

PART 2

TREASURY'S PERFORMANCE REPORT

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OUTCOME I

SOUND MACROECONOMIC ENVIRONMENT

A sound macroeconomic environment is an essential foundation for strong sustainable economic growth and the improved wellbeing of Australians. Economic Group provides policy advice to Treasury portfolio ministers to assist them in developing and implementing policies to achieve this outcome. This includes Economic Group providing advice to the Government on:

- economic conditions and the outlook;
- the implications of economic developments for macroeconomic policy;
- fiscal and monetary policy;
- labour market issues;
- strategic international economic policy issues; advice on advancing Australia's interests through the international financial institutions and in other international fora;
- advancing Australia's interests in countries requiring technical and financial assistance; and
- monitoring and analysing economic developments in key global economies.

More specifically, Economic Group has produced outputs which support Government decisions and objectives through:

- advice on international finance issues, including:
 - proposals to strengthen the international financial architecture;
 - debt relief and other development issues;
 - reform of the international financial institutions and management of Australia's relationship with them; and

- promoting structural reform through regional fora such as the Asia-Pacific Economic Cooperation (APEC) and the South Pacific Forum Economic Ministers' Meeting;
- sound and timely advice on developments in the international economy, especially to the extent that they impact on Australia, and participation in policy discussions in various international fora and institutions;
- analysis and advice on macroeconomic policy issues, including:
 - recommendations on the strategy for the annual Budget and other fiscal policy matters;
 - examining financial market developments and advising the Secretary in his capacity as a member of Reserve Bank Board; and
 - providing advice on labour market policy issues such as workplace relations and employment policy; and
- advice on domestic economic issues, including:
 - macroeconomic forecasting;
 - analysis and briefing on economic data releases;
 - business liaison, macroeconomic policy research;
 - provision of macroeconomic policy advice;
 - econometric analysis; and
 - macroeconomic modelling.

Chart 6: Outcome I structure

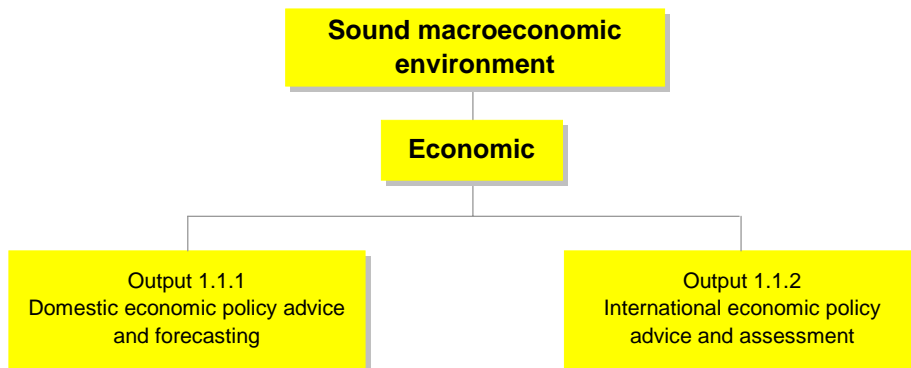


Table 2: Financial and staffing resources summary for Outcome 1

	Budget 1999-2000 \$'000	Actual 1999-2000 \$'000	Budget 2000-2001 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	-	-	-
Appropriation Acts Nos. 2/4	-	-	-
Special Appropriations	39,094	40,393	46,219
Total administered expenses	39,094	40,393	46,219
Revenue from Government			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,255	4,255	4,051
Output 1.1.2 - International economic policy advice and assessment	8,774	8,774	8,139
Corporate costs	3,984	3,984	5,655
Total revenue from Government contributing to price of departmental outputs	17,013	17,013	17,845
Revenue from other sources			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	44	4	4
Output 1.1.2 - International economic policy advice and assessment	189	101	71
Corporate costs	405	524	312
Total revenue from other sources	638	629	387
Total revenue for departmental outputs (Total revenues from Government and other sources)	17,651	17,642	18,233
Price of departmental outputs			
Output group 1.1 - Economic			
Output 1.1.1 - Domestic economic policy advice and forecasting	4,299	4,301	4,055
Output 1.1.2 - International economic policy advice and assessment	8,963	8,897	8,210
Corporate costs	4,389	6,154	5,967
Total price of departmental outputs	17,651	19,352	18,233
Total estimated resourcing for outcome 1 (Total price of outputs and administered expenses)	56,745	59,745	64,452
Average staffing levels (number)	125	129	120

Note 1: Variations in the price of departmental outputs for Budget estimates in 2000-01 are attributed to revised internal allocations.

Note 2: Prior year comparative data is not available due to the change in the output framework.

Output 1.1.1

Domestic economic policy advice and forecasting

Economic Group provides advice to government ministers on economic conditions and the outlook; advice on the implications of economic developments for macroeconomic policy; advice on fiscal and monetary policy; and advice on labour market issues.

Performance information

Advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound domestic economy.

Effective presentation of budget documents and other publications to adequately inform public debate.

1999-2000 outputs

Economic forecasts

Economic forecasts were produced over the course of 1999-2000 as a basis for consideration of policy settings, and in more detailed form to enable the calculation of budget estimates. These forecasts were prepared taking into account key assumptions about economic variables and judgements about likely outcomes. A strengthening world economy was an important factor in the development of economic forecasts over the course of 1999-2000.

For policy formulation purposes, the main role of the forecasts is to aid an understanding of the broad developments within the economy and the balance of risks and uncertainties surrounding the outlook.

The 1999-2000 Budget contained forecasts for 1999-2000 and these were reassessed in the *Mid-year Economic and Fiscal Outlook* (MYEFO) released in November 1999.

In MYEFO, the forecast gross domestic product growth rate in 1999-2000 was 3½ per cent, slightly higher than the 3 per cent forecast at Budget time. The upward revision reflected a more optimistic world growth outlook as well as

evidence of continuing strength in domestic demand, particularly household consumption, and in the labour market.

- The forecast for inflation was revised up slightly in MYEFO, reflecting a sharp increase in world oil prices.
- Average employment growth for 1999-2000 was revised up in MYEFO, in line with the slightly higher economic growth forecast.

MYEFO also contained preliminary forecasts of key economic parameters for 2000-01, along with projections for the following two years.

The 2000-01 Budget, handed down in May 2000, contained revised estimates of the outcomes for 1999-2000, a fully elaborated set of forecasts for 2000-01 and projections for key parameters in the following three years, out to 2003-04.

- At the time of the 2000-01 Budget, the final outcome for gross domestic product growth in 1999-2000 was not known. Based on the information available, economic growth in 1999-2000 was expected to be 4¼ per cent, reflecting evidence that domestic demand was continuing to grow more rapidly than expected in MYEFO.
- The broad picture presented in the Budget was essentially the same as that presented in MYEFO, with moderating but still solid growth expected to be supported by strong growth in exports and business investment.

MYEFO and Budget forecasts released during 1999-2000 were generally regarded at the time as being credible by external commentators and were consistent with the assessment of international forecasters such as the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). Economic growth subsequently outperformed official and private sector forecasts, while inflation remained well in check. Sound and credible frameworks for monetary and fiscal policies in recent years, maintaining the Budget in surplus, ongoing reforms in competition policy, the tax system, the labour market, the financial sector and corporate law have created an economy that is more efficient and flexible, subject to more competitive pressures and more conducive to productivity growth. Recent National Accounts data have confirmed the underlying strength of the economy implicit in the forecasts. An assessment of the 1999-2000 outcome will be published in the Spring 2000 Treasury *Economic Roundup*.

The forecasts were prepared with the benefit of input from members of the Joint Economic Forecasting Group comprising Treasury (chair), the Reserve Bank of Australia (RBA), the Department of the Prime Minister and Cabinet, the

Department of Finance and Administration and the Australian Bureau of Statistics. Information on business conditions was obtained through liaison with industry. This information proved particularly valuable in testing the veracity of economic forecasts. The Treasury macroeconomic model of the Australian economy was also used as an input into the forecasting process, as well as for the macroeconomic policy and sensitivity analyses.

Contributions to public awareness and debate

As a matter of course, all economic publications are made available free of charge at the Treasury website (www.treasury.gov.au). This practice improves the accessibility of Treasury publications.

The 1999-2000 MYEFO discussed the implications for the Australian economy of a strengthening world economy and the introduction of *The New Tax System*.

In the 2000-01 Budget papers, Statement 1 of *Budget Paper No. 1* contained a detailed discussion of the rationale for the medium-term fiscal strategy and the requirements to sustain it.

Statement 2 of *Budget Paper No. 1* contained a detailed discussion of the state of the world economy, with a focus on the ongoing strength of the United States economy and the increased activity in non-Japan East Asia, which was larger and occurred sooner than expected. It was noted that overall world growth was expected to moderate slightly in 2001, with slower growth in the United States but continued solid growth in Europe and non-Japan East Asia. The discussion of the international and domestic economic forecasts for 2000-01 in that Statement outlined in some detail the uncertainties surrounding the forecasts. This included a detailed assessment of the economic impact of the Sydney Olympics, and recent developments in regional labour markets.

Statement 3 of *Budget Paper No. 1* discussed the benefits of the introduction of *The New Tax System* in helping to sustain the economy's longer-term growth potential while maintaining low inflation. It was noted that *The New Tax System* was being introduced at a time of strong competition and dynamic markets, which were the result of policy action at both the macroeconomic and microeconomic level.

The publication of a brief *Budget Overview and Economic Outlook*, written in non-technical terms, also ensured that the budget estimates, including major policy developments and forecasts, were widely accessible.

The discussions in the MYEFO and Budget papers were extensively drawn on in media reporting and commentary.

Four issues of the Treasury *Economic Roundup* were published in 1999-2000. These continued to provide an overview of economic developments and articles on a wide range of issues examined in the Department. The Overview section of this publication was oriented towards providing commentary on some key issues underpinning Australia's recent economic performance.

The Overview in the Spring 1999 edition of the *Economic Roundup* focused on the resilience and flexibility of the Australian economy and, in particular, the absence of import price inflation and the continuation of export diversification. The Overview in the Autumn 2000 edition discussed domestic economic conditions with particular reference to the impact of *The New Tax System* on prices and output. Roundup Articles relevant to this output included: 1998-99 in Review — Australia's Strong Growth Exceeds Expectations (Spring 1999); Maintaining Low Inflation and Strong Growth (Autumn 2000); Australian Net Private Wealth (Summer 2000); The Measurement of Saving in Australia (Spring 1999); Factors Influencing Medium-Term Employment Growth (Winter 1999); and Teenage Unemployment (Winter 1999).

Quarterly updates of the Treasury macroeconomic model of the Australian economy and associated database were distributed to subscribers. Since its public release in 1995-96, the Treasury macroeconomic model has continued to evolve in light of ongoing research and development.

Discussions were conducted with visiting delegations from international organisations including the OECD, the IMF and international credit rating agencies. The OECD annual survey of the Australian economy, released in January 2000, commented favourably on the prospects for the economy and on the macroeconomic policy framework. Analysis in IMF and OECD publications on the Australian economy was consistent with that presented in the Budget papers and MYEFO.

Policy advice and inputs into policy processes

During 1999-2000, advice was provided to the Treasurer on a range of macroeconomic issues.

- Briefing and analysis were provided to the Treasurer and other members of the Government on a wide range of economic statistics released by the ABS and by the private sector. This included advice on the implications for the

economic outlook and information to assist the Treasurer in responding publicly to the release.

- Treasury officers conducted discussions with companies and organisations in the major business centres in order to better monitor, analyse and report on economic conditions and prospects. Regular briefing and analysis of liaison findings were provided to the Treasurer, including on specific issues such as business views on the impact of *The New Tax System*.
- Advice on fiscal policy and strategy was provided to the Treasurer as part of the process of developing the 2000-01 Budget.
- Advice on monetary policy was prepared on a regular basis for the Secretary (ahead of his attendance at meetings of the Reserve Bank Board). In preparing this advice, the Treasury monitored financial, economic and policy developments and forecasts to assess their implications for policy settings. The Treasurer was also kept abreast of developments in this area through the provision of regular briefing and analysis.
- In relation to the operation of the RBA more generally, advice was prepared on the legislative amendments to the *Reserve Bank Act 1959* that were introduced into Parliament on 13 April 2000.
- Advice was provided to the Treasurer on labour market issues throughout the year. Treasury also contributed to the Joint Governments' Submission to the Australian Industrial Relations Commission's 1999-2000 Safety Net Review. This contribution examined the economic implications of the claim and included analysis based on the Treasury macroeconomic model.

Reviews of economic data

Treasury has liaised extensively with the ABS on statistical matters, both informally, through regular discussion at all levels, and on a formal basis, through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group and the Labour Statistics Advisory Group.

Output 1.1.2

International economic policy advice and assessment

Economic Group provides advice to Government ministers on strategic international economic policy issues; advancing Australia's interests through the international financial institutions and international fora; advancing Australia's interests in key IMF/World Bank/Asian Development Bank (ADB) program countries; and monitoring and analysing developments in key global economies.

Performance information

Advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing Government decisions relating to international economic and financial issues.

1999-2000 outputs

International developments

In 1999-2000, international financial markets became more stable as crisis-affected countries recovered. The extent of the recovery from the Asian financial crisis varied across the region. The most notable recoveries occurred in Korea, Malaysia and Thailand, while Indonesia's recovery has been slower.

With the threat of financial crisis receding, the focus of attention shifted from preventing the spread of financial contagion to delivering reform of the international financial architecture, reflecting the broad recognition that the globalisation of financial markets conveys many benefits, but also raises potential risks which need to be appropriately managed.

Australia has provided strong support to various international institutions and fora in their efforts to emphasise the importance of structural reform and strengthening economic institutions, particularly throughout the Asia Pacific region, in order to help sustain economic growth. As a member of the IMF, the World Bank, the ADB, APEC, Manila Framework Group (MFG), the Group of Twenty (G20), and the Financial Stability Forum (FSF), Australia actively participated in regional macroeconomic surveillance and international financial architecture discussions.

