

OVERVIEW

1997-98 was a year of considerable achievement on the domestic economic policy front. In particular, the continued restraint of inflationary pressures and the attainment of a budget surplus have helped to put Australia in a strong position to weather the adverse economic effects of the international economic and financial instability in our region over the past year. A major priority has been the development of tax reform options, and considerable progress has been made in the implementation of major reform initiatives launched in 1996-97 — the Financial System Inquiry and the Corporate Law Economic Reform Program — although some of the outcomes, such as changes in the institutional structure of financial and corporate regulation, did not take place until after the end of 1997-98. These reforms will provide substantial efficiency gains across the economy.

Macroeconomic Policy

Macroeconomic policy in 1997-98 was conducted against the backdrop of the severe financial and economic difficulties experienced by a number of Australia's trading partners in East Asia. These developments dramatically demonstrated the advantages of steps taken in recent years to put in place policies directed to ensuring sound economic fundamentals in Australia. Improvements in those fundamentals during 1997-98 limited the extent of the flow-on to domestic economic performance and living standards from the events in East Asia — in fact Australia's growth in 1997-98 compares well with that in other industrial countries less directly vulnerable to Asia.

Macroeconomic policy contributed to this improvement in economic fundamentals by ensuring that policy operated in a sound and transparent framework. Monetary policy contributed to the maintenance of low inflation and inflation expectations in 1997-98. Fiscal consolidation has helped to reduce pressure on interest rates and encourage investment. The fiscal consolidation program delivered a significant structural improvement in public saving within a legislative framework which places ongoing discipline on fiscal policy. In 1997-98 the Commonwealth Budget was returned to surplus for the first time since 1990-91. The

1998-99 Budget, which was brought down on 12 May 1998, is projected to deliver an increased surplus, consistent with the fiscal objective of achieving and maintaining an underlying balance on average over the course of the economic cycle. Improvements in public sector saving associated with the underlying surplus should help to moderate pressures on the current account deficit over time.

The *Charter of Budget Honesty Act 1998*, which passed through Parliament in 1997-98, is designed to produce better fiscal outcomes through introducing institutional arrangements to increase public scrutiny of fiscal objectives and performance. The 1997-98 and 1998-99 Budget Papers have provided more information on the Government's fiscal agenda and position than has appeared previously, and further information has been provided in comprehensive assessments of the Mid-Year Economic and Fiscal Outlook. Importantly, the Act requires the publication of a Pre-election Economic and Fiscal Outlook report within 10 days of the issue of writs for a general election. The first such report was issued on 8 September 1998.

International Issues

Treasury was very actively involved in the development of Australia's policy response to the Asian financial crisis and in the development of a concerted international approach to manage the crisis, restore financial stability in the Asian region and reduce the incidence and severity of future crises. In particular, Australia has played an important role in the establishment of an international policy framework to allow the provision of bilateral financing in support of International Monetary Fund (IMF) programs and is committed to participation in financing packages to Thailand, Indonesia and Korea in conjunction with programs supported by the IMF. Australia has also taken part in high level discussions on the stability of the international financial system and the functioning of global capital markets, and has continued to advance the Asia-Pacific Economic Cooperation agenda in such important economic areas as strengthening the financial systems in the region, liberalising investment and seeking more robust and transparent corporate governance arrangements.

Microeconomic Reform

The reform process has been promoted by the National Competition Council (NCC), which has released its first report. Progress in implementing the National Competition Policy has been made by all States and Territories, and all have received their first annual instalment of the first tranche National Competition Policy payments, beginning in July 1997. Significant progress has been made towards the systematic review of Commonwealth legislation that restricts competition and/or has an impact on business, and reports were released on the Commonwealth's progress in undertaking Legislation Review and the implementation of Competitive Neutrality Policy in 1996-97.

After passage of legislation to formally establish the Productivity Commission, the Government announced the Chair and Commissioner appointments to the Commission together with its work program for 1998.

