



Secretary's review

Overview

The Australian economy grew strongly in 2001-02, outpacing its major trading partners, many of which suffered recessions. Employment continued to grow at a moderate pace. Inflation remained within the target band. The resilience displayed by the economy owed much to supportive macroeconomic policy settings, within a framework of credible medium-term fiscal and monetary strategies, and to structural flexibility contributed by a sustained period of microeconomic reform.

We reviewed our organisational structure during the year, to improve our strategic capacity and to accommodate the transfer from the Australian Taxation Office of the tax legislative design function. The changes that have been implemented were designed to improve our responsiveness to government, improve the effectiveness of the leadership provided by the Executive Board, and enhance the capabilities of senior staff.

2001-02 Treasury highlights

Stronger growth in the Australian economy in 2001-02, of 3.8 per cent, reflected growth in residential construction and household consumption expenditure offset the decline in net exports associated with the weaker global economic environment and adjustment in the airline industry in Australia. Many trading partners experienced slower economic growth and the events of September 11 exacerbated the weakness in the US and the world economy: the world economy grew by 2.2 per cent in

2001, the slowest rate of growth in almost a decade. Inflation in Australia remained within the 2-3 per cent medium-term band. Growth in labour costs remained subdued and was accompanied by higher productivity. The terms of trade also improved. Employment growth moderated in 2001-02 although the unemployment rate declined through the year.

We provided the Government with assessments of the outlook and risks for the economy throughout the year and our analysis of macroeconomic developments underpinned the formulation of macroeconomic policy advice.

The resilience of the Australian economy reflected the support from fiscal and monetary policy that could be provided because of earlier implementation of credible medium-term fiscal and monetary strategies. Budgetary outcomes in 2001-02 were consistent with the objective of maintaining budget balance, on average, over the course of the economic cycle. This strategy allows for fiscal policy to respond to short-term economic fluctuations, such as those that occurred in 2001-02, to maintain economic growth in Australia. Monetary policy objectives also continued to be achieved, with low and stable inflation. Monetary policy responded, within the medium-term framework, to events during the year. After initially moving to a more expansionary stance as the international environment weakened after September 11, monetary policy was tightened a little in early 2002.

The weaker global economic environment provided impetus to international efforts to enhance crisis prevention and resolution. Progressing development of contractual and statutory approaches to sovereign debt restructuring was a key area of focus, and we participated actively in these discussions through its ongoing engagement with the international financial institutions and forums such as the G-20. In May 2002, we co-hosted with the Reserve Bank of Australia a workshop for G-20 members that explored the relationship between globalisation, living standards and inequality, including an assessment of recent progress and ongoing challenges. In addition, we made contributions to the economic policy dialogue in APEC and other regional forums.

The resilience of the Australian economy in 2001-02 was assisted by the gains from past microeconomic reform. We continued to provide advice on policy frameworks to ensure sustainable government finances and well-functioning markets, as well as on a range of specific issues and events throughout the year.

In the fiscal area, we produced the first Intergenerational Report, as required by the *Charter of Budget Honesty Act 1998*, as part of the 2002-03 Budget. The report provides a long-term perspective on the projected impact of demographic change on government finances over the next forty years. It establishes a baseline against which future policy choices can be assessed.

We implemented reforms to make retirement incomes more secure, attractive and accessible, and considered a diverse range of business taxation issues.

We also completed two major legislative projects in the areas of financial sector reform and corporations law during 2001-02.

The *Financial Services Reform Act 2001* commenced on 11 March 2002. It harmonises an improved regulatory regime for consumer protection and market integrity in the financial services industry. The passage of the new *Corporations Act 2001*, to support Australia's corporate regulatory framework, represented another major legislative task and involved negotiations with States to avert significant legal risks to Australia's business community.

We developed appropriate financial and performance reporting frameworks for the HIH Assistance Scheme, reviewed the cost and availability of medical indemnity insurance to develop reforms in this market, and enhanced prudential frameworks as a result of the passage of the *General Insurance Reform Act 2001*.

Our contribution to the public service was highlighted in 2001-02 through the participation of senior staff in service programs to develop leadership skills and increase the awareness of the broad framework for public policy.