- **Private sector involvement** in the prevention and resolution of financial crises remained an important policy issue during the year. The issue was discussed in a number of fora, including in the IMF, where Fund members worked to develop a framework that encompasses a number of central principles, considerations and tools to facilitate private sector involvement.
- **Role of international financial institutions.** The rapid changes that have occurred in the global economy have raised questions about the appropriate roles of the central international financial institutions, particularly the World Bank and IMF. Australia supported consideration of this key issue in a number of fora and raised, in particular, the need for representation in the international financial institutions to better reflect members' economic standing.
- **Encouraging greater transparency and the implementation of standards and codes.** There have been considerable advances in enhancing transparency and promoting the use of standards and codes. A growing number of countries are undertaking Reports on Observance of Standards and Codes and Financial Sector Stability Assessments, with this trend provided with an additional impetus through G20 members, including Australia, committing to undertake both types of assessments. The FSF also considered a set of core standards and ways of encouraging implementation of standards.
- The implementation of decisions taken in the last year on **poverty reduction and social sector issues** is an essential complement to efforts to strengthen the global financial architecture. The renewed impetus given to these areas under the IMF and World Bank's concessional lending operations and the enhanced Heavily Indebted Poor Countries Initiative will assist in better integrating the poorest countries of the world into the global economy.

Within the APEC Finance Ministers' process and through participation in the OECD, Australia also contributed strongly to work on structural reform issues, such as strengthening corporate governance and financial market supervision, and on broader economic issues.

International financial institutions

Treasury participated in, and provided briefing for, Australian ministerial and official delegations to the IMF/World Bank Annual Meetings in Washington on 26-28 September 1999, the IMF/World Bank Spring Meetings in Washington on 16-17 April 2000, the ADB Annual Meeting in Chiang Mai, Thailand, on 6-8 May 2000 and the European Bank for Reconstruction and Development (EBRD) Annual Meeting in Riga, Latvia, on 20-22 May 2000. Treasury also

prepared briefing for Australia's representatives at the IMF, World Bank, ADB and EBRD on a wide range of policy issues throughout the year.

Treasury prepared annual reports to Parliament on Australia's relations with the IMF, the World Bank and the ADB. The reports contribute to the public debate on Australia's relations with these organisations and improve the understanding of their operations.

International Monetary Fund

With a relative degree of calm returning to international financial markets in 1999-2000, the IMF, supported by Australia, has been focussing greater attention on strengthening international financial architecture. Such efforts are aimed at making the world less vulnerable to financial crises, while allowing all countries to reap the benefits of global growth and integration. In particular, the IMF has progressed issues relating to: the role of the Fund, including reform of its financial facilities; improving transparency through the development and dissemination of standards and codes; and private sector involvement in crisis prevention and resolution.

Treasury assisted the IMF in undertaking its regular Article IV consultation with Australia.

World Bank

Australia has continued to support the World Bank's Comprehensive Development Framework as an approach to designing and coordinating aid in developing countries and the Bank's efforts to raise the quality, efficiency and development effectiveness of its own operations.

Australia has strongly supported the role the World Bank has played in the region's 'post crisis' recovery phase, encouraging it to remain focused on its core strengths — poverty reduction and financial/corporate sector restructuring — and to continue collaboration with the IMF and ADB.

Multilateral Investment Guarantee Agency

In the 2000-01 Budget, the Treasurer announced that Australia will participate in a General Capital Increase for the Multilateral Investment Guarantee Agency. The Multilateral Investment Guarantee Agency, part of the World Bank group, encourages foreign investment in developing countries by providing investment

guarantees against the risks of currency transfer, expropriation, and war and civil disturbance.

Heavily Indebted Poor Countries Initiative/bilateral debt relief

During 1999-2000, Australia continued to demonstrate its strong commitment to international debt relief for the world's poorest countries through the Heavily Indebted Poor Countries (HIPC) Initiative. Australia supported enhancements to the HIPC Initiative approved at the Annual Meetings of the World Bank and IMF and welcomed the establishment of a Bank/Fund Joint Implementation Committee at the 2000 Spring Meetings. The Treasurer and Minister for Foreign Affairs announced in September 1999, an additional contribution to the HIPC Trust Fund, bringing to a total of \$A55 million Australia's contribution to the World Bank and IMF participation in the Initiative.

On 21 April 2000, the Treasurer and Minister for Foreign Affairs announced a policy of 100 per cent bilateral debt forgiveness for countries that qualify for debt relief under the enhanced HIPC Initiative.

Asian Development Bank

In 1999-2000 Australia's involvement in the ADB focused on: encouraging it to continue to refocus its activities to that of a broadly-based development institution; improving the efficiency and effectiveness of its operations; and encouraging the ADB to work cooperatively with the other international financial institutions, particularly the IMF and World Bank, in assisting in the development of the region.

European Bank for Reconstruction and Development

Australia announced its decision to participate in the EBRD General Capital Increase in the 2000-01 Budget. By subscribing to the General Capital Increase, Australia sends a strong signal of its active support for, and willingness to assist in, the development and reconstruction of Eastern Europe.

Manila Framework Group

Treasury officers attended and played an active role at both the fifth meeting of the MFG in Singapore on 29-30 August 1999, and the sixth meeting in Hong Kong SAR on 20-21 March 2000.

The MFG comprises finance and central bank deputies from 14 economies: Australia, Brunei, Canada, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States. The IMF, the ADB and the World Bank are also represented. The MFG was formed in Manila in November 1997 to discuss strategies to address the crisis in Asia, and develop a framework on regional surveillance and the improvement of the international financial system.

The fifth meeting noted the improved global economic outlook, including the marked improvement in the growth performance of the Asian region, but cautioned that for a sustained broad based regional recovery, structural reforms needed to continue.

The MFG also discussed efforts to reform the international financial architecture, including the on-going work of the FSF. It recognised the need for coordination between international bodies to monitor implementation of international standards. The MFG discussed the issues of highly leveraged institutions, capital flows, and the choice of exchange rate regimes with a view to improving the stability of financial markets. There was also broad consensus within the MFG for more substantial progress to involve the private sector in the prevention and resolution of financial crises.

At the sixth meeting, the MFG discussed developments in macroeconomic and structural policies in the region. The MFG considered that, as recoveries in the crisis-affected economies become firmly established, fiscal consolidation would be necessary to avoid unsustainable increases in public sector indebtedness. The MFG noted the further progress in crisis-affected economies in the areas of bank and corporate sector restructuring, strengthening of regulatory infrastructure, and improvements in insolvency procedures and corporate governance. It welcomed the commitments of these economies to press on with the reforms of their financial and corporate sectors.

The MFG recognised the importance of monitoring and understanding cross-border capital flows and called for greater cooperative efforts by individual economies and the international financial institutions to improve the frequency, timeliness and comprehensiveness of data.

Financial Stability Forum

The FSF was initiated by the Group of Seven in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. In

June 1999, Australia, along with only three other non-Group of Seven economies, was invited to become a member of the Forum in recognition of its significance as a financial centre. The Governor of the RBA is Australia's representative on the Forum.

During 1999-2000, the FSF advanced a number of issues to promote international financial stability, through working groups on highly-leveraged institutions, capital flows, offshore financial centres and a taskforce on the implementation of standards. The RBA participated in the highly-leveraged institutions working group and Treasury was a member of the taskforce examining issues related to the implementation of standards.

At its meeting in March 2000, the FSF received reports from each of these groups and endorsed a broad range of concrete policy actions. In relation to the report on the implementation of standards, the FSF agreed to establish a follow-up group on incentives to foster implementation of standards. Treasury is a member of the follow-up group.

Four Markets Group

On 28 April 2000, a meeting of the Four Markets Group was held in Hong Kong SAR. Senior officials of the Finance Ministries, Central Banks and Monetary Authorities of Australia, Hong Kong SAR; Japan; and Singapore attended the meeting. Participants discussed recent developments in economic conditions and financial markets, and trends and surveillance frameworks of cross-border capital flows.

The Group of Twenty

The Group of Twenty (G20) was established in the second half of 1999 to provide a new, high level mechanism for informal dialogue on international economic issues within the framework of the Bretton Woods institutional system. It aims to broaden the discussions on key economic and financial policy issues among systemically significant economies, and promote cooperation to achieve stable and sustainable world economic growth that benefits all.

Participants in the G20 include finance ministers and Central Bank governors from the Group of Seven nations and other significant developed and emerging nations, including Australia. The heads of the IMF, World Bank and their ministerial level advisory committees are ex officio members of G20.

The Treasurer and RBA Governor attended the inaugural G20 meeting, which was held on 15-16 December 1999 in Berlin. At this meeting, discussions focused on the role and objectives of the G20 and ways to address the main vulnerabilities currently facing member economies and the global financial system. In addition, it was agreed that the more widespread implementation of international codes and standards would contribute to more prosperous domestic economies and a more stable international financial system. To demonstrate leadership in this area, ministers and governors agreed to undertake the completion of Reports on Observance of Standards and Codes (also known as 'Transparency Reports') and Financial Sector Assessments, within the context of continuing efforts by the IMF and World Bank to improve these mechanisms. Australia completed a Report on Observance of Standards and Codes in March 1999.

Treasury officials, including the Secretary to the Treasury, attended G20 deputies' meetings on two occasions during the year: in Vancouver, on 16-17 November 1999 in preparation for the inaugural meeting of ministers and governors; and in Hong Kong SAR, on 27-28 March 2000 to progress discussions on key issues following the inaugural meeting.

Asia-Pacific Economic Cooperation

Finance ministers

The timing of the APEC Finance Ministers' meeting was altered to align it more closely with the APEC Leaders' meeting and consequently, there was no APEC Finance Ministers' meeting in 1999-2000.

Treasury provided policy advice and briefing for Treasury officers' participation in the October 1999 and March 2000 APEC Technical Working Group meetings in Auckland and Queenstown, New Zealand, respectively. Senior Treasury officers attended the APEC Finance and Central Bank Deputies meetings in August 1999 in Wellington, New Zealand, and in April 2000 in Washington D.C.

Treasury's particularly active involvement in this year's Finance Ministers' process led to two new initiatives: Managing Regulatory Change in Life Insurance and Pensions and a taskforce on Company Accounting and Financial Reporting. Australia successfully hosted a joint APEC/OECD/World Bank insolvency law symposium in November 1999 which aimed to further progress work on the collaborative initiative to improve corporate governance in the region.

Treasury also actively contributed to various on-going Finance Ministers' initiatives including strengthening banking supervision and training for bank supervisor and securities market regulators, and a Voluntary Action Plan on supporting freer and stable flows of capital. Such initiatives demonstrate finance ministers' objective to establish a framework for providing the machinery for building sound domestic institutions in the region, with a strong emphasis on capital markets.

Investment Experts Group

Treasury was involved in APEC's investment liberalisation, facilitation and cooperation activities through leading Australia's representation in the APEC Investment Experts Group. Treasury worked to ensure that the Investment Experts Group remained focused on investment liberalisation and facilitation rather than investment promotion activities. A major output of the Investment Experts Group was a 'Menu of Options' for investment liberalisation and business facilitation from which economies may voluntarily select any of a number of options to make progress toward creating a free and open investment regime.

At the August 1999 Investment Experts Group meeting in Rotorua, New Zealand, Australia presented a paper on 'A Brief History of Foreign Investment Policy in Australia: Lessons Learnt' as part of a training program (Part 1) on implementing the Menu of Options. Treasury officers attended the Fifth APEC Investment Symposium, the second workshop to implement the menu of options and an Investment Experts Group meeting in March 2000 in Shanghai, China.

Economic committee

Treasury led Australia's representation on APEC's Economic Committee. Treasury worked to improve the quality of the Committee's output and to ensure that the activities of the Committee met the needs of leaders, ministers and other APEC fora. The major outputs for the year included the project on *APEC Economies beyond the Asian Crisis, Assessing APEC Trade Liberalization and Facilitation: 1999 Update*, and the annual *APEC Economic Outlook*. At the August 1999 meeting in Rotorua, New Zealand, the Committee initiated a major research work on the promotion of knowledge-based economies in the APEC region. As a member of the project team, Australia has made a major contribution to the research paper which will be presented to APEC senior officials in September 2000.

Relations with Asia

The considerable importance that Treasury places on relations with Asia is reflected in the Department's placement of three senior-level postings in the region. Treasury's representatives in Tokyo, Beijing and Jakarta continued to be active in maintaining and further developing relations with Treasury's counterparts in Japan, Korea, China, Hong Kong SAR, Chinese Taipei, Indonesia, Singapore, Malaysia, Thailand and the Philippines. Treasury's overseas representatives continued to contribute significantly to Treasury's understanding of economic conditions in these economies and of the major economic policy challenges they face. In particular, these contacts have aided understanding of events that have unfolded in the Asian region since the onset of the Asian crisis in 1997. As part of the team at the relevant Embassies, these representatives contributed to enhancing economic and trade relations with economies in the region.

During the year, visits to Australia by official delegations from Asia and visits by Treasury officers to the region contributed to an improved understanding by Treasury of Asian economies and encouraged greater cooperation between Treasury and its counterparts in Asia.

Papua New Guinea and East Timor

Papua New Guinea

During the year, Treasury was actively involved in providing financial and technical assistance in support of the Government of Papua New Guinea's (PNG) reform efforts. On 21 June, Australia provided a A\$133 million (US\$80 million) loan to PNG in support of the PNG Government's agreement with the IMF on a Standby Arrangement and the World Bank on an Adjustment Loan. Australia's loan underpinned PNG's on-going economic and governance reform efforts. In so doing, the loan contributed to a further strengthening of investor and donor confidence in the PNG economy. The assistance replaced a US\$80 million short-term financial support facility provided by Australia in December 1999. Treasury's technical assistance included capacity building support for PNG's Department of Finance and Treasury, principally through the placement of macro-economic advisers, and the coordination of institution building support provided to their PNG counterparts by other Commonwealth central agencies.