Financial System

A package of legislation to give effect to the new regulatory structure and associated changes, proposed by the Government in its response to the *Financial System Inquiry Final Report*, came into effect on 1 July 1998. Against the background of technological innovation and globalisation, these changes are designed to provide a regulatory environment that will encourage greater competition, contestability and efficiency in the financial system, while ensuring its essential stability. The Australian Prudential Regulation Authority and the Australian Securities and Investments Commission commenced operation on 1 July 1998.

Progress was made in the negotiations with the States and Territories to give effect to the second part of the implementation process, namely the transfer, to Commonwealth jurisdiction, of responsibility for financial institutions currently subject to regulation under the Financial Institutions Code. In-principle approval has been given by the States and Territories to this transfer subject to conditions.

New arrangements for high-level consultations between the Treasurer and the financial sector have been put in place with the inaugural meetings of the Financial Sector Advisory Council (FSAC) and its Task

Force on a Regional Financial Centre. The Treasury is the Secretariat to the Council and the Task Force.

Business Law

A number of important advances in corporate law reform were made during the year. Policy reforms developed in consultation with the business community, in the areas of fundraising, takeovers, accounting standards and directors' duties and corporate governance, culminated in the introduction of the Corporate Law Economic Reform Bill 1998 into the Parliament on 2 July 1998. The reforms in the Bill will:

- improve the ability of small and medium-sized enterprises to raise funds, reduce transaction costs and remove some existing impediments to fundraising;
- improve takeover regulation to increase the efficiency of the market for corporate control;
- provide a greater commercial and international focus to the Australian accounting standard-setting process and ensure that accounting standards reflect the needs of both business and investors; and
- clarify the duties, responsibilities and liabilities of company directors and expand rights of shareholders in some areas.

Other important legislation passed during the year included the *Corporations Law Amendment (ASX) Act 1997*, which clarifies the responsibilities of the demutualised Australian Stock Exchange (ASX) as a self-regulatory organisation, ensures appropriate accountability of the ASX in meeting those responsibilities and encourages diverse ownership of the ASX. The *Managed Investments Act 1998*, which came into force on 1 July 1998, reforms the structure of prescribed interest schemes so as to provide more effective investor protection while increasing the incentives for operators to improve performance of the schemes in the interests of investors. The *Company Law Review Act 1998* also came into operation on 1 July 1998, and will bring significant efficiencies in corporate regulation through updating rules about forming companies, company meetings, share capital, and other rules in the Corporations Law.

Taxation

Development of proposals to reform the taxation system has been a major priority. Following the Prime Minister's announcement in August 1997 of the Government's intention to reform and modernise the Australian tax system, a Tax Reform Group (TRG) was established to provide the Government with policy advice, including options for tax reform. The Government announced a major tax reform package in August 1998. Reflecting the increasing emphasis on tax reform, the Division has since been restructured to integrate the TRG and the Division into a single structure — Taxation Policy Group.

There have been important developments in taxation matters affecting the States and Territories. The Government introduced legislation to facilitate the replacement of the State tax revenue lost (some \$5 billion) as a result of the High Court's finding in 1997 that a number of State and Territory tax bases are constitutionally invalid. Also, Commonwealth, State and Territory officials completed a review of the merits of reciprocal taxation between jurisdictions. The review is yet to be considered by governments.

The Prime Minister's statement, *Investing for Growth*, contained a number of taxation measures, including a widening of the interest withholding tax exemptions, the extension of the range of eligible Offshore Banking Unit activities and the relaxation of the Foreign Investment Fund (FIF) rules to exempt certain FIF investments located in the United States. These measures are designed to promote Australia as a regional financial centre and to increase competition within the financial sector in Australia.

Taxation measures in the 1998-99 Budget included the introduction of a generic framework for determining the taxation consequences of transactions associated with the demutualisation of non-insurance organisations; the extension of the class of Year 2000 (Y2K) compliance expenditures which are immediately deductible; a new tax rebate for expenditure on landcare works; and the extension of the beneficiary rebate to participants in the Community Development Employment Projects (CDEP) scheme.

Savings and Superannuation

Substantial progress has been made in the implementation of measures relating to superannuation and savings set out in the 1997-98 Budget papers.

