCTIONING MARKETS

A well functioning market economy and financial system is integral to Australia's continuing economic development and the wellbeing of its people. Improving the operation of markets is intended to underpin stronger sustainable economic growth and enhanced living standards.

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

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

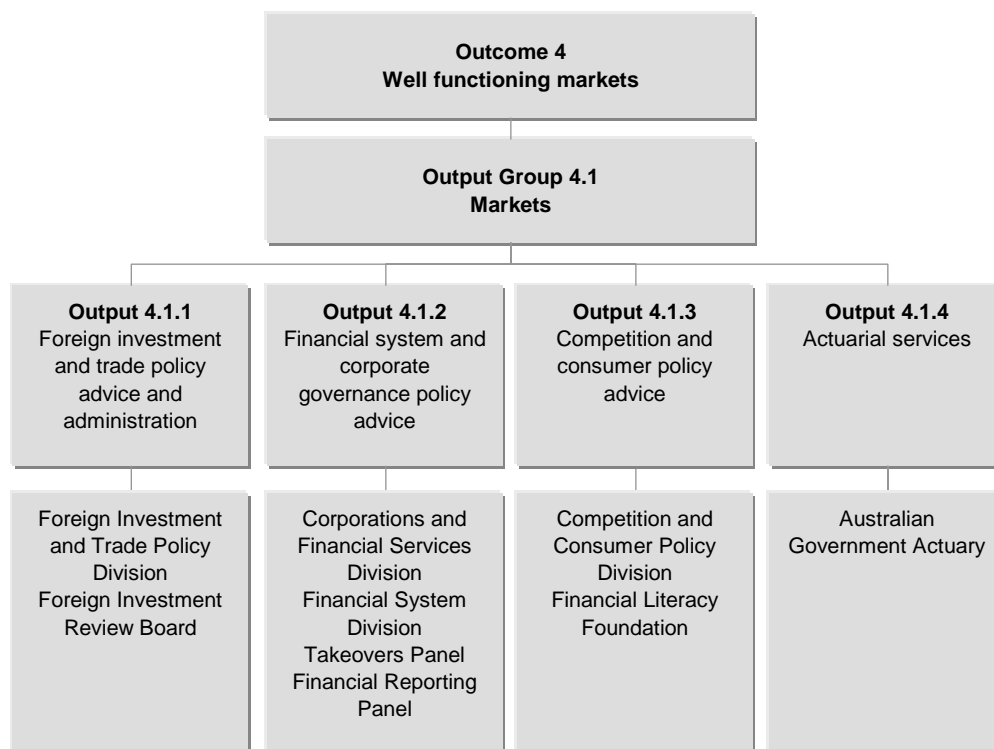
Markets Group is involved in consultations, particularly where reforms or new Government measures are proposed, with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders.

In 2006-07, 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 in 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 Japan, Chile, China, Malaysia, the Gulf Cooperation Council and, in partnership with New Zealand, the Association of Southeast 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 2006-07

The Treasury's *2006-07 Portfolio Budget Statements* and internal planning processes identified the following key priorities for Markets Group in 2006-07:

- policy relating to general foreign investment and trade, including foreign investment proposals;
- policy relating to the financial system, corporations and the financial services sector, including a range of initiatives to improve the frameworks for corporate insolvency and corporate groups;
- policy relating to a sound and efficient prudential framework with particular emphasis on banking, insurance and superannuation;

- policy relating to structural reform in key sectors of the economy, including energy, transport and communications, in conjunction with other government departments and agencies;
- policy relating to competition and consumer policy matters, including legislative amendments to the *Trade Practices Act 1974*;
- improving regulation and competition in the financial sector by facilitating well functioning and competitive financial markets, particularly by addressing banking competition and insurance market issues, improving the effectiveness of regulation, developing a single economic market with New Zealand in banking and insurance services, monitoring market supervision issues and responding to the assessment of Australia's financial system by the IMF;
- implementing trade, investment and competition policy priorities in relation to the Government's commitment to negotiate four free trade agreements — with China, ASEAN, Malaysia and the United Arab Emirates — as well as negotiating an investment protocol under the Closer Economic Relations Agreement with New Zealand. Other priorities include progressing trade and investment issues in APEC, G-20 and World Trade Organization (WTO);
- monitoring international and local compliance with foreign investment and trade policies, including by processing foreign investment applications, and further examining reform options with a focus on reducing compliance and administrative costs;
- representing Australia's interests in forums such as the OECD and APEC;
- international cooperation in financial system regulation, corporate governance, financial reporting, auditing, and corporate insolvency including the development of ways to further integrate the Australian and US financial services sectors, with a focus on regulatory recognition, including through the Financial Services Committee established under the Australia-US Free Trade Agreement;
- improving the regulatory framework for corporations and financial services, including by implementing reforms relating to corporate insolvency and corporate groups, reviewing the design of offences under the *Corporations Act 2001*, advising on the implementation of international financial reporting and auditing standards, implementing reforms to the *Insurance Contracts Act 1984* and refining financial services reforms;
- implementing the reform agenda for competition policy, including implementing reform to the *Review of the Competition Provisions of the Trade Practices Act* (the Dawson Review), the Senate small business report, criminal sanctions for cartels and the National Access Regime;

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- providing advice under the framework for the National Reform Agenda, agreed by COAG in February 2006, that builds on the National Competition Policy arrangements particularly in the key infrastructure areas of energy, transport and infrastructure regulation and in best practice regulation;
- implementing the Treasury's contribution to the Government's response to the Report of the Taskforce on Reducing Regulatory Burdens on Business;
- reviewing the Australian consumer policy framework, in particular, the product safety framework and penalties available for consumer protection;
- developing and delivering a range of financial literacy initiatives that will build the capacity of Australians to better manage their money and to take advantage of significant reforms to the finance sector through the work of the Financial Literacy Foundation;
- maintaining successful operations of the Australian Government Actuary, Financial Reporting Panel and the Takeovers Panel;
- providing secretariat services to the Financial Reporting Council, Financial Sector Advisory Council, the Ministerial Council on Consumer Affairs, the Ministerial Council for Corporations and the Commonwealth Consumer Affairs Advisory Council; and
- providing support for Treasury portfolio ministers when considering appointments to the statutory and non-statutory bodies within Outcome 4.

KEY OUTCOMES IN 2006-07

In 2006-07, Markets Group advice covered a broad agenda, including corporate governance, market integrity, financial system safety, financial product safety, financial literacy, competition and consumer policy, and protection of 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 Japan, Chile, the Gulf Cooperation Council, 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 Scheme to enhance current arrangements;

- contributing to Australia's participation in the IMF's financial sector assessment programme which found Australia to have a high level of compliance with the relevant core principles;
- developing and assisting passage of the *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* and introduction of the Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 to simplify and streamline regulation of corporations, financial services and prudential regulation, incorporating implementation of several recommendations in the *Report of the Taskforce on Reducing Regulatory Burdens on Business — Rethinking Regulation*;
- releasing for public consultation a draft bill of reforms to the *Insurance Contracts Act 1984* and a consultation paper proposing reforms to the framework for reviewing decisions of the Australian Prudential Regulation Authority;
- developing and introducing into Parliament the Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 to implement the Government's announced approach to regulating discretionary mutual funds and direct offshore foreign insurers, addressing a prudential regulatory gap identified in the 2003 HHH Royal Commissioner's report;
- developing and introducing into Parliament the Corporations Amendment (Insolvency) Bill 2007 to improve the efficiency and cost effectiveness of insolvency processes, strengthen the rights of employees and enhance the capacity of creditors to maximise their returns;
- promoting international cooperation on regulatory frameworks by working with regional partners to identify the host for the 2007 regional policy on International Financial Reporting Standards and participating in the OECD steering group on corporate governance;
- 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) for Treasury portfolio bodies, including the enactment of the *Governance Review Implementation (Treasury Portfolio Agencies) Act 2007*;
- overseeing the implementation of the Government's response to the Taskforce on Reducing Regulatory Burdens on Business announced on 15 August 2006 and, in particular, introducing enhanced regulation-making and review arrangements;
- working with the Department of the Prime Minister and Cabinet, along with relevant Commonwealth and State agencies, to develop specific reform proposals for the human capital, competition and regulatory reforms as well as governance arrangements for the National Reform Agenda. COAG largely

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endorsed the reform proposals at its 13 April 2007 meeting and the COAG Reform Council, as the governance body for the National Reform Agenda, commenced operations on 6 June 2007;

- continuing to progress competition policy reforms to the *Trade Practices Act 1974* including: through passing the *Trade Practices Legislation Amendment Act (No. 1) 2006* (the Dawson Act) and associated regulations, the *Trade Practices Amendment (National Access Regime) Act 2006*, and the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* (CER Act); introducing the Trade Practices Legislation Amendment Bill (No. 1) 2007 into Parliament; and developing a draft Bill to implement criminal sanctions for cartels;
- contributing to implementation of energy market reforms set out in the Australian Energy Market Agreement and development and implementation of the additional energy market reforms agreed by COAG in April 2007 as part of the National Reform Agenda;
- developing and progressing implementation of the Government's responses to the Productivity Commission's reviews of the price regulation of airport services, announced on 30 April 2007, and Part X of the *Trade Practices Act 1974*, announced on 4 August 2006;
- providing a submission to the Senate Economics Committee's Inquiry into the Price of Petrol in Australia in September 2006;
- playing a leading role in progressing the APEC Leaders' Agenda to Implement Structural Reform and encouraging greater dialogue in APEC's Economic Committee and other forums, including organising three APEC Policy Dialogue Workshops on Financial Sector Reform under the APEC Finance Ministers' Reform of the Financial Sector Initiative;
- continuing to chair the APEC Investment Experts Group and hosting the High Level Public-Private Dialogue on the Policy Framework for Investment in Melbourne in April 2007;
- hosting the 2007 National Consumer Congress, held over two days in Melbourne, and featuring high profile Australian and international experts speaking on consumer policy issues;
- continuing to participate in Ministerial Council processes examining options for achieving greater uniformity in Australia's consumer product safety system;
- delivering the *Understanding Money* media campaign, website and handbook, and facilitating introduction of financial literacy into the curriculum across the compulsory years of schooling;

- developing and helping to pass the *Financial Sector Legislation (Trans-Tasman Banking Supervision) Amendment Act 2006* to allow the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand to support each other in their functions relating to banking supervision;
- continuing the greater coordination of business law with New Zealand. The CER Act received Royal Assent on 21 June 2007. It sets in place a regime for the mutual recognition of securities offerings. The Act reduces the filing requirements for New Zealand companies operating in Australia and enhances the ACCC's ability to share information with others, including the New Zealand Commerce Commission;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel; and
- effectively managing the HIH Claims Scheme. At the end of June 2007, over 10,000 claims had been finalised and \$560 million had been paid in assistance since the scheme began in 2001. In November 2006, the Government announced closure of the gateway facility for late applications for assistance under the scheme. Work is continuing on the 840 claims that remain to be settled.

Table 6: Financial and staffing resources summary for Outcome 4

	Budget 2007 \$'000	Actual 2007 \$'000	Budget 2008 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	(326)	5,000
Appropriation Acts No. 2 and 4	170,292	170,292	173,204
Special Appropriations	1,477	-	-
Other expenses	-	7	-
Total administered expenses	176,769	169,973	178,204
Revenue from Government			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	4,048	4,764	4,944
Output 4.1.2 Financial system and corporate governance policy advice	21,685	22,011	23,195
Output 4.1.3 Competition and consumer policy advice	13,737	13,468	20,861
Output 4.1.4 Actuarial services	-	-	-
Total revenue from Government contributing to the price of departmental outputs	39,470	40,243	49,000
Revenue from other sources			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	78	474	113
Output 4.1.2 Financial system and corporate governance policy advice	259	437	387
Output 4.1.3 Competition and consumer policy advice	623	382	316
Output 4.1.4 Actuarial services	1,580	1,395	1,613
Total revenue from other sources	2,540	2,688	2,429
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,010	42,931	51,429
Price of departmental outputs			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	4,126	5,971	5,057
Output 4.1.2 Financial system and corporate governance policy advice	21,944	21,543	23,582
Output 4.1.3 Competition and consumer policy advice	26,097	25,454	21,177
Output 4.1.4 Actuarial services	1,580	1,324	1,613
Total price of departmental outputs	53,747	54,292	51,429
Total estimated resourcing for Outcome 4 (Total price of outputs and administered expenses)	230,516	224,265	229,633
Average staffing levels (number)	247	262	248

Notes: The budget for departmental and administered expenses for 2006-07 is as per the *2006-07 Portfolio Additional Estimates Statements*. The budget for departmental and administered expenses for 2007-08 is as per the *2007-08 Portfolio Budget Statements*.

OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION

During 2006-07, Foreign Investment and Trade Policy Division 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 under authorisations provided by the Treasurer, consistent with the policy. It also advised the Government on foreign investment and trade policy as it relates to Australia's participation in multilateral and bilateral agreements on investment. Further, Markets Group provided the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises.

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;
- foreign investment policy is effectively disseminated and explained to improve the standard of applications and compliance with policy requirements;
- a programme of compliance checks is undertaken on previous proposals subject to conditions — possibly leading to prosecutions, but aimed to reduce overall non-compliance;
- government policy is appropriately represented and Australia's negotiating position is pursued effectively in international forums; and
- the OECD Guidelines for Multinational Enterprises are promoted and the responsibilities of the Australian National Contact Point are fulfilled.

ANALYSIS OF PERFORMANCE

Advice on and processing of individual foreign investment proposals

Foreign investment proposals that fall within the scope of the FATA or Australia's foreign investment policy are examined to determine whether they might be contrary to the national interest.

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 interest⁴ in an Australian corporation valued above \$100 million — or from 1 January 2007, \$871 million for a US investor, except acquisitions involving a US government or in prescribed sensitive sectors — they must notify the Treasurer under section 26 of the FATA. During 2006-07, separate thresholds were introduced for offshore takeovers where the Australian subsidiary/assets represented less than 50 per cent of the global assets. The Treasurer must be notified of proposals to establish a new business valued at over \$10 million, and proposals involving direct investments by foreign governments and their agencies, regardless of size.

Under authorisation from the Treasurer, senior Treasury officers make decisions on less complex proposals that do not involve issues of high sensitivity. Around 95 per cent of proposals are decided under such authorisation.

The Treasury considered around 7,000 proposals in 2006-07, around 20 per cent more than in 2005-06. Over 90 per cent of proposals were decided within 30 days. The Treasury also received around 42,000 telephone calls and 5,000 items of written and email correspondence during the year. In examining large or otherwise significant proposals, the Treasury consults with State and Australian government departments and authorities, with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals.

During 2006-07, the Foreign Investment Review Board (an independent body established in 1976 to advise the Treasurer on foreign investment matters) provided advice to the Treasurer on a number of major proposals and also oversaw the overall investment screening functions of the division. The General Manager of Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

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

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

Compliance standards

The Treasury monitored compliance with the FATA and Australia's foreign investment policy, and maintained a rolling programme of targeted follow-up of conditions imposed on previous approvals. The Treasury examined around 4,000 decided proposals to ensure conditions were fulfilled and monitored major conditional business sector approvals. It also undertook more complex compliance investigations based on information from other government agencies and the public. In some instances, this resulted in follow-up action against foreign parties, including prosecution.

Representation in international forums

The 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 (FTA), Investment Protection and Promotion Agreements (IPPA) and other bilateral partnerships.

Free trade agreements/closer economic cooperation

New negotiations

In 2006-07, the Australian Government commenced FTA negotiations with Japan, Chile and the six members of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The Treasury is involved in negotiating investment-related provisions in each of these agreements.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing FTA negotiations with ASEAN, China and Malaysia. It was also lead agency in Investment Protocol negotiations between Australia and New Zealand.

In November 2006, Australia recommenced long-standing negotiations with Russia on a bilateral IPPA. The Treasury participated in these negotiations along with the Department of Foreign Affairs and Trade (DFAT) and the Attorney-General's Department.

Other processes

The Treasury was involved in the DFAT led Joint Experts Group that is investigating ways to strengthen economic links between Australia and Mexico, including the possible negotiation of a bilateral FTA.

Organisation for Economic Co-operation and Development

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

Part 2: Report on performance

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 member of the OECD, the Australian Government has committed to promote and implement the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point (ANCP), the General Manager of the Foreign Investment and Trade Policy Division.

In 2006-07, the ANCP reviewed a submission lodged in August 2006 by a consortium of five non-government organisations (the complainants) alleging that an Australian bank, through its financial links with a Malaysian-owned forestry company operating in Papua New Guinea, had breached various provisions of the OECD Guidelines for Multinational Enterprises. The ANCP commenced an initial assessment as to whether the issues raised warranted further consideration as a specific instance. After consideration, the ANCP determined that it would not be appropriate to accept the complainants' request to consider this as a specific instance. The ANCP released a final statement on 16 October 2006.

The ANCP also worked to enhance and reinvigorate its promotional programme of guidelines for the future. Preparations are underway for a business and community consultation focused on the financial sector in late 2007.

Asia-Pacific Economic Cooperation

Since becoming convenor of the Investment Experts Group in early 2005, the Treasury has undertaken a more active and strategic role in APEC's investment liberalisation and facilitation agenda. This leading role continues to form a significant part of the Treasury's contribution to developing key policy themes and priorities for APEC, which Australia hosted in 2007. In April 2007, the Treasury hosted a high level public-private policy dialogue on the Policy Framework for Investment (PFI) which showcased recent efforts by Vietnam, Indonesia and the Philippines to use the PFI to guide investment climate reform strategies. Since the PFI dialogue, the Treasury in partnership with OECD and Japan is contributing to a project to undertake a detailed assessment of Vietnam's investment climate reform strategies against several chapters of the PFI, which AusAID is funding under its ongoing strategic partnership agreement with the Treasury.

Liaison with Department of Foreign Affairs and Trade

In addition to participating in FTA and IPPA negotiations, the Treasury provides specialised advice to DFAT on Australia's involvement in the WTO Doha round of negotiations on the General Agreement on Trade and Services.

OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE

During 2006-07, the Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel and the Financial Reporting 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.

Markets Group is also responsible for administering the companies regulation payments to the States and the Northern Territory.

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;
- relevant information is presented effectively to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is effective; and
- ministerial correspondence is handled satisfactorily.

The key performance indicators for administered items are:

- amounts payable, according to agreed formulas, are accurately calculated; and
- payments are made according to agreed schedules.

ANALYSIS OF PERFORMANCE

The 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. The Treasury also processed related ministerial correspondence, published relevant information and met other procedural requirements. It provided effective support services to advisory bodies, liaised and consulted with stakeholders and represented the Australian Government at various meetings.

Financial system reform

Financial Claims Compensation Scheme

The Treasury contributed to the continuing work of the Council of Financial Regulators examining crisis management arrangements in Australia. The council has endorsed many of the arrangements currently in place for dealing with distressed financial institutions, while also identifying some aspects of these arrangements which could be clarified and strengthened. It also recommended that the Government consider introducing a financial claims compensation scheme to enhance current arrangements. The council consulted further with industry on the proposed scheme and its design during 2006-07 before reporting to the Treasurer. The Treasury participated actively in this process.

Reducing Regulatory Burdens on Business

The Treasury assisted the Government in implementing its response to the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006. On 4 December 2006, the Minister for Revenue and Assistant Treasurer released a proposals paper *Streamlining Prudential Regulation: Response to 'Rethinking Regulation'* and legislation giving effect to most of the proposals in the paper was introduced into Parliament on 21 June 2007. The Government also conducted further consultation on certain proposals relating to the review of administrative decisions made by the Australian Prudential Regulation Authority (APRA) in May 2007.

General Insurance Stage 2 Reforms

The Treasury continued to liaise 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 on 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 were implemented from 1 October 2006.

Money laundering

The Treasury assisted the Attorney-General's Department in developing Australia's anti-money laundering and counter-terrorist financing regime, meeting Australia's commitments to the Financial Action Task Force recommendations. The *Anti-Money Laundering and Counter-Terrorism Financial Act 2006* (AML Act), was passed in December 2006. It established a risk based approach to regulation, regulating the financial services sector, gambling services and bullion dealers in the first instance. The AML Act has a staggered implementation until December 2008. It will be administered by the Australian Transaction Reports and Analysis Centre.

The Attorney-General's Department is developing a second tranche of anti-money laundering and counter-terrorist financing legislation to extend coverage to real estate agents, dealers in precious metals and stones, lawyers, notaries, other independent legal professionals and accountants, and trust and company service providers.

The Treasury continues to work with the Attorney-General's Department, other government departments and regulators, and the financial sector to resolve implementation issues, support the extension of the legislation, and ensure Australia's interests are represented in international forums dealing with anti-money laundering and counter-terrorist financing.

Professional indemnity and public liability insurance

In December 2006, the Minister for Revenue and Assistant Treasurer released the Treasury publication *Available and affordable: Improvements in Liability Insurance following Tort Law Reform in Australia*. It outlines reforms to tort law Australian jurisdictions have undertaken in recent years.

In 2007, the Australian Government prescribed three more professional standards schemes. These were the Engineers Australia (NSW) Scheme, the Law Society of NSW Scheme and the Investigative and Remedial Engineers Scheme. The schemes limit the occupational liability of eligible members to certain amounts, in return for risk management practices and compulsory insurance cover.

Commonwealth prescription helps prevent plaintiffs from undermining State and Territory professional standards schemes by using Commonwealth legislation as an alternative avenue for legal action.

Terrorism insurance

The Treasurer released the *Terrorism Insurance Act Review: 2006* in September 2006. The review recommended that the terrorism insurance scheme continue to operate, subject to a further review within three years. The review also recommended modifications to the terrorism insurance scheme. The Treasurer made these modifications in April 2007 by issuing two ministerial directions to the Australian Reinsurance Pool Corporation and the Government amending the *Terrorism Insurance Regulations 2003*.

Adoption of non-operating holding company structures

In June 2007, legislation was passed which amended the *Financial Sector (Business Transfer and Group Restructure) Act 1999* to facilitate adoption of a non-operating holding company as the ultimate holding company of a financial group in Australia.

The Treasury consulted extensively with stakeholders in preparing this legislation. As a result, the amendments provide greater flexibility for financial groups in choosing a corporate structure to manage their risk exposures and comply with prudential requirements while allowing them to improve their business efficiency and international competitiveness.

Discretionary mutual funds and direct offshore foreign insurers

The Minister for Revenue and Assistant Treasurer announced the Government's approach to regulating discretionary mutual funds and direct offshore foreign insurers. The Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 was introduced into Parliament on 21 June 2007. The Treasury continues to progress implementation of the Government's decision.

Natural disaster insurance

The Treasury is working with the Insurance Council of Australia and other Australian Government departments on a range of activities to map, mitigate and manage the impact of natural disasters on the community.

Pandemic preparedness

The Treasury has participated in inter-departmental work led by the Department of the Prime Minister and Cabinet on pandemic preparedness in relation to access to financial resources. A focus is to avoid or minimise disruption to financial institutions and services in a pandemic. Within the framework provided by the National Action Plan for Human Influenza Pandemic, the Treasury has worked with portfolio agencies and the financial sector to facilitate appropriate planning for a possible pandemic, including in relation to the availability of telecommunications and other critical infrastructure such as the payments system.

Implementation of the Uhrig Review recommendations

The Treasury is continuing to work with the Department of Finance and Administration to implement recommendations arising from the Uhrig Review. An important milestone was reached with enactment of the *Governance Review Implementation (Treasury Portfolio Agencies) Act 2007*, which transferred APRA, the Australian Securities and Investments Commission (ASIC) and the Corporations and Markets Advisory Committee to a new governance and financial framework from 1 July 2007.

The Treasury also commenced a review of the governance arrangements of the Australian Accounting Standards Board and the Auditing and Assurance Standards Board in line with

the recommendations in the Uhrig Review. These boards are expected to move to a new governance and financial framework from 1 July 2008.

Financial sector trends

The Treasury has continued to advise Government on emerging market trends and structures. Work has included assessing market developments and new products, monitoring trends affecting competition in the financial sector and considering potential developments which may undermine the stability of existing policy settings. In addition, the Treasury has advised Government on developments in relation to banking fees and charges.

Financial services developments

Simpler Regulatory System Act

The *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* (SRS Act) received Royal Assent on 28 June 2007. The reforms followed extensive consultation with stakeholders. The SRS Act simplifies and streamlines the operation of financial services regulation and seeks to reduce the costs of regulatory compliance. It implements a number of recommendations in the report of the Taskforce on Reducing Regulatory Burdens on Business.