East Timor

Treasury has also actively contributed to the key institution building process in East Timor undertaken by the United Nations Transitional Administration for East Timor, with technical assistance from the IMF. The Department released two senior officers and supported efforts to enlist additional assistance in establishing the Central Fiscal Authority and the Central Payments Office, which are, respectively, East Timor's embryonic Ministry of Finance and Central Bank.

Relations with Pacific economies

South Pacific Forum Economic Ministers' Meeting

The Minister for Financial Services & Regulation attended the third Forum Economic Ministers Meeting in Apia, Samoa in July, 1999. The meeting consolidated progress in the implementation of the Forum Economic Ministers Meeting Action Plan of economic liberalisation, which aims to foster greater competitiveness and self-reliance and raise sustainable levels of growth in the Forum Island Countries. Following an initiative of the meeting, Australia hosted a workshop in Sydney in February 2000, which discussed practical difficulties in the implementation of economic and governance reform. The workshop was well received by Pacific economic ministers and senior officials. The Treasurer presented a paper to the workshop 'Driving the Implementation of Economic Reform' and the Assistant Treasurer represented Australia at the workshop sessions.

Organisation for Economic Co-operation and Development

Treasury staff participated in the work of OECD committees relevant to their responsibilities in the fields of macroeconomic and microeconomic policy, forecasting, taxation, competition policy, investment and capital markets.

The Treasurer chaired the 2000 OECD Council at the ministerial level, on behalf of Australia, on 26-27 June 2000. In his role as Chair, the Treasurer also opened, on 26 June, the Forum 2000 conference, a new initiative of the OECD Council aimed at improving discussion between governments, business and civil society. The Minister for Trade, representing Australia, also attended the meeting.

The Ministerial Council Meeting is the main meeting of the OECD, where representatives of the 29 member countries meet at ministerial level to discuss broad economic and multilateral trade issues. Ministers of finance, economic affairs, trade and/or foreign affairs attended. This year's Ministerial Council

Meeting, reviewed the adoption of the revised *Guidelines for Multinational Enterprises*, made substantial progress towards eliminating harmful tax practices and provided support for the expansion of World Trade Organisation membership and the launch of a new World Trade Organisation trade round. Ministers also endorsed the need for continued work to better understand the strong economic performance of the better performing economies in the OECD, which included Australia, and to what extent this performance represented a 'new economy'.

Overseas policy lessons

Reporting by overseas posts, and analysis conducted during the year, maintained a close focus on international economic developments and on overseas experience of relevance to domestic economic policy formulation. In particular, contacts made by overseas posts aided understanding and analysis of events that have unfolded in Asian financial markets and economies since the Asian financial crisis and their global implications. Reporting and analysis of developments in major economies contributed to our understanding of macroeconomic conditions and likely policy developments in these economies. European reporting has also contained useful macroeconomic policy insights from developments such as the progress of the European Economic and Monetary Union, and microeconomic reporting on issues such as labour market reform, corporate law and competition policy issues. The results of the first stage of the OECD Growth Project, which identifies Australia as one of only six OECD economies to have raised its trend per-capita growth rate in the 1990s, gives evidence of the benefits of the economic reforms undertaken in Australia.

The International Economic Policy Group

The International Economic Policy Group facilitates a coordinated 'whole of government' consideration of international economic developments and policy issues. The International Economic Policy Group meets approximately every six weeks, or as needed. The International Economic Policy Group comprises high level officials from the Departments of the Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury and the RBA, with other economic departments attending as required.

OUTCOME 2

EFFECTIVE GOVERNMENT SPENDING AND TAXATION ARRANGEMENTS

Budget Group provides advice to government ministers and other services in support of 'effective government spending and taxation arrangements'. The focus of Budget Group is the direct activities of the Government, its spending programmes, industry assistance, funding of other levels of government and the use of taxation powers. A particular focus of Budget Group in 1999-2000 was the tax reform process undertaken by the Government.

More specifically, Budget Group in 1999-2000 has produced outputs which support Government decisions and objectives through:

- assessment and provision of advice on the design of *The New Tax System*, *The New Business Tax System* and retirement incomes policy, in relation to economic efficiency, equity, income distribution, budgetary requirements and feasibility. Through the design and implementation of assistance programmes, Budget Group also assisted small and medium enterprises, the community sector and education bodies prepare for the introduction of the GST;
- advice on budget policy issues; current and prospective trends in Commonwealth revenue and major fiscal and financial aggregates; major outlays programmes; and the fiscal framework. Preparation of budget and related documents and the identification and implementation of a range of new budget priorities, including measures associated with the introduction of *The New Tax System*. These new priorities were accommodated while maintaining the budget in surplus;
- implementation of a number of government initiatives, including the introduction of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. Through the transitional period prior to the commencement of *The New Tax System*, regular State and Territory payments continued to be efficiently administered;
- consultation with other departments and agencies. Reform in areas of industry, regional and environmental policy were developed and progressed. Through assistance with programme design, for programmes administered

by other departments, Treasury focused on improving the productivity, economic sustainability and competitiveness of Australian industry; and

- the provision of high quality professional actuarial services to a wide range of government agencies.

Chart 7: Outcome 2 structure

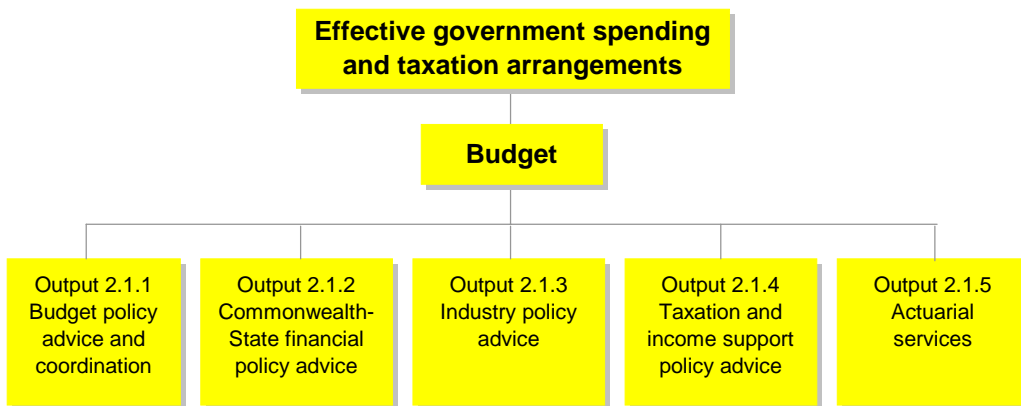


Table 3: Financial and staffing resources summary for Outcome 2

	Budget 1999-2000 \$'000	Actual 1999-2000 \$'000	Budget 2000-2001 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	498,000	429,257	-
Appropriation Acts Nos. 2/4	13,400	13,227	62,500
Special Appropriations	17,738,915	17,738,454	1,500,316
Total administered expenses	18,250,315	18,180,938	1,562,816
Revenue from Government			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,274	2,274	2,313
Output 2.1.2 - Commonwealth-State financial policy advice	1,298	1,298	1,390
Output 2.1.3 - Industry policy advice	596	596	802
Output 2.1.4 - Taxation and income support policy advice	13,011	13,011	11,398
Output 2.1.5 - Actuarial services	-	-	-
Corporate costs	5,702	5,702	9,954
Total revenue from Government contributing to price of departmental outputs	22,880	22,880	25,857
Revenue from other sources			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	1	2	-
Output 2.1.2 - Commonwealth-State financial policy advice	1	1	-
Output 2.1.3 - Industry policy advice	-	2	-
Output 2.1.4 - Taxation and income support policy advice	3	6	-
Output 2.1.5 - Actuarial services	855	855	1,420
Corporate costs	579	751	549
Total revenue from other sources	1,439	1,616	1,969
Total revenue for departmental outputs (Total revenues from Government and other sources)	24,319	24,496	27,826
Price of departmental outputs			
Output group 2.1 - Budget			
Output 2.1.1 - Budget policy advice and coordination	2,275	2,114	2,313
Output 2.1.2 - Commonwealth-State financial policy advice	1,299	1,189	1,390
Output 2.1.3 - Industry policy advice	596	805	802
Output 2.1.4 - Taxation and income support policy advice	13,014	12,068	11,398
Output 2.1.5 - Actuarial services	855	855	1,420
Corporate costs	6,280	8,117	10,503
Total price of departmental outputs	24,319	25,148	27,826
Total estimated resourcing for outcome 2 (Total price of outputs and administered expenses)	18,274,634	18,206,086	1,590,642
Average staffing levels (number)	179	185	211

Note 1: Variations in the price of departmental outputs for Budget estimates in 2000-01 are attributed to revised internal allocations.

Note 2: Prior year comparative data is not available due to the change in the output framework.

Output 2.1.1

Budget policy advice and coordination

This output includes the provision of advice to Treasury portfolio ministers on budget policy issues; current and prospective trends in Commonwealth revenue and major fiscal and financial aggregates; major outlays programmes; and the fiscal framework. In addition, this output includes the preparation of budget and related documents.

Performance information

The performance information for this output are:

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

1999-2000 outputs

The accrual budget

The 2000-01 Budget was the second Commonwealth Budget to be presented in an accrual framework. The accrual-based outcomes and outputs framework has been introduced primarily to enhance public sector resource management and performance. However, it also provides more comprehensive financial information, including balance sheet information, to assess the sustainability of government finances.

A major activity for Budget Policy Division during 1999-2000 was to contribute to the process of bedding down and consolidating the new budget framework. The Commonwealth's experience with accrual budgeting has attracted a great deal of international interest. Budget Policy Division met with a number of international delegations interested in learning about the new budgeting and reporting framework applied in Australia. These delegations included one from the United States General Accounting Office which featured Australia in its

February 2000 report *Accrual Budgeting: Experiences of Other Nations and Implications for the United States*.

Budget publications

The *Final Budget Outcome 1998-99*, published in September 1999, provided a comprehensive summary of the budget outcome for that year. This was followed by the publication of the *Mid-year Economic and Fiscal Outlook* in November 1999 which incorporated a detailed review of the 1999-2000 Budget estimates. Both of these budget documents are prepared in conjunction with the Department of Finance and Administration.

In addition, Budget Policy Division played a central role in the coordination and preparation of the 2000-01 Budget Papers. This included the development of a substantially improved *Budget Overview*. The *Budget Overview* is designed to provide an accessible and easy to read guide for the general public. The popularity of the *Budget Overview* was reflected in its hard-copy sales, as well as in the large number of downloads from Treasury's website.

Advice on the fiscal outlook

During 1999-2000, ongoing advice was provided to the Treasurer and other portfolio ministers on the Commonwealth's budget position. The preparation of this advice required extensive liaison with the Department of Finance and Administration and the Australian Taxation Office as well as a number of other Commonwealth departments and agencies. Assessments of the Commonwealth's budget position incorporated changes to the economic outlook, ensuring that advice was based on the most reliable and up-to-date information available.

Major programme reviews and policy advice

During 1999-2000, Budget Policy Division participated in a number of interdepartmental committees and other working groups developing and reviewing major government programmes in areas such as defence, health and aged care, family and community services and education. Advice was also provided to the Treasurer on a broad range of policy expenditure issues. Treasury's contribution to the development and review of government expenditure seeks to improve the effectiveness and efficiency of Commonwealth

Government programmes and to ensure that the Government's social objectives are considered in the context of its broader economic and fiscal objectives.

Tax Expenditures Statement

Treasury publishes an annual *Tax Expenditures Statement*, which provides estimates of the revenue cost associated with the concessional taxation treatment of specific groups and/or activities. The *Tax Expenditures Statement 1997-98*, published in July 1999, reported on the cost of tax expenditures with estimates and projections to 2001-02.

Output 2.1.2 Commonwealth-State financial policy advice

This output includes the provision of high quality advice on Commonwealth-State financial policy, fiscal developments and taxation issues, including in the context of the Commonwealth budget.

This output also provides for the efficient administration of general revenue assistance and revenue replacement payments to the States, including implementation of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

Performance information

The performance indicators for this output are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations; and
- effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

1999-2000 outputs

Reform of Commonwealth-State financial relations

The Commonwealth's proposal for reforming Commonwealth-State financial relations led to the signing of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* by Heads of Government at the April 1999 Premiers' Conference. The Intergovernmental Agreement outlines the Commonwealth, State and Territory governments' commitments undertaken as part of the reform of Commonwealth-State financial relations.

On 28 May 1999, the Prime Minister announced changes to the tax reform package that required revisions to the Intergovernmental Agreement. Heads of Government signed a revised Intergovernmental Agreement in June 1999. The revised agreement came into effect on 1 July 1999 and included the following reform measures:

- the Commonwealth will legislate to appropriate all of the GST revenues to the States and Territories from 1 July 2000;
- the Commonwealth will legislate to provide that the GST rate and base cannot be modified without the unanimous consent of the Commonwealth, States and Territories;
- Financial Assistance Grants and payments of revenue associated with the safety net surcharge arrangements for alcohol, petroleum and tobacco will cease from 1 July 2000;
- the States will abolish bed taxes from 1 July 2000;
- in addition, the States will abolish the following taxes:
 - Financial Institutions Duty from 1 July 2001;
 - stamp duties on quoted marketable securities from 1 July 2001; and
 - debits tax by 1 July 2005, subject to review by the Ministerial Council;
- the Ministerial Council will, by 2005, review the need for retention of a number of business-related stamp duties;
- the States and Territories will adjust their gambling tax revenues to take account of the impact of the GST on gambling operators;

- the States and Territories will ensure that increases in pensions and allowances specified in the tax reform package will not flow through to increased public housing rents where these rents are linked to the level of pensions;
- the States and Territories will fund and administer a new uniform First Home Owners Scheme from 1 July 2000 to assist first home buyers;
- the States and Territories are compensating the Commonwealth for the cost of administering the GST; and
- the Commonwealth will legislate to allow the payment of transitional assistance to States and Territories to ensure that they are not worse off than they would have been in the absence of tax reform.