Gary Potts, Executive Director, Markets Group, retired in February 2002. Gary made an extraordinary contribution to the Treasury and to public policy more generally, in a distinguished career. Gary joined the Treasury in February 1970. He worked in the Department of Finance from 1976 to 1984, and at Treasury, worked at SES level in the international area (including a three-year posting to Tokyo), taxation policy, and macroeconomic policy and forecasting. Gary was promoted to Deputy Secretary in 1993 and became Executive Director of Markets Group upon its creation in 1998.

Dr Jim Hagan was awarded the Public Service Medal in recognition of extraordinary leadership skills displayed as General Manager of the GST Start-up Assistance Office. The award also acknowledges Jim's significant contribution to public policy since joining the APS in 1983.



2001-02 portfolio highlights

Agencies within the Treasury portfolio completed a number of major projects during 2001-02 as well as taking on additional functions for the portfolio. Some of the highlights included the completion of the 2001 Census of Population and Housing by the Australian Bureau of Statistics; the establishment by the Australian Securities and Investments Commission of higher standards of compliance and capacity for financial services businesses; and the Productivity Commission's standing research responsibilities expanded to include support for the annual reporting of indicators of indigenous disadvantage.

2002-03 outlook

The outlook for the Australian economy remains positive and the medium-term prospects for growth continue to be healthy. A continuing challenge is to formulate appropriate policy settings in the face of global uncertainty and volatility. To address this challenge, we will continue to enhance our forecasting and modelling procedures, monitor closely national and international economic developments and assess the suitability of monetary and fiscal policy settings.

We will seek to improve advice on taxation matters by integrating the formulation of revenue policy and legislation, incorporating new consultation approaches, and reviewing approaches to legislation to seek greater clarity, certainty, consistency and compliance efficiency. Treasury will also be involved in the review of international taxation and the establishment of the office of Inspector-General of Taxation.

We will assist the Government in preparing the 2002-03 Mid-Year Economic and Fiscal Outlook and the 2003-04 Budget. It will be important to take further the issues raised by the Intergenerational Report, including those around population, participation and

productivity. We will also assist the Government in its review of debt management policy.

We will continue to progress matters related to the prudential supervision of financial institutions, particularly in the areas of general insurance and superannuation. This will include consideration of policy issues arising from the HIH Royal Commission. Somewhat related are a range of market access and pricing issues, including a review of the cost and availability of public liability insurance, medical indemnity insurance and insurance for terrorism.

We will coordinate the Government's response to the independent review of the competition provisions of the *Trade Practices Act 1974* and the review of the law of negligence. Ongoing work on the Corporate Law Economic Reform Program will continue to streamline document lodgment requirements, consider cross-border insolvency laws and review audit regulation and the wider corporate disclosure framework.

From 1 July 2002, we have been operating with four policy groups — Fiscal, Macroeconomic, Markets, Revenue. This new structure provides a better alignment of our capabilities with the Government's strategic policy objectives.

Finally, I wish to express my sincere thanks to all Treasury staff for their hard work and dedication to public service throughout the year.

Ken Henry
Secretary to the Treasury

Departmental overview

Treasury's mission

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

Policy outcomes

In carrying out its mission, Treasury has regard to the following policy outcomes:

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

Outcome 1: Sound macroeconomic environment

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

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

Treasury aims to contribute to a sound macroeconomic environment through the delivery of the following outputs:

- ongoing development of a deep understanding of the operations of the Australian economy and how government action might influence it;
- monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy; and
- providing strategic influence on Australia's, and assisting portfolio ministers in their, international interactions.

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

Outcome 2: Effective government spending and taxation arrangements

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

Spending measures should be effective in meeting their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs, thus contributing to the wellbeing of Australians. Taxation measures should meet revenue objectives (or other public policy objectives) and have regard to the principles of economic efficiency, horizontal and vertical equity, certainty and transparency, whilst minimising compliance and administrative costs. By meeting these objectives, taxation measures contribute to wellbeing, either directly



or by providing the revenue base to finance government services.