Financial services licensees' compensation arrangements

Regulations commenced on 1 July 2007 regarding compensation arrangements for financial services licensees who provide services to retail clients.

The regulations reflect comments from the consultation processes and help determine what constitutes adequate compensation arrangements. This includes extensive transitional arrangements.

Financial services regulatory refinements

On 23 March 2007, the Parliamentary Secretary to the Treasurer released for public consultation a package of proposed amendments to the *Corporations Regulations 2001* as part of the Government's ongoing commitment to simplifying the corporate and financial services regulatory system. The proposed amendments will improve the operation of financial services regulation in Australia, reduce the regulatory burden and improve industry efficiencies.

The regulations are expected to be made later in 2007 after consideration of matters arising from consultation.

Review of product rationalisation

The Treasury released the *Product Rationalisation Issues Paper* which discusses approaches to merging or consolidating products of a similar nature into a single investment product

with equivalent features and benefits. The process aims to remove outdated legacy products by transferring investors into other, more efficient products. The paper identifies issues involved in developing a product rationalisation mechanism.

International liaison

IMF Financial Sector Assessment Programme

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.

In October 2006, the IMF released the 'Detailed Assessment of Observance of Standards and Codes'. Australia was rated strongly in the assessments, and was found to have a high level of compliance with the relevant core principles. The IMF noted that in a number of areas Australia is at the forefront of best practices.

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.

The Treasury has pursued the council's work programme set out by Ministers, which includes looking at improved cooperation on crisis management, promoting seamless services provision for customers and sharing experiences on improving the quality of insurance regulation.

The Treasury assisted the council by preparing the *Financial Sector Legislation Amendment (Trans-Tasman Banking Supervision) Act 2006*, which promotes greater cooperation between the Australian and New Zealand banking supervisors in fulfilling their statutory functions. The legislation requires the supervisors to support each other in performing their statutory responsibilities and, as much as practicable, avoid actions likely to have a detrimental effect on financial system stability in the other country. They are also to consider the implications of their actions for the financial system stability in the other country and, where reasonably practicable, consult each other before exercising a power that is likely to be detrimental to the other country's financial system stability.

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.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* received Royal Assent on 21 June 2007. The Act supports greater coordination of business law by providing a framework for the mutual recognition of securities offerings and reducing the filing requirements for New Zealand companies operating in Australia, furthering the mutual recognition of company registrations. The Act furthers the work programme annexed to the Memorandum of Understanding by enhancing the Australian Competition and Consumer Commission's ability to share information with others, including the New Zealand Commerce Commission.

The Treasury participated in the Trans-Tasman Accounting and Auditing Standards Advisory Group with representatives from the accounting and auditing standard setters in Australia and New Zealand, professional accounting bodies, and officials from the New Zealand Ministry of Economic Development. During the year, the group's work expanded to include auditing-related matters. The group is progressing a number of projects to ensure both countries' financial reporting frameworks do not impede trans-Tasman business activity, including mutual recognition of company auditors in each jurisdiction.

International Financial Reporting Standards regional policy forum

Following the success of the inaugural International Financial Reporting Standards (IFRS) regional policy forum held in Sydney in 2005, the Treasury worked with regional partners to identify a host for the next forum. This forum was held in Tokyo in March 2007. The forum covered a range of financial reporting issues relevant to the Asia-Pacific region including interpretation of IFRS, financial reporting by small and medium entities and reporting on IFRS compliance. Representatives from relevant policy and standard setting institutions from 14 jurisdictions attended. The next forum is planned for late 2008.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by resolving 32 applications, based on the *Takeovers Chapter of the Corporations (Repeals, Consequential and Transitional) Act 2001*, ensuring acquisition of control over voting shares in listed and widely held companies occurs in an efficient, competitive and informed market; appropriately informing security holders and directors; and ensuring security holders have a reasonable and equal opportunity to participate in the benefits from a proposal.

The Panel also publishes guidance notes to foster market confidence and efficiency. In 2006-07, the Panel released two new Guidance Notes.

The Panel was subject to the second judicial review of its decisions during 2006-07. Alinta Limited applied to the Federal Court for review of the Panel's decision. The court upheld one part of the Panel's decision but quashed the other. In the first decision appealed in the Full Court of the Federal Court of Australia, the court, by majority, declared section 657A(2)(b) of the *Corporations Act 2001* (Corporations Act) invalid in

purporting to grant judicial powers of the Commonwealth to the Panel. The High Court has since granted the Attorney-General special leave to appeal this decision.

Financial Reporting Panel

The Financial Reporting Panel began operating in July 2006. Its primary function is to resolve disputes, in a timely, efficient and cost-effective manner, between ASIC and a company, disclosing entity or registered scheme over the application of accounting standards in its financial reports.

The panel is based in Melbourne and comprises part-time members appointed by the Minister. Members are drawn from throughout Australia on the basis of their experience and knowledge in accounting, auditing and company administration.

During the year, a full-time executive was appointed; the operating procedures of the panel were developed; and liaison commenced with the marketplace on the panel's roles and activities. The panel has helped resolve a number of disputes on accounting treatments.

Currency

The Treasury chaired and served on the Royal Australian Mint Advisory Board. The Treasury also progressed reviews of arrangements for determining face value, royalty rates and issue price on Australian numismatic coins, and prepared currency determinations for the Perth Mint's numismatic coin programmes.

Financial reporting framework

Simpler Regulatory System Act

A number of reforms to the SRS Act enhanced Australia's financial reporting framework. These include reducing the number of proprietary companies with financial reporting requirements, increasing the ability of companies to distribute annual reports using the internet, rationalising the executive and director remuneration disclosure requirements and simplifying the auditor independence requirements.

Review of financial reporting by unlisted public companies

The Treasury commenced a review of the financial reporting requirements of unlisted public companies under the Corporations Act. A large proportion of unlisted public companies are small, not-for-profit entities, and the review seeks to ensure current requirements are appropriate for this sector. As part of this review, a discussion paper was issued in June 2007 seeking public comment on a range of issues associated with financial reporting by these entities.

Auditor independence

In addition to the SRS Act reforms to auditor independence, the Treasury released an international comparison of Australia's auditor independence requirements. The comparison found substantial underlying equivalence between the Australian auditor independence requirements and 'best practice' standards adopted internationally.

Parliament passed the *ASIC Amendment (Audit Inspection) Act 2007* in February 2007. This allows ASIC to enter into cooperative arrangements with other audit regulators and enhances ASIC's domestic audit inspections powers.

Implementation of accounting and auditing standards

The Treasury monitored the implementation of IFRS in Australia. In particular, the Treasury worked with the Australian Accounting Standards Board and the Auditing and Assurance Standards Board and the Financial Reporting Council to review the potential application of the proposed IFRS on financial reporting by small and medium entities in Australia and identify ways to increase international recognition of Australia's adoption of the standards. The Treasury also monitored the impact of the introduction of force-of-law auditing standards in Australia.

Company law and corporate governance

Corporate governance

The Treasury provided advice on a range of corporate governance issues during 2006-07, particularly in relation to corporate social responsibility and the increasing trend for legislation — especially State and Territory legislation — to impose personal liability for corporate fault.

Sanctions in corporate law

On 5 March 2007, the Treasurer released a discussion paper reviewing sanctions in the Corporations Act and the *Australian Securities and Investments Commission Act 2001* (corporate law). The review of sanctions is being conducted as part of a broader strategy to reduce regulatory burden and achieve simpler and more effective regulation. The review aims to engage stakeholders on where they see complexity and inconsistency in the current system of sanctions.

One of the issues examined in the paper is whether corporate law could implement a broader range of criminal, civil and administrative sanctions for misconduct. The paper also examines whether the design of offence provisions could be improved, including through the introduction of a 'general defence' for directors.

Corporate insolvency

On 31 May 2007, the Parliamentary Secretary to the Treasurer introduced the Corporations Amendment (Insolvency) Bill 2007 into Parliament. This Bill includes

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measures to improve the efficiency and cost effectiveness of insolvency processes, strengthen employee rights and enhance creditor capacity to maximise their returns.

The reforms were based on recommendations from public reviews into the Australian insolvency framework. The Bill has benefited from extensive industry consultation, initially through the Insolvency Law Advisory Group and subsequently through the public release of draft legislation in November 2006.

Governance for small companies

On 24 May 2007, the Treasury and the University of Canberra held a public symposium on the Regulation of Small Companies. The symposium focused on the governance requirements for small companies. It was attended by representatives of government, the business communities and academics. The outcomes of the symposium are informing an evaluation of policy in this area.

OECD steering group on corporate governance

The Treasury provided the Australian representative to the OECD steering group on corporate governance. The work of the steering group included finalising and rolling out an assessment methodology in relation to the OECD corporate governance principles, examining the impact of private equity on corporate governance, and examining the use of regulatory impact assessments in corporate law reform. The Treasury also provided the Australian representative to the Asian corporate governance roundtable.

Statutory and other procedural requirements

Financial sector levies

The 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.

In January 2007, the Treasury and APRA released a joint discussion paper canvassing the prospects for financial sector levies for the superannuation industry beyond 2006-07.

Appointments

The Treasury processed appointments to the Australian Accounting Standards Board and the Auditing and Assurance Standards Board, 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 Financial Reporting Council, 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

The Treasury provided secretariat services to the Ministerial Council for Corporations, which met twice during 2006-07. The Treasury also assisted the Parliamentary Secretary to fulfill the Government's obligations under the Corporations Agreement 2002.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2006-07. This statutory body provides strategic oversight of the accounting and audit standard setting processes, including the Australian Accounting Standards Board and the Auditing and Assurance Standards Board, and monitors the effectiveness of Australia's auditor independence requirements.

The 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 2006-07, 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* (TPA), 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 financial literacy. 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;

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- statutory and other procedural, administrative and reporting requirements are met;
- 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;
- secretariat services provided to advisory bodies are effective;
- ministerial correspondence is handled satisfactorily;
- effective clearinghouse and website services are established and maintained with information on financial and education services, superannuation and superannuation choice; and
- the establishment of education benchmarks and standards in schools is promoted.

ANALYSIS OF PERFORMANCE

Competition policy

The Treasury contributed to a number of key outputs in relation to the Government's competition policy legislative reform programme.

The *Trade Practices Legislation Amendment Act (No. 1) 2006* (the Dawson Act) and associated regulations implement the Government's response to the 2003 Review of the Competition Provisions of the *Trade Practices Act 1974* (the Dawson Review). Parliament passed the Dawson Act on 19 October 2006, and it took effect on 1 January 2007.

The Dawson Act introduced a new collective bargaining notification regime for small business, where the annual value of the transaction does not exceed \$3 million. The Treasury prepared regulations applying higher thresholds for small businesses in certain industries to collectively bargain. These regulations commenced on 27 March 2007.

The Treasury is developing a Bill which will implement one of the recommendations from the Dawson Review, to introduce criminal penalties for serious cartel conduct.

The Treasury provided advice on the *Trade Practices Amendment (National Access Regime) Act 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 Act was passed on 18 August 2006 and took effect on 1 October 2006.

The Treasury also developed legislation to implement the Australian Government's response to the June 2004 Senate Economics References Committee report, *The Effectiveness of the Trade Practices Act 1974 in Protecting Small Business*. On 20 June 2007, the Treasurer introduced the Trade Practices Legislation Amendment Bill (No. 1) 2007 into the House of Representatives.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* (CER Act) amends the TPA to allow the ACCC to exchange information gathered in the course of investigating competition and consumer protection matters with other agencies. Parliament passed the CER Act on 14 June 2007 and the amendments took effect on 19 July 2007.

The Treasury provided a submission to the Senate Economic Committee's Inquiry into the Price of Petrol in Australia and assisted in relation to the Treasurer's direction on 15 June 2007 to the ACCC to commence an inquiry into petrol pricing across Australia under Part VIIA of the TPA, and the Treasurer's announcement of 8 August 2006 that the ACCC would extend its monitoring of fuel prices to include E10.

Following the February 2006 COAG meeting, the Treasury, the Department of the Prime Minister and Cabinet, and relevant Commonwealth and State agencies developed specific reform proposals for the human capital, competition and regulatory reforms, as well as governance arrangements for the National Reform Agenda.

COAG largely endorsed the reform proposals at its 13 April 2007 meeting and the COAG Reform Council began operations on 6 June 2007.

Specific National Reform Agenda proposals the Treasury assisted in developing include: reforms designed to strengthen the national character of Australia's energy market; transport-related competition reforms; an implementation plan to provide for a national system of economic regulation for nationally significant infrastructure; and commitments to improve regulation-making and review processes and address ten priority cross-jurisdictional regulation 'hotspots'.

The Treasury also worked with the Department of Industry, Tourism and Resources to progress the Ministerial Council on Energy's reform agenda.

The Treasury also provided policy advice on a range of other transport issues, including implementation of the Government's national land transport plan, AusLink, and development and implementation of the Government's responses to the Productivity Commission's reviews of the price regulation of airport services and Part X of the TPA.

The Treasury assisted in developing the Government's response to the final report of the *Taskforce on Reducing Regulatory Burdens on Business*, and in progressing the reforms announced in that response. The Government's response, which was released on 15 August 2006, included decisions to streamline and strengthen the Australian Government's best practice regulation making and review processes. The Treasury also facilitated commencement of the Productivity Commission's first annual review of regulation, focusing on the regulatory burden on business in the primary sector.

Part 2: Report on performance

The Treasury was involved in developing the Government's comprehensive broadband strategy, known as Australia Connected, announced by the Government on 19 June 2007.

The Treasury coordinates and advises the Government on the preparation of terms of reference for Productivity Commission research and inquiries. In 2006-07, this involved two public inquiries and three commissioned research references.

The Treasury has an advisory, reporting and coordination role for the Government's ongoing commitment to National Competition Policy.

The Treasury has been involved in competition policy-related aspects of free trade agreements with China, ASEAN, the Gulf Cooperation Council, Malaysia, Japan and Chile. The 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.

The Treasury played a leading role in progressing the APEC Leaders' Agenda to Implement Structural Reform and encouraged greater dialogue in APEC's Economic Committee and other forums. Specifically, the Treasury hosted a seminar on the role of competition policy in structural reform and organised a roundtable discussion in June 2007 in Cairns on 'creating a competition culture' with an issues paper and country submissions. The Treasury also self-assessed Australia's market openness, regulatory and competition policies through applying the APEC-OECD Integrated Checklist on Regulatory Reform and presented these findings in an APEC seminar in June 2007 in Indonesia and in the APEC Economic Committee meetings in Cairns.

The Treasury continued to represent Australia's interests in the OECD Competition Committee and Consumer Policy forums.

Consumer policy

In 2006-07, the Treasury provided advice to the Government regarding the consumer policy framework which facilitates the effective and positive engagement of consumers in the economy.

In May 2007, the Australian Government hosted the National Consumer Congress. The 2007 congress included presentations and panel discussions on a range of topical consumer policy issues. The congress was well attended, with delegates representing business, consumer advisory services, as well as State, Territory and federal consumer affairs officials.

In December 2006, the Treasurer announced that the Productivity Commission will undertake an inquiry into Australia's consumer policy framework and its administration. The Treasury provided advice regarding the terms of reference for the inquiry and continues to monitor its progress.

The Treasury continued to participate in the review of the Australian consumer product safety system. As a member of the working party, the Treasury continued examining options for achieving greater uniformity in Australia's consumer product safety system and provided advice on the implications of those options.

The Treasury also progressed the Ministerial Council on Consumer Affairs (MCCA) consumer policy research agenda. Following an open tender, the Treasury engaged Access Economics to conduct a study into the cost and incidence of consumer product-related accidents in Australia. The Treasury continues to monitor production of the final report.

The Treasury is also leading an MCCA working party examining the introduction of civil penalties for contraventions of Australia's consumer protection laws. In particular, the Treasury has developed a draft report outlining various types of civil penalties, and the risks and benefits associated with introducing them under the TPA as well as equivalent State and Territory fair trading legislation.

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 and take advantage of increased competition and choice in Australia's finance sector. In 2006-07, the foundation addressed these objectives by:

- delivering the *Understanding Money* media campaign (July-December 2006), and continuing to provide consumers with reliable, trusted and independent information on financial literacy issues through the *Understanding Money* website and handbook;
- working with all government, Catholic and independent school sectors to integrate financial literacy into the curriculum across the compulsory years of schooling, through a national framework under which all Australian children will receive financial literacy education from Kindergarten to Year 10, from 2008 onwards;
- facilitating development of a national strategy to provide guidance on the delivery of professional development for teachers to support implementation of the framework;
- producing a resource on financial literacy with Indigenous Australians, *Understanding Money — Good Practice in Developing Financial Literacy Initiatives with Indigenous Australians*;

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- informing the delivery of financial literacy education in the workplace and producing a resource for employers, *Understanding Money — Financial Literacy in the Workplace*;
- facilitating a pilot programme, in partnership with the Master Builders Association, to introduce financial literacy training to members, cadets and apprentices; and
- developing a web-based resource for teachers, trainers and human resources professionals that includes case studies, quality assessed education materials, and advice on developing and providing financial literacy education.

The Foundation's Advisory Board, chaired by Mr Paul Clitheroe, provides advice to the Government 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

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

OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2006-07, the Australian Government Actuary was responsible for delivery of Output 4.1.4: Actuarial services.

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

PERFORMANCE INFORMATION

The key performance indicator is the efficient provision of high quality 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 2007, 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 ATO 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 the 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.

The 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. The board reviews financial performance and oversees the strategic direction of the office.

STRATEGIC COMMUNICATIONS DIVISION

Strategic Communications Division provides a central coordination role and point of contact for Treasury portfolio ministers' offices, the Executive Board, the Audit Committee and Treasury groups.

Strategic Communications Division assists in achieving the Treasury's outcomes by providing services for 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.

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

KEY PRIORITIES IN 2006-07

The key priorities were to:

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

KEY OUTCOMES IN 2006-07

The key outcomes achieved were:

- provision of issues management services and support across the Treasury;
- liaison, briefing and correspondence coordination for the Treasury and its stakeholders;
- enhancement of the Treasury's risk management and quality assurance capabilities;
- further improvement of reporting, support services and systems for advice sent to ministers;
- establishment of a Policy Evaluation Unit to enhance systems of evaluating policy development and implementation; and
- implementation of an events management capability.

CORPORATE SERVICES DIVISION

Corporate Services Division aims to provide efficient and effective corporate services, products and advice to the Treasury, Treasury portfolio ministers and other clients to enable them to meet their objectives.

In 2006-07, Corporate Services Division restructured from four units to three units by merging the Information Services Unit and Information Technology Services Unit to form a new Information Management and Technology Services Unit. The key objectives of the amalgamation were to strengthen synergies between teams, eliminate overlap and duplication of services, and streamline reporting. The restructure also aims to provide 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.

A new senior executive service position was created to head the Information Management and Technology Services Unit, and strengthen the division's strategic capacity.

KEY PRIORITIES IN 2006-07

In the 2006-07 Corporate Plan, Corporate Services Division's priorities were identified as:

- completing the annual financial statements required under the new Australian Equivalent of International Financial Reporting Standards;
- updating and promulgating the Treasury's assets and capital management plan;
- enhancing and testing the Treasury Business Continuity Plan, including continuing to identify methods and processes for capturing vital records into a managed environment;
- enhancing the delivery of contract management services in the Treasury;
- developing the Treasury Knowledge Management Strategic Plan;
- reviewing the Treasury internet and intranet sites;
- implementing a new library management system;
- upgrading IT equipment, including desktop and laptop computers, network servers and storage facilities, video conferencing facilities, and printing and reproduction services and equipment;
- following appropriate business process analysis, continuing to develop IT applications to assist in the management of budget and taxation measures;

Part 2: Report on performance

- enhancing the Treasury IT security architecture to take advantage of emerging technology;
- negotiating and implementing the next Collective Agreement and Australian Workplace Agreement framework;
- implementing recruitment, workforce and wellbeing strategies to support staff, including graduates, cadets and mature age workers;
- planning and conducting the 2007 Staff Survey to inform and guide organisational strategies; and
- implementing and reviewing the Treasury's Professional Development Framework, including the new Executive Management and Leadership Programme, Introduction to Law and Introduction to Economics.

KEY OUTCOMES IN 2006-07

The following were key outcomes in 2006-07.

- The 2005-06 financial statements were completed and audited. They required incorporation of the Australian Equivalent of International Financial Reporting Standards.
- The Executive Board adopted the asset and capital management plan for the next ten years which provides for replacement of all capital assets, including IT equipment, non-IT office equipment, office fitout and both internally generated and external software. The plan demonstrated that existing resources could fund all required asset replacements.
- The Treasury updated its Business Continuity Plan and is preparing to test it early in 2007-08.
- The Treasury has reviewed its procurement methods and is implementing a more centralised procurement framework.
- The Executive Board endorsed the Treasury's Information and Knowledge Management Strategic Plan. The plan formalises a shared agreement on the meaning of 'information and knowledge management' and provides a governance structure, through the Information and Knowledge Management Advisory Board. This board ensures information and knowledge management initiatives are progressed, supported and encouraged within the context of the Treasury's departmental priorities and the Information and Knowledge Management programme budget.
- The Information Technology Project Management Office was established in February 2007 to assist the Chief Information Officer by facilitating implementation of the Information and Knowledge Management Strategic

Plan and providing project management and business analysis support for IT projects.

- Key improvements in information management and technology services were:
 - strategic sourcing of print and reproduction services;
 - streamlining of the data and voice telecommunications contracts;
 - re-accreditation of the Treasury's internet gateway and certification of the Treasury's network to protected level;
 - implementation of the budget management system;
 - successful provision of support for the G-20 and APEC events; and
 - refreshing of desktop computers, servers and software at the Treasury's overseas posts.
- The Treasury Workplace Agreement 2006-09 for non-SES staff came into operation in September 2006 and will nominally expire in September 2009. The agreement followed consultation with staff and the Workplace Relations Committee and provides for increased pay rates and minor variations to conditions of service. The Treasury continues to offer to APS6, EL1 and EL2 staff Australian Workplace Agreements that provide performance-based salary increases above those available under the Treasury Workplace Agreement. Both agreements offer conditions of service that are designed to make the Treasury an employer of choice.
- The Treasury implemented recruitment, workforce and wellbeing strategies designed to support staff. The Human Resources Unit reported to the Executive Board in November 2006 on progress of the Treasury's Staff Wellbeing Framework. The report monitored staffing trends, benchmarked the Treasury data against the broader APS and comparator agencies, and assisted in identifying potential risks to the delivery of organisational outcomes. While staff wellbeing data did not currently identify significant risks to the Treasury, a continued focus on workforce planning and capability development is essential in an increasingly tight labour market and with changing generational expectations.
- The Treasury's Mature Age Employment Strategy, launched in May 2006, provides mature age workers with more flexible options for continuing to work. Seminars helped inform staff about flexible working arrangements and superannuation options as part of their transition to retirement. The Treasury's alumni programme was launched in March 2007 to encourage former employees, including retirees, to consider registering for flexible work opportunities including project work, participation in task forces and mentoring.

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- The report on the 2007 Staff Survey, held in June 2007, is to be delivered to the Executive Board early in 2007-08. The survey results will be used to inform and guide organisational strategies and to gain feedback on issues of importance to staff in the Treasury and in a broader APS context. The Treasury results are benchmarked against results from similar organisations, providing a useful context for staff feedback.
- The Treasury continued to invest significantly in professional development, guided by a Professional Development Framework. The framework recognises capability development as being critical to the Treasury's mission. In particular, the Treasury introduced a new and challenging Executive Leadership Programme to enhance leadership and strategic thinking skills; conducted an extensive series of Treasury seminars; and focused on strengthening policy advising and other skills through on and off-the-job skills development.



PART 3 MANAGEMENT AND ACCOUNTABILITY

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PART 3

Part 3: Management and accountability

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CORPORATE GOVERNANCE

The 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 the Treasury's resources.

Key aspects of the 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 the Treasury's resource use, based on budgeting, financial accounting, audit, fraud control, risk management and other reporting systems.

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

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

- the Secretary: accountable for the Treasury'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 providing technical expertise and team leadership and contributing to unit outputs.

SENIOR MANAGEMENT COMMITTEES AND THEIR ROLES

The Executive Board

The 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 Treasury's strategic leadership and management, including:

- organisational development — shaping the 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 allocation of resources — meeting current and future work priorities.