Changes to superannuation preservation arrangements include: from 1 July 1999, all future superannuation contributions and earnings will be preserved until preservation age, other than in limited circumstances; the preservation age will be increased gradually to 60 between 2015 and 2025; and requirements for the early release of superannuation benefits are streamlined and tightened to ensure that superannuation is directed towards providing for retirement. These changes are directed towards reducing leakage from the superannuation system prior to retirement, thus increasing retirement incomes and national savings, while reducing the complexity and administrative costs associated with the previous preservation arrangements.

Further changes to superannuation regulation announced in the 1998-99 Budget included modifications to the regime applying to self-managed superannuation funds, while in May 1998 the Government released for public consultation a position paper on the treatment of superannuation interests on marriage breakdown, proposing that parties then be able to divide superannuation interests.

Significant Corporate Developments

During 1997-98, in response to Service-wide reforms conferring greater autonomy in departmental management, Treasury commenced two wide-ranging reviews of its activities — a review of core policy advising areas and a review of corporate services. Consultants were engaged to facilitate the conduct of the reviews, with considerable emphasis put on the involvement of staff in the review processes.

The aim of the review of core business was to examine Treasury's overall organisational effectiveness; to more clearly focus Treasury's role and goals; to assess how to better meet the needs of its clients, in particular, Treasury Ministers; to facilitate more effective use of resources; and to further improve the focus on good management and communication within the organisation.

The corporate services review aimed to assist the Department to determine the outcomes required from corporate services areas and to examine the current operations, with a view to identifying opportunities for improving efficiency and service delivery.

The Reviews were completed following the end of the 1997-98 financial year. Steps are being taken in response to the recommendations of the Reviews: to develop new structures for the organisation; to develop more effective ways of operation; to improve systems for managing people in the Department; to develop enhanced internal planning and resource allocation systems; and to achieve more cost-effective and enhanced corporate services for the Department.

In the course of 1997-98, Treasury also negotiated with staff a Certified Agreement and commenced the process of negotiating Australian Workplace Agreements (AWAs). The aim is to provide for greater flexibility in working arrangements for both managers and staff. The agreements will result in productivity improvements and administrative cost savings, as well as improved remuneration for staff.

The Certified Agreement, which has a twelve month duration, received strong support when voted on by staff and was certified by the Australian Industrial Relations Commission in April 1998. Features of the new arrangements include increases in remuneration for staff below Senior Executive Service level, more flexible working hours, streamlined leave provisions, simplified arrangements for payment of allowances and the cashing out of some entitlements, and lower penalty rates for overtime.

Senior Executive Service staff are eligible for performance-related bonuses or increases in salary under the terms of AWAs. The negotiation of AWAs was completed after the end of the 1997-98 financial year.

Throughout the development of agreements, considerable emphasis was placed on consultation with staff and union representatives. There will be further consultation during 1998-99, with the aim of further developing the Department's workplace arrangements.

Chart 1: Portfolio Program Structure (as at 30 June 1998)

