



PART ONE

OVERVIEW

SECRETARY'S REVIEW

2012-13 was another difficult year in the global economy, with subdued growth in advanced economies, volatility in key emerging economies, and economic crisis in the euro area. Against this backdrop, the Australian economy has been undergoing significant structural change as the mining boom shifts from its investment phase and the terms of trade decline from their historic peak. These conditions create challenges not only for steering economies through difficult times, but for forecasting what lies ahead and developing enduring policy solutions. With this as the context for our work, the Treasury has continued in 2012-13 to pursue its mission of improving the wellbeing of Australians through sound and apolitical policy advice to our ministers.

3

We continued to forecast revenue and economic performance and implement the recommendations from the 2012 independent review of our forecasting methods. As well as our regular role in preparing the Budget and related documents, we provided advice to the Government on a number of new initiatives including school funding and establishing a national disability insurance scheme, the latter partly funded by an increase in the Medicare levy. Treasury analysis and advice was also provided on initiatives surrounding energy policy, housing, industry and agriculture, defence and national security, federal financial relations, superannuation, and on the future of financial advice. Advice was provided on tax matters, particularly on the sustainability of the corporate tax base. We worked with the OECD on the profit-shifting and base erosion that threaten the transparency and fairness of the global tax system.

With our international partners and with institutions like the G20, the World Bank, and the International Monetary Fund, we worked to promote global economic growth and support robust global financial architecture. We supported Australia's participation in the G20 leadership troika in summits at Los Cabos, Mexico and St Petersburg, Russia, and prepared for Australia's host year in 2014, when we will have a rare opportunity to influence global economic and financial decision-making, and to build our regional and international relationships through an ambitious and focused G20 program. We worked with the Asian Development Bank and other regional partners to develop a regional funds passport that will both promote Asian-region financial interaction and build Australia's capacity and credibility as an important regional financial centre. We continued to build relationships with our regional partners, including China, Japan, India, Indonesia, Korea, Vietnam, the Philippines, Papua New Guinea and the Solomon Islands.

In the context of challenges and change, a focus in 2012-13 was to nurture and strengthen the Treasury's core organisational capabilities, and to implement the recommendations from our two organisational reviews. We made improvements to the mobility and availability of our IT and began using new technology to improve internal and external collaboration. We made progress in building capability through better strategic and operational workforce planning, and by encouraging innovation from staff at all levels. As part of the Progressing Women initiative, all Groups addressed challenges and opportunities in their own work environment while we rolled out unrecognised bias awareness training to our leadership group. As the backdrop to our work continues to evolve, the organisational change being pursued is intended to deliver a more modern, resilient, flexible, and outward-looking organisation.

The outlook for the year ahead is one of continued volatility and structural change. While Australia's economic fundamentals are sound, we are by no means immune to the volatilities and vulnerabilities that beset both developed and developing economies around the globe. The transitions underway in our own Asia-Pacific region have considerable implications for us,

particularly the volatility and overall decline in the terms of trade. For almost a decade, high terms of trade due to the demand for our commodities have underpinned growth in the economy and in Australian living standards. With the terms of trade dropping, growth needs to be driven by a lift in productivity if Australians are not to experience a sharp slowing in living standard growth. The challenge of how we lift productivity enough for our living standards to continue to rise will not be easily solved, and will require concerted efforts across a range of social and economic policy areas. The Treasury will play a key role in supporting Government develop and implement a broad-based national productivity agenda while working toward a more sustainable fiscal position.

4

Martin Parkinson

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 OUTCOME

In carrying out its mission, the Treasury has responsibility for the following outcome:

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

The Treasury has four policy groups that contribute to achieving this outcome and a further group that provides enabling services, Corporate Services and Strategy Group. The policy groups are:

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

Macroeconomic Group

Macroeconomic Group provides advice on a sound macroeconomic environment, which is an essential foundation for strong, sustainable economic growth.

Macroeconomic Group undertakes monitoring and analysis of economic conditions in Australia and overseas, which forms the basis of quality macroeconomic policy advice to portfolio ministers.

Macroeconomic Group also provides advice to government on a range of international economic policy issues, including strengthening multilateral regimes underpinning open trade and capital flows, supporting developing countries' development aspirations and on helping to shape the evolution of regional economic architecture.

Macroeconomic Group is also responsible for payments to international financial institutions as outlined in program 1.2 on pages 68-69.

Fiscal Group

Fiscal Group provides advice on effective government spending arrangements that contribute to the overall fiscal outcome and help deliver strong and sustainable economic growth.