The Executive Board members as at 30 June 2007 were:

- Dr Ken Henry, Secretary;
- Dr Martin Parkinson, Executive Director, Macroeconomic Group (offline);
- Dr David Gruen Executive Director, Macroeconomic Group (acting);
- Mr Jim Murphy, Executive Director, Markets Group;
- Mr Mike Callaghan, Executive Director, Revenue Group;
- Mr David Tune, Executive Director, Fiscal Group;
- Mr David Parker, Alternative Executive Director, Macroeconomic Group; and
- Ms Deidre Gerathy, General Manager, Corporate Services Division.

The Executive Board is supported by the Strategic Communications Division. Mr Frank Di Giorgio, General Manager, Strategic Communications Division, is secretary to the Executive Board.

Audit Committee

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

- supporting and enhancing the control framework;
- providing assurance on published financial information;
- monitoring, reviewing and reporting on compliance; and
- assisting the Chief Executive to comply with all legislative and other obligations.

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

The Audit Committee members as at 30 June 2007, were Mr David Parker (the Chair), Mr David Martine, Mr Geoff Miller, Ms Deidre Gerathy, Mr Mark O'Connor, Mr Michael Burton and Mr Bruce Jones (the external representative). The Audit Committee met six times during 2006-07.

Remuneration committees

Remuneration committees are established within the Executive, Corporate Services Division, Strategic Communications Division and the four policy groups in the Treasury to recommend to the Secretary the determination of salary rates available under Australian Workplace Agreements (AWAs) for APS6, EL1 and 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 the Treasury's management structure are set out in Part 1, Figure 1 on page 14.

CORPORATE PLANNING AND REPORTING

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

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

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

RISK MANAGEMENT

The Treasury is committed to a comprehensive, coordinated and systematic approach to risk management. That approach is directed towards 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 is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004), and aims to:
 - integrate and formalise existing risk management processes across the Treasury;
 - 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 1997* 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 the 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.

The Treasury strategies aim to identify and manage risks associated with 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 the Treasury's central computing infrastructure is lost completely or partially. The plan aims to restore services within an appropriate time;
- Business Continuity Plans for the Treasury's IT application systems which set out alternate methods and processes to use, so the 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 the 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 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 Organization for Standardization and Defence Signals Directorate guidelines which ensure compliance with best practice website security;

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- 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 the Treasury's IT infrastructure and management practices; and
- 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.

Staff awareness of risk management policies and procedures is raised through training programmes and Treasury 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 Australian Public Service 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 Workplace Agreement and Australian Workplace Agreements (AWAs) contain a commitment from employees to uphold Treasury values and comply with the Australian Public Service Code of Conduct.

The Treasury 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 the 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. The 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 help them to comply with legislation and the 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 staff are appraised using the Australian Public Service Commission'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 person, which reflects performance.

An increase in ranking based on longer-term performance can lead to an increase in base salary. See Table 9 on page 138 for details of senior executive service salary scales. Additional information on remuneration and performance pay is set out in Note 14: Executive remuneration in the Financial Statements on page 200.

INTERNAL AND EXTERNAL SCRUTINY

AUDIT

The Audit Committee convened six times in 2006-07. The committee's work included reviewing the Treasury's financial statements and a range of internal and external audit reports.

The Audit Committee's Financial Statements sub-committee convened four times in 2006-07, and comprised members from the Treasury, the ANAO, the Treasury's internal audit service provider and an external representative of the Treasury Audit Committee. The sub-committee monitors production of the financial statements and acts as a forum for resolving issues.

The Treasury engaged KPMG to develop the 2006-07 internal audit programme. The Audit Committee, assisted by KPMG, continuously improves audit services by regularly reviewing the Treasury's audit programme and scrutinising internal audit recommendations, as well as relevant ANAO reviews.

INTERNAL AUDITS — THE TREASURY

The Treasury completed five internal audits/reviews during 2006-07.

Conflicts of interest

The Treasury has access to, and produces a range of financial and policy information that can impact on financial markets. Possible inappropriate use of this information by officers is a significant risk. This review investigated whether the Treasury's conflict of interest framework appropriately encapsulated the four key principles for managing conflicts of interest:

- protecting the public interest;
- supporting transparency and accountability;
- promoting individual responsibility and personal example; and
- building a supportive organisational culture.

The review found the Treasury's existing conflict of interest framework is focused on protecting the public interest. The Treasury agreed to implement the final report's two

low-level recommendations to support transparency and accountability within the existing framework.

Expenditure on consultancies

This review examined whether the Treasury had the appropriate framework in place to meet legislative reporting requirements on consultancy expenditures.

The Treasury agreed to implement the five medium/low-level recommendations to assist it obtain completeness and accuracy in reporting expenditure on consultancies.

FMA compliance

This review examined the Treasury's processes, controls and delegations supporting the *Financial Management and Accountability Act 1997* (FMA) requirement to provide a Certificate of Compliance to the Australian Government. The review considered the following objectives:

- identifying key FMA compliance risks;
- reviewing and recording the Treasury's financial control and compliance framework; and
- identifying gaps in the control and compliance framework to improve management assurance mechanisms supporting FMA compliance within the Treasury.

The Treasury agreed to implement the report's eight medium/low-level recommendations to assist it meet the requirements of the Certificate of Compliance.

IT procurement

This review assessed whether the current IT procurement procedures and processes align with Commonwealth Procurement Guidelines, departmental policies/procedures and conflict of interest guidelines.

The Treasury has agreed to implement two low-level recommendations to strengthen its IT procurement framework.

Security of staff in the Pacific

This review examined the Treasury's linkages and communication protocols, internally and at a whole-of-Government level, to ensure they align with security and other nation-specific information that could affect officers deployed in the Pacific. The review also examined the Treasury's response plan to assess flexibility in response methods and

coverage of identified risks. The Treasury agreed to implement the two-low level recommendations.

AUSTRALIAN NATIONAL AUDIT OFFICE REPORTS

In 2006-07, ANAO conducted one performance audit specific to the Treasury's operations.

Audit Report No. 17: Treasury's management of international financial commitments — follow-up audit

The Treasury manages Australia's relations with the IMF and various development banks. As at 30 June 2006, the Treasury's administered assets in the IMF and other international financial institutions totalled \$7.1 billion. Liabilities totalled \$4.8 billion, comprising uncalled share capital subscriptions.

This audit is a follow-up to ANAO Audit Report No. 10 of 2002-03, *Treasury's Management of International Financial Commitments*. The review assessed the Treasury's progress in addressing the four audit findings and two recommendations of the 2002 report.

The Treasury has addressed the two audit recommendations effectively and the two findings without recommendations. As a result of this review, ANAO made one further recommendation which the Treasury agreed to implement.

Other ANAO reports relevant to the Treasury's operations in 2006-07 are:

- Report No. 4: *Tax Agent and Business Portals*
- Report No. 5: *The Senate Order for the Departmental and Agency Contracts (Calendar Year 2005 Compliance)*
- Report No. 6: *Recordkeeping including the Management of Electronic Records*
- Report No. 15: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*
- Report No. 16: *Administration of Capital Gains Tax Compliance in the Individuals Market Segment*
- Report No. 18: *ASIC's processes for Receiving and Referring for Investigation Statutory Reports of Suspected Breaches of the Corporations Act 2001*
- Report No. 21: *Implementation of the revised Commonwealth Procurement Guidelines*
- Report No. 22: *Management of intellectual property in the Australian Government sector*
- Report No. 23: *Application of the Outcomes and Outputs Framework*

- Report No. 26: *Administration of Complex Age Pension Assessments*
- Report No. 30: *The Australian Taxation Office's Management of its Relationship with Tax Practitioners Follow-up Audit*
- Report No. 42: *The ATO's Administration of Debt Collection — Micro-business*
- Report No. 43: *Managing Security Issues in Procurement and Contracting*
- Report No. 47: *Coordination of Australian Government Assistance to Solomon Islands*
- Report No. 48: *Superannuation Payments for Contractors Working for the Australian Government: Follow-up Audit*
- Report No. 51: *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007*
- Report No. 52: *The Australian Taxation Office's Approach to Regulating and Registering Self Managed Superannuation Funds*

The 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.

FRAUD PREVENTION AND CONTROL

In 2006-07, two new cases of fraud were identified and investigated. The Treasury continues to pursue actions concerning submissions of false information by claimants seeking compensation from the HIH Claims Support Scheme.

In 2006-07, the Secretary endorsed the Treasury's Fraud Control Plan for 2007-08. This complies with the Commonwealth Fraud Control Guidelines issued under regulation 19 of the *Financial Management and Accountability Regulations 1997*.

Accordingly, it is certified that the Treasury has undertaken a fraud risk assessment and prepared a fraud control plan; the Treasury has appropriate fraud control, prevention, detection, investigation and reporting standards in place; and annual fraud control data has been collected and reported.

OMBUDSMAN COMMENTS, COURT DECISIONS AND ADMINISTRATIVE TRIBUNAL DECISIONS

OMBUDSMAN COMMENTS

No comments were received from the Ombudsman in 2006-07.

COURTS AND PROCEEDINGS

Corporations Act — constitutionality — *Alinta v Takeovers Panel*

On 20 April 2007, the Full Federal Court, by majority, held that the Takeovers Panel, in declaring unacceptable circumstances against Alinta Limited, invalidly exercised judicial power. The court declared that the then paragraph 657A(2)(b) of the Corporations Act (now amended and renumbered as paragraph 657A(2)(c)) was invalid. The Attorney-General, on behalf of the Commonwealth, has been granted special leave to appeal the decision to the High Court.

Corporations Act — transitional provisions — *Forge v ASIC*

On 5 September 2006, the High Court handed down a unanimous decision in the matter of *Forge v ASIC* confirming the constitutional validity of the transitional provisions in Chapter 10 of the *Corporations Act 2001*. The Solicitor-General for the Commonwealth, instructed by the Treasury, made submissions in support of validity. The High Court also upheld the validity of the appointment of acting judges of the Supreme Court of New South Wales.

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

On 26 August 2005, Mr McKinnon appealed the 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 in the case was interpretation of subsection 58(5) of the *Freedom of Information Act 1982* (FOI Act), 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.

On 6 September 2006, the High Court decided the McKinnon case in the Treasury's favour. By a majority of 3:2, the High Court dismissed McKinnon's appeal. The majority judgments essentially confirmed the existing understanding of the way in which the Administrative Appeals Tribunal should review conclusive certificates issued over internal working documents.

The High Court ordered McKinnon pay the Treasury's costs of the appeal.

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 upheld the constitutional validity of the provisions of the Act challenged by Dr Wight but found in Dr Wight's favour regarding the order and directed that it be set aside.

Trade Practices Act — Access to Services — Fortescue Metals Group Ltd

On 13 June 2006, Fortescue Metals Group applied to the Australian Competition Tribunal for a review of the Treasurer's deemed decision under Part IIIA of the *Trade Practices Act 1974* not to declare the Mt Newman rail line operated by BHP Billiton. The review is ongoing.

On 18 December 2006, in proceedings initially instigated separately by BHP Billiton and Fortescue Metals Group, the Federal Court ruled that BHP Billiton's Mt Newman and Goldsworthy rail lines may be subject to declaration applications under Part IIIA, as they do not represent 'use of a production process'. On 12 January 2007, BHP Billiton lodged an appeal against the Federal Court decision to the Full Court of the Federal Court. The Federal Court heard the matter in late April 2007 and has not announced its decision.

Trade Practices Act — Access to Services — Virgin Blue Airlines Pty Ltd

The Federal Court of Australia decided on 18 October 2006 to dismiss Sydney Airport Corporation Limited's application for judicial review of a decision of the Australian Competition Tribunal under Part IIIA of the *Trade Practices Act 1974*. This upheld the tribunal's decision on an application by Virgin Blue Airlines Pty Ltd, to declare airside services at Sydney Airport for five years from 9 December 2005. On 2 March 2007, the High Court of Australia dismissed Sydney Airport Corporation Limited's application for special leave to appeal the Federal Court's decision of 18 October 2006. Domestic airside services at Sydney Airport therefore remain declared under Part IIIA.

On 29 January 2007, Virgin Blue notified the Australian Competition and Consumer Commission under Part IIIA of an access dispute with Sydney Airport Corporation Limited, and arbitration related to access to the declared airside service began in February 2007. The dispute related to the level of and method for calculating the price Sydney Airport Corporation Limited was charging Virgin Blue for use of airside services at Sydney Airport. Virgin Blue lodged a written notice with the Australian Competition and Consumer Commission on 22 May 2007 withdrawing its notification of an access dispute, following negotiated commercial settlement of the dispute.

Trade Practices Act — Access to Services — Services Sydney Pty Ltd

In November 2006, Services Sydney Pty Ltd notified the Australian Competition and Consumer Commission, under Part IIIA of the *Trade Practices Act 1974*, of an access dispute with Sydney Water Corporation. The dispute relates to the pricing method used to determine access prices Services Sydney is to pay for certain services provided by Sydney Water and declared under Part IIIA. The Australian Competition and Consumer Commission's arbitration of the dispute is ongoing.

ADMINISTRATIVE APPEALS TRIBUNAL

Freedom of information — *The Australian v Secretary, the Treasury*

Applications were made to the Administrative Appeals Tribunal to review two Treasury decisions regarding partial withholding of information in response to requests under the FOI Act, for material on cutting the top rate of tax to 30 per cent and automatic indexation of income tax scales. The Administrative Appeals Tribunal granted a consent order on 6 June 2006 for the 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) of the FOI Act that disclosure of the documents not released under both requests would be contrary to the public interest.

Following the High Court's decision in *McKinnon v Secretary*, on 6 September 2006 the Secretary decided to review the certificates to determine whether they should be revoked, and if so, whether new certificates should be issued. However, the applicant withdrew the matter on 14 June 2007, before a decision had been made.

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

An application was made to the Administrative Appeals Tribunal to review a Treasury decision regarding partial withholding of information in response to a request under the FOI Act, for material on 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 sections of the FOI Act, and secondly, whether the 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.

A hearing took place on 16 and 17 February 2007. The Treasury agreed to release some further, but not all, material before the second day of the hearing. The applicant agreed

and the matter was settled under section 42 of the *Administrative Appeals Tribunal Act 1975* (agreement between parties outside of adjudication by the Deputy President).

Freedom of information — *The Australian v Secretary, the Treasury*

An application was made to the Administrative Appeals Tribunal to review a Treasury decision regarding partial withholding of information in response to requests under the FOI Act, for material on streamlining superannuation. A directions hearing was held on 12 December 2006 and it was decided to put off setting a hearing date until the Secretary had decided whether to issue a conclusive certificate in this matter under subsection 36(3). The Secretary invited submissions from the applicant. However, the applicant withdrew the matter on 14 June 2007 before submissions had been forwarded.

Freedom of information — *Gordon Renouf (Australian Consumers' Association) v the Treasury*

An application was made to the Administrative Appeals Tribunal to review a Treasury decision regarding partial withholding of information in response to requests under the FOI Act, for material in a report into bank fees by the Australian Bankers' Association.

The Australian Bankers' Association provided a copy of the report to the applicant outside of FOI on 9 March 2007. The applicant withdrew the matter and thus it was deemed withdrawn on 15 April 2007.

The Australian Bankers' Association withdrew its Administrative Appeals Tribunal application. Under subsection 42(1B) of the AAT Act, this means that the tribunal is deemed to have dismissed the application.

MANAGEMENT OF HUMAN RESOURCES

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

Key 2006-07 workforce initiatives included:

- introduction of a new Workplace Agreement consistent with the Work Choices legislation. The Treasury Management Team consulted extensively with a representative employee body and staff more generally;
- implementation of enhanced e-recruitment tools to administer the annual graduate campaign;
- review of the Performance Management System;
- implementation of the Mature Age Employment Strategy, including introduction of an online alumni register for former employees;
- launch of a Learning and Development Portal on the intranet;
- enhancement of the Treasury Executive Leadership Development Programme; and
- review of induction processes for new recruits.

PERFORMANCE MANAGEMENT

A report to the Executive Board on the review of the Treasury's Performance Management System, which has operated since 1999, was tabled in June. The Human Resources Unit and a steering committee comprising a representative from each group managed the review. They consulted widely with staff at all levels and concluded that the system is mature, well supported by staff at all levels, taken seriously and well implemented. However, in some instances, the system is not implemented appropriately; report recommendations and action items are intended to refresh and improve the application and efficiency of the system.

The report did not recommend any immediate significant changes to the system. However, further consultation is planned on proposals to streamline underperformance arrangements and review the rating scale. The processes support the underlying principles of fairness, transparency and consistency.

- In setting the context for appraisals, initially Senior Executive Service (SES) staff meet before each appraisal round to discuss issues relevant to the upcoming round, then group and divisional context setting meetings follow.
- Workshops and information sessions provide information on the process for new staff; refresh staff knowledge; develop skills in giving and receiving feedback for appraisees and managers; and include workshops for managers.
- Review panels, usually at divisional level, examine the outcomes of appraisals to ensure consistency across the division.
- Cross-group representatives on review panels provide an additional focus on consistency across the Treasury.
- Documentation is widely disseminated.
- Upward feedback is encouraged as an integral part of the appraisal process and provides input to the appraisals of managers.

Appraisal discussions are based on the capability frameworks, which are aligned with recruitment strategies, the Professional Development Framework and the Career Development System to ensure consistency across the Treasury.

While formal appraisal meetings are held twice a year, regular informal feedback 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 the pay outcome.

Managers and appraisees are encouraged to identify and record development opportunities during the appraisal discussion. This informs the Treasury's learning and development strategies.

Staff who meet specified criteria can opt for informal appraisals in the February appraisal round with 21 per cent of February cycle appraisals being informal. Informal appraisals are conducted in a similar manner to formal appraisals but appraisees are not rated, reducing the administrative workload and emphasis on gathering feedback as there are no pay outcomes.

THE TREASURY WORKPLACE AGREEMENT

The Treasury Workplace Agreement 2006-09 came into operation on 7 September 2006 and nominally expires on 6 September 2009.

The Workplace Agreement provides for increased pay rates (refer to Table 10 on page 138), minor variations to conditions of service, including: monthly accruals of

annual leave; removal of limits on payment in lieu of accrued annual leave on leaving the APS; increased paid leave to assist employees during maternity, and their partners to assist around the time of birth; one day's paid leave to participate in community or charity work; and removal of the five day cap for the amount of carer's leave that can be taken at any one time. The agreement also encourages managers and staff to proactively manage excess leave to facilitate staff taking regular breaks from work.

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

WORKPLACE RELATIONS

The format and content of the Treasury's workplace and individual agreements reflect changes to the Government's policy parameters on agreement making.

The Treasury consulted extensively with staff on workplace matters, and the Workplace Agreement reinforces staff involvement in decision making. The primary conduit for consultation is through the Workplace Relations Committee, elected by all Treasury staff and comprising eight members. The committee meets regularly with the Secretary and Human Resources Unit staff to discuss employment related matters.

The Treasury Workplace Agreement 2006-09 and AWAs contain procedures to resolve disputes and directly consult with staff, as appropriate. A network of staff advisors assists staff with issues relating to performance appraisals, remuneration, AWAs or relations with managers. This network complements other staff support processes, such as human resources advisors and an employee assistance programme delivered by an external provider.

RECRUITMENT AND SUCCESSION PLANNING

Job seekers can lodge their applications for graduate campaigns, bulk-round recruitment, specific recruitment exercises and the Treasury's alumni, non-ongoing and general employment registers via the internet. Online short-listing and interview scheduling have improved administration and sped up the recruitment process. All job seekers are invited to provide details of their Equal Employment Opportunity (EEO) status to ensure fair treatment and consideration of reasonable adjustment principles. Graduate recruitment forms a major part of the Treasury's recruitment and succession planning strategy. In 2006-07, Treasury staff attended university career fairs and economic society information sessions, presented to final year students and distributed *Do you want to make a difference?* brochures to university careers centres and faculties. In addition, a broad marketing campaign appeared in major national newspapers and on most university intranets. A

section on the Treasury's website is dedicated to graduate careers; it provides information on the Graduate Development Programme and outlines the role and expectations of the Treasury graduates. The graduate intake was 40 in 2006 and 41 in 2007.

In 2006-07, the Treasury continued with the cadetship programme. This initiative targets economic honours and postgraduate students, and involves a 4-6 week summer internship, financial assistance and support from a Treasury mentor throughout the cadet's final year of study.

In November 2006, the Executive Board agreed to a recruitment framework to assist groups with their workforce planning processes for 2007. The framework focused on improving marketing, branding and internal strategies to address labour market shortages.

The Human Resources Unit and the four policy groups work 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 twice yearly bulk selection and transfer rounds, together with re-designed media campaigns enhancing the Treasury's presence in the marketplace and capacity to attract high calibre candidates. These campaigns attracted a significant number of recruits.

Interviewer/interviewee skills training courses also complement recruitment information and procedures to assist applicants, managers, referees and selection committees.

LEARNING AND DEVELOPMENT

The 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.

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

LEARNING AND DEVELOPMENT STRATEGIES

The Treasury's learning and development strategies play a significant role in making the Treasury's Information and Knowledge Management strategic plan work, with links to capability development, networking and retention of corporate knowledge.

A fresh, challenging leadership programme for executive level staff was introduced in 2006. The Treasury Executive Leadership Programme aims to enhance the leadership and strategic thinking skills of executive level staff to equip them to fulfil the roles expected of

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them under the Treasury Management Model. In 2006, 39 staff attended and in 2007, 39 also are completing the programme.

To support identified priorities and skill needs, the Treasury introduced an intranet learning and development portal to provide easy access to information about available learning and development opportunities.

The Treasury also introduced a 'Watch your Language' workshop in 2006 for staff at all levels. The workshop focuses on strengthening effective grammar skills and has received positive feedback from the 47 staff who attended.

Introduction to Economics was again offered in 2006-07, attracting 49 participants including seven from other agencies. This year, 22 students gained accreditation to certain postgraduate Australian National University courses.

Introduction to Law was offered to 25 staff in 2006. This semester-long course offered by the Australian National University Faculty of Law also provided participants with the opportunity to gain accreditation for a postgraduate law qualification.

Senior executives continue to participate in Australian Public Service Commission leadership courses and seminars, as well as executive coaching. The Treasury offers this as an additional means of skills development.

Other learning and development workshops include Managing Yourself and Others, Financial Management, Policy Advising, Managing Workloads and Time, Interviewer Skills, Providing Oral Advice and Teamwork in Action. All workshops are tailored to the Treasury's needs and are evaluated with outcomes feeding into the development of subsequent programmes.

The Treasury's Certificate in Business Services programme is designed for corporate, administrative and executive support staff at the APS1-6 levels. The programme consists of nine foundation and three advanced modules aimed at developing a range of skills. Four programmes have been completed since 2002, with the most recent taking place from February to December 2006.

The Graduate Development Programme includes on-the-job coaching and in-house courses, such as advanced writing, policy development, economics for non-economists, effective teamwork, presentation skills and persuasive communication skills. 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 has continued its mentoring programme designed to assist new recruits in the transition to the Treasury. Forty-two new recruits have participated as mentorees, and the programme is viewed as a significant contribution to staff integration.

In 2006-07, the Treasury's four policy groups organised internal workshops and divisional policy seminars to share and disseminate information to staff.

- Revenue Group arranged for the ATO to facilitate an Introductory Tax course, presented to Treasury staff over three days. The Australian National University developed and facilitated the Revenue Group Public Finance course, first offered in 2006. Several 2-day Tax Policy Framework courses were presented to new starters and external participants.
- Fiscal Group held a series of seminars and discussions on relevant policy topics. The group's senior and executive level staff also participated in forums to discuss organisational and policy strategy issues.
- Markets Group staff attended monthly group seminars to participate in learning about current economic events particularly relevant to them. Monthly policy presentations also provided a high level of discussion on current policy issues.
- Macroeconomic Group offered weekly Economic Policy Workshops for more junior staff to further develop presentation skills and brainstorm economic policy issues. Other training, such as the Economic Policy Analysis course and training in econometrics facilitated by the Australian National University, enabled staff to strengthen their technical skills.

The Treasury seminar series continued with prominent guest speakers presenting current economic issues and research. An average of 50 staff attended each of the 29 seminars presented in 2006-07.

INFORMATION TECHNOLOGY INITIATIVES AND TRAINING

The Treasury continues to provide a range of client focused IT training courses. A total of 1,430 staff attended IT training on Microsoft desktop applications, IT for new staff, voice activated software and in-house systems.