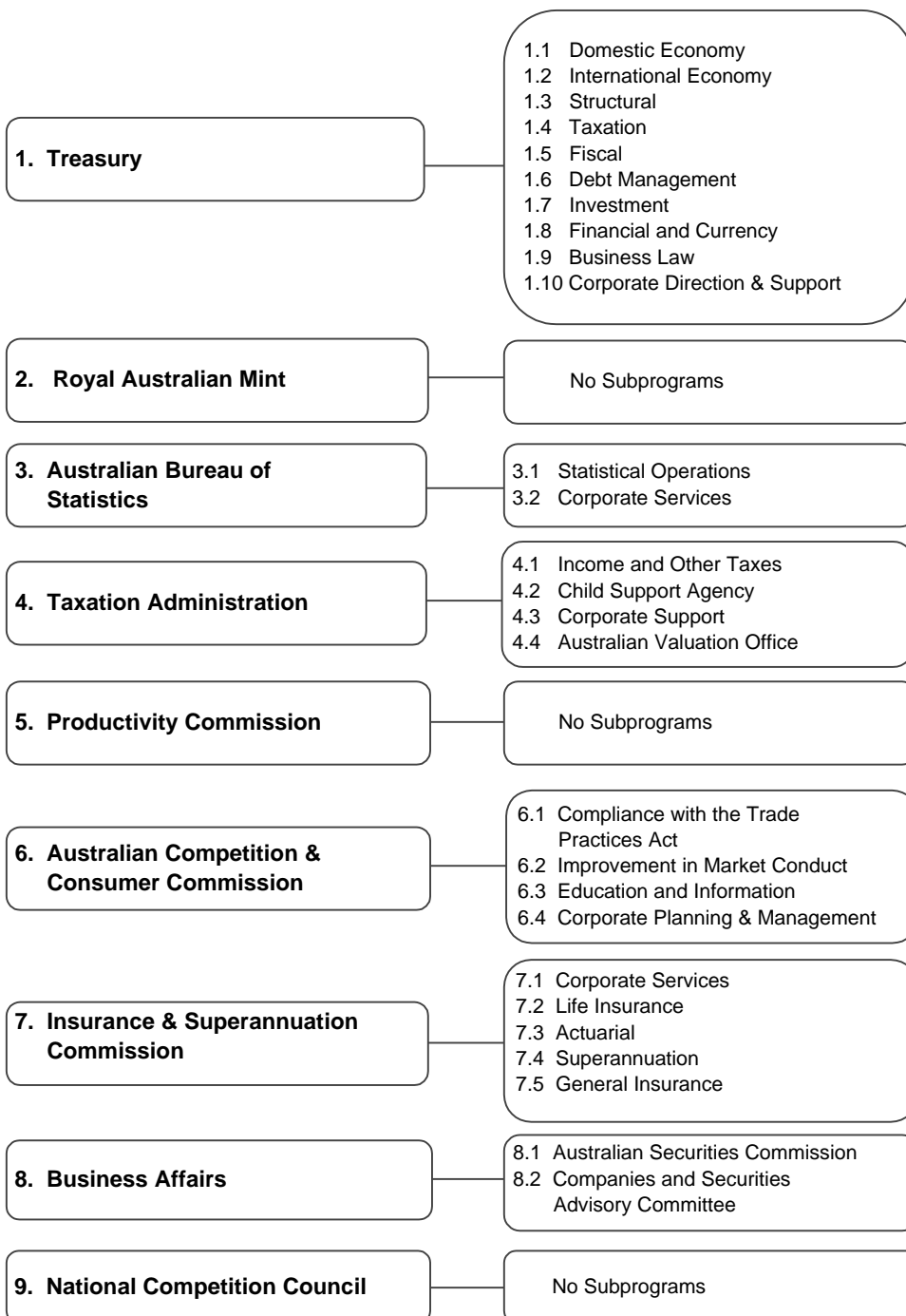


Chart 2: Treasury Program Structure (as at 30 June 1998)