Effective spending measures should meet their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs. Fiscal Group provides policy advice to portfolio ministers to promote government decisions that further these objectives.

Fiscal Group is also responsible for the efficient payment of general revenue assistance, National Specific Purpose Payments and National Partnership Payments to the States and Territories as outlined in programs 1.4 to 1.10 on pages 72-85.

6 Revenue Group

Revenue Group provides advice on effective tax and retirement income arrangements policy and on legislation to implement policy that contributes to the overall fiscal outcome and to strong, sustainable economic growth.

Tax and retirement income policy affects the wellbeing of Australians through influencing individuals' decisions on saving and investment, as well as through labour market participation and businesses' decisions about whether, where and how much to invest.

Well-designed tax legislation contributes to the ability of taxpayers to understand and comply with their tax obligations.

Revenue Group also provides advice on the fiscal and distributional impacts of changes to tax policy.

Markets Group

Markets Group provides advice on well-functioning markets that contribute to improving national productivity and promoting stronger economic growth, thereby enhancing the living standards of all Australians.

Well-functioning markets enable the most efficient use of resources and maximise consumer confidence in markets, which, in turn, enhance community benefits from economic activity.

Markets Group provides advice on policies that promote competitive, efficient markets to enhance consumer-wellbeing; a secure financial system and sound corporate practices; and foreign investment consistent with Australia's national interest.

Markets Group also maintains the operations of the Australian Government Actuary, the Financial Reporting Council and the Takeovers Panel, and provides business management for Standard Business Reporting.

Markets Group is also responsible for payments to support markets and business as outlined in program 1.3 on pages 70-71.

Corporate Strategy and Services Group

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

Corporate Strategy and Services Group is responsible for providing; accommodation and facilities management, communications advice and support, financial management, human resources management, training and development, information management and technology services, freedom of information management, media management and monitoring, ministerial and parliamentary support, procurement, publishing, security and travel.

Corporate Strategy and Services Group functions also include assisting with the development of whole-of-department corporate strategy; providing support to the Secretary, the Executive Board and the Audit Committee, including oversight of departmental structures and systems; designing and facilitating whole-of-department policy discussions; coordinating organisational strategy initiatives; overseeing the risk management framework; and undertaking and assisting with departmental reviews.

TREASURY PEOPLE VALUES

Treasury people are skilled professionals, committed to providing quality advice, thinking analytically and strategically, and striving to achieve long-term benefits for all Australians. We uphold the important values and behaviours that shape the Treasury culture. These values influence all aspects of the way we work.

Treasury people:

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

Treasury people management principles are:

- open, two-way communications at all levels;
- clear definition of accountabilities;
- remuneration based on work performance, determined by fair and transparent processes; and
- facilitation of an appropriate work and private life balance.

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. As a central policy agency, the Treasury is expected to anticipate and analyse policy issues from a whole-of-economy perspective, understand government and stakeholder circumstances, and respond rapidly to changing events and directions. As such, the Treasury's interests are broad and diverse.

- 8 In undertaking its mission, Treasury takes a broad view of wellbeing as primarily reflecting a person's substantive freedom to lead a life they have reason to value.

This view encompasses more than is directly captured by commonly used measures of economic activity. It gives prominence to respecting the informed preferences of individuals, while allowing scope for broader social actions and choices. It is open to both subjective and objective notions of wellbeing, and to concerns for outcomes and consequences, as well as for rights and liberties.

To facilitate objective and thorough analysis, we have identified five dimensions that directly or indirectly have important implications for wellbeing and are particularly relevant to Treasury. These dimensions are:

- The set of opportunities available to people. This includes not only the level of goods and services that can be consumed, but good health and environmental amenity, leisure and intangibles, such as personal and social activities, community participation and political rights and freedoms.
- The distribution of those opportunities across the Australian people. In particular, that all Australians have the opportunity to lead a fulfilling life and participate meaningfully in society.
- The sustainability of those opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of capital, including human, physical, social and natural assets) is maintained or enhanced for current and future generations.
- The overall level and allocation of risk borne by individuals and the community. This includes a concern for the ability, and inability, of individuals to manage the level and nature of the risks they face.
- The complexity of the choices facing individuals and the community. Our concerns include the costs of dealing with unwanted complexity, the transparency of government and the ability of individuals and the community to make choices and trade-offs that better match their preferences.

These dimensions reinforce our conviction that trade-offs matter deeply, both between and within dimensions. The dimensions do not provide a simple checklist; rather their consideration provides the broad context for the use of the best available economic and other analytical frameworks, evidence and measures.