Microsoft Excel continues to be one of the most popular desktop application courses, with 180 staff attending the tailored training.

Training for 70 staff was provided on the new Budget Measures system. The new system was successfully piloted in November 2006 and used to produce Budget Paper No. 2, *Budget Measures 2007-08*.

During the year, 119 staff attended training on using the Treasury's electronic records management system and 196 staff attended recordkeeping awareness training, an increase from the previous year.

Some 84 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 providing internal learning and development opportunities, the Treasury encourages participation in external learning activities. These include studies assistance, postgraduate study awards, as well as attendance at Australian and New Zealand School of Government (ANZSOG), Career Development Assessment Centres and numerous conferences, seminars and workshops.

Over 100 employees accessed studies assistance each semester in 2006-07. The Postgraduate Study Awards guidelines were revised late in 2006 and full financial assistance was introduced through the Knightsmove Award. This award provides assistance to employees undertaking an accelerated 18 month Master of Economic Policy programme at the Australian National University.

The Treasury continues to participate in ANZSOG development opportunities. Each year, one SES officer attends the Executive Fellowship Programme, and in 2007 one SES officer also started the Executive Master of Public Administration.

Since 1999, 36 Treasury staff have attended the Career Development Assessment Centre, with four in 2006-07.

In 2004, the Treasury signed a memorandum of understanding with the Australian National University to facilitate on campus short-term research economic projects. Two staff have undertaken projects. One researched the specific implications of HECS for TAFE students; the other undertook research with Japanese academics on comparisons between Australian and Japanese labour markets.

The Treasury's staff development costs totalled over \$3 million in 2006-07, representing an average of over five days of training per staff member. This figure includes participant salary and on-costs, registration fees for internal and external training courses and external providers' development and delivery costs.

STAFFING INFORMATION

The Treasury's ongoing and non-ongoing employee numbers increased to 921, up from 836 in 2005-06. Additional staff went primarily to Markets Group (40), Macroeconomic Group (21) and Fiscal Group (16). These additions largely reflected increased recruitment, with staffing heading towards budget establishment. Staffing also grew to meet new government policy commitments, including establishment of the Standard Business Reporting Management Group in Markets Group.

Table 7: Operative and paid inoperative staff by classification and gender (as at 30 June 2007)

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
APS1	-	2	-	-	-	-	-	-	-	-	-	2
APS2	-	3	-	1	-	3	-	-	-	-	-	7
APS3	29	39	-	5	4	5	1	-	-	-	-	83
APS4	13	43	-	6	1	5	-	-	-	-	-	68
APS5	47	61	-	10	1	3	-	-	-	-	-	122
APS6	85	79	4	11	1	-	-	1	-	-	-	181
EL1	112	69	2	16	2	2	-	1	1	1	1	206
EL2	104	35	3	20	5	-	3	-	1	-	-	171
SES Band 1	39	12	-	3	2	-	-	-	-	-	-	56
SES Band 2	11	2	1	1	1	1	-	-	-	-	-	17
SES Band 3	6	-	-	-	-	-	-	-	-	-	-	6
Secretary	1	-	-	-	-	-	-	-	-	-	-	1
Total	448	345	10	73	17	19	4	2	2	1	1	921

Note: Staff paid by other agencies are not included.

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
Total	1	4	1	6

Note: Locally engaged staff are not included.

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 level, based on performance.

Table 9: Salary scales — SES

Classification	May 2006		September 2006	
	Minimum	Maximum	Minimum	Maximum
	\$	\$	\$	\$
SES Band 1	145,527	169,134	151,348	175,899
SES Band 2	178,362	208,765	185,496	217,116
SES Band 3	231,146	270,709	240,392	281,537

Senior executives are appraised using the Australian Public Service 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.

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 Workplace Agreement 2006-09 determines salary rates for all non-SES staff.

Table 10: Workplace Agreement salary scales — non-SES

Classification	7 September 2005		6 September 2006	
	Minimum	Maximum	Minimum	Maximum
	\$	\$	\$	\$
APS1	33,480	36,357	34,819	37,811
APS2	38,591	41,145	40,135	42,791
APS3	43,700	46,254	45,448	48,104
APS4	48,809	51,363	50,761	53,418
APS5	54,877	58,390	57,072	60,726
APS6	61,903	65,415	64,379	68,032
EL1	72,857	80,745	75,771	83,975
EL2	89,685	98,628	93,272	102,573

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

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

Table 11: APS6, EL1 and EL2 additional pay points

Classification	Staff eligible 2006-07	Staff receiving additional pay point 2006-07	Minimum additional pay point 2006-07 \$	Maximum additional pay point 2006-07 \$
APS6	181	131	73,347	77,996
EL1	206	181	90,564	96,330
EL2	171	160	107,622	117,719
Total	558	472		

Salary levels under AWAs are determined by the Secretary based on remuneration committee recommendations aligned with performance appraisal assessments, as well as relevant skills and responsibilities.

SENIOR MANAGEMENT CHANGES

Senior management movements in 2006-07 within the Treasury are shown in Table 12 below.

Table 12: SES commencements and cessations

Reason	SES Band 3	SES Band 2	SES Band 1	Total
Appointment	-	-	-	-
Internal promotion	-	-	10	10
External promotion	-	-	1	1
Non-ongoing specific term engagement	-	-	2	2
Temporary transfer to the Treasury at level	1	-	1	2
Permanent transfer to the Treasury at level	-	-	2	2
Resignation	-	1	1	2
Retirement	-	2	1	3
Non-ongoing specific term cessation	-	1	-	1
Temporary transfer to another department	-	-	1	1
Promoted to another department	-	-	1	1

PROCUREMENT AND ASSETS MANAGEMENT

PROCUREMENT

The Treasury's procurement activities are conducted in accordance with the Commonwealth Procurement Guidelines. The core principle is value-for-money, underpinned by encouraging competition (including non-discrimination), efficiency, effectiveness, the ethical use of resources, accountability and transparency.

A newly created Central Procurement Team within the Treasury is responsible for overseeing procurement. The team ensures all aspects of the Commonwealth Procurement Guidelines and the Treasury's procurement requirements are adequately met.

Currently, all procurements valued at \$50,000 or more are subject to review by the Central Procurement Team. Delegates also refer purchases below this threshold that are particularly complex to the Central Procurement Team.

Under the Treasury's procurement framework, responsibility for procurement lies with the appropriate financial delegates. To support delegates, the Central Procurement Team provides procurement advice on risk management, probity, specification development and contract management.

The Treasury advertises tender opportunities through the AusTender website.

ASSETS MANAGEMENT

The Treasury manages both current and non-current assets in accordance with guidelines set out in the Chief Executive Instructions and relevant accounting standards.

The Treasury's non-current assets are subject to an annual stocktake to ensure 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, and no adjustment to the carrying values was required.

CONSULTANCIES

The Treasury's policy on the selection and engagement of consultants is based on the principles contained in the *Commonwealth Procurement Guidelines*, Financial Management Guidance No. 12 *Identifying Consultancies for Annual Reporting Purposes*, Requirements for Annual Reports and the Treasury's Chief Executive Instructions.

The Treasury's procurement guidelines outline selection methods, in line with procurement benchmarks.

The Treasury's internal auditors conduct periodic probity reviews of compliance with the general probity principles of the *Commonwealth Procurement Guidelines* and the Chief Executive Instructions.

Consistent with the *Commonwealth Procurement Guidelines* and the Chief Executive Instructions, the 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.

Providers of consultancy services are selected through open tender, select tender, direct sourcing or panels. These processes are detailed in Table 13 on page 142.

During 2006-07, 65 new consultancy contracts were entered into involving total actual expenditure of \$1,527,307. In addition, 40 ongoing consultancy contracts were active, involving total actual expenditure of \$12,202,312. These amounts include GST.

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Information on expenditure on contract and consultancies is also available on the AusTender website www.tenders.gov.au.

The following table summaries the 48 new consultancy contracts let in 2006-07 valued at \$10,000 or more.

Table 13: List of new consultancies over \$10,000 in 2006-07

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Access Economics Pty Ltd	Provide a baseline study of consumer product-related accidents	270,380	Open tender	B
ACTSAFE Australia Pty Ltd	Provide ergonomic assessments, evaluations, rehabilitation services and Occupational Health and Safety training aimed at injury prevention	66,660	Select tender	B
Acumen Alliance	Provide IT Security risk assessment between the Department of Finance and Administration, local area network desktops and the Treasury budget system	59,400	Direct tender	B
ATI Group	Provide audit services for the Treasury's printing and reproduction service requirements	15,000	Open tender	A
Australian Government Solicitor	Provide advice on tax litigation options	58,000	Panel	A
Australian Government Solicitor	Provide legal advice and representation to assist the Treasury to respond to Administrative Appeals Tribunal proceedings for the review of a decision under the <i>Freedom of Information Act 1982</i>	82,000	Panel	A
Australian Government Solicitor	Provide legal advice to the Financial Reporting Panel on its operating procedures	50,000	Direct tender	A
Australian Government Solicitor	Provide legal advice on interpretation of S.52 of the <i>Superannuation Industry (Supervision) Act 1993</i>	21,329	Panel	A
Australian National University	Develop an in-house training course in public finance with a clear orientation towards policy development	81,000	Open tender	B
Blake Dawson Waldron ACT	Provide legal advice in relation to the review of the Treasury contracts and request for offer templates	18,496	Select tender	B
BlueChip Communication Group Pty Ltd	Provide media services for the Financial Literacy Foundation	528,000	Select tender	A

Table 13: List of new consultancies over \$10,000 in 2006-07 (continued)

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
DLA Phillips Fox	Provide ad-hoc legal services for the Insurance Programmes Unit	50,000	Select tender	A
DLA Phillips Fox	Provide drafting of the new HIH Claims Management Contract	98,884	Select tender	A
Duncan Sneddon Associates	Assess scientific claims regarding process yields for renewable diesel	22,000	Select tender	A
Dupont and Associates Pty Ltd	Provide workstation assessments, rehabilitation services and training to Treasury staff	25,609	Select tender	B
EB2BCOM Pty Ltd	Provide foundation documentation of the Treasury gateway and Infosec Registered Assessor Programme gateway certification	68,493	Direct tender	B
Ernst and Young	Provide training to Standard Business Reporting Programme staff, and Programme implementation review and assurance	208,752	Select tender	A
Excelerated Consulting	Provide <i>TM1</i> services	150,000	Direct tender	A
ICON Recruitment	Provide an external member for the Treasury Audit Committee	18,000	Direct tender	A
KPMG	Analyse the alignment of small concessions policy and draft legislation	27,500	Direct tender	A
KPMG Canberra	Provide ongoing, independent assessments and advice in relation to Stage 1 of the Standard Business Reporting Programme	73,150	Select tender	A
Lee Burns	Review Australian Foreign source income anti-tax deferral regimes	45,000	Select tender	A
Lisa Castles and Associates	Provide ergonomic assessment/evaluations, rehabilitation services and Occupational Health and Safety training	28,530	Select tender	A
McGibbon Software Group	Model the potential economic impacts of India's future growth on Australia	16,000	Direct tender	A
Media Monitors	Provide media monitoring services for the Financial Literacy Foundation	25,000	Direct tender	A

Table 13: List of new consultancies over \$10,000 in 2006-07 (continued)

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Media Monitors	Provide a media monitoring service to the Financial Literacy Foundation	20,000	Direct tender	A
Melbourne Centre of Financial Studies	Develop a menu of policy options for the 2007 APEC Finance Ministers Meeting	25,000	Direct tender	A
Monash University	Assist the Board of Taxation's project on the tax treatment of off-market share buybacks	75,000	Direct tender	C
Monash University	Provide research services on revenue issues	100,000	Direct tender	C
Montague Leong Design Pty Ltd	Provide survey design services for the Financial Literacy Foundation	25,531	Select tender	A
Murphy Davis Consulting	Assist Insurance Programmes Unit in the transition to the next phase of the HIH Claims Support Scheme	40,000	Direct tender	A
NewSouth Global Pty Ltd	Review all specific anti-avoidance provisions in the <i>Income Tax Assessment Act 1936</i> and the <i>Income Tax Assessment Act 1997</i>	67,584	Open tender	B
Pricewaterhouse Coopers	Provide a Business Architecture Report, a business case and implementation plan for submission to the Government	294,000	Select tender	A
Richard Vann	Review Australian Foreign source income anti-tax deferral rules and tax treatment of off-market share buybacks	25,000	Open tender	B
Savage and Partners	Provide media consultancy services for the Financial Reporting Council	50,010	Select tender	A
SMS Consulting	Provide advice on Business Continuity Plan	36,138	Direct tender	A
Southern Cross Computing	Provide technical support and advice on the SAP system	33,000	Direct tender	A
Stamford Interactive Pty Ltd	Conduct website usability review for the Financial Literacy Foundation	79,555	Select tender	A
Stamford Interactive Pty Ltd	Develop business requirements for the new Treasury intranet	79,573	Select tender	A
Syner Logic Microsystems Pty Ltd	Provide technical resources to develop the Treasury's Software Operating Environment	86,350	Direct tender	A

Table 13: List of new consultancies over \$10,000 in 2006-07 (continued)

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Tanner James Management	Provide programme management training, certification support for IT Project Management Office	29,524	Open tender	B
Tanner James Management	Provide programme management support for HIH Claims Support Scheme	79,230	Direct tender	A
Tha Banarra Trust	Evaluate how professional and business ethics are applied in practice by accounting firms	109,615	Open tender	A
True North Consulting	Provide website development services for the Financial Literacy Foundation	100,498	Select tender	A
Urnee Limited	Review tax treatment of off-market share buybacks	15,000	Select tender	A
Unique World Pty Ltd	Evaluate and document business impacts and risks to the IT Project Management Office	28,000	Open tender	A
Wordmakers	Provide communications, media relations strategy, copywriting and execution services to the Financial Reporting Panel	25,000	Select tender	A
Workplace Research	Provide advice in relation to the 2007 Staff Survey	11,000	Direct tender	C
Total consultancies over \$10,000		3,541,791		

Note: All amounts include GST.

(1) Explanation of selection process terms:

Open tender — public tenders are sought from the marketplace using national and major metropolitan newspaper advertising and the Australian AusTender internet site.

Select tender — tenders are invited from a short list of competent suppliers.

Direct sourcing — one supplier (or a limited number of suppliers) is approached directly in certain defined circumstances.

Panel — standing offers and supplier panels where the consultant offers to supply goods and services for a pre-determined length of time and usually at a pre-arranged price.

(2) Justification for decision to use consultancy:

A Skills currently unavailable within agency.

B Need for specialised or professional skills.

C Need for independent research or assessment.

WORKPLACE DIVERSITY

Valuing diversity both enriches the Treasury's work environment and policy advice. A new Treasury Workplace Diversity Programme is being developed to reflect changing workplace requirements.

At 30 June 2007, Treasury's staff included (also refer Table 14 on page 147):

- 48 per cent women;
- 20 per cent born overseas;
- 10 per cent with English as a second language;
- 0.2 per cent who identify as being Aboriginal or a Torres Strait Islander; and
- 1.5 per cent who identify as having a disability.

The Treasury has an ongoing commitment to family-friendly and work/life balance practices through flexible working arrangements. In 2006-07, 83 ongoing employees worked part-time, including five at senior executive service level; this represents 9.5 per cent of all ongoing employees. The Treasury also has some job-sharing arrangements in place. The Treasury staff opinion surveys continue to indicate that staff are increasingly satisfied with their work/non-work life balance.

Following the Treasury's involvement in the Management Advisory Committee Review of the Employment of People with a Disability in the Australian Public Service, the Treasury has provided input into the *Ability at Work* good practice guide produced by the Australian Public Service Commission.

The number of employees identifying as being from an Indigenous background remains low; however, the Treasury did offer an Indigenous cadetship through the National Indigenous Cadetship Programme in 2006-07 and is keen to recruit graduates who have an Indigenous background. The Treasury is exploring new marketing strategies to encourage broader interest from Indigenous applicants.

To raise greater awareness of Indigenous issues, the Treasury has developed a Reconciliation Action Plan and helped sponsor the 'Drawing Together' Art Competition.

To assist staff who have parental responsibilities, a carer's room is provided in the building for an emergency situation. The accredited breastfeeding facilities also help new mothers return to work. However, accessing appropriate childcare remains an issue for a number of staff. The Treasury continues to use an external service provider to assist staff with information on elder care, childcare and care for dependants with disabilities.

The Treasury's home-based work policy allows staff in particular circumstances, such as a graduated return to work, formally to perform some of their duties from home.

The recently developed Mature Age Workers' Strategy provides flexible working arrangements to facilitate mature age workers continuing in the workforce and making the transition to retirement. These work arrangements help to address potential skills shortages, loss of corporate knowledge and promotion of work/life balance.

A number of staff act as workplace harassment contact officers to support staff who are experiencing difficulties.

Recently the Treasury conducted a Staff Opinion Survey; its results will inform forward planning of strategies, policies, programmes and systems in 2007-08.

Table 14: Operative and paid inoperative staff by EEO target group

Classification	Female	Born overseas	ESL	ATSI	Disability
Cadet	-	-	-	1	-
APS1	2	-	-	-	-
APS2	7	-	-	-	1
APS3	49	26	17	-	1
APS4	54	14	12	1	1
APS5	74	31	17	-	1
APS6	91	35	19	-	5
EL1	89	34	12	-	-
EL2	55	33	12	-	3
SES Band 1	15	9	2	-	2
SES Band 2	4	4	-	-	-
Total	440	186	91	2	14

Disability Action Plan

The Treasury's Disability Action Plan 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*. The action plan again will be updated to reflect the recommendations outlined in the Management Advisory Committee report on *Employment of People with Disability in the Australian Public Service* and the good practice guide *Ability at Work: Tapping the Talent of People with Disability*.

Considerable assistance is provided for staff with special needs. Special equipment is purchased, such as voice recognition software, and individually tailored training is made available. Staff with special needs can access tutoring in written communication and translators for hearing impaired staff as needed. This proactive approach has resulted in high retention rates of employees with a disability.

Part 3: Management and accountability

Chart 1: Number of new entrant graduates

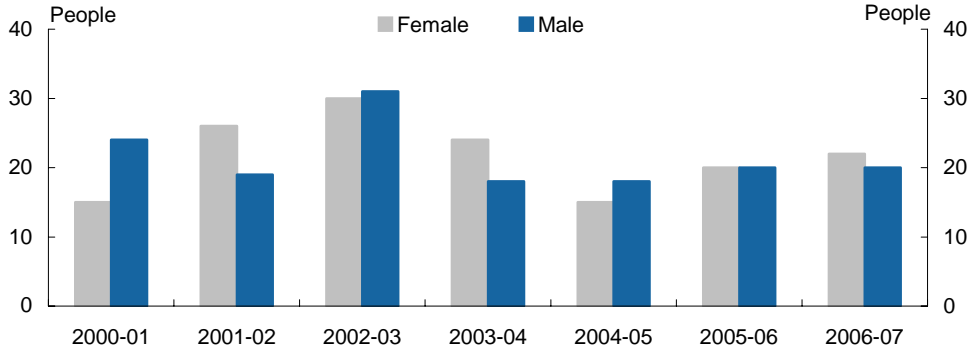


Chart 2: Number of SES staff

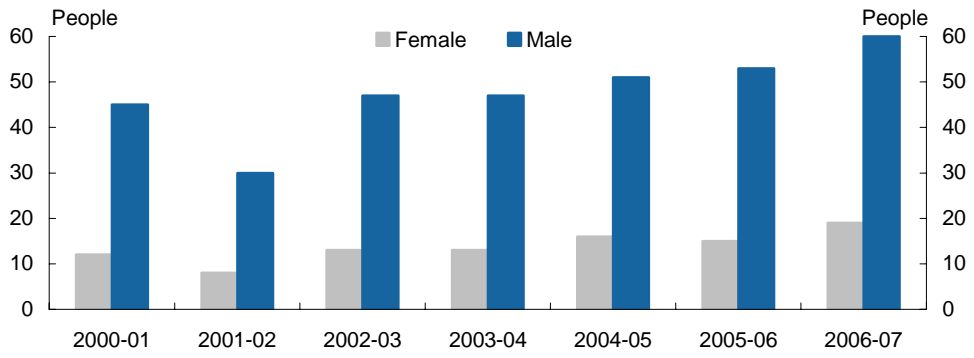


Chart 3: Treasury staff levels

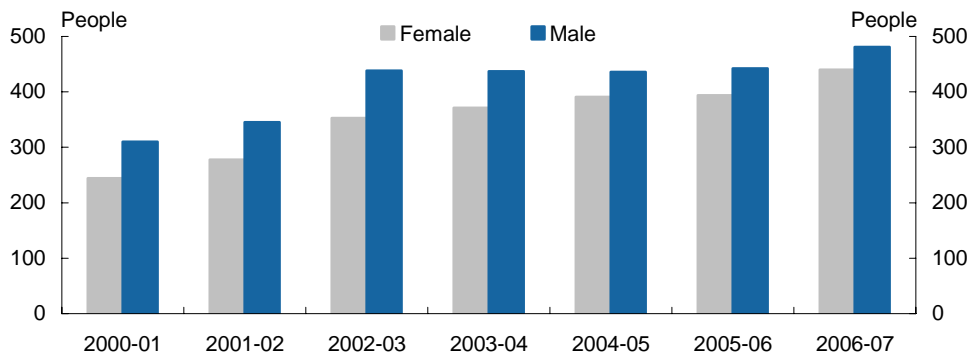


Table 15: EEO in appointments to boards or equivalent of statutory and non-statutory bodies (as at 30 June 2007)

	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	16	2	1	1
Australian Energy Regulator	4	-	-	-
Australian Prudential Regulation Authority	3	-	1	-
Australian Reinsurance Pool Corporation	7	2	3	1
Australian Securities and Investments Commission	6	-	4	-
Australian Statistics Advisory Council	25	7	2	-
Auditing and Assurance Standards Board	1	1	-	-
Board of Taxation	10	-	3	-
Business Regulation Advisory Group	10	5	-	-
Commonwealth Consumer Advisory Council	13	2	2	-
Companies Auditors and Liquidators Disciplinary Board	14	-	5	-
Corporations and Markets Advisory Committee	16	8	6	3
Financial Literacy Foundation	10	4	10	4
Financial Reporting Council	23	5	6	2
Financial Reporting Panel	9	2	-	-
Financial Sector Advisory Council	18	3	5	-
Foreign Investment Review Board	4	1	1	-
HIH Assistance Review Panel	3	2	-	-
HIH Claims Support Limited	4	1	-	-
Inspector-General of Taxation	1	-	-	-
Legal Sub-Committee of the Corporations and Markets Advisory Committee	15	10	9	5
Life Insurance and Actuarial Standards Board	9	-	2	-
National Competition Council	9	2	4	1
Payments System Board	9	1	2	-
Productivity Commission	13	2	4	1
Reserve Bank of Australia Board	12	1	3	-
Superannuation Complaints Tribunal	24	11	1	-
Takeovers Panel	48	16	8	1
Tax Agents' Board	19	1	1	-
Total	364	91	83	19

Note: The only EEO target group identified is women.



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PART 4

Part 4:

Financial statements

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Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Matters relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements published on the website of the Department of the Treasury for the year ended 30 June 2007. The Secretary to the Treasury is responsible for the integrity of the web site.

This auditor's report refers only to the primary statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Department of the Treasury's annual report.

Scope

I have audited the accompanying financial statements of the Department of the Treasury for the year ended 30 June 2007, which comprise: a Statement by the Departmental Secretary and Chief Financial Officer; income statement; balance sheet; statement of changes in equity; cash flow statement; schedules of commitments, contingencies and administered items; a summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Departmental Secretary for the Financial Statements

The Secretary to the Treasury is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
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Email ian.mcphee@anao.gov.au

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department of the Treasury's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of the Treasury's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary to the Treasury, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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.

Auditor's 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 the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Department of the Treasury's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.