Since 1 July 1999, a Ministerial Council comprising Commonwealth, State and Territory Treasurers (or designated representatives) has been responsible for overseeing the operation of the Intergovernmental Agreement. The Ministerial Council is chaired by the Commonwealth Treasurer and assisted by a GST administration subcommittee of officials. Treasury chairs this GST administration subcommittee.

Ministerial council for Commonwealth-State financial relations

Treasury has primary responsibility for the provision of advice on financial arrangements with the States and Territories. Advice was provided to the Treasurer in the lead-up to the first meeting of the Ministerial Council on 17 March 2000.

The Ministerial Council noted estimates of GST revenue collections, Budget Balancing Assistance, Specific Purpose Payments, National Competition Payments and Special Revenue Assistance to be received by the States in 2000-01. The Ministerial Council also considered a range of other matters consistent with its role of monitoring the implementation of the Intergovernmental Agreement, including:

- the development of a range of ministerial determinations affecting the tax base for the GST; and
- reviewing progress with implementing the First Home Owners Scheme.

Budget Balancing Assistance arises from the Commonwealth's guarantee that in each of the transitional years following the introduction of the GST, each State's 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. In 2000-01 Budget Balancing Assistance takes the form of grants and one year interest free loans.

The grants component of Budget Balancing Assistance forms part of general revenue assistance to the States. In addition, the Commonwealth will make National Competition Payments to the States in 2000-01. In conjunction with special revenue assistance of \$13.5 million to the Australian Capital Territory, this will result in general revenue assistance of some \$1.5 billion being provided to the States and Territories in 2000-01. The payment of National Competition Payments is conditional on the States and Territories meeting their obligations under the *Agreement to Implement the National Competition Policy and Related Reforms*.

GST revenue, expected to total some \$24 billion, will be distributed to the States and Territories in 2000-01.

The Loan Council Allocations nominated by the Commonwealth, States and Territories for 2000-01 were agreed to the Loan Council Meeting held in conjunction with the Ministerial Council on 17 March 2000.

Fiscal reporting issues

In March 2000, Loan Council agreed to the implementation of the Accrual Uniform Presentation Framework for the reporting of financial information in budget documentation on an accrual basis. The Uniform Presentation Framework, first implemented in 1991, is a key feature of Loan Council arrangements for overseeing public sector borrowing in Australia. The primary objective of the Uniform Presentation Framework is to ensure that Commonwealth, State and Territory governments provide a common 'core' of financial information in their budget papers. The Accrual Uniform Presentation Framework was developed by the Fiscal Reporting Committee, chaired by the Commonwealth Treasury and comprising officials from all States and Territories. Jurisdictions have until 2002-03 to fully implement Accrual Uniform Presentation Framework reporting in their budgets, however most, including the Commonwealth, moved to this standard in their 2000-01 budgets.

Heads of Treasuries

Heads of the Commonwealth, State and Territory Treasuries meet regularly to discuss matters of mutual interest, such as economic conditions, fiscal reporting, taxation and financial issues, and preparations for meetings of the Loan Council and the Ministerial Council for Commonwealth-State Relations. The agenda for these meetings is coordinated at the Commonwealth level. Heads of Treasuries met three times over the course of 1999-2000, with discussions focusing on the implementation of reforms agreed by Heads of Government in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Payments to the states and territories

During 1999-2000, general revenue assistance to the States and Territories was paid in accordance with the level and distribution determined at the 1999 Premiers' Conference and as set down in the *States Grants (General Purposes) Act 1994*. As far as practicable, payments of general revenue assistance were made in equal weekly installments.

Following the 5 August 1997 High Court ruling which cast into doubt the constitutional validity of all State and Territory business franchise fees, the Commonwealth, at the unanimous request of the States and Territories, announced 'safety net' arrangements to protect State and Territory finances. All revenue collected by the Commonwealth under these arrangements (less administrative costs) is returned to the States and Territories as revenue replacement payments. Weekly revenue replacement payments were provided to the States and Territories throughout 1999-2000 on the basis of advice from the Australian Taxation Office and the Australian Customs Service on weekly collections under the 'safety net' arrangements.

Treasury received no adverse feedback from State or Territory governments on the Department's administration of these arrangements during the year. All relevant accountability requirements were met.

Other policy advice

Treasury provides advice on tax policy issues arising in a Commonwealth-State context. Following the High Court decision in *Allders International Pty Ltd v Commissioner of State Revenue* (Victoria) (1996) 186 CLR 630 (*Allders*) invalidating State taxes on Commonwealth places, the Government introduced

Commonwealth taxes to mirror State payroll taxes, Financial Institutions Duty, debits tax and stamp duties on activities on or in Commonwealth places. State land taxes were subsequently added to the list of Commonwealth mirror taxes. The Government will remit mirror tax revenues to the States to ensure they are not financially disadvantaged by the *Allders* decision. Treasury has developed bilateral agreements with the States covering the administrative arrangements for collecting, and ensuring compliance with, the mirror taxes.

Treasury also provides advice on the taxation treatment of State and Territory government business enterprises. While exempt from income tax, these enterprises are required to make equivalent payments to their owner government through a State-based tax equivalent regime. This ensures revenue neutrality, as owner governments collect and retain the tax equivalents, and competitive neutrality, as the enterprises are subject to the same tax burden as private sector businesses. Under the Intergovernmental Agreement signed in June 1999, Heads of Government indicated their intention to introduce a National Tax Equivalent Regime for income tax for State and Territory government business enterprises. It was also agreed to progress the application of State and Territory taxes to the Commonwealth on a revenue neutral basis as soon as practicable.

In March 2000, the Ministerial Council endorsed a 1 July 2001 target date for implementing the National Tax Equivalent Regime and agreed that implementation of the National Tax Equivalent Regime should be afforded priority ahead of the application of specified State and Territory taxes to the Commonwealth. Treasury has responsibility for progressing both matters.

Output 2.1.3 Industry policy advice

Treasury worked in conjunction with other departments and agencies, in developing and progressing reform in areas of industry, regional and environmental policy. Treasury assisted in the design of programmes administered by other departments. In doing so, Treasury focused on improving the productivity, economic sustainability and competitiveness of Australian industry. Treasury also kept in mind broader fiscal policy issues by seeking to limit any adverse impact of such programmes on the Government's budget balance.

Performance information

The performance indicators for this output are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to industry, regional and environmental policy; and
- effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

1999-2000 outputs

Treasury contributed to policy formulation in a diverse range of industry policy areas. Examples of this include the dairy industry adjustment package and the waste oil recycling levy. The dairy industry adjustment package, which came into force from 1 July 2000, facilitates the deregulation of the farm-gate price of milk and the restructuring of the dairy industry. Treasury acted to ensure that the package emphasised the need for greater efficiency, and was funded in a suitable manner. Treasury assisted in the design of a levy payable on petroleum-based lubricants, as a means of funding subsidies for the recycling of waste oil.

In May 2000 Treasury organised a visit to Australia by an OECD delegation, and provided them with substantial information, which contributed to the OECD's awareness of Australia's environmental policies and performance. It is anticipated that the delegation will produce a report benchmarking Australia's environmental performance against that of other OECD countries.

Treasury was represented on the Steering Committee that provided input into Austrade's review of the Export Market Development Grants Scheme. The review is an integral part of the Government's deliberations over the future of the Scheme.

Output 2.1.4

Taxation and income support policy advice

Budget Group is responsible for assessing and advising on the general design of the tax system and its components, and retirement incomes policy, in relation to economic efficiency, equity, income distribution, budgetary requirements and

economic feasibility. Budget Group is also responsible for the design and implementation of the program of assistance to assist small and medium enterprises, the community sector and education bodies prepare for the introduction of the GST.

Performance information

The performance indicators for this output are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to taxation and income support policy; and
- effective presentation of relevant information, including in the budget documentation and other publications to adequately inform public debate.

1999-2000 outputs

The New Tax System

Budget Group played an important role in steering and fine-tuning the implementation of the New Tax System, including the GST. It was involved in a broad consultative program to ensure that the implementation was consistent with the Government's goals and contributed to an efficient and fair tax system. Budget Group was responsible for examining and coordinating amendments to the GST legislation in general.

In August 1999 the Treasurer circulated a Consultation Document: *The Application of the Goods and Services Tax to Financial Services*. Submissions were subsequently received from the industry. These submissions were analysed by Budget Group and consultation with industry was undertaken. Advice was provided to the Government on issues identified and their implications for the treatment of financial services under the GST. In October 1999, as a result of this process, *A New Tax System (Goods and Services Tax) Regulations 1999* were made which incorporated the treatment of financial services. Further amendments to the Regulations were introduced in May 2000 as a result of ongoing consultation with the industry.

GST measures

Budget Group also made a large contribution to a range of specific GST issues. These included:

- preparing analysis of a range of issues, including those relating to motor vehicle sales, GST transitional issues, second hand goods, export/import issues, the GST treatment of funerals, the luxury car tax, long-term residential accommodation and long-term commercial property;
- modelling the price and cost effects of tax reform and contributing to the estimation of GST revenues; and
- coordinating and managing the Treasurer's determination of compulsory taxes and regulatory fees and charges imposed by government that should not be subject to GST. Extensive consultation was undertaken with Commonwealth agencies and the States and Territories in order to establish the taxes, fees or charges that should be covered by the determination.

Budget Group also played a key role in developing and implementing reforms to excises. These reforms included the setting of new excise rates to meet the Government's price commitments for fuel and alcohol. In addition, a new tobacco excise regime was established and a fuel sales grant scheme was introduced targeting non-metropolitan areas.

As complements to these reforms Budget Group also contributed to the development of the Wine Equalisation Tax and changes to diesel fuel arrangements.

Fringe benefits tax

The Government's tax reform package also included a number of reforms to fringe benefits.

These measures include the requirement for employers to report the grossed up taxable value of an employee's fringe benefits on group certificates where the value of fringe benefits exceeds \$1,000, which came into effect on 1 April 1999, and capping the concessional fringe benefits tax treatment available to public benevolent institutions and certain other not-for-profit organisations. The latter measure took effect from 1 April 2000 in respect of public and private not-for-profit hospitals, and will apply to charities and other not-for-profit organisations from 1 April 2001.

A number of fringe benefits tax amendments were also introduced to assist employers in regional areas of Australia to attract and retain staff. These measures involve the extension of the fringe benefits tax exemption for remote area housing to all employers and the introduction of a more targeted fringe benefits tax exemption for housing provided by charities, not-for-profit hospitals and police services to their employees in regional areas. These measures took effect from 1 April 2000.

Assistance measures

Budget Group provided advice in relation to the development of measures to assist the retired, aged persons and other classes of income support recipients. Policies contributed to included the newly developed Family Adjustment Payment Scheme, the GST Assistance Scheme and the two bonus payments for older Australians.

GST Start-Up Assistance Office

The GST Start-Up Assistance Office (GSTSAO) was established in August 1999 to assist small and medium enterprises, and community sector and educational bodies (SMECEs) adjust their businesses to the GST environment. The Government set aside \$500 million for this purpose.

The role of the GSTSAO was to administer these funds in consultation with The New Tax System Advisory Board, the Business Advisory Panel which represented small and medium businesses and the Community Sector Advisory Panel which represented the community sector and educational bodies. Members of the Advisory Board and advisory panels were drawn from a cross-section of the community including businesses, the charity and education sectors, and rural/regional areas.

A major achievement of the GSTSAO was the successful administration of the four programs designed to assist SMECEs make a smooth transition to the GST, the Organisation-Delivered Assistance Program, Business Skills Education Program, Adviser Education Program and Direct Assistance Program. These were developed as a result of recommendations from the Small Business Consultative Committee after consultation with small business, charity and education groups.

The four programs had the common goal of ensuring that SMECEs had the opportunity to access information and assistance to adjust their businesses to the

GST environment. In addition the GSTSAO website (www.gststartup.gov.au) and the GST Business Assist Helpline were set up to provide accessible, credible and timely information on the GST to SMECEs.

Organisation-delivered assistance program

The Organisation-Delivered Assistance Program was developed and provided funding to 154 selected industry and professional organisations to deliver industry-specific GST education and information services. Between November 1999 and June 2000, 14,019 seminars were delivered Australia-wide, including in remote locations in north western Western Australia, the Northern Territory and Queensland. GST Signpost Officers were employed within 43 non-metropolitan areas to ensure regional and remote communities could access GST information and assistance. The GST Signpost Officers acted as field officers for the GSTSAO and liaised extensively with the Australian Taxation Office field staff.

The GSTSAO encouraged industry and professional organisations and other groups to work cooperatively to provide assistance to SMECEs, and developed comprehensive networks to ensure coverage of SMECEs. These networks will continue to be utilised during the second half of 2000, under the next phase of GST start-up assistance. Under the next phase, organisations will be selected on the basis of regional and sectoral coverage to deliver Business Activity Statement workshops and to disseminate the products developed by the GSTSAO.

Business skills education program

The Business Skills Education Program was developed to ensure SMECEs had timely and accurate information in order to adjust to the GST environment. This was achieved through the delivery of GST educational materials and services with a business skills focus to SMECEs. The following publications were issued: *The GST and Business Skills — An Action Guide*, *GST and Business Skills — Checklists*, *GST and Business Skills — Voluntary Sector Handbook*, *A Guide to Managing Change including The New Tax System, Re-pricing and the GST*, *GST and Your Business Video — Helping AATSI People Prepare for the GST*, *GST and Business Skills — Summary Guides*, and *5 Steps to Get Your Business GST Ready*.