The Treasury applies and develops its technical expertise, knowledge base and support systems to deliver on the Government's priorities. To maximise our potential, we nurture and strengthen our core organisational capabilities and consistently seek better ways to do business.

Our organisational capabilities are:

- Deep understanding: understanding our mission, the economic and policy environment, and the views of our stakeholders.
- Collaboration: collaborating with internal and external stakeholders to develop effective policy.
- Proactivity and vision: anticipating policy, implementation and organisational issues.
- Influence and reputation: building trust with the Government and other stakeholders, and influencing the policy agenda.
- Improvement and adaptability: being flexible, adaptable and innovative.
- Efficiency and productivity: managing costs, allocating resources and enabling efficiencies.

FINANCIAL PERFORMANCE

The Treasury received an unqualified audit report on the 2012-13 financial statements from the Australian National Audit Office. These statements can be found in Part 4 on pages 125-232.

Departmental

The Treasury ended 2012-13 with an attributable surplus of \$3.0 million, compared to a deficit of \$11.6 million in 2011-12. Employee expenses decreased by \$12.7 million from 2011-12, which was associated with the corresponding decrease in operational funding. The Treasury's net asset position decreased by \$17.9 million in 2012-13, mainly due to the transfer of the Standard Business Reporting software assets to the Australian Taxation Office.

The Treasury has sufficient cash reserves to fund liabilities as and when they fall due.

Administered

The Treasury incurred \$81.4 billion in administered expenses in 2012-13 compared to \$86.9 billion in 2011-12. There was a reduction in grant expenses to the States and Territories that the Treasury provides under the *Intergovernmental Agreement on Federal Financial Relations*.

The Treasury's administered net assets increased by \$1.4 billion in 2012-13. This is mainly due to an increase in the value of financial assets offset by an increase in provisions and payables. The Treasury has sufficient cash reserves to fund liabilities as and when they fall due.

Figure 1: Treasury senior management structure (as at 30 June 2013)

Secretary: Dr Martin Parkinson PSM	
Executive Director (Policy Coordination and Governance): Ms Jan Harris	
Corporate Strategy and Services Group Group General Manager: Mr Steve French Financial and Facilities Management Division General Manager: Mr Matthew King Information Management and Technology Division General Manager: Mr Peter Alexander	Ministerial and Communications Division General Manager: Mr Luke Hickey People and Organisational Strategy Division General Manager: Ms Marisa Purvis-Smith
Macroeconomic Group: Executive Director (Domestic), Dr David Gruen	
Macroeconomic Group: Executive Director (International), Mr Barry Sterland	
Domestic Economy Division General Manager: Mr Jason Allford Macroeconomic Policy Division General Manager: Mr Simon Duggan Macroeconomic Modelling Division General Manager: Mr Russ Campbell International Division General Manager: Mr Jason McDonald International Finance and Development Division General Manager: Mr Matt Flavel G20 Policy Division General Manager: Ms H K Holdaway G20 Operations and Logistics Division General Manager: Ms Mary Balzary Overseas Operations Papua New Guinea Mr Paul Flanagan	Indonesia Ms Natalie Horvat Solomon Islands Mr Colin Johnson Washington DC Ms Amanda Sayegh OECD (Paris) Sue Vroombout London Mr James Kelly Tokyo Ms Kate Phipps Beijing Mr Adam McKissack Jakarta Mr Trevor Thomas New Delhi Mr Matt Crooke
Fiscal Group: Executive Director, Mr Nigel Ray	
Budget Policy Division General Manager: Mr John Lonsdale Commonwealth-State Relations Division General Manager: Mr Peter Robinson	Industry, Environment and Defence Division General Manager: Ms Luise McCulloch Social Policy Division General Manager: Ms Amanda Cattermole
Revenue Group: Executive Director, Mr Rob Heferen	
Law Design Practice General Manager: Tom Reid Tax Analysis Division General Manager: Mr Roger Brake Corporate and International Division General Manager: Ms Christine Barron Tax System Division General Manager: Mr Gerry Antioch	Personal and Retirement Income Division General Manager: Mr Paul Tilley Indirect, Philanthropy and Resource Tax Division General Manager: Ms Brenda Berkeley Board of Taxation Secretariat Secretary: Mr Roger Paul Small Business Tax Division Mr Hector Thompson
Markets Group: Executive Director, Mr Jim Murphy	
Foreign Investment and Trade Policy Division General Manager: Mr Jonathan Rollings Financial System Division General Manager: Ms Meghan Quinn Infrastructure Division General Manager: Mr Chris Legg Corporations and Capital Markets Division General Manager: Mr David Woods	Competition and Consumer Policy Division General Manager: Mr Geoff Francis Retail Investor Division General Manager: Ms Irene Sim Australian Government Actuary General Manager: Mr Peter Martin Takeovers Panel Director: Mr Allan Bulman