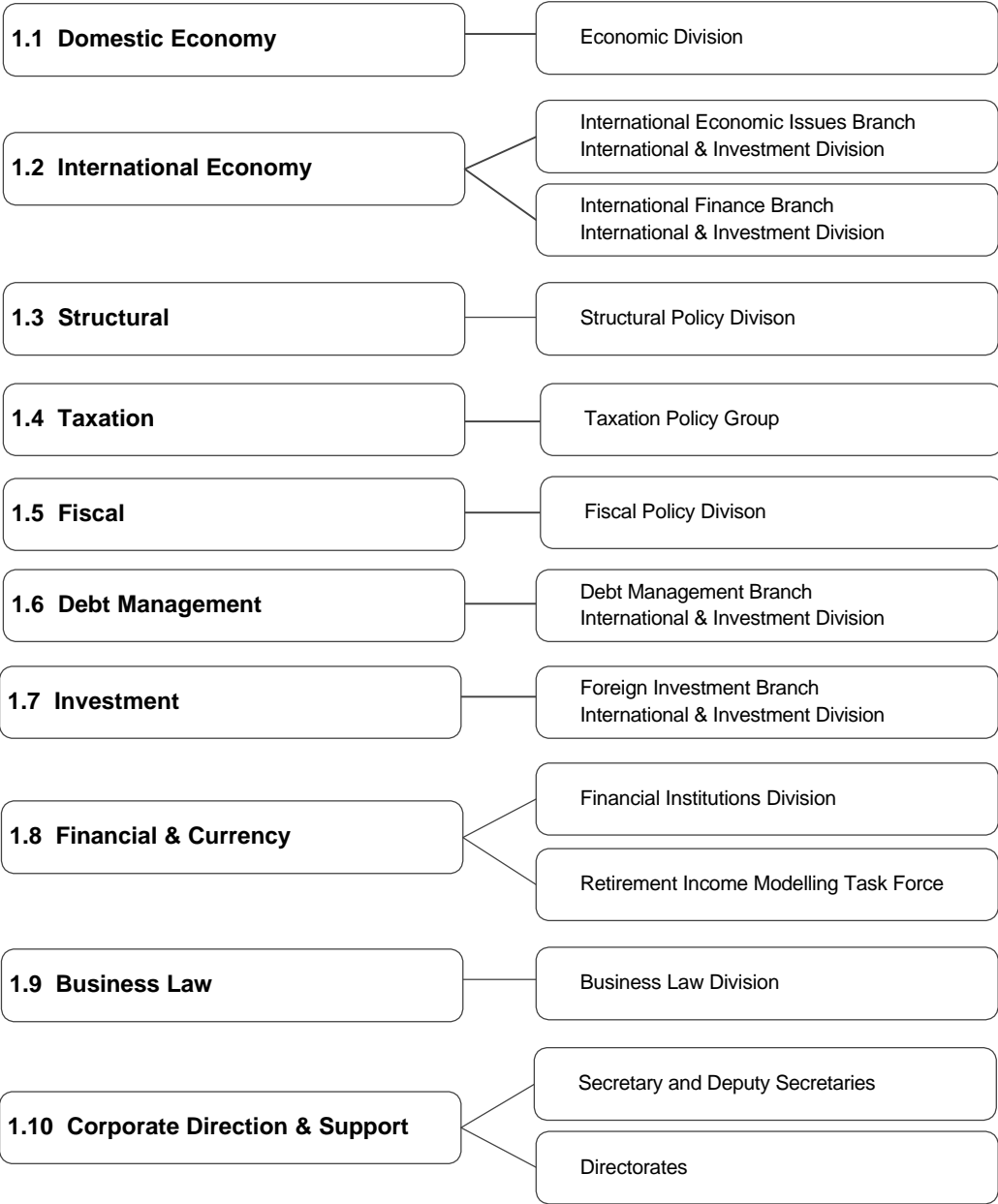
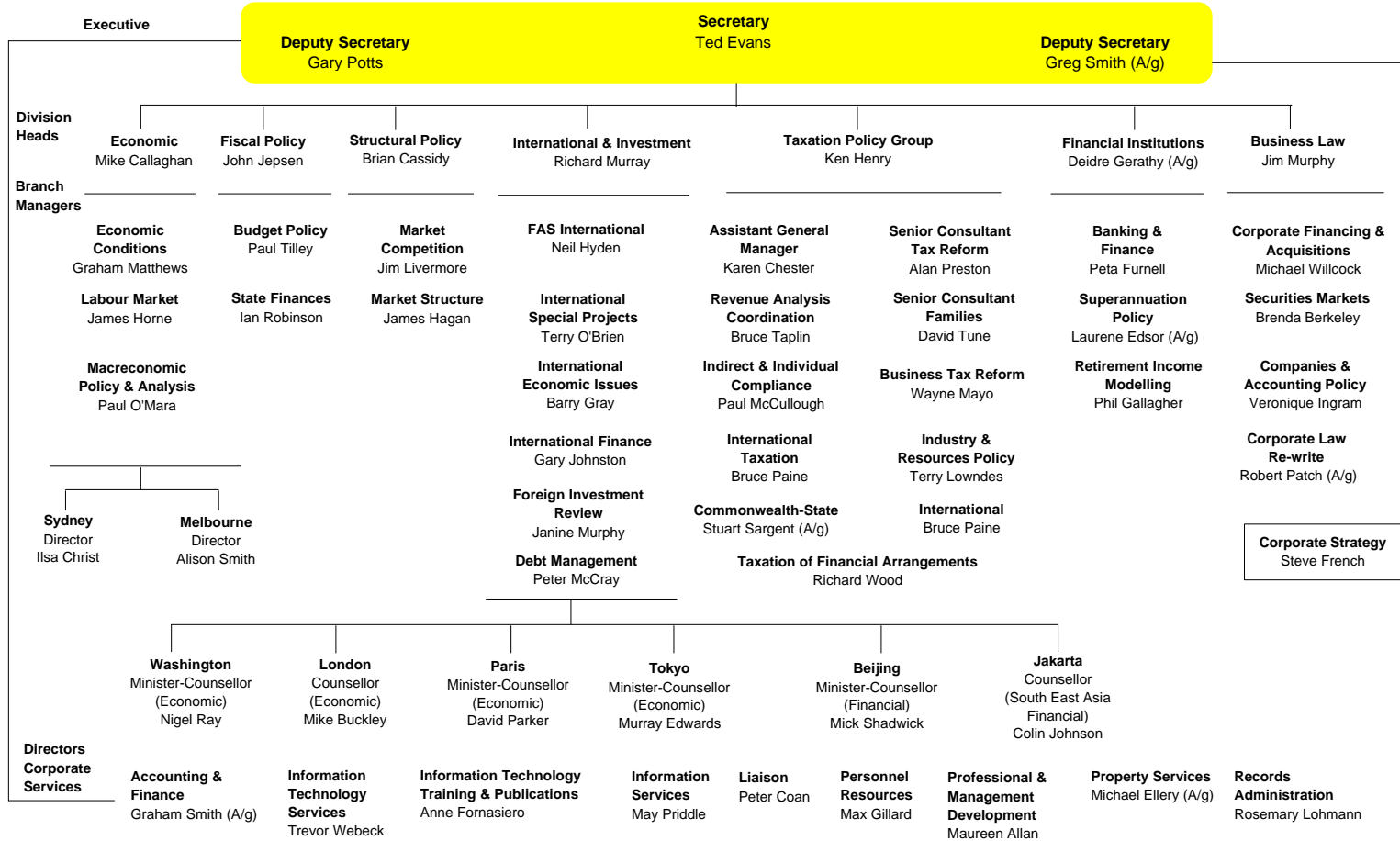