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

- monitoring and advising on the effective operation of the tax system;
- putting together the Budget as the key strategic government planning and resource allocation tool of the Government;
- providing high quality input into government consideration of expenditure programs; and
- advising on the effective financial operations of government collectively in Australia (including in relation to Commonwealth debt management).

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

Outcome 3: Well-functioning markets

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

Well-functioning markets operate when investors and consumers have confidence and certainty about the regulatory framework and can make decisions that are well informed and free of market distortions and impediments.

Treasury 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. This includes advice on the efficacy of alternative forms of regulation and enforcement over time. The effective implementation and communication of the Government's position also is critical to achieving this outcome.

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

Treasury services

The policy priorities for the Treasury are shaped by the Government's policy objectives associated with each policy outcome. This requires Treasury to:

- service its ministers' needs for advice and assist with current issues;
- understand the broader framework within which policy issues will arise, and advise ministers of developments and implications in a timely manner; and
- be strategic in identifying and leading the management of policy issues, including influencing the broader debate on issues.

Treasury's prime output in doing so is the provision of policy advice to its ministers. The key services that underpin Treasury's outputs include:

- advice on policy development;
- quantitative analysis;
- policy implementation and legislation development;
- public information and understanding; and

- administration of legislation and programs.

Treasury usually works with other agencies and departments so the particular role of Treasury, and indeed each group, in relation to each service, can vary across different fields of policy work.

The delivery of Treasury's services is undertaken in accordance with Treasury's people values, embodied in Treasury's Performance Management System and the APS values framework more generally.

Organisational focus

Treasury seeks to carry out its mission by:

- maintaining effective liaison with portfolio ministers and their offices and with other government departments;
- maintaining extensive contact with other levels of government, research institutes and interest groups;
- giving priority in operational arrangements to identifying important emerging issues, undertaking longer-term research and ensuring regular internal discussion of key policy issues;
- creating an environment for better informed public debate by explaining the Government's policy settings and views on economic conditions;
- fostering a consultative management culture within the department;
- efficiently organising departmental resources to provide high quality, relevant and timely advice;

- promoting continuous improvement, including staff management, development and skills enhancement; and
- undertaking internal and external review and evaluation of strategies, processes and outcomes.

Key skills

Treasury needs a range of skills to deliver effectively the services required by the Treasury ministers. These include:

- a deep understanding of the operation of the economy and of the workings and priorities of government, and associated interrelationships;
- a capacity to conceptualise and analyse individual issues within this broad context;
- an ability to analyse issues from a broad public interest perspective, taking account of a wide range of information available;
- knowledge of the likely effects of policy choices (drawing on an authoritative understanding of economic, budgetary, social, cultural, political and compliance implications of change); and
- the ability to assist ministers in making sustainable judgements, including through clear and well thought out communication.

Key relationships

For the Treasury to be effective as a central portfolio department, it must foster productive working relationships across government and non-government sectors. These relationships need to be cultivated and maintained.

Treasury's most important relationship is with the Treasury ministers, built through effective service delivery. Effective service delivery, however, relies on other key relationships.



Strong, working relationships with the ministers' offices and other departments, as well as other parts of the Treasury portfolio, including Australian Taxation Office, Australian Bureau of Statistics and regulatory authorities, are imperative to effectively developing and communicating policy advice. Relationships with the States and community groups, including the business sector, also are important to develop trust and credibility in the community and gain the breadth of knowledge and differing perspectives required to undertake policy analysis.

Looking beyond the domestic setting, Treasury also needs to continually build links internationally including through the foreign posts and involvement in international forums.

Treasury people values

Treasury people management principles

- There will be open, two-way communication at all levels.
- Accountabilities will be clearly defined.
- Remuneration will be based on work performance and determined by fair and transparent processes.
- Staff will be assisted in achieving appropriate work and private life balance.

Treasury people

- Strive for excellence.
- Value teamwork, consultation and sharing ideas.
- Value diversity among our people.
- Treat everyone with respect.
- Exhibit honesty in all our dealings.
- Treat colleagues with fairness.