Figure 2: Treasury outcome and program structure (as at 30 June 2013)

<p>Outcome 1: Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.</p>	
<p>Program 1.1: Department of the Treasury</p>	
<p>Macroeconomic Group</p>	<p>Domestic Economy Division Macroeconomic Policy Division Macroeconomic Modelling Division International Finance and Development Division International Division G20 Policy Division G20 Operations and Logistics Division Overseas Operations Overseas Posts</p>
<p>Fiscal Group</p>	<p>Budget Policy Division Commonwealth-State Relations Division Industry, Environment and Defence Division Social Policy Division</p>
<p>Revenue Group</p>	<p>Law Design Practice Indirect, Philanthropy and Resource Tax Division Corporate and International Division Personal and Retirement Income Division Tax Analysis Division Tax System Division Board of Taxation Secretariat Small Business Tax Division</p>
<p>Markets Group</p>	<p>Foreign Investment and Trade Policy Division Financial System Division Infrastructure Division Competition and Consumer Policy Division Corporations and Capital Markets Division Retail Investor Division Australian Government Actuary Takeovers Panel</p>
<p>Corporate Strategy and Services Group</p>	<p>Financial and Facilities Management Division Information Management and Technology Division Ministerial and Communications Division People and Organisational Strategy Division</p>
<p>Program 1.2: Payments to International Financial Institutions Macroeconomic Group: International Finance and Development Division</p>	
<p>Program 1.3: Support for Markets and Business Markets Group: Financial System Division</p>	
<p>Program 1.4: General Revenue Assistance Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.5: Assistance to the States for Healthcare Services Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.6: Assistance to the States for Schools Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.7: Assistance to the States for Skills and Workforce Development Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.8: Assistance to the States for Disabilities Services Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.9: Assistance to the States for Affordable Housing Fiscal Group: Commonwealth-State Relations Division</p>	
<p>Program 1.10: National Partnership Payments to the States Fiscal Group: Commonwealth-State Relations Division</p>	

Figure 3: Treasury portfolio outcome and program structure (as at 30 June 2013)

<p>Portfolio Minister — Treasurer The Hon Chris Bowen MP</p> <p>Assistant Treasurer The Hon David Bradbury MP</p> <p>Minister for Financial Services and Superannuation The Hon Bill Shorten MP</p> <p>Minister for Housing and Homelessness The Hon Mark Butler MP</p> <p>Parliamentary Secretary to the Treasurer The Hon Bernie Ripoll MP</p>	
<p>Department of the Treasury Secretary: Dr Martin Parkinson</p>	
<p>Outcome 1:</p> <p>Program 1.1:</p> <p>Program 1.2:</p> <p>Program 1.3:</p> <p>Program 1.4:</p> <p>Program 1.5:</p> <p>Program 1.6:</p> <p>Program 1.7:</p> <p>Program 1.8:</p> <p>Program 1.9:</p> <p>Program 1.10:</p>	<p>Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations</p> <p>Department of the Treasury</p> <p>Payments to International Financial Institutions</p> <p>Support for Markets and Business</p> <p>General Revenue Assistance</p> <p>Assistance to the States for Healthcare Services</p> <p>Assistance to the States for Schools</p> <p>Assistance to the States for Skills and Workforce Development</p> <p>Assistance to the States for Disabilities Services</p> <p>Assistance to the States for Affordable Housing</p> <p>National Partnership Payments to the States</p>
<p>Australian Bureau of Statistics Statistician: Mr Brian Pink</p>	
<p>Outcome 1:</p> <p>Program 1.1:</p>	<p>Informed decisions, research and discussion within governments and the community by leading the collection, analysis and provision of high-quality, objective and relevant statistical information</p> <p>Australian Bureau of Statistics</p>
<p>Australian Competition and Consumer Commission Chairman: Mr Rod Sims</p>	
<p>Outcome 1:</p> <p>Program 1.1:</p>	<p>Lawful competition, consumer protection, and regulated national infrastructure markets and services through regulation, including enforcement, education, price monitoring and determining the terms of access to infrastructure services</p> <p>Australian Competition and Consumer Commission</p>
<p>Australian Office of Financial Management Chief Executive Officer: Mr Robert Nicholl</p>	
<p>Outcome 1:</p> <p>Program 1.1:</p>	<p>The advancement of macroeconomic growth and stability, and the effective operation of financial markets, through issuing debt, investing in financial assets and managing debt, investments and cash for the Australian Government</p> <p>Australian Office of Financial Management</p>