Ian McPhce

Auditor-General

Canberra

10 August 2007

THE TREASURY

STATEMENT BY THE DEPARTMENTAL SECRETARY AND CHIEF FINANCIAL OFFICER

Certification of financial statements

In our opinion, the attached financial statements for the year ended 30 June 2007 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



Michael Burton
Chief Financial Officer

Income statement
for the period ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
INCOME			
Revenue			
Revenue from Government	3A	133,536	134,040
Sale of goods and rendering of services	3B	7,219	6,258
Other revenues	3C	1,011	210
Total revenue		141,766	140,508
Gains			
Sale of assets	3D	65	-
Other gains	3E	398	394
Total gains		463	394
TOTAL INCOME		142,229	140,902
EXPENSES			
Employee benefits	4A	96,159	84,399
Suppliers	4B	53,035	35,592
Depreciation and amortisation	4C	3,270	3,460
Finance costs	4D	126	109
Write-down and impairment of assets	4E	49	7
Net losses from sale of assets	4F	-	43
TOTAL EXPENSES		152,639	123,610
SURPLUS (DEFICIT)		(10,410)	17,292

This statement should be read in conjunction with the accompanying notes.

Balance sheet
as at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	6A	2,256	2,107
Trade and other receivables	6B	54,717	58,869
Total financial assets		56,973	60,976
Non-financial assets			
Land and buildings	7A	7,092	7,158
Plant and equipment	7B	7,870	8,141
Intangibles	7C	930	810
Other non-financial assets	7D	869	1,809
Total non-financial assets		16,761	17,918
Total assets		73,734	78,894
LIABILITIES			
Payables			
Suppliers	8A	1,568	1,634
Other payables	8B	3,973	2,737
Total payables		5,541	4,371
Interest bearing liabilities			
Leases	9	1,496	1,192
Total interest bearing liabilities		1,496	1,192
Provisions			
Employee provisions	10	32,791	29,291
Total provisions		32,791	29,291
Total liabilities		39,828	34,854
NET ASSETS		33,906	44,040
EQUITY			
Asset revaluation reserve		3,644	3,644
Contributed equity		3,961	3,685
Retained surplus		26,301	36,711
Total equity		33,906	44,040
Current assets		57,842	62,785
Non-current assets		15,892	16,109
Current liabilities		35,002	30,933
Non-current liabilities		4,826	3,921

This statement should be read in conjunction with the accompanying notes.

Statement of changes in equity as at 30 June 2007

	Retained earnings		Asset revaluation reserve		Contributed equity		Total equity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening balance as at 1 July	36,711	41,060	3,644	9,037	3,685	12,230	44,040	62,327
Income and expense								
Surplus (Deficit) for the period	(10,410)	17,292	-	-	-	-	(10,410)	17,292
Total income and expenses recognised directly in equity								
Transactions with owner:								
Distributions to owners:								
Returns of capital								
Restructuring (note 11)	-	(21,641)	-	(5,393)	-	(8,578)	-	(35,612)
Contributions by owners:								
Appropriations (equity injections)	-	-	-	-	276	33	276	33
Sub-total transactions with owners	-	(21,641)	-	(5,393)	276	(8,545)	276	(35,579)
Closing balance as at 30 June	26,301	36,711	3,644	3,644	3,961	3,685	33,906	44,040
Total equity attributable to the Australian Government	26,301	36,711	3,644	3,644	3,961	3,685	33,906	44,040

This statement should be read in conjunction with the accompanying notes.

Cash flow statement for the period ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		8,106	9,642
Appropriations		138,787	110,779
GST received from ATO		3,543	2,813
Other cash received		1,859	1,697
Total cash received		152,295	124,931
Cash used			
Employees		93,067	83,891
Suppliers		55,118	39,919
Grants		1,282	1,317
Financing costs		126	110
GST paid to ATO		123	140
Cash to the OPA		-	225
Other cash used		102	3
Total cash used		149,818	125,605
Net cash from/(used by) operating activities	12	2,477	(674)
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		110	10
Total cash received		110	10
Cash used			
Purchase of property, plant and equipment		1,405	1,252
Purchase of intangibles		571	185
Total cash used		1,976	1,437
Net cash from/(used by) investing activities		(1,866)	(1,427)
FINANCING ACTIVITIES			
Cash received			
Capital injections		276	33
Total cash received		276	33
Cash used			
Repayment of borrowings (includes finance lease principal)		738	807
Other cash used		-	7,901
Total cash used		738	8,708
Net cash from/(used by) financing activities		(462)	(8,675)
Net increase/(decrease) in cash held		149	(10,776)
Cash at the beginning of the reporting period		2,107	12,883
Cash at the end of the reporting period	6A	2,256	2,107

This statement should be read in conjunction with the accompanying notes.

Schedule of commitments

as at 30 June 2007

	2007 \$'000	2006 \$'000
BY TYPE		
Other commitments		
Operating leases	65,838	60,993
Other	9,524	22,257
Total other commitments	75,362	83,250
Commitments receivable		
GST receivable	(6,610)	(7,331)
Other	-	-
Total commitments receivable	(6,610)	(7,331)
NET COMMITMENTS	68,752	75,919
BY MATURITY		
Operating lease commitments		
One year or less	8,138	6,123
From one to five years	27,292	24,204
Over five years	24,656	25,397
Total operating lease commitments	60,086	55,724
Other commitments		
One year or less	6,400	16,893
From one to five years	2,226	3,066
Over five years	40	236
Total other commitments	8,666	20,195
NET COMMITMENTS BY MATURITY	68,752	75,919

This schedule should be read in conjunction with the accompanying notes.

Schedule of commitments (continued)

Note: Commitments are GST inclusive where relevant.

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"> ▪ Commercial — leases comprise various periods, including both initial and options periods. ▪ 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. ▪ The initial periods of office accommodation leases are still current and each may be renewed with options for a further three or five years. ▪ Australian estate — residential lease payments are reviewed bi-annually to reflect market movements.
Agreements for the provision of motor vehicles to Senior Executive Officers	<ul style="list-style-type: none"> ▪ No contingent rentals exist. ▪ No renewal or purchase options are available to the Treasury.
Leases for computer equipment and office equipment	<ul style="list-style-type: none"> ▪ 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. ▪ 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.

Other commitments include commitments for consultants, building services and other commitments.

Schedule of contingencies

as at 30 June 2007

	Claims for damages or costs		Other		TOTAL	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contingent liabilities						
Balance from previous period	-	20	133	145	133	165
New	-	-	207	133	207	133
Re-measurement	-	-	-	-	-	-
Liabilities crystallised	-	-	-	-	-	-
Obligations expired	-	(20)	(108)	(145)	(108)	(165)
Total contingent liabilities	-	-	232	133	232	133
NET CONTINGENT LIABILITIES	-	-	232	133	232	133

This schedule should be read in conjunction with the accompanying notes.

Note: Departmental unquantifiable contingencies are disclosed in Note 13: Contingent liabilities and assets.

Schedule of administered items
for the period ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Income administered			
on behalf of Government			
for the period ended 30 June 2007			
Non-taxation revenue			
Interest	19	10,235	23,476
Dividends	19	1,177,725	1,363,000
Sale of goods and rendering of services	19	618,792	605,888
Other sources of non-taxation revenue	19	66,257	31,103
Total revenues administered			
on behalf of Government		1,873,009	2,023,467
Gains			
Net foreign exchange gains	19	-	146,143
Total gains administered			
on behalf of Government		-	146,143
Total income administered			
on behalf of Government		1,873,009	2,169,610
Expenses administered			
on behalf of Government			
for the period ended 30 June 2007			
Grants	20	39,721,904	38,604,660
Interest	20	35,779	28,498
Other	20	7	6,547
Losses			
Net foreign exchange losses	20	197,948	-
Total expenses administered			
on behalf of Government		39,955,638	38,639,705

This schedule should be read in conjunction with the accompanying notes.

Schedule of administered items (continued)
as at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Assets administered			
on behalf of Government			
as at 30 June 2007			
Financial assets			
Cash and cash equivalents	21	13,168	7,736
Receivables	21	2,248	314,063
Investments	21	16,546,830	20,033,896
Non-financial assets			
Grant prepayments	21	-	74,600
Other	21	2,081	2,347
Total assets administered			
on behalf of Government		16,564,327	20,432,642
Liabilities administered			
on behalf of Government			
as at 30 June 2007			
Payables			
Loans	22	3,888,624	3,870,825
Grants	22	5,000	7,500
Other payables	22	845,557	961,985
Provisions			
Other provisions	22	190,132	257,486
Total provisions and payables		4,929,313	5,097,796
Total liabilities administered			
on behalf of Government		4,929,313	5,097,796
Net assets administered			
on behalf of Government		11,635,014	15,334,846

This schedule should be read in conjunction with the accompanying notes.

Administered cash flows
for the period ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
OPERATING ACTIVITIES			
Cash received			
GST administration fees		628,778	595,902
Interest		11,849	26,685
Dividends		1,477,259	1,383,000
Net GST received from ATO		965	3,303
HHH Group liquidation proceeds		43,646	26,356
Other		7,603	9,832
Total cash received		2,170,100	2,045,078
Cash used			
Grant payments		39,647,303	38,459,858
Other		90,675	115,762
Total cash used		39,737,978	38,575,620
Net cash from/(used in) operating activities		(37,567,878)	(36,530,542)
INVESTING ACTIVITIES			
Cash received			
IMF		319,395	152,523
PNG loan principal repayment		-	14,805
Total cash received		319,395	167,328
Cash used			
Settlement of International Financial Institution's obligations		1,603	2,299
Total cash used		1,603	2,299
Net cash from/(used in) investing activities		317,792	165,029
Net increase/(decrease) in cash held		(37,250,086)	(36,365,513)
Cash at the beginning of reporting period		7,736	9,089
Cash from official public account for appropriations		39,744,635	38,574,011
Cash to official public account for appropriations		2,489,117	2,209,851
Cash at end of reporting period	21	13,168	7,736

This schedule should be read in conjunction with the accompanying notes.

Administered commitments

as at 30 June 2007

	2007 \$'000	2006 \$'000
BY TYPE		
Other commitments		
Other ¹	396	3,423
Total other commitments	396	3,423
Commitments receivable		
GST receivable	36	311
Total commitments receivable	36	311
NET ADMINISTERED COMMITMENTS BY TYPE	360	3,112
BY MATURITY		
Other commitments		
One year or less	396	3,067
From one to five years	-	356
Total other commitments	396	3,423
Commitments receivable		
One year or less	36	279
From one to five years	-	32
Total commitments receivable	36	311
NET ADMINISTERED COMMITMENTS BY MATURITY	360	3,112

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.

Administered contingencies

as at 30 June 2007

	Guarantees		Indemnities		Uncalled shares or capital subscriptions ¹		Claims for damages or costs		Warranties		Letters of Comfort		TOTAL	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered contingent liabilities														
Balance from previous period	-	-	-	-	7,296,889	7,095,559	-	-	-	-	-	-	7,296,889	7,095,559
Re-measurement	-	-	-	-	(899,604)	201,330	-	-	-	-	-	-	(899,604)	201,330
Liabilities crystallised	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	6,397,285	7,296,889	-	-	-	-	-	-	6,397,285	7,296,889
Total contingent assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET CONTINGENT LIABILITIES	-	-	-	-	6,397,285	7,296,889	-	-	-	-	-	-	6,397,285	7,296,889

This schedule should be read in conjunction with the accompanying notes.

Note: Administered unquantifiable contingencies are disclosed in Note 24: Administered contingent liabilities and assets.

¹ 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 four 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 and Portfolio Additional Estimates Statements for 2006-07, which have been tabled in Parliament.

Notes to and forming part of the financial statements
for the period ended 30 June 2007

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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 four outcomes:

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

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 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 one output group, 2.1 Fiscal. Outcome 3 has one output group, 3.1 Revenue. There is one output group in Outcome 4, 4.1 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, 2.1.3 and 2.1.4
- Output Group 3.1 Revenue — Output 3.1.1 and 3.1.2
- Output Group 4.1 Markets — Outputs 4.1.1, 4.1.2, 4.1.3 and 4.1.4

All outputs under Output Groups 1.1, 2.1 and 3.1 provide services on a non-profit basis.

Under Output Group 4.1, Outputs 4.1.1, 4.1.2 and 4.1.3 also provide services on a non-profit basis. Output 4.1.4, that relates to the Australian Government Actuary, operates via a special account.

1.2. Basis of preparation of the financial report

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 (FMOs) for the reporting period ending on or after 1 July 2006; and
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with historical cost convention, except for certain assets, which as noted, are at valuation.

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 or the FMOs, 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, which are reported at Note 13).

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 1.23.

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 1.30 and 1.31, the Treasury has obtained independent actuarial assessments of the Housing Loans Insurance Corporation (HLIC) premiums, recoveries, claims and acquisition costs in addition to the HIH Claims Support Scheme liability.

In relation to uncalled shares disclosed in the administered contingencies table, the 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

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial report complies with these standards. Some Australian equivalents to IFRSs and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements, so while this financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS) it cannot make this statement.

No accounting standard has been adopted earlier than the effective date in the current period. The following amendments, revised standards or interpretations have become effective but have had no financial impact or do not apply to the operations of the Treasury.

Amendments

- 2004-3 Amendments to Australian Accounting Standards [AASB 119]
- 2005-1 Amendments to Australian Accounting Standards [AASBs 1, 101, 124]
- 2005-3 Amendments to Australian Accounting Standards [AASB 119]
- 2005-4 Amendments to Australian Accounting Standards [AASBs 1, 132, 139, 1023, 1038]
- 2005-5 Amendments to Australian Accounting Standards [AASBs 1, 139]
- 2005-9 Amendments to Australian Accounting Standards [AASBs 4, 132, 139, 1023]
- 2005-6 Amendments to Australian Accounting Standards [AASB 3]
- 2006-1 Amendments to Australian Accounting Standards [AASB 121]
- 2006-3 Amendments to Australian Accounting Standards [AASB 1045]
- 2006-4 Amendments to Australian Accounting Standards [AASB 134]
- 2007-1 Amendments to Australian Accounting Standards [AASB 2]

Part 4: Financial statements

Amendments (continued)

- 2007-2 Amendments to Australian Accounting Standards [AASBs 1, 117, 118, 120, 121, 127, 131, 139]
- 2007-3 Amendments to Australian Accounting Standards [AASBs 5, 6, 102, 107, 119, 127, 134, 136, 1023, 1038]
- 2007-4 Amendments to Australian Accounting Standards [AASBs 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121]

Interpretations

- UIG 4 Determining whether an Arrangement contains a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
- UIG 8 Scope of AASB 2
- UIG 9 Reassessment of Embedded Derivatives

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

Financial Instrument Disclosure

AASB 7 Financial Instruments: Disclosure is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than what is currently required. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]. These changes have no financial impact but will affect the disclosure in future financial reports.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the Treasury.

- AASB 1049 Financial Reporting of General Government Sectors by Governments
- UIG 10 Interim Financial Reporting and Impairment

1.5. Revenue

Revenues from Government

Amounts appropriated for departmental outputs for the year (adjusted for any formal additions and reductions) are recognised as revenue.

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 no 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 formal reductions) are recognised directly in contributed equity in that year.

Restructuring of administrative arrangements

Net assets received from or relinquished to another Australian Government agency or Authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.8. Employee benefits

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 (2006: 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. New employees (from 1 July 2005) are eligible to join the new PSS Accumulation Scheme which is a defined contribution scheme. The CSS and PSS are defined benefit schemes of the Australian Government.

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 Employee Superannuation Scheme 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 Treasury accounts for the contribution as if they were contributions to defined contribution plans. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The liability for superannuation recognised as at 30 June 2007 represents outstanding contributions for the final fortnight of the year.

1.9. Leases

A distinction is made between finance leases and operating leases. Finance leases 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 7.31 per cent (2006: 8.31 per cent). The lease assets secure the lease liabilities.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

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 the receipt and payment of monies.

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

Receivables for goods and services

Receivables are recognised at their nominal amounts 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 (2006: 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 and contingent assets are not recognised in the Balance Sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Contingent assets are reported when settlement is probable, and contingent liabilities are recognised when settlement is greater than remote.

1.14. Derecognition of financial assets and liabilities

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, cancelled or expires.

1.15. Impairment of financial assets

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 the Income Statement.

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 expenses, is transferred from equity to the Income Statement.

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. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

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 and total \$20,000 or more).

Revaluations

Basis

Plant and equipment is 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
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. 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 surplus and deficit. Revaluation decrements for a class of assets are recognised directly through the operating result 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.

The Treasury performed a valuation of infrastructure, plant and equipment 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. The Treasury anticipates undergoing another full valuation of its assets in the 2007-08 financial year.

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), residual values 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:

	2006-07	2005-06
Computers, plant and equipment	3-10 years	3-10 years
Leasehold improvements	5-10 years	5-10 years
Motor vehicles	4 years	4 years
Office equipment	5 years	5 years
Capitalised software	3-5 years	3-5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4C.

1.18. Impairment of non-current assets

All assets were assessed for impairment at 30 June 2007. 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.

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.

1.19. Intangible assets

The Treasury's intangible assets 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 are 3 to 5 years (2006: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2007.

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).

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, Comcover. Workers compensation is insured through the Australian Government's insurable risk managed fund, Comcare Australia.

1.23. 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.

1.24. Administered cash transfers to and from the Official Public Account (OPA)

Revenue collected by the Treasury for use by the Australian 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 appropriations 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 Australian 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 23. Thus the Schedule of Administered Items largely reflects the Australian Government's transactions, through the Treasury, with parties outside the Australian 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.

1.25. Revenue

All administered revenues are revenues relating to activities performed by the Treasury on behalf of the Australian Government.

Reserve Bank of Australia dividend

Dividends from the Reserve Bank of Australia (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 2006-07 will be recognised in the Treasury's Financial Statements in 2007-08. 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*.

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 member currencies (quota) that was paid in Special Drawing Rights (SDR) 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 SDR interest rate. This rate is then adjusted to account for the financial consequences of overdue obligations to the IMF which are shared between members and reflected in Note 19 as burden sharing.

Remuneration is calculated and paid at the end of the IMF's financial quarters. An annual adjustment maintenance of value is made to the IMF's holdings of the quota to maintain their value in terms of the SDR. In 2006-07, this amount was paid in full, (2005-06 gave rise to a payable).

1.26. Administered capital

Appropriations of 'administered capital' are recognised in administered equity where the amounts appropriated by Parliament are drawn down. For the purposes of the Treasury annual report, administered equity transactions are not disclosed separately.

1.27. 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 Australian 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, 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 instalments of \$2.5 million over a 12 year period, with the final instalment due 2008-09.

Grants to States and Territories

Payments under *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*

The outcome of the 1999 taxation reform process includes an arrangement which provides revenue to fund State and Territory Government services. 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 2006-07 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 and Residual Adjustment Amounts in 2006-07.

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.

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 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*.

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 28F.

1.28. Administered investments

Administered investments were assessed for impairment at 30 June 2007. 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 International Monetary Fund (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 as at 30 June 2007. Fair value has been taken to be the net assets of the entities as at balance date. These entities are listed below:

- Reserve Bank of Australia;
- Australian Securities and Investments Commission;
- Corporations and Markets Advisory Committee;
- Australian Reinsurance Pool Corporation;
- Australian Prudential Regulation Authority;

Australian Accounting Standards Board; and
Auditing and Assurance Standards Board.

1.29. 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.

1.30. Mortgage insurance policies written by the Housing Loans Insurance Corporation up to 12 December 1997

The Australian Government sold the Housing Loans Insurance Corporation (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 21, 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.

1.31. 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 special circumstance applications. HIH Claims Support Limited 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. A review of this assessment was undertaken by an independent actuary as at 29 June 2007 confirming the initial assessment.

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 HIH Claims Support Limited (which is currently acting as the Trustee on behalf of the Australian Government in relation to the HIH Claims Support Scheme) and the new claims manager (which will be acting as an agent of the Australian Government).

1.32. 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).
- Financial liabilities;
 - 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' due to their unique nature, they do not have a quoted market price in an active market and their fair value cannot be reliably measured at the reporting date. These items are valued at cost. The Treasury 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. Administered financial instruments are disclosed at Note 26.

Note 2: Events occurring after reporting date

The RBA has calculated a dividend of \$1.085 billion in respect of its results for the year ended 30 June 2007 (\$1.177 billion 2005-06). 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 2008 in accordance with its accounting policy (Note 1.25).

On 1 July 2007, the Australian Securities and Investments Commission and the Corporations and Markets Advisory Committee were prescribed as agencies under the *Financial Management and Accountability Act 1997* and as such will cease to be recognised as administered investments in Government entities in the Treasury annual report from this date, however they will remain within the Treasury portfolio.

Note 3: Operating revenues

	2007 \$'000	2006 \$'000
Note 3A: Revenue from Government Appropriations		
Departmental outputs	133,536	134,040
Revenues from prior year	-	-
Total revenue from Government	133,536	134,040
Note 3B: Sale of goods and rendering of services		
Provision of goods to:		
external entities	-	66
Rendering of services to:		
related entities	6,042	5,217
external entities	1,107	921
Operating lease rental	70	54
Total sale of goods and rendering of services	7,219	6,258
Note 3C: Other revenues		
Other	1,011	210
Total other revenues	1,011	210
Note 3D: Sale of assets		
Plant and equipment		
Proceeds from sale	84	-
Carrying value of assets sold	(19)	-
Net gain from sale of assets	65	-
Note 3E: Other gains		
Resources received free of charge	398	394
Total other gains	398	394

Note 4: Operating expenses

	2007	2006
	\$'000	\$'000
Note 4A: Employee benefits		
Wages and salaries	68,155	61,288
Superannuation	15,229	13,941
Leave and other entitlements	10,312	6,843
Separation and redundancies	11	-
Other	2,452	2,327
Total employee benefits	96,159	84,399
Note 4B: Suppliers		
Provision of goods from:		
related entities	144	58
external entities	2,022	2,033
Rendering of services from:		
related entities	4,397	4,716
external entities	38,232	20,606
Operating lease rentals ¹	7,904	7,731
Workers compensation premiums	336	448
Total supplier expenses	53,035	35,592
Note 4C: Depreciation and amortisation		
Depreciation		
Other plant and equipment	1,220	1,368
Buildings - leasehold improvements	839	797
Total depreciation	2,059	2,165
Amortisation		
Intangibles - computer software	454	571
Assets held under finance lease	757	724
Total amortisation	1,211	1,295
Total depreciation and amortisation	3,270	3,460
Note 4D: Finance costs		
Leases	126	109
Total finance costs	126	109
Note 4E: Write-down and impairment of assets		
Financial assets		
Receivables - bad and doubtful debt expense	-	7
Non-financial assets		
Intangibles	49	-
Total write-down and impairment of assets	49	7
Note 4F: Losses		
Net losses from sale of assets:		
Other plant and equipment		
Proceeds from disposal	-	(6)
Net book value of assets disposed	-	49
Net losses from disposal	-	43
Total losses	-	43

¹ These comprise minimum lease payments only.

Note 5: Business operations

The Australian Government Actuary operates via a special account and the balance of the special account is disclosed at Note 28G.