Table 1: Treasury financial and staffing resources summary

	Budget 2001-2002 \$'000	Actual 2001-2002 \$'000	Budget 2002-2003 \$'000
Administered expenses			
Appropriation Acts Nos. 1/3	12,000	9,064	164,084
Appropriation Acts Nos. 2/4	447,098	446,819	44,702
Advance to the Finance Minister	52,460	52,460	-
Special appropriations	30,687,062	31,495,797	31,886,715
Other expenses	-	514,749	-
Total administered expenses	31,198,620	32,518,889	32,095,501
Revenue from Government			
Output group 1.1 - Economic	20,239	20,314	18,928
Output group 2.1 - Budget	34,909	32,884	49,791
Output group 3.1 - Markets	32,261	34,489	30,065
Total revenue from Government contributing to price of departmental outputs	87,409	87,687	98,784
Revenue from other sources			
Output group 1.1 - Economic	504	606	431
Output group 2.1 - Budget	1,749	1,994	2,030
Output group 3.1 - Markets	31,557	66,998	44,463
Total revenue from other sources	33,810	69,598	46,924
Total revenue for departmental outputs (Total revenues from Government and other sources)	121,219	157,285	145,708
Price of departmental outputs			
Output group 1.1 - Economic	20,743	19,460	19,359
Output group 2.1 - Budget	36,658	29,730	51,821
Output group 3.1 - Markets	63,818	96,624	74,528
Total price of departmental outputs	121,219	145,814	145,708
Total estimated resourcing (Total price of outputs and administered expenses)	31,319,839	32,664,703	32,241,209
Average staffing levels (number)	684	661	795

Note:

 The Budget for 2001-02 is as per the *2001-02 Portfolio Additional Estimates Statements*.

The Actual for 2001-02 is as per the Audited 2001-02 Financial Statements.

 The Budget for 2002-03 is as per the *2002-03 Portfolio Budget Statements* (unless otherwise stated).

Figure 1: Treasury portfolio outcome structure (as at 30 June 2002)