These publications were provided in electronic form through the GST Start-Up website and through direct order via the GST Assist Helpline. Some publications were produced in braille, on CD ROM and in a number of different languages.

The GST Assist Helpline began operations in October 1999, supported by CPA Australia and the Institute of Chartered Accountants. From commencement till 30 June 2000 the Helpline received a total of 470,869 calls. The bulk of the call load occurred during the month of June 2000 with 192,046 calls taken. The greatest number of calls taken in one day occurred on 29 June 2000 with 19,197 calls taken.

Under the Business Skills Education Program the GSTSAO developed and implemented an advertising strategy to alert SMECEs to sources of GST assistance. The strategy included television commercials; print commercials in metropolitan, regional and suburban newspapers and selected business magazines; 'Superlights' (illuminated, back-lit, posters) placed in metropolitan bus shelters; and ethnic and indigenous radio and print advertising.

Adviser education program

The Adviser Education Program was developed to educate a large pool of informal advisers whose role was to advise SMECEs on business skills for the GST. This objective was achieved through the delivery of 395 seminars held at 283 locations throughout Australia with a total of 22,353 people attending.

The seminars were presented in three phases — course one entitled 'Introduction to the GST and Registration Options' (6636 registrations), course two entitled 'GST and Your Systems and Records' (6479 registrations) and course three entitled 'Frequently Asked Questions!' (5206 registrations). Combined sessions were also run during late June 2000 and early July 2000 (4032 registrations). Seminars were free to participants and all participants were provided with workbooks.

These workbooks, along with course materials for presenters, were also available through the GST Start-Up Assistance website. The use of the website ensured a wider audience was able to access the materials and enabled other trainers to access the curriculum material to run their own seminars.

Direct assistance program

The Direct Assistance Program was developed to assist small and medium enterprises and community sector organisations offset the cost of purchasing GST-related products and services.

Small and medium businesses and community organisations were issued with a \$200 certificate when they registered for the GST and the Australian Business Number before 31 May 2000. Certificates could be used to purchase plant and equipment or services, including accounting advice to assist in preparation of the first Business Activity Statement. Where plant or software was ordered by 30 June 2000, immediate deductibility applied, even where the plant or software was not installed until 2000-01.

Suppliers of goods and services were encouraged to register with the GSTSAO and to provide a discounted price for those goods and services when they were purchased by small and medium enterprises and community organisations using the certificate.

During 1999-2000, 1,857,778 certificates were distributed, 199,745 certificates were redeemed, and 10,575 suppliers had registered with the GSTSAO representing 13,490 supplier locations. Certificate redemption has continued into 2000-01.

Ongoing assistance

The Government decided in March 2000 that the New Tax System Advisory Board and the GSTSAO would continue operations until 31 December 2000. Arrangements were then made to rollover and appropriate \$49 million of the \$500 million to 2000-01, recognising the need for continuing assistance to SMECEs in the early stages of The New Tax System. Amongst other things, this assistance will provide funding for workshops to be held during July to November 2000 on Pay As You Go obligations and the Business Activity Statement, and for the continued operation of GST Assist.

The New Business Tax System

The Review of Business Taxation presented its final report, *A Tax System Redesigned* (The Ralph Report) to the Government on 2 August 1999. The Government's response to the Review of Business Taxation was announced in two stages.

The first stage was announced on 21 September 1999 along with the public release of the Ralph Report. It announced lower and internationally competitive company tax rates in comparison to the Asia-Pacific region and a simplified capital gains tax regime. In addition, the measures included fundamental

reforms to the depreciation system with the replacement of accelerated depreciation with effective life depreciation and a number of integrity measures.

The second stage was announced on 11 November 1999. It introduced integrity measures dealing with non-commercial losses, alienation of personal services income and tax shelter prepayments.

Treasury provided educational material, including fact sheets, to the public through the Treasury website and the Treasury Tax Reform Helpline. These explained the impact of the announced business tax reform measures on industry and the wider community. Treasury officers responded directly to the more complex queries received.

Following on from the Review of Business Taxation's consultative process over 60 meetings were held on various business tax issues. A large number of submissions regarding legislative and implementation details were received from private sector representatives.

Treasury provided policy advice on the reform measures and assisted the Australian Taxation Office and the Office of Parliamentary Counsel with the development of legislation.

During the past year the following acts have been passed to give effect to various elements of the Government's *New Business Tax System*.

The *New Business Tax System (Integrity and Other Measures) Act 1999* introduced integrity measures to commence from 22 February 1999, changes to the prepayment rules effective from 21 September 1999 and capital gains tax changes — the capital gains tax discount commencing 21 September 1999 and the freezing of indexation from 30 September 1999.

The *New Business Tax System (Capital Allowances) Act 1999* made fundamental reform to the depreciation system including replacing accelerated depreciation with effective life depreciation. The legislation also removed the balancing charge offset except for small business taxpayers and involuntary disposals and allowed for the immediate write-off of expenditure for Australian taxpayers planning to participate in a new cable system through the use of indefeasible rights of use. These measures came into effect after 11.45 am AEST on 21 September 1999.

The effect of the *New Business Tax System (Income Tax Rates) Act (No. 1) 1999* was to reduce the company tax rate to 34 per cent for the 2000-01 income year and then to 30 per cent for the 2001-02 income year and later years.

The *New Business Tax System (Former Subsidiary Tax Imposition) Act 1999* commenced operation on 10 December 1999 and is associated with integrity measures for lease assignments introduced in the *New Business Tax System (Integrity and Other Measures) Act 1999*.

The *New Business Tax System (Capital Gains Tax) Act 1999* provided small business with further capital gains tax exemptions and introduced scrip for scrip rollover relief and venture capital exemptions. The measures came into effect from 21 September 1999 with the exception of scrip for scrip rollover relief and venture capital exemptions which came into effect on 10 December 1999.

Capital Gains Tax averaging was removed with effect from 21 September 1999 following the passage of the *New Business Tax System (Income Tax Rates) Act (No. 2) 1999*.

The *New Business Tax System (Miscellaneous) Act (No. 1) 2000* included provisions for the refunding of excess imputation credits and removal of the inter-corporate dividend rebate for unfranked dividends and a low value pool which replaced immediate deduction for certain plant items. These measures commenced operation on 1 July 2000.

The *New Business Tax System (Venture Capital Deficit Tax) Act 2000* provided venture capital tax relief for dividends from pooled development funds received by complying superannuation funds.

The *New Business Tax System (Miscellaneous) Act (No. 2) 2000* included provisions for broadening the tax base of life insurers (with effect from 1 July 2000) and integrity measures relating to inter-entity loss multiplication (with effect from 11 November 1999) and further amendments to capital gains tax.

The *New Business Tax System (Integrity Measures) Act 2000* provided for new rules to restrict the ability to deduct non-commercial losses from business activities against other income and also made changes to the prepayment rules relating to tax shelters. The non-commercial loss measure came into effect on 1 July 2000 and the measure relating to prepayments came into effect after 1pm AEST 11 November 1999.

The *New Business Tax System (Alienation of Personal Services Income) Act 2000* addresses situations where individuals divert their personal services income to a company, trust or partnership in order to take advantage of lower tax rates or to split their income with others. The measures came into effect from 1 July 2000, however transitional measures apply for two years to contractors under the

Prescribed Payments System who had pre-existing payee declarations with the Commissioner of Taxation at 13 April 2000.

Retirement income policy

Regulation of self managed superannuation funds

Reflecting the Government's response to the Financial System Inquiry the *Superannuation Industry (Supervision) Act 1993* was amended to establish a new category of self managed superannuation fund and to transfer responsibility for the regulation of self managed superannuation funds from the Australian Prudential Regulation Authority to the Australian Taxation Office. Supporting regulations were also introduced to give effect to these measures.

The amendments replace the previous definition of an excluded superannuation fund with a new definition of a self-managed superannuation fund. In addition to requiring a fund to have fewer than five members, the new definition requires all members of a fund to be trustees of the fund or directors of the body corporate trustee. The amendments ensure that the members of self managed superannuation funds manage their fund themselves.

New investment rules for superannuation funds

The Government announced in the 1998-1999 Budget changes to the investment rules for superannuation funds. These changes were given effect by the Superannuation Legislation Amendment Bill (No. 4) 1999. The amendments tightened the investment restrictions on superannuation funds to ensure superannuation savings are invested with retirement income generation as the primary purpose rather than with the aim of providing current day support to members, the employer-sponsor or their associates.

Supporting regulations were also introduced to facilitate joint ownership of business real property by self managed superannuation funds and their related parties by allowing them to partly or jointly own a company or trust that owns business real property.

Family law reforms

Treasury also contributed to the Government's Family Law Reforms designed to assist couples to divide their superannuation assets in the event of marital breakdown.

Other policy advice

Philanthropy

The existing taxation measures to encourage philanthropy were expanded to include initiatives to further encourage gifts to environmental and heritage organisations. Deductions for certain gifts made to such organisations, which are eligible for gift deductibility status, can now be apportioned over a period of up to 5 years. This change applies to deductions for gifts made on or after 1 July 1999.

East Timor levy

The Prime Minister announced in November 1999 that a temporary Defence-East Timor levy would be introduced to fund the unanticipated cost to the budget of Australia's involvement in East Timor. The temporary levy was to apply for twelve months commencing from 1 July 2000 and was expected to raise \$900 million in 2000-01.

In the 2000–2001 Budget, the Government announced that it would not be proceeding with the Defence-East Timor levy. The Government's decision reflected the lower than expected cost of the defence deployment in East Timor and the improvement in the budget position subsequent to the levy being announced.

Output 2.1.5 Actuarial Services

Provide accurate and timely actuarial and related advice to the Commonwealth Government and its departments and agencies, as requested.

Performance information

Efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

1999-2000 outputs

Australian Government Actuary became part of the Department of the Treasury in April 2000. The office had previously been with the Australian Prudential Regulation Authority.

This transition was achieved smoothly and the office now operates under the direction of an internal management board comprising three senior Treasury officers, including the Australian Government Actuary.

A range of government agencies made use of Australian Government Actuary's considerable expertise in superannuation, insurance and financial modelling over 1999-2000, including the Departments of Defence, Education, Training and Youth Affairs, Family and Community Services, Finance and Administration, the Australian Taxation Office, Australian Prudential Regulation Authority and the Attorney-General's Department.

The office charges for all consultancy services and over the three months to the end of the financial year, earned sufficient fees to cover all on-going costs.

OUTCOME 3

WELL FUNCTIONING MARKETS

Markets Group provides policy advice to the Government in support of the Government outcome of 'well functioning markets'. Accordingly, Markets Group provides 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's advice and other outputs are directed towards maintaining and improving markets so that investors and consumers can have confidence and certainty about the regulatory framework and are able to make decisions that are well informed and free of market distortions and impediments.

In particular, Markets Group has contributed to Government decisions and objectives through:

- the provision of advice on a range of issues including:
 - foreign investment proposals and related policy matters including international investment matters;
 - structural reform matters, including those arising through the operation of the Government's competition policy;
 - legislative initiatives to give effect to corporate law reform;
 - prudential regulation of the financial sector; and
 - consumer information and product safety issues.
- assisting in the Government's efforts to promote Australia as a financial centre;
- consultation with other Commonwealth agencies, State and Territory Governments, and industry and interest groups concerning various proposed measures;
- assisting Ministers to rapidly process foreign investment proposals;

Part 2: Treasury's performance report

- the provision of a range of information to assist consumer participation in markets; and
- participation in international discussions intended to strengthen international cooperation in relation to the regulatory and consumer protection framework.

Chart 8: Outcome 3 structure

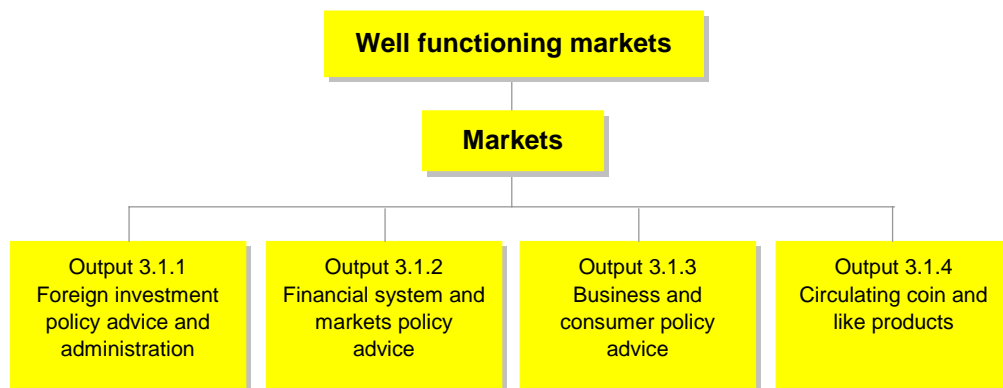


Table 4: Financial and staffing resources summary for Outcome 3

	Budget 1999-2000 \$'000	Actual 1999-2000 \$'000	Budget 2000-2001 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	26,724	17,961	16,000
Appropriation Acts Nos. 2/4	134,412	134,412	139,131
Advance to the Finance Minister	535	535	-
Special Appropriations	5,804	18,345	-
Total administered expenses	167,475	171,253	155,131
Revenue from Government			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1,960	1,960	1,876
Output 3.1.2 - Financial system and markets policy advice	11,057	11,057	10,268
Output 3.1.3 - Business and consumer policy advice	4,527	4,527	4,346
Output 3.1.4 - Circulating coin and like products	1,895	1,895	2,757
Corporate costs	6,251	6,251	8,963
Total revenue from Government contributing to price of departmental outputs	25,690	25,690	28,210
Revenue from other sources			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1	1	-
Output 3.1.2 - Financial system and markets policy advice	12	13	26
Output 3.1.3 - Business and consumer policy advice	1,329	1,328	3
Output 3.1.4 - Circulating coin and like products	43,386	53,342	33,242
Corporate costs	635	825	494
Total revenue from other sources	45,363	55,509	33,765
Total revenue for departmental outputs (Total revenues from Government and other sources)	71,053	81,199	61,975
Price of departmental outputs			
Output group 3.1 - Markets			
Output 3.1.1 - Foreign investment policy advice and administration	1,962	2,002	1,876
Output 3.1.2 - Financial system and markets policy advice	11,069	8,091	10,295
Output 3.1.3 - Business and consumer policy advice	5,856	5,823	4,348
Output 3.1.4 - Circulating coin and like products	42,782	49,589	32,902
Corporate costs	6,886	6,928	9,457
Total price of departmental outputs	68,554	72,433	58,878
Total estimated resourcing for outcome 3 (Total price of outputs and administered expenses)	236,029	243,686	214,009
Average staffing levels (number)	196	203	190

Note 1: Variations in the price of departmental outputs for Budget estimates in 2000-01 are attributed to revised internal allocations.