Chart 3: Treasury Top Management Structure (as at 30 June 1998)



CORPORATE STATEMENT

This Statement covers the Department of the Treasury and does not include other agencies within the Treasurer's portfolio. Objectives and strategies for individual subprograms are included in the Portfolio Budget Statements.

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 thorough analysis of options, and by assisting Treasury Ministers in the administration of their responsibilities and the implementation of Government decisions.

Policy Objectives

In carrying out its Mission, Treasury has regard to the following policy objectives:

- maintenance of a stable macroeconomic environment with low inflation and a sustainable external position, which is conducive to promoting enduring growth in economic activity and hence employment;
- promotion of efficient and sustainable use of resources and improved structural competitiveness and productivity of the Australian economy;
- promotion of an efficient, competitive and stable Australian financial system;
- advancement of Australia's international economic interests, including its economic integration with other economies;
- development of taxation policies which contribute to the efficient and equitable raising of taxation revenue;

- development of fiscal policies, including expenditure review and financial arrangements between the Commonwealth and other levels of government, consistent with sustainable public finances and the management of aggregate demand;
- raising, management and retirement of Commonwealth Government debt at the lowest possible long-term cost, consistent with an acceptable degree of risk exposure;
- encouragement of foreign investment, consistent with national interest considerations; and
- development of policies which facilitate the efficient working of corporations and the securities and futures markets.

Corporate Strategies

Treasury seeks to achieve these objectives and ensure its advice is sound and timely by:

- maintaining effective liaison with the Treasury Ministers and their offices and other government departments;
- maintaining extensive contact with other levels of government, business, unions and interest groups;
- giving priority in operational arrangements to identifying important emerging issues, undertaking longer-term research and ensuring regular and vigorous 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 portfolio Ministers with high quality, relevant and timely advice;
- promoting continuous improvement, including staff management, development and skills enhancement; and
- using operational plans to articulate and review strategies, processes and outcomes.