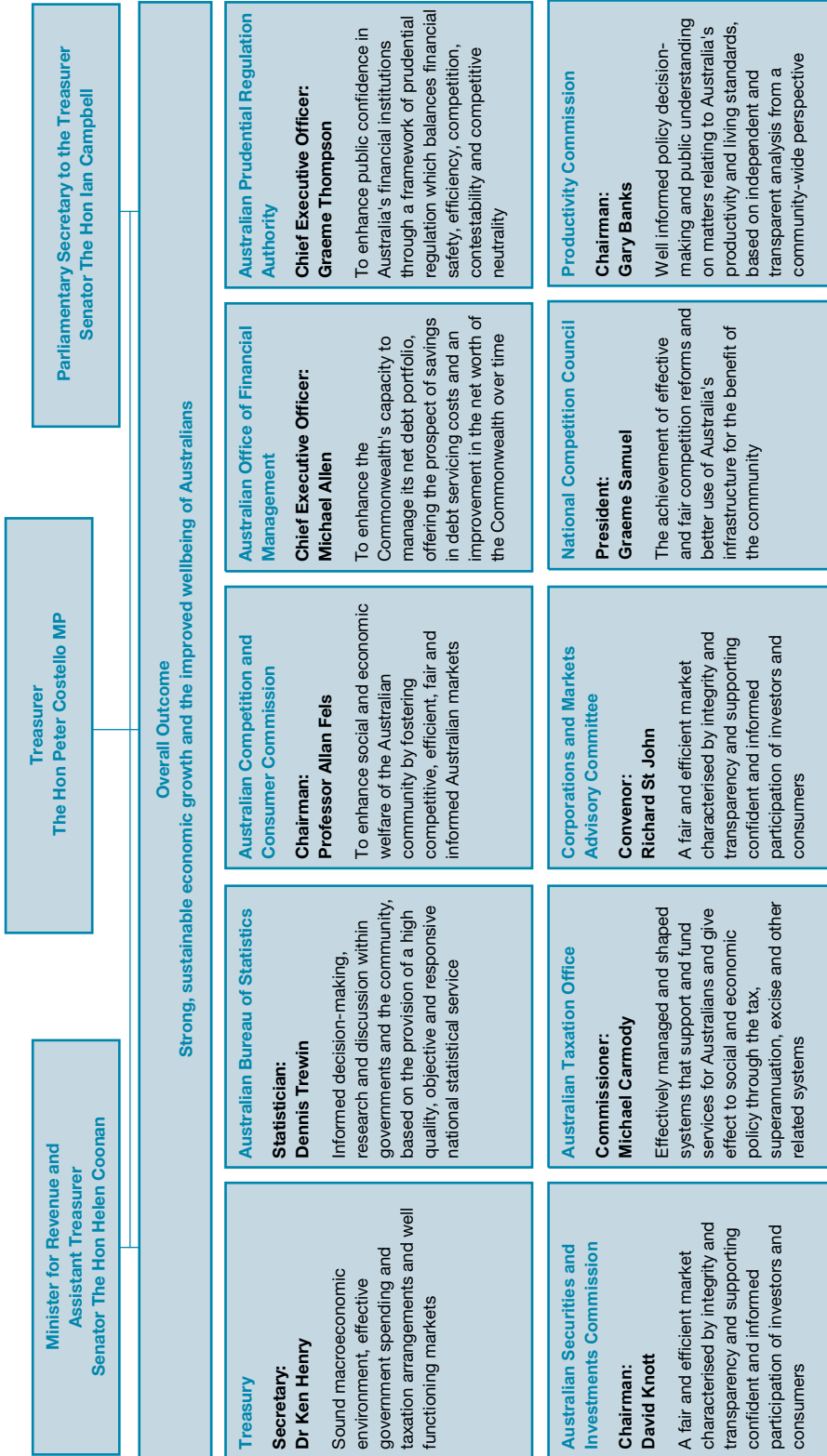


Figure 2: Portfolio output structure (as at 30 June 2002)



Figure 3: Treasury output structure (as at 30 June 2002)