Note 6: Financial assets

	2007	2006
	\$'000	\$'000
Note 6A: Cash and cash equivalents		
Cash:		
Special accounts	1,667	1,560
Departmental (other than special accounts)	589	547
Total cash	2,256	2,107
Note 6B: Trade and other receivables		
Goods and services	2,082	877
Net GST receivable from the ATO	138	206
Appropriations receivable - undrawn	51,432	56,683
Other	1,065	1,103
Total trade and other receivables (net)	54,717	58,869
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	53,676	58,388
Overdue by:		
Less than 30 days	815	315
30 to 60 days	105	46
61 to 90 days	37	-
More than 90 days	84	120
Total receivables (gross)	54,717	58,869

Note 7: Non-financial assets

	2007 \$'000	2006 \$'000
Note 7A: Land and buildings		
Leasehold improvements - at fair value		
- At fair value	11,716	10,943
- Accumulated amortisation	(4,624)	(3,785)
Total leasehold improvements - at fair value	7,092	7,158
Total land and buildings (non-current)	7,092	7,158
Note 7B: Plant and equipment		
Plant and equipment - fair value		
- At fair value	9,374	9,146
- Accumulated depreciation	(2,982)	(2,206)
Total plant and equipment - fair value	6,392	6,940
Plant and equipment under finance lease		
- Under finance lease	2,617	2,762
- Accumulated amortisation	(1,139)	(1,561)
Total plant and equipment under finance lease	1,478	1,201
Total plant and equipment (non-current)	7,870	8,141
Note 7C: Intangibles		
Computer software - fair value		
- At fair value	3,300	3,360
- Accumulated amortisation	(2,370)	(2,550)
Total computer software	930	810
Total intangibles (non-current)	930	810

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

Note 7: Non-financial assets (continued)

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2006-07)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 1 July 2006:				
Gross book value	10,943	11,908	3,360	26,211
Accumulated depreciation/amortisation	(3,785)	(3,767)	(2,550)	(10,102)
Net book value 1 July 2006	7,158	8,141	810	16,109
Additions				
By purchase	937	596	571	2,104
By finance lease	-	1,042	-	1,042
Depreciation/amortisation expense	(839)	(1,977)	(454)	(3,270)
Disposals				
Other disposals	-	(19)	(49)	(68)
Transfers	(164)	87	52	(25)
As at 30 June 2007:				
Gross book value	11,716	11,991	3,300	27,007
Accumulated depreciation/amortisation	(4,624)	(4,121)	(2,370)	(11,115)
Net book value 30 June 2007	7,092	7,870	930	15,892

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2005-06)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 1 July 2005:				
Gross book value	10,942	18,176	5,268	34,386
Accumulated depreciation/amortisation	(2,988)	(3,058)	(3,463)	(9,509)
Opening net book value	7,954	15,118	1,805	24,877
Additions				
By purchase	565	687	185	1,437
By finance lease	-	576	-	576
Depreciation/amortisation expense	(797)	(2,092)	(571)	(3,460)
Disposals				
From disposal of entities or operations (including restructuring)	-	(6,620)	(649)	(7,269)
Other disposals	-	(49)	-	(49)
Transfers	(564)	521	40	(3)
As at 30 June 2006:				
Gross book value	10,943	11,908	3,360	26,211
Accumulated depreciation/amortisation	(3,785)	(3,767)	(2,550)	(10,102)
Closing net book value	7,158	8,141	810	16,109

Note 7: Non-financial assets (continued)

Table B: Property, plant and equipment and intangibles held under finance lease (2006-07)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2007:				
Gross book value	-	2,617	-	2,617
Accumulated depreciation/amortisation	-	(1,139)	-	(1,139)
Closing net book value	-	1,478	-	1,478
As at 30 June 2006:				
Gross book value	-	2,762	-	2,762
Accumulated depreciation/amortisation	-	(1,561)	-	(1,561)
Closing net book value	-	1,201	-	1,201

Table B: Property, plant and equipment and intangibles held under finance lease (2005-06)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2006:				
Gross book value	-	2,762	-	2,762
Accumulated depreciation/amortisation	-	(1,561)	-	(1,561)
Closing net book value	-	1,201	-	1,201
As at 30 June 2005:				
Gross book value	-	2,722	-	2,722
Accumulated depreciation/amortisation	-	(1,368)	-	(1,368)
Closing net book value	-	1,354	-	1,354

Table C: Property, plant and equipment and intangibles under construction (2006-07)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2007:				
Gross book value	470	-	-	470
As at 30 June 2006:				
Gross book value	47	-	-	47

Table C: Property, plant and equipment and intangibles under construction (2005-06)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2006:				
Gross book value	47	-	-	47
As at 30 June 2005:				
Gross book value	550	-	-	550

Note 7: Non-financial assets (continued)

	2007	2006
	\$'000	\$'000
Note 7D: Other non-financial assets		
Prepayments	869	1,454
Other	-	355
Total other non-financial assets	869	1,809

Note: Other non-financial assets are current assets.

Note 8: Payables

	2007	2006
	\$'000	\$'000
Note 8A: Supplier payables		
Trade creditors	1,568	1,634
Total supplier payables	1,568	1,634
All supplier payables are current liabilities		
Note 8B: Other payables		
Other creditors	3,973	2,737
Total other payables	3,973	2,737
Other payables are represented by:		
Current	3,956	2,737
Non-current	17	-

Note 9: Interest bearing liabilities

	2007	2006
	\$'000	\$'000
Note 9: Leases		
Finance leases:	1,496	1,192
Payable:		
Within one year		
Minimum lease payments	848	591
Deduct: future finance charges	(88)	(84)
Total leases payable within one year	760	507
In one to five years		
Minimum lease payments	773	745
Deduct: future finance charges	(37)	(60)
Total leases payable within one year to five years	736	685
Finance leases recognised on the balance sheet	1,496	1,192

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 Treasury guarantees the residual values of all assets leased. There are no contingent rentals.

Note 10: Provisions

	2007	2006
	\$'000	\$'000
Note 10: Employee provisions		
Salaries and wages	555	486
Leave	31,868	28,381
Superannuation	228	285
Aggregate employee benefit liability	32,651	29,152
Other employee entitlements	140	139
Aggregate employee benefit liability and related on-costs	32,791	29,291
Current	28,718	26,055
Non-current	4,073	3,236

Note: All other provisions are current liabilities.

The classification of current includes amounts for which there is not an unconditional right to defer settlement by one year, hence in the case of employee provisions the above classification does not represent the amount expected to be settled within one year of the reporting date. Employee provisions expected to be settled in twelve months from the reporting date is \$17,599,887 (2006: \$15,890,424), in excess of one year \$15,191,326 (2006: \$13,401,971). The 2005-06 comparative split has been amended from what was published last year to reflect this.

Note 11: 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 respect of the functions relinquished, the following assets and liabilities were transferred by the Treasury:

	2007	2006
	\$'000	\$'000
Royal Australian Mint		
Assets related to operating activities	-	29,426
Liabilities related to operating activities	-	(8,983)
Net assets relating to operating activities relinquished	-	20,443
Assets related to non-operating activities	-	15,169
Liabilities related to non-operating activities	-	-
Net assets relating to non operating activities relinquished	-	15,169
Net assets relinquished	-	35,612
Net decrease in Departmental net assets during the year	-	35,612

Note 12: Cash flow reconciliation

	2007	2006
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to cash flow statement		
Report cash and cash equivalents as per		
Cash Flow Statement	2,256	2,107
Balance Sheet	2,256	2,107
Reconciliation of operating result to net cash from operating activities		
Operating result	(10,410)	17,292
Restructuring	-	(20,443)
Depreciation/amortisation	3,270	3,460
Loss on disposal of non-current assets	-	43
Gain on disposal of non-current assets	(65)	-
Net write down of non-financial assets	49	-
(Increase)/decrease in net receivables	4,152	(21,359)
(Increase)/decrease in other non financial assets	940	6,938
(Increase)/decrease in inventories	-	21,224
Increase/(decrease) in provisions	3,500	(1,924)
Increase/(decrease) in other payables	1,107	(4,952)
Increase/(decrease) in supplier payables	(66)	(953)
Net cash from/(used by) operating activities	2,477	(674)

As a restructuring of the Mint occurred on 1 July 2005, certain assets and liabilities were relinquished. Note 11 refers.

Note 13: Contingent liabilities and assets

Quantifiable contingencies

The schedule of contingencies reports liabilities in respect of claims for damages/costs of \$0 (2006: \$0).

The schedule of contingencies also reports liabilities in respect of other of \$232,385 (2006: \$133,000). The amount represents an estimate of the Treasury's liability in respect of studies assistance.

Unquantifiable contingencies

As at 30 June 2007, 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.

Discussions with the owner of the Treasury Building have highlighted possible charges for after hours air-conditioning as well as excess water. The Treasury is disputing the claims and amounts are not finalised.

Note 14: Executive remuneration

Total remuneration includes actual salary, all allowances, employer superannuation component, leave accrued during the period, vehicle costs and fringe benefits tax.

	2007	2006
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	2	2
\$145,000 to \$159,999	4	-
\$160,000 to \$174,999	1	8
\$175,000 to \$189,999	4	7
\$190,000 to \$204,999	10	11
\$205,000 to \$219,999	11	15
\$220,000 to \$234,999	3	4
\$235,000 to \$249,999	9	3
\$250,000 to \$264,999	6	-
\$265,000 to \$279,999	4	2
\$280,000 to \$294,999	4	-
\$295,000 to \$309,999	2	3
\$325,000 to \$339,999	-	2
\$340,000 to \$354,999	-	2
\$355,000 to \$369,999	1	1
\$370,000 to \$384,999	2	-
\$400,000 to \$414,999	1	-
\$415,000 to \$429,999	1	2
\$475,000 to \$489,999	-	1
\$505,000 to \$519,999	1	-
	66	63
Aggregate amount of total remuneration of executives as shown above	\$15,796,219	\$14,387,632
Aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above	\$0	\$0

Note: The 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.

Note 15: Remuneration of auditors

	2007	2006
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Treasury		
The fair value of the services provided was:		
Treasury	320	320
Total	320	320

Note: The above amounts are exclusive of GST. No other services were provided by the Auditor-General.

Note 16: Average staffing levels

	2007	2006
Treasury	854	806
Locally engaged staff	-	-
Total	854	806

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 17: Act of grace payments, waivers and defective administration scheme

	2007	2006
	\$	\$
Administered		
No 'act of grace' payments were made during the reporting period. (2006 - one payment 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> .	-	-
Total	-	2,182
Departmental		
No 'act of grace' payments were made during the reporting period. (2006: 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> . (2006: no waivers made)	-	-
No payments were made under s73 of the <i>Public Service Act 1999</i> during the reporting period. (2006: no payments made)	-	-
Total	-	-

Note 18: Financial instruments**Note 18A: Interest rate risk**

Financial instrument	Notes	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total		Weighted average effective interest rate	
		2007 \$'000	2006 \$'000	1 year or less		1 to 5 years		> 5 years		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 %	2006 %
				2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000						
Financial assets															
Cash and cash equivalents	6A	-	-	-	-	-	-	-	-	2,256	2,107	2,256	2,107	-	-
Receivables (gross):															
Goods and services	6B	-	-	-	-	-	-	-	-	2,082	877	2,082	877	-	-
Other	6B	-	-	-	-	-	-	-	-	1,065	1,103	1,065	1,103	-	-
Total financial assets		-	-	-	-	-	-	-	-	5,403	4,087	5,403	4,087	n/a	n/a
TOTAL ASSETS												73,734	78,894	n/a	n/a
Financial liabilities															
Trade creditors	8A	-	-	-	-	-	-	-	-	1,568	1,634	1,568	1,634	-	-
Other liabilities	8B	-	-	-	-	-	-	-	-	3,973	2,737	3,973	2,737	-	-
Finance lease liabilities	9	-	-	760	507	736	685	-	-	-	-	1,496	1,192	7.31	8.31
Total financial liabilities		-	-	760	507	736	685	-	-	5,541	4,371	7,037	5,563	n/a	n/a
TOTAL LIABILITIES												39,828	34,854	n/a	n/a

Note: In accordance with the Finance Minister's Orders 2006-07, Appropriations Receivable is no longer considered a financial instrument and has been removed from the comparative, together with GST Receivable which is a statutory receivable.

Note 18: Financial Instruments (continued)**Note 18B: Net fair values of financial assets and liabilities**

	Notes	2007		2006	
		Total carrying amount	Aggregate net fair value	Total carrying amount	Aggregate net fair value
		\$'000	\$'000	\$'000	\$'000
Departmental financial assets					
Cash and cash equivalents	6A	2,256	2,256	2,107	2,107
Receivables (net):					
Goods and services	6B	2,082	2,082	877	877
Other	6B	1,065	1,065	1,103	1,103
Total financial assets		5,403	5,403	4,087	4,087
Financial liabilities (recognised)					
Trade creditors	8A	1,568	1,568	1,634	1,634
Other liabilities	8B	3,973	3,973	2,737	2,737
Finance lease liabilities	9	1,496	1,496	1,192	1,192
Total financial liabilities (recognised)		7,037	7,037	5,563	5,563

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 18C: 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 19: Income administered on behalf of Government

	2007 \$'000	2006 \$'000
Non-taxation revenue		
Interest		
Gross IMF remuneration	10,540	24,403
Less: Burden sharing	(530)	(1,937)
Add: Burden sharing refunds	-	320
Net IMF remuneration	10,010	22,786
Interest on Papua New Guinea loan	-	479
Other interest	225	211
Total interest	10,235	23,476
Dividends		
Reserve Bank of Australia	1,177,725	1,363,000
Total dividends	1,177,725	1,363,000
Sale of goods and rendering of services		
GST administration fees - external entities	618,792	605,888
Total sale of goods and rendering of services	618,792	605,888
Other revenues		
Write back of HCS Scheme	16,503	-
HIH Group liquidation proceeds	43,646	26,356
Other revenues	6,108	4,747
Total other revenues	66,257	31,103
Total revenues administered on behalf of Government	1,873,009	2,023,467
Gains		
Net foreign exchange gains/(losses)		
IMF SDR allocation	-	(29,813)
IMF maintenance of value	-	(27,082)
IMF quota revaluation	-	205,056
Other	-	(2,018)
Total net foreign exchange gains/(losses)	-	146,143
Total gains administered on behalf of Government	-	146,143
Total income administered on behalf of Government	1,873,009	2,169,610

Note 20: Expenses administered on behalf of Government

	2007	2006
	\$'000	\$'000
Grants		
Grants to State and Territory governments	39,722,230	38,603,409
Other grants	(326)	1,251
Total grants	39,721,904	38,604,660
Interest		
IMF charges	35,779	28,498
Total Interest	35,779	28,498
Other expenses		
HLIC claims ¹	7	(3,736)
HCS Scheme claims ²	-	10,283
Total other expenses	7	6,547
Losses		
Net foreign exchange losses/(gains)		
IMF SDR allocation	(89,320)	-
IMF maintenance of value	(319,395)	-
IMF quota	614,342	-
Other	(7,679)	-
Total net foreign exchange losses/(gains)	197,948	-
Total losses administered on behalf of Government	197,948	-
Total expenses administered on behalf of Government	39,955,638	38,639,705

1 HLIC claims expenses include payments and management fees.

2 HCS Scheme claims expenses include payments and management fees.

Note 21: Assets administered on behalf of Government

	2007 \$'000	2006 \$'000
Financial assets		
Cash and cash equivalents		
Administered bank accounts - The Treasury	13,168	7,736
Receivables		
Net GST receivable from the ATO	82	111
HLIC premiums receivable	1,249	1,886
IMF related moneys owing	904	2,515
RBA dividend receivable	-	299,534
Other receivables	13	10,017
Total receivables (net)	2,248	314,063
Receivables (gross) are aged as follows:		
Current	2,248	314,063
Total receivables (gross)	2,248	314,063
Investments		
International financial institutions		
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
Total international financial institutions	710,780	710,780
Quota		
International Monetary Fund	5,774,130	6,388,472
Australian Government entities		
Reserve Bank of Australia	9,664,000	12,685,000
Australian Securities and Investments Commission	29,999	10,450
Corporations and Markets Advisory Committee	102	32
Australian Reinsurance Pool Corporation	331,995	220,711
Australian Prudential Regulation Authority	32,656	15,932
Australian Accounting Standards Board	2,590	2,156
Auditing and Assurance Standards Board	578	363
Total Australian Government entities	10,061,920	12,934,644
Total investments	16,546,830	20,033,896
Non-financial assets		
Prepayments		
Prepayment of grants State and Territory governments	-	74,600
Other		
Deferred acquisition costs	6	31
Other prepayments	2,075	2,316
Total other	2,081	2,347
Total non-financial assets	2,081	76,947
Total assets administered on behalf of Government	16,564,327	20,432,642

Note 22: Liabilities administered on behalf of Government

	2007 \$'000	2006 \$'000
Loans		
IMF promissory notes	3,834,696	3,807,615
Other promissory notes	53,928	63,210
Total loans	3,888,624	3,870,825
Maturity schedule for loans is as follows:		
Payable: Within one year	1,070	1,733
In one to two years	535	1,156
In two to five years	-	578
In more than five years	3,887,019	3,867,358
Total loans	3,888,624	3,870,825
Grants		
IMF - poverty reduction and growth facility	5,000	7,500
Maturity schedule for grants is as follows:		
Payable: Within one year	2,500	2,500
In one to two years	2,500	2,500
In two to five years	-	2,500
In more than five years	-	-
Total grants	5,000	7,500
Other payables		
GST appropriation payable	82	111
IMF SDR allocation	839,509	928,829
IMF maintenance of value	-	27,082
IMF related monies owing	5,921	5,600
Other	45	363
Total other payables	845,557	961,985
Other provisions		
Provision for insurance claims	680	1,157
Provision for unearned premiums	55	248
Provision for HCS Scheme	189,397	256,081
Total other provisions	190,132	257,486
Total other provisions and payables	1,035,689	1,219,471
Total liabilities administered on behalf of Government	4,929,313	5,097,796

Note 23: Administered reconciliation table

	Notes	2007 \$'000	2006 \$'000
Opening administered assets less administered liabilities at 1 July		15,334,846	10,565,948
Opening balances fair value adjustment			
- administered investments		-	1,678,520
Plus administered revenues	19	1,873,009	2,169,610
Less administered expenses	20	(39,955,638)	(38,639,705)
Administered transfers to/from Australian Government			
Appropriation transfers from OPA:			
Annual appropriations administered expenses		170,586	512,036
Administered assets and liabilities appropriations		4,103	4,799
Special appropriations (limited)		55,658	81,404
Special appropriations (unlimited)		39,514,280	37,975,268
Refunds of receipts (s28 FMA)		8	504
Transfers to OPA		(2,489,117)	(2,209,851)
Administered investments - gains/(losses)		(2,872,721)	3,196,313
Closing administered assets less administered liabilities as at 30 June		11,635,014	15,334,846

Note 24: 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 ARPC uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. In September 2006, the Government announced that, as a result of the review of the scheme, the fund would no longer be limited to \$300 million. The Commonwealth guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Commonwealth's liability would otherwise exceed \$10 billion.

Contingent gain

HIH Claims Support Scheme

As the 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. During 2006-07 the Treasury received distributions from this Trust, however the amount and timing of future recoveries is unknown.

International Monetary Fund

Since 1986, the International Monetary Fund (IMF) has used its burden sharing mechanism to make up for the loss of income from unpaid interest charges on the loans of debtor members and to accumulate precautionary balances in a Special Contingent Account to guard against the ultimate failure of debtor members to settle their overdue principal obligations to the IMF.

The mechanism works by providing for additions to the rate of charge on IMF loans and deductions to the rate of remuneration for creditor members such as Australia. 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. Likewise, precautionary balances held in the Special Contingent Account would be distributed back to members in proportion to their cumulative contributions when there are no overdue charges or principal balances. The IMF could also decide to make an early distribution.

As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

Note 25: Administered investments

The principal activities of each of the Treasury's administered investments are as follows:

Development Banks

The European Bank for Reconstruction and Development was established in 1991 to assist post-communist, democratic, Eastern European Countries develop their private sector and capital markets. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment.

The Asian Development Bank was established in 1966 and has a mandate to reduce poverty and promote general development in its developing member countries. The Asian Development Bank does this by financing (through a mix of loans, grants, guarantees and co-financing activities with both other donors and the private sector) public sector and private sector activities. It also provides technical assistance to developing member countries so they can improve their policy and business investment environments. A significant portion of the Bank's activities are focused in the infrastructure and energy sectors.

The World Bank was established in 1944 and comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD provides financing and technical assistance to Middle Income Countries and lends on harder terms than IDA, which provides concessionary finance and technical assistance to low income countries. The IFC supports the development of the private sector by providing direct finance to private sector operations. MIGA provides guarantee services for projects, which reduce the risks for other co-financing partners including the private sector.

International Monetary Fund

The International Monetary Fund (IMF) is an organisation of 185 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty. It undertakes surveillance and annual economic assessments, provides technical assistance to developing countries and provides short term loans to countries experiencing currency and financial crisis.

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.

Note 26: Administered financial instruments

Note 26A: 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								
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	%
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Financial assets																
Cash	21	4,387	4,296	-	-	-	-	-	-	8,781	3,440	13,168	7,736	5.46	4.41	
IMF monies																
owing	21	-	-	-	-	-	-	-	-	904	2,515	904	2,515	-	-	
RBA dividend receivable	21	-	-	-	-	-	-	-	-	-	299,534	-	299,534	-	-	
Other receivables	21	-	-	-	-	-	-	-	-	1,262	11,903	1,262	11,903	-	-	
Total		4,387	4,296	-	-	-	-	-	-	10,947	317,392	15,334	321,688	n/a	n/a	
Total assets												16,564,327	20,432,642			
Financial liabilities																
Grant liabilities	22	-	-	-	-	-	-	-	-	5,000	7,500	5,000	7,500	-	-	
IMF allocation liability	22	839,509	928,829	-	-	-	-	-	-	-	-	839,509	928,829	5.28	4.20	
Loans:																
Promissory notes	22	-	-	-	-	-	-	-	-	3,888,624	3,870,825	3,888,624	3,870,825	-	-	
Other liabilities	22	-	-	-	-	-	-	-	-	196,180	290,642	196,180	290,642	-	-	
Total		839,509	928,829	-	-	-	-	-	-	4,089,804	4,168,967	4,929,313	5,097,796	n/a	n/a	
Total liabilities												4,929,313	5,097,796			
Liabilities unrecognised																
Unrecognised indemnity		-	-	-	-	-	-	-	-	-	-	-	-	n/a	n/a	

Note 26: Administered financial instruments (continued)

Note 26B: Net fair values of financial assets and liabilities

	Note	2007		2006	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Administered financial assets					
Cash	21	13,168	13,168	7,736	7,736
IMF related monies owing	21	904	904	2,515	2,515
RBA dividend receivable	21	-	-	299,534	299,534
Other receivables	21	1,262	1,262	11,903	11,903
Total financial assets		15,334	15,334	321,688	321,688
Financial liabilities (recognised)					
Grant liabilities	22	5,000	5,000	7,500	7,500
IMF allocation liability	22	839,509	839,509	928,829	928,829
Loans - promissory notes	22	3,888,624	3,888,624	3,870,825	3,870,825
Other financial liabilities	22	196,180	196,180	290,642	290,642
Total financial liabilities (recognised)		4,929,313	4,929,313	5,097,796	5,097,796
Financial liabilities (unrecognised)					
Guarantees		-	-	-	-
Total financial liabilities (unrecognised)		-	-	-	-

Note 27: Administered consolidation

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
REVENUE:						
Non-taxation revenue						
Interest						
Gross IMF remuneration	10,540	24,403	-	-	10,540	24,403
Less: Burden sharing	(530)	(1,937)	-	-	(530)	(1,937)
Add: Burden sharing refunds	-	320	-	-	-	320
Net IMF remuneration	10,010	22,786	-	-	10,010	22,786
Interest Papua New Guinea loan	-	479	-	-	-	479
Other interest	23	34	202	177	225	211
Total interest	10,033	23,299	202	177	10,235	23,476
Dividends						
Reserve Bank of Australia	1,177,725	1,363,000	-	-	1,177,725	1,363,000
Total dividends	1,177,725	1,363,000	-	-	1,177,725	1,363,000
Sale of goods and rendering of services						
GST administration fees						
- external entities	618,792	605,888	-	-	618,792	605,888
Total sale of goods and rendering of services	618,792	605,888	-	-	618,792	605,888
Other revenues						
Write back of HCS scheme	16,503	-	-	-	16,503	-
HIH group liquidation proceeds	43,646	26,356	-	-	43,646	26,356
Other revenues	6,108	4,720	-	27	6,108	4,747
Total other revenues	66,257	31,076	-	27	66,257	31,103
Total revenues administered on behalf of Government	1,872,807	2,023,263	202	204	1,873,009	2,023,467

Note 27: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Gains						
Net foreign exchange gains/(losses)						
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)
Total net foreign exchange gains/(losses)	-	146,143	-	-	-	146,143
Total gains administered on behalf of Government	-	146,143	-	-	-	146,143
Total income administered on behalf of Government	1,872,807	2,169,406	202	204	1,873,009	2,169,610

Note 27: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
EXPENSES:						
Grants						
Grants to State and Territory Governments	39,722,230	38,603,409	-	-	39,722,230	38,603,409
Other grants	(326)	1,251	-	-	(326)	1,251
Total grants	39,721,904	38,604,660	-	-	39,721,904	38,604,660
Interest						
IMF charges	35,779	28,498	-	-	35,779	28,498
Total interest	35,779	28,498	-	-	35,779	28,498
Other expenses						
HLIC claims	7	(3,736)	-	-	7	(3,736)
HCS Scheme claims	-	10,283	-	-	-	10,283
Total other expenses	7	6,547	-	-	7	6,547
Losses						
Net foreign exchange losses/(gains)						
IMF SDR allocation	(89,320)	-	-	-	(89,320)	-
IMF maintenance of value	(319,395)	-	-	-	(319,395)	-
IMF quota revaluation	614,342	-	-	-	614,342	-
Other	(7,679)	-	-	-	(7,679)	-
Total net foreign exchange losses/(gains)	197,948	-	-	-	197,948	-
Total losses administered on behalf of Government	197,948	-	-	-	197,948	-
Total expenses administered on behalf of Government	39,955,638	38,639,705	-	-	39,955,638	38,639,705