Note 2: Prior year comparative data is not available due to the change in the output framework.

Output 3.1.1

Foreign investment policy advice and administration

Markets Group provides advice on foreign investment proposals, including executive support for the Foreign Investment Review Board, and makes decisions under staff authorisations consistent with policy. It also advises the Government on foreign investment policy, including Australia's participation in multilateral and bilateral international agreements on investment.

Performance information

Treasury advice meets portfolio ministers' needs in fulfilling their responsibilities.

Proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents. Performance is currently regarded as satisfactory if around 90 per cent of the proposals are processed within 30 days of receipt of a completed application and responses are provided on average within 5 days to general telephone and written inquiries.

The proportion of foreign investment proposals requiring Interim or Final Orders is reduced as a result of Treasury's effective dissemination and explanation of foreign investment policy.

The Foreign Investment Policy Division undertakes compliance checks on around 1,000 previous proposals approved subject to conditions — possibly leading to prosecutions for those proponents who have not met the conditions, but aimed at an overall reduction in non-compliance with policy.

Government policy is appropriately represented and Australia's negotiating position is pursued effectively in international fora.

1999-2000 outputs

Treasury provided advice to portfolio ministers on two reviews of foreign investment policy which culminated in Government announcements early in the financial year. On 4 August 1999, the Prime Minister announced a number of changes to Australia's foreign investment regime that would facilitate

investment between Australia and New Zealand. On 3 September 1999, the Treasurer announced a number of policy and administrative changes which rationalised regulation within the existing legislation, reduced compliance costs for business and streamlined administrative procedures. Details of the measures, which took effect from 10 September 1999, are set out in the Treasurer's Press Release of 3 September 1999 which is available from the Treasury's website.

Introduction of these measures contributed to a reduction in the number of cases submitted for screening from 5,091 in 1998-99 to 4,001 in 1999-2000. The reduction in caseload also allowed a faster turnaround in the processing of submitted applications. In 1999-2000, 71 per cent of cases were decided within 10 days of receipt of a completed application, compared with 65 per cent in 1998-99; and over 96 per cent of cases were decided within 30 days, compared with 90 per cent in 1998-99.

Decisions under ministerial authorisation, including the application of national interest considerations, were overseen by the Foreign Investment Review Board and senior management on a weekly basis for consistency with policy and processes. The Executive Member of the Foreign Investment Review Board met formally with the Board on a monthly basis, and the Foreign Investment Policy Division provided reports to the Board on major proposals on a weekly basis. Following examination of major proposals, the Board's views and recommendations were submitted by the Executive Member to the Treasurer or Assistant Treasurer. Officers making decisions under ministerial authorisation handled the majority of cases requiring examination (approximately 95 per cent).

During the year, the Foreign Investment Policy Division continued to focus on broadening business and retail community awareness of the policy guidelines and of the amendments made to the policy in September 1999. The Foreign Investment Policy Division responded to over 40,000 telephone and written inquiries within an average of 5 days. Particular attention was paid to real estate related policy and compliance issues. Information on the policy changes was included in the Foreign Investment Review Board's annual report published in December 1999 (available on the Treasury website) and again in the *Treasury Economic Roundup*. Reflecting the division's effort to increase awareness of the policy, in 1999-2000 there were 123 interim orders and 75 final orders issued mainly in the real estate sector, representing a 5 per cent reduction in the total orders issued in 1998-1999. Presentations were made to a group of solicitors in the Australian Capital Territory and conveyancers in Victoria.

Monitoring compliance with foreign investment policy continues to be a significant activity, particularly in the real estate sector. Attention has focused on fulfilment of development conditions attached to approval of proposals; identifying schemes designed to avoid the application of the policy; and policy evasion. During the year around 1,000 compliance checks were undertaken leading to a number of proponents moving to meet conditions.

International investment issues

Treasury supported the Australian Government's participation in the OECD review of the OECD Guidelines for Multinational Enterprises (OECD guidelines). The revised OECD guidelines and implementation procedures were adopted on 27 June 2000 by the 32 adhering countries¹, including Australia.

The OECD guidelines, first adopted in 1976, are recommendations on responsible business conduct addressed by governments to multinational enterprises operating in or from the 32 adhering countries. While many businesses have developed their own code of conduct in recent years, the OECD guidelines are the only multilaterally endorsed comprehensive code that governments are committed to promoting. The OECD guidelines apply to worldwide business operations, and are intended to help ensure the benefits of foreign investment are spread through host country communities.

The review was conducted to ensure the continued relevance and effectiveness of the OECD guidelines in the rapidly changing global economy. An integral part of the review included an extensive series of consultations by the OECD and the Australian Government, with the business community, labour representatives, non-governmental organisations and non-member countries. Three presentations were given by the division to non-government organisations on the review of the OECD guidelines. Opportunities for public comment were offered in these face-to-face consultation sessions and via the internet, in an effort to increase the transparency and openness of the review process. Many of the concerns raised in these consultations were addressed in the revised Guidelines and Implementation Procedures. In Australia the voluntary Guidelines are enforced, in most instances, by domestic legislation.

During 1999-2000, the Treasury also participated in the formulation of the prototype APEC electronic Individual Action Plan. The Investment chapter of the prototype electronic Individual Action Plan will illustrate the investment

1 The 32 adhering countries include the 29 OECD member countries as well as Argentina, Brazil and Chile.

environment and policies of APEC member economies. It will be presented in a streamlined tabular format, which will increase transparency and facilitate a clearer view of the economies' progress in achieving the Bogor Goal of free and open trade and investment. Australia will present its 2000 Individual Action Plan in the prototype electronic Individual Action Plan format at the September APEC Senior Officials Meeting.

Treasury also advises the Department of Foreign Affairs and Trade on Australia's negotiation of bilateral investment treaties. These treaties are known as Investment Promotion and Protection Agreements and their aim is to promote the international flow of capital for economic activity and development. A model Investment Promotion and Protection Agreements text has established the basis for negotiation of these agreements. In 1999-2000, no new investment treaties were signed. However, Australia participated in continuing negotiations for bilateral investment treaties with several countries.

Output 3.1.2

Financial system and markets policy advice

Markets Group provides advice on policy issues and the legislative framework for the development and operation of the financial system and markets, in relation to:

- development of Australia as a financial centre;
- prudential supervision of certain financial institutions;
- market integrity regulation, investor protection mechanisms;
- structural reform of key sectors/markets of the economy, including sectors providing infrastructure; and
- ensuring competitive markets.

Treasury also assists in the implementation of the program to develop Australia as a financial centre.

Performance information

The performance indicators for this output are:

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

1999-2000 outputs

Treasury provided advice and program support to the Treasury portfolio ministers, and engaged with other agencies on policy development processes, relating to a range of issues as outlined below.

Structural reform

During 1999-2000 Treasury continued working with departments and agencies, State and Territory governments and industry in progressing structural reform in areas such as the transport, communications, electricity and gas sectors of the economy. This reflected Treasury's particular responsibilities for the implementation of competition policy and its wider responsibility for advising on microeconomic issues more generally. Structural reform in such sectors of the economy is important in improving the operation of markets, productivity growth and hence community living standards.

Markets Group continued to coordinate implementation of the National Competition Policy (NCP) at the Commonwealth level through advice to ministers, departments and agencies. The NCP framework is designed to progress a broad range of microeconomic reforms and also involves three independent organisations, the Australian Competition and Consumer

Commission (ACCC), the Productivity Commission and the National Competition Council, which report separately to Parliament.

Markets Group coordinated the Commonwealth's legislation review arrangements in conjunction with the Office of Regulation Review in the Productivity Commission. These reviews are outlined in the Commonwealth Legislation Review Schedule (June 1996), which lists existing Commonwealth legislation that restricts competition or imposes costs or confers benefits on business. Listed legislation is reviewed to assess whether restrictions are in the public interest and are necessary to meet the Government's objectives.

Treasury officers represented the Commonwealth at meetings of the Committee on Regulatory Reform, which is a Council of Australian Governments body established to consider the treatment of cross-jurisdictional issues arising from the regulatory reform programs of the States, Territories and the Commonwealth. Officials also participated in an inter-governmental working group which reviewed the terms and operations of the three NCP agreements and the need for, and operations of, the National Competition Council. Advice was also provided to ministers on other aspects of the NCP including NCP payments to the States and Territories, sector-specific NCP reforms, structural reform of public monopolies and inter-jurisdictional issues.

Markets Group is responsible for providing advice to Treasury ministers on the *Trade Practices Act 1974*. A key focus during 1999-2000 was the provision of advice on the new Part VB of this Act, which deals with price exploitation in the transition to The New Tax System. Markets Group also advised on amendments to Part VB which gave effect to government decisions dealing with false and misleading conduct in relation to The New Tax System changes. In addition, it advised on amendments to the *Trade Practices Act 1974* to give effect to the Government's response to the Report of the Joint Select Committee on the Retailing Sector.

During 1999-2000, Markets Group provided advice on the application of Part IIIA of the *Trade Practices Act 1974* and the certification of the *NSW Rail Access Regime*, the *Australasia Railway Access Regime* and the *WA Gas Access Regime*. Access to essential facilities is an important element of competition policy reform, and is aimed at ensuring that the existence of infrastructure facilities that are natural monopolies does not provide a barrier to competition in upstream or downstream markets. The two railway regimes establish the right for third parties to negotiate access to use the railway infrastructure, while the pipeline regime establishes a framework for third parties to obtain access to significant natural gas pipelines.

Markets Group provided advice on a legislation review of the *Prices Surveillance Act 1983* by the Productivity Commission, which commenced in February 2000, with a view to assessing whether the costs arising from existing price surveillance requirements are justified by the public benefits.

Markets Group provided advice on several other price surveillance matters. On 10 April 2000 the Minister for Financial Services & Regulation directed the ACCC to monitor prices, costs and profits relating to the supply of leviable milk products by persons involved in the production and supply of dairy products and to report by April 2001. The Minister for Financial Services & Regulation also extended for three years the prices monitoring declaration for harbour towage services at Australia's major ports. On the other hand, as a result of increased competition in the glass containers market, monitoring of ACI Operations Pty Ltd ceased on 19 September 1999.

Markets Group coordinated the Treasury Legislation Amendment (Application of Criminal Code) Bill 2000 which was introduced into Parliament during the 2000 Winter Sittings. The Bill makes consequential amendments to offence provisions in certain Acts administered by the Treasurer and is designed to harmonise Treasury portfolio legislation with the *Criminal Code Act 1995*.

Productivity Commission

The Productivity Commission is the Government's principal advisory body on microeconomic reform with a broad charter to conduct research and hold inquiries into industry, industry development and productivity matters referred to it by the Treasury ministers. Treasury and its Markets Group play a key role by coordinating the Productivity Commission's substantial forward work program and the preparation of terms of reference for its inquiries, as well as advising departments and agencies in relation to the formulation of government responses to Productivity Commission reports. In the period, this involved sending four wide-ranging public inquiry references to the Productivity Commission on *Review of Australia's General Tariff Arrangements*; *Review of Legislation Regulating the Architectural Profession*; *Review of the Prices Surveillance Act 1983*; and *Review of Telecommunications-Specific Competition Regulation*. In addition, Markets Group coordinated government responses with the relevant departments to eight Productivity Commission reports.

Financial markets

Markets Group advised the Government on a number of legislative initiatives to give effect to financial system reform policies. The draft Financial Services Reform Bill and accompanying commentary were released on 11 February 2000 for a three month public consultation period. The reforms contained in the draft bill were proposed in the Corporate Law Economic Reform Program 6 position paper released by the Government in December 1997² and in a consultation paper released in March 1999.

The Financial Services Reform Bill is designed to put in place a flexible, technologically neutral and responsive regulatory framework which will allow the financial services industry to develop in a market that is being reshaped by technological developments, increasing globalisation and changing consumer requirements. These changes will result in an integrated regulatory framework for all financial products, service providers and markets.

During the consultation for the Financial Services Reform Bill, Markets Group held four round table discussions with key industry stakeholders. The round table discussions focused on licensing of financial markets and clearing and settlement facilities; product disclosure; licensing and conduct and disclosure of financial service providers; and the potential taxation implications of the move to the new regime. Treasury officials also held meetings with many individual participants in the financial services sector and considered over 100 submissions on the Financial Services Reform Bill from key stakeholders and interested parties.

Markets Group advised the Government on those aspects of the *Corporate Law Economic Reform Act 1999* (CLERP Act) which related to fundraising and takeovers. Markets Group met the procedural requirements necessary for the Bill's introduction into Parliament on 3 December 1998, its passage on 20 October 1999 and for it to receive Royal Assent on 24 November 1999. Most of the major reforms under the CLERP Act were proclaimed to commence on 13 March 2000, although the accounting standards setting provisions and a number of minor technical provisions were proclaimed to commence 1 January 2000. Markets Group also developed the regulations needed to put in place a number of the detailed arrangements under the CLERP Act.