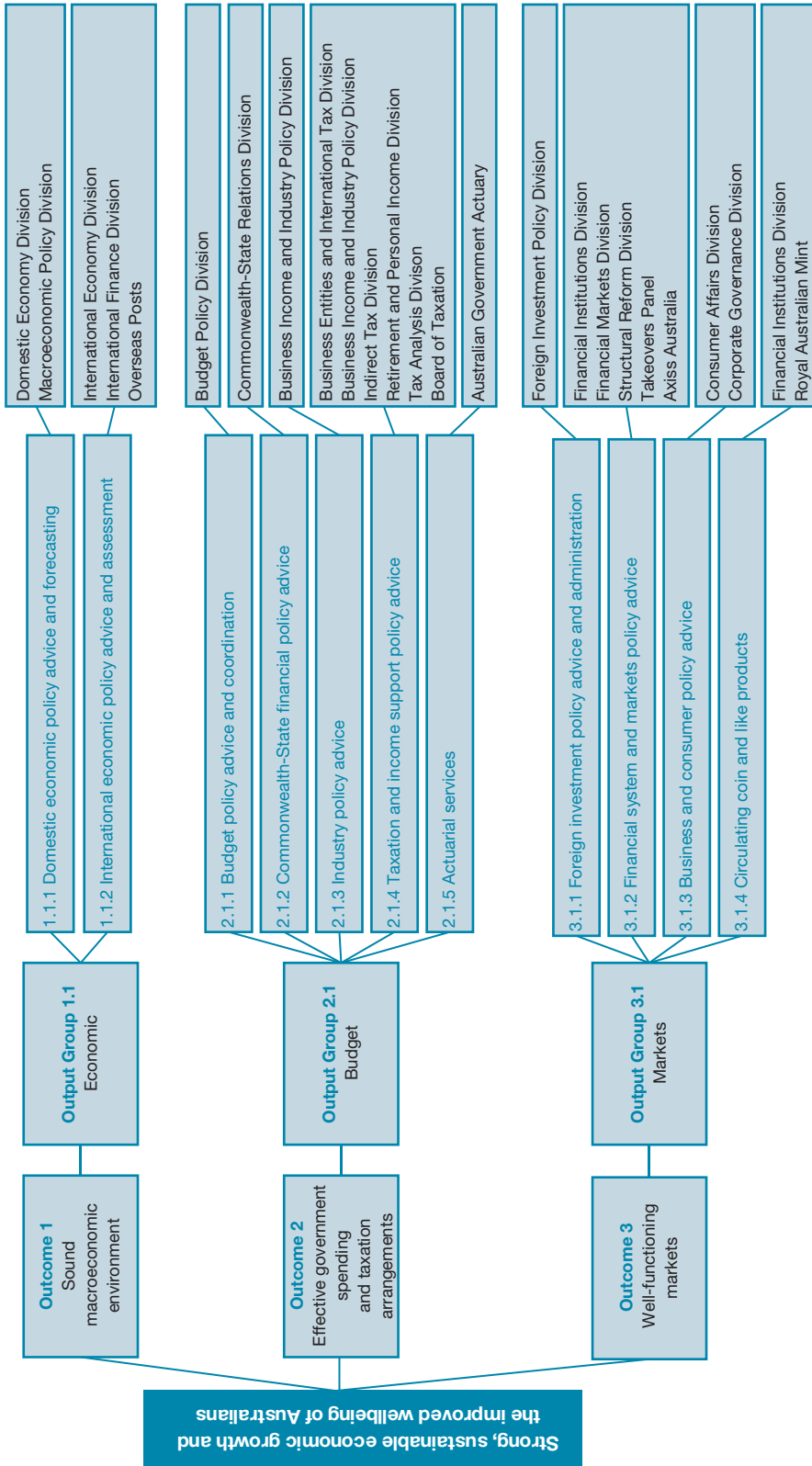


Figure 4: Treasury top management structure (as at 30 June 2002)

Secretary: Ken Henry Chief Advisor: Richard Murray	
Economic Group: Executive Director Martin Parkinson	
Chief Advisor, International: Veronique Ingram Specialist Advisor, International: Terry O'Brien Specialist Advisor, Group Strategy and Coordination: Peta Furnell Domestic Economy General Manager: Paul O'Mara Specialist Advisor Forecasting: Paul Lindwall (A/g) International Economy General Manager: Chris Legg International Finance General Manager: Maryanne Mrakovcic Macroeconomic Policy General Manager: Blair Comley	Washington Minister-Counsellor (Economic) Janine Murphy London Counsellor (Economic) Olaf Schuermann Paris Minister-Counsellor (Economic) Paul Tilley Tokyo Minister-Counsellor (Economic) Brenda Berkeley Beijing Minister-Counsellor (Financial) Michael Willcock Jakarta Counsellor (South East Asia Financial) Mike Waslin
Budget Group: Executive Director Greg Smith	
Chief Advisor, Taxation: Paul McCullough Budget Policy General Manager: Paul Grimes Commonwealth-State Relations General Manager: Jan Harris Business Entities and International Tax General Manager: David Martine Business Income and Industry Policy General Manager: David Tune Indirect Tax and payment Design General Manager: Tim Pyne (A/g)	Retirement and Personal Income General Manager: Roger Brake Tax Analysis Division General Manager: John Lonsdale Manager Specialist, Retirement and Income Modelling: Phil Gallagher Board of Taxation Secretariat Secretary: Murray Edwards Australian Government Actuary Australian Government Actuary: Peter Martin Actuary: Michael Burt, Susan Antcliff
Markets Group: Executive Director John Jepsen (Acting)	
Consumer Affairs General Manager: John Hill (A/g) Corporate Governance General Manager: Rob Heferen Financial Institutions General Manager: Lynne Curran Financial Markets General Manager: Nigel Ray Foreign Investment Policy General Manager: Jim Hagan	Structural Reform General Manager: Stewart Jones (A/g) Chief Advisor: Tony Hinton Axiss Australia Chief Executive Officer: Les Hosking HIH Royal Commission Task Force General Manager: Steve French Takeovers Panel Director: Nigel Morris
Corporate Services: General Manager Ian Robinson	
Accounting and Financial Management Chief Financial Officer: John Coleman Contracts, Audit and Facilities Management Manager: Graham Smith Human Resources Manager: Pamela Henderson Information Management Manager: Geoff De La Motte	IT Training and Publications Manager: Anne Fornasiero Liaison Manager: Peter Coan Specialist Adviser, Legal Andrew Buckland Market Testing Team Manager: Bede Fraser