Note 27: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
ASSETS:						
Financial assets						
Cash and cash equivalents						
Administered bank accounts						
- Department of the Treasury	9,183	4,000	3,985	3,736	13,168	7,736
Receivables						
Net GST receivable						
from the ATO	82	111	-	-	82	111
HLIC premiums receivable	1,249	1,886	-	-	1,249	1,886
IMF related moneys owing	904	2,515	-	-	904	2,515
RBA dividend receivable	-	299,534	-	-	-	299,534
Other receivables	-	9,986	13	31	13	10,017
Total receivables (net)	2,235	314,032	13	31	2,248	314,063
Investments						
International financial institutions						
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
Total international financial institutions	710,780	710,780	-	-	710,780	710,780
Quota						
International Monetary Fund	5,774,130	6,388,472	-	-	5,774,130	6,388,472

Note 27: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Australian Government entities						
Reserve Bank of Australia	9,664,000	12,685,000	-	-	9,664,000	12,685,000
Australian Securities and Investments Commission	29,999	10,450	-	-	29,999	10,450
Corporations and Markets Advisory Committee	102	32	-	-	102	32
Australian Reinsurance Pool Corporation	331,995	220,711	-	-	331,995	220,711
Australian Prudential Regulation Authority	32,656	15,932	-	-	32,656	15,932
Australian Accounting Standards Board	2,590	2,156	-	-	2,590	2,156
Auditing and Assurance Standards Board	578	363	-	-	578	363
Total Australian Government entities	10,061,920	12,934,644	-	-	10,061,920	12,934,644
Total investments	16,546,830	20,033,896	-	-	16,546,830	20,033,896
Non-financial assets						
Prepayment of grants to State and Territory Governments	-	74,600	-	-	-	74,600
Deferred acquisition costs	6	31	-	-	6	31
Other prepayments	3,509	3,691	(1,434)	(1,375)	2,075	2,316
Total non-financial assets	3,515	78,322	(1,434)	(1,375)	2,081	76,947
Total assets administered on behalf of Government	16,561,763	20,430,250	2,564	2,392	16,564,327	20,432,642

Note 27: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
LIABILITIES:						
Loans						
IMF promissory notes	3,834,696	3,807,615	-	-	3,834,696	3,807,615
Other promissory notes	53,928	63,210	-	-	53,928	63,210
Total loans	3,888,624	3,870,825	-	-	3,888,624	3,870,825
Grants						
IMF - poverty reduction and growth facility	5,000	7,500	-	-	5,000	7,500
Total grants	5,000	7,500	-	-	5,000	7,500
Other payables						
GST appropriation payable	82	111	-	-	82	111
IMF SDR allocation	839,509	928,829	-	-	839,509	928,829
IMF maintenance of value	-	27,082	-	-	-	27,082
IMF related monies owing	5,921	5,600	-	-	5,921	5,600
Other	-	287	45	76	45	363
Total other payables	845,512	961,909	45	76	845,557	961,985
Other provisions						
Provision for insurance claims	680	1,157	-	-	680	1,157
Provision for unearned premiums	55	248	-	-	55	248
Provision for HCS scheme	189,397	256,081	-	-	189,397	256,081
Total other provisions	190,132	257,486	-	-	190,132	257,486
Total other provisions and payables	1,035,644	1,219,395	45	76	1,035,689	1,219,471
Total liabilities administered on behalf of Government	4,929,268	5,097,720	45	76	4,929,313	5,097,796
Net assets administered on behalf of Government	11,632,495	15,332,530	2,519	2,316	11,635,014	15,334,846

Note 28: Appropriations

Note 28A: 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		Outcome 4					
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Balance carried from previous period	-	-	-	-	-	-	5,423,635	7,719,416	57,342,236	31,735,053	62,765,871	39,454,469
Adjustment to prior year	-	-	-	-	-	-	-	-	-	5,654,639	-	5,654,639
Reductions of appropriations (prior years)	-	-	-	-	-	-	(5,423,635)	(7,719,416)	-	-	(5,423,635)	(7,719,416)
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-	57,342,236	37,389,692	57,342,236	37,389,692
Appropriation Act (No.1)	-	-	-	-	-	-	5,000,000	6,000,000	132,993,000	134,151,000	137,993,000	140,151,000
Appropriation Act (No.3)	-	-	-	-	-	-	-	-	543,000	72,000	543,000	72,000
Adjustment to appropriations on change of entity function (FMA s32)	-	-	-	-	-	-	-	-	-	(183,000)	-	(183,000)
Refunds credited (FMA s30)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation reduced by section 9 determination (current year)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	-	-	-	-	-	-	5,000,000	6,000,000	133,536,000	134,040,000	138,536,000	140,040,000
Adjusted annual appropriation balance	-	-	-	-	-	-	5,000,000	6,000,000	133,536,000	134,040,000	138,536,000	140,040,000
Comcover Receipts (Appropriation Act s13)	-	-	-	-	-	-	-	-	12,212	1,946	12,212	1,946
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	-	-	29,373	57,418	4,226,800	2,871,334	4,256,173	2,928,752
Annotations to 'net appropriations' (FMA s31)	-	-	-	-	-	-	-	-	9,161,906	8,999,226	9,161,906	8,999,226
Total appropriations available for payments	-	-	-	-	-	-	5,029,373	6,057,418	204,279,154	183,302,198	209,308,527	189,359,616

Note 28: Appropriations (continued)

Note 28A: 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		Outcome 4					
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Cash payments made during the year (GST inclusive)	-	-	-	-	-	-	(323,101)	(633,783)	(152,062,721)	(125,959,962)	(152,385,822)	(126,593,745)
Balance of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations	-	-	-	-	-	-	4,706,272	5,423,635	52,216,433	57,342,236	56,922,705	62,765,871
<i>Represented by:</i>												
Cash at bank and on hand	-	-	-	-	-	-	-	-	589,499	547,426	589,499	547,426
Departmental appropriations receivable	-	-	-	-	-	-	-	-	51,432,030	56,683,423	51,432,030	56,683,423
GST receivable from the ATO	-	-	-	-	-	-	-	-	134,078	166,027	134,078	166,027
Receivables - goods and services - GST receivable from customers	-	-	-	-	-	-	-	-	108,075	38,439	108,075	38,439
Payables - suppliers - GST portion	-	-	-	-	-	-	-	-	(47,249)	(93,079)	(47,249)	(93,079)
Undrawn, unexpired administered appropriations	-	-	-	-	-	-	4,706,272	5,423,635	-	-	4,706,272	5,423,635
Total	-	-	-	-	-	-	4,706,272	5,423,635	52,216,433	57,342,236	56,922,705	62,765,871

Note 28: Appropriations (continued)

Note 28B: 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				Outcome 4			
	SPPs		NAE		SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Balance carried from previous period	-	-	-	-	2,742,000	4,475,000	-	-	-	-	-	-	958,900	50,610	-	-
Reduction of appropriations (prior years)	-	-	-	-	(2,742,000)	(4,475,000)	-	-	-	-	-	-	(958,900)	(50,610)	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation Act (No.2)	-	-	-	-	19,504,000	4,272,000	-	-	-	-	-	-	168,492,000	164,701,000	-	-
Appropriation Act (No.4)	-	-	-	-	-	346,187,000	-	-	-	-	-	-	1,800,000	-	-	-
Adjustment of appropriations on change of entity function (FMA s32)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Refunds credited (net) (FMA s30)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation reduced by section 11 determination (current period)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	-	-	-	-	19,504,000	350,459,000	-	-	-	-	-	-	170,292,000	164,701,000	-	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	-	-	-	-	19,504,000	350,459,000	-	-	-	-	-	-	170,292,000	164,701,000	-	-

Note 28: Appropriations (continued)

Note 28B: 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				Outcome 4			
	SPPs		NAE		SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cash payments made during the year (GST inclusive)	-	-	-	-	-	(347,717,000)	-	-	-	-	-	-	(170,291,784)	(163,742,100)	-	-
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	-	-	-	-	19,504,000	2,742,000	-	-	-	-	-	-	216	958,900	-	-
Represented by:																
Undrawn, unexpired administered appropriations	-	-	-	-	19,504,000	2,742,000	-	-	-	-	-	-	216	958,900	-	-
Total	-	-	-	-	19,504,000	2,742,000	-	-	-	-	-	-	216	958,900	-	-

Note 28: Appropriations (continued)

Note 28B: 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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous period	-	-	-	-	-	-	668,476	730,327	-	-
Reduction of appropriations (prior years)	-	-	-	-	-	-	-	-	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	668,476	730,327	-	-
Appropriation Act (No. 2)	276,000	4,243,000	-	-	-	-	4,165,000	2,500,000	-	-
Appropriation Act (No. 4)	-	-	-	-	-	-	14,068,000	2,237,000	-	-
Adjustment of appropriations on change of entity function (FMA s32)	-	(4,210,000)	-	-	-	-	-	-	-	-
Sub-total annual (FMA s30) appropriation	276,000	33,000	-	-	-	-	18,233,000	4,737,000	-	-
Appropriations to take account of recoverable GST (FMA s30A)	27,600	3,300	-	-	-	-	-	-	-	-
Departmental adjustments	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	303,600	36,300	-	-	-	-	18,901,476	5,467,327	-	-

Note 28: Appropriations (continued)

Note 28B: 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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash payments made during the year (GST inclusive)	(303,600)	(36,300)	-	-	-	-	(4,103,072)	(4,798,851)	-	-
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations	-	-	-	-	-	-	14,798,404	668,476	-	-
Represented by: Undrawn, unexpired administered appropriations	-	-	-	-	-	-	14,798,404	668,476	-	-
Total	-	-	-	-	-	-	14,798,404	668,476	-	-

Note 28: Appropriations (continued)

Note 28C: 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>	2007	2006
	\$	\$
		Outcome 2
<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	<u>(39,477,337,513)</u>	(37,948,467,173)
Total charged to appropriation	<u>(39,477,337,513)</u>	(37,948,467,173)
Budget estimate	39,551,702,000	37,728,225,000
<hr/>		
<i>International Monetary Agreements Act 1947</i>	2007	2006
	\$	\$
		Outcome 1
<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>(35,458,429)</u>	(26,628,555)
Total charged to appropriation	<u>(35,458,429)</u>	(26,628,555)
Budget estimate	36,639,000	28,359,000

Note 28: Appropriations (continued)

Note 28C: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (unlimited amount) (continued)

<i>Superannuation Industry (Supervision) Act 1993</i>	2007	2006
	\$	\$
		Outcome 4
<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	(1,483,983)	(172,457)
Total charged to appropriation	(1,483,983)	(172,457)
Budget estimate	1,477,000	1,158,000
<hr/>		
Totals for unlimited special appropriations	2007	2006
	\$	\$
Cash payments made during the year	(39,514,279,925)	(37,975,268,185)
Total charged to appropriation	(39,514,279,925)	(37,975,268,185)
Budget estimate	39,589,818,000	37,757,742,000

Note 28: Appropriations (continued)

Note 28C: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (limited amount) (continued)

Appropriation (HIH Assistance) Act 2001	2007	2006
	\$	\$
		Outcome 4
<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	70,115,058	152,456,980
Appropriations to take account for recoverable GST (FMA s30A)	1,012,724	3,083,133
Available for payments	71,127,782	155,540,113
Cash payments made during the year	(51,329,759)	(85,425,055)
Amount available carried to the next period	19,798,023	70,115,058
<i>Represented by:</i>		
Cash	8,781,225	3,439,996
Undrawn, unexpired administered appropriations	11,016,798	66,675,062
Total	19,798,023	70,115,058

Note: In previous Annual Reports, details of the *Appropriation (HIH Assistance) Act 2001* had been disclosed as 'Special Appropriations (unlimited amount)'.

Note 28: Appropriations (continued)**Note 28D: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (Refund Provisions)**

Financial Management and Accountability Act 1997	2007	2006
Transactions reported in this table are Administered items	\$	\$
		Outcome 2
Cash payments made during the year	-	501,287
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	-	501,287
Budget estimate (FMA s28)	-	-
		Outcome 4
Cash payments made during the year	8,067	3,105
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	8,067	3,105
Budget estimate (FMA s28)	-	-

Note: Due to changes in the outcome structure administered totals reported under outcome 3 are now reported under outcome 4. Comparative values in outcome 4 were reported under outcome 3 in 2005-06.

Note 28E: Acquittal of authority to draw cash from the consolidated revenue fund — Special Appropriations (Section 39 of the FMA Act)

For the periods 2005-06 and 2006-07, the Treasury has not used section 39 of the FMA Act.

Note 28: Appropriations (continued)**Note 28F: 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.

Limited	
Act	Purpose
<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>Asian Development Bank (Additional Subscription) Act 1995</i>	Subscribe to 2,047 (paid-in) and 100,323 (callable) shares. Balance available is USD\$1,210,246,511 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
<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.
Unlimited	
Act	Purpose
<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 28: Appropriations (continued)

Note 28F: 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:

	2007	2006
	Actual	Actual
	\$	\$
Total mirror tax collection	358,017,041	327,631,464

Note 28: Appropriations (continued)

Note 28G: 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 Royal Australian Mint (the Mint) approved by the Treasurer.
(b) Repayment of capital funds and payment of moneys in excess of requirements to consolidated revenue fund.

	2007 \$'000	2006 \$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	-	8,021
Transfer due to restructure of special account	-	(8,021)
Appropriation Act (No. 2) current period	-	-
Costs recovered from provision of goods	-	-
GST credits (FMA s30A)	-	-
Other receipts		
Goods - provision of goods to related entities	-	-
Services - rendering of services to related entities	-	-
Available for payments	-	-
Payment made to the Australian Government for seigniorage	-	-
Payments made for competitive neutrality	-	-
Payments made to employees	-	-
Payments made to suppliers	-	-
Other payments	-	-
Balance carried to next period	-	-
<i>Represented by:</i>		
Cash held by the Royal Australian Mint	-	-
Add: Receivables - goods and services - GST receivable from customers	-	-
Add: Receivables - net GST receivable from the ATO	-	-
Total balance carried to the next period	-	-

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 28: Appropriations (continued)**Note 28G: Special Accounts (continued)****Australian Government Actuary Account (Departmental)***Legal authority: Financial Management and Accountability Act 1997; s20**Purpose: for expenditure of moneys related to the operations of the Australian Government Actuary.**Note: Australian Government Actuary Account was abolished on 30 September 2006. The balance of the special account was transferred to Actuarial Services Special Account (transfer shown as 'other payments').*

	2007 \$'000	2006 \$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	1,557	1,369
Adjustment to prior year	-	8
Adjusted balance carried forward from previous period	1,557	1,377
GST credit (FMA s30A)	2	6
Other receipts from rendering of services	490	1,662
Available for payments	2,049	3,045
Payments made to employees	(205)	(1,052)
Payments made to suppliers	(140)	(436)
Other payments	(1,704)	-
Balance carried to next period	-	1,557
<i>Represented by:</i>		
Cash held by the Australian Government Actuary	1,703	1,560
<i>Add:</i> Receivables - goods and services - GST receivable from customers	8	33
<i>Less:</i> Other payables - net GST payable to the ATO	(7)	(35)
<i>Less:</i> Payable - suppliers - GST portion	-	(1)
<i>Less:</i> Transfer of balance to Actuarial Services Special Account	(1,704)	-
Total balance carried to the next period	-	1,557

Note 28: Appropriations (continued)

Note 28G: Special Accounts (continued)

Actuarial Services Special Account (Departmental)

Legal authority: Financial Management and Accountability Act 1997; s20

Purpose: providing actuarial services and advice.

Note: Actuarial Services Special Account was established on 1 October 2006. The opening balance was transferred from the Australian Government Actuary Account.

	2007 \$'000	2006 \$'000
<i>This account is non-interest bearing</i>		
Balance carried from Australian Government Actuary Account	1,704	-
Adjustment to prior year	-	-
Adjusted balance carried forward from previous period	1,704	-
GST credit (FMA s30A)	5	-
Other receipts from rendering of services	1,011	-
Available for payments	2,720	-
Payments made to employees	(709)	-
Payments made to suppliers	(339)	-
Balance carried to next period	1,672	-
<i>Represented by:</i>		
Cash held by the Australian Government Actuary	1,667	-
<i>Add: Receivables - goods and services - GST receivable from customers</i>	16	-
<i>Less: Other payables - net GST payable to the ATO</i>	(11)	-
Total balance carried to the next period	1,672	-

Note 28: Appropriations (continued)**Note 28G: 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).

Note: Trustee Companies (ACT) Deposits Trust Account was abolished on 3 August 2006.

	2007	2006
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	-	120
Other receipts from rendering of services	-	8
Available for payments	-	128
Payments made to suppliers	-	(128)
Balance carried to next period	-	-
<i>Represented by:</i>		
Securities held by Treasury	-	-
Total balance carried to the next period	-	-

Note: The transactions in this special account ceased on 23 May 2006. All monies were transferred back to the Trustee Companies following a change in ACT Government Legislation.

Note 28: Appropriations (continued)

Note 28G: 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.

Note: Lloyd's Deposit Trust Account was abolished on 30 September 2006. The balance of the special account was transferred to Lloyd's Deposit Trust Special Account (transfer shown as 'other payments').

	2007	2006
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	2,000	2,000
Other receipts from provision of goods	75	150
Available for payments	2,075	2,150
Payments made to suppliers	(75)	(150)
Other payments	(2,000)	-
Balance carried to next period	-	2,000
<i>Represented by:</i>		
Securities held by Treasury	-	2,000
Total balance carried to the next period	-	2,000

Note 28: Appropriations (continued)**Note 28G: Special Accounts (continued)****Lloyd's Deposit Trust Special Account (Departmental)**

Legal authority: Financial Management and Accountability Act 1997; s20

Purpose: to disburse amounts in accordance with section 92Q of the Insurance Act 1973.

Note: Lloyd's Deposit Trust Special Account was established on 1 October 2006. The opening balance was transferred from Lloyd's Deposit Trust Account.

	2007	2006
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from Lloyd's Deposit Trust Account	2,000	-
Other receipts from provision of goods	75	-
Available for payments	2,075	-
Payments made to suppliers	(75)	-
Balance carried to next period	2,000	-
<i>Represented by:</i>		
Securities held by Treasury	2,000	-
Total balance carried to the next period	2,000	-

Note 28: Appropriations (continued)**Note 28G: 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 2006 and 30 June 2007 this special account had nil balances and no transactions 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 year ended 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*. Amendments in this Act have allowed payments that are direct reimbursements to employers to no longer be considered as Special Public Money. The effect of this change is from 1 July 2006. In the past, where the Treasury made payments against accrued sick leave entitlements pending determination of an employee's claim, permission was obtained in writing from each individual to allow the Treasury to recover the payments from the monies in the account. The Treasury obtained 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.

	2007	2006
	Actual	Actual
	\$	\$
Balance carried forward from previous year	-	-
Receipts during the year	-	39,684
Available for payments	-	39,684
Payments made	-	(39,684)
Balance carried forward to next year held by the entity	-	-

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 years ended 30 June 2006 and 30 June 2007 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.

	2007	2006
	Actual	Actual
	\$	\$
Balance carried forward from previous year	44,716	-
Receipts during the year	364,424	509,239
Available for payments	409,140	509,239
Payments made	(397,785)	(464,523)
Balance carried forward to next year held by the entity	11,355	44,716
<i>Represented by:</i>		
Cash held by Treasury	11,355	44,716
Balance carried forward to next year held by the entity	11,355	44,716

Note 28H: Special Accounts investment of public money

For the periods 2005-06 and 2006-07, the Treasury has not used section 39 of the FMA Act or section 18 and 19 of the Commonwealth Authorities and Companies (CAC) Act in respect of this Special Account.

Note 29: 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 29: Reporting of outcomes (continued)

Note 29A: Net cost of outcome delivery

	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses										
Administered expenses	233,727	28,498	39,551,938	38,440,984	-	-	169,973	170,223	39,955,638	38,639,705
Departmental expenses	41,112	31,142	15,445	14,603	41,790	40,731	54,292	37,134	152,639	123,610
Total expenses	274,839	59,640	39,567,383	38,455,587	41,790	40,731	224,265	207,357	40,108,277	38,763,315
Costs recovered from provision of goods and services to the non-government sector										
Administered	-	-	-	-	-	-	-	-	-	-
Departmental	4,265	3,463	132	145	21	24	364	254	4,782	3,886
Total costs recovered	4,265	3,463	132	145	21	24	364	254	4,782	3,886
Other external revenues										
Administered										
Interest	10,010	23,265	-	-	-	-	225	211	10,235	23,476
Dividends	1,177,725	1,363,000	-	-	-	-	-	-	1,177,725	1,363,000
GST administration fees	-	-	618,792	605,888	-	-	-	-	618,792	605,888
Premiums received	-	-	-	-	-	-	-	-	-	-
HIH Group liquidation proceeds	-	-	-	-	-	-	43,646	26,356	43,646	26,356
Net gains	-	146,143	-	-	-	-	-	-	-	146,143
Other revenue	-	-	2,300	-	-	-	20,311	4,747	22,611	4,747
Total administered	1,187,735	1,532,408	621,092	605,888	-	-	64,182	31,314	1,873,009	2,169,610
Departmental										
Net gains	101	95	41	39	175	186	81	74	398	394
Sale of assets	20	-	8	-	21	-	16	-	65	-
Other	284	64	152	25	280	73	295	48	1,011	210
Related goods and services revenue	90	253	13	20	325	395	1,633	1,326	2,061	1,994
External goods and services revenue	16	48	2	3	59	76	299	251	376	378
Total departmental	511	460	216	87	860	730	2,324	1,699	3,911	2,976
Total other external revenues	1,188,246	1,532,868	621,308	605,975	860	730	66,506	33,013	1,876,920	2,172,586
Net cost / (contribution) of outcome	(917,672)	(1,476,691)	38,945,943	37,849,467	40,909	39,977	157,395	174,090	38,226,575	36,586,843

Outcomes 1, 2, 3 and 4 are described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual budget outcome. The 2005-06 comparative has been adjusted to fit the new outcome structure with the old Outcome 2 being split between the new Outcome 2 and Outcome 3.