2 *Financial Markets and Investment Products — promoting competition, financial innovation and investment.* Corporate Law Economic Reform Program Proposals for Reform: Paper No. 6

Under the CLERP Act, the Corporations and Securities Panel became the primary forum for dealing with takeover matters during the takeover bid period. Markets Group oversaw the implementation issues associated with enhancing the role of the Panel as an alternative to the courts. This has involved the appointment of an additional seventeen members to the Panel and the establishment of an Executive to service the Panel.

As a result of the February 1998 Federal Court decision of *Wilkinson v Clerical Administrative and Related Employees Superannuation*, the Superannuation Complaints Tribunal's operations were significantly curtailed. As an interim measure, pending the Commonwealth appeal to the High Court, a new Part 7A was inserted into the *Superannuation (Resolution of Complaints) Act 1993* to enable the Tribunal to arbitrate complaints with the consent of the parties. Following the successful High Court appeal, in *Attorney-General of the Commonwealth v Breckler & Ors* handed down on 17 June 1999, the arbitration powers were no longer required and the Superannuation Complaints Tribunal was able to resume its role as an informal and quick mechanism for the resolution of superannuation complaints. The Department was responsible for ensuring that Part 7A ceased to have effect by proclamation which took effect on 13 September 1999.

Ongoing policy advice relating to financial market integrity was provided to the Minister for Financial Services & Regulation. That advice focused on the objectives of maintaining, facilitating and improving the performance of the financial markets and the entities within those markets in the interests of commercial certainty, reducing business costs, and enhancing the efficiency of the economy. In particular, advice and assessments on the market effects of new financial products and the restructuring of market operators, and the exercise of ministerial discretion relating to netting, contract notes, exempt future and stock market applications and disapproval of exchange listing and business rule amendments was provided within statutory time limits.

Amendments to regulations relating to derivatives under the Corporations Law were prepared on time so as to allow new financial products to be introduced in accordance with market needs. Amendments to the Insurance Contracts Regulations 1985 were prepared that defined 'eligible contract of insurance' for the purposes of section 21A of the *Insurance Contracts Act 1984*. The amendments largely applied to certain personal lines of insurance and were designed to provide more guidance regarding disclosure requirements to would-be insureds.

Markets Group is also currently reviewing the *Bills of Exchange Act 1909* as part of the Commonwealth's National Competition Policy legislation review arrangements.

Markets Group has, during 1999-2000, provided secretariat services to the Business Regulation Advisory Group. The Business Regulation Advisory Group is a non-statutory consultative body whose members are appointed from the business community and the legal and accounting professions to provide advice in relation to initiatives under the Government's Corporate Law Economic Reform Program.

Markets Group provides secretariat services to the Ministerial Council for Corporations which met three times during 1999-2000.

The principal function of Ministerial Council for Corporations is the consideration of legislative proposals relating to the national companies and securities scheme. It also has a consultative function in relation to the appointment of members to certain national scheme bodies.

Financial institutions

Treasury advises the Government on policy for prudential regulation of the financial sector, major operational and administrative matters relating to the financial sector, and on the initiative to promote Australia as a centre for global financial services.

Markets Group provided advice on a range of issues and developments relating to the prudential regulation of the financial sector, and continued the implementation of the financial sector legislative reform program, which included passage of the *Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 2000*, and introduction of the Financial Sector Legislation Amendment Bill (No. 1) 2000.

Markets Group also completed the review of financial sector levies in conjunction with the Australian Prudential Regulation Authority, worked jointly on policy aspects of the Australian Prudential Regulation Authority's work program and advised on various prudential issues relating to superannuation and insurance.

The Treasury ministers were provided with policy advice and instruments were prepared under the *Financial Sector (Shareholdings) Act 1998*, the *Insurance Acquisitions and Takeovers Act 1991*, and the *Financial Sector (Transfers of Business)*

Act 1999. Major developments included the proposed demutualisation of NRMA, the Commonwealth Bank of Australia takeover of Colonial Limited and the National Australia Bank acquisition of MLC.

Markets Group has also provided secretariat support to the Financial Sector Advisory Council. The Financial Sector Advisory Council is an advisory body to the Government on matters relating to the financial services sector with members appointed from business and government bodies in the sector.

Senior officers of Markets Group chaired and served on the Royal Australian Mint Advisory Board during the year. Markets Group also responded to numerous inquiries from the public for information on a wide range of issues relating to currency.

Australia as a global financial centre

In recognition of Australia's potential to gain a greater share of world financial services business, the Commonwealth Government, in its 1999-2000 Budget, provided \$7 million in funding over 2 years for initiatives aimed at promoting Australia as a centre for global financial services.

Central to the strategy was the establishment of Axiss Australia within the Treasury, and located in Sydney. In January 2000, Les Hosking, former Chief Executive Officer (CEO) of the Sydney Futures Exchange, was appointed to the role of CEO of Axiss Australia. The CEO of Axiss Australia leads a team of ten staff and consultants drawn from both the public and private sectors, including agencies such as Treasury, the Reserve Bank of Australia and Austrade.

Axiss Australia's objective is to position Australia as a global financial centre, with particular emphasis to the Asia Pacific timezone. Axiss' strategy is based primarily on the development and implementation of an effective promotion strategy designed to increase awareness of Australia's credentials as a global financial centre as well as provide a one stop shop for organisations considering Australia as their Asia Pacific business location. Axiss also seeks to identify areas where Australia will need to be proactive in engineering Australia's continued future development as a global financial centre.

The strategy relies heavily on building and maintaining contacts with key financial institutions and being seen as a vehicle for high-level strategic dialogue between the government and finance sectors. Axis Australia works closely with the Minister for Financial Services and Regulation and during 1999-2000 both the Minister for Financial Services and Regulation and the CEO of Axiss

Australia visited Europe, North America and Asia to establish and build on existing relationships with major financial service organisations on a bilateral basis. This complemented extensive bilateral contact by the Minister and Axiss Australia with the financial services industry domestically.

As part of its event programme, Axiss hosted a dinner at the World Economic Forum in Davos and also co-sponsored the Asia Capital Markets Conference in Singapore in May 2000 at which the Minister for Financial Services and Regulation was a keynote speaker. Axiss has also organised events such as the Financial Gateway to the Asia Pacific Conference, London in July 2000 and a dinner that same evening which involved the Prime Minister meeting with the heads of leading UK and European financial services corporations.

Other elements of the promotion strategy include the production and dissemination of effective marketing materials. Significant effort has been put into improving the information base so as to better understand, benchmark and ultimately showcase Australia's competitive advantages as a financial centre. This information has been vital in developing Axiss' website, marketing brochures and individual tailored business cases. Emphasis has been placed on direct mail campaigns, focussed advertising and a targeted media programme. With respect to the latter, Axiss has selectively utilised editorial opportunities, mainly in offshore media and also commenced a regular campaign of media releases to both the domestic and international print media. Axiss' CEO has also undertaken numerous media interviews.

Axiss Australia is working closely with other Commonwealth and State agencies to ensure that promotion efforts are coordinated.

In order to further support Axiss' efforts, a separate Treasury office was established in Singapore and the Regulatory Advisory Committee was established to bring Australian regulators together on a regular basis to discuss issues relevant to the initiative. A taskforce of the Financial Sector Advisory Council also met during 1999-2000 to provide business input to the initiative.

There are signs that companies are reviewing their scale of operations in Australia. During 1999-2000 a number of international financial institutions announced decisions to enlarge or extend their operations, or establish a new presence, in Australia. For example, the Royal Bank of Canada transferred its centre for trading in major currencies in the Asia Pacific region from Singapore to Sydney. In addition, Merrill Lynch Mercury Asset Management chose Australia to launch its first transitions management capability outside of London, and Deutsche Asset Management have relocated its regional headquarters from Tokyo to Sydney, with the Sydney office responsible for the

bank's asset management business in Australia, South East Asia and Japan. In more recent months, Deutsche Bank announced that one of two of its world foreign exchange processing hubs will be in Australia, and Melbourne has been selected as the new regional headquarters for Lehman Brothers.

Output 3.1.3

Business and consumer policy advice

This output includes the provision of advice to Treasury ministers on:

- company law and corporate governance issues, corporate insolvency, corporate financial reporting and electronic commerce;
- the oversight of portfolio agencies connected to corporate regulation and related international issues; and
- mechanisms, products and services designed to support and advance consumer and business interests in a well functioning market.

Performance information

The performance indicators for this output are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to business and consumer affairs policy;
- effective presentation of relevant information to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat services provided to advisory bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is assessed by participants as effective; and
- the extent of progress towards improving self-regulatory mechanisms in the marketplace and introducing enhancements of the consumer protection and unconscionable conduct provisions of the Trade Practices Act.

1999-2000 outputs

Corporate Law Economic Reform Program Act 1999

Markets Group assisted and briefed the Government in its consideration and debate on the accounting standard setting, directors' duties and corporate governance proposals implemented in the *Corporate Law Economic Reform Program Act 1999*. Wide consultations took place with interest groups on these measures and other company law matters.

The amendments to the accounting standard setting arrangements commenced on 1 January 2000 and other amendments on 13 March 2000.

Corporations Law Amendment (Employee Entitlements) Act 2000

Markets Group advised on measures introduced by the *Corporations Law Amendment (Employee Entitlements) Act 2000*, which took effect on 30 June 2000, to increase the protection of corporate employees' entitlements in the event of employer insolvency.

Financial Reporting Council and other accounting reforms

Treasury provided advice and secretariat support in relation to the accounting standard setting reforms established under the CLERP Act. These reforms created a Financial Reporting Council to oversee the accounting standard setting process in Australia (including the role international standards should play in that process), reconstituted the Australian Accounting Standards Board and put in place revised procedures that must be followed by the Board when it is making or formulating accounting standards. A key objective of the new standard setting arrangements is to promote broader stakeholder involvement in the standard setting process.

The Financial Reporting Council, whose secretariat services are provided by Treasury, held six meetings during 1999-2000.

Financial sector reform

Markets Group consulted representatives of building societies, credit unions and friendly societies in relation to the second tranche of regulations made pursuant

to the second stage of the Government's financial sector reform program. The regulations streamline the processes and procedures under which those entities operate following their transfer to the Corporations Law.

Corporate Law Economic Reform Program 7 consultation paper

In February 2000, the Corporate Law Economic Reform Program 7 paper *Simplified Lodgments and Compliance (Streamlining paperwork under the Corporations Law)*, was released for public comment. The paper outlines proposals for the abolition of company annual returns, streamlining other document lodgment requirements under the Corporations Law and a range of reforms to corporations fees, including simplification of the fees schedule and increased cost-recovery in some areas. During February and March 2000, Treasury and Australian Securities and Investments Commission officers gave public information sessions about the Corporate Law Economic Reforms Program 7 proposals at most Australian Securities and Investments Commission Business Centres.

Cross-vesting and the Jurisdiction of Courts Legislation Amendment Act

Markets Group liaised closely with the Attorney-General's Department following the decision of the High Court in *Re Wakim* that cross-vesting arrangements which enabled the Federal Court to hear State corporations law matters were unconstitutional. The Division assisted in the design and implementation of the Jurisdiction of Courts Legislation Amendment Act to address the adverse effects of the decision.

Names applications under the Corporations Law

Markets Group processed 68 applications for ministerial consent to use terms in body corporate names that would otherwise not be available for use under the Corporations Law. Of those applications, consent was given by the Minister's delegate to 49 applications and refused 9 applications. A further 8 applications were discontinued and additional information is being sought in relation to the other two applications.

Australian Business Number/Australian Company Number

Under the Corporations Law, companies and Australian registered bodies must include their Corporations Law registration number on all public documents and negotiable instruments. With the introduction of The New Tax System, entities that are registered on the Australian Business Register are also required to display their Australian Business Number on adjustment notes for GST purposes and invoices.

To avoid the need for two numbers to be displayed on some documents, *Corporations Amendment Regulations 2000 (No. 5)*, which were gazetted on 26 May 2000 and applied from that day, modify the operation of the Corporations Law to enable companies and Australian registered bodies to use their Australian Business Number in place of their Corporations Law registration number for Corporations Law purposes.

Electronic commerce

Markets Group supported the work of an Expert Group on Electronic Commerce appointed by the Minister for Financial Services & Regulation in August 1999 to advise on consumer protection issues in the online environment, and to ensure that Australia remains at the forefront of policy development in this field.

A key task of the Expert Group was the development of a model code for consumer protection in electronic commerce, entitled *Building Consumer Sovereignty in Electronic Commerce: A Best Practice Model for Business*. The model code, developed with the benefit of two rounds of written submissions from industry and workshops in capital cities and regional centres, was launched by the Minister for Financial Services & Regulation in May 2000. The Best Practice Model is a key initiative in the *Policy Framework for Consumer Protection in Electronic Commerce*, which was released on National Consumer Day 1999.

Consumer information program

Markets Group promoted effective consumer participation in the electronic and traditional marketplaces through the implementation of the Consumer Information Program, which was in its second year of operation in 1999-2000. The program provides national information initiatives for consumers, and aims to address information asymmetry, particularly those affecting disadvantaged consumers. Key achievements of the program in 1999-2000 included:

- the launch of Consumers Online (www.consumersonline.gov.au), a one-stop-shop for Australian consumer protection information on the Internet. This is a major source of Australian consumer protection information and provides material and links on product recalls and product safety, consumer complaints and inquiries, electronic commerce, legislation and consumer organisations;
- the production and distribution of the *Little Black Book of Scams* to mark National Consumers Day 1999;
- providing consumer information for older Australians in partnership with the Department of Family and Community Services and Centrelink. This included contributing financially to the production of the publications *Australian Retiree — Your Choices, Home and Residence Choices for Older People*, and a new edition of *What To Do When Someone Dies*, which was released in August 2000; and
- undertaking research into the consumer education needs of Australians on low incomes and young consumers with a view to addressing these needs in 2000-01, the final year of the Consumer Information Program.