Performance Indicators

Treasury aims to ensure that:

- advice to Treasury Portfolio Ministers is of high quality, relevant and timely;
- policy responses are coordinated, consistent and constructive;
- research and analysis is of high quality, relevant and timely; and
- the Department's resources, including most importantly its staff, are used efficiently and effectively to meet the Government's policy requirements and statutory obligations.

Corporate Focus for 1998-99

In the year ahead, particular attention will be paid to further strengthening Treasury's performance by:

- increasing the focus of the Executive on strategic policy and management issues, including the response to comprehensive reviews of Treasury's activities, role and goals;
- further developing enterprise agreements that benefit both the Department and the staff by improving the flexibility and responsiveness of operations, and therefore efficiency, and by creating a more satisfying workplace;
- continuing to ensure that Treasury functions are delivered on the most cost-effective basis;
- further improving information flows; and
- continuing and building upon the professional and management development training program, so that staff develop and enhance their skills.

Corporate Values

The following values and principles govern Treasury's approach.

- Treasury's effectiveness depends upon the quality of its analysis and the impartiality of its advice.
- Treasury should adopt a broad national approach in the context of the priorities of the Government of the day.
- Living standards should be assessed in the broadest way taking into account social, cultural and environmental values, as well as material wealth.
- The maintenance of stable macroeconomic conditions with low inflation and adequate national savings is essential for a well-functioning and growing economy.
- Well-functioning markets can make a major contribution to improving living standards; where they fail, Government intervention should be considered.
- Markets that work well are those that are well informed and exhibit healthy and vigorous competition.
- Treasury's performance is fundamentally dependent on high quality and well-motivated staff and it places particular emphasis on staff management and development that will attract and retain good people, enhance their skills and promote a corporate spirit and individual integrity.

THE TREASURY PROGRAM

Objective

To improve the wellbeing of the Australian community through high, sustainable economic and employment growth with low inflation and efficient and sustainable use of resources.

Description

The Department of the Treasury, comprising in 1997-98: Executive; Business Law Division; Economic Division; Financial Institutions Division; Fiscal Policy Division; International and Investment Division; Structural Policy Division; Taxation Policy Group; and nine Directorates providing corporate support.

**Table 1: Financial and Staffing Resources Summary
Program 1 Treasury**

	1996-97 Actual (\$'000)	1997-98 Budget (\$'000)	1997-98 Actual (\$'000)
BUDGETARY (CASH) BASIS			
Components of Appropriations			
Running Costs (RC)	49,573	54,399	50,556
Other program costs (excluding RC)	31,734,231	31,765,444	42,084,026
Total	31,783,804	31,819,843	42,134,582
Adjustments	(10,392,365)	(6,571,237)	(17,277,396)
Total Outlays	21,391,439	25,248,605	24,857,186
STAFFING			
Staff Years	523	509	480

Resource Use

The 1997-98 Budget figures contained in this and all other financial tables have been adjusted to include Additional Estimates. The figures

represent the aggregate of appropriations available to Treasury during 1997-98. Figures in tables and generally in the text have been rounded. Discrepancies in the tables between totals and sums of components are due to rounding.

The staff years refer to average staffing levels over the entire financial year. The figures represent the full-time equivalent of all staff paid during the year, including paid inoperative staff and part-time staff. Aggregate Departmental staffing figures in Appendix A refer to operative staff and paid inoperative staff as at 30 June 1998.

Detailed financial information for 1997-98 is contained in the Financial Statements and detailed staffing information is contained in Appendix A.

Client Service Charters

All agencies in the Treasury Portfolio other than the Department of the Treasury have either developed client service charters or are in the final stages of completing them. Treasury, as a policy advising agency, is not required to produce a service charter at this stage. The Foreign Investment Review Board (FIRB), which is serviced by a secretariat located in the Department, has published a service charter.

Further information about progress by individual agencies is contained in their annual reports.