Note 29: Reporting of outcomes (continued)**Note 29B: Major classes of Departmental revenues and expenses by output group and outputs**

	Output Group 1.1		Output Group 1.1		Outcome 1 Total	
	Output 1.1.1		Output 1.1.2			
	Domestic economic policy advice and forecasting		International economic policy advice and assessment			
	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses						
Employee benefits	7,264	6,142	19,095	15,470	26,359	21,612
Suppliers	1,877	1,850	11,839	6,660	13,716	8,510
Depreciation and amortisation	227	238	757	745	984	983
Write down of assets	4	-	10	-	14	-
Finance costs	9	8	30	22	39	30
Net losses from sale of assets	-	2	-	5	-	7
Income tax equivalent expense	-	-	-	-	-	-
Total Departmental expenses	9,381	8,240	31,731	22,902	41,112	31,142
Funded by:						
Revenues from Government	8,930	8,465	26,733	23,050	35,663	31,515
Sale of goods and services	142	163	4,229	3,601	4,371	3,764
Other non-taxation revenues	63	15	221	49	284	64
Sale of assets	5	-	15	-	20	-
Other gains	24	22	77	73	101	95
Total Departmental revenues	9,164	8,665	31,275	26,773	40,439	35,438

Note 29: Reporting of outcomes (continued)

Note 29B: Major classes of Departmental revenues and expenses by output group and outputs (continued)

	Output Group 2.1 Output 2.1.1		Output Group 2.1 Output 2.1.2		Output Group 2.1 Output 2.1.3		Output Group 2.1 Output 2.1.4		Outcome 2 Total	
	Budget policy advice and coordination		Commonwealth-State financial policy advice		Industry, environment and defence policy advice		Social and income support policy advice			
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Departmental expenses										
Employee benefits	2,819	2,478	2,016	2,088	3,562	3,150	3,695	3,045	12,092	10,761
Suppliers	711	922	537	898	887	475	790	1,100	2,925	3,395
Depreciation and amortisation	102	103	67	84	127	121	106	121	402	429
Write down of assets	1	-	1	-	7	-	1	-	10	-
Borrowing costs expense	4	3	3	3	5	4	4	4	16	14
Net losses from sale of assets	-	1	-	1	-	1	-	1	-	4
Income tax equivalent expense	-	-	-	-	-	-	-	-	-	-
Total Departmental expenses	3,637	3,507	2,624	3,074	4,588	3,751	4,596	4,271	15,445	14,603
Funded by:										
Revenues from Government	3,703	4,402	2,654	2,791	4,236	3,963	5,043	3,785	15,636	14,941
Sale of goods and services	37	41	25	33	46	21	39	73	147	168
Other non-taxation revenues	27	6	20	5	34	7	71	7	152	25
Sale of assets	2	-	1	-	3	-	2	-	8	-
Net gains	10	9	7	8	13	11	11	11	41	39
Total Departmental revenues	3,779	4,458	2,707	2,837	4,332	4,002	5,166	3,876	15,984	15,173

Note 29: Reporting of outcomes (continued)**Note 29B: Major classes of Departmental revenues and expenses by output group and outputs (continued)**

	Output Group 3.1		Output Group 3.1		Outcome 3 Total	
	Output 3.1.1		Output 3.1.2			
	Taxation policy and legislation advice		Retirement income and saving policy and legislation advice			
	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses						
Employees	26,112	25,677	5,582	4,125	31,694	29,802
Suppliers	7,479	8,607	1,534	1,054	9,013	9,661
Depreciation and amortisation	825	1,055	204	165	1,029	1,220
Write down of assets	11	-	3	-	14	-
Borrowing costs expense	32	34	8	5	40	39
Net losses from sale of assets	-	8	-	1	-	9
Income tax equivalent expense	-	-	-	-	-	-
Total Departmental expenses	34,459	35,381	7,331	5,350	41,790	40,731
Funded by:						
Revenues from Government	35,255	36,469	6,739	5,210	41,994	41,679
Sale of goods and services	321	437	84	58	405	495
Other non-taxation revenues	225	64	55	9	280	73
Sale of assets	17	-	4	-	21	-
Net gains	154	163	21	23	175	186
Total Departmental revenues	35,972	37,133	6,903	5,300	42,875	42,433

Note 29: Reporting of outcomes (continued)

Note 29B: Major classes of Departmental revenues and expenses by output group and outputs (continued)

	Output Group 4.1		Output Group 4.1		Output Group 4.1		Output Group 4.1		Outcome 4 Total	
	Output 4.1.1		Output 4.1.2		Output 4.1.3		Output 4.1.4			
	Foreign investment and trade policy advice and administration		Financial system and corporate governance policy advice		Competition and consumer policy advice		Actuarial Services			
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses										
Employees	4,173	3,584	11,546	10,458	9,329	7,131	967	1,051	26,015	22,224
Suppliers	1,638	1,307	9,554	9,027	15,833	3,878	355	-186	27,380	14,026
Depreciation and amortisation	152	157	424	399	277	265	2	7	855	828
Write down of assets	2	-	5	-	4	-	-	7	11	7
Borrowing costs expense	6	5	14	13	11	8	-	-	31	26
Net losses from sale of assets	-	1	-	3	-	2	-	17	-	23
Income tax equivalent expense	-	-	-	-	-	-	-	-	-	-
Total Departmental expenses	5,971	5,054	21,543	19,900	25,454	11,284	1,324	896	54,292	37,134
Funded by:										
Revenues from Government	4,764	4,502	22,011	21,998	13,468	19,405	-	-	40,243	45,905
Sale of goods and services	395	59	238	501	268	103	1,395	1,168	2,296	1,831
Other non-taxation revenues	61	9	155	23	79	16	-	-	295	48
Sale of assets	3	-	7	-	6	-	-	-	16	-
Net gains	15	14	37	35	29	25	-	-	81	74
Total Departmental revenues	5,238	4,584	22,448	22,557	13,850	19,549	1,395	1,168	42,931	47,858

Note 29: Reporting of outcomes (continued)

Note 29C: Major classes of Administered revenues and expenses by outcome

	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Total	
	Sound macroeconomic environment		Effective government spending arrangements		Effective taxation and retirement income arrangements		Well functioning markets			
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Administered revenues										
Interest	10,010	23,265	-	-	-	-	225	211	10,235	23,476
Dividends	1,177,725	1,363,000	-	-	-	-	-	-	1,177,725	1,363,000
Goods and services	-	-	618,792	605,888	-	-	-	-	618,792	605,888
HIH Group liquidation proceeds	-	-	-	-	-	-	43,646	26,356	43,646	26,356
Other	-	22,786	2,300	-	-	-	20,311	4,747	22,611	27,533
Net gains	-	146,143	-	-	-	-	-	-	-	146,143
Total Administered revenues	1,187,735	1,555,194	621,092	605,888	-	-	64,182	31,314	1,873,009	2,192,396
Administered expenses										
Grants	-	-	39,551,938	38,440,984	-	-	169,966	163,676	39,721,904	38,604,660
Other	35,779	28,498	-	-	-	-	7	6,547	35,786	35,045
Foreign exchange losses	197,948	-	-	-	-	-	-	-	197,948	-
Total administered expenses	233,727	28,498	39,551,938	38,440,984	-	-	169,973	170,223	39,955,638	38,639,705



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OCCUPATIONAL HEALTH AND SAFETY

The Treasury actively encourages and supports a safe and healthy working environment for staff and visitors, in accordance with the Treasury's Occupational Health and Safety Policy and Agreement and the *Occupational Health and Safety Act 1991*. In 2006-07, the Treasury continued to implement wellbeing strategies for staff, emphasising prevention, early intervention and education.

Late in 2006, the Treasury endorsed Comcare's Employer Statement of Commitment to the Occupational Health and Safety and Rehabilitation Performance Improvement Targets for Commonwealth premium paying employers. The targets are designed to reduce the incidence of workplace injury and disease, eliminate workplace fatalities and drive return to work improvement. To sustain the current good performance and assist in fulfilling the requirements of the targets, the Treasury developed an Occupational Health and Safety Framework. The focus of the strategy is prevention, early intervention and leadership which aims to enhance staff wellbeing, decrease costs and improve productivity.

In line with recent changes to the *Occupational Health and Safety Act 1991*, the Treasury is developing *Health and Safety Management Arrangements 2007-09*. These arrangements, drafted in consultation with the Occupational Health and Safety Committee, will replace the Occupational Health and Safety Policy and Agreement in 2007, as required by the legislation. Staff also have been informed about the implications of changes to the *Safety, Rehabilitation and Compensation Act 1988*, in particular, the removal of compensation coverage for journeys to and from work and recess breaks.

The Treasury's Occupational Health and Safety Committee meets quarterly to develop, monitor and review measures aimed at protecting staff wellbeing. Committee members also advise on more complex health and safety issues. The committee was reinstated in 2007 and renamed the Health and Safety Committee in line with the amended legislation.

The Treasury's health and safety representatives continued to work with occupational health and safety staff to manage risks by conducting quarterly workplace inspections to assess and rectify workplace hazards, and promote health and safety awareness. Occupational health and safety issues not rectified by health and safety representatives may be raised with the Treasury's Health and Safety Committee for resolution.

To increase awareness of health issues, the Treasury held a health month in November 2006. The programme was launched by Mr Nathan Deakes, Olympic race walker, Commonwealth Games gold medalist and 2007 World Champion gold medalist. The subsequent Health Expo provided access to information on a range of topics relating to nutrition, physical activity, posture, alcohol and work-life balance. Staff also were encouraged to participate in a virtual walking journey from Perth to Broome as part of the

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10,000 Steps programme. Around 200 staff participated in this virtual journey. A further 180 staff participated in the expo and wellbeing seminars.

A depression awareness seminar delivered by beyondblue in February 2007 attracted 73 staff and provided information on the causes of depression and resources available.

The Treasury's Comcare premium rate remains stable relative to the average Commonwealth agency rate. The 2006-07 rate was adjusted to 0.63 per cent of payroll (including figures for the Royal Australian Mint, the Australian Office of Financial Management and the Australian Government Actuary). This figure is lower than the average rate of 1.77 per cent for the Commonwealth as a whole and indicates the Treasury's high standard of performance in occupational health and safety has largely been achieved through prevention and proactive early intervention strategies.

During 2006-07, the Treasury received 47 incident reports; ten resulted in compensation claims, one of which is yet to be determined. Treasury staff are encouraged to report incidences and practice preventive measures in their daily work. Incident investigation is considered a high priority and immediate action is taken to rectify hazards.

All new staff are provided with an occupational health and safety briefing as part of their induction process. This presentation focuses on appropriate workstation set-up and includes information on emergency procedures, the employee assistance programme, incident reporting, first-aid officers, eyesight testing and health activities.

As a preventive measure, the Treasury continues to offer workstation set-up training to help staff understand ergonomic principles, workplace practices and workstation adjustment. Twenty-six staff participated in this training, and 190 individual workstation assessments also were conducted in 2006-07. In addition, staff who were prescribed glasses for the use with screen-based equipment were reimbursed for a portion of the cost: 17 staff sought screen-based eyesight appointments and 15 received partial reimbursement for glasses. Staff also were offered influenza vaccinations as a preventative health strategy; 263 were vaccinated in March 2007.

To help staff keep active, the Treasury continues to offer on-site activities, including pilates, body balance, flexibility for life and aerobics.

The Treasury's employee assistance programme, managed by an external provider, continues 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 ManagerAssist™, a service which helps managers who may be managing situations relating to work performance and personal difficulties.

The Treasury's first aid officers continue to play a vital role in providing first aid to staff. The Treasury's 20 first aid officers are located throughout the building to ensure those in need receive immediate assistance.

A Healthy Lifestyle Payment is part of the 2006-2009 Workplace Agreement. In 2006-07, 706 staff received the payment to help them undertake initiatives to maintain a healthy lifestyle, such as gym membership, stress management and quit smoking programmes. The one-off annual payment was increased in 2007 to \$450 from \$400.

The Treasury is preparing a draft Pandemic Preparedness Plan to provide guidance to staff and managers on appropriate conduct in the event of a pandemic outbreak.

FREEDOM OF INFORMATION

The Treasury handles Freedom of Information matters for the Treasury, the Foreign Investment Review Board, the Takeovers Panel, the Financial Reporting 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*, the 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.

THE TREASURY — STATEMENT

Section 8 of the *Freedom of Information Act 1982* requires the 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 the Treasury

Details of the Treasury's organisational and top management structure are set out in Part 1, Figure 1 on page 14. The 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, the Takeovers Panel and the Financial Reporting Panel are published separately in the annual reports of each of those bodies.

The 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.

- 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, Fiscal and Corporate; 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, Fiscal and Corporate; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under the *Crimes (Currency) Authorisation 2006*, the Treasurer has delegated certain powers to the General Manager, Corporations and Financial Services Division; the Chief Executive Officer, Royal Australian Mint; and the Senior Manager, Note Development, Research and Security, 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 2007*, 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 General Manager, Corporations and Financial Services Division and the Chief Executive Officers of the Royal Australian Mint and Gold Corporation.
- Under the *Gold Corporation Agreement Delegation 1999*, the Treasurer has delegated 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 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.

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- Under section 22 of the *Mutual Assistance in Business Regulation Act 1992*, the Treasurer has delegated to the General Manager, Corporations and Financial Services Division the authorisation to exercise the Treasurer's powers to consider requests raised under the Act from foreign regulators for information, documents or evidence and for those requests authorised to impose conditions.
- The Treasurer has delegated to Treasury officials the authority to vote on routine matters arising from the Treasurer's Governorship of the IMF, the World Bank Group, the Asian Development Bank and the European Bank for Reconstruction and Development.
- Under section 31 of the *Financial Management and Accountability Act 1997*, the Treasurer has authorised the Secretary to enter into agreements with the Minister for Finance and Administration.
- Under the Compensation for Detriment Caused by Defective Administration scheme, The Treasurer has authorised the Secretary, Executive Directors and the General Manager, Corporate Services Division to approve payments on his behalf.
- Under subsection 9A(2) of the *Australian Prudential Regulation Authority Act 1988*, 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 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.
- Under section 92Q of the *Insurance Act 1973*, the Assistant Treasurer has authorised Treasury officials to make interest payments to Lloyd's.
- 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.
- Under the *Financial Management and Accountability Act 1997*, and the *Financial Management and Accountability Regulations 1997*, the Minister for Finance and

Administration has delegated certain powers to the Secretary who has sub-delegated them to Treasury officials. The Secretary holds powers in his own right under the *Financial Management and Accountability Act 1997*, and these have also been delegated to Treasury officials.

- Under subsection 23(1) of the *Freedom of Information Act 1982*, the Secretary has authorised Senior Executive Service (SES) officers within the Treasury 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.
- In accordance with subsections 33(5), 33A(6) and 36(8) of the *Freedom of Information Act 1982*, the Treasurer has delegated his powers to the Secretary, in respect of documents 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 the 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 inquiries, with details about how to make submissions.

Consultation arrangements

Community consultation enables the 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. The 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, the Treasury can better advise the government on how to best meet its objectives and minimise any unintended consequences.

The 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, the Treasury liaises with peak bodies on

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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. The 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; ensures all participants have an opportunity to contribute to the consultation; endeavours to provide realistic timeframes for participants to contribute; acknowledges, respects and seeks to understand the views of participants; and provides feedback on those views where possible. While consultation will not always result in a consensus, it assists the 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 AOFM Advisory Board is accountable 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 AOFM performance 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.

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 developing 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 or commissions on topics approved or referred to it by the Treasurer; and
- other tax matters referred to it by the Treasurer.

The Treasury provides secretariat support to the board.

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 Programme.

The Corporate Law Economic Reform Programme 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 advisory body established in May 1999 by the Minister for Financial Services and Regulation. Its primary role is to provide the Parliamentary Secretary to the Treasurer with independent advice on consumer affairs matters.

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The Commonwealth Consumer Affairs Advisory Council comprises 13 members appointed by the Parliamentary Secretary to the Treasurer. Members are drawn from a range of industries and backgrounds, including both an Indigenous and a youth representative. All serve as individuals, rather than as representatives of organisations.

The Commonwealth Consumer Affairs Advisory Council meets regularly to identify and advise on new and emerging consumer issues and investigate, advise and report on consumer issues referred to the Council by the Parliamentary Secretary to the Treasurer.

Corporations and Markets Advisory Committee

The Corporations and Markets Advisory Committee is a body corporate established under Part 9 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

The Corporations and Markets Advisory Committee comprises 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.

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 in June 2005. The Advisory Board provides advice to Government on financial literacy issues.

The advisory board comprises 10 members, including the chair, drawn from the business, education and community sectors. Advisory board members are appointed by the Minister for Revenue and Assistant Treasurer on approval by the Prime Minister. Members are appointed in their own right and not in their capacity as representatives of organisations. Appointments are for three years and are subject to formal declarations regarding conflict of interest and confidentiality. Remuneration is on an expense recovery only basis.

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 portfolio ministers are confidential.

The 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.

Categories of documents held by the Treasury

The Treasury holds correspondence, analysis and policy advice by Treasury officers, comments on Cabinet submissions and drafts of these and other documents. Every six months the Treasury posts an indexed list of its policy file titles at www.treasury.gov.au.

The Treasury holds representations made to Treasury portfolio 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.

The 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

The 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.

The 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 the Treasury's documents published during the year and available on request (publications, papers and annual reports) is available at www.treasury.gov.au.

Facilities for access to documents

If a member of the public requests a document and the Treasury approves access, the 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 on 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*. Applicants seeking access under the Act to the Treasury's 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 2111, between 9.00 am and 5.00 pm Monday to Friday (except on public or public service holidays).

Under section 23 of the *Freedom of Information Act 1982*, Treasury SES officers can grant or refuse requests for access to documents. 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 2006-07, the Treasury and the Treasurer received 26 requests for access to documents under the *Freedom of Information Act 1982*, compared with 38 requests in the previous year. Further details are set out in Table 16 on page 260.

Table 16: Freedom of Information statistics 2006-07

Description	Number
Requests received	
On hand at 1 July 2006	10
Received	26
Break down across the Treasury	
Treasurer	0
Executive	0
Fiscal Group	2
Revenue Group	7
Macroeconomic Group	4
Markets Group	8
Corporate Services Division	3
Strategic Communications Division	2
Action on requests	
Access in full	4
Access in part	9
Access refused or no documents located	4
Transferred in whole	5
Withdrawn/lapsed	10
Current as at 30 June 2007	4
Internal review	
Applications	3
Review by Administrative Appeals Tribunal	
Outstanding at 1 July 2006	2
New applications	2
Withdrawn	4
Fees and charges	
Total application fees collected	\$880.00
Total charges collected	\$4,651.00
Total application fees and charges collected	\$5,491.00

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 on pages 128 and 129.

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 to 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 on 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 2006-07.

ADVERTISING AND MARKET RESEARCH

Table 17, below, sets out amounts paid by the Treasury on advertising and market research in 2006-07.

Table 17: Advertising and market research expenditure for 2006-07

Vendor	Purpose	Cost (\$)
Attorney-General's Department	Advertising for announcements on foreign investment proposals	27,159
DBM Consultants Pty Ltd	Provide survey services for the Financial Literacy Foundation	248,704
HMA Blaze	Recruitment advertising — general vacancies	282,214
HMA Blaze	Recruitment advertising — graduate recruitment	82,338
HMA Blaze	Advertising for Financial Reporting Council consultancies	23,348
HMA Blaze	Advertising for appointments Auditing and Assurance Standards Board	17,502
HMA Blaze	Advertising for appointments Australian Accounting Standards Board	17,502
HMA Blaze	Advertising for directorship of Asian Development Bank	24,501
National Mailing and Marketing Pty Ltd	Direct mailing of information material to the public	177,873
Publicis Mojo Pty Ltd	Creative services for the Financial Literacy Foundation	393,984
Quantum Market Research	Market research services for Financial Literacy Foundation	211,304
Screen Media Works	Advertising services for Financial Literacy Foundation	30,250
Universal McCann	Advertising management services for Financial Literacy Foundation	11,353,017
Total		12,889,696

Notes: These figures include GST. Projects totaling less than \$10,300 for the year and accrued expenses are not included in this table.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT

The Treasury continues to develop and incorporate strategies to improve its overall environmental performance. The Treasury implemented an Environmental Management System in December 2002 which identified measures to reduce the Treasury's impact on the environment. The system was reviewed in 2006 and further improvements are planned.

Additionally, the Treasury participates in various government environmental forums and reviews information on property, building and environmental management through its membership of property and building industry groups. These groups include the Australian Property Institute and the Facilities Management Association of Australia.

Energy management

The Treasury's overall energy consumption decreased in the last reporting period and was below the Government's energy consumption targets.

The Treasury recently completed an energy audit and is reviewing the recommendations. It plans to implement new energy saving initiatives to further reduce energy consumption.

The Treasury building's management system provides energy management and reporting facilities for three separate tenancies within the building.

The general office lighting system interfaces with the building management system with lights programmed to operate only during normal working hours. Manually operated switches turn on lights in specific areas for up to two hours after normal business hours. Additionally, infrared motion detection devices control lighting in areas not in constant use, such as conference rooms and meeting rooms.

Paper and glass and plastics recycling

The Treasury recycles paper and cardboard products, which are collected by a local recycling firm. Paper recycling containers are available at staff workstations, adjacent to printers and in utility rooms. Classified waste paper is pulped and paper hand towels are recycled. Staff kitchen facilities use recycle bins that increase the separation of recyclable items that previously went to landfill.

During 2006-07, the Treasury recycled 185.5 cubic metres of used paper hand towels. An additional 95 cubic metres of co-mingled glass and plastics was recycled from staff kitchens.

Compost recycling

All Treasury staff kitchens have sealed compost waste containers. In 2006-07, the Treasury recycled over 3,026 kilograms of compost. This service ensures the organic recycling of compostable waste which would otherwise be sent to landfill.

Procurement practices

The Treasury purchases goods and services in accordance with environmental procurement policy as set out in the Commonwealth Procurement Guidelines. This ensures goods and services:

- are environmentally sound in manufacture;
- are reusable or recyclable;
- are designed and made for reliability and long life; and
- adhere to environmental best practice in energy efficiency and/or energy consumption.

Paper made from 80 per cent recycled fibre is used in reproduction areas. The Treasury actively encourages all areas to purchase and use recycled paper and stationery products. The Treasury's stationery supply contractor recently introduced reusable packing cartons for delivery of stock.

The 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 the Treasury building are not metered separately for water consumption. The Treasury has effected a number of strategies to reduce water usage, including installing dual-flush toilets.

DISCRETIONARY GRANTS

In 2006-07, the Treasury administered the following discretionary grants:

- Australian Consumers' Association: contribution of \$45,000 for the Consumers International World Congress;
- Australian Federal Police: contribution of \$27,500 for the Asia Pacific Group (Money Laundering) conference;
- Australian Public Service Commission: contribution of \$5,000 for the major prize award for the Drawing Together — Art Competition;
- Institute of Public Administration Australia: contribution of \$2,000 for the 2007 National Roundtable; and
- University of Technology, Sydney: contribution of \$2,750 for expanding legal and research facilities.

LEGAL SERVICES EXPENDITURE

The following table sets out legal services expenditure by the Treasury for 2006-07 published in compliance with paragraph 11.1(ba) of the *Legal Services Directions 2005*.

Table 18: Legal services expenditure for 2006-07

	No.	\$
Total external legal services expenditure including disbursements		1,544,060
External expenditure on solicitors		1,426,936
External expenditure on counsel		117,124
Number of female counsel briefed	1	
Value of briefs to female counsel		27,254
Number of male counsel briefed	7	
Value of briefs to male counsel		89,870
Total internal legal services expenditure including disbursements		-
Total legal services expenditure including disbursements		1,544,060

Note: These figures represent accrued expenditure figures for legal services provided in 2006-07. All amounts include GST. Numbers of counsel briefed relate to new briefs delivered to counsel in 2006-07. Values of briefs include all fees and disbursements for new briefs delivered to counsel in this period and ongoing briefs delivered to counsel before this period.

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ABBREVIATIONS AND ACRONYMS

AASB	Australian Accounting Standards Board
AAT	Administrative Appeals Tribunal
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACSI 33	Australian Government Information and Communications Technology Security Manual
ADB	Asian Development Bank
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AGA	Australian Government Actuary
AIPRD	Australia-Indonesia Partnership for Reconstruction and Development
AML	Anti-Money Laundering
ANAO	Australian National Audit Office
ANCP	Australian National Contact Point
ANZSOG	Australian and New Zealand School of Government
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ARPC	Australian Reinsurance Pool Corporation
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
AS/NZS	Australian/New Zealand Standard
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement
CAC	Commonwealth Authorities and Companies
CER	Closer Economic Relations
CGT	Capital Gains Tax
COAG	Council of Australian Governments
CSS	Commonwealth Superannuation Scheme
DFAT	Department of Foreign Affairs and Trade
EBRD	European Bank for Reconstruction and Development
EEO	Equal Employment Opportunity
EL	Executive Level
ESL	English as a Second Language
FATA	<i>Foreign Acquisitions and Takeovers Act 1975</i>
FIRB	Foreign Investment Review Board

Abbreviations and acronyms

FMA	<i>Financial Management and Accountability Act 1997</i>
FMO	Finance Minister's Orders
FOI	Freedom of Information
FTA	Free Trade Agreements
G-20	Group of Twenty
GDP	Gross Domestic Product
GST	Goods and Services Tax
HCA	High Court of Australia
HCS	HIH Claims Support
HCSL	HIH Claims Support Limited
HECS	Higher Education Contribution Scheme
HLIC	Housing Loans Insurance Corporation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPPA	Investment Protection and Promotion Agreements
ISO	International Organization for Standardization
IT	Information Technology
KPMG	Klynveld Peat Marwick Goerdeler
MCCA	Ministerial Council on Consumer Affairs
MIGA	Multilateral Investment Guarantee Agency
NAE	New Administered Expenses
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PFI	Policy Framework for Investment
PNG	Papua New Guinea
PRGF	Poverty Reduction and Growth Facility
PRINCE 2	Projects in Controlled Environments
PSS	Public Sector Superannuation Scheme
RBA	Reserve Bank of Australia
SDR	Special Drawing Rights
SES	Senior Executive Service
SPP	Specific Purpose Payment
SRS	Simpler Regulatory System
TAFE	Technical and Further Education
TPA	Trade Practices Act
UIG	Urgent Issues Group
WTO	World Trade Organization

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