Industry self-regulation

In line with the Government's commitment to industry self-regulation, Markets Group advised government and industry on promoting effective industry codes of conduct and dispute schemes.

Markets Group provided the Secretariat for an independent taskforce established by the Minister for Financial Services & Regulation in August 1999 to inquire into and report on self-regulation in Australia, including the identification of good practice and the potential for rationalisation of existing schemes. The taskforce has conducted extensive public consultation around Australia, including regional areas. The taskforce issued its draft report on 6 June 2000 and will present its final report to the Minister for Financial Services & Regulation by 31 August 2000.

Markets Group also promoted consumer awareness of industry self-regulation by producing the 2000 edition of the *Directory of Consumer Dispute Resolution Schemes and Complaint Handling Organisations*. Over 5000 copies of this publication, which contains details of more than 100 organisations, were distributed.

Consumer product safety

Treasury provided advice and briefing to the Minister for Financial Services & Regulation on a range of product safety issues, including product safety standards and product bans. Revised mandatory standards were introduced for portable fire extinguishers, bicycle helmets and elastic luggage straps, and a ban was introduced on the supply of candles with a wick or wicks containing lead. Commissioned research concluded that burning such candles in confined spaces can result in elevated blood lead levels and create a health hazard.

The Minister was notified (as required under the *Trade Practices Act*) of 351 voluntary safety related recalls in 1999-2000. The effectiveness and results of these recalls were monitored and evaluated by the Consumer Affairs Division, in consultation with other regulators. Mandatory recall orders relating to fire doors which failed applicable safety standards were challenged by suppliers in a Federal Court Action. The Court held that while the recall orders were reasonably based, the mandatory recall power did not extend to fixtures. A minor amendment was subsequently included in the Trade Practices Amendment Bill 2000 to ensure that the recall power applies to goods which were goods at the time of supply, regardless of whether they subsequently became fixtures.

A number of reviews were completed under the ongoing program for reviewing consumer product regulation. Mandatory consumer product safety standards were updated to incorporate recent amendments to the Australian Standards on which they are based. These included consumer product safety standards for pedal bicycles and helmets for pedal cycles, in addition to children's nightwear and limited daywear in order to reduce fire hazard.

Markets Group continued to promote the development of improved injury data collections. It is expected that in early 2001, the national injury surveillance system and the National Coroners' Information System will be operational.

A study of injuries to children aged 0-14 years, undertaken for Treasury by the Monash University Accident Research Centre, recommended the urgent development of a mandatory standard for bunk beds. A draft regulation impact statement has been prepared for circulation and consultation, with a view to the development of a mandatory bunk bed safety standard.

Development work has continued on enhancing the information provided to the public on safety recalls. This will result in a website that will allow improved public viewing of all current publicly notified Australian safety recalls (for

consumer products, food, chemicals, motor vehicles and therapeutic goods) on the one site, with appropriate links to other related sites.

A discussion paper *Product Safety Policy Review* was released in June 2000 for public comment and consultation. The discussion paper includes options for possible changes to product safety legislation and processes designed to further enhance Australia's product safety system.

International participation

APEC Task Force on Company Accounting and Financial Reporting

The General Manager of Corporate Governance and Accounting Policy Division chairs an APEC Task Force on Company Accounting and Financial Reporting, an Australian initiative aimed at promoting high quality, internationally acceptable standards of accounting, disclosure and auditing practices by business enterprises in the region.

International corporate governance

Markets Group has continued to participate in OECD and APEC work on corporate governance including participation at the OECD Corporate Governance Roundtable held in Hong Kong SAR, and chairing the new OECD Steering Group on Corporate Governance.

International insolvency

In November 1999, Treasury jointly hosted in Sydney, with the OECD, World Bank, APEC and with the support of AusAID, an international conference on insolvency systems in Asia.

In December 1999, a Treasury officer represented Australia at the United Nations Commission on International Trade Law Working Group to promote Australia's proposal that the United Nations Commission on International Trade Law identify and develop principles and guidelines for domestic insolvency systems. The Working Group recommended that the United Nations Commission on International Trade Law accept the Australian proposal and the 33rd annual session of the United Nations Commission on International Trade Law in June 2000 agreed.

Consumer protection

Markets Group influenced the emerging international rules and conventions for electronic commerce through its contribution to the work of the OECD Committee on Consumer Policy on the *Guidelines for Consumer Protection in Electronic Commerce*, which were launched in late 1999.

Markets Group also continued negotiations with the European Commission on the development of an administrative agreement to share information between Australia and the European Commission on consumer policy and protection. It is expected that the agreement will be signed in the second half of 2000.

Business law dialogue with New Zealand

Treasury developed a proposed revised Memorandum of Understanding between the government of New Zealand and the government of Australia on Coordination of Business Law. The proposed memorandum is designed to enhance the trans-Tasman commercial environment through increased coordination of business law. Officials are close to finalising the proposed draft and will shortly be seeking ministerial approval.

Consumer representatives

Markets Group continued to provide administrative support to the Minister for Financial Services & Regulation in the appointment of consumer representatives to industry dispute schemes and maintained a register of possible consumer representatives. Individuals may apply, through the Minister's office, to have their names included on the register.

Reform of consumer protection legislation

Markets Group continued work on the legislative reform agenda to enhance the consumer protection and unconscionable conduct provisions of the Trade Practices Act. These efforts culminated in the introduction of two bills into the Commonwealth Parliament on 29 June 2000, the Trade Practices Amendment Bill (No 1) 2000 and the Treasury Legislation Amendment (Application of Criminal Code) Bill 2000.

The Trade Practices Amendment Bill (No 1) 2000 provided for a number of reforms having their genesis in recommendations made by the Australian Law Reform Commission in its Report No 68, on 'Compliance with the Trade

Practices Act 1974'. The amendments update the enforcement and remedies provision to ensure that the Act continues to deliver appropriate protection to small businesses and consumers. In particular, they clarify and expand the types of sanctions available to the Court, and improve access to available remedies. The Bill also further empowers the ACCC to enforce the Act and makes it more accountable.

In addition, this Bill brought forward significant aspects of the Government's response to the August 1999 Report by the Joint Select Committee on the Retailing Sector: *Fair Market or Market Failure?*, to assist small business and facilitate representative proceedings by the ACCC.

The Treasury Legislation Amendment (Application of Criminal Code) Bill 2000 made changes to a numbers of Acts administered within the Treasury portfolio, but significantly made substantial changes to the consumer protection offences under the *Trade Practices Act 1974*. The changes were designed to avoid having a substantive effect on existing offence provisions, but nonetheless make those provisions more transparent and compliant with the Commonwealth's criminal law policy, as enunciated in the *Criminal Code Act 1995*.

The Consumer Affairs Division was also involved in the making of a regulation under the *Trade Practices Act 1974* to raise the transactional limit governing the application of section 51AC of the Act (unconscionable conduct in business transactions) from \$1 million to \$3 million.

Commonwealth Consumer Affairs Advisory Council

Markets Group provides the secretariat for the Commonwealth Consumer Affairs Advisory Council which was established by the Minister for Financial Services & Regulation in May 1999 to advise him on current and emerging consumer policy issues. The Commonwealth Consumer Affairs Advisory Council is chaired by Colin Neave, the present Australian Banking Industry Ombudsman, with a broad membership representative of Australian consumer interests.

Appointments

Markets Group had responsibility during the year for processing appointments to the Financial Reporting Council, the Australian Accounting Standards Board (Chairman), the Australian Securities and Investments Commission, the

Companies Auditors and Liquidators Disciplinary Board, and the Companies and Securities Advisory Committee and its legal subcommittee.

Output 3.1.4

Circulating coin and like products

The Royal Australian Mint has responsibility for producing circulating and numismatic coin for Australia.

Senior Treasury Officers chaired and served on the Mint Advisory Board during the year. The Department responded to numerous inquiries from the public for information on a wide range of issues relating to currency.

Details of the organisation of the Mint and its operations are published separately in its Annual Report.

CORPORATE SERVICES

Corporate Services Division (CSD) contributes to the achievement of Treasury outcomes through the provision of reliable management information and systems and a quality working environment for staff. As in recent years, CSD has sought continuous improvement of its processes and operations with a view to ensuring the cost-effective delivery of services to the Department and the Government.

CSD's areas of responsibility include Information Technology, Information and Records Management, Information Technology Training and Publications, Ministerial Liaison, Human Resource Management, Accounting and Financial Management Services and Contract, Audit and Facilities Management.

CSD is assisted in the performance of its role by the Corporate Services Committee which is chaired by the General Manager of the Corporate Services Division and comprises senior representatives from the three policy groups in the Department. The General Manager of the Corporate Services Division is also a member of the Department's Executive Board.

During 1999-2000 CSD has focused, with the assistance of senior departmental policy officers, on four key development areas:

- a comprehensive improvement in the financial management and budgeting information available to managers and an increased focus on corporate planning;
- the provision of quality human resources policy and services to assist in the selection, development, management and retention of the staff who can best meet Treasury's business needs;
- the investigation of options for the development of more integrated, efficient and secure electronic information and knowledge management systems; and
- more effective communication flows, both within the Department and between the Department and ministers' offices, other agencies and organisations and the wider public.

Key divisional outcomes and related developments throughout 1999-2000 are summarised below. Additional information on many of these areas is provided in Part 3 of this report.

Information technology

CSD provided a stable, responsive, secure and contemporary information technology platform and technology infrastructure to support the Department's core business. Key achievements over the year included the maintenance of high network availability (in excess of 99.5 per cent); avoidance of any material disruption from externally generated computer viruses or the transition to the year 2000; the expansion of Treasury's internet capability; completion of a detailed Information Technology Disaster Recovery Plan; and the preparation of 'best practice' guidelines for website development projects.

CSD also participated in the Government's information technology outsourcing project, coordinated by the Office of Asset Sales and Information Technology Outsourcing. As a member of Information Technology Outsourcing Cluster Group 11 (which was formed in June 1999), Treasury has participated with other cluster members to prepare a joint Request for Tender covering a range of information technology services. The Request for Tender was released on 12 September 2000.

Information and records management

CSD provided a wide range of information and records management services to the Department with an increasing focus on access to electronic information resources and electronic document delivery to clients. With the assistance of staff from the policy groups, CSD is exploring the options for moving to an integrated electronic records management and storage system and the development of an Intranet to allow the more efficient distribution, within Treasury, of a wide range of policy and management information.

Information technology training and publications

CSD provided extensive information technology training designed to ensure that Treasury staff have the necessary skills to make maximum use of information technology in the workplace. It also assisted in the publication of over 80 documents, including the 2000-01 Budget Papers and the final report of the Review of Business Taxation (Ralph Report).

CSD oversaw the development and regular updating of a range of Internet websites including the Treasury and portfolio ministers sites as well as a

number of taxation, consumer, and other sites. Treasury also hosted and maintained the Commonwealth Budget website. These sites aim to provide more efficient and timely public access to government information. Consistent with this focus, CSD is actively involved in the Government Online strategy, which aims to provide all appropriate government services through the internet by 2001. The Treasury's 'Online Action Plan' is available on the Treasury website.

Ministerial liaison

CSD facilitated liaison between the Department and the offices of the Treasurer, Assistant Treasurer and the Minister for Financial Services & Regulation. In 1999-2000, this involved the handling of over 800 Cabinet related documents, 191 ministerial press releases, over 2300 briefings provided to Treasury ministers, and in excess of 27,000 letters received by Treasury ministers. 1999-2000 saw the introduction of electronic distribution of Cabinet related documents, allowing faster and more secure circulation of this material.

Human resources

Human resource management in Treasury is aimed at ensuring that staff are closely aligned with the department's objectives and values. To this end, CSD has continued to assist in the refinement of the Treasury Management Model introduced in 1998-99. Consistent with this Model, the Division helped to coordinate formal six-monthly performance appraisals of all Treasury staff, in August 1999 and February 2000, and an annual Career Development interview for all staff, following the August 1999 appraisals.

CSD also contributed to the preparation and implementation of the Treasury Certified Agreement 1999-2002, which was certified by the Australian Industrial Relations Commission in September 1999. The Division also provided a full range of personnel, recruitment and travel services; advice and assistance on employee relations, occupational health and safety and workplace diversity; and, training and development opportunities for Treasury staff, with a particular focus on communication, leadership and performance appraisal skills.

Accounting and financial management

Over 1999-2000 the Division has sought to improve the reliability and usefulness of the financial information available to Treasury managers. This has involved the recruitment of skilled staff, significant process re-engineering and further refinements to the department's Financial Management Information System. As well as assisting in the day to day management of departmental resources, these initiatives are aimed at achieving a more efficient and integrated approach to overall corporate planning.

In addition to the ongoing accounting and reporting functions, the principal areas of focus throughout 1999-2000 have included the move to accrual based accounting from 1 July 1999 and preparation for the introduction of the GST from 1 July 2000.

Contract, audit and facilities management

CSD has continued to manage a wide range of contracts on behalf of the Department, including contracts relating to the provision of corporate services to other agencies within the Treasury portfolio. In addition, CSD has been heavily involved in the current refurbishment of the Treasury building with a view to ensuring that the refurbished building provides a modern and efficient work environment with a high level of staff amenity. The first stage of the refurbishment project is scheduled for completion by mid 2000-01.

In conjunction with the departmental Audit Committee, CSD also coordinates an internal audit program based on an assessment of business risks and performance improvement needs within Treasury. Internal audit services are provided by an external provider. In conjunction with the Internal Auditor, CSD also developed a new departmental Fraud Control Plan.