Figure 3: Treasury portfolio outcome and program structure (continued)

Australian Prudential Regulation Authority	
Chairman: Dr John Laker AO	
Outcome 1:	Enhanced public confidence in Australia's financial institutions through a framework of prudential regulation that balances financial safety and efficiency, competition, contestability and competitive neutrality
Program 1.1:	Australian Prudential Regulation Authority
Australian Securities and Investments Commission	
Chairman: Mr Greg Medcraft	
Outcome 1:	Improved confidence in financial market integrity and protection of investors and consumers through research, policy, education, compliance and deterrence that mitigates emerging risks
Program 1.1:	Research, policy, compliance, education and information initiatives
Program 1.2:	Enforcement/deterrence
Outcome 2:	Streamlined and cost-effective interaction and access to information for business and the public, through registry, licensing and business facilitation services
Program 2.1:	Legal infrastructure for companies and financial services providers
Program 2.2:	Banking Act and Life Insurance Act, unclaimed moneys and special accounts
Australian Taxation Office	
Commissioner: Mr Chris Jordan AO	
Outcome 1:	Confidence in the administration of aspects of Australia's taxation and superannuation systems by helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law
Program 1.1:	Australian Taxation Office
Program 1.2:	Tax Practitioners Board
Program 1.3:	Australian Business Register
Program 1.4:	Australian Valuation Office
Program 1.5:	Product Stewardship for Oil
Program 1.6:	Cleaner Fuels Grant Scheme
Program 1.7:	Australian Screen Production Incentive
Program 1.8:	Research and Development Tax Offset
Program 1.9:	Private Health Insurance Rebate
Program 1.10:	Superannuation Co-contribution Scheme
Program 1.11:	Superannuation Guarantee Scheme
Program 1.12:	Fuel Tax Credits Scheme
Program 1.13:	Education Tax Refund
Program 1.14:	National Urban Water and Desalination Plan
Program 1.15:	National Rental Affordability Scheme
Program 1.16:	First Home Saver Accounts
Program 1.17:	Baby Bonus
Program 1.18:	Interest on Overpayment and Early Payments of Tax
Program 1.19:	Bad and Doubtful Debts and Remissions
Program 1.20:	Other Administered
Commonwealth Grants Commission	
Secretary: Mr John Spasojevic	
Outcome 1:	Informed Government decisions on fiscal equalisation between the States and Territories through advice and recommendations on the distribution of GST revenue and health care grants
Program 1.1:	Commonwealth Grants Commission

Figure 3: Treasury portfolio outcome and program structure (continued)

Corporations and Markets Advisory Committee	
Convenor: Ms Joanne Rees	
Outcome 1:	Informed decisions by Government on issues relating to corporations regulation and financial products, services and markets through independent and expert advice
Program 1.1:	Corporations and Markets Advisory Committee
Inspector-General of Taxation	
Inspector-General: Mr Ali Noroozi	
Outcome 1:	Improved tax administration through community consultation, review and independent advice to Government
Program 1.1:	Inspector-General of Taxation
National Competition Council	
President: Mr David Crawford	
Outcome 1:	Competition in markets that are dependent on access to nationally significant monopoly infrastructure, through recommendations and decisions promoting the efficient operation of, use of and investment in infrastructure
Program 1.1:	National Competition Council
Office of the Auditing and Assurance Standards Board	
Chairman: Ms Merran Kelsall	
Outcome 1:	The formulation and making of auditing and assurance standards that are used by auditors of Australian entity financial reports or for other auditing and assurance engagements
Program 1.1:	Auditing and Assurance Standards Board
Office of the Australian Accounting Standards Board	
Chairman: Mr Kevin Stevenson	
Outcome 1:	The formulation and making of accounting standards that are used by Australian entities to prepare financial reports and enable users of these reports to make informed decisions
Program 1.1:	Australian Accounting Standards Board
Productivity Commission	
Chairman: Mr Peter Harris	
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
Program 1.1:	Productivity Commission
Royal Australian Mint	
Chief Executive Officer: Mr Ross MacDiarmid	
Outcome 1:	The coinage needs of the Australian economy, collectors and foreign countries are met through the manufacture and sale of circulating coins, collector coins and other minted products
Program 1.1:	Royal Australian Mint

